VIRGINIA STATE UNIVERSITY

Annual Financial Report for Fiscal Year Ended June 30, 2013

VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2012 - 2013

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LETTER FROM THE PRESIDENT

As Virginia State University (VSU) evolves, collaboration and creativity have become cornerstones of success. The wisdom gained by leveraging relationships within and around the community, has made VSU the fine institution it is today. Recent examples of collaboration and creativity include VSU leadership in the Commonwealth Center for Advanced Manufacturing and Commonwealth Center for Advanced Logistics. These partnerships benefit our students and our community. There have been great victories and disappointing setbacks. Through it all, Virginia State University continues to become better and better.

The graduates of Virginia State University have meant a lot to the Commonwealth of Virginia. As time goes by, our graduates become more relevant to the Commonwealth. A recent example of this relevance is when 37 business students traveled to Baltimore to meet with the leadership of the Maryland Museum for African American history to discuss a strategic plan initiative for the museum. The contributions of VSU faculty, students, and alumni will continue to multiply. In future years, the VSU community will impact every region in Virginia and beyond.

At VSU, young minds are being molded, nontraditional students are coming back for life-long learning, and the community is benefitting from all of this and more. We are committed to supporting our community and the people in it for the long-term.

We understand that we are part of a larger effort in this community. Building partnerships has helped us become more innovative with instruction and more practical with research. VSU not only wants to compete favorably in the global marketplace, but we want our surrounding communities to be able to compete as well. VSU should be a catalyst for continuous improvement throughout the region.

The pursuit of excellence is paramount at VSU. We have the responsibility to provide excellence in education and to do so in a fiscally responsible manner. We continue to improve our effectiveness and efficiency as we protect the resources of the Commonwealth and pursue excellence. Partnerships have helped us become more effective and efficient.

Our vision includes not only responding to the academic challenges, but also the social and economic challenges of our society. Expanded partnerships enhance our ability to affect our society. Our relationships with state and local governments, large and small corporations, and with not for profit agencies has grown exponentially. The model being used by VSU is being used by leading universities around the world.

As VSU becomes more entrepreneurial as a university, the first benefactors are our students. Our students are our legacy and as a result VSU will forever be an indispensable part of the community.

Sincerely,

Keith T. Miller, Ph.D.
President

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

I appreciate the opportunity to present the annual financial report and statements of Virginia State University for the fiscal year ended June 30, 2013. This report provides insights into the University's financial condition and the results of operations for the most recently concluded fiscal year. We believe that Virginia State University has developed a program of sound financial practices, internal controls and policies that ensure our systems and assets are protected. I take great pride in noting that our University continues to embrace all the internal processes related to our procurement, budgeting, risk management and accounting standards which ensure these fiscal year assessments show improvements in our financial condition.

Higher education continues to reflect the changing global marketplace where technology, strategic planning and a focus on increased performance will drive the standards for the foreseeable future. At Virginia State University, the results of FY2013 reflect a year of accomplishments and decisive action on several key fronts. From our continued emphasis on the liberal arts, to our strong improvements in the STEM disciplines including our progress in the CCAM and CCAL consortiums, we are extremely proud of the academic achievements that prove we are "Building a Better World."

At the end of the day, the exceptional value of Virginia State University is transparent to our parents, students, employers and regional partners who collaborate with us each day. In this, the second year of our Strategic Plan, we have made tremendous strides revolutionizing our academic and student living environments, engaging our local and regional governmental partners in economic development, and continuing our efforts in research innovation. Virginia State University students continue to turn opportunities into achievements and adversity into success. As we look back on the year that was, we are optimistic and enthusiastic about the upcoming year and the impact our students have in advancing the world around them.

Sincerely,

David J. Meadows

David J. Meadows
Vice President for Administration and Finance
Chief Financial Officer

MANAGEMENT'S RESPONSIBILITY FOR 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 position 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, 2013.

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 appears on pages 40 through 42. 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, 2013.

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

Virginia State University (VSU) is an agency of the Commonwealth of Virginia and is governed by a fifteen 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 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. Founded in 1882, VSU was designated a land grant institution in 1920, and attained university status in 1979. Its mission is to promote and sustain academic programs that integrate instruction, research, and extension/public service in a design most responsive to the needs and endeavors of individuals and groups within its scope of influence. The University consists of seven colleges namely: College of Agriculture, Reginald F. Lewis College of Business, College of Engineering and Technology, College of Education, College of Graduate Studies, College of Humanities and Social Sciences, and College of Natural and Health Sciences. These schools provide 35 undergraduate degree programs, 20 graduate degree programs, 2 doctoral degree programs and 2 certificate programs. Students in the engineering program are doing research on robotics and unmanned vehicles that will eventually enhance the Commonwealth of Virginia's economy by creating jobs in those areas. In addition, the University has partnerships with Fort Lee, Commonwealth Center for Advanced Manufacturing (CCAM), Commonwealth Center for Advanced Logistics (CCAL), and dual enrollment programs with public schools throughout the Commonwealth of Virginia. Virginia State University offers services through its land grant programs to small farmers mainly in central and southern Virginia. The University is dedicated to building a better world for tomorrow.

Paddle wheel aerator in use at Randolph Farm College of Agriculture, Aquatic Science Program

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis provides an overview of the financial position and results of activities of Virginia State University for the fiscal year ended June 30, 2013. Prepared by management, the overview should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2012 has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB), which establishes principles and standards for external reporting for colleges and universities.

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

1. The Statement of Net Position (SNP)
2. The Statement of Revenues, Expenses, and Changes in Net Position (SRECNP)
3. The Statement of Cash Flows (SCF)

These principles require 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, 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 POSITION

The Statement of Net Position (SNP) 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 position - is one indicator of the current financial condition of the University, while the changes in net position 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. Comparing the FY2013 SNP to the previous fiscal year, total assets increased by $2.5 million or 0.8%.

Currents assets remained relatively unchanged from the previous year, increasing by $1.3 million during FY2013 or 5.2 %. Current assets are comprised of cash and cash equivalents, short term investments, accounts, notes and loans receivable, due from the Commonwealth and affiliates, prepaid expenses, and securities lending. There was an increase of $1.5 million in current cash and cash equivalents. This was primarily due to increases in debt reserves, offset by an increase in cash spent for the acquisition of properties for the planned Multipurpose Center.

Noncurrent assets also remained comparatively unchanged, increasing by $1.2 million during FY2013 or 0.4%. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, notes and mortgages receivable, unamortized issuance cost, and capital assets net of depreciation. There was a decrease in restricted cash and cash equivalents of $18.6 million attributable to the spending of bond proceeds for the construction Gateway II and Howard Quad II residence halls. Although, this decrease was offset by an increase in capital assets of $15.5 million for the residence halls, as well as the Multipurpose Center. The University also had an increase in investments of $3.6 million. This was the result of an increase in gifts, in addition to gains on investments because of improved market performance.

Compared to the previous fiscal year, total liabilities decreased by $8.0 million or 5.3%. Total liabilities are comprised of current and noncurrent liabilities. Current liabilities decreased by $2.3 million during FY2013. Current liabilities are comprised of accounts payable and other accrued liabilities, deferred revenues, obligations under securities lending, deposits held in custody, the current portion of long-term liabilities, and retainage payable. Noncurrent liabilities decreased by $5.7 million during FY2013. Noncurrent liabilities are comprised primarily of the noncurrent portion of long-term debt (bonds, notes payable, and installment purchase obligations.) The decreases in current and noncurrent liabilities were mainly due to scheduled debt service payments and $4.1 million fewer accounts payable at year end.

A summary of the University's assets, liabilities, and net position at June 30, 2013 and 2012 follows:

Summary of the Statement of Net Position

	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Assets:				
Current Assets:	$ 26,222,272	$ 24,921,210	$ 1,301,062	5.2%
Noncurrent assets:				
Restricted cash and cash equivalents	20,500,941	39,055,082	(18,554,141)	(47.5)%
State appropriations available	894,349	212,951	681,398	320.0%
Investments	27,658,146	24,070,287	3,587,859	14.9%
Capitals assets, net	243,098,474	227,590,914	15,507,560	6.8%
Other	2,174,113	2,229,791	(55,678)	(2.5)%
Total noncurrent assets	294,326,023	293,159,025	1,166,998	0.4%
Total assets	320,548,295	318,080,235	2,468,060	0.8%
Liabilities:				
Current liabilities	22,787,446	25,040,453	(2,253,007)	(9.0)%
Noncurrent liabilities	118,556,128	124,253,236	(5,697,108)	(4.6)%
Total liabilities	141,343,574	149,293,689	(7,950,115)	(5.3)%
Net position:				
Net investment in capital assets	136,024,492	131,578,585	4,445,907	3.4%
Restricted:				
Nonexpendable	8,340,859	8,029,774	311,085	3.9%
Expendable	20,440,750	17,081,555	3,359,195	19.7%
Unrestricted	14,398,620	12,096,632	2,301,988	19.0%
Total net position	$ 179,204,721	$ 168,786,546	$ 10,418,175	6.2%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

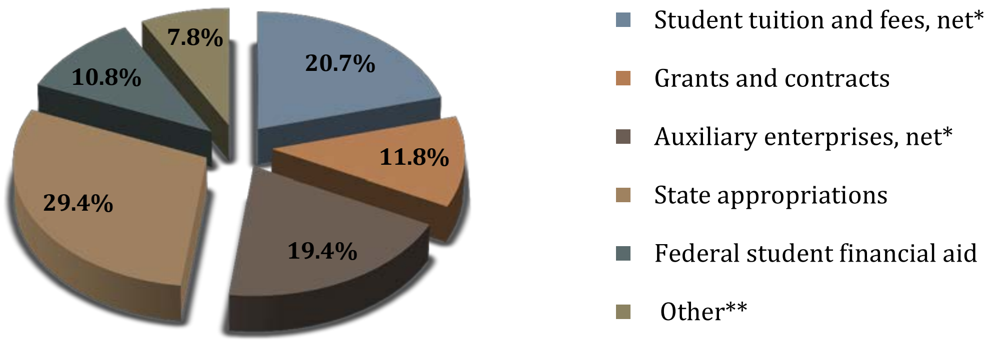
The Statement of Revenues, Expenses, and Changes in Net Position present the University's results of activities for the fiscal year. Presented below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Position for the years ended June 30, 2013 and 2012.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Operating revenues	$ 78,188,624	$ 74,825,788	$ 3,362,836	4.5%
Operating expenses	138,771,540	140,540,541	(1,769,001)	(1.3)%
Operating income/(loss)	(60,582,916)	(65,714,753)	5,131,837	7.8%
Nonoperating revenues/(expenses):				
State appropriations	43,895,543	38,176,916	5,718,627	15.0%
Federal student financial aid	16,143,069	16,466,352	(323,283)	(2.0)%
Other nonoperating revenues/ (expenses)	(822,587)	282,237	(1,104,824)	(391.5)%
Net nonoperating revenues and expenses	59,216,025	54,925,505	4,290,520	7.8%
Income/(loss) before other revenues and reductions	(1,366,891)	(10,789,248)	9,422,357	87.3%
Other revenues:				
Capital grants and gifts	1,159,215	2,143,641	(984,426)	(45.9)%
Additions/(reductions) to permanent endowments	499,074	916,729	(417,655)	(45.6)%
21st Century Bonds Reimbursement Program	10,126,777	16,679,380	(6,552,603)	(39.3)%
Total other revenues	11,785,066	19,739,750	(7,954,684)	(40.3)%
Total increase/(decrease) in net position	10,418,175	8,950,502	1,467,673	16.4%
Net position, beginning of year	168,786,546	159,836,044	8,950,502	5.6%
Net position, end of year	$ 179,204,721	$ 168,786,546	10,418,175	6.2%

As shown in the table above, there was an increase in net position of $10.4 million in FY2013 as opposed to an increase of $9.0 million in the previous year's statement. The net operating loss decreased by $5.1 million, over FY2012. Net nonoperating revenues and expenses increased by $4.3 million and total other revenues decreased by $8.0 million in FY2013. Revenues and expenses will be discussed in further detail in the following sections.

A summary of the University's revenues for the years ended June 30, 2013 and 2012 appears below:



Summary of Revenues
For the years ended June 30, 2013 and 2012

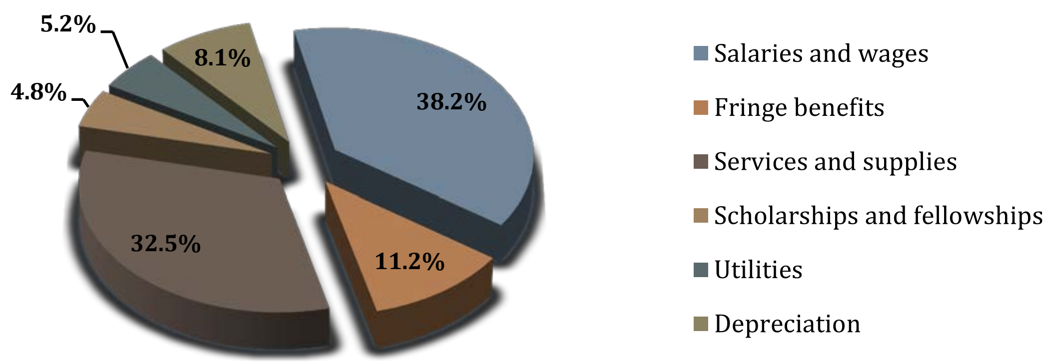
	2013	2012	Increase/(Decrease) Amount	Percent
Operating revenues:				
Student tuition and fees, net*	$ 30,903,430	$ 29,548,572	$ 1,354,858	4.6%
Grants and contracts	17,652,859	17,972,270	(319,411)	(1.8)%
Auxiliary enterprises, net*	29,011,197	26,580,305	2,430,892	9.1%
Other operating revenue**	621,138	724,641	(103,503)	(14.3)%
Total operating revenues	78,188,624	74,825,788	3,362,836	4.5%
Nonoperating revenues/(expenses):				
State appropriations	43,895,543	38,176,916	5,718,627	15.0%
Federal student financial aid	16,143,069	16,466,352	(323,283)	(2.0)%
Other nonoperating revenues, net**	(822,587)	282,237	(1,104,824)	(391.5)%
Total nonoperating revenues	59,216,025	54,925,505	4,290,520	7.8%
Capital revenues and gains:				
Capital grants and gifts**	1,159,215	2,143,641	(984,426)	(45.9)%
Additions to permanent endowment**	499,074	916,729	(417,655)	(45.6)%
Other capital revenues**	10,126,777	16,679,380	(6,552,603)	(39.3)%
Total other revenues	11,785,066	19,739,750	(7,954,684)	(40.3)%
Total revenues	$ 149,189,715	$ 149,491,043	$ (303,328)	(0.2)%

*Net of scholarship allowance
**Other includes: other operating revenues, other net nonoperating revenues, capital grants and gifts, additions to permanent endowment, other capital revenues.

Total operating revenues increased by $3.4 million in FY2013 to $78.2 million from $74.8 million in the previous year, an increase of 4.5%. As reflected in the chart above, two of the largest items of the increase in operating revenues were from student tuition and fees and auxiliary enterprises revenues, net of scholarship allowance. These items were driven primarily by an increase in student fees.

For the fiscal year, other nonoperating revenues increased by $4.3 million. This was a result of increased state appropriations of $5.7 million, offset by a $1.4 million decrease from the expiration of the American Recovery and Reinvestment Act.

Total operating expenses decreased by $1.8 million in FY2013 compared to the previous fiscal year. This represents a 1.3% decrease. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2013 and 2012 appear below.



Summary of Expenses by Natural Classification
For the years ended June 30, 2013 and 2012

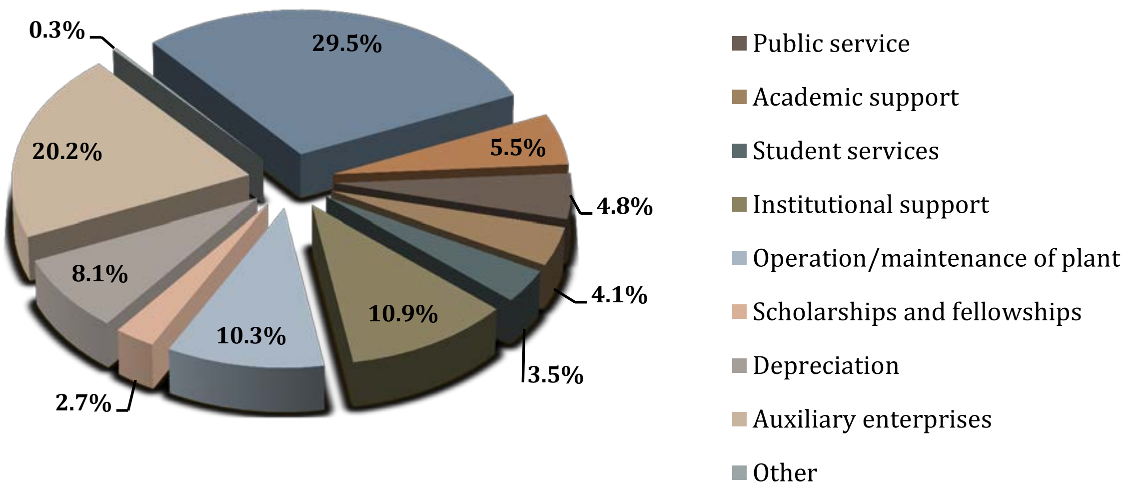
	2013	2012	Increase/(Decrease) Amount	Percent
Salaries and wages	$ 52,984,370	$ 49,485,183	$ 3,499,187	7.1%
Fringe benefits	15,588,081	13,217,794	2,370,287	17.9%
Services and supplies	45,071,053	54,938,640	(9,867,587)	(18.0)%
Scholarships and fellowships	6,722,640	6,891,718	(169,078)	(2.5)%
Utilities	7,233,338	6,821,077	412,261	6.0%
Depreciation	11,172,058	9,186,129	1,985,929	21.6%
Total operating expenses	$ 138,771,540	$ 140,540,541	$ (1,769,001)	(1.3)%

The total decrease in operating expenses of $1.8 million was due to an increase of $5.9 million in personal services and an increase in depreciation of $2.0 million. Additionally, this was offset by a decrease in services and supplies of $9.9 million.

Howard Quad Building I

Combinations of factors are responsible for the increase in personal services. First, there was an increase in salaries and wages due to a statewide bonus and a University salary increase based on a pay equity study for qualified staff. Expenses for fringe benefits also increased as a result of these pay increases. During FY2013, the University continued a project of hiring staff for information technology functions that had been previously contracted to outside vendors, thus increasing personal services expenses while decreasing expenses for services and supplies. In addition, there was a statewide increase in expenses for the employer's share of medical insurance. The increase in depreciation expense was due to the capitalization of construction projects, primarily for Gateway II and Howard Quad II residence halls.

A decrease in services and supplies was primarily the result of three factors. In FY2012, the University incurred expenses for housing students off campus and related transportation expenses during the construction of new residence halls. As mentioned above, during FY2013, the University continued a project of hiring staff for information technology functions that had been previously contracted to outside vendors, thus increasing personal services expenses while decreasing expenses for services and supplies. In FY2012, an initiative was also completed to upgrade and modernize the University's information technology network infrastructure.



Summary of Expenses by Function
For the years ended June 30, 2013 and 2012

			Increase/(Decrease)	
	2013	2012	Amount	Percent
Operating expenses:				
Instruction	$ 40,996,898	$ 39,954,608*	$ 1,042,290	2.6%
Research	7,654,684	6,900,388*	754,296	10.9%
Public service	6,715,936	7,049,015*	(333,079)	(4.7)%
Academic support	5,734,486	5,340,150*	394,336	7.4%
Student services	4,923,043	4,998,281*	(75,238)	(1.5)%
Institutional support	15,154,621	15,451,248*	(296,627)	(1.9)%
Operation/maintenance of plant	14,314,006	13,953,262*	360,744	2.6%
Scholarships and fellowships	3,704,836	2,813,698	891,138	31.7%
Depreciation	11,172,058	9,186,129	1,985,929	21.6%
Auxiliary enterprises	28,011,412	34,728,763	(6,717,351)	(19.3)%
Other	389,560	164,999	224,561	136.1%
Total operating expenses	$ 138,771,540	$ 140,540,541	($ 1,769,001)	(1.3)%

*As restated

By function, the $6.7 million decrease in expenses for auxiliary enterprises was largely due to housing students off campus and related transportation expenses during the construction of new residence halls in FY2012. The $2.0 million increase in expenses for depreciation was due to the capitalization of construction in progress, primarily for Gateway II and Howard Quad II residence halls. The $1.0 million increase in expenditures for instruction and the $754 thousand increase in expenditures for research were both mostly due to increases in expenses for personal services. The $891 thousand increase in expenditures for scholarships and fellowships was because of additional scholarships issued by the University based on student needs for financial aid.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows (SCF) 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 Position. On the latter statement, state appropriations and gifts are considered nonoperating revenue. However, on the SCF, 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,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Cash flows from:				
Operating activities	$ (52,521,714)	$ (57,098,305)	$ 4,576,591	8.0%
Noncapital financing activities	60,760,582	58,690,753	2,069,829	3.5%
Capital and related financing activities	(24,551,118)	29,160,231	(53,711,349)	(184.2)%
Investing activities	(744,851)	(517,694)	(227,157)	(43.9)%
Net increase/(decrease) in cash and cash equivalents	(17,057,101)	30,234,985	(47,292,086)	(156.4)%
Cash and cash equivalents, beginning of year	52,962,414	22,727,429	30,234,985	133.0%
Cash and cash equivalents, end of year	$ 35,905,313	$ 52,962,414	$ (17,057,101)	(32.2)%

Overall, there was a $4.6 million decrease in net cash used by operating activities in FY2013 compared to FY2012. There were increases in net cash for grants and contracts of $3.8 million, payments for auxiliary enterprises of $2.4 million, tuition and fees of $1.1 million, and a decrease in net cash used for payments to suppliers of $3.4 million. However, there were increases in net cash used for payments to employees of $5.8 million and payments for utilities of $412 thousand.

There was a total increase of $2.1 million in cash flows from noncapital financing activities due to an increase in state appropriations of $5.7 million and a decrease in gifts of $1.3 million. Additionally in FY2012, the University received $1.4 million from American Recovery and Reinvestment Act (ARRA) fiscal stabilization funds. In FY2013, the University did not receive any funds from ARRA, as a result of the Acts expiration.

There was a decrease in net cash for capital financing activities of $53.7 million in FY2013, which relates to the following reasons. In FY2012, there was an increase in cash due to issuance of $72.6 million in new debt. In FY2013, the University did not issue any new debt. In FY2013, there was a decrease in cash provided for 21st Century Bonds of $14.2 million. These were offset by a decrease in cash used for the purchase of capital assets of $34.5 million.

The last major category on the statement of cash flow is cash flows from investing activities. In total, net cash used for investing activities increased by $227 thousand. There was an increase in investment income from the prior year of $2.2 million. This was offset by a decrease in proceeds from the sale and maturities of investments of $2.4 million.

In summary, there was an overall $17.1 million decrease in cash between FY2012 and FY2013.

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 $15.5 million in FY2013. VSU had a $19.8 million increase in construction in progress and a $4.4 million increase in land, primarily due to activity on three construction projects: Gateway Residence Hall II, Phase II of the Howard Quad Residence Hall, and the Multipurpose Center. The Gateway Residence Hall II is a 586 bed facility that was completed and opened in time for the fall 2012 academic semester. The 486 bed Howard Quad Residence Hall, Phase II, was partially completed and opened during FY2013. VSU also continued to purchase properties and move forward with planning for the Multipurpose Center. The Multipurpose Center is a 167,874 square foot facility that will seat about 6,500. This new facility will replace Daniel Gymnasium as the home for VSU's basketball and volleyball teams. Additionally, the Multipurpose Center will house diverse functions, not only for VSU, but also for the surrounding communities and will be one of the largest facilities in the area for hosting events outside of Richmond. In addition to the increases for capital projects, VSU purchased $1.4 million of capitalized equipment. These increases in capital assets were offset by depreciation expense for the year of $11.2 million.

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, 2013, the University had $120.3 million in outstanding long-term debt. This debt consists of $109.3 million of general obligation bonds, $8.2 million of notes payable, and $2.8 million of installment purchase obligations. In general, long-term debt decreased by $4.1 million. This is the result of making debt payments throughout the year. During FY2013, VSU incurred $595 thousand in additional installment purchase obligations through the Master Equipment Leasing Program.

FUTURE ECONOMIC OUTLOOK

The 2013-14 Tuition and Fees at Virginia's State-supported Colleges and University report published by the State Council of Higher Education for Virginia (SCHEV) in July 2013, indicates that over much of the last decade, VSU continues to make college education extremely affordable for our students. As the most recent SCHEV report indicates, the Governor and General Assembly have made strides to reverse the downward trend in state support for higher education. The reinvestment in higher education will continue to help public institutions meet the requirements of the Virginia Education Opportunity Act of 2011, also known as TJ21. This landmark legislation calls for an additional 100,000 college graduates by the year 2025 to help ensure that the Commonwealth has the resources it needs to compete successfully in the marketplace of future.

Site preparation underway at location for new VSU Multi-Purpose Center.

As part of the Six-Year Plan, Virginia State University proposes to expand its membership roles in large STEM (Science, Technology, Engineering, and Mathematics)-focused consortia, execute articulation agreements with area colleges and universities for no-cost exchange of available upper-level course seats in selected majors as available, particularly in under-enrolled courses, complete the comprehensive undergraduate program restructuring, update, and realignment to coincide with 21st Century best practice and workforce mandates, implement three-year (fewer than eight semesters) bachelor degree programs in selected disciplines, and focus on retention through our University College model.

A large percentage of the University's students depend on some form of financial aid to be able to attend, either scholarships or student loans. As a result of less aid being available, it is increasingly difficult for some of our students to be able to afford a higher education. To address this concern, the University has held its tuition and fees down. For the 2013-2014 academic year, Virginia State University will have the second lowest tuition and mandatory E&G fees for full-time, in-state undergraduate students at four-year institutions and the lowest tuition and mandatory E&G fees for full-time, out-of-state undergraduate students. Led by its 13th President, Dr. Keith T. Miller, the University boasts healthy fiscal management and growth, with a 2012-2013 operating budget of over $172 million. In accordance with the Campus Master Plan and the need to update its residence halls, work has been completed on the replacement of the Student Village with Gateway II, as well as completing Quad I and II.

As evident in the accompanying financial statements, the University's finances remain strong. However, the impact of federal regulations regarding Satisfactory Academic Performance and the Parent Plus Loan program, have created a significant impact throughout higher education, and particularly among those institutions whose mission is to provide educational opportunities to students of lower socio-economic means. To address these issues, the University is taking proactive steps in a number of areas including retention programs, first year experience, advising, teaching pedagogy and technology just to name a few.

FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

As of June 30, 2013 with comparative financial information as of June 30, 2012

	2013		2012	
ASSETS	**Virginia State University**	**Component Units**	**Virginia State University**	**Component Units**
Current assets:				
Cash and cash equivalents (Note 2)	$ 15,404,372	$ 3,956,406	$ 13,907,330	$ 5,079,847
Cash and cash equivalents - Securities Lending	1,284,210	-	354,229	-
Short-term investments	69,242	-	10,952	-
Accounts and loans receivable, net of allowance (Note 3)	5,395,608	80,533	6,246,030	724,789
Pledges receivable, net of allowance (Note 3)	-	248,717	-	-
Due from the Commonwealth (Note 3)	1,803,967	37,533	2,305,618	-
Due from affiliates (Note 3)	39,613	-	14,282	-
Prepaid expenses	2,183,802	4,796	2,043,583	9,753
Notes receivable, net of allowance (Note 3)	41,458	-	39,186	-
Total current assets	26,222,272	4,327,985	24,921,210	5,814,389
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	20,500,941	2,260,939	39,055,082	1,576,354
Restricted investments (Note 2)	1,406,881	56,200	563,679	56,200
Endowment investments (Note 2)	23,894,913	10,553,828	21,748,221	8,118,922
State appropriation available	894,349	-	212,951	-
Pledges receivable, net of allowance (Note 3)	-	195,369	-	-
Notes receivable, net of allowance (Note 3)	1,642,649	-	1,723,633	-
Other long-term investments (Note 2)	2,356,352	-	1,758,387	-
Unamortized issuance cost	531,464	93,914	506,158	102,261
Non depreciable capital assets (Note 4)	36,266,887	542,828	64,265,951	542,828
Depreciable capital assets, net (Note 4)	206,831,587	9,293,788	163,324,963	9,905,636
Total noncurrent assets	294,326,023	22,996,866	293,159,025	20,302,201
Total assets	320,548,295	27,324,851	318,080,235	26,116,590
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	7,717,015	121,350	11,790,977	152,324
Due to the Commonwealth – Treasury Loan	-	-	-	14,282
Due to affiliates	37,533	39,613	-	44,290
Deferred revenue	3,398,442	24,518	3,309,022	-
Retainage payable	1,129,926	-	1,724,535	-
Obligations under securities lending (Note 2)	1,353,452	-	365,181	139,027
Deposits held in custody for others	1,290,886	88,734	1,629,550	490,000
Long-term liabilities-current portion (Notes 6 and 7)	7,815,280	590,000	6,179,541	64,496
Other current liabilities	44,912	63,741	41,647	-
Total current liabilities	22,787,446	927,956	25,040,453	904,419
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 6 and 7)	118,556,128	23,175,045	124,253,236	23,897,016
Total liabilities	$ 141,343,574	$ 24,103,001	$ 149,293,689	$ 24,801,435

STATEMENT OF NET POSITION

As of June 30, 2013 with comparative financial information as of June 30, 2012 (continued)

	2013		2012	
NET POSITION	**Virginia State University**	**Component Units**	**Virginia State University**	**Component Units**
Net investment in capital assets	$ 136,024,492	$ (8,909,470)	$ 131,578,585	$ (8,779,275)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,556,835	9,177,822	4,451,635	8,410,166
Instruction	3,228,604	-	3,217,966	-
Other	555,420	-	360,173	-
Expendable:	-	-		-
Scholarships and fellowships	16,293,516	2,997,350	14,775,627	2,458,020
Instruction	579,392	-	230,587	-
Loans	890,996	-	932,794	-
Capital projects	1,336,583	-	221,724	-
Other	1,340,263	-	920,823	-
Unrestricted	14,398,620	(43,852)	12,096,632	(773,756)
Total net position	**$ 179,204,721**	**$ 3,221,850**	**$ 168,786,546**	**$ 1,315,155**

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

As of June 30, 2013 with comparative financial information as of June 30, 2012

	2013		2012	
	Virginia State University	**Component Units**	**Virginia State University**	**Component Units**
Operating revenues:				
Student tuition and fees (net of scholarship allowance of $12,646,354)	$ 30,903,430	$ -	$ 29,548,572	$ -
Federal grants and contracts	17,012,745	-	17,373,413	-
State and local grants and contracts	640,114	-	598,857	-
Sales and services - educational departments	-	-	-	-
Auxiliary enterprises (net of scholarship allowance of $15,419,234)	29,011,197	-	26,580,305	-
Other operating revenues	621,138	3,529,260	724,641	3,356,965
Total operating revenues	78,188,624	3,529,260	74,825,788	3,356,965
Operating expenses: (Note 9)				
Education and general:				
Instruction	40,996,898	-	41,977,540	-
Research	7,654,684	-	5,820,807	-
Public service	6,715,936	-	6,997,280	-
Academic support	5,734,486	-	4,765,644	-
Student services	4,923,043	-	4,806,316	-
Institutional support	15,154,621	2,320,760	15,302,409	2,349,309
Operation and maintenance of plant	14,314,006	-	13,976,956	-
Scholarships and fellowships	3,704,836	192,115	2,813,698	167,506
Depreciation	11,172,058	620,195	9,186,129	625,868
Auxiliary enterprises	28,011,412	-	34,728,763	-
Other	389,560	-	164,999	-
Total operating expenses	138,771,540	3,133,070	140,540,541	3,142,683
Operating income/(loss)	(60,582,916)	396,190	(65,714,753)	214,282
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	43,895,543	-	38,176,916	-
Gifts	467,202	1,727,657	1,373,110	1,727,657
Investment income	2,843,010	865,434	618,067	(1,872,569)
Interest on indebtedness	(4,235,544)	(971,798)	(3,898,872)	(989,019)
Loss on disposal of assets	(24,860)	-	554,923	-
Federal student financial aid	16,143,069	-	16,466,352	-
Federal Stabilization Funds (ARRA)	-	-	1,368,629	
Other nonoperating revenues	574,690	176,267	513,200	13,704
Other nonoperating expenses	(447,085)	(287,055)	(246,820)	(395,573)
Net nonoperating revenue/(expenses)	59,216,025	1,510,505	54,925,505	(1,515,800)
Income/(Loss) before other revenues	(1,366,891)	1,906,695	(10,789,248)	(1,301,518)
Other revenues:				
Capital grants and gifts	1,159,215	-	2,143,641	-
Additions to permanent endowments	499,074	-	916,729	-
21st Century bonds reimbursement program	10,126,777	-	16,679,038	-
General obligation bonds reimbursement program	-	-	342	-
Total other revenues	11,785,066	-	19,739,750	-
Increase/(decrease) in net position	10,418,175	1,906,695	8,950,502	(1,301,518)
Net position, beginning of year	168,786,546	1,315,155	159,836,044	2,616,673
Net position, end of year	**$ 179,204,721**	**$ 3,221,850**	**$ 168,786,546**	**$ 1,315,155**

The accompanying notes to the financial statements are an integral part of this statement.

STATEMENT OF CASH FLOWS

As of June 30, 2013 with comparative financial information as of June 30, 2012

	2013	2012
Cash flows from operating activities:		
Tuition and fees	$ 30,642,198	$ 29,536,358
Grants and contracts	18,732,368	14,961,462
Auxiliary enterprises	28,929,660	26,559,743
Departmental sales and services, and other revenues	794,094	874,772
Payments to employees	(68,512,581)	(62,695,421)
Payments to suppliers	(49,285,965)	(52,706,344)
Payments for utilities	(7,233,338)	(6,821,078)
Payments for scholarships and fellowships	(6,722,640)	(6,891,718)
Loans issued to students	(171,874)	(126,133)
Collection of loans from students	250,587	158,186
Other payments	55,777	51,868
Net cash provided/(used) by operating activities	(52,521,714)	(57,098,305)
Cash flows from noncapital financing activities:		
State appropriations	43,862,296	38,169,672
Gifts	966,276	2,289,839
Federal student financial aid	16,143,069	16,466,352
ARRA fiscal stabilization	-	1,368,629
Other nonoperating revenue	127,605	266,380
Funds held in custody for others - receipts	6,183,522	5,025,182
Funds held in custody for others - disbursements	(6,273,311)	(4,898,042)
Federal direct lending program receipts	-	(449)
Federal direct lending program disbursements	(248,875)	3,190
Net cash provided/(used) by noncapital financing activities	60,760,582	58,690,753
Cash flows from capital financing activities:		
Capital appropriations	(648,151)	(29,279)
Capital gifts and grants	179,202	2,041,749
21st Century bonds	11,613,256	26,035,695
General obligation bonds	-	12,509
Interest paid on capital debt, leases, and installments	(4,257,150)	(3,700,863)
Principal paid on capital debt, leases, and installments	(29,802,551)	(7,175,065)
Principal received on capital debt, leases, and installments	25,663,364	73,174,106
Purchase of capital assets	(27,299,088)	(61,198,621)
Net cash provided/(used) by capital financing activities	(24,551,118)	29,160,231
Cash flows from investing activities:		
Investment income	2,843,010	618,067
Proceeds from sales and maturities of investments	(2,200,307)	180,589
Purchase of investments	(1,387,554)	(1,316,350)
Net cash provided/(used) by investing activities	(744,851)	(517,694)
Net increase/(decrease) in cash	(17,057,101)	30,234,985
Cash and cash equivalents - beginning of the year	52,962,414	22,727,429
Cash and cash equivalents - end of the year	**$ 35,905,313**	**$ 52,962,414**

STATEMENT OF CASH FLOWS

As of June 30, 2013 with comparative financial information as of June 30, 2012 (continued)

	2013	2012
Reconciliation of Net Operating Loss to Net Cash		
Used by operating activities:		
Operating income/(loss)	(60,582,916)	(65,714,753)
Depreciation expense	11,172,058	9,186,129
Changes in assets and liabilities:		
Receivables	820,277	(2,586,944)
Prepaid items	(140,219)	1,952,494
Other assets	(25,306)	(368,593)
Accounts payable	(4,036,429)	(714,633)
Less: Interest payable	21,606	(198,009)
Less: Payables for capital assets	-	1,200,000
Deferred revenue	89,420	(306,511)
Other liabilities	81,083	420,462
Net loans	78,712	32,053
Net cash provided/(used) by operating activities	**$ (52,521,714)**	**$ (57,098,305)**

The accompanying notes to the financial statements are an integral part of this statement.

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 Real Estate 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 foundations 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, 2013, the VSUF distributed $516,114 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, PO Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

The University's accounting policies conform to generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as appropriate Financial Accounting Standards Board (FASB) statements and interpretations. Accounting Principles Board opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, are also reflected in the presentation of the financial statements, unless those pronouncements conflict or contradict GASB pronouncements. More specifically, these financial statements have been prepared in accordance with the relevant elements of several GASB standards.

Effective for fiscal year 2013, GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* amends the financial statement presentation of Net Assets to Net Position. This standard supersedes the Net Assets designation in GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* by modifying the terminology used in the applicable titles and line items of the financial statements to Net Position. GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities* also establish financial reporting standards for public colleges and universities within, and/or in addition (where not superseded) to the financial reporting guidelines mentioned above in GASB Statements 34 and 63. Financial reporting and disclosure requirements in GASBS 37 and 38 make changes to certain sections of GASB 35, which are relevant to University's financial statements.

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 ninety 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, 2013. 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 Position.

F. Prepaid Expenses

Prepaid expenses represent university library books, memberships, subscriptions, postage, system maintenance agreements, service agreements and licenses that were paid in advance as of June 30, 2013.

G. Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure assets, improvements other than buildings, inexhaustible works of art, intangible assets, 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 they are incurred. Intangible assets are capitalized when the acquisition cost is $100,000 or greater. Interest expenses relating to construction are capitalized, net of interest income earned on resources set aside for this purpose. For the year ended June 30, 2013, interest expenses exceeded interest earned by $1,379,374 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	30-60 years
Infrastructure assets	15-20 years
Equipment	2-10 years
Intangible assets – computer software	5-10 years
Library books	5 years
Other improvements	20 years

H. Restricted and Unrestricted Net Position

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 position can be expendable or nonexpendable. Nonexpendable restricted net position includes 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 position consists of resources which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net position is 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, 2013. 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 Position. 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, 2013. 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 <u>GASB Statement 9</u>, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and <u>GASB Statement 34</u>, *Basic Financial Statements – and Management's Discussion and Analysis,* such as state appropriations, investment income, and federal student financial aid.

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 Position 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 Position. 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 Officers (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 Supplemental Educational Opportunity Grant (SEOG); Federal Direct Subsidized Loan; Federal Direct 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.*

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, 2013, the carrying amount of cash and cash equivalents was $37,189,523.

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, 2013, the University had the following investments:

Spider Management Group	$ 27,658,146
Treasurer of Virginia	69,242
Total investments	$ 27,727,388

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $69,242 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, 2013. 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, 2013:

Asset Class	Desired Range	Allocation
Domestic Equity	5 - 25%	22.3%
International Equity	5 - 25%	18.3%
Global Equity	5 - 25%	9.5%
Opportunistic (P/E, Venture)	10 - 25%	15.8%
Multi Strategy	5 - 20%	10.3%
Credit	0 - 15%	10.0%
Real Estate	0 - 10%	3.7%
Real Assets	0 - 10%	6.3%
Cash	0 - 10%	3.8%

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, 2013, the University endowment funds were held at the custodial banks, the Spider Management Group and Bank of America.

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.

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 VSUF at June 30, 2013, was $12,352,906.

G. 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 VSUREF at December 31, 2012 was $4,474,467.

3. ACCOUNTS RECEIVABLE AND NOTES

A. Accounts Receivable

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

At June 30, 2013, accounts receivable consisted of the following:

Student tuition and fees	$ 2,064,936
Federal, state and private grants and contracts	4,752,502
Auxiliary enterprises	67,196
Third party receivables - students	58,679
Other receivables	31,439
Gross accounts receivable	6,974,752
Less: allowance for doubtful accounts	(1,579,144)
Net accounts receivable	$ 5,395,608

B. Due from Affiliates

Due from VSUF	$ 39,613

C. 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, 2013, Due from the Commonwealth consisted of the following:

Equipment Trust Fund Reimbursement	$ 1,081,905
Interest Earned on Tuition and Fees and other E&G Revenues	84,114
21st Century Bond Reimbursement – Steam Tunnels	9,541
21st Century Bond Reimbursement – Maintenance Reserve	536,517
21st Century Bond Reimbursement - Repair Sanitary and Storm/Sewer Line	200
21st Century Bond Reimbursement – Renovate Heating Plant	3,250
21st Century Bond Reimbursement – Improve Handicapped Access	125
21st Century Bond Reimbursement – Hunter McDaniel	1,196
21st Century Bond Reimbursement - Multipurpose Center Project	87,119
Total due from the Commonwealth	$ 1,803,967

D. Notes Receivable

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

At June 30, 2013, notes receivable consisted of the following:

Current notes receivable:	
Federal student loans	$ 42,240
State student loans	1,548
Local student loans	3,718
Less: Allowance for doubtful accounts	(6,048)
Net current notes receivable	41,458
Noncurrent notes receivables:	
Federal student loans	1,921,998
Less: Allowance for doubtful accounts	(279,349)
Net noncurrent notes receivables	1,642,649
Total notes receivable	$ 1,684,107

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2013, is presented as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 14,750,872	$ 4,366,889	$ -	$ 19,117,761
Inexhaustible works of art and historical treasures	119,000	-	-	119,000
Construction in progress	49,396,079	19,822,299	(52,783,699)	16,434,679
Equipment in progress	-	595,447	-	595,447
Total nondepreciable capital assets	64,265,951	24,784,635	(52,783,699)	36,266,887
Depreciable capital assets:				
Buildings	244,882,682	52,506,096	-	297,388,778
Equipment	35,386,700	1,419,956	(562,290)	36,244,366
Intangible assets - computer software	3,878,256	-	-	3,878,256
Infrastructure (includes improvements other than buildings)	15,992,651	210,991	-	16,203,642
Library books	20,544,796	566,501	(625,824)	20,485,473
Total depreciable capital assets	320,685,085	54,703,544	(1,188,114)	374,200,515
Less accumulated depreciation for:				
Buildings	97,855,203	6,750,741	-	104,605,944
Equipment	25,927,956	2,401,208	(537,430)	27,791,734
Intangible assets - computer software	3,453,256	106,250	-	3,559,506
Infrastructure (includes improvements other than buildings)	11,349,958	753,520	-	12,103,478
Library books	18,773,752	1,160,338	(625,824)	19,308,266
Total accumulated depreciation	157,360,125	11,172,057	(1,163,254)	167,368,928
Net depreciable capital assets	163,324,960	43,531,487	(24,860)	206,831,587
Total	$ 227,590,911	$ 68,316,122	$ (52,808,559)	$ 243,098,474

Net capital assets of the VSUREF consist of $542,828 for Land and $9,293,788 (net of accumulated depreciation of $6,067,786) for buildings, land improvements, and equipment as of December 31, 2012.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2013:

Employee salaries, wages, and fringe benefits payable	$ 3,803,458
Matured interest payable	480,861
Vendor and supplier accounts payable	3,432,696
Total	$ 7,717,015

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, 2013 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Long-term debt:						
General obligation bonds	$ 113,110,752	$ 23,206,743	$ (27,007,018)	$ 109,310,477	$ 5,354,858	$ 103,955,619
Notes payable	8,831,453	-	(629,336)	8,202,117	628,679	7,573,438
Installment purchase obligations	2,499,614	2,456,621	(2,166,198)	2,790,037	372,813	2,417,224
Total long-term debt	124,441,819	25,663,364	(29,802,552)	120,302,631	6,356,350	113,946,281
Other noncurrent liabilities:						
Accrued compensated absences	4,129,771	2,305,999	(2,149,064)	4,286,706	1,352,680	2,934,026
Federal Perkins Loan contributions	1,436,187	54,952	(27,818)	1,463,321	-	1,463,321
Software License Agreements	425,000	-	(106,250)	318,750	106,250	212,500
Total long-term liabilities	$ 130,432,777	$ 28,024,315	$ (32,085,684)	$ 126,371,408	$ 7,815,280	$ 118,556,128

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.

A summary of future principal and interest requirement of bonds payable for fiscal year as of June 30, 2013, are as follows:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Jones Hall 96 Ref - 2002 Ref Portion, Series 2012A	4.0 - 4.8%	2016	564,910
Construct Residence Halls, Series 2006B	5.0%	2016	2,330,000
Construct Dining Hall, Series 2006B	5.0%	2016	600,000
Jones Dining Hall - '98 Refunded Portion, Series 2004B	4.0 - 4.8%	2018	343,203
Construct Residence Halls, Series 2007A	4.0 - 4.8%	2018	455,000
VSU Const Residence Hall 2006B Refunded Portion, Series 2009D	5.0%	2022	4,965,000
VSU Construct Dining Hall Refunded Portion 2006B, Series 2009D	5.0%	2022	1,280,000
Constr Two Res Halls - 2007B Ref Portion, Series 2013B	4.0 - 4.4%	2025	11,231,552
Constr Residence Halls - 2006B Ref Portion, Series 2013B	4.0 - 4.2%	2026	5,541,181
Constr Dining Hall - 2006B Ref Portion, Series 2013B	4.0 - 4.2%	2026	1,431,242
Construct Two Residence Halls, Series 2007B	4.4 - 4.7%	2027	10,420,000
Constr Res Halls - 2007A Ref Portion, Series 2013B	4.0 - 4.3%	2027	1,132,216
Construct Gateway Residence Hall Phase, Series 2011A	4.2 - 4.9%	2031	32,695,000
Construct Quad Phase II, Series 2011A	4.2 - 4.9%	2031	28,555,000
Add unamortized premium			7,766,172
Total bonds payable			$ 109,310,477

Aggregate annual maturities of bonds payable for fiscal years after 2013 are:

Maturity	Principal	Interest	Total
2014	$ 4,733,510	$ 4,452,433	$ 9,185,943
2015	5,116,509	4,250,861	9,367,370
2016	5,323,153	4,030,237	9,353,390
2017	5,296,649	3,799,395	9,096,044
2018	5,511,849	3,542,462	9,054,311
2019 - 2023	30,182,705	13,901,331	44,084,036
2024 - 2028	31,854,930	6,777,325	38,632,255
2029 - 2031	13,525,000	1,300,150	14,825,150
Add unamortized premium (net of discount)	7,766,172		7,766,172
Total bonds payable	$ 109,310,477	$ 42,054,194	$ 151,364,671

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. At June 30, 2013, the outstanding principal balances were $1,363,572 for the HUD loan and $6,615,000 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, 2013, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD Notes Payable:			
VSU Pooled Bonds - 2002A Rogers Stadium Ref Portio, Series 2007B	2.0 - 4.2%	2019	2,155,000
VSU 2002A Rogers Stadium Ref Portion, Series 2010B	2.5 - 5.0%	2022	1,610,000
VSU Roger's Stadium Proj. - 2005 A Ref Portion, Series 2012A	1.5 - 4.7%	2024	1,215,000
VSU Student Village Hsg. - 2005 A Ref Portion, Series 2012A	1.5 - 4.7%	2024	630,000
VSU Pooled Bonds - Roger's Stadium, Series 2005A	2.2 - 4.4%	2025	665,000
VSU Pooled Bonds - Student Village Housing, Series 2005A	2.2 - 4.4%	2025	340,000
Department of Housing and Urban Development	3.0%	2022	1,363,572
Add unamortized premium (net of discount)			223,547
Total notes payable			$ 8,202,119

Aggregate annual maturities of notes payable for fiscal years after 2013 are:

Maturity	Principal	Interest	Total
2014	$ 606,986	$ 334,581	$ 941,567
2015	636,126	307,991	944,117
2016	660,392	281,331	941,723
2017	689,786	253,131	942,917
2018	709,314	223,891	933,205
2019- 2023	3,845,968	623,200	4,469,168
2024- 2026	830,000	51,141	881,141
Add unamortized premium (net of discount):	223,547		223,547
Total	$ 8,202,119	$ 2,075,266	$ 10,277,385

C. New Refunded Debt

On March 6, 2013 the Treasury Board completed the sale of $217,760,000 in General Obligation Refunding Bonds, Series 2013B. The sale of these bonds enabled the University to advance refund $5,730,000 of Series 2006B VA State Construct Residence Halls, $1,480,000 of Series 2006B VA Construct Dining Hall, $1,140,000 of 2007A VSU Construct Residence Halls, and $11,640,000 in 2007B Construct Two Residence Halls bonds.

The combined net proceeds from all four issuances totaling $23,114,605 (after payment of underwriter's fees and other issuance costs) were deposited into an irrevocable escrow account and will be used to pay interest, redemption premium and maturity value of the refunded bonds to their call date. This defeasance reduced total combined debt service payments over the next fourteen years by $1,491,624 resulting in an economic gain of $1,313,159 discounted at the rate of 1.8588615 percent.

D. Installment Purchases

Installment purchase obligations in FY2013 consisted of the Energy Performance Program Lease with $1,861,173 in principal remaining, and six vehicles through the Commonwealth's Master Equipment Leasing Program (MELP) with $333,416 in principal remaining. In addition, the University incurred $595,447 through MELP for a new Voiceover Internet Protocol (VoIP) telephone system.

Principal and interest payment commitments as of June 30, 2013, are as follows:

	Interest Rate	Maturity	Total
Installment purchase obligation:			
Master Equipment Leasing Program - Motor Coach	2.4%	2014	$ 90,876
Master Equipment Leasing Program - Bus Fleet	2.0%	2017	242,540
Energy Leasing Program	0.9-1.1%	2022	1,861,173
Master Equipment Leasing Program - VoIP Phase I	1.21%	2017	106,779
Master Equipment Leasing Program - VoIP Phase II	1.24%	2018	488,668
Total installment purchase obligations			$ 2,790,036

The aggregate maturity of installment purchase obligations for fiscal years after 2013 is:

Maturity	Principal	Interest	Total
2014	$ 372,813	$ 22,092	$ 394,905
2015	376,169	27,284	403,454
2016	380,863	22,440	403,303
2017	385,104	18,198	403,302
2018	327,220	14,065	341,285
2019- 2022	947,867	24,151	972,017
Total	$ 2,790,036	$ 128,230	$ 2,918,266

E. Energy Leasing Program Refinancing

On December 10, 2012, the Department of the Treasury refinanced the Commonwealth of Virginia Energy Leasing Program installment purchase obligation on behalf of the university. Accrued interest on the original lease in the amount of $15,510 was added to the principal balance and distributed over the original remaining lease term of nine years. The original annual interest rate of 4.32% was refinanced at an annual rate of 1.08% resulting in savings of $308,263 over the remaining term of the lease; a present value savings of $292,922.

F. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds of which $18,840,000 in principal remains at December 31, 2012. The Series 2008 bonds are collateralized by the rental property and equipment. Also, the VSUREF 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 VSUREF has agreed to prepayment terms of the principal to the Trustee with payments remaining due as follows:

Maturity	Principal
2014	$ 590,000
2015	700,000
2016	800,000
2017	850,000
2018	900,000
2019 and Thereafter	15,000,000
Total	$ 18,840,000

In conjunction with the refinancing of the bonds, loan costs of approximately $124,371 were incurred and are being amortized over the debt period. Amortization expense for the year ended December 31, 2012 and 2011 was $8,347 and $5,714 respectively.

The VSUREF had entered in to an interest rate swap agreement as part of the provisions of the Series 2006 bond agreement. When the VSUREF issued the 2008 Series bonds the original swap contract was satisfied and a new interest rate swap agreement was obtained. Per the terms of the 2008 swap agreement, the VSUREF pays a fixed rate of interest of 4.12%. The interest rate swap agreements qualify as derivative financial instruments and are used to mitigate the effect of interest rate fluctuations. The VSUREF accounts for the interest rate swaps as fair value hedges whereby other liabilities in the accompanying statements of financial position with the offsets recorded as expenses.

The fair value of these contracts was a negative $4,925,045 and $5,057,016 at December 31, 2012 and 2011 respectively. This is the amount the VSUREF 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 provide 95% 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, 2013:

Virginia State University:	
Original legislative appropriation:	
Education and general programs	$ 29,672,881
Higher education student financial assistance	5,901,442
Supplemental adjustments:	
State grants and scholarships	216,839
VIVA interlibrary loan allocation	5,404
Line of Duty Act	350
SPCC Rebate and Interest Earnings	79,300
FY12 reappropriation/cash transfer-in	3,499,058
Maintenance Reserve	653,900
Out-of-state student debt service	(858,726)
VCBA debt service appropriations	(108,886)
Year-end cash reversion	(391,043)
FY12 Transfer out	(2,972)
	38,667,547
Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education and general programs	5,136,690
Supplemental adjustments:	
Specialty Crop Funding	50,000
FY12 reappropriation/cash transfer-in	246,533
Year-end cash reversion	(205,227)
	5,227,996
Total state appropriations	$ 43,895,543

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 Position and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$ 23,600,501	$ 6,665,234	$ 10,316,721	$ 233,340	$ 181,101		$ 40,996,898
Research	3,545,934	896,119	2,965,375	108,458	138,798		7,654,684
Public Service	3,255,397	834,837	2,509,119	24,132	92,451		6,715,936
Academic Support	3,561,064	924,267	1,087,078	119,750	42,327		5,734,486
Student Services	3,076,674	900,372	891,235	9,188	45,574		4,923,043
Institutional Support	10,063,181	3,510,060	1,135,586	23,214	422,580		15,154,621
Operation and Maintenance of Plant	641,116	356,666	9,586,975		3,729,249		14,314,006
Scholarships and Fellowships				3,704,836			3,704,836
Depreciation						11,172,058	11,172,058
Auxiliary Enterprises	5,240,503	1,500,526	16,189,402	2,499,722	2,581,258		28,011,412
Other			389,560				389,560
Total	$ 52,984,370	$ 15,588,081	$ 45,071,053	$ 6,722,640	$ 7,233,338	$ 11,172,058	$ 138,771,540

10. COMMITMENTS

A. Construction Commitments

As of June 30, 2013, the University was a party to construction contracts totaling $60,795,286 of which $6,177,809 was still outstanding, at June 30, 2013.

B. Operating Leases

In FY12, Virginia State University entered into two operating lease agreements. The University will be leasing office space from the Cameron Building, LLC for administrative operations. The initial terms of this lease is ten years beginning August 15, 2013 through August 14, 2022.

The second lease is with Midway Avenue, LLC which is being used for storage. Rent payments for FY2013 were $49,788. The initial term of this lease ended July 31, 2013 and was renewed for an additional twelve-month term ending July 31, 2014.

The schedule of combined future rental payments is as follows:

Fiscal Year	Amount
2014	$ 307,753.83
2015	264,464.15
2016	265,266.45
2017	270,571.78
2018	275,983.22
2019-2022	1,160,244.52
Total	$ 2,544,283.95

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, 2013, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

As of June 25, 2011, employees are required to make a 5 percent contribution that was previously part of the employer's retirement contributions. The University's total VRS contributions were $3,330,034 for the year ended June 30, 2013, which does not include the 5 percent employee contribution. The employer contributions represent 9.1 percent of eligible payroll total of $36,807,973 for the year ended June 30, 2013. The University's total payroll costs for the year ended was $52,984,370.

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 net of employer and employee contributions, plus interest and dividends. Individual contracts issued under these plans provide full and immediate vesting of both the University and the participants' contributions.

For employees who became members of the respective plans prior to July 1, 2010, there is an employer required contribution of 10.4 percent. Annual pension costs under these plans totaled $741,930 for the year ended June 30, 2013. Contributions to these retirement programs were calculated using the base salary amount of approximately $7,133,942.

For employees who became members of the respective plans on or after July 1, 2010, there is an employer required contribution of 8.5 percent and an employee required contribution of 5 percent. Annual pension costs under these plans totaled $148,127 for the year ended June 30, 2013. Contributions to these retirement programs were calculated using the base salary amount of approximately $1,742,671.

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 $197,578 for FY2013.

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.

The University in compliance with GASB Statement No. 47 – Accounting for Termination Benefits did not have any voluntary termination benefits and/or involuntary termination benefit liabilities outstanding as of June 30, 2013 that was recognized in accordance with this statement.

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, 2013, 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 cannot 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

On July 29, 2013 the University received a proposed penalty notice from the Internal Revenue Service in the amount of $317,760 for 2011 information returns that were not submitted by the due date and also for $9,800 for 2011 information returns filed with incorrect or missing tax payer identification numbers. The total amount of this proposed penalty is $327,560. If a penalty is assessed, interest could also be imposed. On August 28, 2013 the University requested relief from these proposed penalties. The University has received several notices stating the appeal is being reviewed. To date, the University has not received a decision regarding this request.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 3, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the Virginia State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the Virginia State University as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited the University's June 30, 2012, financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated May 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 14 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated April 3, 2014, on our consideration of the 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 in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

KKH/alh

VIRGINIA STATE UNIVERSITY BOARD OF VISITORS

As of June 30, 2013

VIRGINIA STATE UNIVERSITY ADMINISTRATIVE OFFICERS

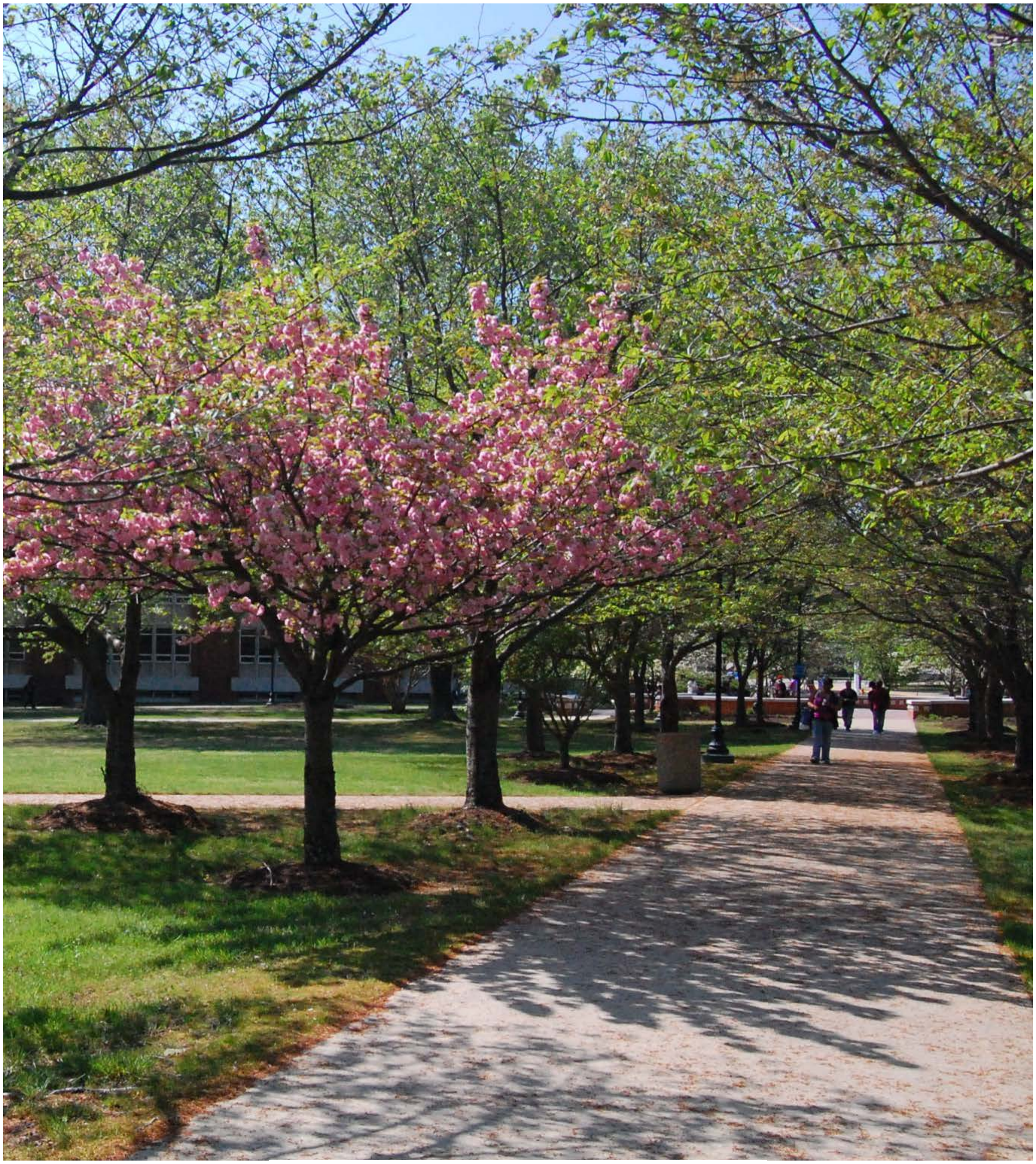
As of June 30, 2013

Dr. Keith T. Miller
President

Dr. W. Weldon Hill
Vice President for Academic Affairs

Mr. David J. Meadows
Vice President for Administration and Finance

Dr. Michael Shackelford
Vice President of Student Affairs



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