NORFOLK STATE UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2005

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Norfolk State University for the year ended June 30, 2005, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- an instance of non-compliance that is required to be reported; and
- the University has not completed adequate corrective action with respect to the previously reported finding "Collect and Correct Accounts Receivables." Adequate corrective action has been taken with respect to audit findings reported in the prior year that are not repeated in this report.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Collect and Correct Student Accounts Receivable

Student Accounts staff have not fully implemented the new policies and procedures that management developed in response to our previous audit reports to collect student accounts promptly. By not implementing the policies and procedures, Student Accounts staff are recreating the environment that resulted in the significant write-off of uncollectible accounts.

The University's student accounts receivable balances are two to four times higher, as a proportion of annual tuition and fee collections, than similar sized state-supported universities. This excessive student accounts receivable balance is despite the write-off of old student accounts in the last fiscal year. Unless the University fully implements its revised student accounts receivable procedures, it risks returning to student accounts receivable that are over half uncollectible and that are up to a third of annual tuition collections as was the case in 2004, prior to the new procedures.

The University has developed policies and procedures to address continuing problems in collecting and reporting student accounts receivable. However, in order for these policies to have a positive long-term effect, University management must monitor and enforce these policies. Because staff do not consistently apply University student accounts receivable policies, there are collections delays, students attend classes without paying tuition and fees, and an increased number of accounts become uncollectible.

We noted the following issues related to student accounts receivable management.

- Student Accounts does not classify unpaid student tuition and fees as delinquent within three months as required by University policy. Generally, Student Accounts does not classify these accounts as delinquent until they are six to nine months overdue. However, Student Accounts does not classify some accounts as delinquent until up to a year later, because Student Accounts is expecting loan disbursements. In most cases, there turned out to be no loan disbursement, further delaying and jeopardizing account collection.

- University management often granted students an exemption from policy to register for subsequent semesters when they had an outstanding balance. Special clearance was usually the result of a student providing pre-approval loan documentation to University staff. However, often the student would not obtain the loan and paid neither the past balance nor the current charges.

- Student Accounts did not place unpaid student accounts promptly with collection agencies in accordance with University policy. Student Accounts also did not place all delinquent accounts with collection agencies in violation of University policy. Not placing delinquent accounts with collection agencies promptly greatly reduces the likelihood of collection.

- Student Accounts does not promptly remove approved delinquent accounts receivable from the accounts receivable accounting system. This results in overstating the amount of student accounts receivable and the allowance for doubtful accounts.

University senior management should review the performance of the Student Accounts' management and staff in enforcing and following University collection and reporting policies, and determine what actions are necessary to ensure that Student Accounts' management and staff follow University policies. Student Accounts staff must follow the established policies if the University is to control its student receivables effectively.

Student Accounts needs to classify delinquent accounts promptly, deny registration for students with delinquent accounts, place all delinquent accounts with a collection agency promptly, and accurately report only collectible student accounts. The University should only accept loan documents with final approvals before allowing students to register for subsequent semesters with special clearance. Fully implementing the University's accounts receivable policies will increase student tuition and fee collections and ensure that all students pay their full charges.

Improve the Continuity of Operations Disaster Recovery Plan

The University's Continuity of Operations Disaster Recovery Plan does not contain adequate information to provide for the continuity of critical operations in the event of a natural or man-made disaster. The COV ITRM Standard SEC 2001-01.1 states that "Agencies shall develop, document, maintain and periodically test a business continuity plan that will provide a reasonable assurance that critical data processing support can be continued, or resumed within an acceptable time frame, if normal operations of the system are interrupted." While we recognize that the University is in compliance with portions of this standard, the Continuity of Operations Disaster Recovery Plan can be improved by full compliance and inclusion of industry best practices. To optimize the University's ability to recover from a disaster, its Plan must be well planned, documented, detailed, and tested.

We recommend that the Office of Information Technology, in collaboration with the University's operational departments, update the University's Continuity of Operations Disaster Recovery Plan to fully implement the Commonwealth's standards and address industry best practices. Business and academic department risk analyses, risk assessments, and continuity of operations plans should be completed promptly and integrated into the overall University plan. The update should include the necessary documentation and evaluation to reduce the overall risk to the University to a level acceptable to management. Failure to implement these recommendations could result in non-compliance with Commonwealth standards, an increased risk of system and data unavailability, unnecessary costs to the University and a lack of influence for the Office of Information Technologies' strategic planning process.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of the University's financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2005. Note that although the University's foundations identified as component units under GASB Statement 39 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2004. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, Notes to Financial Statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2005. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of debt," provides the University's equity in property, plant, and equipment owned by the University. The next category is "Restricted net assets - Expendable," which are restricted resources available for expenditure by the University, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. Unrestricted net assets are available to the University for any lawful purpose of the University.

Statement of Net Assets*

	As of June 30,		Increase/Decrease	
Assets:	2005	2004	Amount	Percent
Current	$16,726	$16,590	$ 136	1%
Capital assets, net of depreciation	75,196	60,001	15,195	25%
Other non-current	50,452	17,269	33,183	192%
Total assets	142,374	93,860	48,514	52%
Liabilities:				
Current	15,669	12,823	2,846	22%
Non-current	54,958	20,539	34,419	168%
Total liabilities	70,627	33,362	37,265	112%
Net assets:				
Invested in capital assets, net of related debt	53,421	41,278	12,143	29%
Restricted	15,605	14,067	1,538	11%
Unrestricted	2,721	5,154	(2,433)	(47%)
Total net assets	$71,747	$60,499	$11,248	19%

(*in thousands)

The University's total assets increased by $48,513,237 due to an increase in cash and cash equivalents, restricted cash and cash equivalents, investments, and capital assets. The increase in cash and cash equivalents is due to an increase from bond proceeds to construct a new student center. Better accounts receivable collections also attributed to an increase in cash and cash equivalents. The increase in restricted cash and cash equivalents is due to an overall increase in appropriations available for the Robinson Technology renovation, construction of the Marie V. McDemmond Center for Applied Research, maintenance reserve and accessibility projects currently underway at the University. Non-depreciable capital assets increased due to the purchase of land at the Norfolk Community Hospital ($1,064,535) and construction in progress of the Marie V. McDemmond Center for Applied Research, the renovations of the Robinson Technology and Bozeman Buildings, and campus wide infrastructure wiring to enhance student access to technology (totaling $14,138,145).

Total liabilities increased by $37,265,204 primarily due to issuance of new debt of $21,520,000 and $13,864,776 related to construction of the new student center and the energy performance project respectively. The remaining increase of $1,880,428 was mainly due to an increase in the liabilities for deferred revenue, securities lending program, and deposits.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

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

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

	Year Ended June 30,		Increase/Decrease	
	2005	2004	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $5,625,710 and $6,455,310	$ 23,011	$21,684	$ 1,327	6%
Federal grants and contracts	25,754	24,350	1,404	6%
State grants and contracts	1,533	1,014	519	52%
Non-governmental grants and contracts	1,665	1,524	141	9%
Auxiliary enterprises, net of scholarship allowances of $5,393,035 and $5,084,161	19,937	17,784	2,153	12%
Other operating revenues	557	488	69	14%
Total operating revenues	72,457	66,844	5,613	8%
Operating expenses:				
Instruction	32,561	31,130	1,431	5%
Research	6,663	6,240	423	7%
Public service	1,618	1,481	137	9%

Academic support	13,479	9,828	3,651	37%
Student services	4,551	4,363	188	4%
Institutional support	12,932	16,794	(3,862)	(23%)
Operation and maintenance of plant	9,607	6,576	3,031	46%
Depreciation	5,181	6,019	(838)	(14%)
Student aid	14,657	12,783	1,874	15%
Auxiliary enterprises	17,985	14,251	3,734	26%
Other expenses	-	132	(132)	(100%)
Total operating expenses	119,234	109,597	9,637	9%
Operating loss	(46,776)	(42,753)	(4,023)	9%
Net non-operating revenues and expenses	44,725	43,381	1,344	3%
Gain/(loss) before other revenues, expenses, gains, and losses	(2,051)	628	(2,679)	(427%)
Net other revenues	14,425	11,661	2,764	24%
Increase in net assets	12,374	12,289	85	1%
Net assets - beginning of year (restated)	59,373	48,210	11,163	23%
Net assets - end of year	$ 71,747	$60,499	$11,248	19%

(*in thousands)

Operating revenues primarily include tuition and fees, auxiliary enterprises, and revenues from grants and contracts. The increase in operating revenues of $5,613,175 is mainly attributable to an increase in student tuition and fee rates and the University's efforts to increase participation in grant programs related to education and sciences for the fiscal year ended June 30, 2005. Operating expenses increased $9,636,456 primarily due to an increase in academic support, plant operation and maintenance, student aid expenses and auxiliary activities. The increase in academic support expenses is mainly attributable to increased purchases of noncapitalizable computer hardware and software and site improvements related to Title III grants. The increase in student aid reflects additional financial aid awarded to students for fiscal year 2005. The increase in auxiliary enterprises expenses is related to furniture purchases and mold remediation in the residential halls and bad debt expense on accounts written off.

The increase of $1,344,062 in non-operating revenues and expenses is attributable to an increase in state appropriations of $2,101,699, which was partially offset by a decrease in gifts for fiscal year 2005. Other revenues increased $2,764,063 due to an overall increase in capital appropriations for maintenance reserve projects.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the University's cash activity during the year and aids in the assessment of the University's ability to generate cash to meet present and future obligations. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees ($24,824,653), grants and contracts ($29,334,953) and auxiliary enterprises receipts ($19,753,902). Major uses of cash include payments for salaries, wages, and fringe benefits ($60,078,784), payments for services and supplies ($23,705,741), and payments for scholarships and fellowships ($19,311,339).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid ($44,818,849). The cash flows from capital financing activities section reflects cash used for capital and related items. Primary sources of cash include capital appropriations ($14,220,885) and bond proceeds to construct a new student center ($21,724,051). Significant cash outflows include the purchase of capital assets ($19,455,238) and the repayment of principal and interest on capital related debt ($2,673,199). Cash flows from investing activities include interest income on investments ($300,436), and the purchase of SNAP short-term investments with proceeds from the bond issue to construct a new student center. The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

Statement of Cash Flows*

	Year Ended June 30,		Increase/(Decrease)	
	2005	2004	Amount	Percent
Cash flows from operating activities	$(38,893)	$(34,864)	$ 5,029	14%
Cash flows from non-capital financial activities	45,186	43,664	1,522	3%
Cash flows from capital financing activities	27,219	4,374	22,845	522%
Cash flows from investing activities	(8,163)	1	(8,164)	(100)%
Net increase in cash	$24,349	$13,175	$11,174	85%

(*in thousands)

Capital Asset and Debt Administration

Overall, funds invested in capital assets increased $12,142,907 as a result of renovations to the Robinson Technology and Bozeman Buildings as well as the construction of the Marie V. McDemmond Center for Applied Research and campus wide infrastructure wiring to increase access to technology. New long-term debt (9d bonds) of $21,520,000 was issued to renovate and construct an addition to the student union building (construction to begin in fiscal year 2006) and debt of $13,864,776 related to energy performance projects was recorded in fiscal year 2005. Norfolk State University will receive an additional $8 million in bond proceeds related to the renovation and construction of student center but the issuance date is unknown at this time. Norfolk State University acquired Norfolk Community Hospital in August of 2004 and the property is currently being utilized as swing space for other renovations on campus. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2005 debt service to expenditures ratio was 2.52 percent.

Overall, unpaid construction and other related contractual commitments on capital projects increased from $1,223,386 in 2004 to $19,479,042 in 2005. Construction-in-progress on these contracts totaled $14,138,145 as of June 30, 2005.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. To offset projected shortfalls for fiscal year 2005, the governing board approved a tuition and mandatory fee increase of 16 percent and eight percent respectively for in-state undergraduates, and seven percent and eight percent for out-of-state undergraduates.

The University's overall financial position remains strong with an overall increase of $12,374,161 in net assets for the 2005 fiscal year. In an effort to enhance operational efficiency and fiscal stability, management continues to evaluate and review current policies and procedures with regard to student accounts receivable and financial clearances. As a result of implementing recent policy changes, cash collections on accounts receivable have increased despite a decline in enrollment of approximately eight percent for fiscal year 2005. Management will continue to closely monitor resources to reduce the impact of fewer students to ensure the accomplishment of the University's mission.

FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005

ASSETS	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	$ 9,928,459	$ 774,982
Cash held for securities lending (Note 2)	1,666,902	-
Restricted cash and cash equivalents (Note 2)	-	6,145,327
Short-term investments held for securities lending (Note 2)	354,206	2,649,139
Accounts receivable, net of allowance for doubtful accounts of $624,492 (Note 3)	3,421,048	32,929
Contributions receivable,		
net of allowance for uncollectible contributions of $118,925 (Note 12)	-	529,523
Due from the Commonwealth	76,852	-
Prepaid expenses	978,642	1,270
Notes receivable, net of allowance for doubtful accounts of $217,785	172,850	-
Unamortized bond issuance expense	126,956	1,038,768
Other assets	-	134,159
Total current assets	16,725,915	11,306,097
Non-current assets:		
Restricted cash and cash equivalents (Note 2)	38,662,741	8,308,716
Investments (Note 2)	10,239,524	-
Contributions receivable	-	915,000
Other long-term investments	-	8,229,652
Notes receivable, net of allowance for doubtful accounts of $1,836,990	1,550,078	-
Non-depreciable capital assets (Note 4)	18,924,244	22,671,827
Depreciable capital assets, net (Note 4)	56,271,398	292,293
Total non-current assets	125,647,985	40,417,488
Total assets	142,373,900	51,723,585
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	4,523,639	6,381,924
Deferred revenue	4,726,564	19,250
Obligations under securities lending	2,021,108	-
Deposits held in custody for others	845,109	-
Long-term liabilities - current portion (Note 6)	3,552,764	43,145
Total current liabilities	15,669,184	6,444,319
Non-current liabilities (Note 6)	54,957,802	33,579,169
Total liabilities	70,626,986	40,023,488
NET ASSETS		
Invested in capital assets, net of related debt	53,421,204	366,603
Restricted for:		
Non-expendable:		
Permanently restricted	-	7,282,473
Expendable	15,605,301	2,604,302
Unrestricted	2,720,409	1,446,719
Total net assets	$ 71,746,914	$ 11,700,097

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

NORFOLK STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2005

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $5,625,710	$ 23,010,792	$ -
Gifts and contributions	-	2,062,702
Federal grants and contracts	25,754,333	-
State grants and contracts	1,533,240	-
Non-governmental grants and contracts	1,665,286	-
Auxiliary enterprises, net of scholarship allowances of $5,084,161 (Note 9)	19,937,294	-
Other operating revenues	556,419	396,910
Total operating revenues	72,457,364	2,459,612
Operating expenses: (Note 10)		
Instruction	32,560,622	-
Research	6,663,184	-
Public service	1,618,037	-
Academic support	13,478,852	-
Student services	4,551,042	-
Institutional support	12,931,699	1,197,466
Operation and maintenance of plant	9,607,456	4,052
Depreciation	5,181,493	24,800
Student aid	14,656,503	690,858
Auxiliary activities (Note 9)	17,984,876	-
Total operating expenses	119,233,764	1,917,176
Operating gain/(loss)	(46,776,400)	542,436
Non-operating revenues/(expenses):		
State appropriations (Note 11)	44,818,849	-
Investment income net of investment expense	300,436	522,595
Interest on capital asset - related debt	(838,957)	(1,579,169)
Gifts	445,069	-
Loss on transfer of property	-	(557,913)
Net non-operating revenues (expenses)	44,725,397	(1,614,487)
Decrease before other revenues, expenses, gains or losses	(2,051,003)	(1,072,051)
Capital appropriations	14,220,885	-
Capital gifts and grants	204,279	-
Net other revenues	14,425,164	-
Increase/(decrease) in net assets	12,374,161	(1,072,051)
Net assets - beginning of year as restated (Note 13)	59,372,753	12,772,148
Net assets - end of year	$ 71,746,914	$ 11,700,097

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

Cash flows from operating activities:	
Student tuition and fees	$ 24,824,653
Grants and contracts	29,334,953
Auxiliary enterprises	19,753,902
Other receipts	715,107
Payments to employees	(46,865,750)
Payments for fringe benefits	(13,213,034)
Payments for services and supplies	(23,705,741)
Payments for utilities	(5,004,081)
Payments scholarships and fellowships	(19,311,339)
Payments for noncapitalized plant improvements and equipment	(6,561,680)
Collections of loans from students	2,532,661
Loans issued to students	(2,392,415)
Net cash used by operating activities	(39,892,764)
Cash flows from noncapital financing activities:	
State appropriations	44,818,849
Gifts and grants for other than capital purposes	445,069
Direct lending receipts	22,709,984
Direct lending payments	(22,709,984)
Agency receipts	519,231
Agency payments	(588,556)
Other non-operating expenses	(8,234)
Net cash provided by noncapital financing activities	45,186,359
Cash flows from capital financing activities:	
Capital appropriations	14,220,885
Capital gifts	204,279
Proceeds from bond issuance	21,724,051
Proceeds from energy lease project	13,198,579
Purchase of capital assets	(19,455,238)
Principal paid on capital debt, leases, and installments	(1,829,055)
Interest paid on capital debt, leases, and installments	(844,144)
Net cash provided by capital financing activities	27,219,357
Cash flows from investing activities:	
Interest on investments	300,436
Income from short-term investments	582,430
Purchase of investments	(11,484,527)
Sales of investments	2,568,712
Payment of bond issue cost	(130,181)
Net cash used by investing activities	(8,163,130)
Net increase in cash	24,349,822
Cash and cash equivalents-beginning of the year	24,241,378
Cash and cash equivalents-end of the year	$ 48,591,200

Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$	(46,776,400)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		5,181,493
Changes in assets and liabilities:		
Receivables, net		1,766,362
Due from the Commonwealth		71,993
Notes receivable, net		140,246
Prepaid expenses		(594,569)
Accounts payable and accrued expenses		(251,388)
Accrued compensated absences		(44,681)
Deferred revenue		614,180
Net cash used by operating activities	$	(39,892,764)
Non-cash investing, noncapital financing, and capital and related financing transactions:		
Equipment acquired by notes payable	$	1,286,812

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

NOTES TO FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The Norfolk State University Foundation, Inc. and Subsidiary, the Athletics Foundation of Norfolk State University, Inc. and the Enterprise and Empowerment Foundation at Norfolk State University meet criteria under GASB Statement 39 qualifying them as component units of the University.

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

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

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

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

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

During the year ended June 30, 2005 the Norfolk State University Foundation, Inc. and the Norfolk State Athletic Foundation, Inc. made distributions of $279,228 to or on behalf of the University for both restricted and unrestricted purposes.

B. Basis of Presentation

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

Effective with fiscal year 2005, the University implemented GASB Statement 40, *Deposit and Investment Risk Disclosures*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified by 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*.

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

C. Basis of Accounting

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

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

D. Cash and Cash Equivalents

In accordance with the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

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

F. Prepaid Expenses

As of June 30, 2005, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

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

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Donated capital assets are recorded at the estimated fair market value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

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

Buildings	30 years
Other improvements and infrastructure	8 to 25 years
Equipment	4 to 20 years
Library materials	5 years

I. Non-current Cash and Investments

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

J. Deferred Revenue

Deferred revenue represents monies received, but not earned as of June 30, 2005. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

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

L. Non-current Liabilities

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

M. Federal Financial Assistance Programs

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

N. Net Assets

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

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

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

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

O. Revenue and Expense Classifications

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

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

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

P. Scholarship Discounts and Allowances

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

2. CASH AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreement), and Reverse Repurchase Agreements*. GASB

Statement 40 eliminates the custodial credit risk disclosures required for category 1 and 2 deposits and investments, but maintains disclosures for category 3. GASB Statement 40 requires the following risk disclosures:

Custodial Credit Risk - The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the University would not be able to recover deposits or would not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University has no deposits or investments subject to custodial credit risk at June 30, 2005.

Credit risk - The risk that an issuer or other counterparty to an investment will not fulfill its obligations. GASB Statement 40 requires the disclosure of the credit quality rating on any investments subject to credit risk.

Concentration of credit risk - The risk of loss attributed to the magnitude of a governments investment in a single issuer. GASB Statement 40 requires disclosure of any issuer with more than five percent of total investments.

Interest rate risk - The risk that changes in interest rates will adversely affect the fair value of an investment. GASB Statement 40 requires disclosure of maturities for any investments subject to interest rate risk. The University does not have an interest rate risk policy. Interest rate information was organized by investment type and amount using segmented time distribution method.

Foreign currency risk - The risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no foreign investments or deposits at June 30, 2005.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Certain deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia or covered by federal depository insurance. Under this Act, banks holding public deposits in excess of amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Saving institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with GASB Statement 9 definition of cash and cash equivalents, cash represents Cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less. Cash equivalents also include the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the Securities and Exchange Commission (SEC).

At June 30, 2005, the University's cash deposits with financial institutions totaled $10,799,864 and cash with the Treasurer of Virginia totaled $22,926,435.

B. Investments

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

C. Securities Lending

Investments and cash equivalents held by the Treasurer of Virginia represent the Department's allocated share of cash collateral received and reinvested and securities received for the State Treasury's securities lending program. Information related to the credit risk of these investments and State Treasury's securities lending program is available on a statewide level in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

Type of Investment	Percentage of Investment	Fair Value	0-3 months	4-12 months	Credit Rating
Cash equivalents:					
Repurchase agreements	7.6%	$ 2,061,377	$ 2,061,377	-	AAA
Money market funds	2.7%	736,567	736,567	-	Unrated
Short-term investment funds	2.2%	582,430	582,430	-	AAA
Securities lending	6.2%	1,666,902	1,666,902	-	Unrated
SNAP	42.3%	11,484,527	11,484,527	-	AAAm
Investments:					
Securities lending	1.3%	354,206	354,206	-	Unrated
FNMA/FHLMC	37.7%	10,239,524	1,720,464	$8,519,060	A-1+
Totals		$27,125,533	$18,606,473	$8,519,060	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2005:

Student tuition and fees	$2,183,530
Federal, state, and non-governmental grants and contracts	1,306,152
Other activities	555,858
Gross receivables	4,045,540
Less: Allowance for doubtful accounts	(624,492)
Net accounts receivable	$3,421,048

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2005, is presented as follows. Beginning amounts as of July 1, 2004, have been restated to allow for the correction of errors related to the capitalization of some buildings and equipment in the previous year.

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 3,721,564	$ 1,064,535	$ -	$ 4,786,099
Construction-in-progress	2,082,006	12,056,139	-	14,138,145
Total non-depreciable capital assets	5,803,570	13,120,674	-	18,924,244
Depreciable capital assets:				
Buildings	116,423,555	3,571,700	-	119,995,255
Infrastructure	5,291,116	103,500	-	5,394,616
Equipment	23,800,424	3,946,176	302,694	27,443,906
Other improvements	60,823	-	-	60,823
Library materials	6,455,913	99,367	5,862	6,549,419
Total depreciable capital assets	152,031,831	7,720,744	308,556	159,444,019
Less accumulated depreciation for:				
Buildings	72,422,267	3,026,286	-	75,448,553
Infrastructure	4,385,869	183,238	-	4,569,107
Equipment	15,485,942	1,827,485	298,837	17,014,590
Other improvements	10,191	3,622	-	13,813
Library materials	5,991,558	140,862	5,862	6,126,558
Total accumulated depreciation	98,295,827	5,181,493	304,699	103,172,621
Depreciable capital assets, Net	53,736,004	2,539,251	3,857	56,271,398
Total capital assets, Net	$ 59,539,574	$15,659,925	$ 3,857	$ 75,195,642

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005:

Employee salaries, wages, and fringe benefits payable	$ 3,550,077
Vendors and suppliers accounts payable	938,015
Accrued interest payable	35,547
Total accounts payable and accrued liabilities	$ 4,523,639

6. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2005, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$15,357,701	$ -	$1,439,083	$13,918,618	$1,517,934
Notes payable	2,478,963	21,520,000	116,080	23,882,883	118,528
Installment purchases	221,461	15,215,580	195,642	15,241,399	502,315
Unamortized bond premium	-	403,985	12,625	391,360	12,625
Total long-term debt	18,058,125	37,139,565	1,763,430	53,434,260	2,151,402
Accrued compensated absences	3,006,802	1,395,161	1,449,842	2,952,121	1,111,579
Capital projects retainage payable	63,946	247,830	63,946	247,830	224,158
Federal loan capital contributions	1,486,576	10,000	-	1,496,576	-
Deferred gain on early retirement of debt	445,404	-	65,625	379,779	65,625
Total long-term liabilities	$23,060,853	$38,792,556	$3,342,843	$58,510,566	$3,552,764

7. LONG TERM DEBT

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

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

The University acquired the Brambleton Center from the City of Norfolk in exchange for six full scholarships awarded each year through 2019 varying from $4,953 to $13,308. The amount reported as principal due at June 30, 2005 is net of an unamortized discount representing the value of these scholarships.

At June 30, 2005, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment.

	Interest Rates (%)	Maturity	Balance at June 30, 2005
Revenue bonds:			
Dormitory:			
Series 2003 (c), issued $2,350,442-refunding	5.000	2010	$ 1,451,063
Series 2003 (c), issued $6,330,176-refunding	5.000	2011	3,999,253
Athletic stadium facility:			
Series 1996 (d), issued $15,653,109	4.650 - 5.375	2018	6,725,000
Cafeteria:			
Series 2003 (c), issued $2,755,476-refunding	5.000	2011	1,743,302
Total revenue bonds			13,918,618
Unamortized bond premium			391,360
Net revenue bonds			14,309,978
Notes payable:			
Dormitory Series 1985 (d) issued $4,446,018	3.00	2022	2,256,044
Brambleton Center, Series 1998, issued $209,962 net of unamortized discount of $232,364		2019	106,839
Student Center 2004 (d), issued $41,529,894	3.00 - 5.00	2036	21,520,000
Total notes payable			23,882,883
Installments payable:			
Master equipment lease program	2.151 - 3.091	2010	1,376,623
Energy lease project	3.739 - 4.500	2016 - 2021	13,864,776
Total installments payable			15,241,399
Total			$53,434,260

Long-term debt matures as follows:

Year Ending	Principal	Interest
2006	$ 2,148,956	$ 1,933,527
2007	2,817,914	2,583,111
2008	3,277,942	2,112,374
2009	3,378,957	1,974,945
2010	3,387,650	1,829,633
2011-2015	11,666,503	7,334,026
2016-2020	10,418,427	4,838,053
2021-2025	4,763,915	3,152,840
2026-2030	4,485,000	2,179,066
2031-2035	5,640,000	1,001,063
2036	1,290,000	30,638
Unamortized discount	(232,364)	-
Unamortized premium	391,360	-
Total	$53,434,260	$28,969,276

A. Bond Defeasance

During fiscal years 2003, 1996 and 1994, certain 1990B, 1991A and 1993B General Obligation Bonds were defeased by the University. The net proceeds from the sale of those bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds.

Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2005, the following amounts of the defeased bonds were outstanding:

	Balance at June 30, 2005
1990 Series B	$ 1,535,000
1991 Series A	5,995,000
1993 Series B	7,629,271
Total	$15,159,271

B. Subsequent Event

The University will receive an additional $8 million in bond proceeds for the renovation and construction of the student center. The issuance date is unknown at this time.

C. Foundation Debt

In February 2005, the Enterprise and Empowerment Foundation entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Enterprise and Empowerment Foundation pursuant to $32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent. On June 30, 2005, interest was computed based on an annualized weekly rate of 2.3 percent.

The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006.

As of June 30, 2005, the Enterprise and Empowerment Foundation's bonds payable consisted of the following. Principal payments are due semi-annually starting January 1, 2008 with annual principal payments as follows:

2008	$ 25,000
2009	50,000
2010	50,000
2011	70,000
2012	130,000
Thereafter	31,675,000
Total	$32,000,000

The bonds payable bear interest at a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Enterprise and Empowerment Foundation entered an interest rate swap contract with a notional amount of $32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733 percent rate and receives interest at 67 percent of London Interbank Offered Rate. The cumulative $1,579,169 loss from changes in the swap contract's fair value is included in other losses in the statement of activities. The contract includes a provision for three optional early termination periods between January 2016 and January 2018.

8. COMMITMENTS

At June 30, 2005, the University was committed to construction contracts totaling approximately $19,479,042. Construction-in-progress on these contracts totaled $14,138,145 as of June 30, 2005.

The University is committed under various operating leases for equipment and facilities. In general, the leases are for a one-year term and the University has renewal options on equipment and facilities for another one-year term. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2005, was $1,377,585.

The City of Newport News lease contains an escalated clause, which allows for a base rent adjustment at the beginning of the third year of the initial term and every two years thereafter. The percentage increase is equal to one-half of the percentage increase of the consumer price index for the corresponding period.

Norfolk State University has as of June 30, 2005, the following total future minimum rental payments due under the above leases:

Year	Operating Lease Obligation
2006	$ 1,215,042
2007	726,517
2008	665,484
2009	675,667
2010	683,723
2011-2015	3,567,847
2016-2020	3,205,025
Total	$10,739,305

9. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2005. Additionally, the University used auxiliary revenues to pay debt service of $2,300,256. This amount is not included in the auxiliary operating expenses below.

Revenues:	
Residential, net of scholarship allowances of $1,705,018	$ 5,974,829
Athletics, net of scholarship allowances of $1,488,459	5,850,673
Food services, net of scholarship allowances of $1,000,970	3,497,151
Auxiliary enhancement, net of scholarship allowances of $140,527	861,281
Student activities, net of scholarship allowances of $292,679	1,119,024
Other auxiliary revenues, net of scholarship allowances of $456,508	2,634,336
Total auxiliary enterprises revenues	$19,937,294
Expenses:	
Residential	$ 5,333,836
Athletics	5,487,009
Food services	2,781,990
Auxiliary enhancement	888,200
Student activities	1,265,959
Other auxiliary activities	2,227,882
Total auxiliary enterprises expenses	$17,984,876

10. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$22,385,924	$ 5,904,906	$ 3,404,788	$ 466,079	$ 196	$ 398,729	$ -	$ 32,560,622
Research	2,331,426	568,018	1,888,766	920,940	-	954,034	-	6,663,184
Public service	617,309	91,744	777,741	34,079	-	97,164	-	1,618,037
Academic support	5,811,751	1,656,289	2,682,263	82,522	-	3,246,027	-	13,478,852
Student services	2,530,526	814,537	1,090,478	32,289	-	83,212	-	4,551,042
Institutional support	7,077,344	2,240,449	2,582,300	(339,637)	872,458	498,785	-	12,931,699
Operation and maintenance of plant	2,189,049	804,271	2,795,995	-	3,255,579	562,562	-	9,607,456
Deprecation	-	-	-	-	-	-	5,181,493	5,181,493
Scholarships and fellowships	-	-	1,050	14,655,453	-	-	-	14,656,503
Auxiliary activities	4,300,170	1,239,320	7,747,357	3,459,614	720,695	517,720	-	17,984,876
Total	$47,243,499	$13,319,534	$22,970,738	$19,311,339	$4,848,928	$6,358,233	$5,181,493	$119,233,764

11. STATE APPROPRIATIONS

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

Original legislative appropriation per Chapter 4:	
Educational and general programs	$40,179,036
Student financial assistance	4,358,468
Adjustments:	
Salary increases	91,706
Employer fringe benefit reductions	(258,417)
Health insurance premium	301,369
Reversions to the General Fund of the Commonwealth	(119)
Eminent Scholars	29,989
Military instate tuition adjustment	112,880
VIVA allocation	3,937
Adjusted appropriation	$44,818,849

12. COMPONENT UNITS

Summary Statement of Net Assets

	Norfolk State University Foundation Inc.	The Athletics Foundation Inc.	Enterprise and Empowerment Foundation	Total
Assets:				
Current assets	$ 3,472,451	$382,413	$ 7,451,233	$11,306,097
Non-current assets	9,315,549	352	31,101,587	40,417,488
Total assets	12,788,000	382,765	38,552,820	51,723,585
Liabilities:				
Current liabilities	120,085	8,231	6,316,003	6,444,319
Non-current liabilities	-	-	33,579,169	33,579,169
Total liabilities	120,085	8,231	39,895,172	40,023,488
Net assets	$12,667,915	$374,534	$(1,342,352)	$11,700,097

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

	Norfolk State University Foundation Inc.	The Athletics Foundation Inc.	Enterprise and Empowerment Foundation	Total
Operating revenues	$ 1,636,438	$290,118	$ 533,056	$ 2,459,612
Operating expenses	1,449,145	226,373	241,658	1,917,176
Operating gain	187,293	63,745	291,398	542,436
Net non-operating revenues (expenses)	526,915	10,536	(2,151,938)	(1,614,487)
Increase/(decrease) in net assets	714,208	74,281	(1,860,540)	(1,072,051)
Net assets-beginning of year	11,953,707	300,253	518,188	12,772,148
Net assets-end of year	$12,667,915	$374,534	$(1,342,352)	$11,700,097

Contributions Receivable - Norfolk State University Foundation, Inc.

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2005:

Current:	$ 793,439
Less: Time value discount	(144,991)
Less: Allowance for uncollectible pledges	(118,925)
Net current contributions receivable	529,523
Non-current:	
Due in one to five years	720,000
Due in more than five years	195,000
Non-current contributions receivable	915,000
Total contributions receivable	$1,444,523

13. RE-STATEMENT OF BEGINNING NET ASSETS

The following prior period adjustments were made to the beginning net assets previously reported in the University's financial statements at June 30, 2004:

Net assets reported at June 30, 2004	$60,498,881
Correction of prior year bad debt expense	(173,671)
Correction of prior year capitalization errors	(952,457)
Restated beginning net assets reported at June 30, 2004	$59,372,753

14. RETIREMENT AND PENSION PLANS

A. Virginia Retirement System

Employees of the University are employees of the Commonwealth. 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 and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's CAFR. The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2005. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately $2,723,777 for the year ended, June 30, 2005. The retirement contribution rate was 9.25 percent for fiscal year 2005. Contributions to VRS were calculated using the base salary amount of approximately $29,446,238 for the year ended June 30, 2005. The University's total payroll was approximately $47,243,499 for the fiscal year ended June 30, 2005.

B. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and Met Life Resources, Great-West Life Assurance Co., T. Rowe Price Associates, and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $1,241,103 for year ended June 30, 2005. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $11,933,683 for fiscal year 2005.

C. Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $177,137 for the fiscal year 2005.

15. POST-EMPLOYMENT BENEFITS

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

16. STATE STUDENT LOAN FUND

The University makes loans to qualified students from its Commonwealth of Virginia Student Loan Fund. During the fiscal year, new loans totaling $67,000 were made to 33 students. At June 30, 2005, total loans outstanding were $217,438 and the allowance for doubtful accounts was $129,845. Summarized below is the fund activity of the State Student Loan Fund for the fiscal year ended June 30, 2005:

Beginning fund balance	$317,436
Interest income and collection fees	87,520
Loan write-offs and expenses	(63,366)
Ending fund balance	$341,590

17. CONTINGENCIES

A. Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2005, the University estimates that no material liabilities will result from such audits or questions.

B. Litigation

The University has been named as a defendant, along with the Commonwealth and the Enterprise and Empowerment Foundation in a lawsuit where several of its former joint venture partners allege that there was a wrongful termination of the joint venture and ask for significant damages. The University has also been named as a defendant in a number of other lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

SUPPLEMENTARY INFORMATION

NORFOLK STATE UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES-REVENUES AND EXPENDITURES
For the Year Ended June 30, 2005

	Total	Food Services	Residential Services	Student Activities	Auxiliary Security
Operating revenues:					
Student fees	$ 11,055,721	$ 368,773	$ -	$ 1,315,231	$ 867,200
Sales and services	13,771,957	4,129,348	7,661,948	82,826	-
Investment income	193,777	-	17,899	13,646	-
Total operating revenues	25,021,455	4,498,121	7,679,847	1,411,703	867,200
Operating expenditures:					
Personal service	4,113,660	-	1,118,550	-	379,924
Fringe benefits	1,238,837	-	350,309	-	105,690
Supplies and material	1,083,911	13,860	402,499	240,513	16,902
Equipment and property improvemen	514,718	4,898	444,518	23,447	938
Current charges and obligations	2,342,183	-	1,130,512	91,811	57,523
Scholarships and fellowships	3,446,649	-	990,353	395,174	-
Contractual services	8,979,603	3,715,414	2,067,861	685,557	100,265
Indirect costs	1,354,444	48,788	490,283	108,276	49,841
Auxiliary administration	(8,355)	-	43,969	13,860	4,470
Total operating expenditures	23,065,650	3,782,960	7,038,854	1,558,638	715,553
Non-operating revenue:					
Gifts and grants	290,872	-	-	32,824	-
Operating gain/(loss)	2,246,677	715,161	640,993	(114,111)	151,647
Mandatory transfers for debt service	(2,300,256)	(349,414)	(1,230,602)	-	-
Non-mandatory transfers	186,993	-	59,214	28,049	-
Net increase/(decrease) in fund balance	133,414	365,747	(530,395)	(86,062)	151,647
Fund balance at beginning of year	9,466,372	713,399	1,165,622	231,166	(624,735)
Prior period adjustment	(160,354)	(48,506)	(35,077)	(19,267)	(6,165)
Fund balance at end of year	$ 9,439,432	$ 1,030,640	$ 600,150	$ 125,837	$ (479,253)

This schedule accounts for the purchase of capital assets as expenses, and does not include depreciation. Additionally, all revenues are recorded as charged including student charges and internal activities. Management uses this method of accounting to monitor individual auxiliary enterprises and set rates.

Student Center	Athletics	Auxiliary Administration	Parking	Contingency Fund	Printing Services	Fitness Center
$ 421,698	$ 6,688,779	$ -	$ 269,856	$ 379,900	$ -	$ 112,791
46,001	650,352	22,488	488,036	-	315,088	4,288
-	-	162,232	-	-	-	-
467,699	7,339,131	184,720	757,892	379,900	315,088	117,079
180,208	1,800,213	300,977	255,267	-	31,864	46,657
61,526	523,276	102,417	80,486	-	9,708	5,425
12,203	88,483	-	46,394	-	13,581	899
6,591	250	20,417	13,659	-	-	-
124,216	522,698	-	36,522	-	326,764	7,888
-	2,061,122	-	-	-	-	-
172,203	1,396,300	204,656	24,844	34,747	31,261	1,167
41,980	481,822	-	34,459	-	31,143	4,676
3,765	101,303	(443,747)	15,539	-	27,277	419
602,692	6,975,466	184,720	507,170	34,747	471,599	67,131
-	258,048	-	-	-	-	-
(134,993)	621,713	-	250,722	345,153	(156,511)	49,948
-	(720,240)	-	-	-	-	-
52,981	43,632	-	(500,000)	(1,100,000)	-	-
(82,012)	(54,895)	-	(249,278)	(754,847)	(156,511)	49,948
621,080	(1,062,964)	11,500	1,010,037	5,570,544	(638,227)	45,445
(3,100)	(40,093)	-	(1,743)	(3,231)	-	-
$ 535,968	$ (1,157,952)	$ 11,500	$ 759,016	$ 4,812,466	$ (794,738)	$ 95,393

NORFOLK STATE UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES-REVENUES AND EXPENDITURES (Continued)
For the Year Ended June 30, 2005

	Communication Systems Enhancement	Auxiliary Enhancement	Maintenance Reserve
Operating revenues:			
Student fees	$ -	$ 631,493	$ -
Sales and services	1,267	370,315	-
Investment income	-	-	-
Total operating revenues	1,267	1,001,808	-
Operating expenditures:			
Personal service	-	-	-
Fringe benefits	-	-	-
Supplies and material	-	248,577	-
Equipment and property improvements	-	-	-
Current charges and obligations	8	44,241	-
Scholarships and fellowships	-	-	-
Contractual services	89,993	455,335	-
Indirect costs	6,784	56,392	-
Auxiliary administration	608	224,182	-
Total operating expenditures	97,393	1,028,727	-
Non-operating revenue:			
Gifts and grants	-	-	-
Operating gain/(loss)	(96,126)	(26,919)	-
Mandatory transfers for debt service	-	-	-
Non-mandatory transfers	90,000	(506,883)	2,020,000
Net increase/(decrease) in fund balance	(6,126)	(533,802)	2,020,000
Fund balance at beginning of year	153,932	2,269,573	-
Prior period adjustment	-	(3,172)	-
Fund balance at end of year	$ 147,806	$ 1,732,599	$ 2,020,000

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

May 8, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

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

The Board of Visitors
Norfolk State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Norfolk State University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Norfolk State University and of its aggregate discretely presented component units as of June 30 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Norfolk State University. The Schedule of Auxiliary Enterprises-Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Auxiliary Enterprises-Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions entitled "Collect and Correct Student Accounts Receivable" and "Improve the Continuity of Operations Disaster Recovery Plan" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and is entitled "Improve the Continuity of Operations Disaster Recovery Plan" and is described in the section titled "Internal Control and Compliance Findings and Recommendations."

Status of Prior Findings

The University has not completed adequate corrective action with respect to the previously reported finding "Collect and Correct Student Accounts Receivable." Accordingly, we included that finding in the section entitled "Internal Control and Compliance Findings and Recommendations."

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 1, 2006.

AUDITOR OF PUBLIC ACCOUNTS

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NORFOLK STATE UNIVERSITY®

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June 5, 2006

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

Dear Mr. Kucharski:

Attached is management's response to the findings in Norfolk State University's audit report for the year ended June 30, 2005. Please contact me if you have any questions.

Sincerely,

Kevin Appleton

Kevin Appleton
Vice President for Finance and Business

Cc: Dr. Alvin J. Schexnider
Dr. Adebisi Oladipupo
Mr. Ralph Johnson
Ms. Michelle Martin
Mr. Ernest Ellis

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Collect and Correct Accounts Receivable

Management Response

As noted by the auditors, several improvements have been made in an effort to strengthen controls over accounts receivable. Management has shown its commitment to improving the efficiency, timeliness, accuracy and reporting of accounts receivable by developing and implementing new policies and business practices. These improvements include organizational changes to increase oversight and supervision, providing additional training for staff to improve consistency in execution and application of policy, and requirements that students take greater responsibility for their financial accounts and obligations. We will expand our efforts to expedite approvals for student loans, and to ensure that pending loans are removed from the system before the end of the semester in which students are registered. While we have made significant progress on these issues, additional efforts and focus will ensure more consistent and timely application of policies and procedures. Work processes have been revised to include a monthly review of accounts receivable, and students receive monthly notification of account balances through emailed statements.

Due to the timing of this audit and corrective actions taken, results from these changes will not become evident until the 2007 fiscal year.

Improve the Continuity of Operations Disaster Recovery Plan

Management Response

Management is committed to continually improving NSU's Continuity of Operations Disaster Recovery Plan. The Office of Information Technology works closely with the University's Emergency Response Team to ensure a high level of coordination between departments in case of a natural or man-made disaster. Recent improvements which have affected the OIT Continuity of Operations Planning include moving the University's data center to a more environmentally correct location in May 2005. This allowed for the installation of a data center specific HVAC, a System UPS, a backup generator, networked door locks, camera surveillance and improved off-site storage of tapes on a daily basis. A position was established that includes in the job description the responsibility for establishing, maintaining, reviewing and updating OIT's Continuity of Operations/Disaster Recovery Plan and this person is OIT's representative to the Emergency Response Team.

However, we concur that additional requirements are needed to optimize the definition of processes needed in the various departments in case of the disruption of computer services. We have communicated with VITA to obtain a list of experienced vendors who are familiar with the Commonwealth's most current standards, and familiar with best practices in Virginia and across the nation, to help NSU develop a more comprehensive Continuity of Operations Plan which will integrate business and academic department risk analyses, risk assessments, and continuity of operations plans into an overall University plan. This process is underway, with the results expected to become evident during the 2007 fiscal year.