

**NORFOLK STATE UNIVERSITY
NORFOLK, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 1999**

***AUDITOR OF
PUBLIC
ACCOUNTS***



COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Norfolk State University for the year ended June 30, 1999, found:

- the accompanying financial statements present fairly, in all material respects, the University's financial position as of June 30, 1999, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

Implementation of Student Information System

The University completed the new student information system (Colleague) in the fall of 1999. Individual system modules include Admissions, Registration, Financial Aid, Accounts Receivable, and Residence Life. This new client-server system replaced the student portion of the old system, which the University maintains for its financial accounting.

Because of the short implementation period (approximately 6 months), the Office of Information Technology did not complete documentation of policies and procedures for security over the new system before implementation. The University has addressed many internal control issues and security requirements during and after implementation. Management must continue to address these issues and document the policies and procedures. These policies and procedures provide essential information for user reference, efficiency of operations, complete and accurate data, and adequate system security.

We performed security tests of the Unix operating system that supports the new student system. We noted several deficiencies concerning a lack of security over the operating system. The University should develop policies and procedures as mentioned above to address these issues. We include these findings in the section entitled "Internal Control and Compliance Findings and Recommendations."

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May 15, 2000

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit and Review Commission

Board of Visitors
Norfolk State University

We have audited the accounts and records of **Norfolk State University** as of and for the year ended June 30, 1999, and submit herewith our complete reports on financial statements and on compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Norfolk State University as of June 30, 1999, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norfolk State University as of June 30, 1999, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements of Norfolk State University taken as a whole. The accompanying “Schedule of Operations – Auxiliary Enterprises” is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion; such information is fairly presented in all material respects, in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Norfolk State University as of and for the year ended June 30, 1999, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 are described in the section entitled, “Internal Control and Compliance Findings and Recommendations.”

A material weakness is a 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 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.

Status of Prior Findings

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

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 19, 2000.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Develop and Document Information Systems Security Policies and Procedures

Management has not updated its organization-wide information system security and access policies and procedures for the new Student Information System (SIS). The University completed implementation of this new client-server system in the fall of 1999. The University has addressed many internal control issues and security requirements during and subsequent to implementation of the SIS. However, as of May 2000, management still has not completed formal policies and procedures documenting controls and security requirements over the system.

Adequate security is fundamental for University departments to operate their systems and share appropriate data in the client-server environment. Limiting access to critical data provides essential internal controls over automated systems. At a minimum, policies and procedures for security and access should include the following.

- Organization-wide policies and procedures relating to information system security and access
- Authentication and access controls for individual systems
- Security of online access to data
- User account management procedures
- Security software change control procedures
- Management review of violation and activity reports
- An owner responsible for security and content for all system resources
- Preventive and detective control measures with respect to computer viruses

Documented policies and procedures would provide direction and control over information system security along with user security requirements for consistency. The new system will interact with other existing systems and will require a security plan providing centralized direction and control over all information systems.

Improve Security over the SIS's Operating System

We reviewed security over the Unix operating system that supports the new student information system (SIS). Our findings include several deficiencies concerning a lack of security over this operating system.

- Users can access the SIS with a minimum password length of one character. The system does not force the end user to change passwords after initial logon. This means a user could have a one-character password that never changes and could easily access the system from the world readable password file. The University should develop and enforce policies and procedures to include a minimum length and forced change of passwords.

- End users have a FrontView Terminal icon on their desktop computers. The icon provides Unix command line access using the same user ID and password used to gain access to the SIS application. Once an end user has command line access they have the ability to compromise security. The University should remove the FrontView Terminal icon from all end user computers that do not require this access.
- The Cron.allow file does not exist and the Cron.deny file is empty. This allows anyone to create a crontab file and increases the chances of automatic execution of unauthorized programs. If Cron.allow does not exist, Cron.deny must not be empty.

Management has begun to correct these deficiencies. As noted in the previous comment, they must develop policies and procedures to address security over this operating system.

Follow System Back-up Procedures

The University does not follow its data back-up procedures for the new Student Information System, Colleague. The procedures require storing of back-up tapes off-site in the Technology Building and recycling of end of month tapes every sixty days. The University did not store back-up tapes at an off-site location and end of month tapes were recycled every thirty days. The University should adhere to its written policy to ensure adequate support of student data in case of system failures.

Enforce Policies and Procedures for the Small Purchase Charge Card

The University has not followed its policies and procedures over the use of Small Purchase Charge Cards. Testwork for the month of October revealed the following:

- Thirty-seven cardholders did not perform reconciliations of purchases to the billing statements. University policy requires each cardholder to reconcile charge card statements and submit the reconciliation to Accounts Payable within two workdays after receipt of the monthly charge card statement.
- Five of six employees tested could not provide support for Small Purchase Credit Card purchases. University policy requires cardholders to keep all documentation for purchases. Documentation includes sales receipt, packing slip, and receiving report, and a reconciliation to the monthly charge card statement.

The University should enforce its policies and procedures relating to the use of Small Purchase Charge Cards. The Materiel Management department should monitor procedures to ensure that each cardholder performs a proper reconciliation and maintains all documentation to support the reconciliation.

Enforce Collection Procedures Regarding Perkins Loan Fund Program

The University did not actively pursue collection for Perkins Loan fund borrowers entering repayment status. As a result, the University's Perkins Cohort Default Rate for the year increased from 14.5 percent to 52.21 percent, approximately 38 percent. This high default rate precludes the University from receiving additional Federal Capital Contributions. Federal regulations also require institutions with default rates exceeding 15 percent to submit a Default Reduction Plan to the Department of Education. The University has not submitted this required plan.

The University should enforce its collection procedures for Perkins Loans and submit a Default Reduction Plan. Reducing the default rate will enable the University to meet the state's accounts receivable management standard and receive future Federal Capital Contributions.

FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY
BALANCE SHEET
As of June 30, 1999

	Current Funds		
	Unrestricted	Restricted	Loan Funds
A S S E T S			
Cash, including temporary investments (Note 4)	\$ 3,558,891	\$ 295,888	\$ 513,040
Appropriations available	3,177,098	-	-
Investments with the Treasurer of Virginia (Note 4)	130,104	-	-
Investments (Note 4)	55,692	-	-
Accounts receivable (Net of allowance for doubtful accounts of \$690,835)	961,859	986,750	23,298
Notes receivable (Net of allowance for doubtful accounts of \$2,226,455)	-	-	1,479,057
Inventories	4,967	-	-
Prepaid expenses	17,233	2,670	-
Land	-	-	-
Buildings	-	-	-
Improvements	-	-	-
Equipment	-	-	-
Library books	-	-	-
Construction in progress	-	-	-
Total assets	\$ 7,905,844	\$ 1,285,308	\$ 2,015,395
LIABILITIES AND FUND BALANCES			
Accounts payable and accrued liabilities	\$ 2,474,260	\$ 463,314	\$ 1,017
Obligations under Securities Lending Program	130,104	-	-
Accrued leave (Note 1G)	2,692,933	232,421	-
Deposits and deferred revenue	561,108	-	1,250
Credit balances - student accounts	334,558	-	-
Retainage payable	-	-	-
Treasury loans payable (Note 6)	3,040,308		
Note payable (Note 5)	-	-	-
Bonds payable (Note 5)	-	-	-
Leases payable (Note 5)	-	-	-
Funds held in custody for others	-	-	-
Fund balances (deficits):			
Unrestricted current funds (Note 9)	(1,327,427)	-	-
Restricted current funds	-	589,573	-
Loan funds, U.S. Government grants	-	-	1,376,985
Loan funds, University - Restricted	-	-	636,143
Unexpended - Unrestricted	-	-	-
Renewals and replacements - Restricted	-	-	-
Renewals and replacements - Unrestricted	-	-	-
Retirement of indebtedness - Restricted	-	-	-
Net investment in plant - Unrestricted	-	-	-
Total liabilities and fund balances	\$ 7,905,844	\$ 1,285,308	\$ 2,015,395

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

Unexpended	Plant Funds			Agency Funds	Total (Memorandum Only)
	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		
\$ 374,579	\$ 922,214	\$ 1,325	\$ -	\$ 481,179	\$ 6,147,116
884,166	-	-	-	-	4,061,264
-	-	-	-	-	130,104
-	407,000	390,040	-	-	852,732
-	-	-	-	-	1,971,907
-	11,798	-	-	5,197	1,496,052
-	-	-	-	-	4,967
-	-	-	-	-	19,903
-	-	-	3,252,532	-	3,252,532
-	-	-	78,218,203	-	78,218,203
-	-	-	29,099,731	-	29,099,731
-	-	-	18,200,267	-	18,200,267
-	-	-	5,932,395	-	5,932,395
-	-	-	723,391	-	723,391
<u>\$ 1,258,745</u>	<u>\$ 1,341,012</u>	<u>\$ 391,365</u>	<u>\$ 135,426,519</u>	<u>\$ 486,376</u>	<u>\$ 150,110,564</u>

\$ 64,801	\$ -	\$ -	\$ -	\$ 25,206	\$ 3,028,598
-	-	-	-	-	130,104
-	-	-	-	-	2,925,354
-	-	-	-	-	562,358
-	-	-	-	-	334,558
53,301	-	-	-	-	53,301
-	-	-	-	-	3,040,308
-	-	-	3,029,328	-	3,029,328
-	-	-	23,355,079	-	23,355,079
-	-	-	1,816,939	-	1,816,939
-	-	-	-	461,170	461,170
-	-	-	-	-	(1,327,427)
-	-	-	-	-	589,573
-	-	-	-	-	1,376,985
-	-	-	-	-	636,143
1,140,643	-	-	-	-	1,140,643
-	407,000	-	-	-	407,000
-	934,012	-	-	-	934,012
-	-	391,365	-	-	391,365
-	-	-	107,225,173	-	107,225,173
<u>\$ 1,258,745</u>	<u>\$ 1,341,012</u>	<u>\$ 391,365</u>	<u>\$ 135,426,519</u>	<u>\$ 486,376</u>	<u>\$ 150,110,564</u>

NORFOLK STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1999

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenues	\$ 71,421,251	\$ -	\$ -
State appropriation - Restricted	-	4,005,446	-
Federal grants and contracts - Restricted	-	38,339,606	21,130
State grants and contracts - Restricted	-	1,407,614	-
Local grants and contracts - Restricted	-	48,204	-
Private gifts, grants and contracts - Restricted	-	264,995	193
Investment income - Restricted	-	-	9,049
Interest on loans receivable	-	-	53,101
Collection fees			22,039
Expended for plant facilities (Including \$1,779,824 charged to current funds)	-	-	-
Retirement of indebtedness (Including \$18,442 charged to current funds)	-	-	-
Other sources	-	96,310	53,257
Total revenues and other additions	71,421,251	44,162,175	158,769
Expenditures and other deductions:			
Educational and general expenditures	47,989,762	43,527,694	-
Auxiliary enterprises expenditures	13,287,512	153,424	-
Indirect cost recovered	-	550,008	-
Loan cancellations, assignments and write-offs	-	-	104,992
Administrative and collection costs	-	-	26,884
Expended for plant facilities (Including \$432,520 not capitalized)	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Other deductions	-	-	590
Refunded to grantors	-	820	1,017
Total expenditures and other deductions	61,277,274	44,231,946	133,483
Transfers among funds - additions/(deductions):			
Mandatory:			
Debt service	(2,854,297)	-	-
Nonmandatory - (To)/From other funds	(814,813)	6,977	-
Total transfers among funds	(3,669,110)	6,977	-
Net increase (decrease) for the year	6,474,867	(62,794)	25,286
Fund balances (deficits) at July 1, 1998, as restated (Note 3)	(7,802,294)	652,367	1,987,842
Fund balances (deficits) at June 30, 1999	\$ (1,327,427)	\$ 589,573	\$ 2,013,128

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

Plant Funds			
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -
754,461	587,357	530,530	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	2,293	-
-	-	-	-
-	-	-	2,660,178
-	-	-	2,004,297
-	-	-	-
754,461	587,357	532,823	4,664,475
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
813,868	499,006	-	-
-	-	1,985,855	-
-	-	1,405,791	-
-	-	-	-
-	-	-	-
813,868	499,006	3,391,646	-
-	-	2,854,297	-
539,329	268,507	-	-
539,329	268,507	2,854,297	-
479,922	356,858	(4,526)	4,664,475
660,721	984,154	395,891	102,560,698
\$ 1,140,643	\$ 1,341,012	\$ 391,365	\$ 107,225,173

NORFOLK STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 1999

	Current Funds		Total
	Unrestricted	Restricted	
Revenues:			
Tuition and fees	\$ 19,957,947	\$ -	\$ 19,957,947
State appropriations (Note 10)	31,444,760	3,893,960	35,338,720
Federal grants and contracts	507,118	38,095,888	38,603,006
State grants and contracts	24,914	1,489,739	1,514,653
Local grants and contracts	-	22,310	22,310
Private gifts, grants and contracts	17,976	179,221	197,197
Sales and services of auxiliary enterprises	18,414,275	-	18,414,275
Investment income	7,368	-	-
Unrealized gain on investments	3,991	-	3,991
Other sources	1,042,902	-	1,042,902
Total current revenues	71,421,251	43,681,118	115,102,369
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	24,310,986	1,624,585	25,935,571
Research	402,656	3,046,908	3,449,564
Public service	381,655	1,155,994	1,537,649
Academic support	3,140,144	2,448,268	5,588,412
Student services	3,532,341	894,837	4,427,178
Institutional support	10,625,270	153,448	10,778,718
Operation and maintenance of plant	5,093,744	8,666	5,102,410
Scholarships and fellowships	502,966	34,194,988	34,697,954
Educational and general expenditures	47,989,762	43,527,694	91,517,456
Mandatory transfer for debt service	41,676	-	41,676
Total educational and general	48,031,438	43,527,694	91,559,132
Auxiliary enterprises:			
Operating expenditures	13,287,512	153,424	13,440,936
Mandatory transfers for debt service	2,812,621	-	2,812,621
Total auxiliary enterprises	16,100,133	153,424	16,253,557
Total expenditures and mandatory transfers	64,131,571	43,681,118	107,812,689
Other transfers and deductions:			
Deficiency of restricted receipts			
under transfers to revenue	-	(68,951)	(68,951)
Refunded to grantors	-	(820)	(820)
Nonmandatory transfers to other funds	(814,813)	6,977	(807,836)
Net increase/(decrease) in fund balances	\$ 6,474,867	\$ (62,794)	\$ 6,412,073

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

NOTES TO FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Norfolk State University have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the university are as follows:

A. Reporting Entity

Norfolk State University is an institution of higher education and operates under policy guidelines established by the State Council of Higher Education in Virginia and is governed by a Board of Visitors.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, 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.

B. Basis of Accounting

The University utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants' audit guide, Audits of Colleges and Universities. The accompanying financial statements include no provision for the depreciation of plant assets.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds that may be used for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to state laws and regulations governing such funds.

Unrestricted revenue is accounted for in the Unrestricted Current Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purposes indicated by the donor or grantor; whereas unrestricted funds are available for current operations at the discretion of the University.

Loan Funds - Loan funds represent funds that are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Plant Funds - Plant funds are divided into four groups: Unexpended, Renewals and Replacements, Retirement of Indebtedness, and Net Investment in Plant. Unexpended plant funds represent funds that are specified by external sources or are designated by the Board of Visitors for the acquisition and construction of physical properties. Renewal and Replacement funds represent funds for the renovation and replacement of physical properties. The Retirement of Indebtedness fund includes resources held for the retirement of both principal and interest on debt and sinking funds established under bond indentures. Net Investment in Plant represents the capitalized value of physical property owned by the University, less associated long-term debt.

Agency Funds - Agency Funds reflects funds held in trust by the University.

D. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out basis) or market. The inventory held by the University consists of expendable supplies held for consumption.

E. Interfund Obligations

Interfund obligations represent the temporary use of current funds pending reimbursement of expenditures among funds.

F. Net Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in Net Investment in Plant. Expenditures for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is greater than \$5,000 and the estimated useful life is two years or more. Library acquisitions are capitalized using average cost per volume that approximates historical cost. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and (3) transfers of a nonmandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the University.

G. Accrued Leave

Accrued leave reflected in the accompanying financial statements represents the amount of vacation, sick, and compensatory leave earned by employees of the University as of June 30, 1999. The amount represents all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave payout policy upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

H. Deferred Revenue

Deferred revenue represents moneys received but not earned as of June 30, 1999. In the Current Unrestricted funds, deferred revenue represents student tuition and fees received in advance of the academic term.

I. Total columns

Total columns on the financial statements are captioned "Total – Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities, and fund balances of the Norfolk State University Foundation, Inc. and the Athletic Foundation of Norfolk State University, Inc. The independent certified public accountants had not completed their audit of the Norfolk State University Foundation, Inc. for the year ended June 30, 1999; however, unaudited data is presented. The Athletic Foundation of Norfolk State University, Inc. was audited for the year ended June 30, 1999, by independent certified public accountants.

The following is a condensed summary of the audited financial position of the Athletic Foundation of Norfolk State University, Inc. and a summary of the unaudited financial position of Norfolk State University Foundation, Inc.

	Norfolk State Athletic Foundation <u>at June 30, 1999</u>	Norfolk State University Foundation <u>at June 30, 1999</u>
Assets	\$370,287	\$7,432,608
Liabilities	<u>-</u>	<u>260,844</u>
Total assets and liabilities	<u>\$370,287</u>	<u>\$7,171,764</u>
Fund balance	<u>\$370,287</u>	<u>\$7,171,764</u>

The aggregated revenues and expenditures of these organizations were \$1,744,631 and \$1,501,490, respectively.

3. CASH AND INVESTMENTS

All state funds of the University are held by the Treasurer of Virginia, pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying balance sheet and is not categorized as to credit risk. Certain deposits are also held by the University. Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Under this Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits.

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

The University's investments are categorized on the following page to give an indication of the level of credit risk assumed by the University at June 30, 1999. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 would include uninsured or unregistered investments for which the securities are held by the broker or dealer's trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. The composition and categorization of investments held by the University at June 30, 1999, is as follows:

<u>Temporary Investments</u>	<u>Fair Value</u>
Category 3:	
Repurchase agreement	\$1,004,153
Noncategorized:	
Money market	<u>619,329</u>
Total temporary investments	<u>\$1,623,482</u>

<u>Investments</u>	
Category 1:	
Repurchase agreement	<u>\$ 852,732</u>

	<u>Temporary Investments</u>	<u>Investments</u>
Current Funds:		
Unrestricted	\$ 951,565	\$ 55,692
Restricted	991	-
Loan Funds	208,461	-
Plant Funds:		
Renewals and replacements	-	407,000
Retirement of indebtedness	-	390,040
Agency Funds	<u>462,465</u>	<u>-</u>
Total	<u>\$1,623,482</u>	<u>\$852,732</u>

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

4. LONG-TERM DEBT

A summary of changes in long-term indebtedness follows:

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1999</u>
Notes payable	\$ 3,135,022	\$ -	\$ 105,694	\$ 3,029,328
Bonds payable	24,771,745	-	1,416,666	23,355,079
Lease purchases	<u>2,298,876</u>	<u>-</u>	<u>481,937</u>	<u>1,816,939</u>
Total	<u>\$30,205,643</u>	<u>\$ -</u>	<u>\$2,004,297</u>	<u>\$28,201,346</u>

Long-term debt of the University at June 30, 1999, consists of the following:

Notes Payable

Norfolk State University Dormitory Revenue Note Series 1982, issued \$4,300,000, (reduced to \$3,912,000 in April 1985, due to early extinguishment of \$388,000), payable in semiannual installments varying from \$89,888 to \$167,988 with interest of 3 percent payable semiannually; the final installment of \$85,889 due in 2022.

Until the principal of and interest on this note are paid in full, the University is also required, upon completion of the project, to establish from such revenues and maintain a debt service reserve equal to \$174,400, accumulated at the rate of at least \$21,800 semiannually, and once the debt service reserve has been fully funded an equipment reserve equal to \$141,000, accumulated at the rate of \$14,100 per year, and a repairs reserve equal to \$266,000, accumulated at a rate not to exceed \$26,600 per year.

\$ 2,837,808

The University acquired the deed of bargain and sale from the City of Norfolk for the Brambleton Center in consideration of 6 full scholarships for the benefit of Norfolk residents. Scholarships payable each year vary from \$4,953 to \$16,998 with the final payment due in 2019.

191,520

Total notes payable

\$ 3,029,328

Bonds Payable

East Campus Cafeteria Revenue Bonds Series 1991A, issued \$4,055,000 (reduced to \$1,655,000 in December 1993 due to refinancing and reduced to \$1,440,000 in January 1996 due to refinancing), balance payable in annual installments varying from \$180,000 to \$200,000 with interest of 5.9 percent to 6.2 percent payable semiannually, the final installment of \$200,000 due in 2002.

\$ 570,000

Residence Halls Revenue Bonds Series 1991A, issued \$9,320,000 (reduced to \$3,810,000 in December 1993 due to refinancing and reduced to \$3,320,000 in January 1996 due to refinancing), balance payable in annual installments varying from \$410,000 to \$460,000 with interest of 5.9 percent to 6.2 percent payable semiannually, the final installment of \$460,000 due in 2002.

1,305,000

Health and ROTC Buildings Refunded Bonds, dated 1993, issued for \$505,820, balance payable in annual installments varying from \$414 to \$240,414 with interest of 4.5 percent to 4.9 percent payable semiannually, the final installment of \$240,414 due in 2004.

242,069

Health and ROTC Building Refunding Bonds, Series 1993B issued for \$1,218,578, balance payable in annual installments varying from \$190,838 to \$210,280 with interest of 4.2 percent to 4.5 percent payable semiannually, the final installment of \$210,280 due in 2003.

800,297

Student Housing - Residence Hall Refunding Bonds, Series 1993B issued for \$2,668,285, balance payable in annual installments varying from \$22,203 to \$338,411 with interest of 4.2 percent to 5 percent payable semiannually, the final installment of \$338,411 due in 2010.	2,566,969
Residence Hall Refunding Bonds Series 1993B, issued for \$5,813,068, balance payable in annual installments varying from \$44,731 to \$794,238 with interest of 4.2 percent to 5 percent payable semiannually, the final installment of \$794,238 due in 2011.	5,610,465
East Campus Cafeteria Refunding Bonds, Series 1993B, issued for \$2,530,106, balance payable in annual installments varying from \$19,463 to \$348,092 with interest of 4.2 percent to 5 percent payable semiannually, the final installment of \$348,092 due in 2011.	2,441,953
East Campus Dormitory Refunding Bonds, Series 1996, issued for \$402,484.50, balance payable in annual installments varying from \$190,059 to \$196,686 with interest of 4.75 percent payable semiannually, the final installment of \$196,686 due in 2001.	386,745
Student Housing - Residence Hall Refunding Bonds, Series 1996 issued for \$523,429, balance payable in annual installments varying from \$4,399 to \$495,278 with interest of 4.75 percent payable semiannually, the final installment of \$495,278 due in 2003.	508,474
East Campus Cafeteria Refunding Bonds, Series 1996, issued for \$229,668, balance payable in annual installments varying from \$1,930 to \$217,316 with interest of 4.75 percent payable semiannually, the final installment of \$217,316 due in 2003.	223,107
Athletic Facility - General Revenue Pledge Bonds 9(d) dated 1996, issued for \$9,260,000, balance payable in semiannual installments varying from \$295,000 to \$690,000 with interest of 3.95 percent to 5.375 percent payable semiannually, the final installment of \$690,000 due in 2018.	<u>8,700,000</u>
Total bonds payable	<u>\$23,355,079</u>

Leases Payable

The University has entered into lease agreements with the Virginia College Building Authority (VCBA). The agreements are payable over a five-year period with interest of 4.1 percent to 5 percent payable semiannually. The principal outstanding totaled \$1,816,939. Under the terms of the leases, the University is authorized to purchase equipment from an approved list of equipment items in an amount not to exceed the principal amount of the leases. Payment for such purchases are to be reimbursed to the University or directly paid by the VCBA from the VCBA Equipment Trust Fund financed from proceeds of bonds issued by the VCBA for such purpose. The General Assembly has appropriated, from the General Fund of the Commonwealth, an amount sufficient to repay principal and interest requirements under the leases.

At June 30, 1999, the University had purchased equipment totaling \$6,899,963 under the lease agreements.

Total leases payable	<u>\$ 1,816,939</u>
Total Long-Term Indebtedness	<u>\$28,201,346</u>

A summary of future requirements of long-term debt as of June 30, 1999, follows:

<u>Year Ending June 30,</u>	<u>Notes and Bonds</u>	<u>Capital Leases</u>	<u>Total</u>
2000	\$ 2,709,916	\$ 564,443	\$ 3,274,359
2001	2,714,854	606,618	3,321,472
2002	2,697,912	564,030	3,261,942
2003	2,706,490	277,636	2,984,126
2004	2,727,332	-	2,727,332
Later Years	<u>24,116,797</u>	<u>-</u>	<u>24,116,797</u>
Total	\$37,673,301	\$2,012,727	\$39,686,028
Less interest	<u>(11,288,894)</u>	<u>(195,788)</u>	<u>(11,484,682)</u>
Net	<u>\$26,384,407</u>	<u>\$1,816,939</u>	<u>\$28,201,346</u>

5. TREASURY LOANS PAYABLE

Deficit loan

The University incurred a deficit for the year ended June 30, 1998 in its operating funds. The Governor authorized a deficit loan totaling \$4,098,979 to be paid from the General Fund of the Commonwealth to meet the University's current financial obligations and commitments during fiscal year 1998. Management has submitted a plan to eliminate the existing deficit and prevent future deficits pursuant to Section 4-3.02 Acts of Assembly. At June 30, 1999, the outstanding loan balance totaled \$3,040,308. This balance is payable in annual installments of \$760,077 with the final payment due in 2003.

6. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal years 1994 and 1996, certain 1990B and 1991A General Obligation Bonds were defeased by the University. The net proceeds from the sale of those bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 1999, the following amounts of the defeased bonds were outstanding:

1990 Series B	\$ 2,830,000
1991 Series A	<u>8,240,000</u>
Total	<u>\$11,070,000</u>

7. COMMITMENTS

At June 30, 1999, the University was committed to construction contracts totaling approximately \$1,179,603. Construction in progress on these contracts totaled \$723,391 at June 30, 1999.

The University is a party to several operating lease agreements for a period of one year, which generally have renewal options. Rental expense under operating leases was \$641,745 for the year ended June 30, 1999. Commitments for subsequent fiscal years are as follows:

Year Ending <u>June 30,</u>	
2000	\$ 445,904
2001	383,673
2002	307,888
2003	287,834
2004	288,703
Later Years	<u>4,032,118</u>
Total	<u>\$5,746,120</u>

8. DEFICIT FUND BALANCE - CURRENT UNRESTRICTED FUNDS

The deficit fund balance in the University's Current Unrestricted Fund resulted from accruals for lag pay and leave liability. Operating deficits in Residential Services, Security, Athletics, and Printing Services auxiliaries also contributed to the deficit fund balance.

9. STATE APPROPRIATIONS - CURRENT UNRESTRICTED FUNDS

The Appropriation Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the 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 disbursement.

During the year ended June 30, 1999, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the Appropriation Act of 1999, Chapter 935, Acts of Assembly.

Original Appropriation (Revised Act)	\$31,435,404
Adjustments:	
Increase in equipment trust fund payment	206,891
Equipment trust fund payment	(530,530)
New human resource information system	(40,638)

Personnel savings	(251,601)
Health insurance premium	203,208
Salary regrade funding	140,943
Payment from Manville property damage settlement trust	351
Computer processor equipment	300,000
Premium payments for retiree health care credit	<u>(19,268)</u>
Adjusted appropriation	<u>\$31,444,760</u>

10. STATE STUDENT LOAN FUND

The University makes loans to qualified students from its Commonwealth of Virginia - Student Loan Fund. During the fiscal year, new loans totaling \$67,102 were made to 45 students. At June 30, 1999, total loans outstanding were \$330,239 and the allowance for doubtful accounts was \$103,542. Summarized below is the fund activity of the State Student Loan Fund for the fiscal year ended June 30, 1999:

Beginning fund balance	\$ 276,192
Interest income and collection fees	17,010
Loan write-offs and expenses	<u>(19,862)</u>
Ending fund balance	<u>\$ 273,340</u>

11. RETIREMENT AND PENSION SYSTEMS

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees of the University participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the University, has overall responsibility for contributions to these plans.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed contribution programs where the retirement benefits received are based upon employer contributions of 5.4 percent and employee contributions of 5 percent (all of which are paid by the University) and interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under these plans were \$833,635 in fiscal year 1999. Contributions to other retirement plans were calculated using the base salary totaling \$7,870,560 in fiscal year 1999.

12. 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 service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

13. CONTINGENCIES

The University receives assistance from grantor agencies in the form of grants and contracts for specific purposes that are subject to review and audit by the grantor agencies. Claims against those resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from final settlement may become a liability of the University. As of June 30, 1999, the University estimates that no material liabilities will result from such settlements.

14. SURETY BOND

The employees of the University were covered by a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

SUPPLEMENTARY INFORMATION

NORFOLK STATE UNIVERSITY
SCHEDULE OF OPERATIONS - AUXILIARY ENTERPRISES
For the Year Ended June 30, 1999

	Food Services	Residential Facilities	Student Activities	Student Center	Athletics	Parking
Revenues:						
Student fees	\$ 378,510	\$ -	\$ 1,037,228	\$ 296,935	\$ 5,074,326	\$378,510
Sales and services	3,078,119	4,971,704	66,148	57,274	537,035	358,960
Rental and other income	-	55,163	9,655	-	-	-
Total revenues	3,456,629	5,026,867	1,113,031	354,209	5,611,361	737,470
Expenses of operation:						
Personal service	43,370	655,437	29,763	141,776	1,083,319	187,902
Fringe benefits	6,698	159,873	3,152	36,979	204,468	57,106
Contractual services	2,489,179	689,146	375,882	51,073	798,676	39,917
Supplies and materials	30,111	246,871	107,448	23,635	195,568	6,561
Current charges and obligations	121,700	656,890	29,063	66,280	32,181	4,250
Equipment	63,830	58,766	42,606	60	11,227	1,985
Scholarships and fellowships	-	597,286	139,753	-	1,404,821	-
Auxiliary administration expense	22,935	407,609	96,632	42,540	492,520	55,366
Total expenses of operation	2,777,823	3,471,878	824,299	362,343	4,222,780	353,087
Excess (deficiency) of revenues over (under) expenses of operation before transfers	678,806	1,554,989	288,732	(8,134)	1,388,581	384,383
Transfers:						
Mandatory:						
Debt service and sinking fund	(364,351)	(1,489,388)	-	-	(958,882)	-
Nonmandatory - (To)/From other funds	-	194,167	23,245	25,571	(458,725)	(237,155)
Net increase (decrease) in fund balances	314,455	259,768	311,977	17,437	(29,026)	147,228
Fund balances at July 1, 1998, as restated (Note 1)	(161,558)	(853,596)	109,884	682,393	(2,175,599)	226,021
Fund balances at June 30, 1999	\$ 152,897	\$ (593,828)	\$ 421,861	\$ 699,830	\$ (2,204,625)	\$373,249

Note 1: Transportation was included as a separate auxiliary in the prior year report but is included in Parking for the current year.

Printing Services	Auxiliary Administration	Contingency Fund	Auxiliary Security	Sports Therapy	Telephone Services	Wilder Center	Contract Administration	Total
\$ -	\$ -	\$ 301,368	\$ 1,012,765	\$ -	\$ -	\$ -	\$ -	\$ 8,479,642
317,705	30,360	-	220	140,014	3,353	1,422	303,380	9,865,694
-	4,121	-	-	-	-	-	-	68,939
317,705	34,481	301,368	1,012,985	140,014	3,353	1,422	303,380	18,414,275
98,754	374,441	-	575,619	38,279	-	-	10,600	3,239,260
59,111	112,466	-	76,576	10,747	-	-	692	727,868
153,584	93,620	-	77,640	5,768	115	-	2,693	4,777,293
1,923	13,871	-	12,975	45	-	-	-	639,008
90,038	-	-	750	2,169	-	-	3,765	1,007,086
1,761	6,883	-	26,629	2,724	-	-	-	216,471
-	-	-	-	-	-	-	-	2,141,860
40,152	(578,422)	-	102,451	7,946	-	-	2,361	692,090
445,323	22,859	-	872,640	67,678	115	-	20,111	13,440,936
(127,618)	11,622	301,368	140,345	72,336	3,238	1,422	283,269	4,973,339
-	-	-	-	-	-	-	-	(2,812,621)
107,975	(11,622)	(235,219)	-	2,325	-	(1,422)	(51,366)	(642,226)
(19,643)	-	66,149	140,345	74,661	3,238	-	231,903	1,518,492
(320,809)	-	818,080	(1,168,186)	258,177	118,760	-	366,207	(2,100,226)
\$ (340,452)	\$ -	\$ 884,229	\$ (1,027,841)	\$ 332,838	\$ 121,998	\$ -	\$ 598,110	\$ (581,734)

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NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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