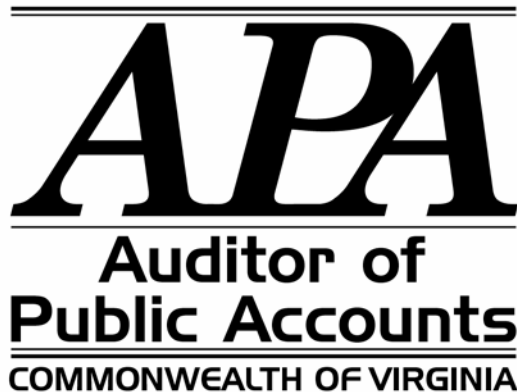


**RADFORD UNIVERSITY**

**REPORT ON AUDIT FOR  
PERIOD ENDED JUNE 30, 2006**



## **AUDIT SUMMARY**

Our audit of Radford University for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we do not consider to be material weaknesses; and
- instances of noncompliance required to be reported.

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## INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

### Complete Information Security Program

Radford is not in compliance with certain key elements of the Commonwealth's security standards for information technologies. This places Radford's systems and the information at risk. We recommend that Radford improve the following information security areas in order to comply with the Commonwealth's security standard and to mitigate their risk:

- Develop and approve a Security Awareness Program.
- Complete a Business Impact Analysis and a Risk Assessment.
- Modify the University's Disaster Recovery Plan to include plans for restoration of critical services in the Jefferson machine room and a prioritized list for restoration of services.
- Modify the University's Data Security Policies and Procedures to include encryption.

In order to improve Radford's information security plan, management will need to address the recommendations above and dedicate the necessary resources to develop, document, and implement such plan. In its Disaster Recovery Plan, Management should list how they will restore essential services to an acceptable minimum level and include a hierarchical list of critical network devices and servers in recovery order. Additionally, management should securely store copies of this plan off-site. Management should develop data security policies and procedures that include documentation of the encryption technologies currently in use at Radford and addressing the integrity and recovery of keys;

### Update the Business Continuity Plan

Management has not updated Radford's business continuity plan to include contingencies for critical and new IT components. In addition, the plan does not contain interim manual processes to enable the continuance of critical operations in the absence of data processing support.

We recommend that Radford allocate the resources necessary to update the plan and consider the requirements in the Department of Emergency Management's Continuity of Operations Planning Manual. We acknowledge that Radford has made some progress in adding redundancy to their critical network and communication services and recommend that once these services are operational, they are included in the plan. We also recommend that a copy of the plan be securely stored off-site.

### Adhere to Policies and Procedures for Cash Collections

We found noncompliance issues in the cash collection process which pertain to timely cash deposits and reporting Library accounts receivables. The Commonwealth's Accounting Policies and Procedures (CAPP) Manual requires the deposit of state funds within one business day and we found exceptions to this policy. The Library could not determine its accounts receivable balance at June 30, 2006, or evaluate the need for write-offs.

Management should continue to monitor cash collection operations and evaluate adherence to existing policies and procedures. Management should ensure that employees handling cash understand and follow the University's policies and procedures and state regulations. In additions, Internal Audit should review cash collections points on a cyclical basis.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

### Introduction

The following unaudited Management's Discussion and Analysis (MD&A) provides an overview of the financial activities of Radford University in an objective, easily readable format for the year ending June 30, 2006. 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 this discussion and analysis.

The three required financial statements are the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. These statements are summarized and analyzed in the following paragraphs. The Radford University Foundation, Inc. is included in the accompanying financial statements in a separate column as a component unit. However, the following discussion and analysis does not include the Foundation's financial condition and activities.

### University Overview

Radford University is a coeducational, comprehensive public university with highly diverse curricula for undergraduates and selected graduate programs. The University atmosphere is residential; most students live in residence halls or in private accommodations within walking distance of the campus. For Fall 2005, enrollment headcount increased to approximately 9,550 students.

For the 2004-2006 biennium, the University received a significant increase in general fund support from the General Assembly. The infusion of new general fund dollars, along with an 8.8 percent increase in tuition effective Fall 2005, allows Radford University to remain competitive when compared to other public institutions in its national peer group.

### 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. Finally, the Statement of Net Assets provides a picture of net assets available 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.

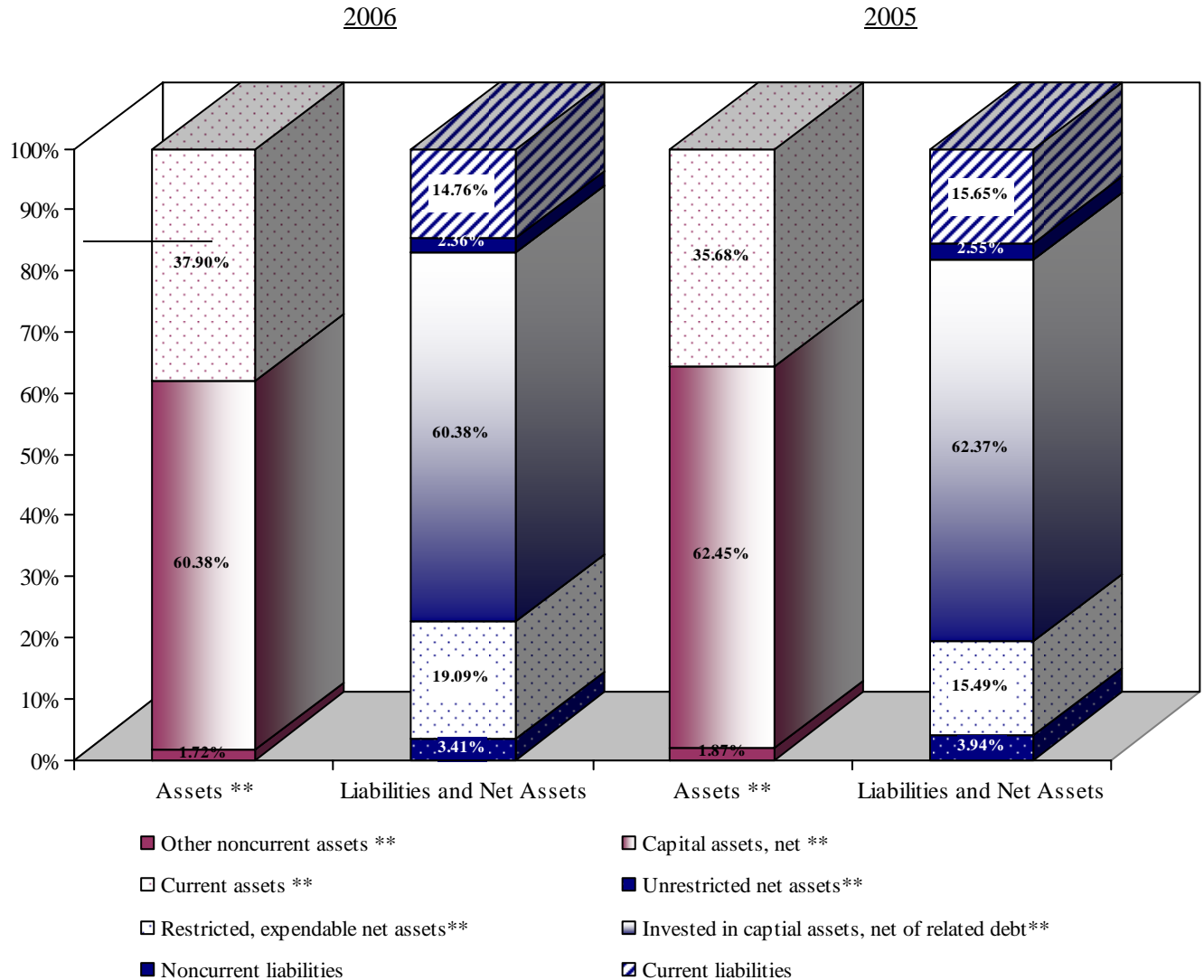
Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, indirect costs, and sales and services of auxiliary enterprises and educational departments. These resources are used for transactions relating to academic departments and general operations 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 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>2006</u>	<u>2005</u> <u>(restated)</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Assets:				
Current assets	\$ 69,278	\$ 60,545	\$ 8,733	14.4
Capital assets, net	110,385	105,966	4,419	4.2
Other non-current assets	<u>3,142</u>	<u>3,169</u>	<u>(27)</u>	<u>(0.8)</u>
Total assets	<u>182,805</u>	<u>169,680</u>	<u>13,125</u>	<u>7.7</u>
Liabilities:				
Current liabilities	26,989	26,542	447	1.7
Non-current liabilities	<u>4,308</u>	<u>4,330</u>	<u>(22)</u>	<u>(0.5)</u>
Total liabilities	<u>31,297</u>	<u>30,872</u>	<u>425</u>	<u>1.4</u>
Net Assets:				
Invested in capital assets, net of related debt	110,385	105,833	4,552	4.3
Restricted - expendable	34,887	26,290	8,597	32.7
Unrestricted	<u>6,236</u>	<u>6,685</u>	<u>(449)</u>	<u>(6.7)</u>
Total net assets	<u>\$151,508</u>	<u>\$138,808</u>	<u>\$12,700</u>	<u>9.1</u>

The total net assets of the University increased by \$12,699,818 (9.1 percent) during fiscal year 2006, bringing total net assets to \$151,508,164 at year-end. This growth was due to increased capital assets, primarily the capitalization of the renovations to Walker Hall and dormitories Trinkle, Stuart, and Peery Halls.

## Summary of Statement of Net Assets



### Capital Asset and Debt Administration

One of the primary objectives of the University's mission is the development and renewal of capital assets. The University continues to implement long-range plans to modernize 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 \$24,633,164 (excluding depreciation) during fiscal year 2006. The renovations of Walker, Trinkle, Stuart, and Peery Halls contributed to the additions to buildings, while the construction of Hurlburt Student Center and the Fine Arts Center were the primary components of the additions to construction in progress. Current year depreciation expense totaled \$6,553,541. Overall, the value of the University's capital assets totaled \$110,384,824 at the end of fiscal year 2006, a \$4,417,787 (4.2 percent) increase over fiscal year 2005.

Commitments to construction contractors, architects, and engineers for capital projects totaled \$5,602,662 at June 30, 2006. Capital construction costs for Russell Hall renovations constituted most of this total. The University made the final payment on its only outstanding debt, the Norwood Residence Hall Bond, 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 non-operating activities, which creates 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 category of operating expense.

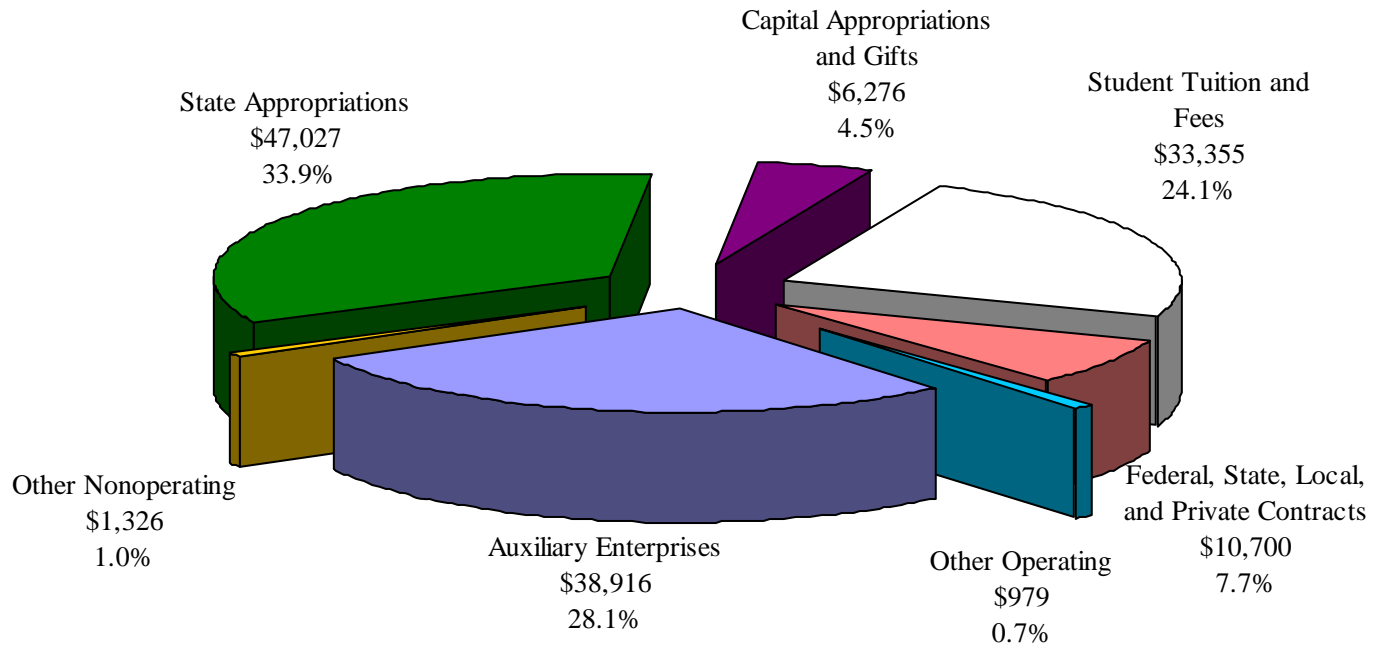
Non-operating revenues are revenues received for goods and services that are not directly provided. State appropriations are included in this category and provide substantial support for paying the operating expenses of the University. Therefore, the University, like most public institutions, will expect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

#### Statement of Revenues, Expenses, and Changes in Net Assets (\$ shown in thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating revenues	\$ 83,951	\$ 76,085	\$ 7,866	10.3
Less: Operating expenses	<u>125,880</u>	<u>113,533</u>	<u>12,347</u>	<u>10.9</u>
Operating loss	(41,929)	(37,448)	4,481	11.9
Non-operating revenues and expenses	<u>48,353</u>	<u>42,446</u>	<u>5,907</u>	<u>13.9</u>
Income before other revenues, expenses, gains, or losses	6,424	4,998	1,426	28.5
Other revenue, expenses, gains, or losses	<u>6,276</u>	<u>3,792</u>	<u>2,484</u>	<u>65.5</u>
Increase in net assets	12,700	8,790	3,910	44.5
Net assets - beginning of year, restated	<u>138,808</u>	<u>130,018</u>	<u>8,790</u>	<u>6.7</u>
Net assets - end of year	<u>\$151,508</u>	<u>\$138,808</u>	<u>\$12,700</u>	<u>8.4</u>

The following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the year ended June 30, 2006. Critical recurring sources of the University's revenues are considered non-operating, as defined by GASB Statement 35. These sources are presented as state appropriations and capital appropriations and gifts on the graph below.

Revenues by Source  
(\$ shown in thousands)



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

Operating Revenues  
(\$ shown in thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowance	\$ 33,355	\$ 29,253	\$ 4,102	14.0
Federal, state, and nongovernmental grants and contracts	10,700	10,130	570	5.6
Auxiliary enterprises, net of scholarship allowance	38,916	35,754	3,162	8.8
Other operating revenue	<u>979</u>	<u>948</u>	<u>31</u>	<u>3.3</u>
Total operating revenues	<u>83,950</u>	<u>76,085</u>	<u>7,865</u>	<u>10.3</u>
Non-operating revenues:				
State appropriations	47,027	41,587	5,440	13.1
Investment income, interest on capital assets-related debt, loss on disposal of plant assets, and other non-operating revenues	<u>1,326</u>	<u>860</u>	<u>466</u>	<u>54.2</u>
Total non-operating revenues	<u>48,353</u>	<u>42,447</u>	<u>5,906</u>	<u>13.9</u>
Capital revenues and gains:				
Capital appropriations	4,663	3,311	1,352	40.8
Capital gifts	<u>1,613</u>	<u>481</u>	<u>1,132</u>	<u>235.3</u>
Total capital revenues and gains	<u>6,276</u>	<u>3,792</u>	<u>2,484</u>	<u>65.5</u>
Total revenues	<u>\$138,579</u>	<u>\$122,324</u>	<u>\$16,255</u>	<u>13.3</u>

### Operating Revenues

Operating revenues primarily include tuition, fees, and auxiliary enterprises. Total operating revenues increased by \$7,865,226 (10.3 percent) from the prior fiscal year. Student tuition and fees, and net of scholarship allowances increased by \$4,102,018 (14.0 percent) in fiscal year 2006. Auxiliary enterprise revenue, which is funded primarily from student fees, increased by \$3,162,776 (8.8 percent) in fiscal year 2006. Most of this growth can be attributed to a 5.6 percent increase in tuition, fees, and room and board, as well as an increase in enrollment. Overall, the University's operating revenue increased to \$83,950,592 in fiscal year 2006, compared to \$76,085,366 in fiscal year 2005.

### Non-operating Revenues

Non-operating revenues increased by \$5,906,240 from the previous year's total. This increase represents new general fund appropriations for educational and general programs and student financial assistance plus central appropriation adjustments for increases in salaries, health insurance premiums, and fringe benefits. Central appropriation adjustments also included \$1,518,558 to fund an additional payroll in 2006 (rather than 2007). Note 10 of the Notes to Financial Statements outlines the state appropriations received by the University during fiscal year 2006.

### Other Revenues

Other revenues increased by \$2,484,066 (65.5 percent) over the prior fiscal year. This increase is attributed to new capital appropriations received for the renovation of Russell Hall, construction of the Fine Arts Center, and reimbursements for assets purchased through the Equipment Trust Fund program.

Total revenues increased by \$16,255,532 (13.3 percent) over the prior fiscal year. 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

Operating expenses for fiscal year 2006 totaled \$125,879,738 up 10.9 percent over fiscal year 2005. There were several factors impacting the increase/decrease in expenditures across all programs:

- Infusion of new general fund appropriation combined with a 5.6 percent increase in tuition and fees effective Fall 2005.
- Infusion of an average salary increase of 4 percent for all faculty (teaching and administrative) during fiscal year 2006. Annualization of an average salary increase of 8 percent for all faculty (teaching and administrative) effective in fiscal year 2005. Classified staff received a 3 percent salary increase plus \$50 for each full year of service for employees with 5 or more years of continuous state service.
- Establishment of new positions and filling vacant positions.
- Increased plant operation costs due to increased utility rates and increased gasoline costs.
- Infusion of one-time purchases of equipment for enhancing technology resources.

- Decreased Pell Grant allocation lead to a decrease in student aid expenditures for 2006.

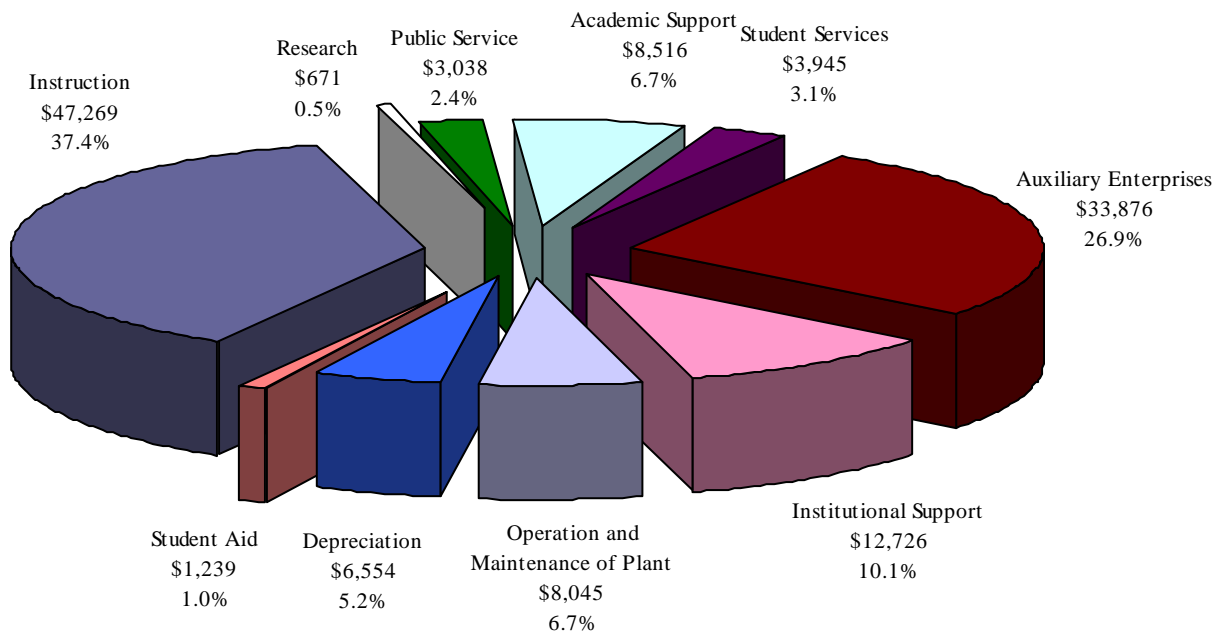
The table below shows expenditure trends over the past two fiscal years.

Operating Expenses  
(\$ shown in thousands)

	<u>2006</u>	<u>2005</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating expenses:				
Instruction	\$ 47,269	\$ 41,566	\$ 5,703	13.7
Research	671	163	508	311.6
Public service	3,038	3,069	(31)	(1.0)
Academic support	8,516	7,587	929	12.2
Student services	3,945	3,641	304	8.3
Institutional support	12,726	11,831	895	17.0
Operation and maintenance of plant	8,045	7,204	841	11.7
Depreciation	6,554	4,960	1,594	32.1
Student aid	1,239	1,463	(224)	(15.3)
Auxiliary enterprises	<u>33,876</u>	<u>32,049</u>	<u>1,827</u>	<u>5.7</u>
Total operating expenses	<u>\$125,879</u>	<u>\$113,533</u>	<u>\$12,346</u>	<u>10.9</u>

The following graphic illustration presents total expenses for fiscal year 2006 by function.

Expenses by Function  
(\$ shown 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	\$(37,764)
Net cash provided by noncapital financing activities	46,678
Net cash used by capital and related financing activities	(4,796)
Net cash provided by investing activities	<u>483</u>
Net increase in cash	<u>4,601</u>
Cash and cash equivalents - beginning of year	<u>53,630</u>
Cash and cash equivalents - end of year	<u>\$ 58,231</u>

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. General fund appropriations are shown in Net Cash Provided by Noncapital Financing Activities; thus Net Cash Used by Operating Activities gives the appearance the University is expending more than it is collecting.

Net Cash Provided by Noncapital Financing Activities section is second. GASB requires that general fund 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 assets 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 and proceeds from security lending transactions.

Overall, the University had a net increase in cash of \$4,600,586 during fiscal year 2006. This increase demonstrates that the University is prudently managing its resources while still providing an allowance to support future growth.

Major sources of cash for the University included state appropriations (\$47,026,812), student tuition and fees (\$32,332,134), auxiliary enterprise revenues (\$38,800,536), grants and contracts (\$10,548,258), and capital appropriations and gifts (\$6,276,179). Major uses of cash were employee compensation and benefits (\$75,271,981), operating expenses (\$37,828,445), scholarship and fellowship payments (\$3,537,297), and the purchase of capital assets (\$10,932,244).

### Economic Outlook

The 2006-08 biennial budget, approved by Governor Kaine and the General Assembly, will infuse more than \$9 million dollars for base budget adequacy and \$1 million dollars for student financial aid from the general fund. The President has established the Commission on the Future of Radford University to assess the University's future direction. This Commission is charged with developing a sound, strategic plan to advance the University in fulfillment of its vision and mission. The campus community is refining and strengthening programs to continue to meet the expectations of students today and tomorrow. The strategic plan will be the basis for revisions to the six-year plan that will be submitted to the Commonwealth next year. Base budget adequacy dollars will allow the University to implement components of the strategic plan, address issues related to student/teacher ratios, assessment, compliance, and accountability, as well as bring state funding to a more appropriate level for an institution of the University's size. Also, the University continues to investigate the benefits of moving towards higher levels of autonomy under the Higher Education Restructuring Act.

Currently, more than 91 percent of the University's students are Virginians. Enrollment has been showing modest increases of 2 to 3 percent; however, during Fall 2006 enrollment decreased by 3.6 percent. For reasons the University is still researching, fewer students than anticipated enrolled even though the applicant pool was up by 7.1 percent and the admitted pool was up by 2.9 percent. To provide the applicants, admits, and enrolled students the University anticipates, a multi-year recruitment plan has been implemented.

Overall, the University has generated a net increase in assets for fiscal year 2006, demonstrating a 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 as well as to implement planned initiatives. The University continues to remain optimistic that future support from the Governor, General Assembly, and Board of Visitors will enable the University to remain successful.

## FINANCIAL STATEMENTS

RADFORD UNIVERSITY  
Statement of Net Assets  
As of June 30, 2006

	Radford University	Component Unit Radford University Foundation, Inc.
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 58,231,071	\$ 598,738
Short-term investments (Notes 2, 16B)	5,849,103	26,517,697
Accounts receivable (Net of allowance for doubtful accounts of \$192,468) (Note 3)	2,743,968	-
Contributions receivable (Net of allowance for doubtful contributions of \$4,397) (Note 16A)	-	1,558,970
Due from the Commonwealth (Note 7)	283,852	-
Inventory	337,970	90,029
Notes receivable (Net of allowance for doubtful accounts of \$ 2,545)	17,213	4,204
Prepaid expenses	1,814,815	-
Other receivables	-	36,940
Total current assets	69,277,992	28,806,578
Noncurrent assets:		
Restricted cash and cash equivalents	-	866,068
Other long-term investments (Note 16B)	-	784,542
Contributions receivable (Net of allowance for doubtful contributions of \$13,999) (Note 16A)	-	441,500
Other assets	-	230,534
Notes receivable (net of allowance for doubtful accounts of \$373,746)	3,142,180	45,114
Depreciable capital assets, net (Notes 4, 16C)	75,462,819	12,625,791
Non-depreciable capital assets (Notes 4, 16C)	34,922,005	3,742,954
Total noncurrent assets	113,527,004	18,736,503
Total assets	182,804,996	47,543,081
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	10,288,749	245,387
Deferred revenue	2,350,631	284,508
Obligations under securities lending	11,759,587	-
Deposits held in custody for others	246,681	-
Long-term liabilities - current portion (Note 6)	2,323,759	-
Notes payable - current portion (Note 16D)	-	142,848
Advance from the Treasurer of Virginia	20,000	-
Total current liabilities	26,989,407	672,743
Noncurrent liabilities (Note 6)	4,307,425	-
Notes payable (Note 16D)	-	1,180,763
Trust and annuity obligations	-	1,349,869
Total noncurrent liabilities	4,307,425	2,530,632
Total liabilities	31,296,832	3,203,375
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	110,384,824	15,045,134
Restricted for:		
Expendable:		
Scholarships and fellowships	-	3,189,044
Instruction and research	1,328,029	572,907
Capital projects	33,272,743	-
Loans	286,666	-
Other	-	5,821,179
Nonexpendable:		
Scholarships and fellowships	-	12,917,202
Instruction and research	-	1,488,099
Other	-	4,609,665
Unrestricted	6,235,902	696,476
Total net assets	\$ 151,508,164	\$ 44,339,706

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, 2006

	Radford University	Component Unit Radford University Foundation, Inc.
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$4,836,177)	\$ 33,355,381	\$ -
Gifts and contributions	-	3,339,584
Federal grants and contracts	10,065,579	-
State grants and contracts	383,372	-
Nongovernmental grants and contracts	250,572	-
Auxiliary enterprises (net of scholarship allowances of \$4,799,561) (Note 8)	38,916,318	-
Other operating revenues	979,370	1,195,523
Total operating revenues	83,950,592	4,535,107
Operating expenses (Note 9):		
Instruction	47,268,783	61,684
Research	671,411	-
Public Service	3,038,307	-
Academic support	8,515,754	2,376,271
Student services	3,945,006	-
Institutional support	12,726,815	2,010,970
Operation and maintenance - plant	8,045,649	-
Depreciation	6,553,541	404,867
Student aid	1,238,585	722,284
Auxiliary activities (Note 8)	33,875,887	-
Total operating expenses	125,879,738	5,576,076
Operating loss	(41,929,146)	(1,040,969)
Nonoperating revenues (expenses):		
State appropriations (Note 10)	47,026,812	-
Investment income	1,837,402	2,850,242
Interest on capital asset - related debt	(6,577)	(85,330)
Gain/(loss) on disposal of plant assets	(165,351)	(555,251)
Nonoperating transfers to the Commonwealth	(339,501)	-
Net nonoperating revenues	48,352,785	2,209,661
Income before other revenues, expenses, gains or losses	6,423,639	1,168,692
Capital appropriations	4,663,089	-
Capital gifts	1,613,090	-
Additions to permanent endowments	-	1,355,756
Net other revenues	6,276,179	1,355,756
Increase in net assets	12,699,818	2,524,448
Net assets - beginning of year, as restated (Notes 1, 16E)	138,808,346	41,815,258
Net assets - end of year	\$ 151,508,164	\$ 44,339,706

The accompanying notes to financial statements are an integral part of this statement.

RADFORD UNIVERSITY  
Statement of Cash Flows  
As of June 30, 2006

Cash flows from operating utilities:	
Student tuition and fees	\$ 32,332,134
Grants and contracts	10,548,258
Auxiliary enterprises	38,800,536
Other receipts	979,370
Payments for salaries, wages and fringe benefits	(75,271,981)
Payments for services and supplies	(35,536,735)
Payments for utilities	(2,291,710)
Payments for scholarships and fellowships	(3,537,297)
Payments for noncapitalized plant improvements and equipment	(3,675,774)
Loans issued to students	(990,370)
Collections of loans from students	1,019,588
Other receipts/(payments)	(140,135)
Net cash used by operating activities	(37,764,116)
Cash flows from noncapital financing activities:	
State appropriations	47,026,812
Non-general fund appropriations	(339,501)
Federal Family Education Loans - receipts	23,738,282
Federal Family Education Loans - disbursements	(23,752,194)
Student organization agency transaction	5,080
Net cash provided by noncapital financing activities	46,678,479
Cash flows from capital and related financing activities:	
Capital appropriations	4,663,089
Capital gifts	1,613,090
Purchase of capital assets	(10,932,244)
Principal paid on capital debt, leases and installments	(134,098)
Interest paid on capital debt, leases and installments	(6,577)
Net cash used by capital financing activities	(4,796,740)
Cash flows from investing activities:	
Proceeds from sale and maturities of investments	(1,354,439)
Interest on investments	1,837,402
Net cash provided by investing activities	482,963
Net increase in cash	4,600,586
Cash and cash equivalents - beginning of the year	53,630,485
Cash and cash equivalents - end of the year	\$ 58,231,071

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

Operating loss	\$ (41,929,146)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	6,553,541
Changes in assets and liabilities:	
Receivables, net	(409,017)
Due from the Commonwealth	601,111
Prepaid expenses	(22,325)
Inventory	269
Notes receivable, net	29,218
Accounts payable and accrued expenses	(1,585,955)
Deferred revenue	(1,021,412)
Accrued compensated absences	19,600
Net cash used by operating activities	<u>\$ (37,764,116)</u>

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

## NOTES TO FINANCIAL STATEMENTS

RADFORD UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Radford University (the 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 general purpose financial statements of the Commonwealth.

Under GASB Statement Number 39 standards, 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 twenty-six 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, 2006, the Foundation made distributions of \$1,627,284 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, PO 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 Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

The Foundation is a non-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement Number 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 Number 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 non-operating 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:

	<u>Years</u>
Buildings	40
Building improvements	15
Other improvements and infrastructure	20
Equipment	2-25
Library materials	10

### 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, 2006.

### Accrued Compensated Absences

The amount of leave earned but not taken by salaried employees is recorded as a liability on the balance sheet. The amount reflects, as of June 30, 2006, 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 Number 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.

Net assets reported as of the beginning of the year were restated as follows:

Net assets reported at June 30, 2006	\$126,846,437
Correct prior year misstatement of capital assets	1,796,568
Adjust prior accumulated depreciation	<u>10,165,341</u>
Net assets - beginning of year, restated	<u>\$138,808,346</u>

### Revenue Classifications

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

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement Number 34, such as state appropriations and investment 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 Revenues, 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 non-operating 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 University's cash, cash equivalents, investments, and risk disclosures as of June 30, 2006, in accordance with GASB Statement Number 40, *Deposit, and Investment Risk Disclosures*:

Custodial Credit Risk (Category 3 deposits and investments) - The custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The University had no category 3 deposits or investments for fiscal year 2006.

Credit Risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This Statement requires the disclosure of the credit quality ratings of all investments subject to credit risk. Information with respect to University deposit exposure to credit risk is discussed below.

Concentration of Credit Risk - The risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from the requirement.

Interest Rate Risk - The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have an interest rate risk policy nor any investments or deposits that are sensitive to changes in interest rates as of the close of business on June 30, 2006.

Foreign Currency Risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2006.

#### 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. In accordance with the GASB Statement Number 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and temporary investments with original maturities of three months or less. The financial institution that holds the University's local cash deposits is authorized to sweep idle cash from specified checking accounts into an overnight money market fund. This money market fund, which represents 100 percent of locally-held cash equivalents, is described in more detail below.

The University has authorized its financial institution to move idle cash balances in specific checking accounts into the STI Classic Institutional U.S. Government Securities Money Market Fund for overnight investment. This fund invests solely in U.S. Treasury obligations issued or guaranteed as to principal and interest by agencies of the U.S. Government. It carries an AAAM rating from Standard & Poor's and an Aaa rating from Moody's. At the close of business on June 30, 2006, the fair value of University's investment in this fund was \$4,316,810.

#### Investments

The Board of Visitors established the University's investment policy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

	<u>Market Value</u>
Cash and cash equivalents:	
Cash on hand and deposited with financial institutions (including money market deposits)	\$ 4,316,810
Appropriation available for capital projects	5,703,401
Cash with the Treasurer	42,300,376
Collateral held for securities lending	<u>5,910,484</u>
Total	<u>\$58,231,071</u>
Short-term investments:	
Collateral held for securities lending	<u>\$ 5,849,103</u>

#### Securities Lending Transactions

GASB Statement Number 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer their securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

### 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2006:

	<u>2006</u>
Student tuition and fees	\$1,137,477
Auxiliary enterprises	700,414
Federal, state, and nongovernmental grants and contracts	765,303
Other activities	<u>333,242</u>
Gross accounts receivable	2,936,436
Less allowance for doubtful accounts	<u>192,468</u>
Net accounts receivable	<u>\$2,743,968</u>

### 4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2006 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Non-depreciable capital assets:				
Land	\$ 5,113,766	\$ 446,281	\$ -	\$ 5,560,047
Construction-in-progress	<u>36,024,666</u>	<u>6,833,777</u>	<u>13,496,485</u>	<u>29,361,958</u>
Total non-depreciable capital assets	<u>41,138,432</u>	<u>7,280,058</u>	<u>13,496,485</u>	<u>34,922,005</u>
Depreciable capital assets:				
Buildings	101,178,764	10,647,544	-	111,826,308
Infrastructure	21,169,064	897,095	-	22,066,159
Equipment	17,919,887	2,957,608	959,406	19,918,089
Other improvements	4,318,744	1,763,517	-	6,082,261
Library materials	<u>15,086,893</u>	<u>1,087,342</u>	<u>182,394</u>	<u>15,991,841</u>
Total depreciable capital assets	<u>159,673,352</u>	<u>17,353,106</u>	<u>1,141,800</u>	<u>175,884,658</u>
Less accumulated depreciation for:				
Buildings	54,390,277	3,367,204	-	57,757,481
Infrastructure	16,197,240	534,001	-	16,731,241
Equipment	11,016,470	1,590,074	794,055	11,812,489
Other improvements	3,192,134	195,644	-	3,387,778
Library materials	<u>10,048,625</u>	<u>866,619</u>	<u>182,394</u>	<u>10,732,850</u>
Total accumulated depreciation	<u>94,844,746</u>	<u>6,553,542</u>	<u>976,449</u>	<u>100,421,839</u>
Depreciable capital assets, net	<u>64,828,606</u>	<u>10,799,564</u>	<u>(165,351)</u>	<u>75,462,819</u>
Total capital assets, net	<u>\$105,967,038</u>	<u>18,079,622</u>	<u>(13,661,836)</u>	<u>\$110,384,824</u>

## 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

	<u>2006</u>
Employee salaries, wages and fringe benefits payable	\$ 5,328,915
Vendors and suppliers accounts payable	4,244,921
Capital projects accounts payable	<u>714,913</u>
Net accounts payable and accrued expenses	<u>\$10,288,749</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, 2006 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	\$ 131,544	\$ -	\$ 131,544	\$ -	\$ -
Total long-term debt	<u>131,544</u>	<u>-</u>	<u>131,544</u>	<u>-</u>	<u>-</u>
Notes payable:					
Installment purchases	<u>2,554</u>	<u>-</u>	<u>2,554</u>	<u>-</u>	<u>-</u>
Total notes payable	<u>2,554</u>	<u>-</u>	<u>2,554</u>	<u>-</u>	<u>-</u>
Other Liabilities:					
Accrued compensated absences	3,186,539	3,655,698	3,636,098	3,206,139	2,323,759
Federal loan program contributions	<u>3,425,045</u>	<u>-</u>	<u>-</u>	<u>3,425,045</u>	<u>-</u>
Total other liabilities	<u>6,611,584</u>	<u>3,655,698</u>	<u>3,636,098</u>	<u>6,631,184</u>	<u>2,323,759</u>
Total long-term liabilities	<u>\$6,745,682</u>	<u>\$3,655,698</u>	<u>\$3,770,196</u>	<u>\$6,631,184</u>	<u>\$2,323,759</u>

## 7. LONG-TERM DEBT

The University has paid all outstanding general obligation bonds issued by the Commonwealth of Virginia on behalf of the University as of June 30, 2006.

### 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 \$283,852 at June 30, 2006, 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, 2006. The University used auxiliary revenues to pay debt service and capital improvements of \$138,121 and \$10,304,821, respectively. Those balances are not included in the auxiliary operating expenses below.

<u>Revenues</u>	<u>2006</u>
Room contracts, net of scholarship allowances of \$1,296,970	\$ 8,740,954
Dining service contracts, net of scholarship allowances of \$1,072,458	6,401,962
Comprehensive fee, net of scholarship allowances of \$2,430,133	15,394,854
Other student fees and sales and services	<u>8,378,548</u>
Auxiliary enterprises revenues	<u>\$38,916,318</u>
<u>Expenses</u>	<u>2006</u>
Residential facilities	\$ 6,590,008
Dining operations	11,756,775
Athletics	4,271,126
Other auxiliary activities	<u>11,257,978</u>
Auxiliary activities expenses	<u>\$33,875,887</u>

## 9. EXPENSES BY NATURAL CLASSIFICATIONS

	<u>Compensation and Benefits</u>	<u>Services and Supplies</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Plant and Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$41,130,460	\$ 2,821,707	\$1,105,254	\$ -	\$2,211,362	\$ -	\$ 47,268,783
Research	244,249	394,442	-	-	32,720	-	671,411
Public service	1,403,305	1,579,537	-	-	55,465	-	3,038,307
Academic support	7,085,605	924,199	-	223	505,727	-	8,515,754
Student services	3,137,484	693,801	90,449	-	23,272	-	3,945,006
Institutional support	10,264,229	1,639,938	1,829	-	820,819	-	12,726,815
Operation and maintenance of plant	4,148,160	3,247,410	-	534,258	115,821	-	8,045,649
Depreciation expense	-	-	-	-	-	6,553,541	6,553,541
Scholarship and related expenses	-	-	1,238,585	-	-	-	1,238,585
Auxiliary activities	<u>9,101,956</u>	<u>21,403,823</u>	<u>1,101,180</u>	<u>1,757,229</u>	<u>511,699</u>	<u>-</u>	<u>33,875,887</u>
Total	<u>\$76,515,448</u>	<u>\$32,704,857</u>	<u>\$3,537,297</u>	<u>\$2,291,710</u>	<u>\$4,276,885</u>	<u>\$6,553,541</u>	<u>\$125,879,738</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 951:	
Educational and general programs	\$39,450,688
Student financial assistance	4,996,991
Supplemental adjustments:	
Virtual Library of Virginia (VIVA) allocation	14,540
Eminent scholar	44,565
Reappropriate prior year unspent public service revenue	74,349
Central Appropriation Transfers:	
Payroll paid June 30, 2006	1,518,558
Salary increases and regrades	410,063
Health insurance premium increase	663,390
VSDP rate change	104,496
Retirement plan adjustment to Central Appropriation	(146,079)
Retiree health credit and group life adjustments to Central Appropriation	(59,394)
Military tuition waivers	11,934
Reversion to the General Fund of the Commonwealth	<u>(57,289)</u>
Adjusted appropriation	<u>\$47,026,812</u>

## 11. COMMITMENTS

At June 30, 2006, the University was a party to construction and other contracts totaling approximately \$16,733,508 of which \$11,130,846 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 \$1,004,128 for the year ended June 30, 2006.

The University has, as of June 30, 2006, the following future minimum rental payments due under the above leases:

Year Ending <u>June 30,</u>	Operating Lease <u>Obligation</u>
2007	<u>\$364,319</u>
Total	<u>\$364,319</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, 2006. 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 \$4,147,405 for the year ended June 30, 2006. These contributions included the five percent employee contribution assumed by the employer. Contributions to VRS were calculated using the base salary amount of approximately \$45,617,384 for fiscal year 2006. The University's total payroll was approximately \$63,281,120 for the year ended June 30, 2006.

### Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers rather than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. This plan is a fixed-contribution program where the retirement benefits received are based upon the employers' (5.4 percent) and employees' (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 employees' contributions. Total pension costs under this plan were approximately \$1,850,141 for year ended June 30, 2006. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$17,789,822 for fiscal year 2006.

### Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the deferred Compensation Plan were approximately \$315,039 for the fiscal year 2006.

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, 2006, 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

(A) Contributions Receivable

The following summarizes the unconditional promises to give at June 30, 2006:

Current receivables:	
Receivable in less than one year, net of discount \$28,624	\$1,575,800
Less allowance for doubtful accounts	<u>16,830</u>
Net current contributions receivable	<u>\$1,558,970</u>
Non-current receivables:	
Receivable in one to five years, net of discount \$8,106	446,267
Less allowance for doubtful accounts	<u>4,767</u>
Net non-current contributions receivable	<u>441,500</u>
Total contributions receivable	<u>\$2,000,470</u>

The discount rate in 2006 was six percent. As of June 30, 2006, there were no conditional promises to give.

(B) Investments

Investments are comprised of the following as of June 30, 2006:

Short-term:	
Cash and cash equivalents	\$ 644,346
Certificates of deposit	758,694
Equities	2,656,268
Mutual funds	22,358,389
Investment company	<u>100,000</u>
Total short-term	<u>26,517,697</u>
Long-term:	
Investment company	551,055
Real estate	<u>233,487</u>
Total long-term	<u>784,542</u>
Total investments	<u>\$27,302,239</u>

(C) Capital Assets

A summary of land, buildings, and equipment at cost, less accumulated depreciation, for the year ending June 30, 2006 is presented as follows:

Depreciable capital assets:	
Buildings	\$13,707,884
Furniture and equipment	343,459
Vehicles	306,172
Land improvements	<u>171,216</u>
Total depreciable capital assets, at cost	<u>14,528,731</u>
Less accumulated depreciation	<u>1,902,940</u>
Total depreciable capital assets, net of accumulated depreciation	<u>12,625,791</u>
Non-depreciable capital assets:	
Land	1,602,423
Collections of art	<u>2,140,531</u>
Total non-depreciable capital assets	<u>3,742,954</u>
Total capital assets, net of accumulated depreciation	<u>\$16,368,745</u>

(D) Long-term Debt Payable

The following is a summary of outstanding notes payable at June 30, 2006:

Note payable to a bank due in monthly payments of \$11,920, including interest at 5.75 percent through May 2011; converts to monthly payments of \$12,600, including interest at a negotiated rate reflecting the prevailing interest rate at June 2011, and final payment for the unpaid balance due May 2016, secured by real estate, assignment of rents, and negative pledge	\$ 539,435
Note payable to a bank due in monthly payments of \$8,423 including interest at 5.75 percent through February 2011 with a balloon payment due for the unpaid balance at that time, secured by a deed of trust on real estate	663,124
Note payable to Henry T. Charlton due in monthly payments of \$1,099 including interest at 6.5 percent through December 2011, secured by Deed of Trust on real estate	60,838
Note payable to Edward C. Savage due in monthly payments of \$2,882, including interest at 2.4 percent beginning January 1, 2004, unsecured	17,170
Note payable to Chrysler Financial due in monthly installments of \$511, including interest at 7 percent beginning February 26, 2004, with a final payment of \$28,582 due January 2008, secured by vehicles.	<u>43,044</u>
Total long-term debt	<u>\$1,323,611</u>

The annual maturities of notes payable for each of the five years and thereafter as of June 30, 2006 are as follows:

2007	\$ 142,848
2008	156,719
2009	130,495
2010	138,286
2011	452,526
2012	56,044
2013 and later years	<u>246,693</u>
Total notes payable	<u>\$1,323,611</u>

(E) Beginning Net Assets

Due to an error in recognition of revenue in accordance with GAAP for the year ended June 30, 2005, beginning net assets were overstated by \$1,540,352.

Net assets reported as of the beginning of the year were restated as follows:

Net assets reported at June 30, 2005	\$43,355,610
Correct error in revenue recognition	<u>(1,540,352)</u>
Net assets - beginning of year, as restated	<u>\$41,815,258</u>

## SUPPLEMENTARY INFORMATION

RADFORD UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2006

	Dining Services	Residential Facilities	Health Services	Phone Services
Operating revenues:				
Student fees	\$ 6,401,962	\$ 8,740,954	\$ 1,473,620	\$ 473,288
Sales and services	2,077,202	156,371	-	75,189
Parking fines and fees	-	-	-	-
Commissions	2,188,558	-	-	-
Private gifts	-	-	-	-
Investment income	-	-	-	-
Total operating revenues per SRECNA	10,667,722	8,897,325	1,473,620	548,477
Add back items netted on SRECNA:				
Scholarship allowances	1,072,458	1,296,970	223,549	67,450
Total operating revenues	11,740,180	10,194,295	1,697,169	615,927
Operating expenses:				
Compensation and benefits	56,657	2,585,019	154,350	166,468
Services and supplies	11,187,900	2,111,198	1,045,236	411,606
Scholarships and fellowships	-	778,322	-	-
Utilities	427,026	935,048	-	-
Plant and equipment	85,192	180,421	1,127	5,308
Total operating expenses per SRECNA	11,756,775	6,590,008	1,200,713	583,382
Add back items netted on SRECNA:				
Scholarship allowances	-	610,156	-	-
Total operating expenses	11,756,775	7,200,164	1,200,713	583,382
Net income/(loss) from operations	(16,595)	2,994,131	496,456	32,545
Nonoperating revenues/(expenses):				
Investment income	-	-	-	-
Net income/(loss) before transfers	(16,595)	2,994,131	496,456	32,545
Mandatory transfers:				
Debt service		(138,121)	-	-
Nonmandatory transfers:				
Renewals and replacements	-	(4,004,821)	-	-
Restricted	-	-	-	-
Net increase/(decrease) for the year	\$ (16,595)	\$ (1,148,811)	\$ 496,456	\$ 32,545

Student Center	Building and Maintenance	Athletic Committee	Student Activities	Other Auxiliary Services	Total
\$ 1,784,868	\$ 5,649,419	\$ 4,887,250	\$ 827,548	\$ 298,861	\$ 30,537,770
58,721	565,022	380,212	203,150	2,189,999	5,705,866
-	-	-	-	484,124	484,124
-	-	-	-	-	2,188,558
-	-	-	-	-	-
-	-	-	-	-	-
1,843,589	6,214,441	5,267,462	1,030,698	2,972,984	38,916,318
271,728	934,667	744,842	127,192	60,705	4,799,561
2,115,317	7,149,108	6,012,304	1,157,890	3,033,689	43,715,879
1,016,194	1,307,654	2,104,941	171,784	1,538,889	9,101,956
252,918	1,408,189	1,856,080	937,740	2,192,956	21,403,823
-	-	287,858	35,000	-	1,101,180
76,578	256,759	-	-	61,818	1,757,229
39,882	39,693	22,247	17,826	120,003	511,699
1,385,572	3,012,295	4,271,126	1,162,350	3,913,666	33,875,887
-	-	1,233,628	-	-	1,843,784
1,385,572	3,012,295	5,504,754	1,162,350	3,913,666	35,719,671
729,745	4,136,813	507,550	(4,460)	(879,977)	7,996,208
-	-	-	-	1,287,983	1,287,983
729,745	4,136,813	507,550	(4,460)	408,006	9,284,191
-	-	-	-	-	(138,121)
(5,000,000)	-	-	-	(1,300,000)	(10,304,821)
-	-	-	-	-	-
\$ (4,270,255)	\$ 4,136,813	\$ 507,550	\$ (4,460)	\$ (891,994)	(1,158,751)
Fund balance at beginning of year					11,606,616
Fund balance at end of year					\$ 10,447,865



**Walter J. Kucharski, Auditor**

# **Commonwealth of Virginia**

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

February 20, 2007

The Honorable Timothy M. Kaine  
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** (the University), a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component unit as of and for the year then ended June 30, 2006, as shown on pages 2 through 10. 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 are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component unit of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component 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 reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Radford University and of its aggregate discretely presented component unit as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the University. The Schedule of Auxiliary Enterprises - Revenues, Expenses, and Changes in Fund Balances affiliated 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 statement taken as a whole.

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

##### Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Complete Information Security Program," "Update the Business Continuity Plan", and "Adhere to Policies and Procedures for Cash Collections" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

### 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 instances of noncompliance or other matters required to be reported under Government Auditing Standards. Instances of noncompliance, entitled "Complete Information Security Program" and "Adhere to Policies and Procedures for Cash Collections" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

### Status of Prior Findings

The University has begun corrective action with respect to the previously reported finding "Develop Formal Information Technology Policies, Standards, and Procedures" and the remaining corrective action is included in the finding entitled "Complete Information Security Program" in the section titled "Internal Control and Compliance Findings and Recommendations." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

### Report Distribution and Exit Conference

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

We discussed this report with management at an exit conference held on March 14, 2007.

AUDITOR OF PUBLIC ACCOUNTS

MSM:jab  
jab:42



OFFICE OF THE PRESIDENT  
PENELOPE W. KYLE

April 4, 2007

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

Dear Mr. Kucharski:

I write this letter to respond to each of the internal control findings and recommendations issued to Radford University following the recent audit of the University's June 30, 2006 financial statements.

**Complete Information Security Program:** Radford University is committed to complying with the Commonwealth's security standards for information technologies and has made progress in meeting the requirements. The University's commitment will be demonstrated through the completion of the:

- Security Awareness Program by April 1, 2007;
- Business Impact Analysis by June 30, 2007;
- Risk Assessment by June 30, 2007;
- University Disaster Recovery Plan update to incorporate plans for restoration of critical services located in Jefferson Hall machine room and the prioritized list for restoration of services by June 30, 2007; and
- Encryption policy by June 30, 2007.

**Update the Business Continuity Plan:** Radford University has recently identified space to create an off-campus disaster recovery site. Consequently, an updated Business Continuity Plan will be developed by June 30, 2007. Core infrastructure components will be installed at the off-campus site by September 30, 2007.

**Adhere to Policies and Procedures for Cash Collections:** Radford University staff has implemented corrective action for all of the issues related to timely cash deposits. Financial Services staff will continue to monitor cash collections operations on an ongoing basis and to provide written policies and procedures to cash collection points' staff annually. Internal Audit will review cash collections on a cyclical basis beginning September 2007.

Mr. Walter J. Kucharski

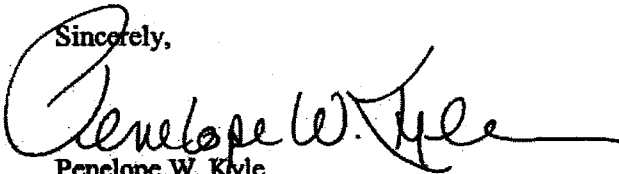
Page 2

April 4, 2007

Financial Reporting and Library staffs are meeting to determine the best solution to library accounts receivable reporting. Based on these meetings, library accounts receivable will be included on the Quarterly Accounts Receivable Report beginning with the March 31, 2007 submission. An outstanding accounts receivable listing is also being reviewed and evaluated for possible write-offs.

I would like to thank you and your staff for the valuable services you provide. Radford University takes seriously its financial stewardship role.

Sincerely,

A handwritten signature in black ink, appearing to read "Penelope W. Kyle", with a long horizontal flourish extending to the right.

Penelope W. Kyle  
President

Copy: Margaret McManus, University Auditor  
Donna VanCleave, VP for Finance and Administration

## RADFORD UNIVERSITY

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