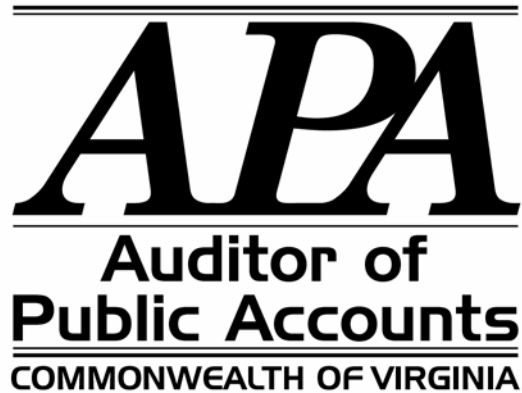


**NORFOLK STATE UNIVERSITY**

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



## **AUDIT SUMMARY**

Our audit of Norfolk State University for the year ended June 30, 2004, found:

- the financial statements are presented fairly, in all material respects;
- 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 or other matters that are required to be reported; and
- the University has not completed corrective action with respect to previously reported findings entitled “Collect and Correct Accounts Receivable” and “Enhance Small Purchase Charge Card Controls.”

- TABLE OF CONTENTS -

AUDIT SUMMARY

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

Notes to Financial Statements

SUPPLEMENTARY INFORMATION:

Schedule of Auxiliary Enterprises Revenues and Expenditures

INDEPENDENT AUDITOR'S REPORTS:

Report on Financial Statements

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

UNIVERSITY RESPONSE

UNIVERSITY OFFICIALS

## INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

### Collect and Correct Accounts Receivable

In response to our previous audit reports addressing the dramatic increase in student accounts receivable, the University changed its business practices over the collection of student accounts. Effective in fall 2004, the University required all students to pay their entire outstanding balances before registering for the current semester. Additionally, students must now pay their current semester balances or have satisfactory payment arrangements by due dates near the beginning of the semester to avoid cancellation of their registration.

Improved business practices and collection procedures have allowed the University to hold outstanding student accounts receivable to less than \$800,000 as of March 2005 for the fall 2004 semester based on billings of approximately \$15 million. Additionally, in fiscal year 2005, the University wrote off all past due student accounts receivable, totaling about \$1.7 million, to improve their ability to focus their collection efforts on keeping current accounts from becoming past due. While the University does not report these accounts on its financial statements, these former students still owe the outstanding balances and the University has placed them with a collection agency to recover some of the funds owed. As the University collects these balances, it should consider how the proceeds are allocated to educational and general or student financial aid accounts.

We believe the University has taken the appropriate steps to change its business practices and has created the appropriate student expectation that continued attendance depends on paying their tuition and fees, either directly or through financial aid. In order for this change to have a long term positive effect, University management must continually enforce its new policies and procedures and continue to have timely collections of new student accounts receivable and resolution of credit balances.

### Document Network Security Policies and Procedures

The University lacks proper formal policies, procedures, and standards concerning network security for various network components, environments, and services. This included proper documentation for routers, firewalls, wireless local area network, and virtual private network.

Documenting policies, procedures, and standard configurations reduces the risk of unauthorized access to critical systems and data. In addition, proper documentation strengthens network security and can provide a rollback plan in the event of a disaster, limited downtime in the event of a disaster or personnel change, proper user accountability, appropriate approval for program change management, and increased management productivity by utilizing University standards.

In response to our recommendations during the audit, the University drafted policies and procedures for their firewall, Virtual Private Network, network administration, and program change management. We recommend the University's Office of Information Technology complete documenting, approving, and implementing policies, procedures, and standard configurations for all network components, services, devices, and systems.

The Office of Information Technology should ensure the documented network standards include allowable services, common access control logs, protocols, rules, and encryption types across the University. Likewise, standard configurations for all University systems should include any allowable services, rules, allowable connection protocols, user access procedures, and access configurations.

Going forward, University administration and the information systems security officer should promptly revise policies, procedures, and standards to coincide with technological and University changes. In addition, the University should monitor the continued appropriateness of policies, procedures, and standard configurations by periodically reviewing and updating its policies and procedures.

#### Continue Enforcing Policies and Procedures for Small Purchase Charge Cards

For fiscal year 2004, 132 University employees purchased various goods and services totaling over \$612,000 using the Small Purchase Charge Card program. While management has improved policies, procedures, and training for the program to ensure that cardholders and supervisors understand state and University guidelines, we found the following specific weaknesses related to the program:

- Four cardholders split their purchases to avoid purchase transaction limits established by University management. Split purchases represent dividing a single purchase into separate multiple purchases because the larger purchase would exceed the individual's transaction limit. In each instance, the cardholder's supervisor did not identify the split charge during their monthly review.
- One employee did not maintain documentation of the purpose of several charges that were not obvious as to the purchase's relationship to the individual's job duties. These questionable purchases included clothing and excessive restaurant charges. While these purchases may have been related to the employee's job duties, without specific identification of the individuals involved at meals or the purpose of the purchase, sufficient documentation would not exist for management to ensure that there is no misuse of the purchasing card.

Management should continue to inform and train cardholders and supervisors of all state and University policies and procedures. The supervisor's monthly review is a crucial control over the program to prevent fraud, waste, and abuse. Supervisors must refer cardholders who misuse the program to senior management, who must take appropriate corrective action when cardholders and supervisors do not comply with state and University policies and procedures. Cardholders who deliberately circumvent transaction limits or other controls should be considered for exclusion from the program.

#### Properly Limit Hours of Wage Employees

At least two wage employees worked over 1,500 hours in fiscal year 2004, exceeding state and University guidelines. One employee worked 1,983 hours, more than the scheduled hours for full-time employees. Neither the Personnel nor the Payroll Department are monitoring the number of hours worked by wage employees. Allowing wage employees to work excessive hours may expose the University to liabilities related to employment taxes and benefits, as well as negative publicity.

The Payroll and Personnel Departments should establish procedures to accurately monitor the number of hours worked and length of service for temporary wage employees to ensure compliance with the University's policy to not have temporary staff for more than six months and state regulations limiting wage employees to 1,500 hours each year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the new Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the University's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2004. Comparative numbers, where presented, are for the fiscal year ended June 30, 2003. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, Notes to Financial Statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

### Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2004. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of related debt," provides the University's equity in property, plant, and equipment owned by the institution. The next category is "Restricted net assets - Expendable," which are restricted resources available for expenditure by the institution, but must be spent for purposes as determined by donors or other entities that have placed time or purpose restrictions on the use of the assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

### Statement of Net Assets

	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>
Assets:		
Current	\$16,590,176	\$15,224,434
Capital assets, net of depreciation	60,001,114	62,749,861
Other non-current	<u>17,269,373</u>	<u>6,994,843</u>
Total assets	<u>93,860,663</u>	<u>84,969,138</u>
Liabilities:		
Current	12,822,733	14,828,730
Non-current	<u>20,539,049</u>	<u>19,586,361</u>
Total liabilities	<u>33,361,782</u>	<u>34,415,091</u>
Net assets:		
Invested in capital assets, net of related debt	41,278,297	42,416,639
Restricted	14,066,602	6,107,540
Unrestricted	<u>5,153,982</u>	<u>2,029,868</u>
Total net assets	<u>\$60,498,881</u>	<u>\$50,554,047</u>

The University's total assets increased by \$8,891,525 due to an increase noncurrent restricted cash reserves for academic enhancement, unfunded scholarships, and capital projects. Those capital projects include heating and air conditioning improvements, the acquisition of Norfolk Community Hospital, and renovations to the Robinson Technology and Teacher's Education Buildings. Total liabilities decreased by \$1,053,309 primarily due to scheduled payments of bonds payable. There was also a decrease in the liability for vendor payments and advance payments on grants. These decreases were partially offset by an increase in the security lending program obligation and a change in the recording of the federal contribution for the Perkins Loan program.

#### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the University's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

#### Statement of Revenues, Expenses, and Changes in Net Assets

	<u>Year ended June 30, 2004</u>	<u>Year ended June 30, 2003</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$6,455,310 and \$7,262,662	\$ 21,684,388	\$ 16,645,293
Federal grants and contracts	24,350,277	23,365,379
State grants and contracts	1,014,069	1,532,959
Nongovernmental grants and contracts	1,524,207	1,439,612
Auxiliary enterprises, net of scholarship allowances of \$5,393,035 and \$4,846,743	17,783,628	17,357,689
Other operating revenues	<u>487,620</u>	<u>371,197</u>
Total operating revenues	<u>66,844,189</u>	<u>60,712,129</u>
Operating expenses:		
Instruction	31,129,518	28,029,339
Research	6,239,497	5,319,381
Public Service	1,481,371	1,562,945
Academic support	9,828,461	9,752,505
Student services	4,363,258	4,940,031
Institutional support	16,794,251	15,769,142
Operation and maintenance of plant	6,575,636	7,658,283
Depreciation	6,019,069	5,291,525
Student aid	12,783,058	9,486,993
Auxiliary activities	14,251,429	15,281,083
Other expenses	<u>131,760</u>	<u>252,931</u>
Total operating expenses	<u>109,597,308</u>	<u>103,344,158</u>

Operating loss	(42,753,119)	(42,632,029)
Net nonoperating revenues and expenses	<u>43,381,335</u>	<u>42,059,859</u>
Loss before other revenues, expenses, gains, or losses	628,216	(572,170)
Other revenues	<u>11,661,101</u>	<u>2,041,462</u>
Increase in net assets	12,289,317	1,469,292
Net assets - beginning of year, as restated	<u>48,209,564</u>	<u>49,084,755</u>
Net assets - end of year	<u>\$ 60,498,881</u>	<u>\$ 50,554,047</u>

Operating revenues primarily include tuition and fees, auxiliary enterprises, and revenues from grants and contracts. The increase in operating revenues of \$6,132,060 is mainly attributable to rate increases for tuition and fees for the fiscal year ended June 30, 2004. Operating expenses increased \$6,253,150 primarily due to an increase in instructional and student aid expenses. The increase in instructional expenses is attributable to an increase in salaries and wages, supplies and services, and purchases of noncapitalizable equipment. The increase in student aid reflects additional financial aid awarded to students for fiscal year 2004.

The increase in nonoperating revenue is attributable to an increase in gifts received for software and equipment donated to the University. Other revenues increased \$9,619,639 due to an increase in capital appropriations for several campus projects, which include improvements to the heating and air conditioning systems and students' access to technology and renovations to the warehouse, Robinson Technology, and Teacher's Education Buildings. Also, contributing to the increase is a decrease in capital appropriation reversions to the Commonwealth of Virginia for fiscal year 2004.

Note also that net assets as of June 30, 2003, were restated to provide for the elimination of previously capitalized assets that are now below the University's capitalization threshold and to allow for the correction of errors related to the depreciation of library books. Additionally, a correction to net assets as of June 30, 2003 was made to correct the effect of reporting federal loan balance contributions as liabilities, instead of as a component of net assets.

### Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year and aids in the assessment of the University's ability to generate cash to meet present and future obligations. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$21,157,887), grants and contracts (\$27,219,410), and auxiliary enterprises receipts (\$17,645,875). Major uses of cash include payments for salaries, wages, and fringe benefits (\$58,792,037), payments for services and supplies (\$21,375,495), payments for scholarships and fellowships (\$16,107,665), and payments for utilities (\$3,090,331).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid of \$43,664,442. The cash flows from capital financing activities section reflect cash used for capital and related items. Primary



sources of cash include capital appropriations of \$11,661,101. Significant cash outflows include the purchase of capital assets (\$3,623,615) and the repayment of principal and interest on capital related debt (\$2,724,431). Cash flows from investing activities show \$431 in interest income on investments. The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

#### Statement of Cash Flows

	Year ended <u>June 30, 2004</u>	Year ended <u>June 30, 2003</u>
Cash flows from operating activities	\$(34,863,744)	\$(37,451,511)
Cash flows from noncapital financial activities	43,664,442	42,902,187
Cash flows from capital financing activities	4,373,865	(8,690,934)
Cash flows from investing activities	<u>431</u>	<u>(23,821)</u>
Net change in cash	<u>\$ 13,174,993</u>	<u>\$ (3,264,079)</u>

#### Capital Asset and Debt Administration

Overall, funds invested in capital assets remained constant and no new long-term debt was issued. The University is in the planning stages of issuing 9(d) bonds to renovate and construct an addition to the student union building during fiscal year 2006. In fiscal year 2004, the University received \$3 million in state funds to purchase and begin renovation of Norfolk Community Hospital, which was acquired by Norfolk State University in August 2004. Once renovated, the property will be utilized as temporary office space while other renovations are completed on campus.

The University decreased its total long-term debt from \$20,099,349 in fiscal year 2003 to \$18,503,529 in fiscal year 2004. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2004 debt service to expenditures ratio was 2.00%. In June 2003, the Commonwealth of Virginia, on behalf of the University, issued General Obligation Bonds, Series 2003A to refund outstanding General Obligation Bonds, Series 1993 A and B. The refunding resulted in the recognition of a deferred accounting gain of \$511,986, which will be amortized over the life of the new debt. The refunding resulted in the recognition of an accounting gain and the University in effect reduced its aggregate debt service obligation.

Overall, unpaid construction and other related contractual commitments increased from \$508,431 in 2003 to \$1,228,616 in 2004. Unpaid commitments at June 30, 2004, represent renovations to the warehouse, improvements to heating and air conditioning systems, and renovation of the Robinson Technology building. Construction in progress on these contracts totaled \$1,214,967 as of June 30, 2004.

#### Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. To offset projected revenue shortfalls for fiscal year 2004, the governing board increased tuition and mandatory fees by 16 percent and five percent, respectively.

The University's overall financial position remains strong. Despite general fund reductions, revenue shortfalls, and economic uncertainty, the University generated an overall increase in net assets during the fiscal year of 2004.

In an effort to enhance operational efficiency and fiscal stability, management developed and implemented policies and procedures for financial clearance with regard to student accounts receivable. As a result of implementing the policy change, enrollment fell approximately seven percent for the fall semester of 2004. Management will continue to closely monitor resources to reduce the impact of fewer students and ensure the accomplishment of the University's mission.

NORFOLK STATE UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2004

	Norfolk State University	Component Units
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 9,225,669	\$ 1,197,849
Short-term investments (Note 2)	1,453,269	646,733
Accounts receivable, net of allowance for doubtful accounts of \$3,279,516 (Note 3)	5,187,410	41,982
Contributions receivable, net of allowance for uncollectible contributions of \$249,070 (Note 12)	-	713,325
Due from the Commonwealth	148,845	-
Prepaid expenses	384,073	-
Notes receivable, net of allowance for doubtful accounts of \$214,336	190,910	-
Other assets	-	1,509,076
Total current assets	16,590,176	4,108,965
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	15,015,709	-
Restricted investments (Note 2)	581,400	8,739,721
Contributions receivable (Note 12)	-	860,000
Notes receivable, net of allowance for doubtful accounts of \$1,929,023	1,672,264	6,398
Nondepreciable capital assets (Note 4)	5,803,570	74,310
Depreciable capital assets, net (Note 4)	54,197,544	115,729
Total noncurrent assets	77,270,487	9,796,158
Total assets	93,860,663	13,905,123
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	4,775,027	264,622
Deferred revenue	4,112,384	16,038
Obligations under securities lending	1,183,840	-
Deposits held in custody for others	229,678	22,315
Long-term liabilities - current portion (Note 6)	2,521,804	-
Total current liabilities	12,822,733	302,975
Noncurrent liabilities (Note 6)	20,539,049	830,000
Total liabilities	33,361,782	1,132,975
<b>NET ASSETS</b>		
Invested in capital assets, Net of related debt	41,278,297	190,039
Restricted for:		
Nonexpendable:		
Permanently restricted	-	7,075,992
Expendable:		
Scholarships and fellowships	430,629	2,650,300
Research and public service	113,460	-
Debt service	1,283,827	-
Capital projects	11,542,470	-
Loans	696,216	-
Unrestricted	5,153,982	2,855,817
Total net assets	\$ 60,498,881	\$ 12,772,148

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

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

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$6,455,310	\$ 21,684,388	\$ -
Gifts and contributions	-	2,812,981
Federal grants and contracts	24,350,277	-
State grants and contracts	1,014,069	-
Nongovernmental grants and contracts	1,524,207	-
Auxiliary enterprises, net of scholarship allowances of \$5,393,035 (Note 9)	17,783,628	-
Other operating revenues	487,620	77,686
Total operating revenues	66,844,189	2,890,667
Operating expenses (Note 10):		
Instruction	31,129,518	94,675
Research	6,239,497	-
Public service	1,481,371	9,422
Academic support	9,828,461	39,684
Student services	4,363,258	11,959
Institutional support	16,794,251	1,185,064
Operation and maintenance - Plant	6,575,639	331
Depreciation	6,019,066	18,978
Student aid	12,783,058	574,803
Auxiliary enterprises (Note 9)	14,251,429	249,787
Other	131,760	-
Total operating expenses	109,597,308	2,184,703
Operating gain (loss)	(42,753,119)	705,964
Nonoperating revenues (expenses):		
State appropriations (Note 11)	42,717,150	-
Investment income net of investment expense	430	562,577
Interest on capital asset - related debt	(892,880)	-
Gifts	1,337,411	-
Grant and contract nonoperating revenue	219,224	-
Other	-	65,309
Net nonoperating revenues	43,381,335	627,886
Increase before other revenues, expenses, gains or losses	628,216	1,333,850
Capital appropriations	11,661,101	-
Increase in net assets	12,289,317	1,333,850
Net assets - beginning of year as restated (Note 13)	48,209,564	11,438,298
Net assets - end of year	\$ 60,498,881	\$ 12,772,148

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

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

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Cash flows from operating activities:

Student tuition and fees	\$ 21,157,887
Grants and contracts	27,219,410
Auxiliary enterprises	17,645,875
Payments to employees	(46,470,402)
Payments for fringe benefits	(12,321,635)
Payments for services and supplies	(20,905,900)
Payments for utilities	(3,090,331)
Payments scholarships and fellowships	(16,107,665)
Payments for noncapitalized plant improvements and equipment	(1,858,266)
Loans issued to students	(363,257)
Collections of loans from students	456,496
Other payments	(225,956)

Net cash used by operating activities:	(34,863,744)
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Cash flows from noncapital financing activities:

State appropriations	42,717,150
Gifts and grants for other than capital purposes	1,184,805
Direct lending receipts	22,220,350
Direct lending payments	(22,220,350)
Agency receipts	254,237
Agency payments	(491,930)
Other	180

Net cash provided by noncapital financing activities	43,664,442
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Cash flows from capital financing activities:

Capital appropriations	11,661,101
Purchase of capital assets	(4,562,805)
Principal paid on capital debt, leases, and installments	(1,820,852)
Interest paid on capital debt, leases, and installments	(903,579)

Net cash provided capital financing activities	4,373,865
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Cash flows from investing activities:

Interest on investments	430
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Net increase in cash	13,174,993
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Cash and cash equivalents - Beginning of the year	11,066,385
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Cash and cash equivalents - End of the year	\$ 24,241,378
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NORFOLK STATE UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2004

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Reconciliation of net operating loss to net cash used by operating activities:

Operating loss	\$ (42,753,119)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	6,019,066
Changes in assets and liabilities:	
Receivables, net	1,547,018
Due from the Commonwealth	(148,845)
Notes receivable, net	107,157
Prepaid expenses	733,965
Inventory	4,966
Accounts payable, accrued expenses, and security lending obligations	365,318
Deferred revenue	<u>(739,270)</u>
Net cash used by operating activities	<u><u>\$ (34,863,744)</u></u>

Noncash investing, noncapital financing, and capital and related  
financing transactions:

Gift of capital assets	\$ 371,829
Equipment acquired from Master Equipment Leasing Program	\$ 225,022

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

NORFOLK STATE UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Norfolk State University (the University) is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

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

Prior to fiscal year 2003, the University had no component units, as defined by GASB Statement 14. However, under GASB Statement 39 standards, the Norfolk State University Foundation, Inc., and Subsidiary, the Athletics Foundation of Norfolk State University, Inc., and the Enterprise and Empowerment Foundation at Norfolk State University meet criteria qualifying them as component units of the University.

The Norfolk State University Foundation, Inc., and its wholly owned subsidiary, Marshall Avenue Properties, Inc. is a legally separate, not-for-profit organization established to provide financial support to Norfolk State University.

The Athletics Foundation of Norfolk State University, Inc., is a legally separate, not-for-profit charitable organization governed by a local Board of Directors dedicated to raising funds for the benefit, scholarship, and educational needs of students attending and participating in athletic programs at Norfolk State University.

The Enterprise and Empowerment Foundation is a legally separate, not-for-profit charitable organization governed by a Board of Directors dedicated to raising funds for a development called the Research and Innovation to Support Empowerment (RISE) Center Complex. The development is organized around a public private partnership and is designed

to create a digital village that acts as a hub for the Hampton Roads region's technology led economic development agenda.

Complete financial statements for the component units can be obtained by writing the Fiscal Officer/Budget Manager, Norfolk State University Foundation, c/o University Advancement, 700 Park Ave, Suite 410, Norfolk, Virginia 23504.

Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources or income thereon that the Foundations hold and invest is restricted to the activities of the University by the donors. These restricted resources held by the Foundations can only be used by or for the benefit of the University. Therefore, the Foundations are considered component units of the University and are discretely presented in the financial statements.

During the year ended June 30, 2004, the Norfolk State University Foundation and the Norfolk State Athletic Foundation made distributions of \$288,254 to or on behalf of the University for both restricted and unrestricted purposes.

B. Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public College and Universities*. The University follows Statement 34 requirements for "reporting by special purpose governments engaged only in business-type activities." The financial statement presentation provides a comprehensive entity-wide look at the University's financial activities and replaces the fund-group perspective previously required.

The Foundations are private, non-profit organizations that report under Financial Accounting Standards Board (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. No modifications have been made to the Foundations' financial information in the University's financial reporting entity 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.

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable 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 that conflict with or contradict GASB pronouncements.



D. Cash and Cash Equivalents

In accordance with the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

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.

F. Receivables

Receivables consist of tuition and fee charges to students and amounts due for auxiliary enterprise sales and services. Receivables also include amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to grant and contracts. Receivables are recorded net of estimated uncollectible amounts.

G. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer network cabling systems. The University generally defines capital assets 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 published average prices for library acquisitions. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Donated capital assets are recorded at the estimated fair market value at the date of contribution. 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.

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	30 years
Other improvements and infrastructure	8-25 years
Equipment	4-20 years
Library materials	5 years

H. Noncurrent Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees, certain auxiliary activities, and advance payments on grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2004.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, 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.

K. Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable and notes payable with contractual maturities greater than one year, as well as estimated amounts for accrued compensated absences that will not be paid with the next fiscal year.

L. Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Perkins Loan, Stafford Loan, and Parent Loans for Undergraduate Students 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.

M. Net Assets

The University reports the difference between assets and liabilities as net assets, not fund balances, on the Statement of Net Assets. Accordingly, the University's net assets are classified as follows:

Invested in capital assets, net of related debt - consist of total investment in capital assets, net of accumulated depreciation and outstanding debt obligations.

Restricted Net Assets - Expendable - represent funds that have been received for specific purposes and the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets - represent resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

N. Revenue and Expense 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.

Nonoperating expenses include interest on debt related to the purchase of capital assets and state appropriation reversions. All other expenses are classified as operating expenses.

O. 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

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. Certain 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 or covered by federal depository insurance. Under this Act, banks holding public deposits in excess of 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. Saving institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less.

B. Investments

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

	<u>Market Value</u>
Norfolk State University:	
Cash and cash equivalents:	
Deposits with financial institutions	\$ 2,537,184
Money market funds	723,912
Cash with the Treasurer of Virginia	<u>20,980,282</u>
Total cash and cash equivalents	<u>\$24,241,378</u>
Investments:	
Investments with the Treasurer of Virginia	\$ 850,829
Securities lending	<u>1,183,840</u>
Total investments	<u>\$ 2,034,669</u>
Norfolk State University Foundation:	
U.S. Treasury and agency securities	\$ 1,191,856
Common and preferred stocks	6,163,420
Corporate bonds	1,371,945
Mutual and money market funds	<u>454,322</u>
Total investments	<u>\$ 9,181,543</u>
Athletic Foundation of Norfolk State University:	
U.S. Treasury and agency securities	\$ 142,322
Negotiable certificates of deposit	<u>62,589</u>
Total investments	<u>\$ 204,911</u>

C. Securities Lending Transactions

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

### 3. ACCOUNTS RECEIVABLE

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

Student tuition and fees	\$ 6,821,264
Federal, state, and nongovernmental grants and contracts	1,447,993
Other	<u>197,669</u>
Gross receivables	8,466,926
Less: Allowance for doubtful accounts	<u>(3,279,516)</u>
Net accounts receivable	<u>\$ 5,187,410</u>

### 4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2004, is presented in the following table. Beginning amounts as of July 1, 2003, have been restated to provide for the elimination of previously capitalized assets that are now below the University's capitalization threshold and to allow for the correction of errors related to the depreciation of library books.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 3,721,564	\$ -	\$ -	\$ 3,721,564
Construction in progress	<u>3,710,469</u>	<u>1,912,076</u>	<u>3,540,539</u>	<u>2,082,006</u>
Total nondepreciable capital assets	<u>7,432,033</u>	<u>1,912,076</u>	<u>3,540,539</u>	<u>5,803,570</u>
Depreciable capital assets:				
Buildings	113,172,558	3,632,340	68,435	116,736,463
Infrastructure	5,282,014	9,102	-	5,291,116
Equipment	22,492,112	2,029,803	462,037	24,059,878
Other improvements	34,840	25,983	-	60,823
Library materials	<u>6,335,575</u>	<u>200,796</u>	<u>80,458</u>	<u>6,455,913</u>
Total depreciable capital assets	<u>147,317,099</u>	<u>5,898,024</u>	<u>610,930</u>	<u>152,604,193</u>
Less accumulated depreciation for:				
Buildings	68,636,736	3,964,670	68,317	72,533,089
Infrastructure	4,178,562	207,307	-	4,385,869
Equipment	14,068,102	1,737,937	320,097	15,485,942
Other improvements	1,742	8,449	-	10,191
Library materials	<u>5,972,036</u>	<u>100,703</u>	<u>81,181</u>	<u>5,991,558</u>
Total accumulated depreciation	<u>92,857,178</u>	<u>6,019,066</u>	<u>469,595</u>	<u>98,406,649</u>
Depreciable capital assets, net	<u>54,459,921</u>	<u>(121,042)</u>	<u>141,335</u>	<u>54,197,544</u>
Total capital assets, net	<u>\$ 61,891,954</u>	<u>\$1,791,034</u>	<u>\$3,681,874</u>	<u>\$ 60,001,114</u>

The net capital assets of the component units of Norfolk State University consist of \$190,039 in property and equipment.

## 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

Salaries, wages, and fringe benefits payable	\$3,110,510
Vendors and suppliers accounts payable	1,437,048
Accrued interest payable	222,810
Scholarships payable	<u>4,659</u>
Total accounts payable and accrued expenses	<u>\$4,775,027</u>

## 6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2004, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable	\$16,994,631	\$ -	\$1,636,930	\$15,357,701	\$1,439,083
Notes payable	2,592,732	-	113,769	2,478,963	116,080
Installment purchases	<u>-</u>	<u>225,022</u>	<u>3,561</u>	<u>221,461</u>	<u>42,758</u>
Total long-term debt	<u>19,587,363</u>	<u>225,022</u>	<u>1,754,260</u>	<u>18,058,125</u>	<u>1,597,921</u>
Accrued compensated absences	3,181,566	989,628	1,164,392	3,006,802	794,312
Capital projects retainage payable	71,853	63,946	71,853	63,946	63,946
Federal loan capital contributions	1,486,576	-	-	1,486,576	-
Deferred gain on early retirement of debt	<u>511,986</u>	<u>-</u>	<u>66,582</u>	<u>445,404</u>	<u>65,625</u>
Total long-term liabilities	<u>\$24,839,344</u>	<u>\$1,278,596</u>	<u>\$3,057,087</u>	<u>\$23,060,853</u>	<u>\$2,521,804</u>

## 7. LONG TERM DEBT

Norfolk State University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9 (d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued the 9(d) bond directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issues 9(d) bonds and uses the proceeds to

purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue not otherwise obligated also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on the 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.

The University acquired the Brambleton Center from the City of Norfolk in exchange for six full scholarships to be awarded each year through 2019 varying from \$4,953 to \$13,308.

Installment purchases consist of the obligations resulting from contracts used to finance the acquisition of equipment.

	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance at June 30, 2004</u>
Revenue bonds:			
Dormitory:			
Series 2003(c)	5.500-5.000	2010	\$ 1,702,170
Series 2003(c)	5.500-5.000	2011	4,573,652
Athletic Facility:			
Series, 1996 (d)	4.550-5.375	2018	7,090,000
Cafeteria:			
Series 2003(c)	5.500-5.000	2011	<u>1,991,879</u>
Total revenue bonds			<u>15,357,701</u>
Notes payable:			
Dormitory, Series 1985(d)	3.00	2022	2,360,363
Brambleton Center		2019	<u>118,600</u>
Total notes payable			<u>2,478,963</u>
Installment purchases:			
Master Equipment Lease Program	2.151-3.091	2009	<u>221,461</u>
Total			<u>\$18,058,125</u>

Long term debt matures as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 1,597,921	\$ 860,685
2006	1,699,588	778,349
2007	1,761,874	699,112
2008	1,834,930	616,245
2009	1,890,401	529,471
2010-2014	5,664,547	1,493,463
2015-2019	3,433,352	477,373
2020-2022	416,936	18,948
Unamortized discount	<u>(241,424)</u>	<u>-</u>
Total	<u>\$18,058,125</u>	<u>\$5,473,646</u>

B. Bond Defeasance

During fiscal years 2003, 1996, and 1994, certain 1990B, 1991A and 1993B 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, 2004, the following amounts of the defeased bonds were outstanding:

	Balance at <u>June 30, 2004</u>
1990 Series B	\$ 1,785,000
1991 Series A	6,790,000
1993 Series B	<u>8,753,241</u>
Total	<u>\$17,328,241</u>

C. Subsequent Event

In fiscal year 2005, the University issued Series 2004A, 9(d) revenue bonds through the Virginia College Building Authority's (VCBA) Public Higher Education Financing Pooled Bond Program in the amount of \$21,520,000 to build a new Student Center.

D. Foundation Debt

The Enterprise and Empowerment Foundation has a note payable to SunTrust Bank in the amount of \$830,000 paying interest only semiannually at an interest rate of 3.80 percent. The principal amount is payable on the earlier of December 31, 2005 or the date the RISE I complex is transferred to Norfolk State University. This note is secured by the pledge of funds appropriated by the Commonwealth of Virginia to Norfolk State University for this project.

8. COMMITMENTS

At June 30, 2004, the University was committed to construction contracts totaling approximately \$1,228,616. Construction in progress on these contracts totaled \$1,214,967 as of June 30, 2004.

The University is committed under various operating leases for equipment and facilities. In general, the leases are for a one-year term and the University has renewal options on equipment and facilities for another one-year term. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2004, was \$1,077,454.

The University's lease for the Applied Research Center in Newport News contains an escalation clause that allows for a base rent adjustment every two years. Rent obligations for this lease for the year ending June 30, 2005 will be \$49,193.



The University entered into a financing arrangement for campus wide energy efficiency projects utilizing the Virginia Energy Leasing Program (VELP). The length of the lease arrangements is for 12 years and the interest rate charged is 3.978 percent.

The University has, as of June 30, 2004, the following total future minimum rental payments due under all of its operating leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2005	\$ 1,133,502
2006	1,238,607
2007	891,075
2008	895,196
2009	905,384
2010-2014	4,665,560
2015-2019	4,035,243
2020-2023	<u>476,367</u>
Total	<u>\$14,240,934</u>

#### 9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2004. Additionally, the University used auxiliary revenues to pay debt service of \$2,634,052. This amount is not included in the auxiliary operating expenses below.

##### Revenues:

Residential, net of scholarship allowances of \$1,806,316	\$ 5,286,588
Athletics, net of scholarship allowances of \$1,661,296	5,455,187
Food services, net of scholarship allowances of \$954,172	2,789,830
Auxiliary enhancement, net of scholarship allowances of \$160,669	802,741
Student activities, net of scholarship allowances of \$349,189	1,219,358
Other, net of scholarship allowances of \$461,393	<u>2,229,924</u>
Total auxiliary enterprises revenues	<u>\$17,783,628</u>

##### Expenses:

Residential	\$ 3,582,935
Athletics	4,708,616
Food services	2,340,499
Auxiliary enhancement	586,746
Student activities	1,189,893
Other	<u>1,842,740</u>
Total auxiliary enterprises expenses	<u>\$14,251,429</u>

## 10. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringes Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depre- ciation	Total
Instruction	\$22,122,551	\$ 5,605,564	\$ 2,182,966	\$ 311,338	\$ -	\$ 907,099	\$ -	\$ 31,129,518
Research	1,943,865	450,600	1,488,986	764,175	-	1,591,871	-	6,239,497
Public service	753,964	119,403	413,756	44,049	-	150,199	-	1,481,371
Academic support	5,401,726	1,447,960	1,824,783	109,055	-	1,044,937	-	9,828,461
Student services	2,655,786	777,101	837,668	46,386	-	46,317	-	4,363,258
Institutional support	7,655,459	2,254,521	5,062,321	(109)	823,076	998,983	-	16,794,251
Operation and maintenance	1,774,983	656,395	2,286,717	-	1,583,989	273,555	-	6,575,639
Depreciation	-	-	-	-	-	-	6,019,066	6,019,066
Scholarships and fellowships	-	-	-	12,783,058	-	-	-	12,783,058
Auxiliary enterprises	3,878,984	1,052,922	5,102,902	2,900,568	826,671	489,382	-	14,251,429
Other	-	-	-	-	131,760	-	-	131,760
Total	<u>\$46,187,318</u>	<u>\$12,364,466</u>	<u>\$19,200,099</u>	<u>\$16,958,520</u>	<u>\$3,365,496</u>	<u>\$5,502,343</u>	<u>\$6,019,066</u>	<u>\$109,597,308</u>

## 11. 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:	
Educational and general programs	\$38,149,262
Student financial assistance	4,024,598
Adjustments:	
Repayment of budget reduction taken in prior year	340,000
Salary increases	354,410
Student financial assistance	126,832
Other adjustments	37,684
Reversions	<u>(315,636)</u>
Adjusted appropriations	<u>\$42,717,150</u>

## 12. COMPONENT UNITS

### Summary Statement of Net Assets

	<u>NSU Foundation</u>	<u>Athletics Foundation</u>	<u>Enterprise and Empowerment Foundation</u>	<u>Total</u>
Assets:				
Current assets	\$ 2,288,507	\$292,791	\$1,527,667	\$ 4,108,965
Noncurrent assets	<u>9,783,072</u>	<u>13,086</u>	<u>-</u>	<u>9,796,158</u>
Total assets	<u>12,071,579</u>	<u>305,877</u>	<u>1,527,667</u>	<u>13,905,123</u>
Liabilities:				
Current liabilities	117,872	5,624	179,479	302,975
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>830,000</u>	<u>830,000</u>
Total liabilities	<u>117,872</u>	<u>5,624</u>	<u>1,009,479</u>	<u>1,132,975</u>
Net assets	<u>\$11,953,707</u>	<u>\$300,253</u>	<u>\$ 518,188</u>	<u>\$12,772,148</u>

### Summary Statement of Revenues, Expenses, and Changes in Net Assets

	<u>NSU Foundation</u>	<u>Athletics Foundation</u>	<u>Enterprise and Empowerment Foundation</u>	<u>Total</u>
Operating revenues	\$ 2,527,799	\$225,908	\$ 136,960	\$ 2,890,667
Operating expenses	<u>1,729,782</u>	<u>235,045</u>	<u>219,876</u>	<u>2,184,703</u>
Operating gain (loss)	798,017	(9,137)	(82,916)	705,964
Net nonoperating revenues	<u>893,178</u>	<u>12,584</u>	<u>(277,876)</u>	<u>627,886</u>
Increase (decrease) in net assets	1,691,195	3,447	(360,792)	1,333,850
Net assets - beginning of year	<u>10,262,512</u>	<u>296,806</u>	<u>878,980</u>	<u>11,438,298</u>
Net assets - end of year	<u>\$11,953,707</u>	<u>\$300,253</u>	<u>\$ 518,188</u>	<u>\$12,772,148</u>

### Contributions Receivable - NSU Foundation

Pledges receivable represent pledges made by individuals, corporations, and organizations to the NSU Foundation for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2004:

Current:	
Total current contributions receivable	\$ 962,395
Less: Discount to present value	(130,145)
Less: Allowance for uncollectible pledges	<u>(118,925)</u>
Net current contributions receivable	<u>713,325</u>
Noncurrent:	
Due in one to five years	812,000
Due in more than five years	<u>48,000</u>
Noncurrent contributions receivable	<u>860,000</u>
Total contributions receivable	<u>\$1,573,325</u>

### 13. RESTATEMENT OF NET ASSETS

Effective July 1, 2001, the University implemented 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 for Public College and Universities*. In accordance with this statement, the federal loan balance contributions are reported as liabilities, instead of as a fund balance in loan funds under the previous standards. The University adjusted its net asset balances as of June 30, 2003, to record the effect of this accounting change that had not previously been implemented.

In previous years, the University capitalized all equipment acquired with Virginia College Building Authority (VCBA) funds regardless of value. In the year ended June 30, 2003, the VCBA paid off bonds issued in 1997 and 1998 and transferred title to the equipment to the University at no cost. As a result, the University reduced its capital asset equipment balance by \$847,223 to eliminate equipment that was below its \$5,000 capitalization threshold. In addition, the University discovered an error in the calculation of depreciation for library books relating to previous years. Accordingly, the University adjusted its capital asset balances previously reported in its financial statements at June 30, 2003.

Net assets reported at June 30, 2003	\$50,554,047
Federal loan balance contributions previously recorded as fund balance in loan funds, now recorded as a liability	(1,486,576)
Elimination of capitalized assets below the capitalization threshold	(847,223)
Correction of prior year library asset values	<u>(10,684)</u>
Restated beginning net assets reported at July 1, 2003	<u>\$48,209,564</u>

### 14. RETIREMENT AND PENSION SYSTEMS

#### 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.

#### Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,137,863 for year ended June 30, 2004. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$10,940,990 for fiscal year 2004.

### 15. 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.

### 16. STATE STUDENT LOAN FUND

The University makes loans to qualified students from its Commonwealth of Virginia Student Loan Fund. During the fiscal year ended June 30, 2004, the University made new loans totaling \$61,037 to 33 students. At June 30, 2004, total loans outstanding were \$232,666 and the allowance for doubtful accounts was \$117,853. Summarized below is the fund activity of the State Student Loan Fund for the fiscal year:

Beginning fund balance	\$308,021
Interest income and collection fees	80,344
Loan write-offs and expenses	<u>(70,929)</u>
Ending fund balance	<u>\$317,436</u>

## 17. CONTINGENCIES

### Grants and Contracts

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2004, the University estimates that no material liabilities will result from such audits or questions.

### Litigation

The University has been named as a defendant in a number of lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

## 18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are 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 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.

NORFOLK STATE UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2004

	Food Services	Residential Services	Student Activities	Auxiliary Security	Student Center	Athletics
Operating revenues:						
Student fees	\$ 382,445	\$ -	\$ 1,370,155	\$ 700,071	\$ 377,034	\$ 6,518,630
Sales and services	3,361,557	7,087,661	138,583	94	13,642	853,399
Investment income	-	5,243	-	-	-	1,533
Other	-	-	-	-	-	-
Total operating revenues	3,744,002	7,092,904	1,508,738	700,165	390,676	7,373,562
Operating expenditures:						
Personal services	-	731,898	27,678	473,353	139,949	1,667,120
Fringe benefits	-	214,810	1,136	111,155	53,520	469,562
Supplies and materials	4,474	471,744	142,847	15,154	15,564	280,305
Equipment and property improvements	-	389,072	20,614	624	20,296	8,500
Current charges	70,846	1,268,456	242,774	69,048	137,397	513,794
Scholarships and fellowships	-	757,914	262,371	-	-	1,911,253
Contractual services	3,222,036	1,122,043	714,952	-	5,548	928,484
Indirect costs	(2,684)	425,922	121,239	57,524	31,994	496,659
Auxiliary administration	-	10,437	6,950	1,410	784	104,323
Total operating expenditures	3,294,672	5,392,296	1,540,561	728,268	405,052	6,380,000
Nonoperating revenue:						
Gifts and grants	-	-	59,809	-	-	106,494
Operating gain (loss)	449,330	1,700,608	27,986	(28,103)	(14,376)	1,100,056
Manadatory transfers for debt service	(349,154)	(1,317,617)	-	-	-	(967,281)
Nonmandatory transfers	-	123,135	29,977	-	34,632	23,088
Net increase (decrease) in fund balance	100,176	506,126	57,963	(28,103)	20,256	155,863
Fund balance at beginning of year	613,223	659,496	173,202	(596,632)	600,824	(1,218,827)
Fund balance at end of year	\$ 713,399	\$ 1,165,622	\$ 231,165	\$ (624,735)	\$ 621,080	\$ (1,062,964)

This schedule accounts for the purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged, including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and set rates.

Auxiliary Administration	Parking	Contingency Fund	Printing Services	Fitness Center	Student Telephone Services	Auxiliary Enhancement	Total
\$ -	\$ 230,377	\$ 502,936	\$ -	\$ -	\$ -	\$ 630,438	\$ 10,712,086
24,421	508,677	-	334,221	-	1,262	348,806	12,672,323
25,890	-	-	-	-	-	-	32,666
6,703	-	-	-	-	-	-	6,703
57,014	739,054	502,936	334,221	-	1,262	979,244	23,423,778
307,789	234,850	-	31,276	46,008	-	-	3,659,921
112,742	69,759	-	8,852	11,644	-	-	1,053,180
-	46,647	-	10,763	2,804	-	-	990,302
36,400	4,807	-	220	8,850	-	-	489,383
-	46,364	-	380,191	11,233	-	20,206	2,760,309
-	-	-	-	-	-	-	2,931,538
-	54,495	-	43,349	12,404	90	453,982	6,557,383
-	39,269	-	40,792	7,988	7	40,752	1,259,462
(399,917)	12,897	-	22,282	196	-	232,666	(7,972)
57,014	509,088	-	537,725	101,127	97	747,606	19,693,506
-	-	-	-	-	-	-	166,303
-	229,966	502,936	(203,504)	(101,127)	1,165	231,638	3,896,575
-	-	-	-	-	-	-	(2,634,052)
-	3,848	(75,000)	3,848	19,240	-	7,088	169,856
-	233,814	427,936	(199,656)	(81,887)	1,165	238,726	1,432,379
11,500	776,223	5,142,608	(438,571)	127,332	152,768	2,030,847	8,033,993
\$ 11,500	\$ 1,010,037	\$ 5,570,544	\$ (638,227)	\$ 45,445	\$ 153,933	\$ 2,269,573	\$ 9,466,372





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

May 27, 2005

The Honorable Mark R. Warner  
Governor of Virginia

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

The Board of Visitors  
Norfolk State University

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Norfolk State University and of its aggregate discretely presented component units as of June 30, 2004, and the respective changes in financial

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

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

The management's discussion and analysis on pages 3 through 7 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 an opinion on the basic financial statements of the University. The accompanying Schedule of Auxiliary Enterprises Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

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

##### Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. 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 "Collect and Correct Accounts Receivable," "Document Network Security Policies and Procedures," "Continue Enforcing Policies and Procedures for Small Purchase Charge Cards," and "Properly Limit Hours of Wage Employees" 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 material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

##### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

#### Status of Prior Findings

The University has not completed corrective action with respect to previously reported findings entitled “Collect and Correct Accounts Receivable” and “Enhance Small Purchase Charge Card Controls.” Accordingly, these findings are included in this report in the section entitled “Internal Control Findings and Recommendations.”

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 June 9, 2005.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva

June 10, 2005

Walter Kucharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond VA 23218-1295

Dear Mr. Kucharski:

Attached is management's response to address the findings in Norfolk State University's audit report for the year ended June 30, 2004. Please contact me should you have any questions.

Sincerely,

  
Kevin Appleton  
Vice President for Finance and Business

Enclosure

cc: Dr. Alvin Schexnider  
Executive Vice President

Dr. Joyce Bozeman  
Assistant Vice President for Finance

Mr. Tony Valentine  
Assistant Vice President for Business

Mrs. Michelle Martin  
University Controller

Mr. Ernest Ellis  
Internal Auditor

## **Enforce Policies and Procedures for Small Purchase Charge Card (SPCC)**

### Management's Response

As noted in the Compliance Findings, Norfolk State University (NSU) has improved its policies and procedures, and training for the SPCC program to ensure that cardholders follow state and University guidelines when using the small procurement cards.

Responses by the individual cardholders to the specific cited internal control weaknesses were found to have merit. Training records indicate that each cardholder has, since the cited internal control weakness, completed SPCC training. Corrective action has also been implemented to document SPCC charges.

Management will continue to improve its oversight responsibility of the SPCC program.

## **Limit Hours of Wage Employees**

### Management's Response

The payroll department is tracking the time periods and amounts authorized for temporary employees. The payroll department will begin tracking hours as well as the other items mentioned above effective immediately to ensure the hours worked do not exceed 1500 hours. If an employee is in a temporary status, and moves into a wage position, their hours will continue to be tracked by payroll. When an employee is close to the 1500 hour threshold, payroll will notify human resources who will contact the supervisor and indicate that the employee has to be terminated due to the expiration of hours.

## **Collect and Correct Accounts Receivable**

### Management's Response

The university understands the issues and is committed to addressing and correcting problems related to student accounts receivable balances.

Effective in the fall of 2004, the University implemented financial responsibility standards for student charges which require all students to pay current semester balances or make satisfactory payment arrangements by established due dates to avoid class cancellation. The University has also made several organizational changes and has revised policy and procedures to improve efficiency, accuracy and processing.

The results for the fiscal year ended June 30, 2004, demonstrate that the university has ended the trend of major growth in student accounts receivable. Corrective actions have produced a substantial decrease in accounts receivable that will be evident in the fiscal year ending June 30, 2005. The University will continue its efforts to strengthen controls and business practices over student accounts receivable.

## **Document Network Security Policies and Procedures**

### **Management's Response**

Norfolk State University is completing the recommended policies and procedures as an ongoing process. We will revise policies, procedures and standards to coincide with technological and University changes.

NORFOLK STATE UNIVERSITY

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