

**OLD DOMINION UNIVERSITY**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2005**

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***APA***

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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, 2005, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported.

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UNIVERSITY OFFICIALS

## 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, 2005. Comparative numbers, where presented, are for the fiscal year ended June 30, 2004. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, Notes to Financial Statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

### Institutional Profile

As a metropolitan university, Old Dominion University has a special commitment to serve those students who have been academically, socially, or economically disadvantaged, but who have the potential for academic success. Currently, 22.4 percent of students are from rural areas; 58.6 percent of students are female; and 32.6 percent of students are minorities. These numbers continue to increase. In the 2004 academic year, 39 percent of the first-time freshmen were minorities. Demonstrating this commitment, Old Dominion University has the largest percentage of students with Pell grants (26.4 percent) of all doctoral universities in the Commonwealth.

In addition to the main campus in Norfolk, instruction is offered at 4 Higher Education Centers in Hampton, Portsmouth, Sterling, and Virginia Beach; 26 Virginia Community College campuses; 13 military installations within Virginia; 9 sites throughout the remainder of the United States; and on multiple U.S. Naval vessels worldwide. The current enrollment of 21,300 students consists of 15,370 undergraduate and 5,930 graduate students.

Old Dominion University strives to be a model of what a university of the 21<sup>st</sup> Century should be. Accessibility, affordability, expanded research, new programs, contributions to economic development, as well as partnerships with schools, businesses, and community agencies and groups, are all goals and part of the University's mission and daily efforts.

Old Dominion University has been responsive to societal need. The University's many recent accomplishments include:

- leveraging initial state funding for distance learning and creating a statewide network, which currently has over 25,000 enrollments;
- scheduling classes at convenient times for students, creating a Weekend College, developing summer sessions with more than 10,000 enrollments, and producing the highest classroom and laboratory utilization among all institutions;
- attracting a diverse student population;
- contributing to economic development;

- pursuing research vigorously, increasing income by 55 percent over the last four years; and
- collaborating with every community college in the Commonwealth for more than ten years.

### 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>2005</u>	<u>2004</u>
Assets:		
Current	\$ 55,066,174	\$ 42,380,600
Capital, net of accumulated depreciation	237,589,208	230,096,493
Other noncurrent	<u>43,119,698</u>	<u>32,849,865</u>
Total assets	<u>335,775,080</u>	<u>305,326,958</u>
Liabilities:		
Current	44,517,331	39,251,836
Noncurrent	<u>78,995,542</u>	<u>74,647,175</u>
Total liabilities	<u>123,512,873</u>	<u>113,899,011</u>
Net assets:		
Invested in capital assets, net of related debt	161,269,385	154,551,695
Restricted	26,953,546	19,926,003
Unrestricted	<u>24,039,276</u>	<u>16,950,249</u>
Total net assets	<u>\$212,262,207</u>	<u>\$191,427,947</u>

The University's total assets increased by \$30,448,122. This increase is due to increases in cash, investments, and capital assets. Cash increased due to additional funding for capital projects through bond proceeds and appropriations. Investments increased due to securities lending transactions. These transactions are reported on the financial statements and represent the University's allocated share of securities received for securities lending transactions held in the general account of the Commonwealth of Virginia. Capital assets increased due to construction-in-progress related to various capital projects. In addition, total liabilities increased by \$9,613,862. The increase is primarily due to the obligation under securities lending and new issuance of debt for capital projects.

### 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 nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, 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.

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

	<u>2005</u>	<u>2004</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$12,185,780 and \$11,548,733	\$ 58,799,334	\$ 55,731,283
Federal grants and contracts	15,964,000	14,469,688
State, local, and nongovernmental grants	4,703,003	4,387,518
Auxiliary enterprises, net of scholarship allowances of \$4,597,069 and \$4,409,405	41,608,305	39,636,918
Other operating revenues	<u>4,240,654</u>	<u>3,585,855</u>
Total operating revenues	<u>125,315,296</u>	<u>117,811,262</u>
Operating expenses:		
Instruction	94,000,539	86,438,389
Research	3,192,855	2,380,967
Public service	496,818	704,265
Academic support	25,806,347	23,519,439
Student services	7,561,856	7,039,866
Institutional support	18,851,517	16,560,228
Operation and maintenance	13,333,012	12,907,244
Depreciation	15,705,349	14,282,992
Scholarships and fellowships	6,640,073	6,631,832
Auxiliary activities	<u>30,295,318</u>	<u>29,685,894</u>
Total operating expenses	<u>215,883,684</u>	<u>200,151,116</u>
Operating loss	(90,568,388)	(82,339,854)
Net nonoperating revenues and expenses	<u>91,744,547</u>	<u>80,092,919</u>
Income before other revenues/expenses or gains/losses	1,176,159	(2,246,935)
Other revenues	<u>19,658,102</u>	<u>12,045,919</u>
Increase in net assets	20,834,261	9,798,984
Net assets - beginning of year	<u>191,427,946</u>	<u>181,628,962</u>
Net assets - end of year	<u>\$212,262,207</u>	<u>\$191,427,946</u>

The University's operating revenues consist mostly of tuition and fees; auxiliary enterprises; and federal, state, and private grants and contracts. Operating revenues increased by \$7,504,034. The increase was primarily due to increases in tuition and fees and auxiliary services. In addition, federal and state grants increased due to additional funding of existing grants and several new grants. Nonoperating revenue

increased due to an increase in state appropriations due to additional funds received for base adequacy. Operating expenses increased by \$15,732,568 due to increasing costs including faculty salaries and utilities. Other revenues increased by \$7,612,183 due to increased capital appropriations.

Overall, the University's financial position is stable. Despite the University's current funding of approximately 79 percent of base adequacy funding, management has implemented minimal increases in tuition and fees. This is accomplished by continually evaluating budget balancing measures designed to preserve the academic and fiscal integrity of operations.

### 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: operating, noncapital financing, capital financing, and investing activities.

*Cash flows from operating activities* reflect the sources and uses to support the essential mission of the University. The primary sources are tuition and fees (\$66.5 million), auxiliary enterprises (\$47.2 million), and grants and contracts (\$21.1 million). The primary uses are payments to employees, including salaries, wages, and fringe benefits (\$133.5 million), payments to vendors (\$39.6 million), and scholarships and fellowships (\$25.7 million).

*Cash flows from noncapital financing* reflect nonoperating sources and uses of cash. The primary sources are state appropriations (\$89.0 million) and gifts and grants (\$6.1 million). The primary use is to support cash requirements of operations.

*Cash flows from capital financing activities* reflect the activities related with the acquisition and construction of capital assets including related debt payments. The primary sources are capital appropriations and investments (\$17.4 million) and bond proceeds (\$9.4 million). The primary uses are purchases of capital assets (\$21.7 million) and principal and interest paid on capital debt (\$8.4 million).

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities	\$(71,457,107)	\$(65,976,315)
Cash flows from noncapital financing activities	93,538,135	82,718,294
Cash flows from capital financing activities	(2,535,487)	(15,160,440)
Cash flows from investing activities	<u>7,471,711</u>	<u>(575,224)</u>
Net change in cash	<u>\$ 27,017,252</u>	<u>\$ 1,006,315</u>

### Capital Asset and Debt Administration

Overall, funds invested in capital assets reflect the ongoing campus construction. Major capital projects include the Parking Structure, Housing Renovation, and Technology Renovation. Major additions to capitalized assets include construction-in-progress (\$13,334,714) and equipment (\$3,543,168).

The University's long-term debt increased by \$4,654,540. The increase is primarily the net result of the issuance of note payables for capital projects and refunding and payment of existing debt. As calculated, the net investment in plant to plant debt is 2.19.

Overall, uncompleted construction and other related contractual commitments increased from \$308,328 at June 30, 2004 to \$4,533,109 at June 30, 2005. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements.

### Economic Outlook

As a public institution of higher education, Old Dominion University is dependant on public funding, as well as the ability to generate revenue through tuition and research. Currently, public funding for the University stands at 79 percent of base adequacy. The recently submitted six-year financial plan has incorporated this historical under-funding and puts forth alternative scenarios resulting from the actions of the legislature on rectifying it.

With additional public funding, the University will be able to offer expanded programs, continue its stimulation of economic development, drive innovative new research efforts, and increase enrollment by 28 percent over the next six years while maintaining annual tuition increases between four and eight percent. Without addressing this issue, the University will be forced to restrict enrollment and institutional efforts and significantly increase tuition and fees to maintain the University's academic and fiscal integrity.

New programs and partnerships at Old Dominion University, which contribute to the economic development of the Commonwealth, include the graduate program in Modeling and Simulation. With a generous initial investment by the Commonwealth, the University is expanding this graduate program significantly. The number of students will increase from 50 to 100 in the master's program and from 40 to 80 students in the doctoral program. The University will also hire additional faculty, who are experts in this research field. The University has leveraged funds to construct two new buildings to house both teaching and research activities. The University has partnered with 17 local companies to create a proposal for a national Emergency Management and Training and Analysis and Simulation Center.

Old Dominion University's program in Modeling and Simulation has, along with the military, attracted businesses and jobs to this region. With additional funding, the goal is to increase the number of jobs, increasing the economic returns for the Commonwealth. The University's work in modeling and simulation has placed Virginia at the forefront of this exciting field. The University has the first Ph.D. program in the nation in Modeling and Simulation and is attracting researchers from around the world while collaborating with the other universities in the Commonwealth.

To leverage the capacity for research, the University created the position of Vice President for Research two years ago and raised \$9 million to endow a fund for faculty research initiatives. With adequate funding, the University's goal is to further increase research productivity by \$10 million a year. The University's efforts have just begun in this arena, which fits hand-in-glove with economic development. The University's research thrusts have been focused on regional synergies: work with the Jefferson Lab in nuclear physics, work in oceanography and port and maritime logistics because of the University's geographic location, work in aerospace and transportation because of NASA Langley and the ability to run the wind tunnel on the base, and work at the facility at Wallops Island. The University is a pioneer in the field of bio-electrics and has created a multimillion dollar research center that has brought several new companies and significant monetary investment to the Commonwealth. The University's work with Eastern Virginia Medical School continues to expand, and by combining research efforts, there can be even more nationally-funded and recognized research.

OLD DOMINION UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2005

	Old Dominion University	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 41,803,784	\$ 20,891,107
Accounts receivable, Net of allowance for doubtful accounts of \$294,229 (Note 4)	10,627,737	10,846,374
Contributions receivable, Net of allowance for doubtful collections of \$654,466 (Note 12)	-	1,185,343
Notes receivable, Net of allowance for doubtful accounts of \$36,165	943,736	-
Due from the Commonwealth (Note 8A)	1,181,863	-
Travel advances	-	55,022
Prepaid expenses	47,919	183,809
Inventory	461,135	-
Other assets	-	223,270
Total current assets	<u>55,066,174</u>	<u>33,384,925</u>
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	19,142,046	528,446
Endowment investments (Note 2)	9,512,856	-
Investments (Note 12)	-	3,057,423
Other long term investments (Notes 2 and 12)	12,267,630	129,166,330
Contributions receivable, Net of allowance for doubtful collections of \$409,656 (Note 12)	-	3,132,239
Notes receivable, Net of allowance for doubtful accounts of \$124,438	2,197,166	-
Nondepreciable capital assets (Notes 5 and 12)	44,483,320	9,631,948
Capital assets (Notes 5 and 12)	<u>193,105,888</u>	<u>52,988,751</u>
Total noncurrent assets	<u>280,708,906</u>	<u>198,505,137</u>
Total assets	<u>335,775,080</u>	<u>231,890,062</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses (Note 6)	21,495,469	4,896,437
Deferred revenue	6,540,640	2,541,653
Obligations under securities lending	7,454,436	-
Deposits held in custody for others	814,854	391,327
Other liabilities	-	11,357,421
Long-term liabilities - current portion (Notes 7 and 12)	<u>8,211,932</u>	<u>408,928</u>
Total current liabilities	<u>44,517,331</u>	<u>19,595,766</u>
Noncurrent liabilities (Notes 7 and 12)	<u>78,995,542</u>	<u>66,849,855</u>
Total liabilities	<u>123,512,873</u>	<u>86,445,621</u>
<b>NET ASSETS</b>		
Invested in capital assets, Net of related debt	161,269,385	5,966,227
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	4,621,878	-
Permanently restricted	-	72,468,610
Expendable:		
Scholarships and fellowships	3,715,350	-
Research	781,043	-
Loans	3,369,706	-
Capital projects	7,019,156	-
Temporarily restricted	-	59,027,615
Departmental uses	7,446,413	-
Unrestricted	<u>24,039,276</u>	<u>7,981,989</u>
Total net assets	<u>\$212,262,207</u>	<u>\$ 145,444,441</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, 2005

	Old Dominion University	Component Units
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of \$12,185,780	\$ 58,799,334	\$ -
Gifts and contributions	-	4,015,159
Federal grants and contracts	15,964,000	-
State grants and contracts	1,850,015	-
Indirect cost	-	6,284,428
Sponsored research	-	30,193,366
Nongovernmental grants and contracts	2,852,988	-
Auxiliary enterprises, Net of scholarship allowances of \$4,597,069 (Note 9)	41,608,305	-
Other operating revenues	4,240,654	8,536,335
<b>Total operating revenues</b>	<b>125,315,296</b>	<b>49,029,288</b>
Operating expenses:		
Instruction	94,000,539	630,981
Research	3,192,855	34,883,434
Public service	496,818	-
Academic support	25,806,347	2,534,595
Student services	7,561,856	-
Institutional support	18,851,517	10,591,990
Operation and maintenance	13,333,012	809,392
Depreciation	15,705,349	1,448,178
Student aid	6,640,073	852,432
Auxiliary activities (Note 9)	30,295,318	-
<b>Total operating expenses</b>	<b>215,883,684</b>	<b>51,751,002</b>
<b>Operating loss</b>	<b>(90,568,388)</b>	<b>(2,721,714)</b>
Nonoperating revenues/(expenses):		
State appropriations (Note 11)	89,002,497	-
Gifts	5,151,336	-
Investment income, Net of investment expenses of \$91,665	1,676,422	10,126,183
Interest of capital asset - related debt	(3,205,825)	-
Payments to the Commonwealth from state appropriations	(710,916)	-
Payments to grantors	(53,668)	-
Other	(115,299)	-
<b>Net nonoperating revenue</b>	<b>91,744,547</b>	<b>10,126,183</b>
<b>Income before other revenues and gains</b>	<b>1,176,159</b>	<b>7,404,469</b>
Capital appropriations	17,008,788	-
Bond premium	466,592	-
Capital gifts	2,182,722	-
Contributions to permanent endowments	-	2,595,255
<b>Total other revenues</b>	<b>19,658,102</b>	<b>2,595,255</b>
<b>Increase in net assets</b>	<b>20,834,261</b>	<b>9,999,724</b>
<b>Net assets - Beginning of Year</b>	<b>191,427,946</b>	<b>135,444,717</b>
<b>Net assets - End of Year</b>	<b>\$ 212,262,207</b>	<b>\$ 145,444,441</b>

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, 2005

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Cash flows from operating activities:	
Student tuition and fees	\$ 66,543,038
Grants and contracts	21,197,611
Auxiliary enterprises	47,172,345
Other receipts	3,892,275
Payments to employees	(106,501,529)
Payments for fringe benefits	(26,962,723)
Payments for services and supplies	(39,625,389)
Payments for travel	(3,060,030)
Payments for scholarships and fellowships	(25,738,974)
Payments for noncapitalized improvements and equipment	(8,579,276)
Loans issued to students	(345,259)
Collections of loans from students	550,804
	<hr/>
Net cash used by operating activities	(71,457,107)
Cash flows from noncapital financing activities:	
State appropriations	89,002,497
Payments to the Commonwealth from state appropriations	(710,916)
Gifts and grants for other than capital purposes	6,135,325
William D. Ford direct lending receipts	52,532,701
William D. Ford direct lending disbursements	(52,532,701)
PLUS loans receipts	4,959,763
PLUS loans disbursements	(4,959,763)
Refund to the federal government	(53,668)
Agency receipts	632,655
Agency payments	(1,467,758)
	<hr/>
Net cash provided by noncapital financing activities	93,538,135
Cash flows from capital financing activities:	
Proceeds from capital appropriations and investments	17,434,013
Proceeds from issuance of bonds	9,405,000
Bond premium	466,592
Capital gifts	255,637
Purchase of capital assets	(21,733,010)
Principal paid on capital debt, leases, and installments	(4,717,505)
Interest paid on capital debt, leases, and installments	(3,646,214)
	<hr/>
Net cash used by capital financing activities	(2,535,487)
Cash flows from investing activities:	
Purchase of investments	6,105,176
Interest on investments and cash management	1,366,535
	<hr/>
Net cash provided by investing activities	7,471,711
Net increase in cash	27,017,252
Cash and cash equivalents - Beginning of the year	<hr/> 33,928,578
Cash and cash equivalents - End of the year	<hr/> <hr/> \$ 60,945,830

OLD DOMINION UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2005

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RECONCILIATION OF NET OPERATING INCOME/(LOSS) TO NET CASH  
USED BY OPERATING ACTIVITIES:

Operating loss	\$ (90,568,388)
Adjustments to reconcile net income/(loss) to net cash:	
Depreciation expense	15,705,349
Changes in assets and liabilities:	
Receivables, net	(289,929)
Prepaid expenses	96,164
Inventory	(42,061)
Accounts payable and accrued expenses	2,770,116
Deferred revenue	<u>871,642</u>
Net cash used by operating activities	<u>\$ (71,457,107)</u>

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

OLD DOMINION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT 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 of Virginia, 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 financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Effective for the fiscal year ended June 30, 2004, the University implemented GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. This statement addresses the conditions under which institutions should include associated fund-raising and research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements.

As defined by GASB Statement 39, the Old Dominion University Educational and Real Estate Foundation, the Intercollegiate Foundation, and the Research Foundation meet the criteria qualifying them 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 the Foundations' year-end. All amounts reflected are as of December 31, 2004. 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 2019 Hughes Hall, Norfolk, Virginia 23529.

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 Colleges 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 discussions and analysis (MD&A), basic financial statements, notes to the financial statements, and supplementary information other than MD&A.

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 the 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 nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Receivables

Receivables consist of tuition and fees charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the federal government, 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. 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 are capitalized (construction-in-progress) as projects are constructed. Interest expense of \$368,014 relating to construction is capitalized net of interest income earned on resources set aside for this purpose for the year ended June 30, 2005. 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

H. 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.

I. Noncurrent Cash and Investments

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

J. 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, 2005, and certain grants that received advance funding, but have not met their restriction prior to year end.

K. 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, 2005. 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.

L. Noncurrent Liabilities

Noncurrent 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.

M. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work-Study and 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.

N. 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.

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.

O. Classification of Revenues and Expenses

The University presents its revenues and expenses as operating or nonoperating based on the following criteria:

*Operating revenues* include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and 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.

P. 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 Revenues, 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 nonoperating 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. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures required for category 1 and 2 deposits and investments, but maintains disclosures for category 3. GASB Statement 40 requires the following risk disclosures:

*Custodial Credit Risk* - 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, 2005.

*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.

*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.

*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 the 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 investments or deposits at June 30, 2005.

The following information is provided with respect to the risks associated with the University's cash, cash equivalents, and investments at June 30, 2005.

### A. 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 Securities and Exchange Commission (SEC). 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.*

B. Deposits

At June 30, 2005, the carrying value of the University's deposit with banks was \$7,480,413 and bank balance was \$299,387. 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, 2005, the University's deposits were not exposed to custodial credit risk.

C. 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: U.S. 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.

D. Securities Lending Transactions

The University participates in the State Treasury's securities lending program. Collateral held for security lending transactions of \$7,454,437 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).

E. 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>
Cash equivalents:			
Short-term fund:	3.04%	\$ 1,400,500	AAA
Repurchase agreement Federal National Mortgage Association	9.76%	4,493,390	
Money fund:			
CMA government securities	3.09%	1,423,155	Aaa
ML government	0.02%	8,648	Aaa
State Non Arbitrage Program	23.45%	10,798,678	
Securities lending**	13.35%	<u>6,148,021</u>	
Total cash equivalents		<u>24,272,392</u>	
Investments:			
Mutual/money market:			
Intermediate term fund	11.27%	5,190,290	AA+
Centennial government trust	0.25%	113,718	
U.S. Treasury and agency securities:*			
U.S. Treasury bond	0.13%	58,804	
Treasury inflation indexed note	0.42%	193,412	
Treasury interest payment	0.20%	90,631	
U.S. Treasury note	0.74%	341,341	
Corporate bonds:			
Central Illinois State	0.11%	51,705	A1
Corporate notes:			
Merrill Lynch	0.04%	19,774	Aa3
Negotiable certificate of deposit:**			
Fireside Thrift Company	0.04%	20,365	
U.S. Trust Company	0.08%	34,553	A2
Municipal securities:			
Choctaw County OK industrial development authority	0.05%	22,341	
Mississippi development bank special obligation	0.10%	45,938	Aaa
Mississippi development bank taxable	0.04%	20,501	Aaa
Moorhead MN economic development authority taxable	0.14%	62,999	Aaa
Agency mortgage backed:			
Fannie Mae	0.26%	118,259	Aaa
Farmer Mac	0.06%	28,401	Aaa
Federal Farm Credit Bank	0.14%	63,944	Aaa
Federal Home Loan Bank	0.10%	48,136	Aaa
Freddie Mac	0.30%	136,349	Aaa
Federal Home Loan Mortgage Corporation	0.12%	53,781	Aaa
Common and preferred stock**	2.98%	1,373,976	
Other:**			
Equity interest in land	2.31%	1,064,765	
Mutual funds held by foundations	24.58%	11,320,087	
Securities lending	<u>2.84%</u>	<u>1,306,416</u>	
Total investments		<u>21,780,486</u>	
Total cash equivalents and investments		<u>\$46,052,878</u>	

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

\*\* Credit quality ratings are not required for these investments, which also do not have specified maturities.

F. 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	\$ 1,400,500	\$ -	\$ -	\$ -
Repurchase agreement:				
Federal national mortgage association	4,493,390	-	-	-
State Non Arbitrage Program	10,798,678	-	-	-
Securities lending	6,148,021	-	-	-
CMA government securities	1,423,155	-	-	-
ML government fund	8,648	-	-	-
Investments:				
Mutual/money market:				
Intermediate term fund	-	-	5,190,290	-
Centennial government trust	113,718	-	-	-
Securities lending	1,306,416	-	-	-
U.S. treasury and agency securities:				
U.S. treasury bond	26,239	-	-	32,565
Treasury inflation indexed note	-	-	143,208	50,204
Treasury interest payment	-	-	90,631	-
U.S. Treasury note	-	51,872	174,752	114,717
Corporate bonds:				
Central Illinois Service	-	51,705	-	-
Corporate notes:				
Merrill Lynch	-	-	19,774	-
Negotiable certificate of deposit:				
Fireside Thrift Company	-	20,365	-	-
U.S Trust Company	-	34,553	-	-
Municipal securities:				
Choctaw County OK industrial development authority	-	-	22,341	-
Mississippi development bank special obligation	-	-	45,938	-
Mississippi development bank taxable	20,501	-	-	-
Moorhead MN economic development authority taxable	-	-	-	62,999
Agency head backed:				
Fannie Mae	-	-	69,043	49,216
Farmer Mac	-	-	28,401	-
Federal Farm Credit Bank	-	-	63,944	-
Federal Home Loan Bank	-	-	48,136	-
Freddie Mac	-	14,790	20,122	101,437
Federal Home Loan Mortgage Corp.	-	-	53,781	-
Total	<u>\$25,739,266</u>	<u>\$173,285</u>	<u>\$5,970,361</u>	<u>\$411,138</u>

3. 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 Title 55, Chapter 15 sections 268.1-268.10, 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 2005, the payout percentage was 4.5 percent. The payout percentage is reviewed and adjusted annually as deemed prudent.

At June 30, 2005, net appreciation of \$3,239,222 is available to be spent, which is reported in the Statement of Net Assets as Restricted for Non-Expendable Scholarship and Fellowships.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2005:

Student tuition and fees	\$ 4,755,815
Auxiliary enterprises	2,746,444
Federal, state, and nongovernmental grants and contracts	1,602,334
Other activities	<u>1,817,373</u>
Gross receivables	10,921,966
Less: allowance for doubtful accounts	<u>294,229</u>
Net accounts receivable	<u>\$10,627,737</u>

#### 5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2005, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 27,557,819	\$ 164,481	\$ -	\$ 27,722,300
Construction-in-progress	<u>3,426,306</u>	<u>15,820,886</u>	<u>2,486,172</u>	<u>16,761,020</u>
Total nondepreciable capital assets	<u>30,984,125</u>	<u>15,985,367</u>	<u>2,486,172</u>	<u>44,483,320</u>
Depreciable capital assets:				
Buildings	289,218,077	2,486,172	1,033,226	290,671,023
Infrastructure	1,312,561	-	-	1,312,561
Equipment	45,560,487	4,907,689	1,364,521	49,103,655
Improvements other than buildings	7,068,591	-	-	7,068,591
Library materials	<u>42,381,623</u>	<u>3,513,173</u>	<u>160,332</u>	<u>45,734,464</u>
Total depreciable capital assets	<u>385,541,339</u>	<u>10,907,034</u>	<u>2,558,079</u>	<u>393,890,294</u>

Less accumulated depreciation:				
Buildings	112,211,874	8,261,436	-	120,473,310
Infrastructure	1,312,561	-	-	1,312,561
Equipment	30,816,526	4,321,903	1,189,583	33,948,846
Improvements other than buildings	5,703,303	90,104	-	5,793,407
Library materials	<u>36,384,708</u>	<u>3,031,906</u>	<u>160,332</u>	<u>39,256,282</u>
Total accumulated depreciation	<u>186,428,972</u>	<u>15,705,349</u>	<u>1,349,915</u>	<u>200,784,406</u>
Depreciable capital assets, net	<u>199,112,367</u>	<u>(4,798,315)</u>	<u>1,208,164</u>	<u>193,105,888</u>
Total capital assets, net	<u>\$230,096,492</u>	<u>\$11,187,052</u>	<u>\$3,694,336</u>	<u>\$237,589,208</u>

## 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005:

Employee salaries, wages, and fringe benefits payable	\$ 7,506,719
Vendors and suppliers accounts payable	<u>13,988,750</u>
Accounts payable and accrued expenses	<u>\$21,495,469</u>

## 7. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2005 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 obligation bonds	\$13,238,106	\$ -	\$ 1,490,190	\$11,747,916	\$1,562,392
Revenue bonds	61,650,000	24,215,000	17,420,000	68,445,000	3,035,000
Capital leases	<u>803,995</u>	<u>36,650</u>	<u>686,920</u>	<u>153,725</u>	<u>72,660</u>
Total long-term debt	<u>75,692,101</u>	<u>24,251,650</u>	<u>19,597,110</u>	<u>80,346,641</u>	<u>4,670,052</u>
Accrued compensated absences	5,444,348	4,125,140	4,056,418	5,513,070	3,541,880
Federal loan program contributions	169,786	178,530	-	348,316	-
Capital projects retainage payable	644,942	529,643	588,764	585,821	-
Deferred gain on early retirement of debt	<u>416,001</u>	<u>70,000</u>	<u>72,375</u>	<u>413,626</u>	<u>-</u>
Total long-term liabilities	<u>\$82,367,178</u>	<u>\$29,154,963</u>	<u>\$24,314,667</u>	<u>\$87,207,474</u>	<u>\$8,211,932</u>

## 8. 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.

The University has also entered into various capital lease agreements to finance the purchase of equipment. The outstanding principal represents the net present value of the remaining lease payments.

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance</u>
General obligation bonds:			
Dormitory, Series 1983A	3.00%	2013	\$ 1,315,000
Dormitory, Series 1983B	3.00%	2013	1,255,000
Recreation, Series 2003A	2.50% - 5.50%	2010	2,207,278
Smalls, Series 2003A	2.50% - 5.50%	2008	92,146
Parking, Series 2003A	2.50% - 5.50%	2010	1,734,609
Student Center, Series 2003A	2.50% - 5.50%	2011	2,868,883
Dormitory, Series 2002	2.50% - 5.00%	2022	<u>2,275,000</u>
Total general obligation bonds			<u>11,747,916</u>
Revenue bonds:			
Classrooms, Series 1997A	4.50% - 5.00%	2018	2,705,000
Classrooms, Series 1999A	4.75% - 5.50%	2010	185,000
Classrooms, Series 2004B	3.00% - 5.00%	2017	4,995,000
Classrooms, Series 2004B	3.00% - 5.00%	2020	570,000
Recreation, Series 1997A	4.50% - 5.00%	2018	1,410,000
Recreation, Series 1999A	4.75% - 5.50%	2010	205,000
Recreation, Series 2000A	5.00% - 5.75%	2021	5,135,000
Recreation, Series 2001A	3.00% - 5.00%	2022	22,185,000
Recreation, Series 2004B	3.00% - 5.00%	2017	5,210,000
Recreation, Series 2004B	3.00% - 5.00%	2020	680,000
Parking, Series 1997A	4.50% - 5.00%	2018	510,000
Parking, Series 1999A	4.75% - 5.50%	2010	305,000
Parking, Series 2000A	5.00% - 5.75%	2021	2,910,000
Parking, Series 2001A	3.00% - 5.00%	2022	6,795,000
Parking, Series 2003A	2.00% - 5.00%	2024	1,885,000
Parking, Series 2004A	3.00% - 5.00%	2025	3,815,000
Parking, Series 2004B	3.00% - 5.00%	2017	2,395,000
Parking, Series 2004B	3.00% - 5.00%	2020	960,000
Athletic Facilities, Series 2004A	3.00% - 5.00%	2025	2,275,000
Health and Physical Education Facilities, Series 2004A	3.00% - 5.00%	2025	1,895,000
Indoor Tennis Courts, Series 2004A	3.00% - 5.00%	2025	<u>1,420,000</u>
Total revenue bonds			<u>68,445,000</u>
Capital leases	Various	2006-2008	<u>153,725</u>
Total			<u>\$80,346,641</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2006	\$ 4,670,052	\$ 3,667,501
2007	4,797,874	3,472,487
2008	4,920,461	3,262,798
2009	5,083,557	3,038,531
2010	5,288,340	2,809,040
2011-2015	22,306,357	10,669,874
2016-2020	23,415,000	5,139,376
2021-2025	<u>9,865,000</u>	<u>729,144</u>
Total	<u>\$80,346,641</u>	<u>\$32,788,751</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 \$1,181,863 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, 2005, \$7,302,034 of the defeased bonds were outstanding.

C. Subsequent Event

On October 20, 2005, the University issued 2005A 9(d) bonds through the VCBA's Public Higher Education Financing Pooled Bond Program in the amount of \$32,195,000. Proceeds from the bonds will be used for an indoor tennis center, a new dormitory, a health and physical education building addition and renovations, and the athletics facilities relocation and expansion. On November 16, 2005, the University issued General Obligation Bonds 9(c) through the Department of Treasury in the amount of \$4,735,000. Proceeds from the bond issue will be used to renovate student housing.

9. AUXILIARY ENTERPRISE ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ending June 30, 2005. Additionally the University used auxiliary revenues to pay debt service of \$7,687,621. This amount is not included in the auxiliary operating expenses.

Revenues:	
Room contracts, net of \$1,426,474 scholarship allowances	\$ 6,612,182
Food service contracts, net of \$139,691 scholarship allowances	659,057
Comprehensive fees, net of \$2,524,905 scholarship allowances	21,450,113
Other student fees and sales and services, net of \$505,999 scholarship allowances	<u>12,886,953</u>
 Total auxiliary enterprises revenues	 <u>\$41,608,305</u>
Expenses:	
Residential facilities	\$ 6,408,591
Dining operations	24,420
Athletics	10,319,139
Other auxiliary activities	<u>13,543,168</u>
 Total auxiliary enterprises expenses	 <u>\$30,295,318</u>

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.

	Salaries, Wages, and Fringe Benefits	Nonpersonal Services/Supplies	Scholarships and Fellowships	Plant and Equipment	Depreciation	Total
Instruction	\$ 79,313,738	\$11,577,329	\$ -	\$3,109,472	\$ -	\$94,000,539
Research	1,477,622	1,633,024	-	82,209	-	3,192,855
Public service	327,737	157,315	-	11,766	-	496,818
Academic support	17,266,655	7,119,271	-	1,420,421	-	25,806,347
Student services	5,834,626	1,602,285	-	124,945	-	7,561,856
Institutional support	14,409,143	3,478,527	-	963,847	-	18,851,517
Operation and maintenance of plant	6,365,043	5,846,421	-	1,121,548	-	13,333,012
Depreciation expense	-	-	-	-	15,705,349	15,705,349
Scholarship and related expenses	3,224	1,643	6,635,206	-	-	6,640,073
Auxiliary activities	<u>12,867,585</u>	<u>13,412,733</u>	<u>2,389,900</u>	<u>1,625,100</u>	<u>-</u>	<u>30,295,318</u>
 Total	 <u>\$137,865,373</u>	 <u>\$44,828,548</u>	 <u>\$9,025,106</u>	 <u>\$8,459,308</u>	 <u>\$15,705,349</u>	 <u>\$215,883,684</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	\$77,735,768
Student financial assistance	9,598,779
Supplemental adjustments:	
Central fund appropriation transfers	618,582
Eminent scholars	285,474
Military waiver reimbursement	335,990
Research	406,000
Library grant	19,504
Telecommunication rate change	<u>2,400</u>
Adjusted appropriations	<u>\$89,002,497</u>

12. COMPONENT UNIT FINANCIAL INFORMATION

The University's component units are presented in the aggregate on the face of the financial statements. The following 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.

Statement of Net Assets

	<u>ODU Intercollegiate Foundation</u>	<u>ODU Educational and Real Estate Foundation</u>	<u>ODU Research Foundation</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 718,604	\$ 17,444,935	\$ 2,727,568	\$ 20,891,107
Accounts receivable	57,757	461,947	10,326,670	10,846,374
Contributions receivable, net	98,907	1,086,436	-	1,185,343
Travel advances	-	-	55,022	55,022
Prepaid expenses	-	-	183,809	183,809
Other assets	<u>41,289</u>	<u>181,981</u>	<u>-</u>	<u>223,270</u>
Total current assets	<u>916,557</u>	<u>19,175,299</u>	<u>13,293,069</u>	<u>33,384,925</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	528,446	-	528,446
Investments	-	-	3,057,423	3,057,423
Other long-term investments	7,027,909	122,138,421	-	129,166,330
Contributions receivable, net	1,401,967	1,730,272	-	3,132,239
Nondepreciable capital assets	-	9,577,146	54,802	9,631,948
Depreciable capital assets	<u>149,205</u>	<u>48,955,140</u>	<u>3,884,406</u>	<u>52,988,751</u>
Total noncurrent assets	<u>8,579,081</u>	<u>182,929,425</u>	<u>6,996,631</u>	<u>198,505,137</u>
Total assets	<u>9,495,638</u>	<u>202,104,724</u>	<u>20,289,700</u>	<u>231,890,062</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	488,506	419,323	3,988,608	4,896,437
Deferred revenue	-	183,573	2,358,080	2,541,653
Deposits held in custody for others	-	391,327	-	391,327
Agency-related payables	-	11,357,421	-	11,357,421
Long-term liabilities, current portion	<u>-</u>	<u>408,928</u>	<u>-</u>	<u>408,928</u>
Total current liabilities	488,506	12,760,572	6,346,688	19,595,766
Noncurrent liabilities	<u>200,000</u>	<u>66,649,855</u>	<u>-</u>	<u>66,849,855</u>
Total liabilities	<u>688,506</u>	<u>79,410,427</u>	<u>6,346,688</u>	<u>86,445,621</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	149,205	1,877,814	3,939,208	5,966,227
Permanently restricted	5,056,508	67,412,102	-	72,468,610
Temporarily restricted	2,961,888	47,588,389	8,477,338	59,027,615
Unrestricted	<u>639,531</u>	<u>5,815,992</u>	<u>1,526,466</u>	<u>7,981,989</u>
Total net assets	<u>\$8,807,132</u>	<u>\$122,694,297</u>	<u>\$13,943,012</u>	<u>\$145,444,441</u>

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>ODU Intercollegiate Foundation</u>	<u>ODU Educational and Real Estate Foundation</u>	<u>ODU Research Foundation</u>	<u>Total</u>
Operating revenues:				
Gifts and contributions	\$1,113,346	\$ 2,543,226	\$ 358,587	\$ 4,015,159
Indirect cost	-	-	6,284,428	6,284,428
Sponsored research	-	-	30,193,366	30,193,366
Other operating revenues	<u>223,118</u>	<u>5,511,355</u>	<u>2,801,862</u>	<u>8,536,335</u>
Total operating revenue	<u>1,336,464</u>	<u>8,054,581</u>	<u>39,638,243</u>	<u>49,029,288</u>
Operating expenses:				
Instruction	-	630,981	-	630,981
Research	-	-	34,883,434	34,883,434
Academic support	45,331	2,489,264	-	2,534,595
Institutional support	692,542	5,917,971	3,981,477	10,591,990
Operation and maintenance of plant	-	809,392	-	809,392
Depreciation	118,625	1,329,553	-	1,448,178
Student aid	<u>335,511</u>	<u>516,921</u>	<u>-</u>	<u>852,432</u>
Total operating expenses	<u>1,192,009</u>	<u>11,694,082</u>	<u>38,864,911</u>	<u>51,751,002</u>
Operating gain/(loss)	<u>144,455</u>	<u>(3,639,501)</u>	<u>773,332</u>	<u>(2,721,714)</u>
Investment income	482,656	9,412,432	231,095	10,126,183
Contributions to permanent endowments	<u>860,996</u>	<u>1,734,259</u>	<u>-</u>	<u>2,595,255</u>
Increase in net assets	1,488,107	7,507,190	1,004,427	9,999,724
Beginning net assets	<u>7,319,025</u>	<u>115,187,107</u>	<u>12,938,585</u>	<u>135,444,717</u>
Ending net assets	<u>\$8,807,132</u>	<u>\$122,694,297</u>	<u>\$13,943,012</u>	<u>\$145,444,441</u>

Contributions Receivable

	<u>ODU Intercollegiate Foundation</u>	<u>ODU Educational and Real Estate Foundation</u>	<u>Total</u>
Current contributions receivable:			
Receivable due in less than one year	\$ 494,362	\$1,345,447	\$1,839,809
Less allowance for doubtful accounts	<u>395,455</u>	<u>259,011</u>	<u>654,466</u>
Net current accounts receivable	<u>98,907</u>	<u>1,086,436</u>	<u>1,185,343</u>
Noncurrent contributions receivable:			
Receivable due in greater than one year, net of discount (\$797,587)	1,423,355	2,118,540	3,541,895
Less allowance for doubtful accounts	<u>21,388</u>	<u>388,268</u>	<u>409,656</u>
Net noncurrent contributions receivable	<u>1,401,967</u>	<u>1,730,272</u>	<u>3,132,239</u>
Total contributions receivable	<u>\$1,500,874</u>	<u>\$2,816,708</u>	<u>\$4,317,582</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

	<u>ODU Intercollegiate Foundation</u>	<u>ODU Educational and Real Estate Foundation</u>	<u>ODU Research Foundation</u>	<u>Total</u>
U.S. treasury and agency securities	\$ 893,141	\$ 17,307,040	\$2,674,057	\$ 20,874,238
Common and preferred stocks	866,008	16,835,108	46,857	17,747,973
Municipal securities	1,300,000	8,450,759	-	9,750,759
Mutual and money market funds	2,502,262	51,684,304	336,509	54,523,075
Real estate	163,900	3,435,013	-	3,598,913
Foreign government obligations	7,500	7,500	-	15,000
Alternative investments	<u>1,295,098</u>	<u>24,418,697</u>	<u>-</u>	<u>25,713,795</u>
Total	<u>\$7,027,909</u>	<u>\$122,138,421</u>	<u>\$3,057,423</u>	<u>\$132,223,753</u>

### Capital Assets

	<u>ODU Intercollegiate Foundation</u>	<u>ODU Educational and Real Estate Foundation</u>	<u>ODU Research Foundation</u>	<u>Total</u>
Nondepreciable capital asset:				
Land	<u>\$ -</u>	<u>\$ 9,577,146</u>	<u>\$ 54,802</u>	<u>\$ 9,631,948</u>
Depreciable capital assets:				
Buildings	-	48,589,355	1,012,639	49,601,994
Equipment	<u>500,935</u>	<u>3,035,936</u>	<u>12,624,199</u>	<u>16,161,070</u>
Total depreciable capital assets	<u>500,935</u>	<u>51,625,291</u>	<u>13,636,838</u>	<u>65,763,064</u>
Less accumulated depreciation for:				
Buildings	-	2,317,687	648,940	2,966,627
Equipment	<u>351,730</u>	<u>352,464</u>	<u>9,103,492</u>	<u>9,807,686</u>
Total accumulated depreciation	<u>351,730</u>	<u>2,670,151</u>	<u>9,752,432</u>	<u>12,774,313</u>
Total depreciable capital assets, net	<u>149,205</u>	<u>48,955,140</u>	<u>3,884,406</u>	<u>52,988,751</u>
Total capital assets, net	<u>\$149,205</u>	<u>\$58,532,286</u>	<u>\$ 3,939,208</u>	<u>\$62,620,699</u>

Long-Term Liabilities

			<u>Balance at June 30, 2005</u>
ODU Intercollegiate Foundation:			
Trust and annuity obligations			<u>\$ 200,000</u>
	<u>Interest Rates</u>	<u>Maturity</u>	<u>Balance at June 30, 2005</u>
ODU Educational and Real Estate Foundations:			
Bonds payable:			
Norfolk Redevelopment and Housing Authority Revenue Bonds, Series 2003A*	Variable	2033	\$21,420,000
Norfolk Redevelopment and Housing Authority Revenue Bonds, Series 2004B and C*	Variable	2033	<u>31,340,000</u>
Total bonds payable			<u>52,760,000</u>
Notes payable:			
Student housing	6.597%	2011	3,519,859
Installment purchase:			
Phone installation		2007	149,344
Capital lease		2008-2009	225,267
Other long-term liabilities			<u>10,404,313</u>
Total long-term debt			<u>67,058,783</u>
Total component unit long-term liabilities			<u>\$67,258,783</u>

\* ODU Real Estate Foundation University Village Student Housing Project

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

2005	\$	408,928
2006		557,204
2007		685,402
2008		779,559
2009		836,969
Thereafter		<u>53,386,408</u>
Total		<u>\$56,654,470</u>

Component Unit Subsequent Event

The Real Estate Foundation is in the process of acquiring properties for various future projects. Subsequent to year-end, the Real Estate Foundation acquired several properties in the amount of \$1,106,953 in anticipation of future project needs.

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 \$8 million in various partnerships.

13. COMMITMENTS

At June 30, 2005, the University was a party to construction and other contracts totaling approximately \$26,847,449 of which \$22,314,340 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 a one year term 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 \$4,106,951 for the year ended June 30, 2005.

The University has, as of June 30, 2005, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating Lease <u>Obligation</u>
2006	<u>\$ 2,236</u>

14. RETIREMENT PLANS

A. Virginia Retirement System

Employees of 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. The Commonwealth, not the University, has the overall responsibility for contributions to this plan.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$4,702,383 for the year ended June 30, 2005.

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 5.40 percent and employee contributions 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 \$3,914,800 for the year ended June 30, 2005. Contributions to other retirement plans were calculated using the base salary amount of approximately \$37,642,306.

C. Deferred Compensation

University 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 \$401,138 for fiscal year 2005.

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, 2005, 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 of, 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 plan is 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 worker's compensation, 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.

OLD DOMINION UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2005

	Residential Facilities	Dining Services	University Stores	Virginia Beach Development	Student Activities
Operating revenues:					
Student fees	\$ -	\$ -	\$ -	\$ 506,214	\$ 2,064,919
Sales and services	8,038,656	798,748	19,255	471,914	224,295
Rental and other income	-	-	698,441	-	-
Interest income	270,902	14,984	-	830	54
Proceeds from securities lending program	-	-	-	-	-
Gross operating revenues	8,309,558	813,732	717,696	978,958	2,289,268
Cost of sales	-	-	-	-	-
Net operating revenues	8,309,558	813,732	717,696	978,958	2,289,268
Operating expenditures:					
Personal services	2,504,824	-	-	-	1,113,431
Contractual services	3,412,607	20,694	5,615	-	863,370
Equipment	72,550	3,726	1,480	-	30,841
Supplies and materials	418,611	-	4,410	-	145,924
Scholarships	-	-	-	-	-
Total operating expenditures	6,408,592	24,420	11,505	-	2,153,566
Excess of revenues over operating expenditures	1,900,966	789,312	706,191	978,958	135,702
Nonoperating revenue:					
Private gifts	-	-	-	-	-
Mandatory transfers:					
Debt service	(547,885)	-	-	(842,015)	(4,582)
Nonmandatory transfers (to)/from other funds	(699,099)	(457,501)	(462,398)	(76,803)	(9,879)
Total transfers	(1,246,984)	(457,501)	(462,398)	(918,818)	(14,461)
Net increase/(decrease) in fund balances	653,982	331,811	243,793	60,140	121,241
Fund balances at beginning of year*	7,212,096	1,726,436	243,148	38,473	26,964
Fund balances at end of year	\$ 7,866,078	\$ 2,058,247	\$ 486,941	\$ 98,613	\$ 148,205

\* Beginning fund balances were reclassified between Athletic Programs and Other Auxiliary to remove Recreational and Club Sports from Athletic Programs.

Webb Center	Parking	East Side Development	Athletic Programs	Other Auxiliary	General Fee Reserve	Total
\$ 2,525,007	\$ -	\$ 4,166,726	\$ 9,746,495	\$ 3,102,093	\$ 1,863,564	\$ 23,975,018
75,181	2,817,666	642,794	2,126,639	5,823,336	27,339	21,065,823
-	-	-	-	-	-	698,441
11,587	129,898	97,442	42,323	93,345	-	661,365
-	-	-	-	-	153,605	153,605
2,611,775	2,947,564	4,906,962	11,915,457	9,018,774	2,044,508	46,554,252
-	-	-	4,662	392	-	5,054
2,611,775	2,947,564	4,906,962	11,910,795	9,018,382	2,044,508	46,549,198
1,008,922	684,946	-	4,422,837	3,132,943	-	12,867,903
832,349	997,304	890,176	3,472,487	1,843,436	153,605	12,491,643
140,956	6,122	125,875	100,164	666,023	-	1,147,737
322,453	14,583	38	302,134	250,760	-	1,458,913
-	-	-	2,016,856	-	-	2,016,856
2,304,680	1,702,955	1,016,089	10,314,478	5,893,162	153,605	29,983,052
307,095	1,244,609	3,890,873	1,596,317	3,125,220	1,890,903	16,566,146
-	-	-	458,167	-	-	458,167
(577,039)	(701,867)	(4,304,050)	(704,811)	(5,371)	-	(7,687,620)
61,571	(474,231)	(3,231,573)	(125,325)	(2,026,356)	(1,358,461)	(8,860,055)
(515,468)	(1,176,098)	(7,535,623)	(830,136)	(2,031,727)	(1,358,461)	(16,547,675)
(208,373)	68,511	(3,644,750)	1,224,348	1,093,493	532,442	476,638
255,373	4,708,677	6,411,519	5,443,518	6,045,287	1,516,170	33,627,661
\$ 47,000	\$ 4,777,188	\$ 2,766,769	\$ 6,667,866	\$ 7,138,780	\$ 2,048,612	\$ 34,104,299



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 17, 2006

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission

The Board of Visitors  
Old Dominion University

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Old Dominion University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2005. 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 12. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates 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 Old Dominion University and of its aggregate discretely presented component units as of June 30, 2005, 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 is not a required part of the basic financial statements, but is supplementary information required by the 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of Old Dominion University. The Schedule of Auxiliary Enterprises Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

## 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 27, 2006.

AUDITOR OF PUBLIC ACCOUNTS

JS/kva

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