

**OLD DOMINION UNIVERSITY
NORFOLK, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Old Dominion University for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance that is to required to be reported; and
- corrective action of prior audit findings

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UNIVERSITY OFFICIALS



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 21, 2004

The Honorable Mark R. Warner
Governor of Virginia

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

Board of Visitors
Old Dominion University

We have audited the accounts and records of **Old Dominion University** as of and for the year ended June 30, 2003, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

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, as of and for the year then ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Old Dominion University as of June 30, 2003, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis presented on pages 4 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 an opinion on the basic financial statements of Old Dominion University. The Schedule of Auxiliary Enterprises Revenues and Expenditures are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Old Dominion University as of and for the year ended June 30, 2003, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

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 condition in which the design or operation of one of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

Status of prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

The Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting is intended solely for the information and use of the Governor and General Assembly of Virginia, 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 June 9, 2004.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis 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 read 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, 2003. Comparative numbers, where presented, are for the fiscal year ended June 30, 2002. 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

Old Dominion University is committed to the concept of life-long learning and offers credit and non-credit courses throughout the region. The University seeks to develop off-campus centers to bring educational services and programs to the citizens of the region. Because of the major armed forces presence in Hampton Roads, the University is particularly cognizant of its responsibility to serve members of the military services and their families. As a national leader in the field of technology-delivered distance learning, Old Dominion University is committed to providing academic programs to a diverse national and international population. The University seeks partnerships and alliances that will facilitate delivering those programs to place-bound students.

Old Dominion University is a center of learning committed to the principle of free inquiry. The University seeks to participate in the acquisition, discovery, synthesis, application, and creation of new knowledge and art forms through research, scholarly endeavors, and creative undertakings by faculty and students. In selected areas of research, scholarship, and creativity, the University strives for international recognition.

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 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>2003</u>	<u>2002*</u>
Assets:		
Current	\$ 37,373,506	\$ 44,544,225
Capital, Net of accumulated depreciation	222,542,300	211,873,327
Other non current	<u>31,885,706</u>	<u>37,772,916</u>
Total assets	<u>291,801,512</u>	<u>294,190,468</u>
Liabilities:		
Current	33,269,250	34,258,906
Noncurrent	<u>76,903,200</u>	<u>80,721,793</u>
Total liabilities	<u>110,172,550</u>	<u>114,980,699</u>

Net assets:		
Invested in capital assets, Net of related debt	143,311,842	128,517,624
Restricted	19,018,084	21,615,692
Unrestricted	<u>20,877,259</u>	<u>29,076,453</u>
Total net assets	<u>\$181,628,962</u>	<u>\$179,209,769</u>

* As restated (Note 2)

The University's total assets decreased \$2,388,956. This decrease is mainly due to a reduction in investments that were held to finance capital purchases and maintenance projects. Liabilities decreased \$4,808,149 primarily due to a reduction in both operating and capital-related accounts payable and an increase in deferred revenue. Capital payables decreased due the completion or near completion of the related capital projects at year-end. Deferred revenue increased due to a change in the methodology for calculating deferred revenue.

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 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>2003</u>	<u>2002*</u>
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of \$10,389,872 and \$9,517,602	\$ 48,835,394	\$ 52,829,644
Federal grants and contracts	11,936,420	10,674,978
State, local and nongovernmental grants	4,369,823	3,236,216
Auxiliary enterprises, Net of scholarship allowances of \$4,342,482 and \$4,621,090	37,449,385	32,419,752
Other operating revenues	<u>2,450,726</u>	<u>2,656,318</u>
Total operating revenues	<u>105,041,748</u>	<u>101,816,908</u>
Operating expenses:		
Instruction	84,125,647	85,328,454
Research	1,246,309	1,075,168
Public service	678,956	593,477
Academic support	21,560,662	23,922,220
Student services	6,956,907	7,158,951
Institutional support	16,210,940	18,265,775
Operation and maintenance	11,911,666	12,018,707
Depreciation	14,897,721	15,444,915

Scholarships and fellowships	6,337,663	10,562,333
Auxiliary activities	<u>28,464,803</u>	<u>23,529,115</u>
Total operating expenses	<u>192,391,274</u>	<u>197,899,115</u>
Operating loss	(87,349,526)	(96,082,207)
Net nonoperating revenues and expenses	<u>82,048,729</u>	<u>91,816,288</u>
Income before other revenues, expenses, gains, or losses	(5,300,797)	(4,265,919)
Other revenues	<u>7,719,990</u>	<u>5,674,791</u>
Increase in net assets	2,419,193	1,408,872
Net assets - beginning of year	<u>179,209,769</u>	<u>177,800,897</u>
Net assets - end of year	<u>\$181,628,962</u>	<u>\$179,209,769</u>

* As restated (Note 2)

The University's operating revenues consist mostly of tuition and fees and auxiliary enterprises, which increased three percent from the prior fiscal year. In addition, federal and state grants increased due to several new grants. Investment income non-operating revenue increased due to a better performance in the market.

Overall, the University's financial position is stable. While considering the reductions in state support for the University's budget and selective increases in tuition and fees, management responded with a budget-balancing plan of cost reductions and re-estimate of revenues. These actions will preserve the University's 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: operations, noncapital financing, capital financing, and investing activities.

Cash flows from operating activities reflects the sources and uses to support the essential mission of the University. The primary sources are tuition and fees (\$56.0 million) and auxiliary enterprise (\$40.8 million). The primary uses are payments to employees, including salaries, wages and fringe benefits (\$121.1 million), and payments to vendors (\$38.1 million).

Cash flows from non-capital financing activities reflects non-operating sources and uses of cash. The primary sources are state appropriations (\$80.7 million) and gifts and grants for other than capital purposes (\$3.6 million). The primary use is to support cash requirements of operations.

Cash flows from capital financing activities reflects the activities related to the acquisition and construction of capital assets, including related debt payments. The primary source is capital appropriations and investments (\$11.4 million). The primary uses are purchases of capital assets (\$15.0 million) and debt payment (\$9.1 million).

	<u>2003</u>	<u>2002</u>
Cash flows from operating activities	\$(72,349,048)	\$(78,784,801)
Cash flows from noncapital financing activities	84,001,320	90,205,483
Cash flows from capital financing activities	(12,549,382)	(2,055,948)
Cash flows from investing activities	<u>1,029,897</u>	<u>1,728,224</u>
Net increase in cash	132,787	11,092,958
Cash, Beginning of year	<u>32,789,476</u>	<u>21,696,518</u>
Cash, End of year	<u>\$32,922,263</u>	<u>\$32,789,476</u>

The University's operating cash flow increased as the University increased tuition to partially offset reductions in state appropriations, which are included in noncapital financing activities.

The University's cash flow from capital financing activities decreased as proceeds from bond issuances and capital appropriations decreased. The University partially offset these decreases with reduced purchases of capital assets.

Capital Asset and Debt Administration

Overall, funds invested in capital assets reflect the ongoing campus construction. Major capital projects include the Ted Constant Convocation Center, Convocation Parking Garage, Engineering Computer Science Building, and Constant Hall renovation.

Major additions to capitalized assets include equipment (\$4,735,265) and library books (\$2,676,552). Construction for the Convocation Center and renovation of Constant Hall were completed by June 30, 2003.

The University's long-term debt decreased \$2,380,615. This decrease is primarily the result of the payment of existing debt. As calculated, the debt service to expenditures ratio is 1.86.

Overall, uncompleted construction and other related contractual commitments increased from \$1,575,325 at June 30, 2002 to \$5,683,921 at June 30, 2003. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 6, 8, 9, and 14.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's doctoral and research higher education institutions. As such, it is largely dependent upon the ongoing financial and political support from the state government. Due to declining revenue forecasts and lagging revenue collections in the Commonwealth, appropriations to state agencies have been reduced dramatically during the 2002 – 2004 biennium. For fiscal year 2004, general fund support for educational and general programs (excluding state financial aid) at Old Dominion University will decrease by \$11.5 million (17 percent) from \$79.0 million to \$67.5 million. These reductions, in addition to the historical under-funding of the University, has resulted in the recent analysis by the State Council of Higher Education for Virginia (SCHEV) that shows Old Dominion University as funded at approximately 79 percent of base adequacy or underfunded by approximately \$38.0 million.

Despite the recent funding reductions, Old Dominion University continues to devise innovative solutions to the challenges presented by the current environment in higher education. SCHEV recently released its report “Advancing Virginia Through Higher Education – The Systemwide Plan for Higher Education in Virginia” and articulated three specific goals:

- Accommodate at least 38,000 additional students
- Increase Virginia’s national standing in sponsored research
- Enhance the Commonwealth’s commitment to instructional quality

Recognizing the statewide challenge for managing enrollment demand across the Commonwealth, Old Dominion University has proposed a strategy, which can accommodate a third of the projected students entering higher education by 2010. The University has committed itself to enroll 10,000 additional students over the next five years in exchange for an investment of \$24 million in state general funds. This would be accomplished through the combination of several strategies including increased on-campus enrollment growth, expanded course offerings during the summer semester, increased collaborative distance learning courses at community colleges, and the implementation of an innovative asynchronous program delivery in partnership with the Virginia Community College System. The funding associated with approval of this enrollment growth proposal would greatly benefit the University and the Commonwealth of Virginia by allowing access across the state, creating a seamless educational system, and using technology and would not require additional facilities.

Old Dominion University has established a separate Office of Research and charged the Interim Vice President for Research with the responsibility to increase current sponsored research efforts and to focus efforts in areas where the University can advance major research contributions with economic growth potential. The University has a long track record of success in research and will continue to promote a greater research agenda and the collaborative models that enhance knowledge growth and promote economic development.

Old Dominion University remains committed to the strategic goal of sustaining and enhancing instructional quality. Targeted resource allocations always focus on instructional quality as the primary mission of the University. The focus on promoting student learning is evident in the frequency of recognition by SCHEV and in the fact that the University moved from the fourth to the third tier of national rankings by the U.S. News and World Report in spite of dramatic general fund reductions.

Resolution by state legislators of the current funding deficit being experienced by the University, combined with the adoption of the University’s innovative proposal for dealing with imminent enrollment growth, greater funding due to expanded research efforts, and increased enrollment resulting from recognition of the commitment to constantly improving instructional quality, all hold great promise for a strong economic future for the University.

OLD DOMINION UNIVERSITY
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2003

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 22,685,304
Accounts receivable, Net of allowance for doubtful accounts (Note 5)	10,206,390
Due from the Commonwealth (Note 9)	2,103,944
Prepaid expenses	325,581
Inventory	503,177
Notes receivable, Net of allowance for doubtful accounts	<u>1,549,110</u>
 Total current assets	 <u>37,373,506</u>
Noncurrent assets:	
Restricted cash and cash equivalents (Note 3)	10,236,959
Endowment investments (Note 4)	8,837,853
Other long term investments (Note 3)	11,520,923
Notes receivable, Net of allowance for doubtful accounts	1,289,971
Nondepreciable capital assets (Note 6)	34,531,046
Depreciable capital assets, Net (Note 6)	<u>188,011,254</u>
 Total noncurrent assets	 <u>254,428,006</u>
 Total assets	 <u>291,801,512</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 7)	17,175,515
Deferred revenue	5,620,950
Obligations under securities lending	1,748,053
Deposits held in custody for others	597,214
Long-term liabilities - current portion (Note 8)	<u>8,127,618</u>
 Total current liabilities	 33,269,350
Noncurrent liabilities: See (Note 8)	<u>76,903,200</u>
 Total liabilities	 <u>110,172,550</u>
NET ASSETS	
Invested in capital assets, Net of related debt	143,311,842
Restricted for:	
Nonexpendable - scholarships and fellowships	3,821,788
Expendable:	
Scholarships and fellowships	4,492,964
Research	1,263,913
Loans	3,107,964
Capital projects	1,147,229
Departmental uses	3,606,003
Unrestricted	<u>20,877,259</u>
 Total net assets	 <u>\$ 181,628,962</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, 2003

Operating revenues:	
Student tuition and fees, Net of scholarship allowances of \$10,389,872	\$ 48,835,394
Federal grants and contracts	11,936,420
State grants and contracts	1,627,897
Nongovernmental grants and contracts	2,741,926
Auxiliary enterprises, Net of scholarship allowances of \$4,342,482 (Note 10)	37,449,385
Other operating revenues	<u>2,450,726</u>
Total operating revenues	<u>105,041,748</u>
Operating expenses:	
Instruction	84,125,647
Research	1,246,309
Public service	678,956
Academic support	21,560,662
Student services	6,956,907
Institutional support	16,210,940
Operation and maintenance	11,911,666
Depreciation	14,897,721
Student aid	6,337,663
Auxiliary activities (Note 10)	<u>28,464,803</u>
Total operating expenses	<u>192,391,274</u>
Operating loss	<u>(87,349,526)</u>
Nonoperating revenues (expenses)	
State appropriations (Note 12)	82,278,037
Gifts	3,208,973
Investment income, Net of investment expenses of \$165,988	1,002,524
Other	349,811
Interest of capital asset - related debt	(3,147,434)
Payments to Commonwealth from state appropriations	(1,570,319)
Payments to grantors	<u>(72,863)</u>
Net nonoperating revenue	<u>82,048,729</u>
Income before other revenues, expenses, gains, or losses	<u>(5,300,797)</u>
Capital appropriations	7,342,284
Capital gifts	2,834,858
Reversions to the General Fund	(2,570,057)
Bond premium	<u>112,905</u>
Net other revenues	<u>7,719,990</u>
Increase in net assets	2,419,193
Net assets - Beginning of year (Note 2)	<u>179,209,769</u>
Net assets - End of year	<u>\$ 181,628,962</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, 2003

Cash flows from operating activities:	
Student tuition and fees	\$ 56,040,501
Grants and contracts	16,366,616
Auxiliary enterprises	40,826,938
Other receipts	1,922,585
Payments to employees	(99,151,085)
Payments to fringe benefits	(22,024,314)
Payments for services and supplies	(38,177,567)
Payments for travel	(2,109,884)
Payments for scholarships and fellowships	(23,346,484)
Payments for noncapitalized improvements and equipment	(2,256,851)
Loans issued to students	(1,014,183)
Collections of loans from students	574,680
	<u>574,680</u>
Net cash used by operating activities	<u>(72,349,048)</u>
Cash flows from noncapital financing activities:	
State appropriations	80,707,718
Gifts and grants for other than capital purposes	3,642,504
William D. Ford direct lending receipts	44,215,286
William D. Ford direct lending disbursements	(44,215,286)
PLUS loans receipts	2,810,955
PLUS loans disbursements	(2,810,955)
Refund to the federal government	(72,863)
Agency receipts	1,323,057
Agency payments	(1,599,096)
	<u>(1,599,096)</u>
Net cash provided by noncapital financing activities	<u>84,001,320</u>
Cash flows from capital financing activities:	
Proceeds from capital appropriations and investments	11,498,828
Capital reversions	(2,570,057)
Proceeds from issuance of bonds	2,565,000
Capital gifts	166,048
Purchase of capital assets	(15,074,538)
Principal paid on capital debt, leases, and installments	(5,388,365)
Interest paid on capital debt, leases, and installments	(3,746,298)
	<u>(3,746,298)</u>
Net cash used by capital financing activities	<u>(12,549,382)</u>
Cash flows from investing activities:	
Interest on investment and cash management	1,029,897
	<u>1,029,897</u>
Net cash provided by investing activities	<u>1,029,897</u>
Net increase in cash	132,787
Cash and cash equivalents - Beginning of the year	<u>32,789,476</u>
Cash and cash equivalents - End of the year	<u><u>\$ 32,922,263</u></u>

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

Operating loss	\$ (87,349,526)
Adjustments to reconcile net loss to net cash used by operating activities	
Depreciation expense	14,897,721
Changes in assets and liabilities:	
Receivables, Net	(4,989,759)
Prepaid expenses	(213,319)
Inventory	8,382
Accounts payable and accrued expenses	1,489,102
Deferred revenue	<u>3,808,351</u>
Net cash used by operating activities	<u>\$ (72,349,048)</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, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Old Dominion University (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 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. The University has no component units, as defined by GASB Statement 14; however, the University does have related affiliated parties whose combined financial conditions are stated in Note 13. These organizations are separate legal entities from Old Dominion University and the University exercises no control over them. Therefore, these related parties are not included 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, one column entity-wide perspective of the University's assets, liabilities, net assets, revenues, changes in net assets, and cash flows, and replaces the fund-group perspective previously required. The University's accounting policies are in conformity with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (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 of Accounting.

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.

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 fee 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 the 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 except for assets acquired under the Higher Education Trust Fund, which is capitalized at \$500 as required by the State Council of Higher Education for Virginia. 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 \$1,341,866 relating to construction is capitalized net of interest income earned on resources set aside for this purpose for the year ended June 30, 2003. 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 as follows:

Buildings	30-50 years
Other improvements and infrastructure	7-30 years
Equipment	4-15 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 accrued in advance of the semester and certain grants that have received advance funding, but have not met their restriction prior to June 30, 2003.

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, 2003. 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, and William D. Ford Federal Direct Loan Program, which includes 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 - include 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 - represent 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 - represent resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

O. Classification of Revenues and Expenses

The University presents its revenue 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, is reported net of scholarship allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the actual charge for goods and services provided by the University and the amount that is 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. Students 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. RESTATEMENT OF NET ASSETS

Beginning net assets was adjusted to properly reflect depreciation.

Net assets as previously reported June 30, 2002	\$185,491,257
Depreciation	<u>(6,281,488)</u>
Total	<u>\$179,209,769</u>

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash with the Treasurer of Virginia

The Treasurer of Virginia, pursuant to Section 2.2-1800, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds, holds all state funds of the University. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying Statement of Net Assets and is not categorized as to credit risk. The University also holds certain deposits. Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with GASB Statement 9's definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits, including certificates of deposits and temporary investments with original maturities of three months or less.

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard & Poor's Incorporated, overnight term or open repurchase agreements, and money market funds comprised of investments, which are otherwise legal investments of the University.

B. Deposits

At June 30, 2003, the carrying value of the University's deposits with banks was \$4,378,880 per the books. The bank balance was \$93,079. 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 of excess deposits to a collateral pool in the name of the State Treasury Board.

C. Investments

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2003. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments, which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. The composition and categorization of investments held by the University at June 30, 2003, follows:

Investments

Category 3:

U.S. government securities and U.S. government agent securities	\$ 2,165,901
Common and preferred stock	5,593,986
Corporate bonds	1,491,561
Municipal securities	<u>236,040</u>

Subtotal 9,487,488

Noncategorized:

Securities lending	1,748,053
Money market	<u>9,123,235</u>

Total investments \$20,358,776

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, 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 the 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 above the prior year spending rate. For fiscal year 2003, it was 5.5 percent. The payout percentage is reviewed and adjusted annually as deemed prudent.

At June 30, 2003, net appreciation of \$2,641,273 was available to be spent, which is reported in the Statement of Net Assets as Restricted for Non-Expendable Scholarship and Fellowships.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003:

Student tuition and fees	\$ 4,716,353
Auxiliary enterprises	3,418,102
Federal, state, and nongovernmental grants and contracts	1,662,168
Other activities	<u>1,005,033</u>
Gross receivables	10,801,656
Less allowance for doubtful accounts	<u>595,266</u>
Net accounts receivable	<u>\$10,206,390</u>

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2003, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 28,281,149	\$ 242,758	\$ 961,697	\$ 27,562,210
Construction-in-progress	<u>67,026,534</u>	<u>18,411,604</u>	<u>78,469,302</u>	<u>6,968,836</u>
Total nondepreciable capital assets	<u>95,307,683</u>	<u>18,654,362</u>	<u>79,430,999</u>	<u>34,531,046</u>
Depreciable capital assets:				
Buildings	193,233,444	78,469,302	114,231	271,588,515
Infrastructure	1,312,561	-	-	1,312,561
Equipment	42,299,069	5,817,712	1,082,447	47,034,334
Improvements other than building	6,547,865	-	-	6,547,865
Library books	<u>36,431,910</u>	<u>2,847,919</u>	<u>171,367</u>	<u>39,108,462</u>
Total depreciable capital assets	<u>279,824,849</u>	<u>87,134,933</u>	<u>1,368,045</u>	<u>365,591,737</u>
Less accumulated depreciation for:				
Buildings	96,820,687	7,584,854	106,616	104,298,925
Infrastructure	1,312,561	-	-	1,312,561
Equipment	29,453,638	4,538,596	1,041,462	32,950,772
Improvements other than building	5,349,120	94,449	-	5,443,569
Library materials	<u>31,066,202</u>	<u>2,679,822</u>	<u>171,368</u>	<u>33,574,656</u>
Total accumulated depreciation	<u>164,002,208</u>	<u>14,897,721</u>	<u>1,319,446</u>	<u>177,580,483</u>
Depreciable capital assets, Net	<u>115,822,641</u>	<u>72,237,212</u>	<u>48,599</u>	<u>188,011,254</u>
Total capital assets, Net	<u>\$211,130,324</u>	<u>\$90,891,574</u>	<u>\$79,479,598</u>	<u>\$222,542,300</u>

Capital assets' beginning balance was adjusted to close out construction-in-progress projects that were completed in prior fiscal years and transferred to the appropriate categories of buildings and land. The construction-in-progress beginning balance was also adjusted for interest expense that had been capitalized in the prior year on a building after construction was completed.

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003:

Employee salaries, wages, and fringe benefits payable	\$ 6,500,588
Vendors and suppliers accounts payable	<u>10,674,927</u>
Total accounts payable and accrued expenses	<u>\$17,175,515</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 ended June 30, 2003, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	\$15,899,689	\$12,902,992	\$13,507,271	\$15,295,410	\$ 2,057,304
Capital leases	589,024	1,111,799	743,135	957,688	337,211
Notes payable	<u>64,250,000</u>	<u>-</u>	<u>2,145,000</u>	<u>62,105,000</u>	<u>2,390,000</u>
Total long-term debt	<u>80,738,713</u>	<u>14,014,791</u>	<u>16,395,406</u>	<u>78,358,098</u>	<u>4,784,515</u>
Other noncurrent liabilities:					
Accrued compensated absences	5,434,464	3,957,019	4,160,737	5,230,746	3,343,103
Federal loan program contributions	883,543	-	313,929	569,614	-
Capital projects retainage payable	2,616,990	278,555	2,535,326	360,219	-
Deferred gain on early retirement of debt	<u>-</u>	<u>512,141</u>	<u>-</u>	<u>512,141</u>	<u>-</u>
Total other noncurrent liabilities	<u>8,934,997</u>	<u>4,747,715</u>	<u>7,009,992</u>	<u>6,672,720</u>	<u>3,343,103</u>
Total long-term liabilities	<u>\$89,673,710</u>	<u>\$18,762,506</u>	<u>\$23,405,397</u>	<u>\$85,030,818</u>	<u>\$8,127,618</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(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 also secures these notes.

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.

<u>Description</u>	<u>Interest Rates</u>	<u>Maturity</u>	<u>2003</u>
Revenue bonds:			
Dormitory, Series 1983A	3.00%	2013	\$ 1,590,000
Dormitory, Series 1983B	3.00%	2013	1,525,000
Dormitory, Series 2002	2.50% - 5.00%	2022	2,360,000
Dormitory, Series 2003A	2.50%	2004	149,660
Recreation, Series 2003A	2.50%	2004	399,094
Recreation, Series 2003A	2.50% - 5.50%	2010	2,969,829
Science, Series 2003A	2.50%	2004	134,694
Smalls, Series 2003A	2.50% - 5.50%	2008	147,694
Parking, Series 2003A	2.50% - 5.50%	2010	2,333,468
Student Center, Series 2003A	2.50% - 5.50%	2011	<u>3,685,971</u>
Total revenue bonds			<u>15,295,410</u>
Notes payable:			
Classrooms, Series 1997A	4.30% - 5.00%	2018	8,685,000
Classrooms, Series 1999A	4.75% - 6.00%	2020	805,000
Recreation, Series 1997A	4.30% - 5.00%	2018	4,525,000
Recreation, Series 1999A	4.50% - 6.00%	2020	900,000
Recreation, Series 2000A	4.30% - 5.75%	2021	4,695,000
Recreation, Series 2001A	3.00% - 5.00%	2022	23,945,000
Parking, Series 1997A	4.30% - 5.00%	2018	1,620,000
Parking, Series 1999A	4.50% - 6.00%	2020	1,330,000
Parking, Series 2000A	4.30% - 5.75%	2021	8,265,000
Parking, Series 2001A	3.00% - 5.00%	2022	<u>7,335,000</u>
Total notes payable			<u>62,105,000</u>
Capital leases	Various	2004 - 2006	<u>957,688</u>
Total			<u>\$78,358,098</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2004	\$ 4,784,516	\$ 3,574,394
2005	4,301,285	3,418,733
2006	4,446,773	3,236,382
2007	4,315,246	3,049,587
2008	4,497,024	2,854,501
2009 - 2013	21,583,254	11,017,495
2014 - 2018	21,235,000	5,982,831
2019 - 2023	<u>13,195,000</u>	<u>1,241,883</u>
Total	<u>\$78,358,098</u>	<u>\$34,375,806</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. VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed, so the University now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Primary Government" includes \$2,103,944 for equipment purchased by the University that was not reimbursed by 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, 2003, the following amounts of the defeased bonds were outstanding:

1990 Series B	\$ 2,450,471
1993 Series R	<u>7,854,298</u>
Total	<u>\$10,304,769</u>

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2003. Additionally the University used auxiliary revenues to pay debt service of \$8,535,758. This amount is not included in the auxiliary operating expenses.

Revenues:	
Room contracts, Net of \$1,482,145 scholarship allowances	\$ 6,875,868
Food service contracts, Net of \$72,245 scholarship allowances	337,337
Comprehensive fees, Net of \$2,334,868 scholarship Allowances	16,154,651
Other student fees and sales and services, Net of \$453,224 scholarship allowances	<u>14,081,529</u>
Total revenues	<u>\$37,449,385</u>
Expenses:	
Residential facilities	\$ 6,347,880
Dining operations	82,642
Athletics	9,285,653
Other auxiliary activities	<u>12,748,628</u>
Total expenses	<u>\$28,464,803</u>

11. 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 <u>Benefits</u>	Non-Personal Services/ <u>Supplies</u>	Scholarships and <u>Fellowships</u>	Plant and <u>Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 72,270,145	\$11,443,029	\$ -	\$ 412,473	\$ -	\$ 84,125,647
Research	867,672	375,196	-	3,441		1,246,309
Public service	527,003	129,537	-	22,416	-	678,956
Academic support	14,705,223	6,312,398	-	543,041	-	21,560,662
Student services	5,512,046	1,406,540	-	38,321	-	6,956,907
Institutional Support	13,004,970	3,102,973	-	102,997	-	16,210,940
Operation and main- Tenance of plant	5,941,640	5,002,425	-	967,601	-	11,911,666
Depreciation Expense	-	-	-	-	14,897,721	14,897,721
Scholarship and related expenses	14,223	126,426	6,197,014	-	-	6,337,663
Auxiliary activities	<u>11,341,171</u>	<u>14,744,729</u>	<u>2,188,034</u>	<u>190,869</u>	<u>-</u>	<u>28,464,803</u>
Total	<u>\$124,184,093</u>	<u>\$42,643,253</u>	<u>\$8,385,048</u>	<u>\$2,281,159</u>	<u>\$14,897,721</u>	<u>\$192,391,274</u>

12. 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 899:	
Educational and general programs	\$79,035,899
Student financial assistance	8,533,589
Supplemental adjustments:	
Central fund appropriation transfers	1,796,148
Eminent scholars	284,314
HEETF appropriation	253,142
Library grant	13,833
Reversion to the general fund of the Commonwealth	<u>(7,638,888)</u>
Adjusted appropriation	<u>\$82,278,037</u>

13. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the Old Dominion Research Foundation, the Old Dominion Educational and Real Estate Foundations, and the Old Dominion Intercollegiate Foundation. The purpose of these organizations is to operate for the benefit of the University. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors.

	Research Foundation at <u>June 30, 2003</u>	Educational and Real Estate Foundations at <u>December 31, 2002</u>	Intercollegiate Foundation at <u>December 31, 2002</u>
Assets:			
Cash and investments	\$ 6,187,639	\$76,356,343	\$1,650,505
Other assets	<u>12,479,377</u>	<u>20,064,867</u>	<u>5,121,838</u>
Total assets	<u>\$18,667,016</u>	<u>\$96,421,210</u>	<u>\$6,772,343</u>
Liabilities and net assets:			
Liabilities	\$ 6,869,921	\$25,932,899	\$ 751,350
Net assets	<u>11,797,095</u>	<u>70,488,311</u>	<u>6,020,993</u>
Total liabilities and net assets	<u>\$18,667,016</u>	<u>\$96,421,210</u>	<u>\$6,772,343</u>

The aggregate revenues and expenditures of the Educational and Real Estate, and Intercollegiate Foundations, determined as if in consolidation with the University, were \$14,888,860 and \$24,742,584, respectively, for the year ended December 31, 2002. The aggregate revenues and expenditures of the Research Foundation determined as if in consolidation with the University were \$35,472,786 and \$34,893,713, respectively for the year ended June 30, 2003.

The total contribution to Old Dominion University from the Educational and Intercollegiate Foundation was \$6,194,315 for the year ended December 31, 2002.

14. COMMITMENTS

At June 30, 2003, the University was a party to construction and other contracts totaling approximately \$23,362,641 of which \$17,678,720 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 three- to four- year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately \$3,901,247 for the year ended June 30, 2003.

The University has, as of June 30, 2003, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating Lease <u>Obligation</u>
2004	\$617,386
2005	12,324
2006	8,506
2007	6,670
2008	4,030
2009-2013	<u>16,120</u>
Total	<u>\$665,036</u>

15. RETIREMENT PLANS

Virginia Retirement System

Substantially all full-time classified salaried employees of the University participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report. The Commonwealth, not Old Dominion University, has overall responsibility for contributions to this plan.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. 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 \$3,555,230 for the year ended June 30, 2003. Contributions to other retirement plans were calculated using the base salary amount of approximately \$34,184,904.

16. 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.

17. CONTINGENCIES

Grants and Contracts

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, 2003, the University estimates that no material liabilities will result from such audits or questions.

18. 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.

19. PENDING GASB STATEMENT

Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations Are Component Units*, issued May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past the University presented summary financial information of certain of its foundations in the Notes to Financial Statements, the University will be required under GASB Statement 39 to include selected foundations in the body of its financial statements. The University has identified the foundations which will be included as component units.

OLD DOMINION UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003

	Residential Facilities	Dining Services	University Stores	Virginia Beach Development
Operating revenues:				
Student fees	\$ 44,775	\$ -	\$ -	\$ 506,214
Sales and services	8,358,013	409,582	48,718	481,795
Proceeds from securities lending program	-	-	-	-
Rental and other income	-	-	578,018	-
Gross operating revenues	8,402,788	409,582	626,736	988,009
Cost of sales	-	-	-	-
Net operating revenues	8,402,788	409,582	626,736	988,009
Operating expenditures:				
Personal services	2,413,818	8,071	-	-
Contractual services	3,505,643	71,837	13,938	-
Equipment	131,350	2,734	-	-
Supplies and materials	297,069	-	4,927	-
Scholarships	-	-	-	-
Total operating expenditures	6,347,880	82,642	18,865	-
Excess of revenues over operating expenditures	2,054,908	326,940	607,871	988,009
Nonoperating revenue:				
Private gifts	-	-	-	-
Mandatory transfers:				
Debt service	(1,320,185)	-	-	(893,416)
Nonmandatory transfers (to)/from other funds	123,051	(463,393)	(542,449)	2,366
Total transfers	(1,197,134)	(463,393)	(542,449)	(891,050)
Net increase (decrease) in fund balances	857,774	(136,453)	65,422	96,959
Fund balances (deficit) at beginning of year *	5,820,825	2,121,933	98,241	2,436,641
Fund balances (deficit) at end of year	\$ 6,678,599	\$ 1,985,480	\$ 163,663	\$ 2,533,600

* Dining services amount reclassified for prior period error.

Student Activities	Webb Center	Parking	East Side Development	Athletic Programs	Other Auxiliary	Fee Reserve	Total
\$ 1,757,513	\$ 2,306,670	\$ -	\$ 4,166,727	\$ 9,946,839	\$ 3,644,075	\$ 989,722	\$ 23,362,535
182,106	111,688	2,569,485	1,162,142	1,350,708	3,297,561	-	17,971,798
-	-	-	-	-	-	20,519	20,519
-	-	-	-	-	-	42,606	620,624
1,939,619	2,418,358	2,569,485	5,328,869	11,297,547	6,941,636	1,052,847	41,975,476
-	-	-	-	11,066	-	-	11,066
1,939,619	2,418,358	2,569,485	5,328,869	11,286,481	6,941,636	1,052,847	41,964,410
912,237	904,214	618,907	-	4,093,327	2,390,596	-	11,341,170
713,867	623,613	826,883	3,445,084	2,811,977	1,479,053	42,606	13,534,501
45,349	29,299	19,081	27,506	130,555	142,859	-	528,733
149,843	221,616	32,549	135,015	389,448	350,458	-	1,580,925
-	-	-	-	1,860,346	-	-	1,860,346
1,821,296	1,778,742	1,497,420	3,607,605	9,285,653	4,362,966	42,606	28,845,675
118,323	639,616	1,072,065	1,721,264	2,000,828	2,578,670	1,010,241	13,118,735
-	-	-	-	577,158	-	-	577,158
(5,524)	(595,431)	(572,408)	(4,226,295)	(922,052)	(447)	-	(8,535,758)
-	(365,279)	(148,218)	(42,086)	(26,890)	(1,450,403)	(494,483)	(3,407,784)
(5,524)	(960,710)	(720,626)	(4,268,381)	(948,942)	(1,450,850)	(494,483)	(11,943,542)
112,799	(321,094)	351,439	(2,547,117)	1,629,044	1,127,820	515,758	1,752,351
(141,664)	1,111,561	4,247,618	10,826,888	3,090,363	490,596	691,545	30,794,547
\$ (28,865)	\$ 790,467	\$ 4,599,057	\$ 8,279,771	\$ 4,719,407	\$ 1,618,416	\$ 1,207,303	\$ 32,546,898

OLD DOMINION UNIVERSITY
NORFOLK, VIRGINIA

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