



2011-2012 Financial Statements

NORFOLK STATE UNIVERSITY
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Vice President for Finance and Administration

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August 11, 2014

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

The official Financial Statements of Norfolk State University (NSU) for the fiscal year ended June 30, 2012 are hereby submitted. The statements include an accompanying statement of net assets, statement of revenues, expenses, changes in net assets and statement of cash flows, along with accompanying notes and schedules.

These financial statements were prepared in conformity with Generally Accepted Accounting Principles and represent a comprehensive record of the financial position of NSU operations for the fiscal year ended June 30, 2012.

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

The Commonwealth of Virginia Auditor of Public Accounts audited and rendered an opinion on the University's financial statements on pages 34 and 35 and will issue a report on internal control over financial reporting and on compliance and other matters after September 1, 2014.

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

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

Sincerely,

A handwritten signature in black ink, reading "Gerald E. Hunter". The signature is fluid and cursive, with the first name "Gerald" and last name "Hunter" clearly legible.

Gerald E. Hunter
Vice President
Finance and Administration

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of Norfolk State University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2012. Note that although the University's foundations identified as component units under GASB Statement 39 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2011. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

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

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2012. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

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

NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Statement of Net Assets (amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Assets:				
Current	\$ 44,467	\$ 38,547	\$ 5,920	15%
Capital, net of accumulated depreciation	190,058	176,358	13,700	8%
Other non-current	11,248	11,120	128	1%
Total assets	<u>245,773</u>	<u>226,025</u>	<u>19,748</u>	<u>9%</u>
Liabilities:				
Current	15,718	16,776	(1,058)	-6%
Non-current	53,940	56,907	(2,967)	-5%
Total liabilities	<u>69,658</u>	<u>73,683</u>	<u>(4,025)</u>	<u>-5%</u>
Net Assets:				
Invested in capital assets, net of related debt	139,678	124,691	14,987	12%
Restricted	6,389	4,063	2,326	57%
Unrestricted	30,048	23,588	6,460	27%
Total net assets	<u>\$ 176,115</u>	<u>\$ 152,342</u>	<u>\$ 23,773</u>	<u>16%</u>

Comments:

- *Current Assets* – Current assets consist of cash, short-term investments, accounts receivable, contribution receivable, due from the Commonwealth and prepaid items such as insurance and maintenance contracts. The 15% increase is primarily due to the increase in the amount of capital bond proceeds received from the 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Nursing Classroom Building and renovations of the Wilder Center.
- *Capital Assets* – During FY 2012, the net increase in capital assets of 8% was due to the completion of the Lyman Beecher Brooks Library and the beginning construction cost related to the new Nursing building.
- *Other Non-Current* – Other-non-current assets consist of restricted cash, appropriation due from primary government and notes receivable related to financial aid. During FY 2012, the increase in non-current assets was 1%.
- *Current Liabilities* – Current liabilities decreased 6% mainly due to a decrease in deferred revenue balance in FY 2012 due to the decrease in number students attending summer school.
- *Non-Current Liabilities* – Non-current liabilities decreased 5% mainly due to the refunding in FY 2012 of the University's notes payable related to a loan from the Commonwealth for the Student Center.

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Statement of Revenues, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries, wages and fringe benefits for faculty and staff are the largest type of operating expenses.

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

Other sources of revenue mainly consist of capital bond proceeds received from the 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Nursing Classroom Building and renovations of the Wilder Center.

NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Statement of Revenues, Expenses, and Changes in Net Assets (amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of \$10,563 and \$10,741	\$ 27,827	\$ 25,557	\$ 2,270	8.9%
Federal grants and contracts	13,998	15,710	(1,712)	-10.9%
State grants and contracts	333	946	(613)	-64.8%
Nongovernmental grants and contracts	1,383	1,945	(562)	-28.9%
Public service	472	536	(64)	-11.9%
Auxiliary enterprises, net of scholarship allowances of \$12,738 and \$11,487	26,406	28,016	(1,610)	-5.7%
Other operating revenues	213	419	(206)	-49.2%
Total operating revenue	70,632	73,129	(2,497)	-3.4%
Operating expenses:				
Instructional	37,364	33,572	3,792	11.3%
Research	7,066	7,784	(718)	-9.2%
Public service	760	1,264	(504)	-39.9%
Academic support	12,826	15,232	(2,406)	-15.8%
Student services	4,205	5,489	(1,284)	-23.4%
Institutional support	12,888	10,169	2,719	26.7%
Operation and maintenance - plant	7,647	7,814	(167)	-2.1%
Depreciation expense	10,170	8,661	1,509	17.4%
Student Aid	22,240	21,956	284	1.3%
Auxiliary activities	21,493	21,115	378	1.8%
Loss on disposal of assets	1,956	278	1,678	603.6%
Total operating expenses	138,615	133,334	5,281	4.0%
Operating gain (loss)	(67,983)	(60,205)	(7,778)	12.9%
Net non-operating revenues and expenses	68,808	66,731	2,077	3.1%
Increase (decrease) before other revenues, expenses, gains or losses	825	6,526	(5,701)	-87.4%
Net other revenues	22,948	18,555	4,393	23.7%
Increase (decrease) in net assets	23,773	25,081	(1,308)	-5.2%
Net assets - beginning of the year	152,342	127,261	25,081	19.7%
Net assets - end of year	\$ 176,115	\$ 152,342	\$ 23,773	15.6%

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Comments:

- *Operating Revenues* - Operating revenues primarily consist of tuition and fees, auxiliary enterprises and revenues from grants and contracts. The 3.4% decrease is attributed to decreases in revenues related to federal grants and contracts and auxiliary enterprises.
- *Operating Expenses* – During FY 2012, the increase in operating expenses of 4.0% was attributable to the increase in instruction, institutional support and depreciation.
- *Non-Operating Revenues and Expenses* – The increase in non-operating revenues and expenses of 3.1 % is mainly attributed to the increase in other non-operating revenues, Pell grants and gifts.
- *Net Other Revenues* – The increase in net other revenues of 23.7% is mainly attributed to the increase of capital bond proceeds received from the 21ST Century Program that is managed by the VCBA for the construction of the Nursing Classroom Building and renovations of the Wilder Center.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the University's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$25.55 million), grants and contracts (\$14.28 million), and auxiliary enterprises receipts (\$26.37 million). Major uses of cash include payments for salaries, wages, and fringe benefits (\$76.93 million), payments for scholarships and fellowships (\$22.72 million), and payments for non-capitalized plant improvements and equipment (\$4.59 million).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid (\$46.26 million), Pell grants (\$19.43 million) and American Recovery and Reinvestment Fiscal Stabilization Grant (\$1.47 million). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from bond issues (\$35.32 million) and proceeds from bond refunding (\$9.12 million). Significant cash outflows include the purchase of capital assets (\$27.07 million), repayment of principal on capital related debt (\$11.41 million), and interest paid on capital debt (\$1.96 million). Cash flows from investing activities include interest from investments (\$6 thousand). The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

Statement of Cash Flows (amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Cash flows from operating activities	\$ (59,185)	\$ (57,961)	\$ (1,224)	2.1%
Cash flows from noncapital financing activities	71,283	68,610	2,673	3.9%
Cash flows from capital financing activities	4,547	(16,267)	20,814	-128.0%
Cash flows from investing activities	(26)	5,412	(5,438)	-100.5%
Net change in cash	<u>\$ 16,619</u>	<u>\$ (206)</u>	<u>\$ 16,825</u>	<u>-8167.5%</u>

Capital Asset and Debt Administration

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Overall, invested in capital assets, net of related debt increased \$14.99 million due to the completion of Lyman Beecher Brooks Library. Future construction projects include the New Nursing and Allied Health Building with an anticipated occupancy date of December 2014.

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2012 debt service to expenditures ratio was 1.87%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due. Debt was defeased in 2012 on the 2004A Pooled 9D bonds for the Student Center with the Series 2012A; thus reducing the principal amount by \$1.1 million.

Overall, unpaid construction and other related contractual commitments on capital projects decreased from \$18,956,980 in 2011 to \$3,850,934 in 2012. Construction in progress totaled \$3,244,876 as of June 30, 2012.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, tuition and fee rates are largely dependent upon ongoing financial support from the state government. State appropriations currently cover 42.79% of operating expenses, excluding auxiliary activities and depreciation. To offset the decline in state appropriations for fiscal year 2012, the University's Board of Visitors approved an overall increase of 5.89% in tuition and fees for in-state undergraduates.

The University's financial position improved with an overall increase of \$23.77 million in net assets for the 2012 fiscal year. The increase is attributed to capital bond proceeds related to the funding for the construction of the Nursing Classroom Building and renovations of the Wilder Center.

Management continues to evaluate and review current policies and procedures in an effort to enhance operational efficiency and fiscal stability while providing excellent services to its students and constituents. Resources will continue to be closely monitored to ensure the University's ability to counter unknown internal and external issues.

NORFOLK STATE UNIVERSITY

STATEMENT OF NET ASSETS

JUNE 30, 2012

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	\$ 34,529,790	\$ 1,740,459
Cash held for securities lending (Note 2)	180,998	-
Restricted cash and cash equivalents	-	548,542
Short-term investments (Note 2)	5,596	150,684
Accounts receivable, net of allowance for doubtful accounts of \$211,272 (Note 3)	5,355,070	182,696
Contributions receivable	-	314,765
Due from the Commonwealth	1,905,654	-
Prepaid expenses	1,943,596	124,993
Notes receivable, net of allowance for doubtful accounts of \$95,919	297,177	-
Unamortized bond issuance expense	248,833	1,427,007
Other assets	-	202,731
Total current assets	44,466,714	4,691,877
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	5,723,584	2,702,222
Appropriation available/due from primary government	3,433,067	-
Investments	-	21,239,398
Contributions receivable, net of allowance for uncollectible contributions of \$240,379	-	329,684
Notes receivable, net of allowance for doubtful accounts of \$1,603,936	2,092,042	-
Nondepreciable capital assets (Note 4)	8,030,975	545,384
Depreciable capital assets, net (Note 4)	182,026,928	24,968,937
Total noncurrent assets	201,306,596	49,785,625
Total Assets	\$ 245,773,310	\$ 54,477,502
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	\$ 6,531,772	\$ 319,695
Deferred revenue	2,941,675	28,184
Obligations under securities lending	186,594	-
Deposits held in custody for others	2,275,872	-
Long-term liabilities - current portion (Note 6)	3,782,565	185,000
Total current liabilities	15,718,478	532,879
Noncurrent liabilities (Note 6)	53,939,997	36,185,703
Total Liabilities	69,658,475	36,718,582
Net assets:		
Invested in capital assets, net of related debt	139,677,323	(7,293,543)
Restricted for:		
Nonexpendable	-	8,274,578
Expendable	6,388,991	12,036,197
Unrestricted	30,048,521	4,741,688
Total Net Assets	\$ 176,114,835	\$ 17,758,920

The accompanying notes are an integral part of these financial statements.

NORFOLK STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of \$10,563,489	\$ 27,827,175	\$ -
Federal grants and contracts	13,998,580	-
State grants and contracts	333,260	-
Nongovernmental grants and contracts	1,382,728	-
Public service	472,288	-
Auxiliary enterprises, net of scholarship allowances of \$12,737,539	26,405,809	-
Other operating revenues	213,144	4,968,825
Total operating revenues	<u>70,632,984</u>	<u>4,968,825</u>
Operating expenses:		
Instructional	37,363,833	-
Research	7,065,867	-
Public service	759,836	-
Academic support	12,825,843	-
Student services	4,205,260	-
Institutional support	12,887,982	4,069,793
Operation and maintenance - plant	7,647,031	1,396,664
Depreciation expense	10,169,562	1,125,478
Student Aid	22,240,692	812,376
Auxiliary activities	21,493,522	-
Loss of disposal of assets	1,956,322	-
Total operating expenses (Note 8)	<u>138,615,750</u>	<u>7,404,311</u>
Operating gain (loss)	<u>(67,982,766)</u>	<u>(2,435,486)</u>
Non-operating revenues:		
State appropriations (Note 9)	45,760,246	-
Investment income net of investment expense	6,037	391,488
Unrealized loss on investments	-	(250,017)
Unrealized loss on interest rate swap	-	(1,156,696)
Interest on capital asset - related debt	(1,983,645)	-
Gifts	752,803	1,302,653
Pell grants	19,425,216	-
American Recovery & Reinvestment Fiscal Stabilization Grant	1,474,879	-
Other non-operating revenues (expenses)	3,372,240	29,333
Net non-operating revenues (expenses)	<u>68,807,776</u>	<u>316,761</u>
Increase (decrease) before other revenues, expenses, gains or losses	<u>825,010</u>	<u>(2,118,725)</u>
Capital bond proceeds	22,399,186	-
Capital gifts and grants	548,955	-
Contributions to permanently restricted endowments	-	174,316
Net other revenues	<u>22,948,141</u>	<u>174,316</u>
Increase (decrease) in net assets	<u>23,773,151</u>	<u>(1,944,409)</u>
Net assets - beginning of the year	<u>152,341,684</u>	<u>19,703,329</u>
Net assets - end of year	<u>\$ 176,114,835</u>	<u>\$ 17,758,920</u>

The accompanying notes are an integral part of these financial statements.

NORFOLK STATE UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	2012
Cash flows from operating activities:	
Student tuition and fees	\$ 25,551,518
Grants and contracts	14,277,450
Public service	472,288
Auxiliary enterprises	26,367,496
Other receipts	190,452
Payments to employees	(60,341,871)
Payments for fringe benefits	(16,587,602)
Payments for services and supplies	(17,247,538)
Payments for utilities	(4,171,852)
Payments scholarships and fellowships	(22,715,801)
Payments for noncapitalized plant improvements and equipment	(4,593,734)
Collections of loans from students	2,306,862
Loans issued to students	(2,692,808)
Net cash used in operating activities	<u>(59,185,140)</u>
Cash flows from noncapital financing activities:	
State appropriations	46,257,588
Gifts and grants for other than capital purposes	752,803
Direct lending receipts	59,869,888
Direct lendings payments	(59,869,888)
Agency receipts	54,992,296
Agency payments	(54,992,296)
Pell grant receipts	19,425,216
American Recovery & Reinvestment Fiscal Stabilization grant receipts	1,474,879
Other non-operating revenues (expenses)	3,372,240
Net cash provided by noncapital financing activities	<u>71,282,726</u>
Cash flows from capital financing activities:	
Capital gifts	548,955
Proceeds from bond issues	35,315,218
Proceeds from refunded bond issues	9,123,017
Purchase of capital assets	(27,070,685)
Principal paid on capital debt, leases and installments	(11,412,561)
Interest paid on capital debt, leases and installments	(1,956,565)
Net cash used in capital financing activities	<u>4,547,379</u>

The accompanying notes are an integral part of these financial statements.

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2012

Cash flows from investing activities:

Interest on investments	6,037
Proceeds from investments	(32,078)
Net cash used in investing activities	<u>(26,041)</u>

Net increase in cash and cash equivalents	16,618,924
Cash and cash equivalents at beginning of year	23,634,450
Cash and cash equivalents at end of year	<u><u>\$ 40,253,374</u></u>

Adjustments to reconcile operating loss:

Operating loss	\$ (67,982,766)
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Adjustment to reconcile operating loss to net cash used
in operating activities:

Depreciation expense	10,169,562
Loss on disposal of assets	1,956,322
Change in assets and liabilities:	
Increase in receivables, net	(2,720,997)
Increase in notes receivable, net	(385,946)
Decrease in prepaid expenses	269,040
Increase in accounts payable and accrued expenses	562,428
Decrease in deferred revenue	(1,030,091)
Decrease in deposits held in custody of others	(22,692)
Net cash used in operating activities	<u><u>\$ (59,185,140)</u></u>

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1—Summary of significant accounting policies

A. Reporting Entity

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

The Norfolk State University Foundation, Inc., and Subsidiary, the Athletics Foundation of Norfolk State University, Inc. and the Norfolk State University Research and Innovation Foundation and Affiliates meet criteria under GASB Statement No. 39, qualifying them as component units of the University.

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

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

The Norfolk State University Research and Innovation Foundation and Affiliates (formerly Enterprise and Empowerment Foundation of Norfolk State University and Affiliates) is a legally separate, not-for-profit charitable organization governed by a Board of Directors dedicated to raising funds for a development called the Marie V. McDemmond Center for Applied Research. The development is organized around a public private partnership and is designed to create a digital village that acts as a hub for the Hampton Roads region’s technology-led economic development agenda.

Complete financial statements for the component units can be obtained by writing the Assistant Vice President for Advancement/Fiscal Officer for Foundations, Norfolk State University Foundation, c/o University Advancement, 700 Park Ave., Suite 410, Norfolk, VA, 23504.

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

During the year ended June 30, 2012, the Norfolk State University Foundation, Inc. and the Athletics Foundation of Norfolk State, Inc. made distributions of \$474,495 and \$274,468 to or on behalf of the University for both restricted and unrestricted purposes.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1—Summary of significant accounting policies (continued)

B. Basis of Presentation

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

The foundations are private, non-profit organizations that report under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Bond premiums and discounts are deferred and amortized over the life of the debt. All significant intra-agency transactions have been eliminated.

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

In accordance with the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary, highly-liquid investments with an original maturity of three months or less.

E. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), are reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1—Summary of significant accounting policies (continued)

F. Prepaid Expenses

Prepays are reported using the purchase method whereby purchases are recorded as expenses when acquired and adjusted for unused benefits at the end of the fiscal year. As of June 30, 2012, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

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

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, intangible assets and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979 which is valued at appraisal value. Library materials are valued using published average prices for library acquisitions. Donated capital assets are recorded at the estimated fair market value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The University holds a number of patents which were obtained with the sole intent of earning revenue in the future. As such, they do not meet the capitalization criteria of an intangible asset set out in GASB 51 and are not included in Capital Assets. The University also includes any software development projects in excess of \$100,000 as an intangible asset capitalizable under GASB 51 and included in Other Improvements and Infrastructure. Any software purchased prior to July 1, 2009 was modified to the extent that it became internally generated software and is not required to be retroactively capitalized under GASB 51. The University has chosen not to retroactively capitalize internally generated software. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. The University has reviewed its capital assets for impairment using criteria set forth in GASB 42, *Impairment of Capital Assets* and has no impaired assets at year end.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

- Buildings - 30 years
- Other improvements and infrastructure - 8 to 25 years
- Equipment - 4 to 25 years
- Library materials - 5 years
- Intangible assets - 3 to 5 years

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1—Summary of significant accounting policies (continued)

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

I. Noncurrent Cash and Investments

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

J. Deferred Revenue

Deferred revenue represents monies received but not earned as of June 30, 2012. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

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

L. Non-Current Liabilities

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

M. Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loan programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

N. Net Assets

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 1—Summary of significant accounting policies (continued)

Invested in Capital Assets, Net of Related Debt – consist of total investment in capital assets, net of accumulated depreciation, and outstanding debt obligations.

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

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

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

O. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and nongovernmental grants and contracts.

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

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

P. Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 2—Cash and cash equivalents and investments

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

Cash equivalents also include the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the federal Security and Exchange Commission.

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

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

A. Investments

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

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

Concentration of Credit Risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. As of June 30, 2012, none of the University's investments involve concentration of credit risk.

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 2—Cash and cash equivalents and investments (continued)

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

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

B. Securities Lending Transactions

Securities lending transactions represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Assets, are non-categorized as to credit risk. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains or losses are realized, the actual gains and losses are recorded by the affected agencies. Details of the General Account securities lending program are included in the Commonwealth's *Comprehensive Annual Financial Report*.

C. Credit & Concentration of Credit Risks

<u>Cash equivalents:</u>	<u>Fair Value</u>	<u>0-3 months</u>	<u>Credit Rating</u>
Repurchase agreements	\$ 3,136,157	\$ 3,136,157	A-1
Money market funds	852,481	852,481	A-1
SNAP	2,107,799	2,107,799	AAAm
Securities lending	180,998	180,998	Unrated
<u>Investments:</u>			
Securities lending	5,596	5,596	Unrated
Totals	<u>\$ 6,283,031</u>	<u>\$ 6,283,031</u>	

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 3—Accounts receivable

Accounts receivable consisted of the following at June 30, 2012:

Student tuition and fees	\$ 1,530,521
Federal, state and nongovernmental grants and contracts	3,663,578
Other receivables	<u>372,243</u>
Gross receivables	5,566,342
Less: Allowance for doubtful accounts	<u>(211,272)</u>
Net accounts receivable	<u><u>\$ 5,355,070</u></u>

A. Accounts Receivable-Component Units

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

B. Contributions Receivable – Norfolk State University Foundation, Inc. and Athletics Foundation

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2012:

Contributions currently due	\$ 314,765
Contributions due in one to five years	579,921
Contributions due in more than five years	36,000
Less - time value discount	(45,858)
Less - allowance for uncollectible pledges	<u>(240,379)</u>
Non-current contributions receivable	<u>329,684</u>
Total contributions receivable	<u><u>\$ 644,449</u></u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 4—Capital assets

A summary of changes in the various capital asset categories for the year ending June 30, 2012, is presented as follows.

	Beginning Balance July 1, 2011	Additions	Deletions	Ending Balance June 30, 2012
Nondepreciable capital assets:				
Land	\$ 4,786,099	\$ -	\$ -	\$ 4,786,099
Construction in progress	30,166,260	22,721,804	49,643,188	3,244,876
Total nondepreciable capital assets	34,952,359	22,721,804	49,643,188	8,030,975
Depreciable capital assets:				
Buildings	237,307,183	48,701,265	11,351,849	274,656,599
Infrastructure	5,394,616	524,303	-	5,918,919
Equipment	28,799,775	2,373,204	55,749	31,117,230
Other improvements	60,823	-	-	60,823
Software	-	1,060,520	-	1,060,520
Library materials	7,179,260	88,561	83,798	7,184,023
Total depreciable capital assets	278,741,657	52,747,853	11,491,396	319,998,114
Less accumulated depreciation for:				
Buildings	105,315,299	8,165,883	9,394,917	104,086,265
Infrastructure	5,267,137	16,453	-	5,283,590
Equipment	20,259,343	1,492,147	55,748	21,695,742
Other improvements	35,541	3,625	-	39,166
Software	-	202,384	-	202,384
Library materials	6,458,767	289,070	83,798	6,664,039
Total accumulated depreciation	137,336,087	10,169,562	9,534,463	137,971,186
Depreciable capital assets, net	141,405,570	42,578,291	1,956,933	182,026,928
Total capital assets, net	\$ 176,357,929	\$ 65,300,095	\$ 51,600,121	\$ 190,057,903

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 4—Capital assets (continued)

Capital Assets – Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University,	NSU Research and Innovation Foundation and Affiliates	Total
Nondepreciable capital assets:				
Land	\$ 24,310	\$ -	\$ -	\$ 24,310
Development Costs	-	-	521,074	521,074
Total nondepreciable capital assets	24,310	-	521,074	545,384
Depreciable capital assets:				
Buildings	-	-	28,137,869	28,137,869
Equipment	831,318	38,998	2,782,201	3,652,517
Total depreciable capital assets	831,318	38,998	30,920,070	31,790,386
Less accumulated depreciation	(562,032)	(35,620)	(6,223,797)	(6,821,449)
 Total depreciable capital assets, net	 269,286	 3,378	 24,696,273	 24,968,937
 Total capital assets, net	 \$ 293,596	 \$ 3,378	 \$ 25,217,347	 \$ 25,514,321

Note 5—Accounts payable and accrued expenses

Accounts payable and accrued expenses consisted of the following at June 30, 2012:

Vendors and suppliers accounts payable	\$ 1,857,252
Employee salaries, wages, and fringe benefits payable	4,016,357
Accrued interest payable	586,701
Spartan Suites rent and scholarships	71,462
 Total accounts payable and accrued liabilities	 \$ 6,531,772

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 6—Noncurrent liabilities

The University's, Norfolk State University Research and Innovation Foundation and Affiliates and Norfolk State University Foundation, Inc. non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2012, is presented as follows:

University	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable 9c and 9d	\$ 5,715,478	\$ -	\$ 633,497	\$ 5,081,981	\$ 667,380
Notes payable	39,290,252	7,865,000	10,053,914	37,101,338	1,134,392
Installment purchases	9,097,407	-	666,176	8,431,231	640,496
Unamortized bond discount	(155,576)	-	(16,284)	(139,292)	(17,217)
Unamortized bond premium	1,151,624	1,258,017	218,171	2,191,470	132,316
Deferred gain on refunding	-	70,484	-	70,484	4,699
Total long-term debt	55,099,185	9,193,501	11,555,474	52,737,212	2,562,066
Accrued compensated absences	3,393,210	1,463,134	1,497,921	3,358,423	1,120,499
Capital project retainage payable	1,344,827	100,000	1,344,827	100,000	100,000
Federal loan capital contributions	1,486,576	40,351	-	1,526,927	-
Total long-term liabilities	\$ 61,323,798	10,796,986	\$ 14,398,222	\$ 57,722,562	\$ 3,782,565
Research and Innovation Foundation and Affiliates	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	\$ 31,805,000	\$ -	\$ 130,000	\$ 31,675,000	\$ 130,000
Notes payable	1,078,388	-	466,598	611,790	55,000
Total long-term debt	32,883,388	-	596,598	32,286,790	185,000
Derivative - interest rate sw ap	2,785,409	1,156,697	-	3,942,106	-
Total long-term liabilities	\$ 35,668,797	\$ 1,156,697	\$ 596,598	\$ 36,228,896	\$ 185,000
Norfolk State University Foundation, Inc. and Subsidiary	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term liabilities:					
Split-interest agreement	\$ 57,714	\$ 84,093	\$ -	\$ 141,807	\$ -
Total long-term liabilities	\$ 57,714	\$ 84,093	\$ -	\$ 141,807	\$ -

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 7—Long-term debt

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

In the current year, the University issued \$7,865,000 in notes payable with an average interest rate of 2.75% to 5% to advance refund \$8,965,000 of 2004A Series VCBA bonds with interest rates of 4% to 5%. The net proceeds were placed with an escrow agent to provide for all future debt service payments on the 2004A Series bonds issued by the VCBA. As a result, the VCBA bonds are considered to be defeased and University has removed the liability for those notes from its statement of net assets. The defeasance reduced total debt service payments over the next twenty four years by \$2,295,170, resulting in an economic gain of \$1,851,616 discounted at a rate of 2.090 percent. The 2012A Series VCBA Educational Revenue Bonds were issued at a premium of \$1,258,017.05 in excess of the face value of the bonds. That premium is reported in the long-term debt section of the financial statements.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on the behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

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

At June 30, 2012, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The length of the purchase agreements are for five years and the interest rates charged are from 3.739 percent to 4.500 percent.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 7—Long-term debt (continued)

	Interest Rates (%)	Maturity	Balance at June 30, 2012
Revenue bonds:			
Dormitories:			
Phyllis Wheatley and Rosa Alexander 1982 (d)	3.00	2022	\$ 1,431,981
Athletic facility:			
Dick Price Stadium Series 1996 (d)	5.125 - 5.375	2018	<u>3,650,000</u>
Total revenue bonds			5,081,981
Notes payable:			
Brambleton Center, series 1998		2019	181,338
Student Center 2004A	4.625 - 5.00	2035	10,240,000
Student Center 2010A and 2010B	2.00 - 5.00	2030	18,815,000
Student Center 2012A refunding 2004A	2.75 - 5.00	2027	<u>7,865,000</u>
Total notes payable			37,101,338
Less: unamortized bond discount			(139,292)
Add: unamortized bond premium			2,191,470
Add: deferred gain on refunding			<u>70,484</u>
Net notes payable			<u>39,224,000</u>
Installments payable:			
Energy lease project	3.739 - 4.500	2016 - 2021	<u>8,431,231</u>
Net installments payable			<u>8,431,231</u>
Total			<u><u>\$ 52,737,212</u></u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 7—Long-term debt (continued)

Long-term debt matures as follows:

<u>Year ending:</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,442,268	\$ 2,127,644
2014	2,920,122	2,165,362
2015	3,054,819	2,031,763
2016	3,181,217	1,891,852
2017	3,165,267	1,745,130
2018-2022	12,780,857	6,779,580
2023-2027	8,760,000	4,497,685
2028-2032	9,480,000	2,298,641
2033-2036	4,830,000	471,913
Unamortized Premium	2,191,470	-
Unamortized Discount	(139,292)	-
Deferred loss on refunding	70,484	-
Total	<u>\$ 52,737,212</u>	<u>\$ 24,009,570</u>

Norfolk State University Research and Innovation Foundation and Affiliates Debt

In February 2005, the NSU Research and Innovation Foundation and Affiliates Debt entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Foundation pursuant to \$32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent; principal payments are due semiannually starting July 1, 2008. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006. The balance due on this loan as of June 30, 2012 was \$31,675,000.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principal payments to be escrowed by the Foundation beginning July 1, 2008 through July 1, 2015, secured by property and equipment is \$1,210,000. The balance as of June 30, 2012 was \$611,790.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 7—Long-term debt (continued)

As of June 30, 2012, the Norfolk State University Research and Innovation Foundation and Affiliates bonds and notes payable mature as follows:

Future principal payments are as follows:

2013	\$ 185,000
2014	255,000
2015	320,000
2016	1,011,790
2017	480,000
2018-2022	3,845,000
2023-2027	6,990,000
2028-2032	11,385,000
2033-2035	<u>7,815,000</u>
Total	<u>\$ 32,286,790</u>

The bonds payable bear interest at a variable interest rate based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Foundation entered an interest rate swap contract with a notional amount of \$32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733% rate and receives interest at 67% of LIBOR. The net interest loss of \$1,156,696 from changes in the swap contract's fair value during the fiscal year is included as interest on capital asset related debt in the Statement of Revenues, Expenses and Changes in Net Assets. The contract includes a provision for three optional early termination periods between January, 2016 and January, 2018. The balance as of June 30, 2012 was \$3,942,106.

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 8—Expenses by natural classifications

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$ 25,621,948	\$ 6,593,404	\$ 4,375,467	\$ 88,216	\$ -	\$ 684,798	\$ -	\$ 37,363,833
Research	3,781,355	497,457	2,111,712	312,168	-	363,175	-	7,065,867
Public Service	409,604	90,231	249,915	-	-	10,086	-	759,836
Academic Support	8,259,843	2,252,212	1,028,360	9,007	-	1,276,421	-	12,825,843
Student Services	2,475,778	845,999	830,371	39,298	-	13,814	-	4,205,260
Institutional Support	9,480,270	3,078,982	268,072	-	-	60,658	-	12,887,982
Operation and Maintenance-Plant	3,465,488	1,417,718	1,088,675	-	2,756,369	(1,081,219)	-	7,647,031
Depreciation	-	-	-	-	-	-	10,169,562	10,169,562
Loss on disposal of assets	-	-	-	-	-	1,956,322	-	1,956,322
Scholarship and fellowship	-	-	-	22,240,692	-	-	-	22,240,692
Auxiliary Activities	6,280,473	1,811,599	8,747,696	26,420	141,483	3,211,851	-	21,493,522
Total operating expenses	\$ 59,774,759	\$ 16,587,602	\$ 18,700,268	\$ 22,715,801	\$ 4,171,852	\$ 6,495,906	\$ 10,169,562	\$ 138,615,750

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 9—State appropriations

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

Original legislative appropriation:

Educational and general programs	\$ 37,685,879
Student financial assistance	7,342,120

Adjustments:

CSAP	172,951
VIVA ILL allocation	4,461
Virginia military survivors and dependents	47,545
Two year college transfer grant	1,000
Interest earnings (chapter 890, item 465C)	55,539
Personnel cost	442,352
Eminent scholars FY12	8,399

Adjusted appropriation	<u>\$ 45,760,246</u>
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Note 10—Commitments

At June 30, 2012, the University was committed to construction contracts totaling approximately \$23,868,074. Outstanding commitments on these contracts totaled \$3,850,934 as of June 30, 2012.

The University is committed under various operating leases for equipment and facilities. In general, the leases are for a one-year term and the University has renewal options on equipment and facilities for another one-year term. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2012, was \$1,150,746.

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 10—Commitments (continued)

Norfolk State University has as of June 30, 2012, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease</u>
2013	\$ 88,967
2014	776,481
2015	785,862
2016	762,245
2017	739,780
2018-2020	1,698,863
Total	<u>\$ 4,852,198</u>

Note 11—Retirement plans

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2012. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$2,536,204 for the year ended, June 30, 2012. Changes to the Commonwealth's VRS plan were made effective June 25, 2012 which required all state employees to contribute 5% toward VRS. The contributions that were assumed by the employer for the first nine months were 2.08% and 5.07% for University Police and contributions for the last three months were 6.58% and 13.09% for University Police. Contributions to VRS were calculated using the base salary amount of approximately \$37,318,063 for the year ended June 30, 2012. The University's total payroll was approximately \$61,263,276 for the fiscal year ended June 30, 2012.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 11—Retirement plans (continued)

Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by two different providers rather than the VRS. The two different providers are TIAA/CREF Insurance Companies and Fidelity Investments. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's and employee's contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,149,752 for year ended June 30, 2012. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$12,419,583 for fiscal year 2012.

Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per month. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$55,985 for the fiscal year 2012.

Note 12—Post-employment benefits

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

Note 13—Contingencies

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2012, the University estimates that no material liabilities will result from such audits or questions.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 13—Contingencies (continued)

Litigation

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

Note 14—Risk management and employee health care plans

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

Note 15—Component units

<u>As of June 30, 2012</u>	Norfolk State University			
	NSU	The Athletics	Research and	
	Foundation Inc.	Foundation of	Innovation	
		Norfolk State	Foundation and	Total
		University, Inc.	Affiliates	
ASSETS				
Current assets	\$ 824,978	\$ 193,747	\$ 3,673,152	\$ 4,691,877
Noncurrent assets	21,862,678	3,378	27,919,569	49,785,625
Total assets	22,687,656	197,125	31,592,721	54,477,502
LIABILITIES				
Current liabilities	105,962	49,342	377,575	532,879
Noncurrent liabilities	141,807	-	36,043,896	36,185,703
Total liabilities	247,769	49,342	36,421,471	36,718,582
Net Assets	<u>\$ 22,439,887</u>	<u>\$ 147,783</u>	<u>\$ (4,828,750)</u>	<u>\$ 17,758,920</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012

Note 15—Component units (continued)

<u>As of June 30, 2012</u>	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Norfolk State University Research and Innovation Foundation and Affiliates	Total
Operating revenues	\$ -	\$ 317,878	\$ 4,650,947	\$ 4,968,825
Operating expenses	2,026,269	546,395	4,831,647	7,404,311
Operating gain	(2,026,269)	(228,517)	(180,700)	(2,435,486)
Net nonoperating revenues	1,322,257	151,200	(1,156,696)	316,761
Income (loss) before other revenues, expenses, gains or losses	(704,012)	(77,317)	(1,337,396)	(2,118,725)
Net other revenues	174,316	-	-	174,316
Increase (decrease) in net assets	(529,696)	(77,317)	(1,337,396)	(1,944,409)
Net assets - beginning of year	22,969,583	225,100	(3,491,354)	19,703,329
Net assets - end of year	\$ 22,439,887	\$ 147,783	\$ (4,828,750)	\$ 17,758,920

Note 16—Subsequent events

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

NORFOLK STATE UNIVERSITY

UNIVERSITY HIGHLIGHTS

FIVE YEARS IN REVIEW

FALL SEMESTER	2007-08	2008-09	2009-10	2010-11	2011-12
ENROLLMENT					
Total	6,155	6,325	6,993	6,964	7,091
In-State	4,844	5,149	5,712	5,752	5,932
Out-of-State	1,311	1,176	1,281	1,212	1,159
FRESHMAN APPLICATIONS					
Number of Applications Received	4,656	4,748	5,317	3,967	4,163
In-State	1,672	1,816	2,077	1,734	1,756
Out-of-State	2,984	2,932	3,240	2,233	2,407
Number of Applications Accepted	3,132	3,238	3,348	2,521	2,811
In-State	1,178	1,287	1,410	1,115	1,164
Out-of-State	1,954	1,951	1,938	1,406	1,647
Number of Accepted Enrollment	995	1,188	1,205	942	923
In-State	719	867	868	710	728
Out-of-State	276	321	337	232	195
TRANSFER APPLICATIONS					
Number of Applications Received	843	935	1,112	1,214	1,216
In-State	438	513	641	671	701
Out-of-State	405	422	471	543	515
Number of Applications Accepted	744	818	954	1,042	1,075
In-State	383	440	548	576	628
Out-of-State	361	378	406	466	447
Number of Accepted Enrolled	358	366	428	471	499
In-State	280	298	353	380	425
Out-of-State	78	68	75	91	74
GRADUATE APPLICATIONS					
Number of Applications Received	328	310	498	433	409
In-State	207	218	292	257	227
Out-of-State	121	92	206	176	182
Number of Applications Accepted	279	261	448	346	302
In-State	182	186	263	218	175
Out-of-State	97	75	185	128	127
Number of Accepted Enrolled	237	195	333	225	216
In-State	164	159	274	193	170
Out-of-State	73	36	59	32	46
TUITION AND FEES					
Undergraduate					
In-State	\$ 5,322	\$ 5,560	\$ 5,872	\$ 6,327	\$ 6,700
Out-of-State	\$ 16,242	\$ 16,807	\$ 17,931	\$ 19,380	\$ 20,343
Graduate					
In-State	\$ 7,182	\$ 7,658	\$ 8,069	\$ 8,577	\$ 9,115
Out-of-State	\$ 21,726	\$ 22,457	\$ 23,804	\$ 25,534	\$ 26,809
ROOM AND BOARD					
Total Room & Board	\$ 6,909	\$ 7,116	\$ 7,329	\$ 7,622	\$ 7,927
Room Rates	\$ 4,402	\$ 4,534	\$ 4,670	\$ 4,857	\$ 5,051
Board Rates	\$ 2,507	\$ 2,582	\$ 2,659	\$ 2,765	\$ 2,876



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 11, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Norfolk State University

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Norfolk State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, **which collectively comprise the University's basic financial statements as listed in the table of contents.** These financial statements are the responsibility of University 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 Norfolk State 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 report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Norfolk State University as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages two through seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we will also issue our report on or after September 1, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

An audit of financial statements typically involves the application of tests of internal control to reduce the substantive testing required to obtain reasonable assurance over financial statement balances and results of operations. As a result of numerous deficiencies in internal control identified during audit planning, the audit of the fiscal year 2012 financial statements of Norfolk State University required us to perform significant substantive audit procedures in order to obtain sufficient evidence to support the financial statements. The report on internal control mentioned above will include material weaknesses and significant deficiencies in internal control, as well as other matters of noncompliance. In addition, a separate letter outlining less significant, but nevertheless important, deficiencies in internal control will be provided to University management upon issuance of the internal control report.



AUDITOR OF PUBLIC ACCOUNTS

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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*Represents Board of Visitors and University Administrators as of June 30, 2012