

Virginia State University



Financial Statements
For Year Ended
June 30, 2008

**Virginia State University
Annual Financial Report 2007-2008**

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LETTER FROM THE PRESIDENT



When I was asked to lead Virginia State University into the 21st century, I thought long and hard about the challenge. Looking back, I am glad I accepted the position and glad I saw the possibilities. I know I made the right decision. Early in my career, I identified three goals – Academic Excellence, Financial Stability, and Technology Superiority – to position the University for success. When I retire in June 2010, I hope Virginia State University will be much better for the 16 years that I spent here.

We have accomplished much, but we are far from finished. Our success has spurred us to reach even further, to test the limits of what this University can become. Our blueprint for the future – our **20/20 Vision Plan** – exhorts us to expand academic opportunities for students, to pursue an aggressive research agenda, to redesign our campus, to recruit and retain top quality senior management, faculty and students, to maximize our fundraising opportunities, and to strengthen community outreach throughout Virginia. The accomplishments listed within this report are indicative of how far we have come and how close we are to attaining our goals.

Aristotle once said “Excellence is not an act, it is a habit.” At Virginia State, we have made educational excellence an integral part of who we are and how we operate. We continue to expand and add new academic programs in criminal justice, computer science, engineering, plant science, and music technology. VSU now offers the state’s first PH.D. program in Health Psychology.

VSU continues to meet all accreditation requirements. The Southern Association of Colleges and Schools (SACS), a regional accrediting body of degree-granting higher education institutions in the Southern states, evaluated the University’s performance and compliance with specific standards and operational policies. We were fully reaffirmed with no condition. We were also accredited by the Accreditation Board for Engineering and Technology (ABET), the National Association of Schools of Art and Design (NASAD), and the Association of Advance Collegiate Schools of Business (AACSB). The Nursing Accreditation Board is currently reviewing our nursing program, and we are expecting to be fully accredited. Our Professional Education Programs Unit is fully accredited by the National Council for Accreditation of Teacher Education (NCATE).

A decline in enrollment in 2006 and 2007 led me to establish an Enrollment Projection Task Force to study the enrollment projection process. As a result, we have improved our recruiting strategies which have resulted in upward growth. In the Fall of 2008, nearly 1,400 freshmen enrolled at VSU for the 2008-2009 academic year. This represented an increase of more than 30 percent over the 2007 freshman class. In the Fall of 2008, Virginia State enrolled more than 5,000 students. That growth continued into Spring 2009, when VSU experienced its largest Spring enrollment ever.

Virginia State has received long overdue and much deserved national recognition. *U.S. News & World Report* named VSU the finest public HBCU in America, among master’s level institutions in 2007 and 2008; fourth best public HBCU overall; and 14th best HBCU (public and private) in the country.

Additionally, *Diverse Issues in Higher Education* ranked VSU 25th among all colleges in the United States in awarding bachelor’s degrees to African Americans in 2006-2007 academic year. Our Engineering and Science Program continues to make great strides. The latest ranking from *The National Science Foundation* ranks VSU 259th in research. This ranking places us only 9 spots below our 20/20 goal of a

LETTER FROM THE PRESIDENT

ranking of 250. The U.S. Army has ranked Virginia State University's ROTC program as the top HBCU program in the country. These rankings are indicative of our dedication and commitment to providing our students an unmatched educational experience.

For the 16th straight year, the University earned an unqualified opinion from the Auditor of Public Accounts (APA) on its financial statements. In addition, the University continues to maintain compliance with the Governor's budgetary mandates, comply with the Agency Risk Management and Internal Control (ARMICS) directives mandated by the State Comptroller, and meet all Commonwealth of Virginia finance, administrative, and academic standards for the Higher Education Restructuring Act.

The *Campus Master Plan* provides a roadmap that will transform the University. Its physical changes include new buildings, additions and renovations of existing buildings, and campus-wide improvements that will dramatically improve academics and the quality of student life on campus. The completed construction and renovation activities included the Engineering and Technology building, Gandy Hall, Gateway Village Phase I, and Rogers Stadium.

On the horizons, we will continue to advance the University with new academic programs, maintain affordable tuition and fees, continue growth in enrollment, and build new buildings and facilities to accommodate the growth. We plan to renovate and expand Hunter-McDaniel Hall, expand Daniel Gymnasium, and construct the Multipurpose Academic Center, Howard Quad Suites, and Gateway Dining Hall. We expect the endowment, currently \$20 million, will continue to increase. This will allow us to continue to attract outstanding faculty as part of our commitment to educate America's best and brightest students. Virginia State University remains a school filled with history and tradition. We are excited about our continued growth and efforts to diversify. In spite of our growth, expansions, and diversity, we will remain true to our mission: to provide opportunities to a diverse population of underserved students and to be the best educational value in Virginia.

Sincerely,

Eddie N. Moore, Jr.

Eddie N. Moore, Jr.
President

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE



On behalf of the Virginia State University Board of Visitors, its students, faculty, staff, administration and alumni, I am pleased to present the Virginia State University Fiscal Year 2008 Annual Financial Report. Virginia State University's financial statements have earned an unqualified "clean" audit opinion from the State of Virginia's Auditor of Public Accounts for the 16th consecutive year.

This past year has been one of both rewards and challenges for Virginia State University. The economic downturn of both the State and the country forced us to take a hard look at our programs, infrastructure, finances and future. I am happy to report that after enduring three back-to-back General Fund budget reductions, the University's financial health remains strong. The President's establishment of the Enrollment Projection Task Force provided a deliberate strategy that permitted VSU to weather these storms. Encouraged by the manifestation of seeing the largest freshmen enrollment and the largest spring enrollment in VSU's history, we approach the next biennium with optimism and expectancy.

Our budget remains balanced despite the fact that the state's revenue allocation has slowed considerably as a result of the increasing weakness in the overall national economy. Ever mindful of the challenging economic environment, we are working to balance available revenues against expenses, while continuing to advance the University's mission, programs and the goals in our *20/20 Vision Plan*. The accompanying Management Discussion and Analysis highlight many outstanding accomplishments during the past fiscal year. These accomplishments cover a host of areas where the University is advancing, including its national rankings, the academic program offerings, the amount and scope of its research activities, fundraising and its infrastructure.

As stated in the President's Letter, the University continues to meet the financial performance measures in the Higher Education Restructuring Act and continues to maintain a strong set of internal controls and business practices as evidenced by the historical positive results of external audit activities. In FY08, the University made further improvements and investment in its internal control structure and monitoring through the implementation of a Department of Accounts initiative called Agency Risk Management and Internal Control Systems (ARMICS). These new standards require the University to evaluate its internal controls and risks annually and test the controls to ensure that they are working as designed. Assessment and testing was performed in all major fiscal processes in the Controller's Office and this effort will be expanded to other areas in FY 2009 and in subsequent fiscal years.

I recognize the importance of the University's infrastructure in its quest to remain competitive and grow. With that in mind, Administration and Finance continues to deliberately advance toward a new era of higher education infrastructure as outlined in the Campus Master Plan. During FY08, VSU with assistance from the Virginia

State University Foundation began expanding the campus footprint by acquiring properties adjacent to the campus. In addition, the University recognizes the importance of maintaining quality facilities on campus and spent and committed over \$600 thousand in deferred maintenance projects over the past fiscal year. Given the growth of the facility inventory and complexity of modern buildings and equipment, the University also implemented the Facilities Inventory and Condition Assessment (FICAS) program to improve monitoring and provide a benchmark for future improvement.

In addition to these major initiatives, VSU recognizes the importance of community involvement in its campus growth. The Master Plan highlights numerous collaborative ventures that will encourage partnerships with surrounding cities and counties, VSU Foundations, VSU Alumni; as well as other private entities.

Despite being faced with economic downturns and financial reductions in FY08, Virginia State University continued its momentum toward greatness. We are uniquely positioned to meet the immediate and long term fiscal challenges through our constant vigilance over financial processes and methods. As we look ahead, my primary objectives are to surpass the growth and success experienced during FY08, ensure that VSU remain a financially viable institution, and continue to meet the needs of our students, faculty and staff, as well as other constituents.

I would like to commend the many employees throughout the Administration and Finance team, especially the Controller's Office, who have worked diligently to guarantee a successful closure of VSU's books. They have again ensured that our records meet the highest standards required for an unqualified audit opinion.

Sincerely,

David J. Meadows

David J. Meadows,
Vice President for Administration and Finance

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING AND INTERNAL CONTROLS

The information in this Annual Financial Report, including the accompanying basic financial statements, notes, management's discussion and analysis, and other information is the responsibility of Virginia State University executive management. Responsibility for the accuracy of the financial information and fairness of its presentation, including all disclosures, rests with the management of the University. Management believes the information is accurate in all material respects and fairly presents the University's revenues, expenses, and changes in net assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the university's operations for the year ended June 30, 2008.

The administration is responsible for establishing and maintaining the university's system of internal controls. Key elements of the university's system of internal controls include: careful selection and training of administrative personnel; organizational structure that provides appropriate division of duties; thorough and continuous monitoring, control, and reporting of operating budgets versus actual operating results; well communicated written policies and procedures; annual self-assessments led by the Controller's Office; and an internal audit function. Although there are inherent limitations to the effectiveness of any system of accounting controls, management believes that the University's system provides reasonable, but not absolute, assurances that assets are safeguarded from unauthorized use or disposition, and accounting records are sufficiently reliable to permit preparation of financial statements and appropriate accountability for assets and liabilities.

The Finance, Audit and Facilities Committee of the Virginia State University Board of Visitors reviews the University's accounting practices. The Board meets with external independent auditors annually to review the Annual Financial Report and results of audit examinations. The committee also meets with internal auditors and University financial officers quarterly. These meetings include a review of the scope, quality, and results of the internal audit program.

The Auditor of Public Accounts (APA), the office of the Commonwealth of Virginia's auditors, has examined these annual financial statements and their report thereon appears on the facing page. Their examination includes a study and evaluation of the University's system of internal controls, financial systems, policies, and procedures, resulting in the issuance of a management letter describing various issues they consider worthy of management's attention. The University has implemented policies and procedures for the adequate and timely resolution of such issues. No material weaknesses were found on internal control matters by the APA for the fiscal year ended June 30, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

Introduction

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University (the University) for the fiscal year ended June 30, 2008. This overview has been prepared by management and should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2007, has been provided where applicable. Virginia State University is an agency of the Commonwealth of Virginia and is governed by an eleven member Board of Visitors. The Commonwealth has the authority to exercise oversight over the University. The University has two major divisions, the academic colleges and the Cooperative Extension and Agricultural Research Services. The University is a component unit of the Commonwealth and is included in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The financial statements referred to above were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB).

The University is one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. The University, founded in 1882, was designated a land grant institution in 1920, and attained University status in 1979. The University offers programs at the doctoral, graduate, and undergraduate levels in science, education, humanities, social sciences, and business.

Highlights for Fiscal Year 2007-2008

- Virginia State University is accredited by the Commission on Colleges and Schools of the Southern Association of Colleges and Schools (SACS.) As such, this compliance certification is probably the most important reaffirmation effort the University can undertake. In 2008, the SACS Review Team performed its review of Virginia State University. VSU was fully reaffirmed with no conditions. It is important to note that the review team was very complimentary of the University's Quality Enhancement Program (QEP).
- Virginia State University (VSU) gained 12 spots in the 2009 *U.S. News and World Report* annual rankings of America's best colleges and universities. VSU's ranking of 63 among master's level universities in the Southern Region put the university near the top of Tier 3. VSU's overall score of 36 was only two points shy of Tier 2.
- For the second consecutive year, VSU was named the nation's highest ranked public Historically Black College and University (HBCU) in the country among master's level institutions.
- *Diverse Issues in Higher Education* recently ranked VSU 25th among all colleges in the United States in awarding bachelor's degrees to African Americans in the 2006-2007 academic year. In granting bachelor's degrees to African Americans, the magazine ranked VSU 8th in the area of education; 12th in computer and information sciences and support services; and 39th in biological and biomedical sciences.
- The State Council of Higher Education for Virginia approved VSU's request to launch the Commonwealth of Virginia's first Ph.D. program in Health Psychology. This venture marks the first-ever Ph.D. program at VSU.

- Virginia State University began a Master of Science degree in Plant Science in the fall of 2008. The program will further the professional training of students in the field of agriculture through extensive coursework and research components.
- The VSU Board of Visitors approved a Bachelor of Science degree program in Industrial Technology.
- The National Center on Minority Health and Health Disparities (NCMHD) of the National Institutes of Health (NIH) announced the award of a \$4 million research grant to support a Research Infrastructure in Minority Institutions (RIMI) program at VSU.
- The National Science Foundation awarded VSU \$3 million for three years to research different types of community and non-academic interventions that can positively impact students' math and cognitive abilities while simultaneously building their interest in math and science.
- Petersburg's Cameron Foundation awarded \$1.5 million – its largest grant ever – to the VSU Foundation to establish the VSU Museum and Cultural Center (VSU-MACC). VSU-MACC represents a unique community partnership with the Petersburg Area Art League (PAAL), which owns the building. The award is the largest private grant received in the history of the VSU Foundation, as well as the University.
- Mr. Ivor Massey, Jr. of Richmond, VA pledged \$100,000 to VSU to establish an endowed scholarship in his wife's name. The Maureen Denlea Massey Endowed Scholarship will go to a student graduating from a Richmond city public school who chooses to attend VSU.
- The Office of Development raised nearly \$4 million dollars in private contributions. This represents the highest amount of private funds ever raised in a single year at VSU. Alumni giving increased to 11 percent, representing a 137 percent increase in the past five years.
- The VSU School of Engineering received accreditation by ABET (the recognized accrediting body for college and university programs in applied science, computing, engineering and technology) in FY08.
- Virginia State University was one of 22 colleges and universities selected to host a Visiting Fulbright Scholar from one of the world's Muslim countries during 2008 in an effort to promote an understanding of Islamic culture and civilization and an awareness of the diversity of Islamic identity.
- The new Engineering and Technology Building was completed and opened.
- The new 500 bed Gateway Residence Hall was completed and opened for the fall 2008 school year.
- There were significant renovations made to Rogers Stadium, Gandy Hall and Harris Hall.
- Virginia State University was awarded the C.H. Williams All-Sports Trophy from the CIAA. The C.H. Williams All-Sports Trophy salutes the successful overall men's sports program in the CIAA for 2007-08.
- *Ebony Magazine* honored VSU Athletic Director Peggy Davis in a "Salute to the Leading Women of the CIAA." She was selected for the honor in her role as a woman in athletic administration.
- The State Legislature approved funding for the University to begin property acquisition of real property surrounding the University campus for future growth in accordance with the Campus Master Plan.
- The State Legislature approved planning and bond funding for VSU's Multi-Purpose Center.
- The Commonwealth issued bonds for the design and construction of the first phase of the Howard Quad residence hall project.
- In the fall of 2008, VSU enrolled almost 1,400 freshman students, the largest class in school history, reversing a downward trend in enrollment. This year's class represents an increase of more than 30 percent over the 2007 freshman class.

- The University received an unqualified audit opinion for the fiscal year ended June 30, 2007.

The University's financial position remained strong at June 30, 2008, with total assets of \$235,959,230 and liabilities of \$93,396,713 compared to total assets of \$213,613,583 and total liabilities of \$68,968,675 at June 30, 2007. Total assets grew by \$22,345,647 an increase of 10.5 percent. Total liabilities grew by \$24,428,038 an increase of 35.4 percent.

Net assets decreased from \$144,644,908 at June 30, 2007, to \$142,562,517 at June 30, 2008. This is a 1.4 percent decrease. The decrease in net assets from operating and nonoperating revenues is summarized below:

	<u>Summary of the Decrease in Net Assets *</u>		<u>Increase/(Decrease)</u>	
	<u>Year Ended June 30,</u> <u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>Percent</u>
Total operating revenues (Note 1.T)	\$ 55,259	\$ 54,724	\$ 535	1.0
Total operating expenses	<u>110,905</u>	<u>107,614</u>	<u>3,291</u>	3.1
Operating loss (Note 1.T)	(55,646)	(52,890)	(2,756)	(5.2)
Nonoperating revenues (Note 1.T)	50,569	50,615	(46)	(0.1)
Other revenue	<u>2,995</u>	<u>28,699</u>	<u>(25,704)</u>	(89.6)
Total Increase/(decrease) in net assets	<u>\$(2,082)</u>	<u>\$26,424</u>	<u>\$(28,506)</u>	(107.9)

* in thousands

Comparing fiscal years 2007 and 2008, operating revenues increased by \$535 thousand (1.0 percent). Operating expenses increased by \$3.3 million (3.1 percent). Nonoperating revenues decreased by \$46 thousand (0.1 percent). This resulted in a decrease of net assets of \$2.1 million. These financial operating results are discussed further in subsequent pages.

Using the Financial Statements

The University's financial report includes three financial statements and related notes:

1. The Statement of Net Assets (SNA)
2. The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA)
3. The Statement of Cash Flows (SCF)

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external reporting for colleges and universities. These principles require that the financial statements be prepared with resources classified for accounting and reporting purposes into four net asset categories: Current Assets, Noncurrent Assets, Current Liabilities and Noncurrent Liabilities. Please note that although the University's foundations identified under GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, are reported in the component unit financial statements, this Management Discussion and Analysis excludes reference to the foundations except where specifically noted.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between the total assets and total liabilities - net assets - is one indicator of the current financial condition of the University, while the change in net assets is an indication of whether the overall financial condition of the University has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

A summary of the University's assets, liabilities, and net assets at June 30, 2008 and 2007 follows:

Condensed Statement of Net Assets *

	Year Ended June 30,		<u>Increase/(Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>Percent</u>
Assets:				
Current assets	\$ 35,475	\$ 40,233	\$ (4,758)	(11.8)
Noncurrent assets:				
Restricted cash and cash equivalents, as restated (note 1.O)	42,792	25,781	17,011	66.0
State appropriations available, as restated (note 1.O)	18,290	21,864	(3,574)	(16.3)
Investments	16,106	14,806	1,300	8.8
Capital assets, net	121,191	109,210	11,981	11.0
Other	<u>2,105</u>	<u>1,720</u>	<u>385</u>	22.4
Total assets	<u>235,959</u>	<u>213,614</u>	<u>22,345</u>	10.5
Liabilities:				
Current liabilities	24,425	24,303	122	0.5
Non current liabilities	<u>68,971</u>	<u>44,666</u>	<u>24,305</u>	54.4
Total liabilities	<u>93,396</u>	<u>68,969</u>	<u>24,427</u>	35.4
Net assets:				
Invested in capital assets, net of related debt	85,023	84,060	963	1.1
Restricted:				
Nonexpendable	3,836	2,591	1,245	48.1
Expendable	31,081	35,924	(4,843)	(13.5)
Unrestricted	<u>22,623</u>	<u>22,070</u>	<u>553</u>	2.5
Total net assets	<u>\$142,563</u>	<u>\$144,645</u>	<u>\$ (2,082)</u>	(1.4)

* in thousands

Overall, current assets decreased by \$4.8 million. Current assets are comprised of several categories, including cash, short-term investments, notes and loan receivables, and prepaid expenses. The primary reason for the overall change was due to a decrease in the cash position and fund balance of the University's Auxiliary Enterprise Funds. This reduction was related to a decrease in the operating results of primarily two of the largest auxiliary enterprise funds, Residential Services and Food Services. There was also an increase in mandatory and non-mandatory transfers for capital projects and debt service.

Noncurrent assets increased by \$27.1 million from FY07. Most of this increase in noncurrent assets occurred as a result of changes in restricted cash associated with the Howard Quad Project and an increase in capital assets. Capital assets net of depreciation, increased \$12.0 million. The largest part of the overall increase in capital assets is related to the Gateway Project. Noncurrent liabilities increased by \$24.3 million. This increase was related to the 9(c) bonds issued for the Howard Quad residence hall project.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2008 and 2007.

Condensed Statement of Revenues, Expenses, and Changes in Net Assets *

	Year Ended June 30, 2008	2007	Increase / Decrease Amount	Percent
Operating revenues (Note 1.Q)	\$ 55,259	\$ 54,724	\$ 535	1.0
Operating expenses	<u>110,905</u>	<u>107,614</u>	<u>3,291</u>	3.1
Operating loss (Note 1.Q)	(55,646)	(52,890)	(2,756)	5.2
Nonoperating revenues/(expenses):				
State appropriations	41,735	39,337	2,398	6.1
Federal Student Financial Aid, as restated (Note 1.Q)	7,307	6,634	673	10.1
Other nonoperating revenues and expenses	<u>1,527</u>	<u>4,644</u>	<u>(3,117)</u>	(67.1)
Net nonoperating revenues and expenses (Note 1.Q)	<u>50,569</u>	<u>50,615</u>	<u>(46)</u>	(0.1)
Income before other revenues	<u>(5,077)</u>	<u>(2,275)</u>	<u>(2,802)</u>	123.2
Capital appropriations	5,883	17,765	(11,882)	(66.9)
Capital grants and gifts	1,803	2,093	(290)	(13.9)
Additions to permanent endowments	432	395	37	9.4
Other capital revenues	<u>(5,123)</u>	<u>8,446</u>	<u>(13,569)</u>	(160.7)
Total other revenues	<u>2,995</u>	<u>28,699</u>	<u>(25,704)</u>	(89.6)
Total decrease in net assets	(2,082)	26,424	(28,506)	(107.9)
Net assets, beginning of year	<u>144,645</u>	<u>118,221</u>	<u>26,424</u>	22.4
Net assets, end of year	<u>\$142,563</u>	<u>\$144,645</u>	<u>\$ (2,082)</u>	(1.4)

* in thousands

As reflected above, operating revenues for the University increased by \$535 thousand or 1.0 percent from the previous fiscal year. Operating expenses increased by \$3.3 million or 3.1 percent. The operating loss for the University increased by \$2.8 million in fiscal year 2008. The operating loss of \$55.7 million was offset by nonoperating revenues of \$50.6 million. The largest item of nonoperating revenue is State appropriations, which increased by \$2.4 million or 6.1 percent in FY08. There was also an increase in nonoperating revenues for Federal student financial aid (Pell Grants) of \$673 thousand or 10.1 percent. Due to a change in accounting policy in FY08, revenues for federal student financial aid are now reported as nonoperating revenues. The FY07 amounts have been restated to reflect the change in accounting policy. Other revenues decreased significantly from the previous fiscal year dropping from \$28.7 million in FY07 to \$3.0 million in FY08. Most of this decrease is attributable to a reduction in capital appropriations and a reduction in capital revenues from 21st Century and GOB bonds. There was also a decrease in other capital

revenues in the amount of \$5.7 million which was attributable to reversion of general fund capital appropriations for the Singleton Hall Project. The funding for the project was restored through proceeds from the Virginia College Building Authority (VCBA) in FY09. The results of this activity left an overall decrease in net assets of \$2.1 million from the previous fiscal year.

The change in net assets between FY07 (increase of \$26.4 million) and FY08 (decrease of \$2.1 million) is the result of reduction in capital appropriations and other capital revenues.

Summary of Revenues

A summary of the University's revenues for the years ended June 30, 2008 and 2007 appears below:

Summary of Revenues *

	<u>Year Ended June 30,</u>		<u>Increase/(Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>Percent</u>
Operating revenues:				
Student tuition and fees, net of allowance	\$ 19,488	\$ 18,547	\$ 941	5.1
Federal, state, and local grants and contracts (Note 1.R)	15,590	16,440	(850)	(5.2)
Auxiliary enterprises, net of allowance	20,087	19,681	406	2.1
Other operating revenue	<u>94</u>	<u>56</u>	<u>38</u>	67.9
Total operating revenues (Note 1.R)	<u>55,259</u>	<u>54,724</u>	<u>535</u>	1.0
Nonoperating revenues/(expenses):				
State appropriations	41,735	39,337	2,398	6.1
Gifts	913	1,139	(226)	(19.8)
Federal Student Financial Aid (Note 1.R)	7,307	6,634	673	10.1
Other nonoperating revenues, net	<u>614</u>	<u>3,505</u>	<u>(2,891)</u>	(82.5)
Total non operating revenues (Note 1.R)	<u>50,569</u>	<u>50,615</u>	<u>(46)</u>	(0.1)
Capital revenues and gains:				
Capital appropriations	5,883	17,765	(11,882)	(66.9)
Capital gifts	1,803	2,093	(290)	(13.9)
Additions to permanent endowment	432	395	37	9.4
Other capital appropriation reduction	(5,710)	-	(5,710)	
Other capital revenues	<u>587</u>	<u>8,446</u>	<u>(7,859)</u>	(93.0)
Total other revenues	<u>2,995</u>	<u>28,699</u>	<u>(25,704)</u>	(89.6)
Total revenues	<u>\$ 108,823</u>	<u>\$134,038</u>	<u>\$ (25,215)</u>	(18.8)

*in thousands

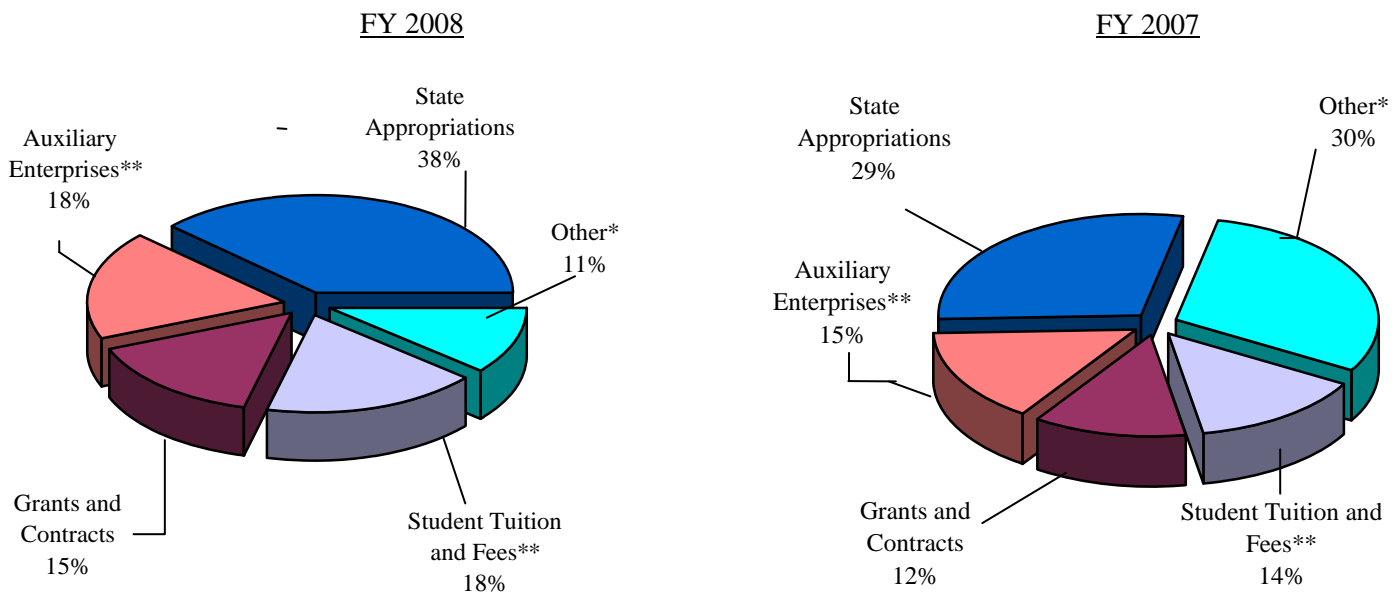
As noted earlier, total operating revenues increased by \$535 thousand (1.0 percent) in fiscal year 2008 compared to the previous year. Tuition and fees, net of tuition discount, increased by \$941 thousand (5.1 percent).

The State Appropriations component of nonoperating revenue increased by \$2.4 million (6.1 percent). There was also an increase in nonoperating revenues for federal student financial aid (Pell Grants) of \$673 thousand (10.1 percent). Other nonoperating revenue consisting primarily of investment income, decreased significantly from FY07 dropping from \$3.5 million to \$614 thousand, a decrease of (82.5 percent). This was attributed to the poor market conditions in FY08.

There was a significant decrease in capital appropriations in FY08, as this revenue item dropped by \$11.9 million (66.9 percent) from the previous fiscal year. There was a decrease in capital revenue from the reimbursable bond funds (21st Century and GOB). As discussed above, there was also a capital appropriations reduction related to Singleton Hall.

Student Tuition and Fee revenue is shown net of tuition discounts and scholarship allowances. The tuition discount and scholarship allowance represents 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 on their behalf. Gross Student Tuition and Fees revenue was \$26,507,686 in FY08. The Auxiliary Enterprise revenue was \$28,043,021. The tuition discount and scholarship allowance, totaling \$14,975,272 is divided between Tuition and Fees (\$7,019,323) and Auxiliary Enterprises (\$7,955,949).

Summary of Revenues

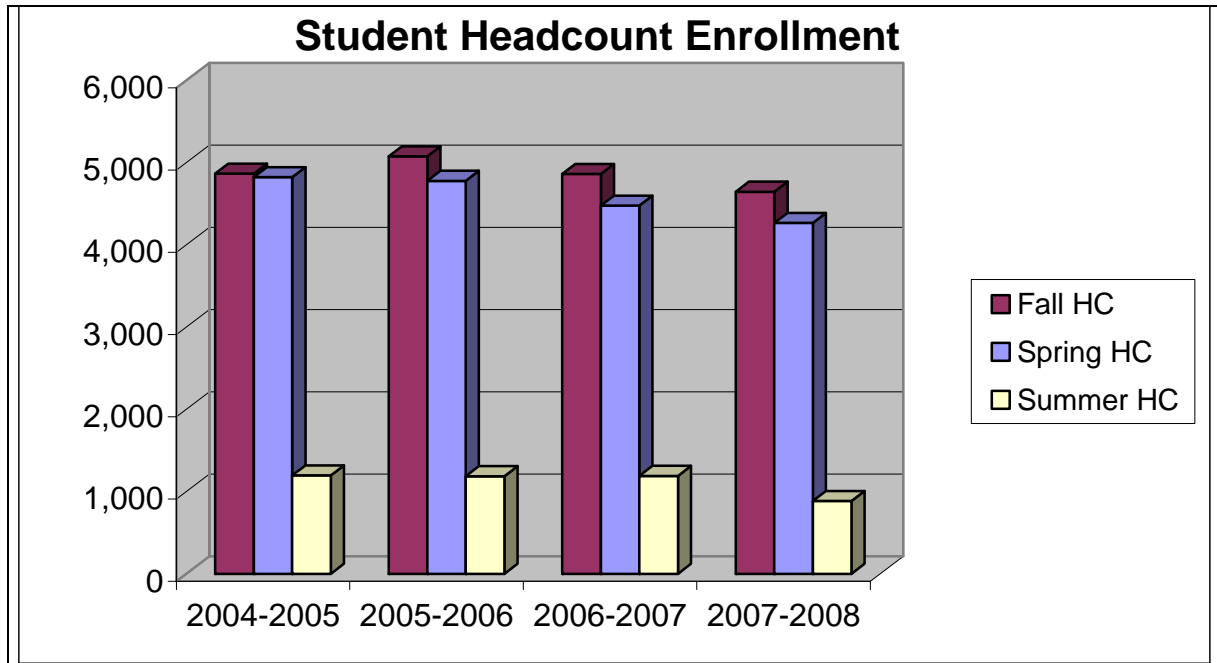


*Other includes: – Gifts, Other Operating Revenue, Other Nonoperating Revenue and Federal Student Financial Aid.

**Net of Scholarship Allowance.

As demonstrated on the following chart, student headcount enrollment is shown for current fiscal year and the previous three fiscal years.

Student Enrollment
Fiscal Years 2005 - 2008



Overall student enrollment has declined steadily over the last four fiscal years. Headcount is defined as “A student enrolled for more than zero credit hours in courses offered for degrees or certificate credit, or a student who meets the criteria for classification as a remedial student”. Fall headcount fell in 2007-08 from the previous year, decreasing from 4,861 to 4,646. This trend continued in the spring of 2008 dropping from 4,478 in 2006-07 to 4,267 in 2007-08. Summer enrollment decreased also from 1,191 in the summer of 2007 to 886 in the summer of 2008. Although there was a slight decrease in enrollment headcount in 2007-08 compared to the previous year, the establishment of the President’s Enrollment Projection Task Force is expected to reverse this trend in future years. Although there are a variety of factors which can affect enrollments (selection criteria, fees, the state of the economy, availability of financial aid), the University has recently been named in several publications as one of the top Historically Black Colleges and Universities (HBCU’s) in the country. It has also been recognized as a good value to students who enroll. This recognition is expected to be followed in future years with increased applications and enrollment.

Summary of Expenses

A summary of the University's operating expenses for the years ended June 30, 2008 and 2007 appears below. Overall, total operating expenses increased by \$3.3 million in fiscal year 2008 compared to the previous fiscal year. This represents a 3.1 percent increase.

Summary of Expenses *

*in thousands

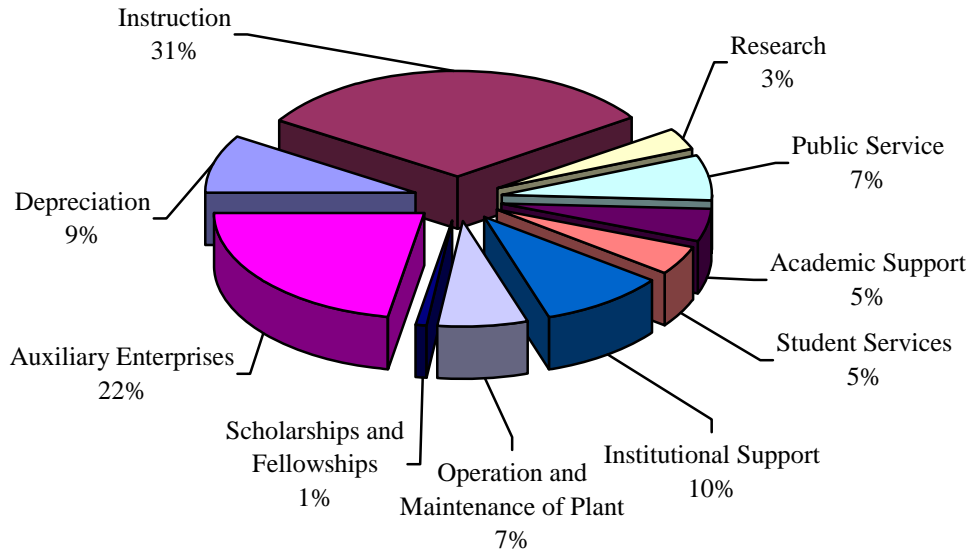
	<u>2008</u>	<u>2007</u>	<u>Increase/(Decrease)</u>	
			<u>Amount</u>	<u>Percent</u>
Operating expenses:				
Instruction	\$35,089	\$35,256	\$(167)	(0.5)
Research	3,692	2,836	856	30.2
Public service	7,542	7,700	(158)	(2.1)
Academic support	5,757	5,160	597	11.6
Student services	4,988	4,356	632	14.5
Institutional support	10,607	10,440	167	1.6
Operation and maintenance of plant	7,642	10,030	(2,388)	(23.8)
Scholarships and fellowships	1,055	1,173	(118)	(10.1)
Auxiliary enterprises	24,602	21,179	3,423	16.2
Other	47	31	16	51.6
Depreciation	<u>9,884</u>	<u>9,453</u>	<u>431</u>	4.6
Total operating expenses	<u>\$ 110,905</u>	<u>\$ 107,614</u>	<u>\$ 3,291</u>	3.1

When expenses are reviewed on a functional expense basis, Instruction decreased by \$167 thousand (0.5 percent) during fiscal year 2008 from fiscal year 2007. This decrease is primarily due to a reduction in services and supplies expenses for the new Engineering and Technology building from FY07 to FY08. Research expenditures increased by \$856 thousand (30.2 percent) in FY08. There was a slight increase in salary/wage expenses and related fringe benefit costs. There was also an increase in services and supplies costs and in federal indirect cost. The decrease in Operation and Maintenance of Plant expenses was due primarily to a reduction in services and supplies expenses and an increase in utility expenses. Lastly, Auxiliary Enterprises expenses increased by \$3.4 million. The majority of this increase was due to increases in salaries and wages and related benefits. The remainder was due to increased expenditures for supplies and services. Most of this increase occurred in the areas of Food Services, Athletics and Residential Services.

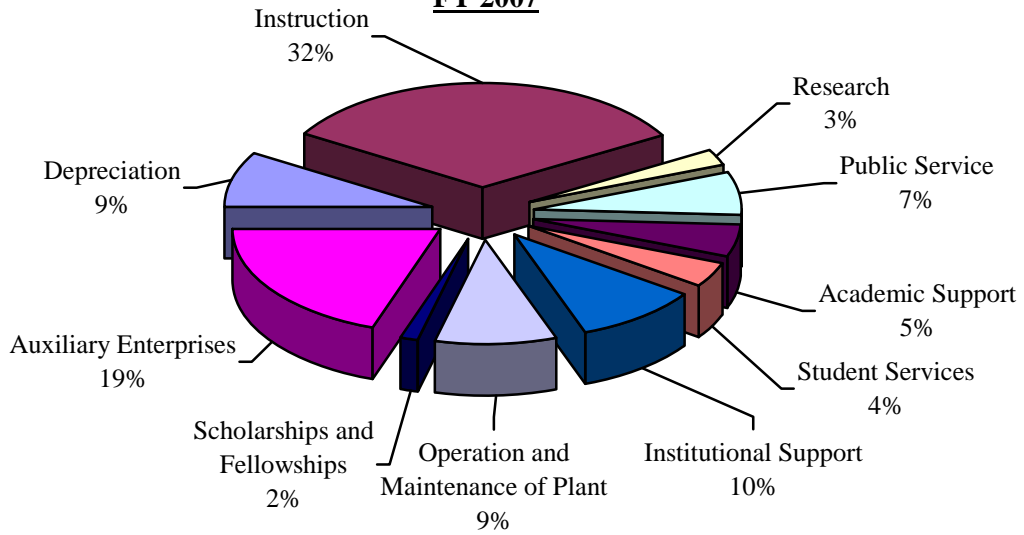
On a natural classification basis, salaries and wages expenses increased from \$40.7 million in fiscal year 2007 to \$43.2 million in fiscal year 2008, an increase of 6.2 percent. This increase is due to a combination of salary increases granted by the Commonwealth and a slight increase in faculty and staff hiring. There was a similar increase in fringe benefits expenses. Services and supplies expenses decreased from \$34.9 million in fiscal year 2007 to \$34.0 million in fiscal year 2008, a decrease of \$0.9 million (2.6 percent). A large part of this decrease was due to a reduction in construction expenses in FY08 from the previous year. In addition, a large portion of the expenditures associated with an Energy Performance Contract occurred in the previous fiscal year. There was also a slight increase of \$431 thousand (4.6 percent) in depreciation as capital expenditures in construction in progress were moved to a depreciable asset.

Summary of Expenses

FY 2008



FY 2007



Statement of Cash Flows

The Statement of Cash Flows provides additional information about the University's financial results by reporting the major sources and uses of cash. GASB principles define four major categories of cash flows: cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing activities, and cash flows from investing activities.

This statement provides a slightly different perspective from the Statement of Revenues, Expenses, and Changes in Net Assets. On the latter statement, State appropriations and gifts are considered nonoperating revenue. However, on the Statement of Cash Flows, these revenues are reflected under noncapital financing activities, while investment income is shown under investing activities. These cash flows are crucial to funding the operation of the University.

Statement of Cash Flows *

	Year Ended June 30,		<u>Increase/(Decrease)</u>	
	<u>2008</u>	<u>2007</u>	<u>Amount</u>	<u>Percent</u>
Cash flows from:				
Operating activities (Note 1.S)	\$ (45,480)	\$ (44,408)	\$(1,072)	2.4
Noncapital financing activities (Note 1.S)	51,148	48,539	2,609	5.4
Capital and related financing activities	7,755	24,413	(16,658)	(68.2)
Investing activities	<u>139</u>	<u>7</u>	<u>132</u>	1885.7
Net increase/(decrease) in cash and cash equivalents	13,562	28,551	(14,989)	(52.5)
Cash and cash equivalents, beginning of year (restated) (note 1.P)	<u>50,165</u>	<u>43,477</u>	<u>6,688</u>	15.4
Cash and cash equivalents, end of year	<u>\$ 63,727</u>	<u>\$ 72,028</u>	<u>\$ (8,301)</u>	(11.5)

* in thousands

Overall, there was approximately a \$1.1 million decrease in net cash used by operating activities in fiscal year 2008 compared to fiscal year 2007. There was an increase in cash used to pay employees of \$6.2 million. This decrease in cash flows was offset by increases in cash from grants and contracts (\$3.3 million), sales and services of departments (\$1.0 million), and tuition and fees (\$932 thousand).

Net cash flows from noncapital financing activities increased by \$2.6 million from FY07. The majority of this change came from an increase in State appropriations of \$2.4 million.

Cash flows from capital financing activities decreased substantially in FY08 compared to FY07. Overall, there was a decrease of \$16.7 million in net cash used. The two major items causing this decrease were reductions in capital appropriations (\$14.0 million) and general obligations bonds (\$7.9 million). There was an increase in capital debt payments of \$3.2 million. This was offset by a reduction of capital asset purchases of \$7.8 million from the previous fiscal year.

Cash flows from investing activities increased slightly from fiscal year 2007, going up by \$132 thousand. There was a substantial decrease in investment income of \$2.0 million. This decrease was offset

by a decrease in cash outflows for proceeds from sales and maturities of investments and purchase of investments.

Capital and Debt Activities

The renewal and replacement of the University's capital assets is crucial to sustaining the quality of its Academic, Research and Public Service programs. The University continues to invest in capital assets in accordance with its master plan, modernizing its current and older facilities, purchasing new equipment and building new facilities. Capital assets, net of depreciation increased by \$12.0 million in fiscal year 2008, from \$109.2 million to \$121.2 million.

Major renovations were made to Rogers Stadium and Gandy Hall in FY08. The Gateway 500 bed residence hall was substantially completed and work was started on the dining hall. Funding to start the design and construction for the first phase of the Howard Quad residence hall project was obtained. The University also began the purchase of properties for future campus expansion with the assistance of the Virginia State University Foundation.

Proper management of University resources and the replacement and renewal of capital assets requires the prudent use of debt to finance projects. University bonds are issued pursuant to Section 9(c) of Article X of the Constitution of Virginia. These bonds are backed by the full faith, credit and taxing power of the Commonwealth. The use of debt to finance capital projects is handled in accordance with the University's Debt Policy.

As of June 30, 2008, the University had \$53.7 million in outstanding general obligation bonds. In addition to that, the University had a total of \$11.1 million in outstanding notes payable as of June 30, 2008. Lastly, the University has an installment purchase agreement in the amount of \$2.7 million related to energy performance upgrades.

Future Economic Outlook

The Executive Management of the University believes that the University is well positioned financially to face the future and continue to provide excellent programs and services to its students and other constituents. However, the nation and the State are facing some extraordinary and unprecedented economic times with respect to the financial health of both the country and the State, for which the University relies for a great portion of its operating and capital needs. Due to continuing revenue shortfalls at the State level, the University is facing budget cuts in both years of the current biennium budget cycle which will require additional belt tightening in both FY2009 and 2010.

The University's reputation among its peers continues to improve and its rankings in national publications such as the *U.S. News and World Report* annual College Survey are indications that the University is making significant improvements. To remain competitive, the University is investing heavily in capital improvements. During FY08 a number of new facilities were completed and major renovations were made to others. There are plans to continue to invest in campus infrastructure and capital assets.

Reversing a slight decline and flattening of the University's enrollment, the University had the largest entering freshmen class in its history in the fall of 2008. How the decline in both the National and State economy and the ongoing credit issues facing the nation is going to affect future enrollment is hard to predict. The University is taking many proactive steps to improve enrollment further and retain the students who do come to VSU. A decline in enrollment and a further State Budget cuts could pose challenges to the University.

FINANCIAL STATEMENTS

VIRGINIA STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

	University	Component Units	
		VSUF	VSUREF
ASSETS			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 20,935,627	\$ 3,116,549	\$ 1,555,367
Cash and cash equivalents - Securities Lending (Note 2)	1,391,573	-	-
Short-term investments (Note 2)	5,242,067	-	-
Accounts and loans receivable, net of allowance (Note 3)	4,113,396	-	679,547
Due from the Commonwealth (Note 3)	1,176,443	-	-
Due from affiliates	114,353	128,486	-
Prepaid expenses	2,479,205	-	17,836
Notes and mortgages receivable, net of allowance (Note 3)	22,490	-	-
Total current assets	35,475,154	3,245,035	2,252,750
Noncurrent assets:			
Restricted cash and cash equivalents (Note 2)	42,791,440	-	1,741,788
Restricted investments (Note 2)	604,389	4,752,595	-
Endowment investments (Note 2)	13,565,326	-	-
State appropriations available	18,290,413	-	-
Notes and mortgages receivable, net of allowance (Note 3)	1,938,574	-	-
Other long-term investments (Note 2)	1,936,423	-	-
Unamortized issuance cost	166,372	-	953,314
Nondepreciable capital assets (Note 4)	41,344,960	2,037,325	542,828
Depreciable capital assets, net (Note 4)	79,846,179	-	12,210,471
Total noncurrent assets	200,484,076	6,789,920	15,448,401
Total assets	235,959,230	10,034,955	17,701,151
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities (Note 5)	6,972,759	23,429	17,056
Due to affiliates	128,486	60,460	53,893
Deferred revenue	3,739,452	-	108,381
Retainage payable	1,534,722	-	-
Obligations under securities lending (Note 2)	6,633,640	-	-
Deposits held in custody for others	1,880,851	-	148,518
Long-term liabilities - current portion (Notes 6 and 7)	3,492,926	-	150,000
Other current liabilities	42,528	-	514,585
Total current liabilities	24,425,364	83,889	992,433
Noncurrent liabilities:			
Long-term liabilities - noncurrent (Notes 6 and 7)	68,971,349	2,046,929	22,228,448
Total liabilities	93,396,713	2,130,818	23,220,881

VIRGINIA STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

	University	Component Units	
		VSUF	VSUREF
NET ASSETS			
Invested in capital assets (net of related debt)	85,023,280	-	(5,031,599)
Restricted for:			
Nonexpendable:			
Scholarships and fellowships	2,918,017	-	-
Instructional	719,009	-	-
Other	198,685	4,752,595	-
Expendable:			
Scholarships and fellowships	10,696,115	591,505	-
Instruction	347,660	-	-
Loans	852,836	-	-
Capital projects	16,909,299	-	-
Other	2,274,830	-	-
Unrestricted	22,622,786	2,560,037	(488,131)
Total net assets	<u>\$ 142,562,517</u>	<u>\$ 7,904,137</u>	<u>\$ (5,519,730)</u>

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

VIRGINIA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	University	Component Units	
		VSUF	VSUREF
Operating revenues:			
Student tuition and fees (net of scholarship allowances of \$7,019,323)	\$ 19,488,363	\$ -	\$ -
Federal grants and contracts	15,151,902	-	-
State and local grants and contracts	438,890	-	-
Sales and services - educational departments	6,114	-	-
Auxiliary enterprises (net of scholarship allowance of \$7,955,949)	20,087,072	-	-
Other	86,955	-	2,805,323
Total operating revenues	55,259,296	-	2,805,323
Operating expenses: (Note 9)			
Instruction	35,089,250	-	-
Research	3,691,846	-	-
Public service	7,541,669	-	-
Academic support	5,756,375	-	-
Student services	4,987,753	-	-
Institutional support	10,607,065	353,997	1,472,229
Operation and maintenance of plant	7,642,472	-	-
Scholarships and fellowships	1,055,050	161,019	-
Depreciation	9,884,330	-	796,296
Auxiliary enterprises	24,602,494	-	-
Other	47,134	-	-
Total operating expenses	110,905,438	515,016	2,268,525
Operating income/(loss)	(55,646,142)	(515,016)	536,798
Nonoperating revenues/(expenses):			
State appropriations (Note 8)	41,735,044	-	-
Gifts	912,844	1,236,971	-
Investment income	1,437,886	(197,857)	89,829
Interest on indebtedness	(1,173,364)	-	(2,410,449)
Loss on disposal of assets	(57,851)	-	-
Federal student financial aid	7,306,702	-	-
Other nonoperating revenues	478,631	-	103,752
Other nonoperating expenses	(71,396)	(53,201)	-
Net nonoperating revenue	50,568,496	985,913	(2,216,868)
Income before other revenues	(5,077,646)	470,897	(1,680,070)
Capital appropriations	5,883,000	-	-
Capital grants and gifts	1,803,327	-	-
Additions to permanent endowments	431,502	800,160	-
21st Century Bonds Reimbursement Program	95,537	-	-
General Obligation Bonds Reimbursement Program	491,557	-	-
Other capital appropriations reduction	(5,709,668)	-	-
Total other revenues	2,995,255	800,160	-
Decrease in net assets	(2,082,391)	1,271,057	(1,680,070)
Net assets, beginning of year	144,644,908	6,633,080	(3,839,660)
Net assets, end of year	\$ 142,562,517	\$ 7,904,137	\$ (5,519,730)

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

VIRGINIA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

	<u>University</u>
Cash flows from operating activities:	
Tuition and fees	\$ 19,096,888
Grants and contracts	16,841,226
Auxiliary enterprises	20,180,082
Departmental sales and services, and other revenues	343,311
Payments to employees	(57,154,903)
Payments to suppliers	(34,854,770)
Payments for utilities	(7,074,855)
Payments for scholarships and fellowships	(2,812,136)
Loans issued to students	(511,778)
Collection of loans from students	193,380
Other payments	273,848
	<u>273,848</u>
Net cash used by operating activities	<u>(45,479,707)</u>
Cash flows from noncapital financing activities:	
State appropriations	41,693,780
Gifts	1,344,346
Federal student financial aid	7,306,702
Other nonoperating revenue	407,235
Loss on disposal of assets	(57,851)
Funds held in custody for others - receipts	20,708,122
Funds held in custody for others - disbursements	(20,314,455)
Federal direct lending program receipts	14,512,080
Federal direct lending program disbursements	(14,452,231)
	<u>(14,452,231)</u>
Net cash provided by noncapital financing activities	<u>51,147,728</u>
Cash flows from capital financing activities:	
Capital appropriations	3,787,692
Capital gifts and grants	1,803,327
21st Century Bonds	95,537
General Obligation Bonds	491,557
Interest paid on capital debt, leases, and installments	(1,259,180)
Principal paid on capital debt, leases, and installments	(4,538,364)
Principal received on capital debt, leases, and installments	28,989,452
Purchase of capital assets	(21,614,433)
	<u>(21,614,433)</u>
Net cash used by capital financing activities	<u>7,755,588</u>
Cash flows from investing activities:	
Investment income	1,437,886
Proceeds from sales and maturities of investments	(1,204,911)
Purchase of investments	(94,241)
	<u>(94,241)</u>
Net cash used by investing activities	<u>138,734</u>
Net increase in cash	13,562,343
Cash and cash equivalents - beginning of the year, restated (note 1.P)	<u>50,164,724</u>
Cash and cash equivalents - end of the year	<u>\$ 63,727,067</u>

VIRGINIA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:

Operating income (loss)	(55,646,142)
Adjustments to reconcile net cash used by operating activities:	
Depreciation expense	9,884,330
Changes in assets and liabilities:	
Receivables	941,095
Prepaid items	(222,748)
Other assets	(64,470)
Accounts payable	(738,624)
Interest payable	85,816
Deferred revenue	261,116
Other liabilities	338,318
Net loans	(318,398)
	<hr/>
Net cash used by operating activities	<u>\$ (45,479,707)</u>

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

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1.0 Proposed Master Plan



Existing Buildings and Expansions

4	President's Residence w/expansion	37	Foster Hall
5	Lindsay-Montague Hall	38	Bookstore w/addition
6	Virginia Hall	39	Davis Hall
7	Colson Hall	40	Purveyer Hall
8	Vawter Hall	41	Singleton Hall
9	Storum Hall	42	Owens Hall w/expansion
10	Heating Plant w/expansion	43	Harris Hall
11	Langston Hall	45	Jesse B. Bolling Hall
12	Lockett Hall	46	M.T. Carter Research Center
13	Agriculture Engineering Shop	47	Daniel Gymnasium w/expansion
14	Physical Plant Administration	48	Hunter-McDaniel Hall w/expansion
16	Whiting Hall	49	L. Douglas Wilder Building
17	Branch Hall	50	Alumni Foundation
18	Byrd Hall	60	Tennis Courts
19	Memorial Hall - Student Health Services	61	Rogers Stadium w/expansion
21	Trinkle Hall	62	Basketball Courts
22	Eggleston Hall	63	Colbert Baseball Field
24	Johnston Memorial Library w/expansion	64	Softball Field
26	Jones Dining Hall	65	Engineering Building
27	Gandy Hall		
28	Seward Hall		
29	Williams Hall		
33	Fauntleroy Hall		
34	VSU Credit Union		

New Development

A	Convocation Center & Parking	Q	Stadium Expansion
B	Performing Arts Center	R	Gateway Village Phase I with Dining
C	Soccer Field	S	Gateway Village Phase II
D	Relocated Band Practice Field	T	Married & Graduate Housing
E	Relocated Basketball Courts	U	Law School
F	Intramural Fields	V	Hotel & Conference Center
G	Student Union	W	Parking Deck & Lots
H	Clock Tower & Plaza	X	Park, Pylon Improvements & Pedestrian Bridge
I	Howard Quad Phase I	Y	Future Academic
J	Howard Quad Phase II	Z	River Road/Dupuy Avenue Improvements
K	Child Development Center	A1	Overflow Parking Lot
L	Mixed Use Retail & Housing	A2	Appomattox Historic Trail
M	Administration and Faculty Office Building	A3	Multi-Purpose Academic and Administration
N	School of Nursing	A4	Tennis Courts
O	Future Academic	A5	Botanical Garden
P	Graduate School of Business Administration		

Buildings



New



Existing

Grounds



New



Existing

NOTES TO FINANCIAL STATEMENTS

VIRGINIA STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The University is a component unit of the Commonwealth of Virginia and is included in the Comprehensive Annual Financial Report (CAFR) of the Commonwealth. These basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) applicable to colleges and universities. They are prepared for and at the direction of the Commonwealth of Virginia for inclusion in the Commonwealth's CAFR, which includes all agencies, boards, commissions, and authorities associated with the Commonwealth and over which the Commonwealth exercises or has the ability to exercise oversight authority.

The Virginia State University Foundation (VSUF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 1968. The purpose of this foundation is to accept contributions from individual donors and to safeguard, invest, and distribute the funds as designated by the donors or the Foundation's Board of Trustees for the benefit of the University, its students, alumni, and educational community in support of the University's mission.

The Virginia State University Real Estate Foundation (VSUREF) is a legally separate component unit of the University and was organized as a tax-exempt charitable and educational organization in 2002. Operations began in August 2003. The purpose of the Foundation is to construct and manage the University Apartments at Ettrick (UAE), a 504-bedroom dormitory facility for the University, in support of the University's mission.

Although the University does not control the timing or amount of receipts from either the VSUF or the VSUREF, the majority of the resources or income thereof that both foundations hold and invest is restricted to the activities of the University by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the University, the VSUF and the VSUREF are considered component units of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2008, the VSUF distributed \$308,849 to the University for both restricted and unrestricted purposes. Separate financial statements for the VSUF can be obtained by writing Virginia State University Foundation c/o Vice President of Development, Storum Hall, P.O. box 9027, Petersburg, VA 23806. Separate financial statements for the VSUREF can be obtained by writing Virginia State University Real Estate Foundation c/o Vice President of Development, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*.

The VSUF and the VSUREF are private, nonprofit organizations that report under FASB standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the foundations' 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 has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Funds invested through the State Non-Arbitrage Program (SNAP) and portions of the funds invested in the State Securities Lending Program are considered cash equivalents.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are recorded at fair market value at June 30, 2008. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepaid expenses represent university library books, system maintenance agreements and licenses, liability insurance and property insurance for fiscal year 2009, that were paid in advance as of June 30, 2008.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, and construction-in-progress are stated at appraised historical cost or actual cost, where determinable. Purchased or constructed capital assets are reported at actual cost or estimated historical cost. Donated capital assets are reported at fair value on the date of acquisition. Library materials are valued using purchase price for library acquisitions. Equipment is capitalized when the acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Expenses for construction-in-progress are capitalized as incurred. Interest expense relating to construction is capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2008, interest expenses exceeded interest earned by \$183,037 and was capitalized. Infrastructure assets are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life as follows:

Buildings	40-50 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Banner administrative systems	5 years
Library books	5 years
Other improvements	20 years

H. Restricted and Unrestricted Net Assets

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

Restricted net assets can be expendable or nonexpendable. Nonexpendable restricted net assets are endowments and similar type funds where the donor(s) or some other outside source has stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. Expendable restricted net assets are resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from State appropriations, sales and services of educational departments, student tuition and fees, auxiliary enterprises fees and revenues, and gifts. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

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

I. Deferred Revenue

Deferred revenue represents revenues collected, but not earned as of June 30, 2008. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2008. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. 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 allowance; (2) federal, state, and nongovernmental grants and contracts; and (3) sales and services of auxiliary enterprises, net of scholarship allowance.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions such as gifts and other revenue sources that are defined as nonoperating revenues by GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement 34, Basic Financial Statements – and Management's Discussion and Analysis, such as State appropriations and investment and interest income.

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

L. Discounts, Premiums, and Bond Issuance Costs

Bonds payable on the Statement of Net Assets are reported net of related discount and premiums, which are expensed over the life of the bond. Bond issuance costs are also expensed over the life of the bonds.

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business Officer's (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship allowance on a University-wide basis by allocating the amounts applied to student accounts and the cash payment to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

N. Title IV Federal Financial Assistance Programs:

The University participates in the following federally funded programs: Federal Pell Grant (PELL), Federal Academic Competitiveness Grant (ACG); Federal Science and Mathematics Access to Retain Talent Grant (SMART); Federal TEACH Grants; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Perkins Loan, Federal Stafford Subsidized Loan; Federal Stafford Unsubsidized Loan; Federal Parent Loan for Undergraduate and Graduate Students (PLUS), and Federal College Work Study (CWS). 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*.

O. Restatement of Condensed Statement of Net Assets

An amount from the previous fiscal year has been restated and reclassified to conform to the current year presentation. The year ended June 30, 2007, Restricted Cash and Cash Equivalents balance has been restated and a line for State Appropriations Available was added due to a change in accounting policy by the Department of Accounts. Previously, these appropriations were recorded as Restricted Cash and Cash Equivalents for the University. Under the current guidance, State Appropriations are to be recorded on a separate line on the Statement of Net Assets. For comparative purposes, the Condensed Statement of Net Assets and the beginning balance on the Statement of Cash Flows has to be adjusted to reflect this change per the following schedule.

As reported in the FY07 Condensed Statement of Net Assets, Year Ended June 30, 2007:

Restricted Cash and Cash Equivalents	\$	47,645
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As reported in the FY08 Condensed Statement of Net Assets, Year Ended June 30, 2007:

Restricted Cash and Cash Equivalents	\$	25,781
State Appropriations Available (in thousands)		21,864

P. Statement of Cash Flows-Restatement of Cash and Cash Equivalents, Beginning of the Year

An amount from the previous fiscal year has been restated and reclassified to conform to the current year presentation. The July 1, 2007, Cash and Cash Equivalents beginning balance was reduced due to a change in accounting policy by the Department of Accounts relating to the recording of State Appropriations Available. Previously, these appropriations were recorded as Restricted Cash and Cash Equivalents for the University. Under the current guidance, State Appropriations are to be recorded on a separate line on the Statement of Net Assets. The beginning balance of Cash and Cash Equivalents on the Statement of Cash Flows has to be adjusted to reflect this change per the following schedule.

Cash and Cash Equivalents, end of the year, as reported at June 30, 2007	\$ 72,028,233
Less: State Appropriations Available previously reported as Restricted Cash for the University	<u>(21,863,509)</u>
Cash and Cash Equivalents, beginning of the year, as restated	<u>\$ 50,164,724</u>

Q. Restatement of condensed Statement of Revenues, Expenses, and Changes in Net Assets

An amount from the previous fiscal year has been reclassified to conform to the current year presentation. The June 30, 2007, Operating Revenues has been reduced due to a change in accounting policy by the Department of Accounts relating to Federal Student Financial Aid. Previously, these amounts were recorded as Operating Revenue for the University. Under the current guidance, Federal Student Financial Aid is to be recorded as Nonoperating Revenue. A new line has been added to the Statement of Revenues, Expenses, and Change in Net Assets under Nonoperating revenues/(expenses) titled Federal student financial aid. For comparative purposes, the Condensed Statement of Revenues, Expenses, and Changes in Net Assets has to be adjusted per the following schedule.

As reported in the FY07 Condensed Statement of Revenues, Expenses, and Changes in Net Assets, Year ended June 30, 2007:

Operating revenues	\$ 61,358
Operating loss	(46,256)
Net nonoperating revenues and expenses	43,981

As reported in the FY08 Condensed Statement of Revenues, Expenses, and Changes in Net Assets, Year ended June 30, 2007:

Operating revenues	\$ 54,724
Operating loss	(52,890)
Nonoperating revenues/(expenses):	
Federal student financial aid	6,634
Net nonoperating revenues and expenses	50,615

(in thousands)

R. Restatement of condensed Summary of Revenues

An amount from the previous fiscal year has been reclassified to conform to the current year presentation. The June 30, 2007, Operating Revenues has been reduced due to a change in accounting policy by the Department of Accounts relating to Federal student financial aid. Previously, these amounts were recorded in the Operating Revenue section of the Statement of Revenues, Expenses, and Changes in Net Assets under Federal, state, and local grants and contracts. Under the current guidance, federal student financial aid is to be recorded as Nonoperating Revenue. A new line has been added to the Statement of Revenues, Expenses, and Change in Net Assets under Nonoperating revenues/(expenses) titled Federal student financial aid. For comparative purposes, the Condensed Summary of Revenues has to be adjusted per the following schedule.

As reported in the FY07 Condensed Summary of Revenues, Year ended June 30, 2007:

Operating Revenues:

Federal, state, and local grants and contracts	\$23,074
Total operating revenues	61,358
Nonoperating revenues and expenses:	
Total nonoperating revenues	\$43,981

As reported in the FY08 Condensed Summary of Revenues, Year ended June 30, 2007:

Operating Revenues:

Federal, state, and local grants and contracts	\$16,440
Total operating revenues	54,724
Nonoperating revenues and expenses:	
Federal student financial aid	6,634
Total nonoperating revenues	50,615

(in thousands)

S. Restatement of condensed Statement of Cash Flows

An amount from the previous fiscal year has been reclassified to conform to the current year presentation. The June 30, 2007, Operating Revenues has been reduced due to a change in accounting policy by the Department of Accounts relating to Federal student financial aid. Previously, these amounts were recorded as Operating Revenue section of the

Statement of Revenues, Expenses, and Changes in Net Assets under Federal, state, and local grants and contracts. Under the current guidance, Federal student financial aid is to be recorded as Nonoperating Revenue. For the Condensed Statement of Cash Flows this amount will be reclassified from Cash Flows From Operating Activities to Cash Flows From Capital and Related Financing Activities per the following schedule.

As reported in the FY07 Condensed Statement of Cash Flows, Year ended June 30, 2007:

Cash Flow From:

Operating Activities	\$(37,774)
Noncapital and related financing activities	41,905

As reported in the FY08 Condensed Statement of Cash Flows, Year ended June 30, 2007:

Cash Flow From:

Operating Activities	\$(44,408)
Noncapital and related financing activities	48,539

(in thousands)

T. Restatement of condensed Summary of the Decrease in Net Assets

An amount from the previous fiscal year has been reclassified to conform to the current year presentation. The June 30, 2007 Operating Revenues has been reduced due to a change in accounting policy by the Department of Accounts relating to Federal student financial aid. Previously, these amounts were recorded as Operating Revenue for the University. Under the current guidance, Federal student financial aid is to be recorded as Nonoperating Revenue. For comparative purposes, the Condensed Summary of the Decrease in Net Assets has to be adjusted per the following schedule.

As reported in the FY07 Condensed Summary of the Decrease in Net Assets, Year ended June 30, 2007:

Operating revenues	\$ 61,358
Operating loss	(46,256)
Net nonoperating revenues and expenses	43,981

As reported in the FY08 Condensed Summary of the Decrease in Net Assets, Year ended June 30, 2007:

Operating revenues	\$ 54,724
Operating loss	(52,890)
Net nonoperating revenues and expenses	\$ 50,615

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 held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds, definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less. At June 30, 2008, the carrying amount of cash and cash equivalents was \$65,118,640.

B. Investments - Credit Risk, Custodial Credit Risk, and Interest Rate Risk

The University evaluates common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The following disclosures are made in accordance with GASB Statement 40, Deposit and Investment Risk Disclosures. As an element of interest rate risk, this statement requires certain disclosures of investments with fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement must be disclosed. GASB Statement 40 also modifies disclosures required by GASB Statement 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

As of June 30, 2008, the University had the following investments:

Investments	
Spider Management Group	\$ 16,106,138
Treasurer of Virginia	<u>5,242,067</u>
Total investments	<u>\$ 21,348,205</u>

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling \$5,242,067 received for securities lending transactions and held in the General Account of the Commonwealth. 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. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's CAFR.

C. Interest Rate Risk

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2008. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The University's policy for investment of endowment fund assets requires that the investments be allocated as follows as of June 30, 2008:

<u>Allocation of Investments</u>	<u>Desired Range</u>	<u>Actual</u>
Domestic Long Only	10 - 25%	6%
Domestic Long/Short	10 - 25%	15%
International Long Only	10 - 15%	14%
International Long/Short	5 - 15%	8%
Opportunistic (P/E, Venture)	10 - 25%	16%
Absolute Return	10 - 25%	22%
Fixed Income	0 - 10%	1%
Real Estate	0 - 10%	4%
Real Assets	0 - 10%	7%
Cash	0 - 5%	4%

This asset allocation helps limit the University's exposure to interest rate risk.

D. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Statutes authorize the investment of local funds held by the University in obligations of the Commonwealth; federal government; other states or political subdivisions thereof; Virginia political subdivisions; the International Bank for Reconstruction and Development; the Asian Development Bank; and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated Prime 1 by Moody's Investment Service or A-1 by Standard and Poor's, Incorporated. The University may also invest in overnight term or open repurchase agreements and money market funds.

E. Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the endowment funds will not be able to recover the value of the investments that are in possession of an outside party. The University does not have a formal investment policy for custodial arrangements. At June 30, 2008, the University endowment funds were held at the custodial banks, the Spider Management Group and Wachovia.

F. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government or university in a single issuer. The University does not have a formal policy to reduce concentration of credit risk; however, all of the University's investments were held in various instruments and stocks and were not exposed to this risk.

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the Foundation at June 30, 2008, was \$7,869,144.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the Real Estate Foundation at June 30, 2008 was \$3,297,155.

3. ACCOUNTS RECEIVABLE AND NOTES RECEIVABLE

A. Accounts Receivable

Accounts receivable is shown net of allowance for doubtful accounts in the accompanying Statement of Net Assets.

At June 30, 2008, accounts receivable consisted of the following:

Student tuition and fees	\$ 676,419
Federal, state and private grants and contracts	3,054,243
Auxiliary enterprises	22,037
University apartments at Ettrick	145,023
Third party receivables - students	83,933
Nonsufficient fund checks	46,068
Other receivables	353,425
Due from VSUREF	53,893
Due from VSUF	<u>60,460</u>
 Total	 \$4,495,501
 Less: allowance for doubtful accounts	 <u>(267,752)</u>
Net accounts receivable	<u>\$ 4,227,749</u>

B. Due from the Commonwealth

Receivables due from the Commonwealth represent reimbursements due for equipment purchases made by the University under the Equipment Trust Fund Program and Bond Reimbursement Programs. On a reimbursement basis, the Equipment Trust Fund program provides State-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment.

At June 30, 2008, Due from the Commonwealth consisted of the following:

Equipment Trust Fund Reimbursement	\$887,347
General Obligation Bond Reimbursement - Construction Engineering Building	10,764
General Obligation Bond Reimbursement - Gandy Hall Renovation	2,808
21 st Century Bond Reimbursement - Handicap Access	3,246
21 st Century Bond Reimbursement – Gandy Temporary Facility	924
Interest Earned on Tuition and Fees and other E&G Revenues	230,480
eVA Rebate	<u>40,874</u>
 Total Due from the Commonwealth	 <u>\$1,176,443</u>

C. Notes Receivable

Notes receivable are shown net of an allowance for doubtful accounts in the accompanying Statement of Net Assets

At June 30, 2008, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	\$ 24,000
Less: Allowance for doubtful accounts	<u>(1,510)</u>
Net current notes receivable	<u>22,490</u>
Noncurrent notes receivables:	
Federal student loans	2,093,611
Less: Allowance for doubtful accounts	<u>(155,037)</u>
Net noncurrent notes receivables	<u>1,938,574</u>
 Total notes receivable	 <u>\$ 1,961,064</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2008, is presented as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 267,084	\$ -	\$ -	\$ 267,084
Inexhaustible works of art and historical treasures	354,645	-	-	354,645
Construction in progress	<u>46,293,669</u>	<u>18,750,156</u>	<u>(24,320,594)</u>	<u>40,723,231</u>
Total nondepreciable capital assets	<u>46,915,398</u>	<u>18,750,156</u>	<u>(24,320,594)</u>	<u>41,344,960</u>
Depreciable capital assets:				
Buildings	119,645,935	23,822,638	-	143,468,573
Equipment	29,874,033	2,210,547	(417,585)	31,666,995
Banner administrative systems	3,347,006	-	-	3,347,006
Infrastructure assets	9,141,412	38,750	-	9,180,162
Improvements other than buildings	5,120,897	497,406	-	5,618,303
Library books	<u>18,051,231</u>	<u>928,456</u>	<u>-</u>	<u>18,979,687</u>
Total depreciable capital assets	<u>185,180,514</u>	<u>27,497,797</u>	<u>(417,585)</u>	<u>212,260,726</u>

Less accumulated depreciation for:

Buildings	77,097,967	7,308,700	-	84,406,667
Equipment	19,944,615	183,695	(359,735)	19,768,575
Banner administrative systems	602,815	669,401	-	1,272,216
Infrastructure assets	6,852,325	315,199	-	7,167,524
Improvements other than buildings	2,106,527	295,412	-	2,401,939
Library books	<u>16,281,503</u>	<u>1,116,123</u>	<u>-</u>	<u>17,397,626</u>
Total accumulated depreciation	122,885,752	9,888,530	(359,735)	132,414,547
Net depreciable capital assets	<u>62,294,762</u>	<u>17,609,267</u>	<u>(57,850)</u>	<u>79,846,179</u>
Total	<u>\$ 109,210,160</u>	<u>\$ 36,359,423</u>	<u>\$ (24,378,444)</u>	<u>\$ 121,191,139</u>

Net capital assets of the VSUREF consist of \$542,828 for Land and \$12,210,471 (net of accumulated depreciation of \$3,148,645) for Buildings, Land Improvements, and Equipment as of June 30, 2008.

Net capital assets of the VSUF consists of \$2,037,325 for Real Property under an arrangement with the University to purchase property in the Etrick area for the expansion of the campus.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2008:

Employee salaries, wages, and fringe benefits payable	\$ 3,165,542
Matured interest payable	351,149
Vendor and supplier accounts payable	<u>3,456,068</u>
Total	<u>\$ 6,972,759</u>

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2008 is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent</u>
Long-term debt:						
General obligation revenue bonds	\$ 28,577,703	\$ 26,739,403	\$ (1,626,906)	\$ 53,690,200	\$ 1,749,139	\$ 51,941,061
Notes payable	11,556,211	2,250,049	(2,713,262)	11,092,998	512,307	10,580,691
Installment purchases	<u>2,803,218</u>	<u>-</u>	<u>(198,196)</u>	<u>2,605,022</u>	<u>139,300</u>	<u>2,465,722</u>
Total long-term debt	<u>42,937,132</u>	<u>28,989,452</u>	<u>(4,538,364)</u>	<u>67,388,220</u>	<u>2,400,746</u>	<u>64,987,474</u>
Other noncurrent liabilities:						
Accrued compensated absences	3,253,316	1,911,943	(1,604,730)	3,560,529	1,092,180	2,468,349
Federal perkins loan contributions	<u>1,477,678</u>	<u>37,848</u>	<u>-</u>	<u>1,515,526</u>	<u>-</u>	<u>1,515,526</u>
Total long-term liabilities	<u>\$47,668,126</u>	<u>\$30,939,243</u>	<u>\$(6,143,094)</u>	<u>\$72,464,275</u>	<u>\$3,492,926</u>	<u>\$68,971,349</u>

7. LONG-TERM INDEBTEDNESS

A. Bonds Payable

The University's bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All of the bonds at the University are Section 9(c) bonds. These bonds are backed by the full faith, credit and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

In fiscal year 2008, the University participated in the Department of the Treasury's fall 2007B 9(c) bond sales to finance the construction of two residence halls (Howard Quad) totaling \$26.1 million and \$579,403 of premium resulting in new general obligation bond debt for the University.

Aggregate annual maturities of bonds payable for fiscal years after 2008 are:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Total</u>
General obligation revenue bonds:			
Langston Hall-95 Refunded Portion, Series 2002 R	4% - 5%	2010	\$ 462,026
Dorm Renovation-95 Refunded Portion, Series 2002 R	4% - 5%	2010	482,115
Foster Hall-95 Refunded Portion, Series 2002 R	4% - 5%	2010	411,802
Jones Dining Hall-96 Refunded Portion, Series 2002 R	4% - 5%	2016	1,346,190
Jones Dining Hall Project, Series 2004 B	4% - 5%	2018	606,338
Construct Residence Halls, Series 2006 B	4% - 5%	2026	16,230,000
Construct Dining Hall, Series 2006 B	4% - 5%	2026	4,185,000
Construct Residence Halls, Series 2007 A	4% - 5%	2027	1,955,000
Construct Two Residence Halls, Series 2007 B	4% - 5%	2027	26,160,000
Add unamortized premiums (net of discounts):			<u>1,851,729</u>
 Total bonds payable			 <u>\$53,690,200</u>

Aggregate annual maturities of bonds payable for fiscal years after 2008 are:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,647,694	\$ 2,420,135	\$ 4,067,829
2010	2,676,522	2,345,820	5,022,342
2011	2,081,191	2,212,694	4,293,886
2012	2,191,047	2,108,635	4,299,681
2013	2,296,281	1,999,082	4,295,363
2014 – 2018	12,885,736	8,168,974	21,054,710
2019 – 2023	15,080,000	4,981,094	20,061,094
2024 – 2027	12,980,000	1,364,475	14,344,475
Add unamortized premiums (net of discounts):	<u>1,851,729</u>	-	<u>1,851,729</u>
 Total	 <u>\$ 53,690,200</u>	 <u>\$ 25,600,909</u>	 <u>\$ 79,291,109</u>

B. Notes Payable

The University entered into a loan agreement with the Department of Housing and Urban Development (HUD) in 1989 and closed the agreement in 1992 to borrow funds to repair seven dormitories. The loan is to be repaid over 30 years at three percent interest and is secured by a lien on the net revenues from the ownership, operation, and use of the seven dormitories under repair. In prior years, the University participated in the Virginia College Building Authority (VCBA) Pooled Bond Program to fund the renovation of Rogers Stadium and the Student Village Housing Renovation Project. In fiscal year 2008, the University participated in the VCBA 2007 Series B refinancing of a portion of the VCBA 2002 Series A

bonds for interest savings at a net present value of \$104,069. At June 30, 2008, the outstanding principal balances were \$1,990,524 for the HUD loan and \$8,720,000 for the VCBA notes payable.

A summary of future principal and interest requirements of the VCBA notes and HUD loan payable as of June 30, 2008, are as follows:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Total</u>
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portion, Series 2007 B	4% - 5%	2019	\$ 2,205,000
VSU Pooled Bonds, Series 2002 A	2% - 11%	2022	2,900,000
VSU Pooled Bonds - Roger's Stadium, Series 2005 A	4% - 5%	2025	2,385,000
VSU Pooled Bonds - Student Village Housing, Series 2005 A	4% - 5%	2025	1,230,000
Department of Housing and Urban Development	1.5%	2022	1,990,524
Add unamortized premiums (net of discounts):			<u>382,474</u>
Total notes payable			<u><u>\$ 11,092,998</u></u>

Aggregate annual maturities of notes payable for fiscal years after 2008 are:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 488,036	\$ 468,631	\$ 956,667
2010	511,604	447,006	958,610
2011	535,279	424,275	959,554
2012	554,066	399,714	953,780
2013	582,967	374,038	957,005
2014 – 2018	3,312,604	1,459,169	4,771,773
2019 – 2023	3,885,968	669,700	4,555,668
2024 – 2027	840,000	59,890	899,890
Add unamortized premiums:	<u>382,474</u>	<u>-</u>	<u>382,474</u>
Total	<u><u>\$11,092,998</u></u>	<u><u>\$ 4,302,423</u></u>	<u><u>\$15,395,421</u></u>

C. Installment Purchases

In July 2007, the University entered into a fifteen-year Energy Performance Program lease agreement with First Municipal Credit Corporation through the Department of the Treasury in the amount of \$2,729,129. The interest rate for this financing is 4.3 percent. In FY008, the University paid the \$74,089 remaining principal balance for a bus financed through the Master Equipment Leasing Program, resulting in interest savings of \$4,363.

Principal and interest payment commitments as of June 30, 2008, are as follows:

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Total</u>
Installment purchase obligation:			
Energy Efficiency Program	4.32%	2021	\$ 2,605,022

Aggregate maturity of installment purchase obligation for fiscal years after 2008 are:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 139,300	\$ 112,581	\$ 251,881
2010	145,320	106,561	251,881
2011	151,600	100,281	251,881
2012	158,152	93,729	251,881
2013	164,987	86,894	251,881
2014 – 2018	938,252	321,152	1,259,404
2019 – 2021	<u>907,411</u>	<u>100,112</u>	<u>1,007,523</u>
Total	<u>\$ 2,605,022</u>	<u>\$ 921,310</u>	<u>\$ 3,526,332</u>

E. Foundation Debt

The Foundation refinanced and paid off the Series 2006 bonds and obtained \$20,480,000 in Series 2008 bonds. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the Foundation is required to maintain a debt service reserve. The contractual interest rates are variable. The Series 2008 bonds mature on July 1, 2031, and the Foundation has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

<u>Maturity</u>	<u>Principal</u>
2009	\$ 150,000
2010	200,000
2011	390,000
2012	410,000
2013	490,000
Thereafter	<u>18,840,000</u>
Total	<u>\$20,480,000</u>

In conjunction with the refinancing of the IDA Bonds, during the year ended June 30, 2007, loan costs of approximately \$1,019,000 were incurred and are being amortized over the debt period. Included in amortization expense for the year ended June 30, 2007 is \$578,694 of loan costs related to the original bonds which were written off due to the refinancing. Amortization expense for the year ended June 30, 2008 was \$41,153.

The VSUREF had entered into an interest rate swap agreement as part of the provisions of the Series 2002 bond agreement. Per the terms of the swap agreement, the VSUREF paid a fixed rate of interest of 3.905 percent. When the Foundation issued the 2006 Series Bonds, the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2006 swap agreement, the Foundation pays a fixed rate of interest of 4.08%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The Foundation accounts for the interest rate swaps as fair value hedges whereby the fair value of these contracts is reflected in other liabilities in the accompanying statement of financial position with the offsets recorded as expenses. The fair value of these contracts was a negative \$1,898,448 and \$643,071 at June 30, 2008 and 2007, respectively. This is the amount the Foundation would have to pay to settle the interest rate swaps as of these respective dates.

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

8. STATE APPROPRIATIONS

The University receives State appropriations from the General Fund of the Commonwealth. The Appropriations Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of a biennium.

The following is a summary of State appropriations received by the University for the year ended June 30, 2008:

Virginia State University:

Original legislative appropriation:

Education and general programs	\$ 33,128,845
Higher education student financial assistance	4,058,957

Supplemental adjustments:

Prior year's due from Commonwealth	131,924
State grants	78,197
VIVA interlibrary loan allocation	3,401
Higher education tuition incentive fund	289,779
Central appropriations transfer	903,425
Mandatory reappropriation from FY07	104,439
5% reduction, per state budget cut	(1,243,355)
Reversal of prior year's due from Commonwealth	(132,175)
Central appropriations E& G interest	29,473
Nongeneral fund transfer	(251,022)
Year end cash reversion	<u>(178,118)</u>

36,923,770

Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education and general programs	4,522,430
Supplemental adjustments:	
FY08 reappropriation/cash transfer-in	176,908
Appropriation Increase – GF central account distribution	222,009
FY08 budget reduction	(23,563)
Year-end cash reversion	<u>(86,510)</u>
	<u>4,811,274</u>
 Total state appropriations	 <u>\$ 41,735,044</u>

9. EXPENSES BY NATURAL CLASSIFICATION

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.

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Scholarship and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$21,252,821	\$ 6,410,419	\$ 7,144,489	\$ 119,254	\$ 162,267	-	\$35,089,250
Research	1,992,714	604,567	988,940	17,588	88,037	-	3,691,846
Public Service	2,939,020	827,293	3,629,437	16,912	129,007	-	7,541,669
Academic Support	3,274,829	938,830	1,408,286	96,050	38,380	-	5,756,375
Student Services	2,456,786	858,253	1,579,279	40,787	52,648	-	4,987,753
Institutional Support	6,410,846	2,630,729	1,360,848	3,387	201, 255	-	10,607,065
Operation and Maintenance of Plant	516,261	214,194	3,189,421	-	3,722,596	-	7,642,472
Scholarships and Fellowships	-	-	-	1,055,050	-	-	1,055,050
Auxiliary Enterprises	4,395,119	1,402,583	14,661,020	1,463,107	2,680,665	-	24,602,494
Other	-	-	47,134	-	-	-	47,134
Depreciation	-	-	-	-	-	9,884,330	9,884,330
Total	<u>\$43,238,396</u>	<u>\$13,886,868</u>	<u>\$ 34,008,854</u>	<u>\$2,812,135</u>	<u>\$ 7,074,855</u>	<u>\$ 9,884,330</u>	<u>\$110,905,438</u>

10. COMMITMENTS

As of June 30, 2008, the University was a party to construction contracts totaling \$55,173,217 of which \$6,413,635 was still outstanding as of June 30, 2008.

11. 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 in the Commonwealth's Comprehensive Annual Financial Report. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR discloses the unfunded pension benefit obligation at June 30, 2008, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's total VRS contributions were \$3,359,867 for the year ended June 30, 2008, which included the five percent employee contribution assumed by the employer. These contributions represent 11.4 percent of covered payroll for the year. The University's payroll costs for employees covered by the VRS for the year ended June 30, 2008, were \$29,588,656. The University's total payroll costs for the year ended was \$43,238,396.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in one of two other retirement plans: 1) Fidelity Investments Institutional Services and 2) Teacher Insurance and Annuity Association/College Retirement Equity Fund. These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4 percent, plus interest and dividends.

Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions. Annual pension costs under these plans totaled \$874,287 for the year ended June 30, 2008. Contributions to these retirement programs were calculated using the base salary amount of approximately \$8,406,606.

C. Deferred Compensation

University employees may also voluntarily 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 matched dollar amount 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. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$187,492 for fiscal year 2008.

12. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS administered statewide group life insurance programs, 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 for its retirees who have at least 15 years of state service and participate in the State's health plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's CAFR.

13. CONTINGENCIES

The University has received federal 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 expenditure 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 various regulations issued by the Office of Management and Budget. Failure to comply with these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2008, the University estimates that no material liabilities will result from such audits or questions.

The University has been a defendant in several legal actions. The final outcome can not be determined at this time, but management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

14. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft, or 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 CAFR.

15. SUBSEQUENT EVENT

Subsequent to June 30, 2008, the financial markets experienced some of the greatest turbulence in history resulting in significant reductions in endowment fund valuation. The University has reviewed the market value of its investments as of February 28, 2009. There was a decline in this valuation of \$3,181,138 or 20% since June 30. Likewise, the Virginia State University Foundation experienced a similar decline in the value of its investments. The Foundation's market value declined \$1,519,067 or 32% during this same period.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 24, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

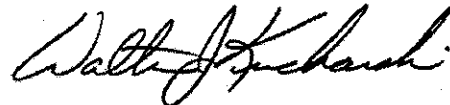
We have audited the accompanying financial statements of the business-type activities and discretely presented component units of **Virginia State University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University's basic 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 discretely presented component units of the University as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2009 on our consideration of Virginia 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.



AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA STATE UNIVERSITY
University Officials as of June 30, 2008

BOARD OF VISITORS

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Rector

Earnest Edwards
Vice Rector

Daun S. Hester
Secretary

Katherine E. Busser

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Mary H. Futrell

Albert W. Thweatt

James H. Starkey

Felix Davis, Jr.

Dr. Deborah Goodwyn, (Faculty Representative)

Ms. Cora Bianca Brodie (SGA Representative)

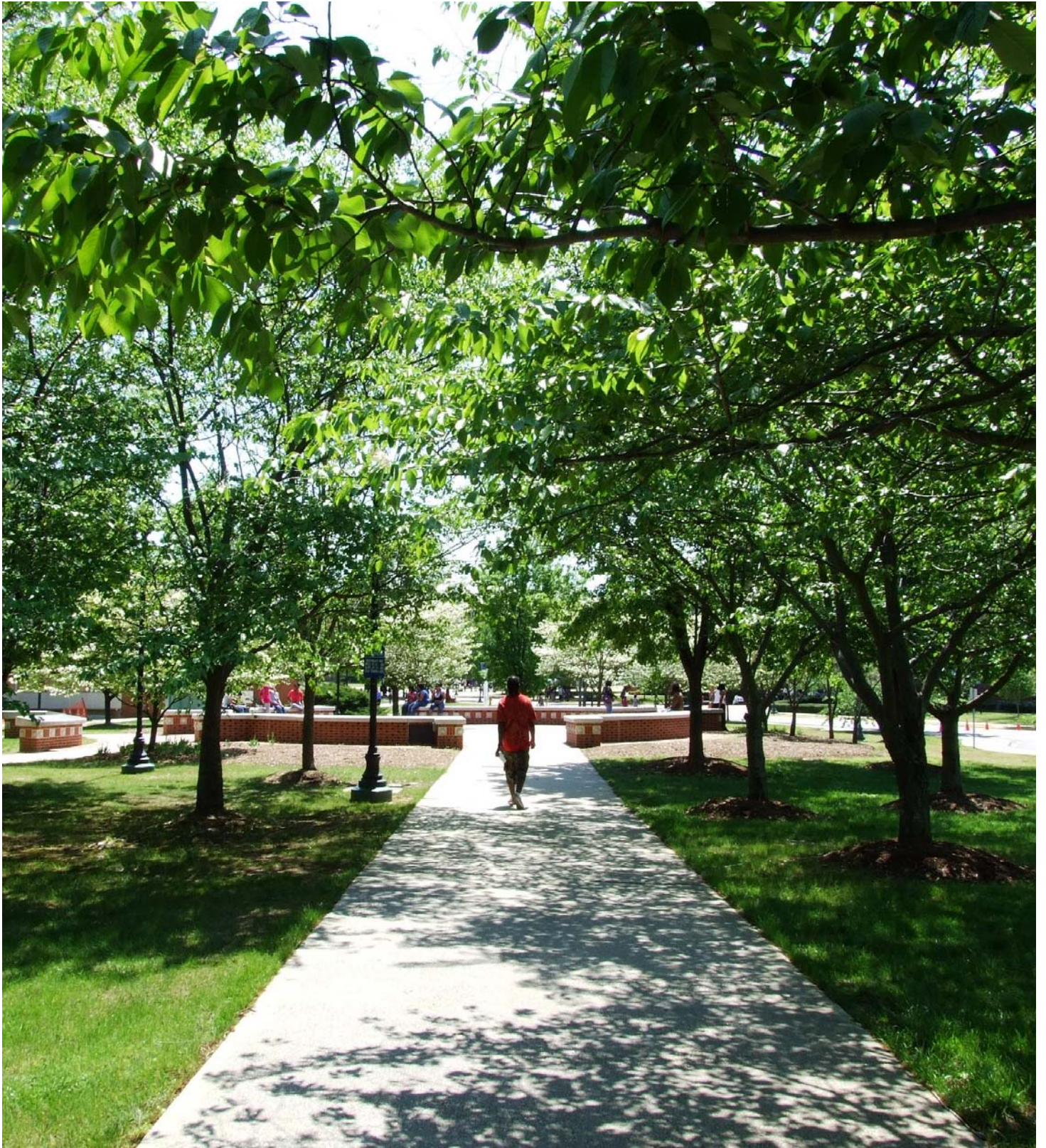
ADMINISTRATION OFFICERS

Eddie N. Moore, Jr.
President

W. Eric Thomas
Provost and Vice President for Academic Affairs

David J. Meadows
Vice President for Administration and Finance

Robert Turner
Vice President for Development



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