

RADFORD UNIVERSITY

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Radford University for the year ended June 30, 2004, 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.

- TABLE OF CONTENTS -

AUDIT SUMMARY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to Financial Statements

SUPPLEMENTARY INFORMATION:

Schedule of Auxiliary Enterprises Revenues, Expenditures, and
Changes in Fund Balances

INDEPENDENT AUDITOR'S REPORTS:

Report on Financial Statements

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters

UNIVERSITY OFFICIALS

MANAGEMENT'S DISCUSSION AND ANALYSIS

("unaudited")

Introduction

The following unaudited Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. The MD&A provides an overview of the financial activities of Radford University in an objective, easily readable format for the year ending June 30, 2004. Since this analysis includes highly summarized data, it should be read in conjunction with the accompanying financial statements, footnotes, and other supplementary information. The University's management is responsible for all the financial information presented, including the discussion and analysis.

During fiscal year 2004, the University adopted GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*. This Statement provides guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, an organization that raises and holds economic resources for the direct benefit of the University would be reported as a component unit. The Radford University Foundation, Inc., will be reported as a component unit for fiscal year ending June 30, 2004 and thereafter. Accordingly, the University's financial statements will differ in form, but content and accounting principles utilized will remain constant.

The three required financial statements are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These statements are summarized and analyzed in the following paragraphs.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented in the Statement of Net Assets aids readers in determining the assets available to continue the operations of the University. It also allows readers to determine how much the University owes to vendors. Finally, the Statement of Net Assets provides a picture of net assets and the availability for expenditure by the University. Sustained increases in net assets over time are one indicator of the financial stability of an organization.

Net assets are classified into three major categories: invested in capital assets, restricted net assets, and unrestricted net assets.

- Invested in capital assets – Invested in capital assets, net of related debt, represents the University's total investment in capital assets net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- Restricted net assets - Expendable – Restricted expendable assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, indirect costs, and sales and services of auxiliary enterprises and

educational departments. These resources are used for transactions relating to academic departments and general operations of the University and may be used at the discretion of the University to meet current expenses for any lawful purpose in support of its primary mission of instruction. These resources also include auxiliary enterprises and providing services for students, faculty, and staff. Examples of the University's auxiliaries include residence halls, dining services, and intercollegiate athletics.

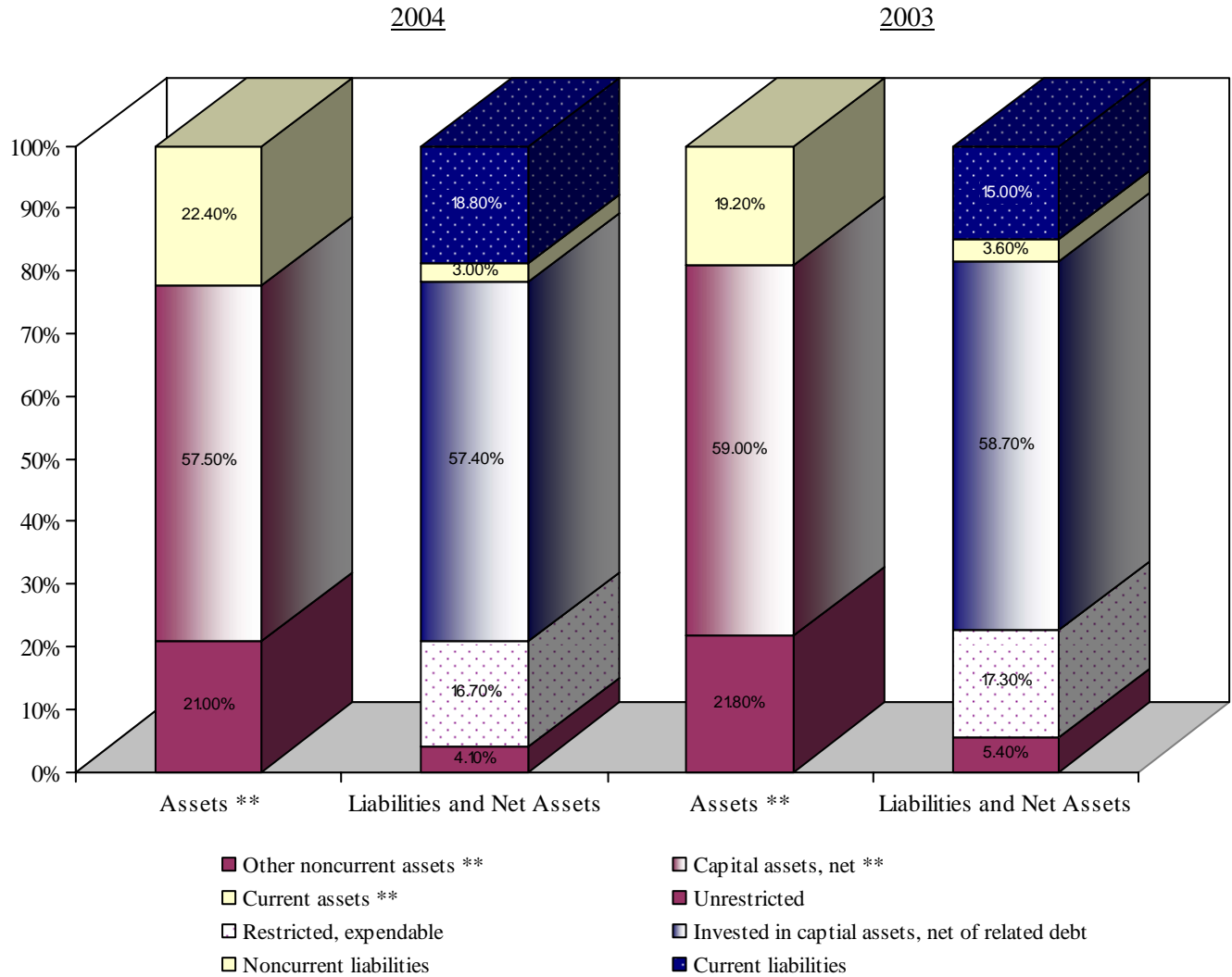
Statement of Net Assets
(\$ shown in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Assets:				
Current assets	\$ 33,305	\$ 24,663	\$ 8,642	35.0
Capital assets, net	85,606	75,759	9,847	13.0
Other noncurrent assets	<u>29,860</u>	<u>27,896</u>	<u>1,964</u>	<u>7.0</u>
Total assets	<u>148,771</u>	<u>128,318</u>	<u>20,453</u>	<u>15.9</u>
Liabilities:				
Current liabilities	27,995	19,177	8,818	46.0
Noncurrent liabilities	<u>4,415</u>	<u>4,633</u>	<u>(218)</u>	<u>(4.7)</u>
Total liabilities	<u>32,410</u>	<u>23,810</u>	<u>8,600</u>	<u>36.1</u>
Net Assets:				
Invested in capital assets, net of related debt	85,344	75,374	9,970	13.2
Restricted - expendable	24,899	22,189	2,710	12.2
Unrestricted	<u>6,118</u>	<u>6,945</u>	<u>(827)</u>	<u>(11.9)</u>
Total net assets	<u>\$116,361</u>	<u>\$104,508</u>	<u>\$11,853</u>	<u>11.3</u>

* in thousands

The total net assets of the University increased by \$11,853,462 (11.3 percent) during fiscal year 2004, bringing total net assets to \$116,361,341 at year-end. This growth was due largely to increased capital assests of \$9,846,356 and short term investments of \$6,068,466. The majority of the increase in capital assets was due to renovations to dormitories. The increase in short-term investments led to an increase in oligations under securities lending of \$6,068,466 over fiscal year 2003. The Securities Lending Program represents the University's allocated share of securities held in the General Account of the Commonwealth.

Summary of Statement of Net Assets



Capital Asset and Debt Administration

One of the critical factors in continuing the University's mission is the development and renewal of its capital assets. The University continues to implement its long-range plan to modernize its older facilities, balanced with new construction. Investments in renovating and constructing new facilities serve to facilitate the University's high-quality instructional programs, residential lifestyles, and student quality of life.

Note 4 of the Notes to Financial Statements describes the University's investment in capital assets with total additions of \$19,828,026 (including construction-in-progress) during fiscal year 2004. The renovations of Stuart Hall, Peery Hall, and Peters Hall were the primary components of the additions in the construction-in-progress category. Current year depreciation expense totaled \$4,570,985. Net reductions in capital assets totaled \$9,981,670, mainly consisting of the retirement of Waldron Hall from construction-in-progress. Overall, the value of the University's capital assets totaled \$85,606,072 at the end of fiscal year 2004.

Commitments to construction contractors, architects, and engineers for capital projects totaled \$6,568,048 at June 30, 2004. Several renovation projects constituted most of this total: Peters Hall, Stuart Hall, Peery Hall, and Hurlburt Student Center.

The University takes seriously its role of financial stewardship and works hard to manage its resources effectively, including the prudent use of debt to finance capital projects. The University decreased its total long-term debt from \$372,672 in fiscal year 2003 to \$254,448 in fiscal year 2004. Currently, the University's only outstanding debt is the Norwood Residence Hall bond, which will be completely retired in 2006.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating activities, which create the changes in total net assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investments and capital assets.

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

Nonoperating revenues are revenues received for goods and services that are not directly provided. State appropriations are included in this category, but provide substantial support for paying the operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Assets

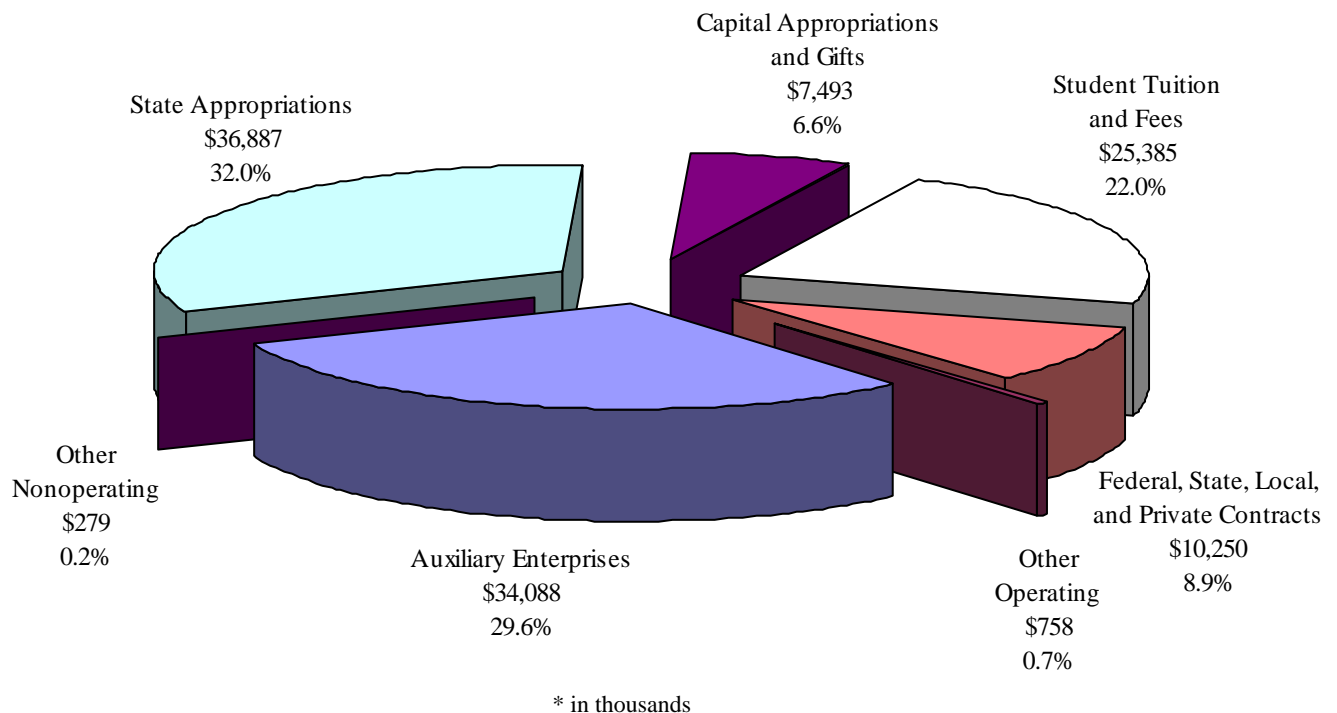
(\$ shown in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating revenues	\$ 70,481	\$ 64,432	\$ 6,049	9.4
Operating expenses	<u>103,286</u>	<u>100,631</u>	<u>2,655</u>	<u>2.6</u>
Operating loss	(32,805)	(36,199)	3,394	(9.4)
Nonoperating revenues and expenses	<u>37,166</u>	<u>38,449</u>	<u>(1,283)</u>	<u>(3.3)</u>
Income before other revenues, expenses, gains, or losses	4,361	2,250	2,111	93.8
Other revenue, expenses, gains, or losses	<u>7,492</u>	<u>6,291</u>	<u>1,201</u>	<u>19.1</u>
Increase in net assets	11,853	8,541	3,312	38.8
Net assets - beginning of year	<u>104,508</u>	<u>95,967</u>	<u>8,541</u>	<u>8.9</u>
Net assets - end of year	<u>\$116,361</u>	<u>\$104,508</u>	<u>\$11,853</u>	<u>11.3</u>

* in thousands

The following is a graphic illustration of revenues by source (both operating and nonoperating) used to fund the University's activities for the year ended June 30, 2004. Critical recurring sources of the University's revenues are considered nonoperating, as defined by GASB Statement 35. These sources are presented as state and capital appropriations on the graph below.

Revenues by Source



The table below shows revenue trends over the past two fiscal years.

Operating Revenues

(\$ shown in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowance	\$ 25,385	\$ 20,937	\$ 4,448	21.2
Federal, state, and nongovernmental grants and contracts	10,250	9,777	473	4.8
Auxiliary enterprises, net of scholarship allowance	34,088	33,212	1,876	2.6
Other operating revenue	<u>758</u>	<u>506</u>	<u>252</u>	<u>49.8</u>
Total operating revenues	<u>70,481</u>	<u>64,432</u>	<u>6,049</u>	<u>9.4</u>

Nonoperating revenues:				
State appropriations	36,887	38,099	(1,212)	(3.2)
Investment income, interest on capital assets-related debt, loss on disposal of plant assets, and other nonoperating revenues	<u>279</u>	<u>349</u>	<u>(70)</u>	<u>(20.1)</u>
Total nonoperating revenues	<u>37,166</u>	<u>38,448</u>	<u>(1,282)</u>	<u>(3.3)</u>
Capital revenues and gains:				
Capital appropriations	6,550	5,460	1,090	20.0
Capital gifts	<u>942</u>	<u>831</u>	<u>111</u>	<u>13.4</u>
Total capital revenues and gains	<u>7,492</u>	<u>6,291</u>	<u>1,201</u>	<u>19.1</u>
Total revenues	<u>\$115,139</u>	<u>\$109,171</u>	<u>\$ 5,968</u>	<u>5.5</u>

Operating Revenues

Operating revenues primarily include tuition, fees, and auxiliary enterprises. Total operating revenues increased by \$6,048,413 (9.4 percent) from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by \$4,447,728 (21.2 percent) in fiscal year 2004. Most of this growth can be attributed to an increase in tuition and fees. Overall, the University's operating revenue increased to \$70,480,834 in fiscal year 2004, compared to \$64,432,421 in fiscal year 2003.

Nonoperating Revenues

Nonoperating income decreased by \$1,282,855 from the previous year's total. This decrease was due to mandatory General Fund reductions of approximately \$1,900,000, offset by Central Appropriation adjustments for salary increases, health insurance premium increases, and general fringe benefit rate changes consisting of retirement, retiree health insurance credit premiums and group life insurance premiums.

Other Revenues

Other revenues, mainly represented by capital appropriations, increased by \$1,201,738 (19.1 percent) over the prior fiscal year. Overall for fiscal year 2004, total revenues increased by \$5,967,296, which is mainly attributed to the increase in tuition and fees.

Total revenues increased at a rate greater than total expenses, resulting in an increase to net assets, which strengthened the University's financial position.

Total Operating Expenses

Statewide economic uncertainty resulted in significant reductions of state appropriations to the University during fiscal year 2003. This forced the University to implement strategic and short-term cost containment measures. As the economic outlook improved during fiscal year 2004, short-term cost containment measures were lifted on discretionary spending such as travel and the purchase of supplies and equipment. Operating expenses for fiscal year 2004 totaled \$103,286,128 up 2.6 percent over fiscal year 2003.

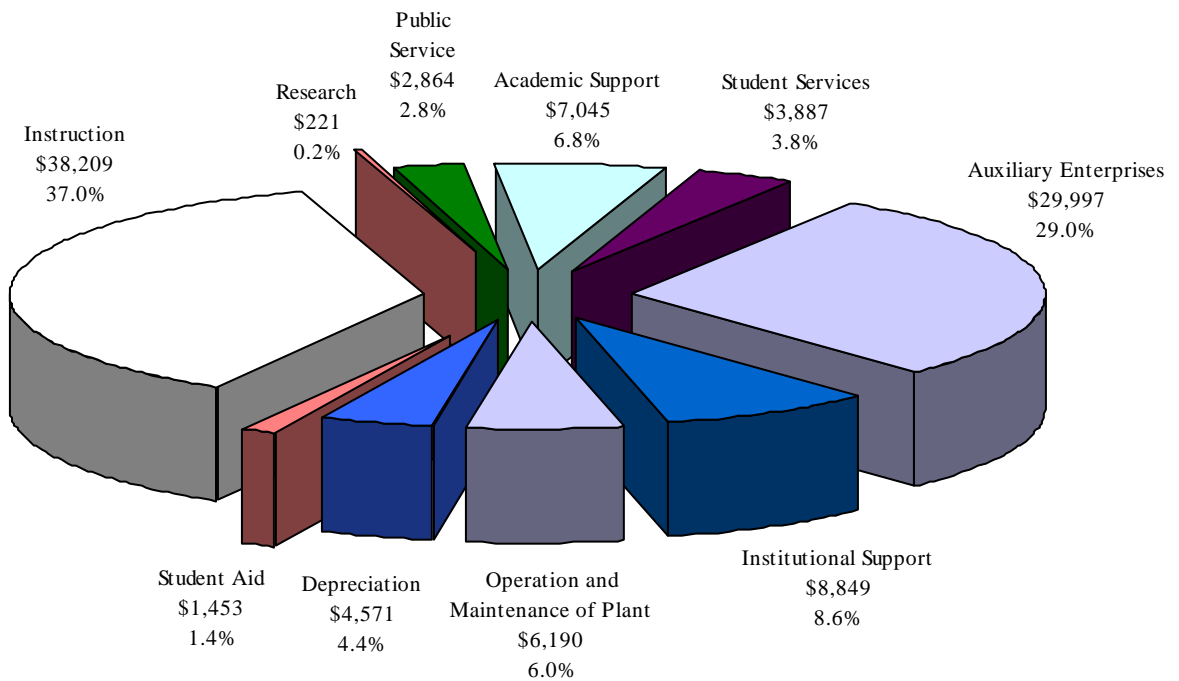
Operating Expenses
(\$ shown in thousands)

	<u>2004</u>	<u>2003</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating expenses:				
Instruction	\$ 38,209	\$ 37,326	\$ 883	2.4
Research	221	167	54	32.3
Public service	2,864	2,073	791	38.2
Academic support	7,045	6,633	412	6.2
Student services	3,887	3,353	534	15.9
Institutional support	8,849	9,156	(307)	(3.4)
Operation and maintenance of plant	6,190	5,308	882	16.6
Depreciation	4,571	4,652	(81)	(1.7)
Student aid	1,453	1,533	(80)	(5.2)
Auxiliary enterprises	<u>29,997</u>	<u>30,430</u>	<u>(433)</u>	<u>(1.4)</u>
 Total operating expenses	 <u>\$103,286</u>	 <u>\$100,631</u>	 <u>\$2,655</u>	 <u>2.6</u>

* in thousands

The following graphic illustration presents total expenses for fiscal year 2004 by function.

Expenses By Function



* in thousands

Statement Of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the Statement of Revenues, Expenses, and Change in Net Assets. This difference occurs because the Statement of Revenues, Expenses, and Change in Net Assets is prepared on the accrual basis of accounting and includes non-cash items, such as depreciation expense, while the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows should help readers assess the ability of an institution to generate cash flows necessary to meet obligations and evaluate its potential for additional financing.

The Statement of Cash Flows is divided into four sections: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

Statement of Cash Flows

(\$ shown in thousands)

Net cash used by operating activities	\$(23,511)
Net cash provided by noncapital financing activities	36,474
Net cash used by capital and related financing activities	(8,407)
Net cash provided by investing activities	<u>715</u>
Net increase in cash	5,271
Cash and cash equivalents - beginning of year	<u>42,867</u>
Cash and cash equivalents - end of year	<u>\$ 48,138</u>

* in thousands

The first section, Net Cash Used by Operating Activities, deals with operating cash flows and shows the net cash used by the operating activities of the University.

Net Cash Provided by Noncapital Financing Activities section is second. GASB requires that general appropriations from the Commonwealth and noncapital gifts be shown as cash flows from noncapital financing activities. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes.

Net Cash Used by Capital and Related Financing Activities, the third section, presents cash used for the acquisition and construction of capital and related items. Included in cash flows from capital financing activities are all plant funds and related long-term debt activities (except depreciation and amortization), as well as gifts to endowments.

Net Cash Provided by Investing Activities, the fourth section, reflects interest on investments.

Net Increase in Cash reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Major sources of cash for the University included state appropriations (\$36,886,990), student tuition and fees (\$25,079,596), auxiliary enterprise revenues (\$34,456,972), grants and contracts (\$10,365,135), and capital appropriations and gifts (\$7,492,797). Major uses of cash were employee compensation and benefits (\$59,105,442), operating expenses (\$36,606,063), scholarship and fellowship payments (\$3,003,637), and the purchase of capital assets (\$15,760,183).

Economic Outlook

For the 2004-2006 biennium, the University received very positive action from the General Assembly with regard to additional appropriation of General Fund support in excess of \$5 million. The infusion of those new General Fund dollars, partnered with a student supported 15 percent increase in tuition and fees effective Fall 2004, will enable the University to begin recovering from the significant budget cuts suffered during the 2002-2004 biennium.

The cost to attend the University continues to remain competitive when compared to other public institutions in its national peer group despite recent tuition and fee increases. Also, the University remains one of the lowest in tuition and fees when compared to other public institutions within the Commonwealth of Virginia.

Students who have supported the University's increase in tuition should see the results of those tuition increases through the addition of full-time faculty members, the addition of classes, some moderation in class size, and increases in the quality of instruction. Increasing the number of full-time teaching and research faculty positions is among the University's highest priorities.

Additional priorities for use of the new funding will be to increase the number of support staff positions, improve faculty salaries, enhance compensation packages for graduate assistants and teaching fellows, increase library acquisitions, offer additional financial aid assistance to in-state undergraduates, and provide support for equipment and professional development.

The University continues to remain optimistic that future support from the Governor and General Assembly for funding of base budget adequacy will enable the University to maintain its strong financial position. Overall, the University has generated an increase in net assets for fiscal year 2004. This increase is a strong indicator of the University's sound and prudent use of financial resources. Management will continue to maintain a close watch over resources to ensure the ability to react to unknown internal and external issues.

RADFORD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2004

	Radford University	Component Unit Radford University Foundation, Inc.
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 21,520,252	\$ 379,060
Short-term investments (Note 2)	8,735,686	20,557,702
Accounts receivable (Net of allowance for doubtful accounts of \$166,897) (Note 3)	2,550,119	-
Contributions receivable (Net of allowance for doubtful contributions of \$16,638)	-	8,759,360
Due from the Commonwealth (Note 7)	133,877	-
Inventory	334,713	91,974
Notes receivable (Net of allowance for doubtful accounts of \$4,693)	-	66,784
Other receivables	30,750	-
	-	56,904
Total current assets	33,305,397	29,911,784
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	26,618,450	517,332
Other long-term investments	-	1,488,625
Contributions receivable (Net of allowance for doubtful contributions of \$2,641)	-	1,390,906
Other assets	-	314,196
Notes receivable (Net of allowance for doubtful accounts of \$331,767)	3,241,439	33,300
Other receivables	-	500
Depreciable capital assets, net (Note 4)	55,870,858	6,683,357
Nondepreciable capital assets (Note 4)	29,735,214	2,857,342
Total noncurrent assets	115,465,961	13,285,558
Total assets	148,771,358	43,197,342
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	13,546,937	178,025
Deferred revenue	3,231,495	103,810
Obligations under securities lending	8,735,686	-
Deposits held in custody for others	201,132	-
Long-term liabilities - current portion (Note 6)	2,259,608	-
Notes payable - current portion	-	191,772
Advance from the Treasurer of Virginia	20,000	-
Total current liabilities	27,994,858	473,607
Noncurrent liabilities:		
Long-term liabilities (Note 6)	4,415,159	-
Notes payable	-	2,032,845
Trust and annuity obligations	-	1,371,893
Total noncurrent liabilities	4,415,159	3,404,738
Total liabilities	32,410,017	3,878,345

NET ASSETS		
Invested in capital assets, net of related debt	85,343,963	7,316,082
Restricted for:		
Expendable:		
Scholarships and fellowships	-	1,830,840
Instruction and research	606,105	376,203
Capital projects	24,145,895	-
Loans	147,278	-
Other	-	14,550,488
Nonexpendable:		
Scholarships and fellowships	-	10,270,511
Instruction and research	-	1,488,099
Other	-	2,635,585
Unrestricted	6,118,100	851,189
	<hr/>	
Total net assets	\$ 116,361,341	\$ 39,318,997
	<hr/>	

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

RADFORD UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	Radford University	Component Unit Radford University Foundation, Inc.
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$4,096,041)	\$ 25,385,467	\$ -
Gifts and contributions	-	11,912,757
Federal grants and contracts	9,576,357	-
State grants and contracts	538,512	-
Nongovernmental grants and contracts	135,117	-
Auxiliary enterprises (net of scholarship allowances of \$4,583,851) (Note 8)	34,087,542	-
Other operating revenues	757,839	881,121
Total operating revenues	70,480,834	12,793,878
Operating expenses (Note 9):		
Instruction	38,209,305	51,001
Research	220,767	-
Public service	2,864,402	-
Academic support	7,044,838	2,318,406
Student services	3,887,269	-
Institutional support	8,848,874	1,498,747
Operation and maintenance of plant	6,189,520	-
Depreciation	4,570,985	241,561
Student aid	1,453,497	756,006
Auxiliary activities (Note 8)	29,996,671	-
Total operating expenses	103,286,128	4,865,721
Operating income (loss)	(32,805,294)	7,928,157
Nonoperating revenues (expenses):		
State appropriations (Note 10)	36,886,990	-
Investment income	715,087	2,330,024
Interest on capital asset - related debt	(16,292)	(133,460)
Loss on disposal of plant assets	(13,295)	(323,957)
Nonoperating transfers to the Commonwealth	(406,531)	-
Net nonoperating revenues (expenses)	37,165,959	1,872,607
Income before other revenues, expenses, gains or losses	4,360,665	9,800,764
Capital appropriations	6,550,481	-
Capital gifts	942,316	-
Additions to permanent endowments	-	453,764
Net other revenues	7,492,797	453,764
Increase in net assets	11,853,462	10,254,528
Net assets - beginning of year	104,507,879	29,064,469
Net assets - end of year	\$ 116,361,341	\$ 39,318,997

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

RADFORD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

Cash flows from operating activities:

Student tuition and fees	\$ 25,079,596
Grants and contracts	10,365,135
Auxiliary enterprises	34,456,972
Other receipts	757,839
Payments for salaries, wages, and fringe benefits	(58,529,006)
Payments for services and supplies	(24,454,216)
Payments for utilities	(1,658,966)
Payments for scholarships and fellowships	(3,003,637)
Payments for noncapitalized plant improvements and equipment	(7,388,908)
Loans issued to students	(705,781)
Collections of loans from students	801,265
Other receipts	768,810

Net cash used by operating activities	<u>(23,510,897)</u>
---------------------------------------	---------------------

Cash flows from noncapital financing activities:

State appropriations	36,886,990
Non-general fund appropriation reductions	(406,531)
Federal Loan Contribution	10,000
Federal Family Education Loans - receipts	23,087,552
Federal Family Education Loans - disbursements	(23,096,330)
Student organization agency transactions	(7,196)

Net cash provided by noncapital financing activities	<u>36,474,485</u>
--	-------------------

Cash flows from capital financing activities:

Capital appropriations	6,550,481
Capital gifts	942,316
Purchase of capital assets	(15,760,183)
Principal paid on capital debt, leases, and installments	(123,332)
Interest paid on capital debt, leases, and installments	(16,292)

Net cash used by capital financing activities	<u>(8,407,010)</u>
---	--------------------

Cash flows from investing activities:

Interest on investments	<u>715,087</u>
-------------------------	----------------

Net cash provided by investing activities	<u>715,087</u>
---	----------------

Net increase in cash	5,271,665
----------------------	-----------

Cash and cash equivalents - beginning of the year	<u>42,867,037</u>
---	-------------------

Cash and cash equivalents - end of the year	<u><u>\$ 48,138,702</u></u>
---	-----------------------------

RECONCILIATION OF NET OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating loss	\$ (32,805,294)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,570,985
Changes in assets and liabilities:	
Receivables, net	661,288
Due from the Commonwealth	(36,337)
Inventory	13,364
Notes receivable, net	95,484
Accounts payable and accrued expenses	3,714,216
Deferred revenue	286,230
Accrued compensated absences	<u>(10,833)</u>
Net cash used by operating activities	<u><u>\$ (23,510,897)</u></u>

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

RADFORD UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Radford University is a 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 University implemented Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*. This statement addresses the conditions under which institutions should include associated fund-raising or research foundations as component units in their basic financial statements and how such component units should be displayed in the financial statements. This statement is effective for the fiscal year ending June 30, 2004.

Previously, the University had no component units, as defined by GASB Statement 14. However, under GASB Statement 39, the Radford University Foundation, Inc. (the Foundation) meets criteria qualifying it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fund-raising and funds management efforts that benefit the University and its programs. The 26-member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2004, the Foundation made distributions of \$1,331,068 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from Radford University Foundation Administrative Office, P.O. Box 6915, Radford, Virginia 24142.

Basis of Presentation

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 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. 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 Foundation is a non-profit organization that reports under 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. With the exception of necessary presentation adjustments, no modifications have been made to the Foundation’s financial information in the University’s financial report for these differences.

Basis of Accounting

The University’s financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. 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.

Capital Assets

Capital assets include land, buildings and other improvements; library materials; equipment; and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. 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. Library materials are valued using actual costs for library acquisitions. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. 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 relating to construction is capitalized net of interest income earned on resources set aside for this purpose. 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	40 years
Other improvements and infrastructure	20 years
Equipment	2-25 years
Library materials	10 years

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.

Noncurrent Cash and Investments

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

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, 2004.

Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 2004, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. 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.

Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. Net assets are classified as invested in capital assets, net of related debt; restricted; and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors; or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above.

Revenue Classifications

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.

Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2004.

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, except for cash held in foreign banks. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. In accordance with the GASB Statement 9 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.

Investments

The Board of Visitors established the University's investment policy. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's investments are in investment pools held by the Treasurer of Virginia and therefore, are not categorized as to level of credit risk.

	<u>Market Value</u>
Cash and cash equivalents:	
Cash on hand and deposited with financial institutions	\$ (89,748)
Money market account	3,192,000
Cash with the Treasurer	<u>45,036,450</u>
Total	<u>\$48,138,702</u>
Investments:	
Collateral held for securities lending	<u>\$ 8,735,686</u>

Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2004:

Student tuition and fees	\$1,172,416
Auxiliary enterprises	794,252
Unreimbursed Commonwealth expenditures	133,877
Federal, state, and nongovernmental grants and contracts	545,751
Other activities	<u>70,720</u>
Total	2,717,016
Less: Allowance for doubtful accounts	<u>166,897</u>
Net accounts receivable	<u>\$2,550,119</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2004, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 4,641,642	\$ -	\$ -	\$ 4,641,642
Construction-in-progress	<u>24,687,256</u>	<u>10,374,691</u>	<u>9,968,375</u>	<u>25,093,572</u>
Total nondepreciable capital assets	<u>29,328,898</u>	<u>10,374,691</u>	<u>9,968,375</u>	<u>29,735,214</u>
Depreciable capital assets:				
Buildings	91,170,883	10,007,882	-	101,178,765
Infrastructure	20,300,634	459,562	-	20,760,196
Equipment	14,486,870	2,636,721	444,412	16,679,179
Other improvements	4,318,744	-	-	4,318,744
Library materials	<u>13,807,875</u>	<u>920,155</u>	<u>45,833</u>	<u>14,682,197</u>
Total depreciable capital assets	<u>144,085,006</u>	<u>14,024,320</u>	<u>490,245</u>	<u>157,619,081</u>

Less accumulated depreciation for:

Buildings	60,267,115	1,824,614	-	62,091,729
Infrastructure	15,193,104	490,579	-	15,683,683
Equipment	10,209,573	1,232,139	431,117	11,010,595
Other improvements	2,784,791	216,216	-	3,001,007
Library materials	<u>9,199,605</u>	<u>807,437</u>	<u>45,833</u>	<u>9,961,209</u>
Total accumulated depreciation	<u>97,654,188</u>	<u>4,570,985</u>	<u>476,950</u>	<u>101,748,223</u>
Depreciable capital assets, net	<u>46,430,818</u>	<u>9,453,335</u>	<u>13,295</u>	<u>55,870,858</u>
Total capital assets, net	<u>\$ 75,759,716</u>	<u>\$19,828,026</u>	<u>\$9,981,670</u>	<u>\$ 85,606,072</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2004:

Employee salaries, wages, and fringe benefits payable	\$ 6,633,073
Vendors and suppliers accounts payable	5,270,993
Capital projects accounts payable	<u>1,642,871</u>
Total accounts payable and accrued expenses	<u>\$13,546,937</u>

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), notes payable, and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2004 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	\$ 372,672	\$ -	\$ 118,224	\$ 254,448	\$ 122,904
Notes payable:					
Installment purchases	<u>12,770</u>	<u>-</u>	<u>5,108</u>	<u>7,662</u>	<u>5,108</u>
Other liabilities:					
Accrued compensated absences	3,020,200	2,795,935	2,806,768	3,009,367	2,131,596
Federal loan program contributions	<u>3,393,290</u>	<u>10,000</u>	<u>-</u>	<u>3,403,290</u>	<u>-</u>
Total other liabilities	<u>6,413,490</u>	<u>2,805,935</u>	<u>2,806,768</u>	<u>6,412,657</u>	<u>2,131,596</u>
Total long-term liabilities	<u>\$6,798,932</u>	<u>\$2,805,935</u>	<u>\$2,930,100</u>	<u>\$6,674,767</u>	<u>\$2,259,608</u>

7. LONG-TERM DEBT

The University has issued one category 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.

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance at June 30, 2004</u>
General obligation revenue bonds: Norwood Hall Dormitory: Series 2003A	4.30% - 4.75%	2006	<u>\$254,448</u>

Bonds mature as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$122,904	\$13,337	\$136,241
2006	<u>131,544</u>	<u>6,577</u>	<u>138,121</u>
Total	<u>\$254,448</u>	<u>\$19,914</u>	<u>\$274,362</u>

Prior Year Defeasance of Debt

In prior years, the University and the Commonwealth of Virginia on behalf of the University issued bonds which the proceeds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The bonds representing that debt are therefore considered defeased in substance. Accordingly, the trust account's assets and the liabilities for the defeased bonds are not included in the University's financial statements.

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. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed, so that the University now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling \$133,877 at June 30, 2004, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following at June 30, 2004. The University used auxiliary revenues to pay debt service and capital improvements of \$134,516 and \$1,500,000, respectively. Those balances are not included in the auxiliary operating expenses below.

Revenues:

Room contracts, net of scholarship allowances of \$1,310,664	\$ 7,665,628
Dining service contracts, net of scholarship allowances of \$1,092,798	5,978,367
Comprehensive fee, net of scholarship allowances of \$2,180,389	12,594,930
Other student fees and sales and services	<u>7,848,617</u>

Total auxiliary enterprises revenues	<u>\$34,087,542</u>
--------------------------------------	---------------------

Expenses:

Residential facilities	\$ 6,443,908
Dining operations	10,778,275
Athletics	3,533,297
Other auxiliary activities	<u>9,241,191</u>

Total auxiliary activities expenses	<u>\$29,996,671</u>
-------------------------------------	---------------------

9. EXPENSES BY NATURAL CLASSIFICATIONS

	Compensation and <u>Benefits</u>	Services and <u>Supplies</u>	Scholarships and <u>Fellowships</u>	<u>Utilities</u>	Plant and <u>Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$33,155,818	\$ 1,996,996	\$ 480,776	\$ -	\$2,575,715	\$ -	\$ 38,209,305
Research	119,142	88,722	4,829	-	8,074	-	220,767
Public service	1,352,214	1,374,373	-	-	137,815	-	2,864,402
Academic support	4,672,934	857,486	11,921	-	1,502,497	-	7,044,838
Student services	3,090,256	571,233	99,124	360	126,296	-	3,887,269
Institutional support	5,984,456	1,409,205	-	210	1,455,003	-	8,848,874
Operation and maintenance of plant	3,208,216	2,237,414	-	296,860	447,030	-	6,189,520
Depreciation expense	-	-	-	-	-	4,570,985	4,570,985
Scholarship and related expenses	-	-	1,453,497	-	-	-	1,453,497
Auxiliary activities	<u>7,522,407</u>	<u>19,059,097</u>	<u>953,490</u>	<u>1,361,536</u>	<u>1,100,141</u>	<u>-</u>	<u>29,996,671</u>
Total	<u>\$59,105,443</u>	<u>\$27,594,526</u>	<u>\$3,003,637</u>	<u>\$1,658,966</u>	<u>\$7,352,571</u>	<u>\$4,570,985</u>	<u>\$103,286,128</u>

10. 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 1042:	
Educational and general programs	\$31,913,896
Student financial assistance	3,755,669
Supplemental adjustments:	
Virtual Library of Virginia (VIVA) allocation	10,134
Eminent scholars	44,585
General Fund carry forward	150,000
Central Appropriation Transfers:	
Salary increases and regrades	355,527
Health insurance premium increase	637,462
Additional allotment for student financial assistance	295,175
VSDP rate change	34,120
Retirement plan adjustment to Central Appropriation	(93,806)
Retiree health credit and group life adjustments to Central Appropriation	(215,721)
Other miscellaneous adjustments to Central Appropriation	(13)
Reversion to the General Fund of the Commonwealth	<u>(38)</u>
Adjusted appropriation	<u>\$36,886,990</u>

11. COMMITMENTS

At June 30, 2004, the University was a party to construction and other contracts totaling approximately \$30,152,133 of which \$23,584,084 has been incurred.

The University is committed under various operating leases for land, buildings, and equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the financial statements. Rental expense was approximately \$782,940 for the year ended June 30, 2004.

The University has, as of June 30, 2004, the following future minimum rental payments due under the above leases:

<u>Year Ending June 30,</u>	<u>Operating Lease Obligation</u>
2005	\$380,425
2006	265,443
2007	<u>18,757</u>
Total	<u>\$664,625</u>

12. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) 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. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2003. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$2,403,478 for the year ended June 30, 2004. These contributions included the five percent employee contribution assumed by the employer. The University's total payroll was approximately \$50,732,471 for the year ended June 30, 2004.

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and MetLife Resources, Great-West Life Assurance Co., T. Rowe Price Associates and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,393,414 for year ended June 30, 2004. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$13,398,212 for fiscal year 2004.

13. 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*.

14. 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, 2004, the University estimates that no material liabilities will result from such audits or questions.

15. 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*.

16. COMPONENT UNIT FINANCIAL INFORMATION

Contributions Receivable

The following summarizes the unconditional promises to give at June 30, 2004:

Current receivables:

Receivable in less than one year, net of discount \$142,751	\$ 8,775,998
Less allowance for doubtful accounts	<u>16,638</u>
Net current contributions receivable	<u>8,759,360</u>

Non-current receivables:

Receivable in one to five years, net of discount \$22,661	1,393,547
Less allowance for doubtful accounts	<u>2,641</u>
Net non-current contributions receivable	<u>1,390,906</u>

Total contributions receivable	<u><u>\$10,150,266</u></u>
--------------------------------	----------------------------

The discount rate in 2004 was six percent. As of June 30, 2004, there were no conditional promises to give.

Investments

Investments are comprised of the following as of June 30, 2004:

Short-term:	
Cash and cash equivalents	\$ 821,759
Certificates of deposit	750,021
Equities	1,261,248
Mutual funds	<u>17,724,674</u>
Total short-term	<u>20,557,702</u>
Long-term:	
Mutual funds	687,000
Investment company	568,138
Real estate	<u>233,487</u>
Total long-term	<u>1,488,625</u>
Total investments	<u>\$22,046,327</u>

Capital Assets

A summary of land, buildings, and equipment at cost, less accumulated depreciation, for the year ending June 30, 2004 is presented as follows:

Depreciable capital assets:	
Buildings	\$7,313,957
Furniture and equipment	235,137
Vehicles	391,492
Land improvements	<u>171,216</u>
Total depreciable capital assets, at cost	8,111,802
Less accumulated depreciation	<u>1,428,445</u>
Total depreciable capital assets, net of accumulated depreciation	<u>6,683,357</u>
Non-depreciable capital assets:	
Land	940,181
Collections of art	<u>1,917,161</u>
Total non-depreciable capital assets	<u>2,857,342</u>
Total capital assets, net of accumulated depreciation	<u>\$9,540,699</u>

Long-term Debt Payable

The following is a summary of outstanding notes payable at June 30, 2004:

Note payable to a bank due in monthly payments of \$11,920 including interest at 5.75% through May 2011, converts to monthly payments of \$12,600 including interest at a negotiated rate reflecting the prevailing interest rate at June 2011, final payment for the unpaid balance due May 2016, secured by real estate, assignment of rents and negative pledge. \$1,223,514

Note payable to a bank due in monthly payments of \$8,423 including interest at 5.75% through February 2011 with a balloon payment due for the unpaid balance at that time, secured by a deed of trust on real estate. 781,752

The annual maturities of notes payable for each of the five years and thereafter as of June 30, 2004 are as follows:

<u>June 30,</u>	
2005	\$ 191,772
2006	191,538
2007	181,573
2008	200,745
2009	177,121
2010 and later years	<u>1,281,868</u>
Total	<u>\$2,224,617</u>

RADFORD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2004

	Dining Services	Residential Facilities	Health Services	Phone Services
Revenues:				
Student fees	\$ 5,978,367	\$ 7,665,628	\$ 1,250,536	\$ 404,187
Sales and services	2,058,217	78,378	-	365,938
Parking fines and fees	-	-	-	-
Commissions	1,943,781	-	-	4,248
Total operating revenues per SRECNA	9,980,365	7,744,006	1,250,536	774,373
Add back items netted on SRECNA:				
Scholarship allowances	1,092,798	1,310,664	207,450	68,571
Total operating revenues	11,073,163	9,054,670	1,457,986	842,944
Expenses of operation:				
Compensation and benefits	5,739	2,297,835	17,844	157,006
Services and supplies	10,229,849	2,281,152	962,185	529,590
Scholarships and fellowships	-	648,130	-	-
Utilities	258,457	847,688	-	-
Plant and equipment	284,230	369,105	850	9,019
Total operating expenses per SRECNA	10,778,275	6,443,910	980,879	695,615
Add back items netted on SRECNA:				
Scholarship allowances	-	407,696	-	-
Total operating expenses	10,778,275	6,851,606	980,879	695,615
Net income (loss) from operations	294,888	2,203,064	477,107	147,329
Nonoperating revenues:				
Investment income	-	-	-	-
Net income before transfers	294,888	2,203,064	477,107	147,329
Mandatory transfers:				
Debt service	-	(134,516)	-	-
Nonmandatory transfers:				
Renewals and replacements	-	(1,500,000)	-	-
Restricted	-	-	3,973	-
Net increase (decrease) for the year	294,888	568,548	481,080	147,329
Fund balance at beginning of year, as restated				
Fund balance at end of year				

Student Center	Building and Maintenance	Athletic Committee	Student Activities	Other Auxiliary Services	Total
\$ 1,360,784	\$ 4,761,075	\$ 3,841,625	\$ 705,766	\$ 270,957	\$ 26,238,925
26,401	541,011	363,819	208,901	1,782,141	5,424,806
-	-	-	-	475,781	475,781
-	-	-	-	-	1,948,029
1,387,185	5,302,086	4,205,444	914,667	2,528,879	34,087,541
226,545	548,569	635,368	116,311	377,575	4,583,851
1,613,730	5,850,655	4,840,812	1,030,978	2,906,454	38,671,392
721,169	1,016,275	1,848,045	171,310	1,287,184	7,522,407
258,555	1,185,552	1,385,849	751,097	1,475,269	19,059,098
-	-	293,360	12,000	-	953,490
48,452	157,459	480	30	48,970	1,361,536
46,896	98,814	5,563	49,692	235,971	1,100,140
1,075,072	2,458,100	3,533,297	984,129	3,047,394	29,996,671
-	-	1,064,506	-	-	1,472,202
1,075,072	2,458,100	4,597,803	984,129	3,047,394	31,468,873
538,658	3,392,555	243,009	46,849	(140,940)	7,202,519
-	-	-	-	664,968	664,968
538,658	3,392,555	243,009	46,849	524,028	7,867,487
-	-	-	-	-	(134,516)
-	-	-	-	-	(1,500,000)
1,110	-	-	-	10,238	15,321
539,768	3,392,555	243,009	46,849	534,266	6,248,292
					3,960,070
					\$ 10,208,362



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 8, 2005

The Honorable Mark R. Warner
Governor of Virginia

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

The Board of Visitors
Radford University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Radford University, a component unit of the Commonwealth of Virginia, and its discretely presented component unit as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University, which is discussed in Note 1. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates the amounts included for the component unit of the University is based on the report 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 unit 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Radford University and of its discretely presented component unit as of June 30, 2004, 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.

As described in the Notes to Financial Statements, the University has implemented the provisions of Governmental Accounting Standard Board Statement 39, which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

The management's discussion and analysis on pages 1 through 9 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 an opinion on the basic financial statements of the University. The accompanying Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements 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 opinions on the financial statements and not to provide an opinion 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 February 22, 2005.

AUDITOR OF PUBLIC ACCOUNTS

RADFORD UNIVERSITY

BOARD OF VISITORS

Jay S. Poole, Rector

Stephen Q. Cassaday, Vice Rector

Nancy H. Agee
Elizabeth B. Davis
Joseph E. Freeman, III
Mary Ann Hovis

Randal J. Kirk
R. Scott LaRose
Anthony Moore
Cora S. Salzberg

Barbara D. Turk

ADMINISTRATIVE OFFICERS

Douglas Covington, President

David A. Burdette, Vice President for Business and Governmental Affairs

Evelyn C. Wilson, Assistant Vice President for Finance and Controller