NORFOLK STATE UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

APA

Auditor of
Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Norfolk State University for the year ended June 30, 2007, found:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;

- internal control matters that we consider to be significant deficiencies; however, we do not consider them to be material weaknesses;

- instances of noncompliance or other matters that are required to be reported under Government Auditing Standards; and

- the University has not yet completed the corrective action with respect to the previously reported finding "Strengthen Controls over Capital Project Management." Accordingly, we have repeated the finding in this report. The University has taken adequate corrective action with respect to audit findings reported in the prior report that are not repeated in this report.

.

-TABLE OF CONTENTS-

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Financial Statement Preparation Process

The University's financial reporting staff performs an analytical review of the financial statements; however, this review is not sufficiently detailed. As a result, they did not detect that a fringe benefit expense accrual had not been recorded causing the understatement of expenses by $981,919. We discovered that financial reporting staff had prepared the adjustment, but had not ensured its posting to the financial statements.

We detected the error by performing a more detailed analytical review of the statements than the analytical review done by Norfolk State University. We, therefore, recommend that financial reporting management require that financial reporting staff complete a final fluctuation analysis by object code of the University's financial system account balances to the balances from the prior year. Additionally, financial reporting staff should use these results along with a review of prior year adjustments to ensure the current year financial statements are prepared accurately. We understand that the financial reporting staff has developed a procedure to complete the necessary fluctuation analysis in the next reporting cycle.

Strengthen Controls over Capital Outlay Management

In our previous audit report, we recommended that the University improve their controls over the procurement and management of construction contracts. While the University has improved their operations, we continued to note several technical violations of state regulations, which support sound practices to limit the University's exposure to lawsuits from unsuccessful bidders, potential perception of a lack of competitiveness, and provide a solid basis for resolving potential contract disputes.

The University does regularly manage multiple major capital outlay projects and has fully trained staff to ensure compliance with all procurement and contract management process and regulations. Therefore, it is essential the staff fully follow the Department of General Services' Bureau of Capital Outlay Management's Construction and Professional Services Manual, since it minimizes the University's risk of project failure. Therefore, we recommend that the University continue to review and revise its capital outlay construction procurement procedures to ensure that it follows all state regulations.

Promptly Tag All Equipment

The Fixed Asset Accountant does not ensure the prompt tagging and inventory of all equipment delivered directly to other University departments. The Fixed Asset Accountant receives information from the procurement department of all purchases and has system access to determine the delivery and payment dates of all purchases.

During our review, we noted that seven of thirteen equipment items selected for review had no tags. We found six of these assets at an off campus site, Jefferson Center for Research and Technology. Failing to tag equipment and properly record the information in the system could cause the financial statements to be understated, but more importantly could cause future problems with federal grants and contracts which have specific recording and reporting requirements.

We recommend that the Fixed Asset Accountant more closely monitor equipment purchases and their delivery to other departments. The accountant should also ensure the timely recording, tagging, and inventorying of all equipment.

Properly Complete Employment Eligibility Verification Forms

The University's Human Resources Department is not having employees properly complete Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers. The guidance requires the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment.

In our sample of 10 forms completed, we found one or more errors on 10 of the forms as follows:

- One employee did not include their Social Security Number.
- One employee did not sign the form.
- Seven employees did not sign and/or date the form on the first day of employment.
- All forms did not have a University certification of the employee's first day of employment.
- Seven forms did not have a University representative properly fill out the Employer Review and Verification (document title, issuing authority, document number, and expiration date) within 3 business days of the employment start date.
- Seven forms did not have the signature of a University representative certifying the information on the form.
- Three forms did not have the Business or Organization Name and Address properly completed.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. In addition, we recommend that the University be cautious regarding the number of documents requested from each employee because employers requesting more than the minimum required documentation from employees could be subject to fines and penalties, as the US Department of Homeland Security considers it a form of harassment. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process to complete I-9 forms in place even more important.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

Overview

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 Norfolk State University's (University) 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, 2007. Note that although the University's foundations identified as component units under GASB Statement 39 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2006. 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.

The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

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, 2007. 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 debt," represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is "Restricted net assets-Expendable" which are restricted resources available for expenditure by the University, but must be spent for purposes as determined by the donors or other entities that have placed time or purpose restrictions on the use of the asset. Unrestricted net assets are available to the University for any lawful purpose in support of educational, general, and auxiliary activities.

Statement of Net Assets
(amounts in thousands)

	As of June 30,		Increase/Decrease	
	2007	2006	Amount	Percent
Assets:				
Current	$ 21,027	$ 16,882	$ 4,145	24.6%
Capital, net of accumulated depreciation	129,203	111,567	17,636	15.8%
Other non-current	31,791	35,235	(3,444)	(9.8%)
Total assets	182,021	163,684	18,337	11.2%
Liabilities:				
Current	23,095	21,509	1,586	7.4%
Non-current	49,276	52,060	(2,784)	(5.3%)
Total liabilities	72,371	73,569	(1,198)	(1.6%)
Net assets:				
Invested in capital assets, net of related debt	101,562	77,976	23,586	30.2%
Restricted - Expendable	8,457	10,819	(2,362)	(21.8%)
Unrestricted	(369)	1,320	(1,689)	(128.0%)
Total net assets	$ 109,650	$ 90,115	$ 19,535	21.7%

In 2007, the University's total assets increased by $18,337,190 due to an increase in cash and cash equivalents and capital assets. The increase in cash and cash equivalents is related to increased cash balances for maintenance reserves, fees assessed to renovate and expand the student center, and reimbursed construction cost related to the construction of Marie V. McDemmond Center for Applied Research. This increase was partially offset by a decrease in noncurrent restricted cash and cash equivalents of $3,250,995 as a result of construction beginning on the new student center. Overall, capital assets increased $17,636,077 due to the completion of the Marie V. McDemmond Center for Applied Research, energy savings lease projects, Robinson Technology building renovation, and campus-wide infrastructure wiring to enhance student access to technology. Total liabilities decreased by $1,197,414 primarily due to the retirement of long-term debt.

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. Salaries, wages, and fringe benefits for faculty and staff are the largest type of operating expenses.

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
(amounts in thousands)

	Year ended June 30,		Increase/Decrease	
	2007	2006	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $6,319 and $5,687	$ 22,959	$ 24,790	$ (1,831)	(7.4%)
Federal grants and contracts	21,758	19,508	2,250	11.5%
State grants and contracts	1,769	1,708	61	3.6%
Nongovernmental grants and contracts	3,521	2,231	1,290	57.8%
Auxiliary enterprises, net of scholarship allowances of $5,767 and $4,974	24,207	18,973	5,234	27.6%
Other operating revenues	934	819	115	14.0%
Total operating revenues	75,148	68,029	7,119	10.5%
Operating expenses:				
Instruction	32,638	34,258	(1,620)	(4.7%)
Research	7,054	5,972	1,082	18.1%
Public service	2,493	2,214	279	12.6%
Academic support	17,825	15,490	2,335	15.1%
Student services	5,290	5,214	76	1.5%
Institutional support	12,674	15,499	(2,825)	(18.2%)
Operation and maintenance of plant	10,677	12,769	(2,092)	(16.4%)
Depreciation	6,605	5,290	1,315	24.9%
Student aid	11,703	11,474	229	2.0%
Auxiliary activities	19,682	16,410	3,272	19.9%
Total operating expenses	126,641	124,590	2,051	1.6%
Operating loss	(51,493)	(56,561)	5,068	(9.0%)
Net nonoperating revenues and expenses	50,533	49,688	845	1.7%
Increase before other revenues, expenses, gains, and losses	(960)	(6,873)	5,913	(86.0%)
Net other revenues	22,630	23,236	(606)	(2.6%)
Increase in net assets	21,670	16,363	5,307	32.4%
Net assets - beginning of year, restated	87,980	73,752	14,228	19.3%
Net assets - end of year	$109,650	$ 90,115	$ 19,535	21.7%

Operating revenues primarily include tuition and fees, auxiliary enterprises and revenues from grants and contracts. The increase of $7,119,866 in operating revenues is mainly attributable to an increase in auxiliary enterprises and federal and nongovernmental grants and contracts. The decrease in student tuition and fees is the result of a change in student mix (fewer out of state students) that attended the University. Total operating expenses remained comparatively flat and increased only $2,051,313 in 2007. Increases in research, academic support, depreciation, and auxiliary enterprises expenses were offset by decreases in instruction, institutional support and operation and maintenance expenses.

The increase of $844,497 in nonoperating revenues and expenses is mainly attributable to an increase in state appropriations of $1,768,385. A decrease in appropriations revenue related to the completion of the Marie V. McDemmond Center for Applied Research and renovation of the Robinson Technology building caused the decrease of $606,868 in other revenues.

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. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees ($23,209,416), grants and contracts ($27,893,219), and auxiliary enterprises receipts ($23,429,130). Major uses of cash include payments for salaries, wages, and fringe benefits ($70,187,396), payments for services and supplies ($21,263,163), and payments for scholarships and fellowships ($19,592,592).

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 ($50,337,304). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash include capital appropriations ($11,373,000). Significant cash outflows include the purchase of capital assets ($25,453,294) and the repayment of principal and interest on capital related debt ($4,290,973). Cash flows from investing activities include interest income on investments ($1,146,283). 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
(amounts in thousands)

	Year ended June 30,		Increase/Decrease	
	2007	2006	Amount	Percent
Cash flows from operating	$ (43,851)	$ (44,232)	$ 381	0.9%
Cash flows from noncapital	50,643	48,687	1,956	4.0%
Cash flows from capital	(7,115)	(20,359)	13,244	65.1%
Cash flows from investing activities	1,150	11,999	(10,849)	(90.4%)
Net change in cash	$ 827	$ (3,905)	$ 4,732	

Capital Asset and Debt Administration

Overall, invested in capital assets increased $23,585,947 due to the completion and capitalization of the Marie V. McDemmond Center for Applied Research and renovation of the Robinson Technology building. Construction projects currently underway on campus include the new student center which is scheduled for completion in Spring 2009 and the new Campus Police Headquarters building which is scheduled for completion in February 2008. Future construction projects include the renovation of Godwin Center with an anticipated completion date of Summer 2010 and the new Library which is entering into the planning phase. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2007 debt service to expenditures ratio was 2.10 percent. This ratio measures the University's ability to satisfy its long-term debt as it becomes due. No new long-term debt was issued in 2007.

Overall, outstanding construction and other related contractual commitments on capital projects decreased from $15,206,244 in 2006 to $5,066,638 in 2007. Construction in progress on all capital projects totaled $11,356,329 as of June 30, 2007.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, it is largely dependent upon ongoing financial and political support from the state government. State appropriations currently cover 51 percent of operating expenses, excluding auxiliary activities and depreciation. To offset projected shortfalls for fiscal year 2007, the University's Board of Visitors approved an overall increase of 8.27 percent in tuition and fees for in-state undergraduates.

The University's financial position remains strong with an overall increase of $19,534,604 in net assets for the 2007 fiscal year. Management continues to evaluate and review current policies and procedures in an effort to enhance operational efficiency and fiscal stability while providing excellent services to its students and constituents. Our goals, priorities and vision are reflected throughout the University's strategic plan, most specifically in the areas of enhancing student success, funding, facilities and grounds, and organizational effectiveness. Resources will continue to be closely monitored to ensure its ability to counter unknown internal and external issues.

Page Left Intentionally Blank

FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

ASSETS

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	$ 15,028,178	$ 1,171,348
Cash held for securities lending (Note 2)	505,760	-
Short-term investments (Note 2)	1,910,322	-
Accounts receivable, net of allowance for doubtful accounts of $271,076 (Note 3)	2,142,061	136,476
Contributions receivable, ret of allowance for uncollectible contributions of $118,925	-	895,580
Due from the Commonwealth	889,601	-
Prepaid expenses	277,659	79,565
Notes receivable, net of allowance for doubtful accounts of $332,807	153,262	-
Unamortized bond issuance expense	120,508	1,675,941
Other assets	-	457,272
Total current assets	21,027,351	4,416,182
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	30,484,972	2,971,346
Investments (Note 2)	-	14,581,375
Contributions receivable	-	2,132,364
Notes receivable, net of allowance for doubtful accounts of $1,464,980	1,305,414	-
Nondepreciable capital assets (Note 4)	16,142,428	24,310
Depreciable capital assets, net (Note 4)	113,060,712	29,209,746
Total noncurrent assets	160,993,527	48,919,141
Total assets	182,020,878	53,335,323
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	9,186,359	453,092
Deferred revenue	3,440,978	4,775
Obligations under securities lending	2,498,238	-
Deposits held in custody for others	1,698,659	-
Long-term liabilities - current portion (Note 6)	6,271,074	-
Total current liabilities	23,095,308	457,867
Noncurrent liabilities (Note 6)	49,276,001	34,431,397
Total liabilities	72,371,309	34,889,264
NET ASSETS		
Invested in capital assets, net of related debt	101,561,519	(2,337,992)
Restricted for:		
Nonexpendable:		
Permanently restricted	-	9,798,612
Expendable	8,457,093	4,336,853
Unrestricted	(369,043)	6,648,586
Total net assets	$ 109,649,569	$ 18,446,059

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, 2007

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $6,319,399	$ 22,959,025	$ -
Gifts and contributions	-	598,322
Federal grants and contracts	21,758,139	-
State grants and contracts	1,769,108	-
Nongovernmental grants and contracts	3,521,428	-
Auxiliary enterprises, net of scholarship allowances of $5,767,496 (Note 8)	24,207,356	-
Other operating revenues	933,680	4,433,470
Total operating revenues	75,148,735	5,031,792
Operating expenses:		
Instruction	32,637,986	-
Research	7,053,698	-
Public service	2,492,505	-
Academic support	17,825,493	-
Student services	5,290,441	-
Institutional support	12,674,297	3,350,670
Operation and maintenance - plant	10,676,711	525,017
Depreciation	6,604,982	1,012,437
Student aid	11,703,400	574,872
Auxiliary activities (Note 8)	19,681,922	-
Total operating expenses (Note 9)	126,641,435	5,462,996
Operating gain (loss)	(51,492,700)	(431,204)
Nonoperating revenues (expenses):		
State appropriations (Note 10)	50,337,304	-
Investment income net of investment expense	1,146,283	509,062
Interest on capital asset - related debt	(1,184,158)	108,702
Gifts	217,012	2,614,080
Loss on transfer of property	-	(25,828)
Other non-operating revenue	16,192	-
Net nonoperating revenues (expenses)	50,532,634	3,206,016
Increase (decrease) before other revenues, expenses, gains or losses	(960,066)	2,774,812
Capital appropriations	11,373,000	-
Capital bond proceeds	9,869,346	-
Capital gifts and grants	1,387,323	-
Contributions to permanently restricted endowments	-	515,504
Net other revenues	22,629,669	515,504
Increase (decrease) in net assets	21,669,603	3,290,316
Net assets - beginning of year as restated (Note 17)	87,979,966	15,155,743
Net assets - end of year	$ 109,649,569	$ 18,446,059

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOW
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Student tuition and fees	$ 23,209,416
Grants and contracts	27,893,219
Auxiliary enterprises	23,429,130
Other receipts	239,565
Payments to employees	(53,283,681)
Payments for fringe benefits	(16,903,715)
Payments for services and supplies	(21,263,163)
Payments for utilities	(4,340,909)
Payments scholarships and fellowships	(19,592,592)
Payments for noncapitalized plant improvements and equipment	(3,451,374)
Collections of loans from students	10,535,839
Loans issued to students	(10,322,928)
Net cash used by operating activities:	(43,851,193)
Cash flows from noncapital financing activities:	
State appropriations	50,337,304
Gifts and grants for other than capital purposes	233,204
Direct lending receipts	33,645,475
Direct lending payments	(33,739,824)
Agency receipts	900,716
Agency payments	(733,646)
Net cash provided by noncapital financing activities	50,643,229
Cash flows from capital financing activities:	
Capital appropriations	11,373,000
Capital gifts	1,387,323
Proceeds from bond issues	9,869,346
Purchase of capital assets	(25,453,294)
Principal paid on capital debt, leases, and installments	(2,602,517)
Interest paid on capital debt, leases, and installments	(1,688,456)
Net cash provided capital financing activities	(7,114,598)
Cash flows from investing activities:	
Interest on investments	1,146,283
Payment of bond issue cost	3,225
Net cash provided by investing activities	1,149,508
Net increase in cash	826,946
Cash and cash equivalents - beginning of the year	44,686,204
Cash and cash equivalents - end of the year	$ 45,513,150

Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$	(51,492,700)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		6,604,982
Changes in assets and liabilities:		
Receivables, net		630,451
Due from the Commonwealth		(826,930)
Notes receivable, net		151,250
Prepaid expenses		151,886
Accounts payable and accrued expenses and securities lending obligation		604,076
Deferred revenue		434,197
Deposits held in custody of others		(108,404)
Net cash used by operating activities	$	(43,851,193)

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

Page Left Intentionally Blank

NOTES TO FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

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.

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 under GASB Statement 39 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 the Marie V. McDemmond Center for Applied Research. The center 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, VA, 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, 2007 the Norfolk State University Foundation and the Norfolk State Athletic Foundation made distributions of $223,867 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 Government,* and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges 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 reported.

Effective with fiscal year 2007, the University implemented GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans (OPEB).* Statement 43 establishes uniform standards of financial reporting by state and local entities for other post employment benefit plans (OPEB plans). The term *other post employment benefits* (OPEB) refers to post employment benefits other than pension benefits and includes (a) post-employment healthcare benefits and (b) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan.

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 foundation's 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. Bond premiums and discounts are deferred and amortized over the life of the debt. 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 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), are reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

As of June 30, 2007, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' 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 grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

H. 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. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Library materials are valued using published average prices for library acquisitions. 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. The University has reviewed its capital assets for impairment using criteria set forth in GASB Statement 42, *Impairment of Capital Assets*, and has no impaired assets at year end.

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 to 25 years
Equipment – 4 to 20 years
Library materials - 5 years

The University's art collections are held for public exhibition, education, and research in furtherance of public service rather than financial gain; are protected, kept unencumbered, cared for, and preserved; and are subject to University policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection. Since these conditions exist and historical cost data for the collections are not available; in accordance with GASB Statement 34, no balances are reported in the accompanying financial statements.

I. 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 non-current assets are classified as non-current assets in the Statement of Net Assets.

J. Deferred Revenue

Deferred revenue represents monies received, but not earned as of June 30, 2007. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. 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 payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

L. Non-current Liabilities

Non-current 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 within the next fiscal year.

M. Federal Financial Assistance Programs

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

N. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Accordingly, the University's net assets are classified as follows:

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

Restricted Net Assets – Expendable – represents 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 – represents resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense toward restricted resources and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

O. 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.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9, and GASB Statement 34, such as state appropriations and investment and interest income.

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

P. 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 non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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 Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, or covered by 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. Savings 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, cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less. Cash equivalents also include the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the federal Security and Exchange Commission.

The carrying amount of cash not held by the Treasurer of Virginia is $2,289,564. The carrying amount is the University's bank balance reported at June 30, 2007, for the University's energy lease project activity, deposits held in custody for others and drawdowns from bonds for the Student Center construction project. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Board's Audit and Finance Committee. Authorized investments are set forth in the Investment of Public Funds Act of the Code of Virginia, Sections 2.2-4500 through 2.2-4516. Authorized investments include Certificates of Deposit, Commercial Paper, Bankers Acceptances, Repurchase Agreements, Agency Notes and Bonds, and Treasury Bills. The University's investments are in investment pools held by the Treasurer of Virginia and are not categorized as to levels of risk. Investments fall into two groups: short and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year.

GASB Statement 40, *Deposit and Investment Risk Disclosures* requires the following risk disclosures:

- Concentration of credit risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. As of June 30, 2007, none of the University's investments involve concentration of credit risk.

- Custodial Credit Risk – The custodial credit risk is the risk that, in the event of failure of the counterparty, the University would not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. All investments are registered and held in the name of the University, and therefore, the University does not have this risk.

- Interest rate risk – The interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University limits its exposure to interest rate risk by limiting the maximum maturity lengths of investments and structuring the portfolio to maintain adequate liquidity to ensure the University's ability to meet its operating requirements.

- Foreign currency risk – Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have investments in foreign currency.

C. Securities Lending Transactions

Securities lending transactions represent the College's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Assets, are non-categorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's *Comprehensive Annual Financial Report.*

Type of Investment	Fair Value	0-3 months	Credit Rating
Cash equivalents:			
Repurchase agreements	$ 4,226,003	$ 4,226,003	Unrated
Money market funds	803,558	803,558	A-1
Securities lending	505,760	505,760	Unrated
SNAP	21,102,629	21,102,629	AAAm
Investments:			
Securities lending	1,992,478	1,992,478	Unrated
Totals	$28,630,428	$28,630,428	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	$ 891,545
Federal, state, and nongovernmental grants and contracts	839,308
Other activities	682,284
Gross receivables	2,413,137
Less: Allowance for doubtful accounts	(271,076)
Net accounts receivable	$2,142,061

Contributions Receivable – Norfolk State University Foundation

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2007:

Contributions currently due	$ 1,014,505
Less – allowance for uncollectible pledges	(118,925)
Current contributions receivable	895,580
Contributions due in one to five years	2,453,750
Contributions due in more than five years	1,749
Less – time value discount	(323,135)
Non-current contributions receivable	2,132,364
Total contributions receivable	$ 3,027,944

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2007, is presented as follows.

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Nondepreciable capital assets:				
Land	$ 4,786,099	$ -	$ -	$ 4,786,099
Construction in progress	50,112,070	20,931,179	59,686,920	11,356,329
Total nondepreciable capital assets	54,898,169	20,931,179	59,686,920	16,142,428
Depreciable capital assets:				
Buildings	123,961,168	59,661,905	-	183,623,073
Infrastructure	5,394,616	-	-	5,394,616
Equipment	28,965,802	3,031,081	4,402,274	27,594,609
Other improvements	60,823	-	-	60,823
Library materials	6,625,250	303,815	54,456	6,874,609
Total depreciable capital assets	165,007,659	62,996,801	4,456,730	223,547,730
Less accumulated depreciation for:				
Buildings	78,174,622	4,078,348	-	82,252,970
Infrastructure	4,699,349	130,155	-	4,829,504
Equipment	19,266,100	2,212,135	4,402,274	17,075,961
Other improvements	17,432	3,621	-	21,053
Library materials	6,181,263	180,723	54,456	6,307,530
Total accumulated depreciation	108,338,766	6,604,982	4,456,730	110,487,018
Depreciable capital assets, net	56,668,893	56,391,819	-	113,060,712
Total capital assets, net	$111,567,062	$77,322,998	$59,686,920	$129,203,140

Capital Assets – Component Units

	Norfolk State University Foundation	The Athletics Foundation of Norfolk State University	Enterprise and Empowerment Foundation at Norfolk State University	Total
Nondepreciable capital assets:				
Land	$ 24,310	$ -	$ -	$ 24,310
Depreciable capital assets:				
Buildings	-	-	28,137,869	28,137,869
Equipment	555,010	32,624	2,154,020	2,741,654
Total depreciable capital assets	555,010	32,624	30,291,889	30,879,523
Less accumulated depreciation	(145,914)	(7,981)	(1,515,882)	(1,669,777)
Total depreciable capital assets, net	409,096	24,643	28,776,007	29,209,746
Total capital assets, net	$ 433,406	$ 24,643	$ 28,776,007	$29,234,056

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages, and fringe benefits payable	$ 4,171,603
Vendors and suppliers accounts payable	4,649,741
Accrued interest payable	25,321
Spartan Suites rent and scholarships	339,694
Total accounts payable and accrued liabilities	$ 9,186,359

6. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2007, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 14,549,258	$ -	$ 1,695,162	$ 12,854,096	$ 1,766,588
Notes payable	21,615,781	-	365,392	21,250,389	374,771
Installment purchases	14,618,573	671,006	774,119	14,515,460	1,229,127
Unamortized bond premium	378,735	-	12,625	366,110	12,625
Total long-term debt	51,162,347	671,006	2,847,298	48,986,055	3,383,111
Accrued compensated absences	3,145,883	1,364,183	1,133,482	3,376,584	1,373,007
Capital project retainage payable	1,631,599	1,449,330	1,631,598	1,449,331	1,449,331
Federal loan capital contributions	1,486,576			1,486,576	-
Deferred gain of early retirement of debt	314,154	-	65,625	248,529	65,625
Total long-term liabilities	$ 57,740,559	$3,484,519	$ 5,678,003	$ 55,547,075	$ 6,271,074

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 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 entered into a deed of bargain and sale with the City of Norfolk for the acquisition of the Brambleton Center. The note is payable in six full scholarships each year varying from $4,953 to $9,771 with the final amount due in 2019.

At June 30, 2007, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The length of the purchase agreements are for five years and the interest rates charged are from 2.151 percent to 3.9218 percent.

	Interest Rates (%)	Maturity	Balance at June 30, 2007
Bonds payable:			
Dormitory:			
Charles Smith Hall Series 2003 (c)	5.00-5.50	2010	$ 906,935
Midrise Hall Series 2003 (c)	5.00-5.50	2011	2,762,882
Dormitory Series 1985 (d), Phyllis Wheatley & Rose Alexander	3.00	2022	2,037,851
Athletic Facility:			
Dick Price Stadium Series 1996 (d)	4.650 - 5.375	2018	5,945,000
Cafeteria:			
Mary Scott Dozier Series 2003 (c)	5.00-5.50	2011	1,201,428
Total bonds payable			12,854,096
Unamortized bond premium			366,110
Net bonds payable			13,220,206
Notes payable:			
Brambleton Center, Series 1998		2019	296,309
Student Center 2004 (d)	3.00 - 5.00	2036	21,165,000
Total notes payable			21,461,309
Less: unamortized bond discount			(210,920)
Net notes payable			21,250,389
Installment purchases:			
Master Equipment Lease Program	2.151 - 3.922	2012	951,559
Energy lease project	3.739 - 4.500	2016 - 2021	13,202,822
Dyntek Server Farm Lease	8.25	2011	361,079
Total installment purchases			14,515,460
Total long-term debt			$ 48,986,055

Long term debt matures as follows:

Year ending June 30,	Principal	Interest
2008	$ 3,382,807	$ 2,121,968
2009	3,492,439	1,981,191
2010	3,542,675	1,834,437
2011	3,089,378	1,685,796
2012	2,074,219	1,551,068

2013-2017	11,418,488	6,330,768
2018-2022	8,180,858	3,991,905
2023-2027	3,910,000	2,762,125
2028-2032	4,910,000	1,745,628
2033-2036	4,830,001	471,913
Unamortized premium	366,110	-
Unamortized discount	(210,920)	-
Total	$ 48,986,055	$ 24,476,799

Enterprise and Empowerment Foundation Debt

In February 2005, the Enterprise and Empowerment Foundation entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Foundation pursuant to $32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent; principal payments are due semiannually starting January 1, 2008. On June 30, 2007, interest was computed based on an annualized weekly rate of 2.3 percent. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006.

Notes payable to bank, interest at LIBOR plus 1.5 percent due monthly, principal payments beginning July 1, 2008, through July 1, 2015, secured by property and equipment is $1,500,000.

As of June 30, 2007, the Enterprise and Empowerment Foundation's bonds and notes payable mature as follows:

2008	$ 75,000
2009	100,000
2010	200,000
2011	270,000
2012	280,000
Thereafter	32,575,000
Total	$33,500,000

The bonds payable bear interest at a variable interest rate based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Foundation entered an interest rate swap contract with a notional amount of $32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733 percent rate and receives interest at 67 percent of LIBOR. The net interest gain of $108,702 from changes in the swap contract's fair value during the fiscal year is included as interest on capital asset related debt in the Statement of Revenues, Expenses, and Changes in Net Assets. The contract includes a provision for three optional early termination periods between January 2016 and January 2018.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2007. Additionally, the University used auxiliary revenues to pay debt service of $2,206,289. This amount is not included in the auxiliary operating expenses below.

Revenues:	
Residential, net of scholarship allowances of $2,203,570	$ 5,537,895
Athletics, net of scholarship allowances of $1,868,784	6,376,274
Food services, net of scholarship allowances of $289,174	5,311,122
Auxiliary enhancement, net of scholarship allowances of $216,551	1,288,593
Student activities, net of scholarship allowances of $370,512	1,368,686
Other auxiliary revenues, net of scholarship allowances of $818,904	4,324,786
Total auxiliary enterprises revenues	$24,207,356

Expenses:	
Residential	$ 3,967,749
Athletics	6,391,271
Food services	4,752,056
Auxiliary enhancement	759,479
Student activities	1,440,735
Other auxiliary activities	2,370,632
Total auxiliary enterprises expenses	$19,681,922

9. 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	Fringe Benefits	Services and Supplies	Scholarships and fellowships	Utilities	Plant and equipment	Depreciation	Total
Instruction	$23,405,980	$ 6,993,218	$ 867,775	$ 241,904	$ -	$ 1,129,109	$ -	$ 32,637,986
Research	1,877,648	731,716	1,962,613	940,583	-	1,541,138	-	7,053,698
Public service	819,476	169,112	1,196,279	35,698	-	271,940	-	2,492,505
Academic support	7,773,879	2,581,358	1,752,045	102,856	-	5,615,355	-	17,825,493
Student services	3,139,323	1,153,642	895,226	25,141	-	77,109	-	5,290,441
Institutional support	8,985,321	3,189,553	(775,893)	1,949	1,109,424	163,943	-	12,674,297
Operation and maintenance of plant	3,726,674	1,596,602	2,574,943	-	1,705,401	1,073,091	-	10,676,711
Depreciation	-	-	-	-	-	-	6,604,982	6,604,982
Scholarships and fellowships	-	-	-	11,703,400	-	-	-	11,703,400
Auxiliary activities	4,860,928	1,612,169	6,303,707	5,498,464	757,809	648,845	-	19,681,922
Total	$54,589,229	$18,027,370	$14,776,695	$18,549,995	$3,572,634	$10,520,530	$6,604,982	$126,641,435

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursements. The following is a summary of education and general state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 4:	
Educational and general programs	$45,307,735
Student financial assistance	5,078,945
Adjustments:	
Salary annualization, increases and regrades	270,605
Employer fringe benefit increases	281,039
Health insurance premium	322,792
Eminent Scholar	29,989
VIVA Interlibrary loan allocation	4,690
Payroll loan reversion	(958,491)
Adjusted appropriation	$50,337,304

11. COMMITMENTS

At June 30, 2007, the University was committed to construction contracts totaling approximately $41,305,071. Outstanding commitments on these contracts totaled $5,066,638 as of June 30, 2007.

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, 2007, was $1,149,963.

The City of Newport News lease contains an escalation clause, which allows for a base rent adjustment every two years. The percentage increase is equal to one-half of the percentage increase of the consumer price index for the corresponding period.

Norfolk State University has as of June 30, 2007, the following total future minimum rental payments due under the above leases:

Year	Operating Lease Obligation
2008	$ 1,090,257
2009	1,098,047
2010	1,051,769
2011	909,659
2012	702,747
2013-2017	3,671,046
2018-2022	1,707,326
Total	$ 10,230,851

12. RETIREMENT PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2007. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately $4,489,434 for the year ended, June 30, 2007. The retirement contribution rate was 10.75 percent for fiscal year 2007. Contributions to VRS were calculated using the base salary amount of approximately

$41,231,646 for the year ended June 30, 2007. The University's total payroll was approximately $54,589,230 for the fiscal year ended June 30, 2007.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers rather than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments. 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 $1,310,990 for year ended June 30, 2007. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $12,605,673 for fiscal year 2007.

C. Deferred Compensation Plan

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $95,171 for the fiscal year 2007.

13. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of state service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report.*

14. CONTINGENCIES

A. 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, 2007, the University estimates that no material liabilities will result from such audits or questions.

B. 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.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

16. COMPONENT UNITS

Summary of Statement of Net Assets

	NSU Foundation	The Athletics Foundation of Norfolk State University	Enterprise and Empowerment Foundation at Norfolk State University	Total
Assets:				
Current assets	$ 1,415,616	$ 157,747	$ 2,842,819	$ 4,416,182
Noncurrent assets	16,889,060	282,728	31,747,353	48,919,141
Total assets	18,304,676	440,475	34,590,172	53,335,323
Liabilities:				
Current liabilities	83,220	26,042	348,605	457,867
Noncurrent liabilities	-	-	34,431,397	34,431,397
Total liabilities	83,220	26,042	34,780,002	34,889,264
Net assets	$ 18,221,456	$ 414,433	$ (189,830)	$ 18,446,059

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

	NSU Foundation	The Athletics Foundation of Norfolk State University	Enterprise and Empowerment Foundation at Norfolk State University	Total
Operating revenue	$ 225,835	$ 253,077	$ 4,552,880	$ 5,031,792
Operating expenses	1,569,464	460,855	3,432,677	5,462,996
Operating gain	(1,343,629)	(207,778)	1,120,203	(431,204)
Net nonoperating revenues	4,216,157	246,968	(1,257,109)	3,206,016
Income(loss) before other revenues, expenses, gains or losses	2,872,528	39,190	(136,906)	2,774,812
Net other revenues	515,504	-	-	515,504
Increase (Decrease) in net assets	3,388,032	39,190	(136,906)	3,290,316
Net assets – Beginning of year	14,833,424	375,243	(52,924)	15,155,743
Net assets – End of year	$18,221,456	$ 414,433	$ (189,830)	$18,446,059

17. RESTATEMENT OF BEGINNING NET ASSETS

The following prior period adjustments were made to the beginning net assets previously reported in the University's financial statements at June 30, 2006.

Net assets reported at June 30, 2006	$90,114,965
Change of reporting for Treasury bond programs	(2,134,999)
Net assets reported at July 1, 2006	$87,979,966

Page Left Intentionally Blank

Commonwealth of Virginia

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

March 10, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Norfolk State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Norfolk State University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2007, which collectively comprise the University's basic financial statements 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 reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Norfolk State University as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled "Improve Financial Statement Preparation Process", "Strengthen Controls over Capital Outlay Management", and "Promptly Tag All Equipment", which are described in the section titled "Internal Control and Compliance Findings and Recommendations", to be significant deficiencies in internal controls over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiencies 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters, entitled "Strengthen Controls over Capital Outlay Management Promptly", "Tag All Equipment Properly" and "Complete Employment Eligibility Verification Forms" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has not yet completed the corrective action with respect to the previously reported finding "Strengthen Controls over Capital Project Management." Accordingly, we included this finding in the section entitled "Internal Control and Compliance Findings and Recommendations." The University has taken adequate corrective action with respect to audit findings reported in the prior report that are not repeated in this report.

Report Distribution and Exit Conference

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

We discussed this report with management at an exit conference held on March 3, 2008.

AUDITOR OF PUBLIC ACCOUNTS

JHS/wdh

NSU
NORFOLK STATE UNIVERSITY®

Vice President for Finance and Business
700 Park Avenue, Suite 310 • Norfolk, Virginia 23504-8004
Tel: (757) 823-8011 Fax: (757) 823-8084
Email: finance&business@nsu.edu Web: http://www.nsu.edu

March 7, 2008

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

Dear Mr. Kucharski:

Norfolk State University has reviewed the internal control and compliance findings and recommendations provided by the Auditor of Public Accounts for the fiscal year ending June 30, 2007.

Attached is the University's response and corrective action plan for those findings. Please contact me if you have any questions.

On behalf of Norfolk State University, please extend my appreciation to all of your staff for their professional audit work and recommendations.

Sincerely,

Ralph W. Johnson
Vice President for Finance and Business

Cc: Dr. Carolyn W. Meyers
Mr. Earlie P. Horsey
Ms. Michelle Martin
Mr. Anton V. Kashiri
Mrs. Francine Johnson
Mr. Ernest Ellis

NSU
NORFOLK STATE UNIVERSITY®

Vice President for Finance and Business
700 Park Avenue, Suite 310 • Norfolk, Virginia 23504-8004
Tel: (757) 823-8011 Fax: (757) 823-8084
Email: finance&business@nsu.edu Web: http://www.nsu.edu

Improve Financial Statement Preparation Process

Management Response

Norfolk State University concurs that a more detailed analytical review of the statements should be performed and has already developed a procedure to complete the necessary fluctuation analysis in the next reporting cycle. The new procedure along with a review of prior year adjustments will be performed to ensure the financial statements are prepared accurately.

Strengthen Controls over Capital Project Management

Management Response

While significant progress has been made in the area of capital project management, the University concurs that additional improvements are needed to further strengthen controls. Management remains committed to improving all capital asset processes and ensuring full compliance with state regulations. The University is working towards completing required actions to address all FY06 and FY07 management points in this area. Formal policies and procedures are being developed to ensure adherence and consistent application for monitoring and documenting capital outlay projects. Policies and procedures will be in place by the end of fiscal year 2008 following approval by the Vice President for Finance and Business and Executive Cabinet.

Promptly Tag All Equipment

Management Response

Norfolk State University concurs that equipment delivered directly to other University departments are not promptly tagged. Management will ensure that future equipment purchases delivered directly to other departments are monitored more closely by the Fixed Asset Accountant as well as emphasize the importance of departments to promptly report the delivery of such assets. Additionally, as the current inventory for FY08 is conducted, the Fixed Asset Accountant will tag any items found that do not have tags.

Properly Complete Employment Eligibility Verification Forms

Management Response

Norfolk State University will comply with APA's recommendation that the Human Resources Department review the I-9 process, develop a training program for all applicable human resources staff on the requirements of completing I-9 forms, and develop procedures to continuously review all or a sample of I-9 forms for compliance with federal regulations. Management will ensure that processes are developed by Human Resources to ensure Employment Eligibility Verification forms are completed in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers.

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

UNIVERSITY OFFICIALS

Carolyn N. Meyers, President

Ralph Johnson, Vice President for Finance and Business

Elsie M. Barnes, Vice President for Academic Affairs

Larry Curtis, Vice President for Student Affairs

Adebisi Oladipupo, Vice President for Research and Technology

Paul E. Shelton, Vice President for University Advancement