NORFOLK STATE UNIVERSITY®

2010-2011 Financial Statements

Contents

Letter from the Vice President for Finance and Business 2

Management's Discussion & Analysis 3

Statement of Net Assets 9

Statement of Revenues, Expenses and Changes in Net Assets 10

Statement of Cash Flows 11

Notes to Financial Statements 13

Statement of Operations - Auxiliary Enterprises 33

University Highlights 35

Independent Auditor's Report 37

Board of Visitors and University Administrators 39

This page was intentionally left blank.

NORFOLK STATE UNIVERSITY

Vice President for Finance and Administration
700 Park Avenue, Suite 310, Norfolk, Virginia 23504
Tel: (757) 823-8011 Fax: (757) 823-8048
Web: www.nsu.edu

October 3, 2013

Mr. Eddie N. Moore, Interim President, Chief Executive Officer
and The Board of Visitors
Norfolk State University
700 Park Avenue
Norfolk, VA 23504

The official Financial Statements of Norfolk State University (NSU) for the fiscal year ended June 30, 2011 are hereby submitted. The statements include an accompanying statement of net assets, statement of revenues, expenses, changes in net assets and statement of cash flows, along with accompanying notes and schedules.

These financial statements were prepared in conformity with Generally Accepted Accounting Principles and represent a comprehensive record of the financial position of NSU operations for the fiscal year ended June 30, 2011.

Responsibility for both the accuracy and the completeness of the data and the fairness of presentation, including disclosures is the responsibility of University management. University management assumes full responsibility and to the best of our knowledge and belief asserts that the information is accurate in all material aspects. To provide a reasonable basis for making these representations, University management has established balanced internal controls designed to protect the University's assets from loss, theft and misuse and established an accounting system to compile sufficient reliable information for the preparation of the University's statements.

The Commonwealth of Virginia Auditor of Public Accounts audited and rendered an opinion on the University's financial statements on pages 38 and 39 and issued a report on internal controls titled *"Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters"*, dated September 12, 2013. For purpose of full disclosure, this report is a component of the Financial Statements.

The Governmental Accounting Standard Board (GASB) requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis. This letter, the Management's Discussion and Analysis section and the Auditor of Public Accounts' report should all be read in conjunction to gain enhanced understanding of the University's basic financial statements.

The preparation of the financial statements is a collaborative effort of many staff. All of the staff in the Division of Finance and Administration are to be commended for their efforts in maintaining the fiscal integrity and financial information of the University throughout the year and they are especially recognized and appreciated for the preparation and presentation of the financial statements.

Sincerely,

Gerald E. Hunter
Vice President
Finance and Administration

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the 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, 2011. 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, 2010. 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, 2011. 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," 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 that must be spent for purposes as determined by the donors and/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, 2011	As of June 30, 2010	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Assets:				
Current	$ 38,547	$ 35,152	$ 3,395	9.7%
Capital, net of accumulated depreciation	176,358	154,552	21,806	14.1%
Other non-current	11,120	9,829	1,291	13.1%
Total assets	226,025	199,533	26,492	13.3%
Liabilities:				
Current	16,776	33,849	(17,073)	-50.4%
Non-current	56,907	39,440	17,467	44.3%
Total liabilities	73,683	73,289	394	0.5%
Net Assets:				
Invested in capital assets, net of related debt	124,691	109,316	15,375	14.1%
Restricted	4,063	3,479	584	16.8%
Unrestricted	23,588	13,449	10,139	75.4%
Total net assets	$ 152,342	$ 126,244	$ 26,098	20.7%

In 2011, the University's total net assets increased by $26.10 million mainly due to the completion of construction of Phase II of the new student center. The increase can also be attributed to an overall decrease in expenses (except student aid). The increase of $26.49 million in total assets is related to an increase in amounts due from the Commonwealth for capital projects and an increase in depreciable capital assets as a result of completing construction on Phase II of the new student center. Total liabilities increased $.40 million mainly due to the University's increase in notes payable related to loan from the Commonwealth related to Phase II of the new student center and the bonds recorded as 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)	
	2011	2010	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $10,741 and $8,700	$ 25,557	$ 25,873	$ (316)	-1.2%
Federal grants and contracts	15,710	15,089	621	4.1%
State grants and contracts	946	2,024	(1,078)	-53.3%
Nongovernmental grants and contracts	1,945	1,487	458	30.8%
Public service	536	-	536	100.0%
Auxiliary enterprises, net of scholarship allowances of $11,487 and $10,633	28,016	27,734	282	1.0%
Other operating revenues	419	762	(343)	-45.0%
Total operating revenues	73,129	72,969	160	0.2%
Operating expenses:				
Instruction	33,572	34,286	(714)	-2.1%
Research	7,784	7,182	602	8.4%
Public service	1,264	1,204	60	5.0%
Academic support	15,232	16,472	(1,240)	-7.5%
Student services	5,489	5,304	185	3.5%
Institutional support	10,169	12,002	(1,833)	-15.3%
Operation and maintenance - Plant	7,814	9,012	(1,198)	-13.3%
Depreciation	8,661	8,954	(293)	-3.3%
Student aid	21,956	20,864	1,092	5.2%
Auxiliary activities (Note 8)	21,115	19,840	1,275	6.4%
Loss on Disposal of Equipment	278	0	278	0.0%
Total operating expenses	133,334	135,120	(1,786)	-1.3%
Operating loss	(60,205)	(62,151)	1,946	-3.1%
Net nonoperating revenues and expenses	66,731	64,296	2,435	3.8%
Increase before other revenues, expenses gains, and losses	6,526	2,145	4,381	204.2%
Net other revenues	18,555	7,678	10,877	141.7%
Increase in net assets	25,081	9,823	15,258	155.3%
Net assets - beginning of year	127,261	116,421	10,840	9.3%
Net assets - end of year	$ 152,342	$ 126,244	$ 26,098	20.7%

Operating revenues primarily include tuition and fees, auxiliary enterprises and revenues from grants and contracts. The increase of $.16 million in operating revenues is mainly attributed to an increase in revenue from grants and contracts and auxiliary enterprises revenue as a result of investment in plant and 2011 rate increases.

Total operating expenses decreased $1.79 million in 2011 due to a decrease in functional areas such as Institutional Support, Instruction, Academic Support and Operations and Maintenance. These reductions were in response to anticipated budget cuts from the Commonwealth and offset by an increase in student aid.

The increase of $2.44 million in net non-operating revenues and expenses is mainly attributed to an increase in Pell grant revenues and State Appropriations received in 2011.

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 ($25.18 million), grants and contracts ($18.90 million), and auxiliary enterprises receipts ($28.62 million). Major uses of cash include payments for salaries, wages, and fringe benefits ($74.30 million), payments for services and supplies ($30.55 million), payments for scholarships and fellowships ($16.96 million), and payments for noncapitalized plant improvements and equipment ($6.51 million).

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 ($46.72 million), Pell grants ($19.18 million) and American Recovery and Reinvestment Fiscal Stabilization Grant ($2.52 million). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from bond issues ($18.16 million). Significant cash outflows include the purchase of capital assets ($29.73 million), repayment of principal on capital related debt ($3.22 million), and interest paid on capital debt ($1.88 million). Cash flows from investing activities include proceeds from investment of $5.58 million and bond issuance payment costs ($.16 million). 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)	
	2011	2010	Amount	Percent
Cash flows from operating activities	$ (57,961)	$ (49,576)	$ (8,385)	16.9%
Cash flows from noncapital financing activities	68,610	65,402	$ 3,208	4.9%
Cash flows from capital financing activities	(16,267)	(16,189)	$ (78)	0.5%
Cash flows from investing activities	5,412	77	5,335	6928.6%
Net change in cash	$ (206)	$ (286)	$ 80	

Capital Asset and Debt Administration

Overall, invested in capital assets, net of accumulated depreciation decreased $15.37 million due to the completion of Phase II of the- new student center. Future construction projects include the new library with an anticipated completion date of -December 2011.

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2011 debt service to expenditures ratio was 2.76%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due. New long-term debt was issued in 2011. The University issued Series 2010A Pooled 9D bonds in the amount of $19.46 million for Phase II of the new student center.

Overall, unpaid construction and other related contractual commitments on capital projects decreased from $42,048,832 in 2010 to $18,956,980 in 2011 due to the completion of the new student center. Construction in progress on the remaining contracts totaled $30,166,260 as of June 30, 2011.

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, tuition and fee rates are largely dependent upon ongoing financial support from the state government. State appropriations currently cover 44.3 percent of operating expenses, excluding auxiliary activities and depreciation. To offset the decline in state appropriations for fiscal year 2011, the University's Board of Visitors approved an overall increase of 6.25% in tuition and fees for in-state undergraduates.

The University's financial position improved with an overall increase of $26.10 million in net assets for the 2011 fiscal year. The increase is attributed to auxiliary enterprise revenues and an increase in capital assets (Phase II of new student center).

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. Resources will continue to be closely monitored to ensure the University's ability to counter unknown internal and external issues.

This page was intentionally left blank.

NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2011

ASSETS

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	$ 18,334,572	$ 1,589,461
Cash held for securities lending (Note 2)	118,255	
Short-term investments (Note 2)	36,261	2,496,947
Accounts receivable, Net of allowance for doubtful accounts of $486,612 (Note 3)	2,634,073	-
Contributions Receivable	-	536,395
Due from the Commonwealth	14,821,686	-
Prepaid expenses	2,212,636	113,577
Notes receivable, Net of allowance for doubtful accounts of $97,149	113,333	-
Unamortized bond issuance expense	275,913	1,494,960
Other assets	-	197,015
Total current assets	**38,546,729**	**6,428,355**
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	5,299,878	3,250,501
Appropriation available/due from primary government	3,930,409	-
Investments (Note 2)	-	18,841,659
Contributions receivable, Net of allowance for uncollectible contributions $171,851	-	933,311
Notes receivable, Net of allowance for doubtful accounts of $1,932,027	1,889,940	-
Nondepreciable capital assets (Note 4)	34,952,359	545,384
Depreciable capital assets, net (Note 4)	141,405,570	25,727,155
Total noncurrent assets	**187,478,156**	**49,298,010**
Total assets	**226,024,885**	**55,726,365**

LIABILITIES

Current liabilities:		
Accounts payable and accrued expenses (Note 5)	5,934,557	254,823
Deferred revenue	3,971,766	41,702
Obligations under securities lending	154,516	-
Deposits held in custody for others	2,298,564	-
Long-term liabilities - current portion (Note 6)	4,416,852	181,915
Total current liabilities	**16,776,255**	**478,440**
Noncurrent liabilities (Note 6)	**56,906,946**	**35,544,596**
Total liabilities	**73,683,201**	**36,023,036**

NET ASSETS

Invested in capital assets, Net of related debt	124,690,467	(5,115,889)
Restricted for:		
Nonexpendable:		8,100,262
Expendable:	4,063,066	12,446,303
Unrestricted	23,588,151	4,272,653
Total net assets	**$ 152,341,684**	**$ 19,703,329**

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, 2011

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of $10,741,442	$ 25,557,395	$ -
Federal grants and contracts	15,709,692	-
State grants and contracts	946,274	-
Nongovernmental grants and contracts	1,945,212	-
Public service	535,502	-
Auxiliary enterprises, Net of scholarship allowances of $11,487,422	28,016,236	-
Other operating revenues	418,574	4,850,419
Total operating revenues	**73,128,885**	**4,850,419**
Operating expenses		
Instruction	33,571,895	-
Research	7,783,987	-
Public service	1,264,458	-
Academic support	15,231,769	-
Student services	5,488,738	-
Institutional support	10,168,609	4,164,115
Operation and maintenance - Plant	7,814,233	1,058,058
Depreciation	8,661,207	1,100,116
Student aid	21,955,707	976,619
Auxiliary activities (Note 8)	21,115,481	-
Loss on Disposal of Equipment	277,746	
Total operating expenses (Note 9)	**133,333,830**	**7,298,908**
Operating gain (loss)	**(60,204,944)**	**(2,448,489)**
Nonoperating revenues (expenses)		
State appropriations (Note 10)	46,721,302	-
Investment income net of investment expense	(2,392)	3,859,485
Interest on capital asset - related debt	(1,876,458)	-
Gifts	617,425	1,066,294
Pell grants	19,182,601	-
American Recovery & Reinvestment Fiscal Stabilization Grant	2,522,307	-
Other non-operating revenue (expenses)	(433,605)	392,438
Net nonoperating revenues (expenses)	**66,731,180**	**5,318,217**
Increase (decrease) before other revenues, expenses, gains or losses	6,526,236	2,869,728
Capital bond proceeds	18,160,068	-
Capital gifts and grants	394,619	-
Contributions to permanently restricted endowments	-	645,479
Net other revenues	**18,554,687**	**645,479**
Increase (decrease) in net assets	25,080,923	3,086,840
Restatement of Fund Balance		
Net assets - Beginning of year as restated (Note 16)	127,260,761	16,616,489
Net assets - End of year	**$ 152,341,684**	**$ 19,703,329**

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, 2011

Cash flows from operating activities:	
Student tuition and fees	25,179,130
Grants and contracts	18,941,970
Public Service	535,502
Auxiliary enterprises	28,576,979
Other receipts	301,897
Payments to employees	(58,093,359)
Payments for fringe benefits	(15,876,944)
Payments for services and supplies	(30,711,159)
Payments for utilities	(3,728,169)
Payments scholarships and fellowships	(16,963,966)
Payments for noncapitalized plant improvements and equipment	(6,245,979)
Collections of loans from students	6,842,982
Loans issued to students	(6,719,921)
Net cash used by operating activities:	(57,961,037)
Cash flows from noncapital financing activities:	
State appropriations	46,721,302
Gifts and grants for other than capital purposes	617,426
Direct lending receipts	60,140,220
Direct lending payments	(60,193,391)
Agency receipts	46,724,461
Agency payments	(46,671,291)
Pell grant receipts	19,182,601
American Recovery & Reinvestment Fiscal Stabilization Grant receipts	2,522,307
Other non-operating revenues (expenses)	(433,605)
Net cash provided by noncapital financing activities	68,610,030
Cash flows from capital financing activities:	
Capital gifts	394,619
Proceeds from bond issues	18,160,068
Purchase of capital assets	(29,727,918)
Principal paid on capital debt, leases, and installments	(3,217,684)
Interest paid on capital debt, leases, and installments	(1,876,458)
Net cash provided capital financing activities	(16,267,373)
Cash flows from investing activities:	
Interest on investments	(2,392)
Proceeds from Investment	5,579,648
Payment of bond issue cost	(165,079)
Net cash provided by investing activities	5,412,177
Net increase (decrease) in cash	(206,203)
Cash and cash equivalents-Beginning of the year	23,840,653
Cash and cash equivalents-End of the year	$ 23,634,450

Reconciliation of Net Operating Loss to Net Cash used by operating activities:

Operating loss	$	(60,204,944)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		8,661,207
Loss on Disposal of Equipment		277,746
Changes in assets and liabilities:		
Receivables, net		780,975
Due from the Commonwealth		(3,518,743)
Appropriaiton Available/Due from Primary Govt		144,555
Notes receivable, net		123,061
Prepaid expenses		(1,580,325)
Accounts payable and accrued expenses		(2,270,186)
Deferred revenue		(257,706)
Deposits held in custody of others		(116,677)
Net cash used by operating activities	$	(57,961,037)

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

NORFOLK STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011

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 No. 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 a development called the Marie V. McDemmond Center for Applied Research. 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 Assistant Vice President for Advancement/Fiscal Officer for Foundations, 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, 2011 the Norfolk State University Foundation and the Norfolk State Athletic Foundation made distributions of $617,425 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.

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 No. 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

Prepaids are reported using the purchase method whereby purchases are recorded as expenses when acquired and adjusted for unused benefits at the end of the fiscal year. As of June 30, 2011, 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, intangible assets 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 University holds a number of patents which were obtained with the sole intent of earning revenue in the future. As such, they do not meet the capitalization criteria of an intangible asset set out in GASB 51 and are not included in Capital Assets. The University also includes any software development projects in excess of $100,000 as an intangible asset capitalizable under GASB 51 and included in Other Improvements and Infrastructure. Any software purchased prior to July 1, 2009 was modified to the extent that it became internally generated software and is not required to be retroactively capitalized under GASB 51. The University has chosen not to retroactively capitalize internally generated software. 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 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 25 years
Library materials - 5 years
Intangible assets – 3 to 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, 2011. 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

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds. Cash is defined as demand deposits, non-negotiable time deposits, and certificates of deposit in accordance with Section 2.2-4400, et seq., Code of Virginia. Cash equivalents are defined as investments with a maturity of less than three months. 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.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act). Under the Act, banks and saving institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice will pledge collateral that ranges in amounts form 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

A. 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, 2011, 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.

B. 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. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Details of the General Account securities lending program are included in the Commonwealth's *Comprehensive Annual Financial Report*.

C. Credit & Concentration of Credit Risks

Cash equivalents:	Fair Value	0-3 months	Credit Rating
Repurchase agreements	$ 3,589,443	$ 3,589,443	AAA
Money market funds	851,487	851,487	A-1
SNAP	3,827,907	3,827,907	AAAm
Securities lending	118,255	118,255	Unrated
Investments:			
Securities lending	36,261	36,261	Unrated
Totals	$ 8,423,353	$ 8,423,353	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2011:

Student tuition and fees	$1,834,879
Federal, state, and nongovernmental grants and contracts	1,285,806
Gross receivables	3,120,685
Less: Allowance for doubtful accounts	(486,612)
Net accounts receivable	$2,634,073

Accounts Receivable-Component Units

Included in accounts receivable for component units are amounts due from federal government grants and from the University. The component units are Enterprise and Empowerment, Athletics, and the Norfolk State University Foundations. These receivables are considered fully collectible by Management.

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, 2011:

Contributions currently due	$ 140,128
Contributions due in one to five years	1,105,285
Contributions due in more than five years	36,000
Less – time value discount	(176,251)
Less- allowance for uncollectible pledges	(171,851)
Non-current contributions receivable	793,183
Total contributions receivable	$ 933,311

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2011, is presented as follows.

	Beginning Balance 7/1/2010	Additions	Reductions	Ending Balance June 30, 2011
Nondepreciable Capital assets:				
Land	$ 4,786,099	$ -	$ -	$ 4,786,099
Construction In Progress	19,529,412	28,263,167	17,626,319	30,166,260
Total nondepreciable capital assets	24,315,511	28,263,167	17,626,319	34,952,359
Depreciable capital assets:				
Buildings	219,680,863	17,626,320	-	237,307,183
Infrastructure	5,394,616	-	-	5,394,616
Equipment	28,183,406	1,397,428	781,059	28,799,775
Other improvements	60,823	-	-	60,823
Library materials	7,537,407	67,327	425,474	7,179,260
Total depreciable capital assets	260,857,115	19,091,075	1,206,533	278,741,657
Less accumulated depreciation for:				
Buildings	98,502,346	6,812,953		105,315,299
Infrastructure	5,217,496	49,641	-	5,267,137
Equipment	19,336,555	1,426,101	503,313	20,259,343
Other improvements	31,919	3,622	-	35,541
Library materials	6,515,351	368,890	425,474	6,458,767
Total accumulated depreciation	129,603,667	8,661,207	928,787	137,336,087
Depreciable capital assets, Net	131,253,448	10,429,868	277,746	141,405,570
Total capital assets, Net	$ 155,568,959	$ 38,693,035	$ 17,904,065	$ 176,357,929

Capital Assets – Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk State University	Total
Nondepreciable capital assets:				
Land	$ 24,310	$ -	$ -	$ 24,310
Development Costs	-	-	521,074	521,074
Total nondepreciable capital assets	24,310	-	521,074	545,384
Depreciable capital assets:				
Building	-	-	28,137,869	28,137,869
Equipment	816,014	36,501	2,495,760	3,348,275
Total depreciable capital assets	816,014	36,501	30,633,629	31,486,144
Less accumulated depreciation	(507,047)	(30,957)	(5,220,985)	(5,758,989)
Total depreciable capital assets, net	308,967	5,544	25,412,644	25,727,155
Total capital assets, net	$ 333,277	$ 5,544	$ 25,933,718	$ 26,272,539

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2011:

Vendors and suppliers accounts payable	$ 687,808
Employee salaries, wages, and fringe benefits payable	4,548,682
Accrued interest payable	628,424
Spartan Suites rent and scholarships	69,643
Total accounts payable and accrued liabilities	$5,934,557

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, 2011, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds Payable 9c and 9d	$ 7,348,504	$ -	$ 1,633,026	$ 5,715,478	$ 633,496
Notes Payable *(NP)*	20,092,796	19,460,000	418,120	39,134,676	1,072,632
Installment Purchases	10,800,742	-	1,703,335	9,097,407	316,381
Unamortized Bond Premium	328,235	861,457	38,068	1,151,624	38,068
Total long-term debt	38,570,277	20,321,457	3,792,549	55,099,185	2,060,576
Accrued compensated absences	3,476,462	1,441,279	1,524,531	3,393,210	1,011,448
Capital project retainage payable	611,104	1,344,827	611,104	1,344,827	1,344,827
Federal Loan capital contributions	1,486,576	-		1,486,576	-
Deferred Gain of early retirement of c	51,654	-	51,654	-	-
Total Long-Term liabilities	$ 44,196,073	$ 23,107,563	$ 5,979,838	$ 61,323,798	$ 4,416,852

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, 2011, 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 2.7008 percent to 3.757 percent.

		Interest Rates (%)	Maturity	Balance at June 30, 2011
Revenue bonds:				
Dormitories:				
	Phyllis Wheatley & Rosa Alexander 1985 (d)	3.00	2022	1,560,478
Athletic Facility:				
	Dick Price Stadium Series 1996 (d)	5.125 - 5.375	2018	4,155,000
Cafeteria:				
	Total revenue bonds			5,715,478
Notes payable:				
Brambleton Center, Series 1998			2019	205,251
Student Center 2004 (d)		3.25 - 5.00	2036	19,625,000
Student Center 2010 (d)		2.00 - 5.00	2031	19,460,000
	Total notes payable			39,290,251
	Unamortized bond premium			1,151,624
	Less: Unamortized bond discount			(155,574)
	Net notes payable			$ 40,286,301
Installments payable:				
MELP		2.7008-3.757	2012	43,636
Energy Lease Project		3.739 - 4.500	2016 - 2021	9,053,770
	Net installments payable			9,097,406
	Total			$ 55,099,185

Long term debt matures as follows:

Year Ending	Principal	Interest
2012	2,038,791	2,189,088
2013	2,792,063	2,372,759
2014	2,920,122	2,245,100
2015	3,054,820	2,111,501
2016	3,191,215	1,971,340
2017-2021	14,255,235	7,789,169
2022-2026	9,065,889	5,283,078
2027-2031	10,880,000	2,843,528
2032-2036	5,905,000	726,869
Unamortized Premium	1,151,624	0
Unamortized Discount	(155,574)	0
Total	$55,099,185	$27,532,432

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 July 1, 2008. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006. The balance due on this loan as of June 30, 2011 was $31,805.000.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principal payments to be escrowed by the Foundation beginning July 1, 2008 through July 1, 2015, secured by property and equipment is $1,210,000. The balance as of June 30, 2011 was $831,790.

Notes payable to bank, with monthly payments of $4,326 including interest of 4.25% beginning August 31, 2010 through March 14, 2016 secured by receivables. The balance as June 30, 2011 was $246,598.

As of June 30, 2011, the Enterprise and Empowerment Foundation's bonds and notes payable mature as follows:

Future principal payments are as follows:

2012	$ 181,915
2013	236,915
2014	306,915
2015	371,915
2016	1,270,278
2017-2021	3,340,000
2022-2026	6,270,000
2027-2031	10,385,000
2032-2036	10,520,000
	$ 32,883,388.

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% rate and receives interest at 67% of LIBOR. The net interest gain of $579,392 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. The balance as of June 30, 2011 was $2,785,409.

In conjunction with the bond issuance, the University signed a support agreement with the Enterprise and Empowerment Foundation of Norfolk State University stating that the project will be an equal part of the Student Housing Program, provide preferential treatment to provide 95% occupancy if the debt service coverage ratio is less than 1.2 to 1, and limit additional housing projects.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2011. Additionally, the University used auxiliary revenues to pay debt service of $1,967,025. This amount is not included in the auxiliary operating expenses below.

Revenues:	
Residential, net of scholarship allowances of $2,931,056	$ 7,148,442
Athletics, net of scholarship allowances of $3,425,906	8,355,312
Food services, net of scholarship allowances of $1,920,333	4,683,427
Auxiliary enhancement, net of scholarship allowances of $523,984	1,277,926
Student activities, net of scholarship allowances of $693,992	1,692,550
Other auxiliary revenues, net of scholarship allowances of $1,992,151	4,858,580
Total auxiliary enterprises revenues	$28,016,236
Expenses:	
Residential	$ 4,880,206
Athletics	8,575,224
Food services	3,837,641
Auxiliary enhancement	650,408
Student activities	1,848,083
Other auxiliary expenses	1,323,919
Total auxiliary enterprises expenses	$21,115,481

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	Fringes Benefits	Services and Supplies	Scholarship and Fellowship	Utilities	Plant and Equipment	Depreciation	Total
11 Instruction	$ 25,359,306	$ 6,433,079	$ 960,489	$ 67,030	$ -	$ 751,992	$ -	$ 33,571,895
12 Research	3,186,029	685,652	1,173,033	1,001,709	-	1,737,565	-	$ 7,783,987
13 Public Service	607,420	138,191	311,656	67,177	-	140,015	-	$ 1,264,458
14 Academic Support	7,657,920	2,020,159	2,730,874	(124,460)	-	2,947,275	-	$ 15,231,769
15 Student Services	3,368,615	1,021,447	901,017	32,625	-	165,034	-	$ 5,488,738
16 Institutional Support	8,546,276	2,480,463	(1,796,801)	-	905,762	32,911		$ 10,168,609
17 Operation and Maintence-Plant	3,675,566	1,442,793	1,234,045	-	1,819,949	(358,120)	-	$ 7,814,233
Depreciation	-	-	-	-	-	-	8,661,207	$ 8,661,207
Loss on Disposal of Equipment						277,746		$ 277,746
18 Scholarship and Fellowship	-	-	-	21,955,707	-	-	-	$ 21,955,707
19 Auxiliary Activities	5,885,931	1,655,159	17,894,125	(6,035,821)	1,002,458	713,629	-	$ 21,115,481
Total	58,287,061	15,876,944	23,408,437	16,963,966	3,728,169	6,408,045	8,661,207	133,333,830

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:	
Educational and general programs	$39,807,466
Student financial assistance	6,754,328
Adjustments:	
Salary annualization, increases & regrades	601,713
CSAP	200,170
Interest earnings on educational and general programs	83,082
Virginia Military Survivors and Dependents	47,193
Eminent Scholar	8,399
VIVA ILL allocation	4,920
College Transfer	2,500
Budget Reduction	(788,469)
Adjusted appropriation	$46,721,302

11. COMMITMENTS

At June 30, 2011, the University was committed to construction contracts totaling approximately $37,408,567. Outstanding commitments on these contracts totaled $18,956,980 as of June 30, 2011.

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, 2011, was $1,463,593.

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, 2011, the following total future minimum rental payments due under the above leases:

Year	Operating Lease Obligation
2012	$ 169,498
2013	610,535
2014	626,598
2015	642,120
2016	659,651
2017-2020	2,226,066
Total	$ 4,934,468

12. RETIREMENT PLANS

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2011. 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 $2,621,129 for the year ended, June 30, 2011. Changes to

the Commonwealth's VRS plan were made effective July 1, 2010 which required individuals hired on July 1, 2010 and thereafter to contribute 5% toward VRS. For Plan 1 employees, hired prior to July 1, 2010, employee contributions were assumed by the employer at a rate of 11.58% and 18.09% for University Police. For Plan 2 participants, hired on or after July1, 2010, the contributions that were assumed by the employer were 6.58% and 13.09% for University Police. Contributions to VRS were calculated using the base salary amount of approximately $36,115,350 for the year ended June 30, 2011. The University's total payroll was approximately $51,801,188 for the fiscal year ended June 30, 2011.

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 $1,214,838 for year ended June 30, 2011. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $11,732,525 for fiscal year 2011.

Deferred Compensation Plan

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 month. 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 $41,803 for the fiscal year 2011.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain 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, 2011, the University estimates that no material liabilities will result from such audits or questions.

Litigation

To its knowledge, the University has not been named as a defendant in a lawsuit and has no potential legal liability.

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. PRIOR PERIOD ADJUSTMENT

The beginning fund balance was adjusted for a prior loss and differences in property and equipment depreciation that was not recorded. Such adjustments has no effect on the current increase on net assets.

Fund Balance, as originally stated	$	126,244,132
Adjustment		1,016,629
Fund Balance, restated	$	127,260,761

17. SUBSEQUENT EVENTS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2012 and 2013, $52,272,414 in funding for the construction of the Nursing Classroom Building and renovations of the Wilder Center has been provided to the University from the 21st Century Program that is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

In fiscal year 2012, Norfolk State University refunded 2004A Debt for the Student Center in the amount of $7,865,000.

18. COMPONENT UNITS

As of June 30, 2011

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk state University	Total
Assets:				
Current assets	$ 769,404	$ 79,144	$ 2,227,248	$ 3,075,796
Noncurrent assets	22,337,668	173,746	30,139,155	52,650,569
Total assets	23,107,072	252,890	32,366,403	55,726,365
Liabilities:				
Current liabilities	79,775	27,790	370,875	478,440
Noncurrent liabilities	57,714	-	35,486,882	35,544,596
Total liabilities	137,489	27,790	35,857,757	36,023,036
Net Assets	$22,969,583	$ 225,100	$(3,491,354)	$19,703,329

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2011

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk State University	Total
Operating revenues	$ 147,145	$ 302,041	$ 4,401,233	$ 4,850,419
Operating expenses	2,491,090	476,488	4,759,697	7,727,275
Operating gain	(2,343,945)	(174,447)	(358,464)	(2,876,856)
Net nonoperating revenues	4,203,180	183,134	931,903	5,318,217
Income (loss) before other revenues, expenses, gains or losses	1,859,235	8,687	573,439	2,441,361
Net other revenues	645,479	-	-	645,479
Increase (Decrease) in net assets	2,504,714	8,687	573,439	3,086,840
Net assets - Beginning of year	20,464,869	216,413	(4,064,793)	16,616,489
Net assets - End of year	$22,969,583	$ 225,100	$(3,491,354)	$19,703,329

NORFOLK STATE UNIVERSITY
AUXILIARY ENTERPRISES STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2011

	Total	Food Services	Residential Services	Student Activities	Auxiliary Security	Student Center	Athletics
REVENUES							
Student Fees	19,160,070	-	-	2,263,304	1,504,393	1,382,441	9,966,007
Sales and Services	20,356,219	6,603,760	10,079,498	123,238	-	1,346	1,815,211
Investment Income	-	-	-	-	-	-	-
Other Fund Additions	-	-	-	-	-	-	-
TOTAL REVENUES & OTHER FUND ADDITIONS	**39,516,289**	**6,603,760**	**10,079,498**	**2,386,542**	**1,504,393**	**1,383,787**	**11,781,218**
EXPENSES OF OPERATIONS							
Personal Service	6,045,700	-	1,554,571	68,915	364,184	331,047	2,727,668
Fringe Benefits	1,655,158	-	530,529	3,183	106,654	103,492	725,299
Supplies and Material	1,896,371	136,702	838,449	134,036	1,649	157,211	515,391
Equipment/Property Improvement	966,640	38,646	421,213	21,329	3,908	12,591	56,567
Current Charges and Obligations	1,667,140	452,247	639,965	242,613	2	7,452	54,183
Scholarships and Fellowships	5,235,993	-	1,087,571	729,725	-	-	3,418,697
Contractual Services	11,513,779	5,130,379	1,457,908	920,442	408,446	199,136	2,466,122
Subtotal	**28,980,781**	**5,757,974**	**6,530,206**	**2,120,243**	**884,843**	**810,929**	**9,963,927**
E & G Indirect Costs	3,879,736	-	1,135,528	368,686	153,864	141,011	1,732,613
Auxiliary Administration	(12,060)	-	81,242	32,333	11,008	10,087	207,332
Total Expense of Operations	**32,848,457**	**5,757,974**	**7,746,976**	**2,521,262**	**1,049,715**	**962,027**	**11,903,872**
Nonoperating Revenue							
Gifts and Grants	317,743	-	-	8,415	-	-	309,328
EXCESS OF REVENUE OVER (UNDER) EXPENSES OF OPERATION	**6,985,575**	**845,786**	**2,332,521**	**(126,305)**	**454,678**	**421,760**	**186,674**
MANDATORY TRANSFERS							
Debt Service	(1,967,025)	-	(925,057)	-	-	-	-
Nonmandatory Transfers	654,481	-	238,704	39,139	3,979	2,266	35,500
NET INCREASE (DECREASE) IN FUND BALANCE	**5,673,032**	**845,786**	**1,646,168**	**(87,166)**	**458,657**	**424,026**	**222,174**
Fund Balance Beginning of Year	**17,827,922**	**4,886,597**	**1,788,426**	**200,920**	**570,929**	**1,030,055**	**1,260,050**
Fund Balance End of Year	**23,500,952**	**5,732,383**	**3,434,594**	**113,754**	**1,029,586**	**1,454,081**	**1,482,224**

Auxiliary Administration	Parking and Transportation	Contingency Fund	Printing Services	Fitness Center	Communication Systems Enhancement	Auxiliary Enhancement	Debt Service	Maintenance Reserve
-	480,376	705,562	-	210,083	201,401	1,090,552	1,355,951	-
-	588,465	-	429,593	3,750	-	711,358	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	**1,068,841**	**705,562**	**429,593**	**213,833**	**201,401**	**1,801,910**	**1,355,951**	**-**
481,983	386,554	-	38,664	92,114	-	-	-	-
28,755	115,755	-	18,623	22,868	-	-	-	-
36,525	32,081	-	12,030	22,382	-	9,915	-	-
15,599	66,333	-	616	15,432	-	2,226	-	312,180
-	1,000	-	268,912	-	-	766	-	-
-	-	-	-	-	-	-	-	-
1,413	54,567	18,090	75,234	10,450	119,804	635,146	16,642	-
564,275	**656,290**	**18,090**	**414,079**	**163,246**	**119,804**	**648,053**	**16,642**	**312,180**
-	114,121	-	72,004	28,387	20,833	112,689	-	-
(822,142)	26,030	-	27,238	2,031	1,490	411,290	-	-
(257,867)	**796,441**	**18,090**	**513,321**	**193,664**	**142,127**	**1,172,032**	**16,642**	**312,180**
-	-	-	-	-	-	-	-	-
257,867	**272,400**	**687,472**	**(83,728)**	**20,169**	**59,274**	**629,878**	**1,339,309**	**(312,180)**
-	-	-	-	-	-	-	(1,041,968)	-
7,200	750	6,013	1,600	7,150	-	-	-	312,180
265,067	**273,150**	**693,485**	**(82,128)**	**27,319**	**59,274**	**629,878**	**297,341**	**-**
227,489	**1,746,887**	**2,000,655**	**(1,118,549)**	**306,541**	**246,032**	**4,018,381**	**663,509**	**-**
492,556	**2,020,037**	**2,694,140**	**(1,200,677)**	**333,860**	**305,306**	**4,648,259**	**960,850**	**-**

NORFOLK STATE UNIVERSITY HIGHLIGHTS

FIVE YEARS IN REVIEW

FALL SEMESTER	2006-07	2007-08	2008-09	2009-10	2010-11
ENROLLMENT					
Total	**6,238**	**6,155**	**6,325**	**6,993**	**6,964**
In-State	4,806	4,844	5,149	5,712	5,752
Out-of-State	1,432	1,311	1,176	1,281	1,212
FRESHMAN APPLICATIONS					
Number of Applications Received	**4,538**	**4,656**	**4,748**	**5,317**	**3,967**
In-State	1,603	1,672	1,816	2,077	1,734
Out-of-State	2,935	2,984	2,932	3,240	2,233
Number of Applications Accepted	**4,453**	**3,132**	**3,238**	**3,348**	**2,521**
In-State	1,562	1,178	1,287	1,410	1,115
Out-of-State	2,891	1,954	1,951	1,938	1,406
Number of Accepted Enrolled	**1,057**	**995**	**1,188**	**1,205**	**942**
In-State	806	719	867	868	710
Out-of-State	251	276	321	337	232
TRANSFER APPLICATIONS					
Number of Applications Received	**827**	**843**	**935**	**1,112**	**1,214**
In-State	405	438	513	641	671
Out-of-State	422	405	422	471	543
Number of Applications Accepted	**750**	**744**	**818**	**954**	**1,042**
In-State	361	383	440	548	576
Out-of-State	389	361	378	406	466
Number of Accepted Enrolled	**362**	**358**	**366**	**428**	**471**
In-State	293	280	298	353	380
Out-of-State	69	78	68	75	91
GRADUATE APPLICATIONS					
Number of Applications Received	**330**	**328**	**310**	**498**	**433**
In-State	205	207	218	292	257
Out-of-State	125	121	92	206	176
Number of Applications Accepted	**297**	**279**	**261**	**448**	**346**
In-State	187	182	186	263	218
Out-of-State	110	97	75	185	128
Number of Accepted Enrolled	**266**	**237**	**195**	**333**	**225**
In-State	148	164	159	274	193
Out-of-State	118	73	36	59	32
TUITION AND FEES					
Undergraduate					
In-State	$5,056	$5,322	$5,560	$5,872	$6,327
Out-of-State	$15,376	$16,242	$16,807	$17,931	$19,380
Graduate					
In-State	$6,820	$7,182	$7,658	$8,069	$8,577
Out-of-State	$20,572	$21,726	$22,457	$23,804	$25,534
ROOM AND BOARD					
Total Room & Board	**$6,667**	**$6,909**	**$7,116**	**$7,329**	$7,927
Room Rates	$4,233	$4,402	$4,534	$4,670	$5,051
Board Rates	$2,434	$2,507	$2,582	$2,659	$2,876

UNRESTRICTED CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
Years Ended June 30

	2006-07	2007-08	2008-09	2009-10	2010-11
Revenues					
Student Tuition and Fees	$ 29,278,424	$ 26,918,139	$ 29,158,740	$ 31,810,673	$ 33,546,064
State Appropriations	45,228,371	46,130,592	44,935,008	38,986,387	39,708,712
Gifts, Grants, & Contracts	1,759,600	3,252,547	2,634,783	6,231,484	5,297,508
Sales and Services Auxiliary Enterprises	29,974,852	31,811,785	34,257,210	38,122,774	39,099,151
Other Sources	118,448	670,751	764,540	724,032	708,720
Total Current Revenues	**$ 106,359,695**	**$108,783,814**	**$111,750,281**	**$ 115,875,350**	**$ 118,360,155**
Expenditures & Mandatory Transfers					
Educational & General	$ 78,038,294	$ 77,934,136	$ 76,704,401	$ 75,094,911	$ 73,805,617
Auxiliary Enterprises	24,959,044	27,411,548	30,777,965	32,529,758	34,102,878
Total Expenditures & Mandatory Transfers	105,203,627	107,715,017	109,824,486	109,880,459	109,875,519
Other Transfers and Additions (Deductions)	2,993,059	279,380	11,157	144,725	312,180
Net Increase (Decrease) in Fund Balances	**$ 4,149,127**	**$ 1,348,176**	**$ 1,936,952**	**$ 6,139,616**	**$ 8,796,816**
GENERAL FUND APPROPRIATIONS AND OTHER REVENUES					
State General Fund Appropriations	$ 45,228,371	$ 46,130,592	$ 44,935,008	$ 38,986,387	$ 39,708,712
Other Revenues	61,131,324	62,653,222	66,815,273	76,888,963	78,651,443
Total	**$ 106,359,695**	**$108,783,814**	**$111,750,281**	**$ 115,875,350**	**$ 118,360,155**
FINANCIAL AID					
Loans	$ 26,155,567	$ 38,193,866	$ 48,990,167	$ 50,438,164	$ 57,567,135
Grants/Scholarships	26,958,998	24,928,123	27,709,624	34,341,320	30,004,780
Other	1,305,008	652,649	1,008,823	3,684,844	1,728,385
Total	**$ 54,419,573**	**$ 63,774,638**	**$ 77,708,614**	**$ 88,464,328**	**$ 89,300,300**

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 12, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2011, 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 to 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 aggregate discretely presented component units of the University as of June 30, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2013, on our consideration of Norfolk State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

An audit of financial statements typically involves the application of tests of internal control to reduce the substantive testing required to obtain reasonable assurance over financial statement balances and results of operations. As a result of numerous deficiencies in internal control identified during audit planning, the audit of the fiscal year 2011 financial statements of Norfolk State University required us to perform significant substantive audit procedures in order to obtain sufficient evidence to support the financial statements. The aforementioned report on internal control includes material weaknesses and significant deficiencies in internal control, as well as other matters of noncompliance. In addition, a separate letter outlining less significant, but nevertheless important, deficiencies in internal control has been provided to University management.

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 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.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the University. The Auxiliary Enterprises Statement of Operations, Norfolk State University Highlights, and Unrestricted Current Fund Revenues, Expenditures, and Other Changes schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Auxiliary Enterprises Statement of Operations, Norfolk State University Highlights, and Unrestricted Current Fund Revenues, Expenditures, and Other Changes schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

EMS/clj

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

BOARD OF VISITORS

Edward L. Hamm, Jr., Rector

Gary T. McCollum, Vice Rector

Lauren R. Tucker, Ph.D., Secretary

Willie L. Brown
Peter G. Decker, Jr.
D. Mychael Dickerson
Teresa M. Gladney
Stanley Green, Jr.
Howard P. Kern
Christel L. Lewis
Henry D. Light
Wade W. Perry, Jr.
Bobby Norris Vassar

OFFICIALS

Kim Luckes, Acting President

Clarence Coleman, Provost

Regina V. K. Williams, Interim Vice President for Finance and Administration

Sharon B. Lowe, Vice President for Student Affairs

Joseph C. Hall, Interim Vice President for Research and Economic Development

Phillip D. Adams, Vice President for University Advancement

*Represents Board of Visitors and University Administrators as of June 30, 2011