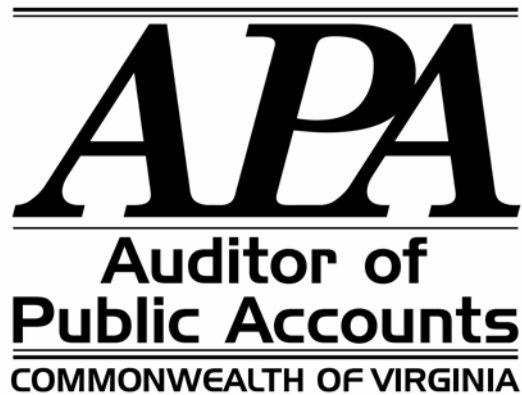


RADFORD UNIVERSITY

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



AUDIT SUMMARY

Our audit of Radford University for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- internal control matters that we consider to be reportable conditions; however, we do not consider these to be material weaknesses; and
- no instances of noncompliance or other matters required to be reported.

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UNIVERSITY RESPONSE

UNIVERSITY OFFICIALS

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Review Policies and Procedures of All Collection Points

The University currently has 33 cash collection points throughout campus, and each collection point collects, records, and deposits their funds. Each department is responsible for maintaining a deposit log, reconciling deposits, and ensuring they deposit collections no later than the next business day using the appropriate transmittal sheet provided by the Cashier's Office. Each collection point should have controls in place to provide a proper separation of duties and should maintain proper documentation to provide an adequate audit trail.

We reviewed the controls and activity for several collection points and found the following issues, some of which do not comply with University policies and procedures:

- The Cashier's Office needs to implement a secondary level of review when the Head Cashier is working the window. Currently, in the absence of a cashier, the Head Cashier processes transactions, closes out the window, reconciles and prepares deposits, and approves deposits. This does not allow for proper separation of duties.
- Three collection points (Campus Recreation, the Cultural Events Office, and the Student Newspaper) made untimely deposits of collections to the Cashier's Office.
- The Cultural Events Office does not maintain a deposit log for conference room rentals, resulting in an inadequate audit trail.
- The Campus Activity Board students sell movie tickets, make deposits, reconcile sales, and approve reconciliations. Because a University staff member is not formally involved in the process, it does not provide a proper separation of duties.
- Two departments (Tartan Advertising and Printing) record receivables in departmental software; however, they do not report these amounts to the Business Office for inclusion in the University financial statements.
- Performing Arts sells tickets on behalf of the Cultural Events Office and also collects other funds for deposit with the Radford University Foundation. Instead of separating the deposit between the University and the Foundation, they deposit all the funds with the Foundation, which then returns the funds back to the Performing Arts Department at year-end for deposit with the Cashier's Office. In addition, the existing deposit log does not provide enough information to verify timely deposits.
- The Hurlburt Center does not have security cameras in cash collection areas, which operate outside of normal University business hours.

Management should perform a stringent review of cash collection operations and existing policies and procedures. Each collection point should implement corrective action for all identified weaknesses to ensure appropriate control mechanisms are in place and to prevent future occurrences of noncompliance. Management should ensure that collection points understand and adhere to the University's policies and

procedures and state regulations. The University should provide the necessary training opportunities for all collection point personnel.

Develop Formal Information Technology Policies, Standards, and Procedures

The University has not developed formally written information technology security policies, standards, and procedures. Without the creation of these documents, the University cannot easily enforce the controls needed to protect critical assets. According to the Virginia COV ITRM Standard SEC2001, different types of IT security policies, standards, procedures, and other documents support an agency's IT Security Plan. The following list includes examples of the types of information technology security policies entities should have:

- Access Control Policy
- Data Center Physical Access Policy and Procedures
- Password Policy and Standards
- Encryption Use Policy
- Wireless Use Policy
- Change Management Policy and Procedures
- Configuration Management Policy and Procedures
- Standard Configuration Policy and procedures for Unix security
- Standard Configuration Policy and procedures for Oracle security
- Data Classification Policy
- Remote Access Policy

The University has an Information Security Plan for Administrative Systems, which outlines by system the risks to data integrity and sensitivity and the safeguards in place. However, without the above policies and procedures, management has no guidelines to enforce this Systems Security Plan. The University should dedicate the necessary resources to assist the new Information Security Officer in developing, obtaining management approval for, and enforcing the needed information technology security policies, standards, and procedures.

Create a Business Continuity Plan for the Jefferson Machine Room

The University does not have a business continuity plan that includes contingencies for the Jefferson machine room. The Jefferson machine room houses devices necessary to support all the lower level network communication protocols, critical devices providing network security from the Internet, and the RUExpress servers. In addition, Radford has not addressed contingencies in the event of the destruction of this machine room. Without the Jefferson machine room, the University could not recover the following services:

- perimeter security devices and underlying network protocols crucial for University-owned servers and computers to communicate and remain protected from the Internet (routers, firewalls, and switches);
- critical communication services: Internet website connection, email services, telephone services, wireless communication link, and network connections to COVANet and NetworkVA; and
- RUExpress servers, which provide student services and building access.

An effective Business Continuity Plan minimizes downtime in the event of systems outages or destruction. The plan should include a hierarchy of critical network devices and servers and how the University would restore technology services to an acceptable minimum service level. Effective Business Continuity and Disaster Recovery is an evolving process. The University should dedicate the necessary resources to create and support a plan that includes adequate contingencies for the Jefferson machine room. Such a plan should address the critical network devices and communication services, including a hierarchical list of critical network devices and critical servers in recovery order, a description of how technology services will be restored to an acceptable minimum service level, and an easy format to test and maintain.

Evaluate and Implement Appropriate Environmental Controls in the Jefferson Machine Room

The Jefferson machine room is underground and does not have a fire detection and suppression system or a raised floor and water sensors to protect against water damage. The lack of these environmental controls places the University at risk for not maintaining the following technology services:

- network connections to the Internet and to the VITA network;
- wireless communication to the outside world;
- telephone services on campus and from campus to the outside world;
- Internet intrusion protection for the IFAS, RUExpress, other critical servers, and academic servers;
- RUExpress services and building access;
- campus network connections to both critical and academic servers; and
- on-campus cable television services

The University has not addressed the criticality of the devices in this room, their impact to the University if unrecoverable, and the appropriate environmental controls needed to protect them. The breadth and potential lack of these technology communication services would pose significant damage to the University's public image and severely affect communication with emergency responders, vendors, personnel, students, partners, and the public.

Without the identification of critical assets and their operational and financial impact, the University cannot adequately evaluate and provide effective environmental controls for those devices. The University should dedicate the necessary resources to ensure the appropriate environmental controls are in place to protect its system infrastructure in the Jefferson machine room.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

Introduction

The following unaudited Management's Discussion and Analysis provides an overview of the financial activities of Radford University in an objective, easily readable format for the year ending June 30, 2005. 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.

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

The 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. Enrollment headcount has remained constant over the past three years at approximately 9,200 students; however, during Fall 2004, enrollment showed a modest growth of 1.2 percent to 9,329 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, partnered with a student-supported 15 percent increase in tuition and fees effective Fall 2004, has enabled the University to begin recovering from the significant budget cuts suffered during the 2002-2004 biennium. The University remains competitive when compared to other public institutions in its national peer group despite the recent tuition and fee increases.

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 the 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

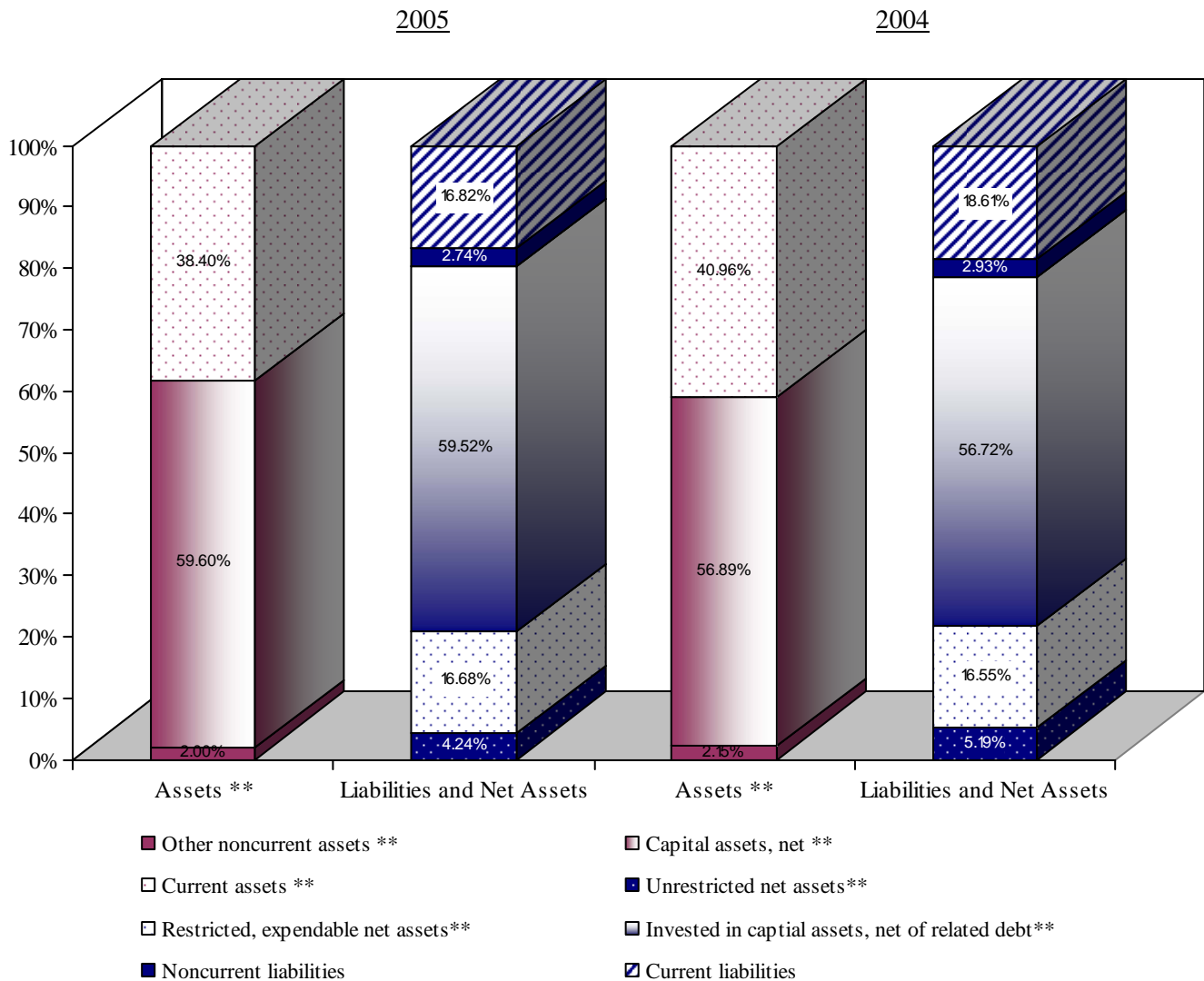
	<u>2005</u>	<u>2004**</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Assets:				
Current assets	\$ 60,544	\$ 61,619	\$(1,075)	(2.0)
Capital assets, net	94,005	85,606	8,399	9.8
Other noncurrent assets	<u>3,169</u>	<u>3,241</u>	<u>(72)</u>	<u>(2.2)</u>
Total assets	<u>157,718</u>	<u>150,466</u>	<u>7,252</u>	<u>4.8</u>
Liabilities:				
Current liabilities	26,542	27,995	(1,453)	(5.2)
Noncurrent liabilities	<u>4,330</u>	<u>4,415</u>	<u>(85)</u>	<u>(1.9)</u>
Total liabilities	<u>30,872</u>	<u>32,410</u>	<u>(1,538)</u>	<u>(4.7)</u>
Net assets:				
Invested in capital assets, net of related debt	93,871	85,344	8,527	10.0
Restricted - expendable	26,290	24,899	1,391	5.6
Unrestricted	<u>6,685</u>	<u>7,813</u>	<u>(1,128)</u>	<u>(14.4)</u>
Total net assets	<u>\$126,846</u>	<u>\$118,056</u>	<u>\$ 8,790</u>	<u>7.4</u>

* in thousands

** as restated

The total net assets of the University increased by \$8,790,363 (7.4 percent) during fiscal year 2005, bringing total net assets to \$126,846,437 at year-end. This growth was due to increased capital assets consisting mainly of construction-in-progress for Peery Hall, the Hurlburt Student Center, and the Fine Arts Center.

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 \$13,909,735 (excluding depreciation) during fiscal year 2005. The renovation of Peery Hall and the construction of the Hurlburt Student Center and the Fine Arts Center were the primary components of the additions to construction-in-progress. Current year depreciation expense totaled

\$4,959,634. Reductions to depreciable capital assets totaled \$1,769,180, largely due to the disposal of library materials now available through electronic media. Overall, the value of the University's capital assets totaled \$94,005,128 at the end of fiscal year 2005, an \$8,399,056 (9.8 percent) increase over fiscal year 2004.

Commitments to construction contractors, architects, and engineers for capital projects totaled \$1,954,788 at June 30, 2005. Capital construction projects for Hurlburt Student Union and the Fine Arts Center constituted most of this total.

The University takes seriously its role of financial stewardship and works hard to manage resources effectively, including the prudent use of debt to finance capital projects. The University decreased its total long-term debt from \$254,448 in fiscal year 2004 to \$131,544 in fiscal year 2005. 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 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.

Nonoperating 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

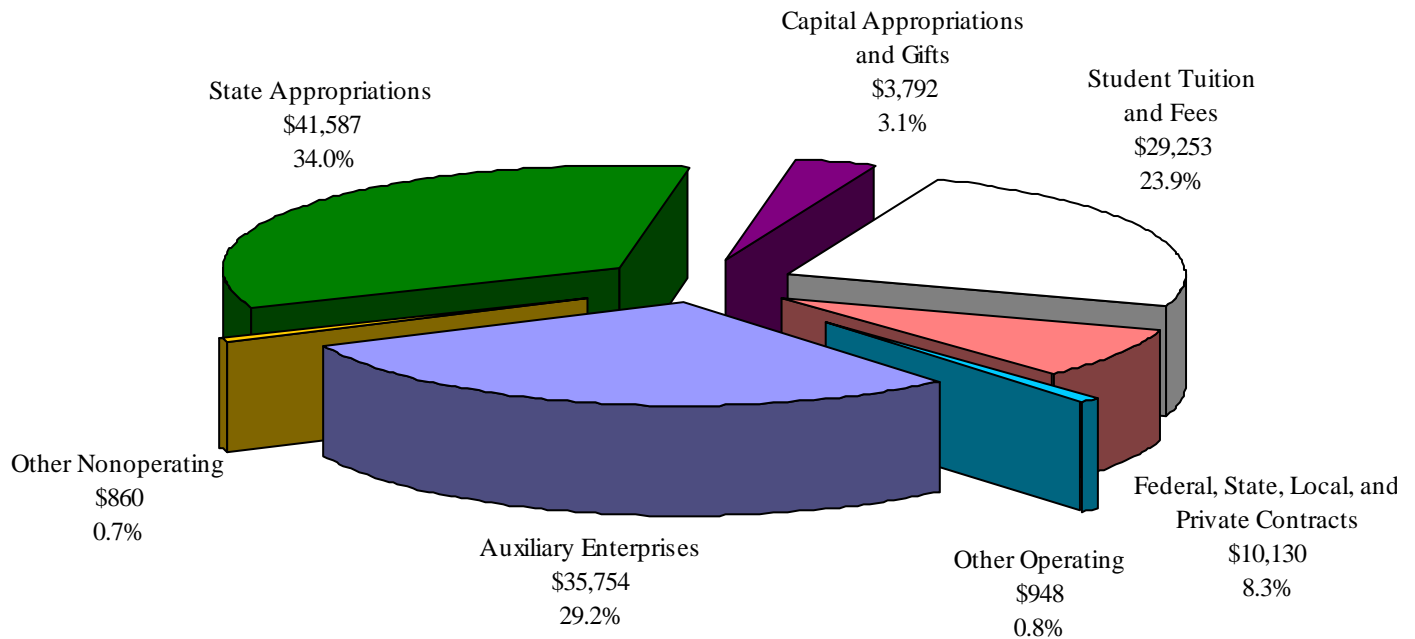
(in thousands)

	<u>2005</u>	<u>2004*</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Operating revenues	\$ 76,085	\$ 70,481	\$ 5,604	8.0
Less: Operating expenses	<u>113,533</u>	<u>101,591</u>	<u>11,942</u>	<u>11.8</u>
Operating loss	(37,448)	(31,110)	6,338	20.3
Nonoperating revenues and expenses	<u>42,446</u>	<u>37,166</u>	<u>5,280</u>	<u>14.2</u>
Income before other revenues, expenses, gains, or losses	4,998	6,056	(1,058)	(17.5)
Other revenue, expenses, gains, or losses	<u>3,792</u>	<u>7,492</u>	<u>(3,700)</u>	<u>(49.4)</u>
Increase in net assets	8,790	13,548	(4,758)	(35.1)
Net assets - beginning of year	<u>118,056</u>	<u>104,508</u>	<u>13,548</u>	<u>12.9</u>
Net assets - end of year	<u>\$126,846</u>	<u>\$118,056</u>	<u>\$ 8,790</u>	<u>7.4</u>

* as restated

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, 2005. 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



* in thousands

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

Operating Revenues

(in thousands)

	<u>2005</u>	<u>2004</u>	<u>Increase/(Decrease)</u> <u>Amount</u>	<u>Percent</u>
Operating revenues:				
Student tuition and fees, net of scholarship allowance	\$ 29,253	\$ 25,385	\$ 3,868	15.2
Federal, state, and nongovernmental grants and contracts	10,130	10,250	(120)	(1.2)
Auxiliary enterprises, net of scholarship allowance	35,754	34,088	1,666	4.9
Other operating revenue	<u>948</u>	<u>758</u>	<u>190</u>	<u>25.1</u>
Total operating revenues	<u>76,085</u>	<u>70,481</u>	<u>5,604</u>	<u>8.0</u>
Nonoperating revenues:				
State appropriations	41,587	36,887	4,700	12.7
Investment income, interest on capital assets-related debt, loss on disposal of plant assets, and other nonoperating revenues	<u>860</u>	<u>279</u>	<u>581</u>	<u>208.2</u>
Total nonoperating revenues	<u>42,447</u>	<u>37,166</u>	<u>5,281</u>	<u>14.2</u>

Capital revenues and gains:				
Capital appropriations	3,311	6,550	(3,239)	(49.5)
Capital gifts	<u>481</u>	<u>942</u>	<u>(461)</u>	<u>(48.9)</u>
Total capital revenues and gains	<u>3,792</u>	<u>7,492</u>	<u>(3,700)</u>	<u>(49.4)</u>
Total revenues	<u>\$122,324</u>	<u>\$115,139</u>	<u>\$ 7,185</u>	<u>6.2</u>

Operating Revenues

Operating revenues primarily include tuition and fees and auxiliary enterprises. Total operating revenues increased by \$5,604,532 (8.0 percent) from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by \$3,867,896 (15.2 percent) in fiscal year 2005. Most of this growth can be attributed to a 15 percent increase in tuition and fees and a modest increase in enrollment. Overall, the University's operating revenue increased to \$76,085,366 in fiscal year 2005, compared to \$70,480,834 in fiscal year 2004.

Nonoperating Revenues

Nonoperating income increased by \$5,280,586 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 salary increases, health insurance premium increases, and other fringe benefit rate changes consisting of retirement, retiree health insurance credit premiums, and group life insurance premiums. Note 10 of the Notes to Financial Statements outlines the state appropriations received by the University during fiscal year 2005.

Other Revenues

Other revenues, primarily capital appropriations, decreased by \$3,700,684 (49.4 percent) over the prior fiscal year. This decrease is attributed to the completion of construction projects under the 21st Century Bond during fiscal year 2004.

Total revenues increased by \$7,184,434 (6.2 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 2005 totaled \$113,533,661 up 11.7 percent over fiscal year 2004. There were several factors impacting the increase in expenditures across all programs:

- infusion of new general fund appropriation combined with a 15 percent increase in tuition and fees effective Fall 2004;
- infusion of an average salary increase of five percent for all faculty (teaching and administrative) during fiscal year 2005. This university distribution was in addition to the three percent average faculty salary increase approved by the General Assembly;

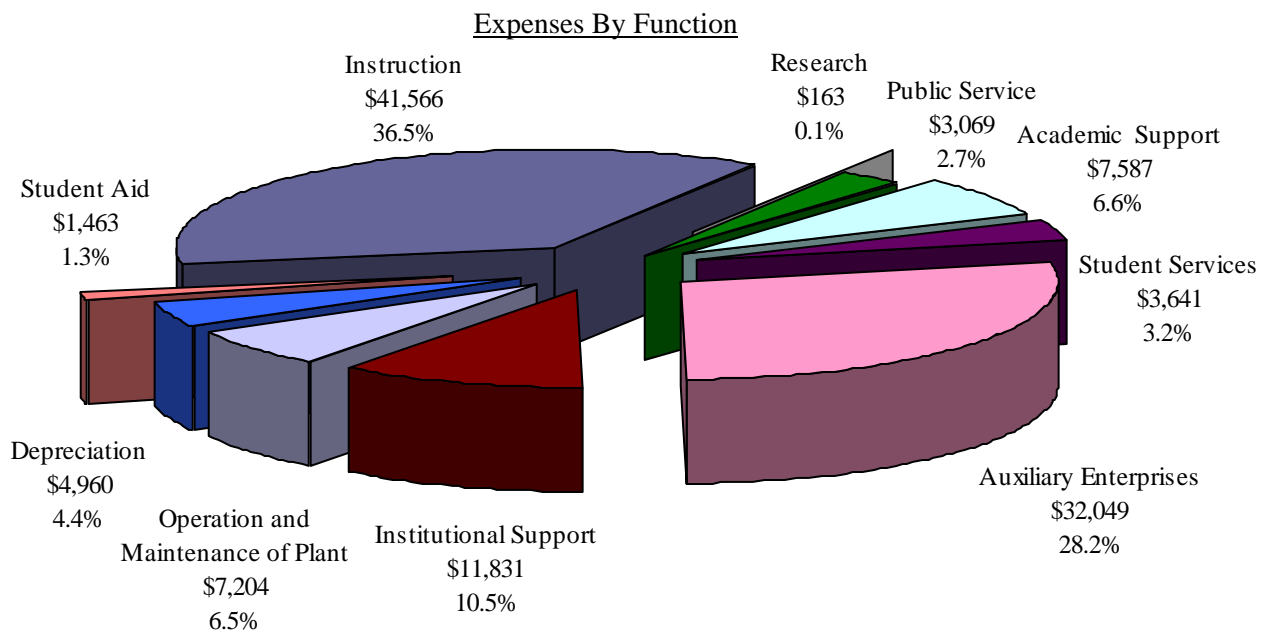
- reclassification of existing departments from student services to academic support and from instruction to institutional support, respectively decreased or increased expenditures in each affected program;
- establishment of new positions and filling vacant positions; and
- reduction in the indirect cost recovery rate from 23.09 percent to 17.38 percent for the new biennium; mainly impacting the expenditure increase in institutional support.

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

<u>Operating Expenses</u> (in thousands)			<u>Increase/(Decrease)</u>	
	<u>2005</u>	<u>2004*</u>	<u>Amount</u>	<u>Percent</u>
Operating expenses:				
Instruction	\$ 41,566	\$ 37,968	\$ 3,598	9.5
Research	163	221	(58)	(26.2)
Public service	3,069	2,864	205	7.2
Academic support	7,587	6,871	716	10.4
Student services	3,641	3,887	(246)	(6.3)
Institutional support	11,831	8,366	3,465	41.4
Operation and maintenance of plant	7,204	5,679	1,525	26.8
Depreciation	4,960	4,571	389	8.5
Student aid	1,463	1,453	10	0.7
Auxiliary enterprises	<u>32,049</u>	<u>29,711</u>	<u>2,338</u>	<u>7.9</u>
Total operating expenses	<u>\$113,533</u>	<u>\$101,591</u>	<u>\$11,942</u>	<u>11.7</u>

* as restated

The following graphic illustration presents total expenses for fiscal year 2005 by function.



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 Changes 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 noncash 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

(in thousands)

Net cash used by operating activities	\$(34,641)
Net cash provided by noncapital financing activities	41,360
Net cash used by capital and related financing activities	(9,739)
Net cash provided by investing activities	<u>8,512</u>
Net increase in cash	5,492
Cash and cash equivalents - beginning of year	<u>48,138</u>
Cash and cash equivalents - end of year	<u>\$ 53,630</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. A larger than normal amount was recorded this year due to the state depositing the auxiliary reserve fourth quarter interest payment for fiscal year 2004 in fiscal year 2005.

Overall, the University had a net increase in cash of \$5,491,783 during fiscal year 2005. 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 (\$41,587,358), student tuition and fees (\$29,471,499), auxiliary enterprise revenues (\$35,914,408), grants and contracts (\$10,061,735), and capital appropriations and gifts (\$3,792,113). Major uses of cash were employee compensation and benefits (\$69,752,108), operating expenses (\$37,985,558), scholarship and fellowship payments (\$3,428,138), and the purchase of capital assets (\$13,390,189).

Economic Outlook

The University's economic outlook is closely related to the general fund support provided by the Commonwealth. Given that general fund appropriations represent just over 50 percent of the University's total educational and general operating expenses, future growth depends as much upon state support as student tuition dollars. The resultant financial model is a partnership between the University and the Commonwealth. Student-supported tuition increases have been implemented to provide basic services such as additional classes, moderate class size, and new full-time faculty positions; however, to remain affordable, tuition and fee increases cannot solely fund future growth.

The University also plans to be an active participant in the state's quest to handle the large number of additional college-age students projected for the next several years. As an example of the University's commitment to this projected need, enrollment headcount is projected to grow to 10,000 students by 2010. Enrollment trends for the University have shown modest increases during recent years and continue upward. For Fall 2005, headcount increased to approximately 9,600 students, up three percent from Fall 2004.

The Higher Education Restructuring Act will provide a framework for the University to potentially gain new independence in controlling financial and administrative operations in exchange for meeting 11 state goals. Through the approval of a resolution by the Board of Visitors Executive Committee adopting the 11 state goals, the University will be eligible for the immediate benefits of level one autonomy. Benefits include potential independence with regard to disposing of surplus property, obtaining local building inspections and certifications, acquiring and disposing of property, entering into capital lease agreements, continuing existing memorandums of understanding for decentralized activities, and procurement flexibility. The University realizes the importance of this legislation and continues to investigate the best practices of higher levels of autonomy.

The submission of the University's six-year academic and financial plans provides an architecture for future growth. Plans for increased enrollment, development of the RU West campus, new capital construction projects, and reduction of the student to faculty ratio are progressions towards the University's goals. For these plans to flourish, additional funding from the Commonwealth will be needed.

Funding of base budget adequacy will provide the University with the resources to implement many of the priorities outlined in the six-year plan. Major priorities for base budget adequacy funding will be to hire new faculty to reduce the student to faculty ratio; improve faculty salaries towards reaching the 60th percentile among peer institutions; increase the number of support staff positions; enhance compensation packages for graduate assistants and teaching fellows; increase library acquisitions; offer additional financial aid assistance to in-state undergraduate students; and provide support for equipment, technology and professional development.

The University also submitted several additional funding requests for the 2006-2008 biennium. Radford University's School of Nursing has assumed a leadership role in developing the concept for creating, maintaining, and sustaining two clinical simulation laboratories as collaborative ventures between 11 nursing education programs and public/private healthcare facilities in Southwest Virginia. The University believes that establishing these clinical simulation laboratories will increase the capacity of nursing schools to enroll more students, retain faculty, and decrease competition for scarce clinical sites. Teaching laboratories of this nature will offer more opportunities to train much needed nurses and medical technicians for the citizens of the Commonwealth.

The University also plans to develop the RU West Campus site as potential funding is approved. Academic space for one of the clinical simulation laboratories, a new College of Pharmacy, and a new Graduate Center provide the ground work for the future growth of this site and the University.

The University continues to remain optimistic that future support from the Governor and General Assembly will enable the University to maintain its strong financial position. Overall, the University has generated an increase in net assets for fiscal year 2005. 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, 2005

	Radford University	Component Unit Radford University Foundation, Inc.
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 53,630,485	\$ 512,094
Short-term investments (Notes 2, 16B)	1,543,751	22,967,228
Accounts receivable (Net of allowance for doubtful accounts of \$176,503) (Note 3)	2,334,951	-
Contributions receivable (Net of allowance for doubtful contributions of \$4,397) (Note 16A)	-	783,868
Due from the Commonwealth (Note 7)	884,963	-
Prepaid expenses	1,792,490	
Inventory	338,239	90,563
Notes receivable (Net of allowance for doubtful accounts of \$3,312)	19,827	4,054
Other receivables	-	50,475
Total current assets	60,544,706	24,408,282
Noncurrent assets:		
Restricted cash and cash equivalents	-	1,131,342
Other long-term investments (Note 16B)	-	754,373
Contributions receivable (Net of allowance for doubtful contributions of \$13,999) (Note 16A)	-	2,495,381
Other assets	-	227,121
Notes receivable (Net of allowance for doubtful accounts of \$345,347)	3,168,784	48,538
Depreciable capital assets, net (Notes 4, 16C)	54,663,264	14,416,633
Nondepreciable capital assets (Notes 4, 16C)	39,341,864	4,012,009
Total noncurrent assets	97,173,912	23,085,397
Total assets	157,718,618	47,493,679
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	11,670,268	549,190
Deferred revenue	3,372,043	245,017
Obligations under securities lending	8,808,674	-
Deposits held in custody for others	255,513	-
Long-term liabilities - current portion (Note 6)	2,415,766	-
Notes payable - current portion (Note 16D)	-	190,544
Advance from the Treasurer of Virginia	20,000	-
Total current liabilities	26,542,264	984,751
Noncurrent liabilities:		
Long-term liabilities (Note 6)	4,329,917	-
Notes payable (Note 16D)	-	1,854,369
Trust and annuity obligations	-	1,298,949
Total noncurrent liabilities	4,329,917	3,153,318
Total liabilities	30,872,181	4,138,069

RADFORD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005

	Radford University	Component Unit Radford University Foundation, Inc.
NET ASSETS		
Invested in capital assets, net of related debt	93,871,031	16,383,729
Restricted for:		
Expendable:		
Scholarships and fellowships	-	2,177,735
Instruction and research	295,029	474,715
Capital projects	25,669,528	-
Loans	325,490	-
Other	-	4,989,872
Nonexpendable:		
Scholarships and fellowships	-	11,730,035
Instruction and research	-	1,488,099
Other	-	5,375,511
Unrestricted	6,685,359	735,914
Total net assets	<u>\$ 126,846,437</u>	<u>\$ 43,355,610</u>

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, 2005

	Radford University	Component Unit Radford University Foundation, Inc.
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$4,621,452)	\$ 29,253,363	\$ -
Gifts and contributions	-	3,096,072
Federal grants and contracts	9,298,472	-
State grants and contracts	530,281	-
Nongovernmental grants and contracts	301,269	-
Auxiliary enterprises (net of scholarship allowances of \$4,677,244) (Note 8)	35,753,542	-
Other operating revenues	948,439	963,604
Total operating revenues	76,085,366	4,059,676
Operating expenses: (Note 9)		
Instruction	41,566,370	58,933
Research	162,784	-
Public service	3,069,147	-
Academic support	7,586,624	1,860,094
Student services	3,641,095	-
Institutional support	11,831,251	1,655,168
Operation and maintenance - plant	7,204,031	-
Depreciation	4,959,635	389,452
Student aid	1,463,425	745,307
Auxiliary activities (Note 8)	32,049,299	-
Total operating expenses	113,533,661	4,708,954
Operating loss	(37,448,295)	(649,278)
Nonoperating revenues/(expenses)		
State appropriations (Note 10)	41,587,358	-
Investment income	1,247,702	1,635,949
Interest on capital asset - related debt	(13,337)	(127,466)
Gain/(Loss) on disposal of plant assets	(71,410)	3,074
Nonoperating transfers to the Commonwealth	(303,768)	-
Net nonoperating revenues	42,446,545	1,511,557
Income before other revenues, expenses, gains or losses	4,998,250	862,279
Capital appropriations	3,310,670	-
Capital gifts	481,443	-
Additions to permanent endowments	-	3,174,334
Net other revenues	3,792,113	3,174,334
Increase in net assets	8,790,363	4,036,613
Net assets - beginning of year	118,056,074	39,318,997
Net assets - end of year	\$ 126,846,437	\$ 43,355,610

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, 2005

Cash flows from operating activities	
Student tuition and fees	\$ 29,471,499
Grants and contracts	10,061,735
Auxiliary enterprises	35,914,408
Other receipts	948,439
Payments for salaries, wages, and fringe benefits	(69,752,108)
Payments for services and supplies	(29,720,067)
Payments for utilities	(1,675,555)
Payments for scholarships and fellowships	(3,428,138)
Payments for noncapitalized plant improvements and equipment	(6,589,936)
Loans issued to students	(794,681)
Collections of loans from students	878,259
Other receipts	45,001
	<hr/>
Net cash used by operating activities	(34,641,144)
	<hr/>
Cash flows from noncapital financing activities	
State appropriations	41,587,358
Non-general fund appropriation reductions	(303,768)
Federal loan contribution	21,756
Federal Family Education Loans - receipts	23,460,340
Federal Family Education Loans - disbursements	(23,478,162)
Student organization agency transactions (net)	72,203
	<hr/>
Net cash provided by noncapital financing activities	41,359,727
	<hr/>
Cash flows from capital and related financing activities	
Capital appropriations	3,310,670
Capital gifts	481,443
Purchase of capital assets	(13,390,189)
Principal paid on capital debt, leases and installments	(128,012)
Interest paid on capital debt, leases and installments	(13,337)
	<hr/>
Net cash used by capital and related financing activities	(9,739,425)
	<hr/>
Cash flows from investing activities	
Proceeds from sale and maturities of investments	7,264,923
Interest on investments	1,247,702
	<hr/>
Net cash provided by investing activities	8,512,625
	<hr/>
Net increase in cash	5,491,783
	<hr/>
Cash and cash equivalents - Beginning of the year	48,138,702
	<hr/>
Cash and cash equivalents - End of the year	\$ 53,630,485
	<hr/>

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

RECONCILIATION OF NET OPERATING LOSS TO NET CASH

USED BY OPERATING ACTIVITIES:

Operating loss	\$ (37,448,295)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	4,959,635
Changes in assets and liabilities:	
Receivables, net	215,168
Due from the Commonwealth	(751,086)
Inventory	(3,526)
Notes receivable, net	83,578
Prepaid expenses	(97,757)
Accounts payable and accrued expenses	(1,916,581)
Deferred revenue	140,548
Accrued compensated absences	177,172
	<hr/>
Net cash used by operating activities	<u><u>\$ (34,641,144)</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, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 general purpose financial statements of the Commonwealth.

The University implemented Governmental Accounting Standards Board (GASB) Statement 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement 3. This statement modified the risk disclosures required for deposits with financial institutions, investments, and reverse repurchase agreements by establishing more comprehensive disclosure requirements addressing other common risks of deposits and investments held by governmental entities. This statement is effective for the fiscal year ending June 30, 2005.

Under GASB Statement 39 standards, the Radford University Foundation, Inc. (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, 2005, the Foundation made distributions of \$1,625,623 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.

B. 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.

C. 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.

D. 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.

E. 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

F. 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.

G. 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.

H. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the period after June 30, 2005.

I. 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, 2005, 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.

J. 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.

K. 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.

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

Net assets reported at June 30, 2004	\$116,361,341
Prepaid expenses not previously recognized	<u>1,694,733</u>
Net assets – beginning of year, as restated	<u>\$118,056,074</u>

L. 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.

M. 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

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. It amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2005. The following risk disclosures are required by GASB.

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 and no investments or deposits that are sensitive to changes in interest rates as of the close of business on June 30, 2005.

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 2005.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 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, 2005, the fair value of University's investment in this fund was \$3,917,834.

B. Investments

The Board of Visitors established the University's investment policy and is monitored by the Board's Business Affairs Committee. 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- 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)	\$ 3,917,834
Appropriation available for capital projects	5,004,804
Cash with the Treasurer	37,442,924
Collateral held for securities lending	<u>7,264,923</u>
Total	<u>\$53,630,485</u>
Short-term investments:	
Collateral held for securities lending	<u>\$ 1,543,751</u>

C. Securities Lending Transactions

GASB Statement 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, 2005:

Student tuition and fees	\$1,099,465
Auxiliary enterprises	638,198
Federal, state, and nongovernmental grants and contracts	614,038
Other activities	<u>159,753</u>
Less: Allowance for doubtful accounts	<u>176,503</u>
Net accounts receivable	<u>\$2,334,951</u>

4. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 4,641,642	\$ 472,124	\$ -	\$ 5,113,766
Construction-in-progress	<u>25,093,572</u>	<u>9,614,160</u>	<u>479,634</u>	<u>34,228,098</u>
Total nondepreciable capital assets	<u>29,735,214</u>	<u>10,086,284</u>	<u>479,634</u>	<u>39,341,864</u>

Depreciable capital assets:

Buildings	101,178,765	-	-	101,178,765
Infrastructure	20,760,196	408,868	-	21,169,064
Equipment	16,679,179	2,264,207	1,023,500	17,919,886
Other improvements	4,318,744	-	-	4,318,744
Library materials	<u>14,682,197</u>	<u>1,150,376</u>	<u>745,680</u>	<u>15,086,893</u>

Total depreciable capital assets	<u>157,619,081</u>	<u>3,823,451</u>	<u>1,769,180</u>	<u>159,673,352</u>
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Less accumulated depreciation for:

Buildings	62,091,729	1,864,224	-	63,955,953
Infrastructure	15,683,683	513,557	-	16,197,240
Equipment	11,010,595	1,550,577	952,090	11,609,082
Other improvements	3,001,007	198,180	-	3,199,187
Library materials	<u>9,961,209</u>	<u>833,097</u>	<u>745,680</u>	<u>10,048,626</u>

Total accumulated depreciation	<u>101,748,223</u>	<u>4,959,635</u>	<u>1,697,770</u>	<u>105,010,088</u>
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Depreciable capital assets, net	<u>55,870,858</u>	<u>(1,136,184)</u>	<u>71,410</u>	<u>54,663,264</u>
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Total capital assets, net	<u>\$ 85,606,072</u>	<u>\$ 8,950,100</u>	<u>\$ 551,044</u>	<u>\$ 94,005,128</u>
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5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Employee salaries, wages, and fringe benefits payable	\$ 7,054,743
Vendors and suppliers accounts payable	3,173,744
Capital projects accounts payable	<u>1,441,781</u>

Total accounts payable and accrued expenses	<u>\$11,670,268</u>
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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, 2005, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
General obligation bonds	\$ 254,448	\$ -	\$ 122,904	\$ 131,544	\$ 131,544
Notes payable:					
Installment purchases	7,662	-	5,108	2,554	2,554
Other liabilities:					
Accrued compensated absences	3,009,367	3,042,357	2,865,184	3,186,540	2,281,668
Federal loan program contributions	<u>3,403,290</u>	<u>21,755</u>	<u>-</u>	<u>3,425,045</u>	<u>-</u>
Total other liabilities	<u>6,412,657</u>	<u>3,064,112</u>	<u>2,865,184</u>	<u>6,611,585</u>	<u>2,281,668</u>
Total long-term liabilities	<u>\$6,674,767</u>	<u>\$3,064,112</u>	<u>\$2,993,196</u>	<u>\$6,745,683</u>	<u>\$2,415,766</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>Maturity</u>	<u>Interest Rate</u>	<u>Balance at June 30, 2005</u>
General obligation revenue bonds:			
Norwood Hall Dormitory, Series 2003A	2006	4.30% - 4.75%	\$131,544

The bonds mature as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>
2006	<u>\$131,544</u>	<u>\$ 6,577</u>

A. 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.

B. 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 \$884,963 at June 30, 2005 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 for the year ended June 30, 2005. The University used auxiliary revenues to pay debt service and capital improvements of \$136,241 and \$8,000,000, respectively. Those balances are not included in the following auxiliary operating expenses.

Revenues:	
Room contracts, net of scholarship allowances of \$1,289,729	\$ 7,894,036
Dining service contracts, net of scholarship allowances of \$1,075,859	6,092,900
Comprehensive fee, net of scholarship allowances of \$2,311,656	13,780,324
Other student fees and sales and services	<u>7,986,282</u>
Total revenues	<u>\$35,753,542</u>
Expenses:	
Residential facilities	\$ 7,667,388
Dining operations	10,659,087
Athletics	4,016,350
Other auxiliary activities	<u>9,706,474</u>
Total expenses	<u>\$32,049,299</u>

9. EXPENSES BY NATURAL CLASSIFICATIONS

	Compensation and Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$36,241,254	\$ 2,431,257	\$ 885,063	\$ -	\$2,008,796	\$ -	\$ 41,566,370
Research	88,407	46,867	-	-	27,510	-	162,784
Public service	1,333,143	1,671,146	-	-	64,858	-	3,069,147
Academic support	5,842,085	879,666	16,006	64	848,803	-	7,586,624
Student services	2,846,594	640,980	92,941	-	60,580	-	3,641,095
Institutional support	8,974,981	1,937,758	-	-	918,512	-	11,831,251
Operation and main- tenance of plant	3,779,813	2,689,826	-	209,934	524,458	-	7,204,031
Depreciation expense	-	-	-	-	-	4,959,635	4,959,635
Scholarship and related expenses	-	-	1,463,425	-	-	-	1,463,425
Auxiliary activities	<u>8,294,978</u>	<u>19,950,339</u>	<u>970,703</u>	<u>1,465,557</u>	<u>1,367,722</u>	<u>-</u>	<u>32,049,299</u>
Total	<u>\$67,401,255</u>	<u>\$30,247,839</u>	<u>\$3,428,138</u>	<u>\$1,675,555</u>	<u>\$5,821,239</u>	<u>\$4,959,635</u>	<u>\$113,533,661</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 4:	
Educational and general programs	\$36,540,490
Student financial assistance	4,707,401
Supplemental adjustments:	
Virtual Library of Virginia allocation	15,365
Eminent scholars	44,565
Central Appropriation Transfers:	
Salary increases and regrades	112,433
Health insurance premium increase	326,838
VSDP rate change	96,083
Retirement plan adjustment to Central Appropriation	(27,307)
Retiree health credit and group life adjustments to Central Appropriation	(168,157)
Military tuition waivers	13,996
Reversion to the General Fund of the Commonwealth	<u>(74,349)</u>
Adjusted appropriation	<u>\$41,587,358</u>

11. COMMITMENTS

At June 30, 2005, the University was a party to construction and other contracts totaling approximately \$21,534,710 of which \$19,579,922 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 \$664,088 for the year ended June 30, 2005.

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

Year Ending <u>June 30,</u>	Operating Lease <u>Obligation</u>
2006	\$671,429
2007	<u>18,757</u>
Total	<u>\$690,186</u>

12. RETIREMENT PLANS

A. 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, 2004. 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 \$2,734,709 for the year ended June 30, 2005. These contributions included the five percent employee contribution assumed by the employer. Contributions to VRS were calculated using the base salary amount of approximately \$29,305,084 for fiscal year 2005. The University's total payroll was approximately \$55,746,456 for the year ended June 30, 2005.

B. 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 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 \$1,604,269 for year ended June 30, 2005. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$15,425,666 for fiscal year 2005.

C. 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 \$285,046 for the fiscal year 2005.

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, 2005, 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, 2005:

Current receivables:

Receivable in less than one year, net of discount \$138,488	\$ 788,265
Less: Allowance for doubtful accounts	<u>4,397</u>
Net current contributions receivable	<u>783,868</u>

Noncurrent receivables:

Receivable in one to five years, net of discount \$291,520	1,658,820
Less: Allowance for doubtful accounts	9,255
Receivable greater than five years, net of discount \$149,440	850,560
Less: Allowance for doubtful accounts	<u>4,744</u>
Net noncurrent contributions receivable	<u>2,495,381</u>
Total contributions receivable	<u>\$3,279,249</u>

The discount rate in 2005 was six percent. As of June 30, 2005, there were no conditional promises to give.

B. Investments

Investments are comprised of the following as of June 30, 2005:

Short-term investments:	
Cash and cash equivalents	\$ 450,705
Certificates of deposit	564,288
Equities	2,042,262
Mutual funds	<u>19,909,973</u>
Total short-term investments	<u>22,967,228</u>
Long-term investments:	
Investment company	520,886
Real estate	<u>233,487</u>
Total long-term investments	<u>754,373</u>
Total investments	<u>\$23,721,601</u>

C. Capital Assets

A summary of land, buildings, and equipment at cost, less accumulated depreciation, for the year ending June 30, 2005, is presented as follows:

Depreciable capital assets:	
Buildings	\$15,291,618
Furniture and equipment	377,213
Vehicles	353,185
Land improvements	<u>171,216</u>
Total depreciable capital assets, at cost	<u>16,193,232</u>
Less: Accumulated depreciation	<u>1,776,599</u>
Total depreciable capital assets, net of accumulated depreciation	<u>14,416,633</u>
Nondepreciable capital assets:	
Land	1,738,681
Construction-in-progress	135,797
Collections of art	<u>2,137,531</u>
Total nondepreciable capital assets	<u>4,012,009</u>
Total capital assets, net of accumulated depreciation	<u>\$18,428,642</u>

D. Long-term Debt Payable

The following is a summary of outstanding notes payable at June 30, 2005:

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	\$1,148,292
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	724,109
Note payable to Henry T. Charlton due in monthly payments of \$1,099 including interest at 6.5% through December 2011, secured by Deed of Trust on real estate	69,787
Note payable to Edward C. Savage due in monthly payments of \$2,882 including interest at 2.4% beginning January 1, 2004, unsecured	50,866
Note payable to Chrysler Financial due in monthly installments of \$511 including interest at 7% beginning February 26, 2004 with a final payment of \$28,582 due January 2008, secured by vehicles	<u>51,859</u>
Total long-term debt	<u>\$2,044,913</u>

The annual maturities of notes payable for each of the five years and thereafter as of June 30, 2005, are as follows:

2006	\$ 191,471
2007	184,387
2008	200,736
2009	177,121
2010	187,865
2011 and later years	<u>1,103,533</u>
Total notes payable	<u>\$2,044,913</u>

RADFORD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES, EXPENSES,
AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Dining Services	Residential Facilities	Health Services	Phone Services
Operating revenues:				
Student fees	\$ 6,092,900	\$ 7,894,036	\$ 1,319,419	\$ 432,263
Sales and services	1,975,383	220,789	1,293	159,972
Parking fines and fees	-	-	-	-
Commissions	2,025,123	-	-	176
Total operating revenues per SRECNA	10,093,406	8,114,825	1,320,712	592,411
Add back items netted on SRECNA:				
Scholarship allowances	1,075,859	1,289,729	212,011	67,880
Total operating revenues	11,169,265	9,404,554	1,532,723	660,291
Operating expenses:				
Compensation and benefits	(74,895)	2,478,135	105,868	161,378
Services and supplies	10,210,845	2,719,057	1,024,460	424,851
Scholarships and fellowships	-	699,171	-	-
Utilities	291,034	897,547	-	-
Plant and equipment	232,103	873,478	5,100	12,043
Total operating expenses per SRECNA	10,659,087	7,667,388	1,135,428	598,272
Add back items netted on SRECNA:				
Scholarship allowances	-	494,341	-	-
Total operating expenses	10,659,087	8,161,729	1,135,428	598,272
Net income/(loss) from operations	510,178	1,242,825	397,295	62,019
Nonoperating revenues:				
Investment income	-	-	-	-
Net income before transfers	510,178	1,242,825	397,295	62,019
Mandatory transfers:				
Debt service	-	(136,241)	-	-
Nonmandatory transfers:				
Renewals and replacements	(250,454)	(3,000,000)	(196,998)	(30,752)
Restricted	-	2,464	3,696	-
Net increase/(decrease) for the year	\$ 259,724	\$ (1,890,952)	\$ 203,993	\$ 31,267
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
\$ 1,510,236	\$ 5,042,808	\$ 4,356,486	\$ 787,762	\$ 331,350	\$ 27,767,260
40,377	538,758	411,523	188,806	2,001,562	5,538,463
-	-	-	-	422,520	422,520
-	-	-	-	-	2,025,299
1,550,613	5,581,566	4,768,009	976,568	2,755,432	35,753,542
242,696	910,343	702,981	127,392	48,353	4,677,244
1,793,309	6,491,909	5,470,990	1,103,960	2,803,785	40,430,786
855,860	1,206,100	1,944,147	147,043	1,471,342	8,294,978
232,171	1,032,886	1,734,765	791,607	1,779,697	19,950,339
-	-	270,532	1,000	-	970,703
53,140	177,751	-	-	46,085	1,465,557
56,791	69,886	66,906	42,038	9,377	1,367,722
1,197,962	2,486,623	4,016,350	981,688	3,306,501	32,049,299
-	-	1,066,841	-	-	1,561,182
1,197,962	2,486,623	5,083,191	981,688	3,306,501	33,610,481
595,347	4,005,286	387,799	122,272	(502,716)	6,820,305
-	-	-	-	947,642	947,642
595,347	4,005,286	387,799	122,272	444,926	7,767,947
-	-	-	-	-	(136,241)
(295,201)	(4,000,000)	-	-	(226,595)	(8,000,000)
-	-	-	-	-	6,160
\$ 300,146	\$ 5,286	\$ 387,799	\$ 122,272	\$ 218,331	(362,134)
					11,968,750
					<u>\$ 11,606,616</u>



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

January 16, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

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

The Board of Visitors
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 then ended June 30, 2005. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of the University, which is 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 discretely presented component unit as of June 30, 2005, and the respective changes in financial position and

cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by 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 is presented for the purpose of additional analysis and is not a required part of the financial statements. The Schedule of Auxiliary Enterprises 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. 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 "Review Policies and Procedures of All Collection Points," "Develop Formal Information Technology Security Policies, Standards, and Procedures," "Create a Business Continuity Plan for the Jefferson Machine Room," and "Evaluate and Implement Appropriate Environmental Controls in the Jefferson Machine Room" are described in the section titled "Internal Control 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 no instances of noncompliance or other matters 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 1, 2006.

AUDITOR OF PUBLIC ACCOUNTS

WHC/kva



OFFICE OF THE PRESIDENT
PENELOPE W. KYLE

February 6, 2006

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

Dear Mr. Kucharski:

I would like to thank your staff for meeting with me and members of my staff to discuss the recent audit of the financial statements of Radford University (RU). I appreciate this valuable service you provide to us.

Following is the university's response to each of the internal control findings and recommendations:

Review Policies and Procedures of All Collection Points

RU staff has implemented corrective action on all of the issues relating to procedures observed at collection points. Cash collection points are also being evaluated to determine if some of them can be centralized into the Cashier's Office.

The receivables for Student Media Advertising and Printing Services will be included in the university's accounts receivable report for the quarter ending March 31, 2006. Financial Services will also perform a review to ensure that other areas do not have unreported receivables.

Student Activities' and Business Affairs' staffs are evaluating the security needs of Hurlburt Hall. An appropriate plan to ensure the safety and security of the building's collection points will be developed by July 1, 2006.

Develop Formal Information Technology Policies, Standards, and Procedures

RU's Information Technology (IT) division already has in place written policies that address 8 of the 11 examples listed above. However, all policies are undergoing review and are being updated as needed using the format from the National Institute of Standards & Technology. Recognizing the need to develop and formalize policy and to oversee security awareness education and training, RU hired an Information Security Officer (ISO) in August 2005. The ISO's first priority has been to audit key systems to ensure that they are secure from unauthorized access. As this project is nearing conclusion, the ISO has begun a review of all

IT policies and procedures and compliance with relevant VITA standards with a targeted completion date of July 1, 2006.

Create a Business Continuity Plan for the Jefferson Machine Room

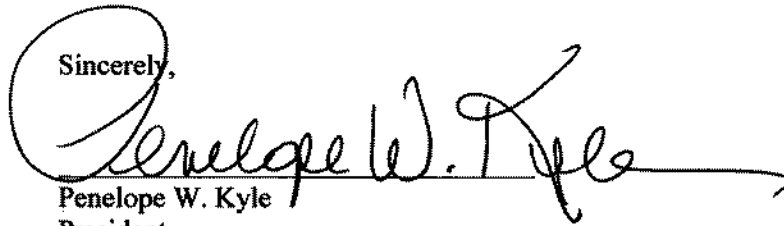
With much of the campus networking equipment located in Jefferson Hall, the university already had recognized that the facility represents a single point of failure in case of a catastrophic disaster. Accordingly, acquiring the necessary equipment to split the load between Jefferson & McConnell Halls has already begun. Options to mitigate this single point of failure issue, including the consideration of both on-campus redundancy and off-campus backup site options will continue to be evaluated. A Business Continuity Plan will be developed. The university plans to demonstrate progress by July 1, 2006.

Evaluate and Implement Appropriate Environmental Controls in the Jefferson Machine Room

Risk factors associated with the Jefferson Hall location and the potential impact if services were to be lost will be re-examined. As noted in the foregoing, the university continues to work toward greater redundancy for the critical services located in the facility, which could mitigate the associated risks. By July 1, 2006, a plan for appropriate action will be developed.

Again, thank you for your recommendations for the benefit of Radford University.

Sincerely,



Penelope W. Kyle
President

RADFORD UNIVERSITY

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