Annual Financial Report

For Fiscal Year Ended

June 30, 2012

VIRGINIA STATE UNIVERSITY
ANNUAL FINANCIAL REPORT 2011-2012

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LETTER from the PRESIDENT

Virginia State University

As our community evolves and our society becomes more dynamic, Virginia State University (VSU) continues to display leadership throughout the Commonwealth of Virginia. For many, a VSU education is the key to improving the quality of life in their family. A VSU education enables graduates to become regional leaders in a relatively short period of time. The economic and social impact is long term as VSU graduates become involved in government, industry and the public sector. Today's VSU education is designed for tomorrow's leader.

By the year 2050, there may be two billion more people in the world to feed, clothe and house. The new VSU graduates will help ensure that we have enough food, textiles, buildings and roads. Tomorrow's successes depend on today's investments. VSU strives to increase the pace of these investments as we produce more and more excellent graduates.

In current economic times, grants have become increasingly more competitive, but VSU continues to make advances in research as well. During the 2012 fiscal year, VSU faculty members were awarded 28 grants totaling more than $6.9 million. And, while VSU's mission has always been committed to service, this too has been a banner year for our University. VSU was named to the U.S. President's Higher Education Community Service Honor Roll for the first time in our history. The recognition follows VSU's reported 42,189 hours of community service and service learning in 2011-2012. According to the "Independent Sector," this equates to a more than $900,000 contribution to the community. VSU was also selected to join the Bonner Scholarship Network of colleges and universities in the United States committed to civic engagement and service. VSU joins Morehouse and Spelman as only the third HBCU in the network. Up to twenty VSU students will be selected this summer as our first Bonner Student Leaders and will receive service awards toward tuition.

Great initiatives and activities are sweeping through all parts of Virginia State University. Faculty and staff are driving this VSU transformation. Although there continues to be significant challenges, new initiatives and opportunities abound. VSU has been in the forefront of changing lives in the past and will continue to be in the forefront of changing society in the future.

In these times of belt tightening and strained budgets, I don't ask that you do more with less, but I ask that we as a University endeavor to do what is right. We must prioritize, continue to set goals, and measure our successes. This is how we can collectively *Build a Better World*.

Thanks for all you do!

Sincerely,

Keith T. Miller

Keith T. Miller, Ph.D.
President

MESSAGE FROM THE VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

Fiscal Year 2012 proved to be a year of robust positive change, culminating in the completion of our transformative Strategic Plan which will shape Virginia State's future and provide new visions in the areas of academic pedagogy, operational and administrative efficiency, student success and technological investment. As the fiscal year began to sunset, the Commonwealth of Virginia showed signs of emerging from a long and arduous economic downturn that began in 2008; one that necessitated all government agencies taking a critical evaluation of their respective internal operations and funding allocations. At VSU, we took this opportunity to review how well our current processes were functioning, and whether they were impeding or accelerating our ability to achieve the strategic goals and objectives. We sharpened our focus and looked at how this historic body could get better at preparing every student to emerge as a leader in this globally competitive market. And in support of that focus, I am pleased to report that in April of 2012, the Strategic Planning Task Force finalized the university's new Strategic Plan entitled "Building a Better World; Excellence, Engagement, Commitment".

The new Strategic Plan aligns with the Commonwealth of Virginia's required 6 Year Plan, and together they provide the university with clarity regarding those academic and operational goals that are deemed crucial to our long term success. In FY2012, VSU received an additional $1.7M in General Fund revenue in support of a number of key 6 Year Plan initiatives, that as noted above, will culminate in a dramatic change in our academic pedagogy. In support of our 6 Year Plan efforts, we received funds to implement our new University College, a model designed to transform the way we indoctrinate new students into the academic rigors of collegiate life, and provide holistic services in the areas of retention and graduation, advising and a true first year experience. Additional funding was allocated to VSU due to enrollment gains and in recognition of our success in attracting Science, Technology, Engineering and Math (STEM) students. With STEM being a major focus of the Governor's Higher Education Reform, Innovation and Investment and the "Top Jobs TJ21" legislation, VSU has dedicated an increased level of scholarship funding to students in these disciplines. We also continue to create successes in our Commonwealth Center for Advanced Manufacturing (CCAM) collaboration with Virginia Tech and the University of Virginia and with our Virginia Logistics Research Center (VLRC) collaboration with Longwood, the University of Virginia and Fort Lee. In Fiscal Year 2102, we introduced bold changes in many academic curricula. And through collaborative discussions involving multiple areas of the university, we balanced the investment of limited financial resources to align with those areas we believe will spur innovation.

The five year economic downturn that has affected our Mid-Atlantic Region and the nation as a whole has had a significant financial impact on the parents and guardians of VSU students, particularly given the socio-economic status the majority of our students come from. To that end, it has been challenging but necessary to limit tuition and fee increases to very moderate levels, recognizing that our mission provides higher education access to a significant portion of this demographic population. Nevertheless, it is a testament to the outstanding teaching, service learning and technology innovative culture of VSU that we continue to produce outstanding results each year in spite of the budgetary challenges we face. Through dramatic improvements in technology, we are now seeing opportunities to reallocate funding to key academic and student support areas as well as generate human capital efficiencies and productivity. Improvements such as automated timekeeping systems, IPADS to faculty and staff, new enterprise wide software licenses, business analytics modeling, virtualization of server technology, and comprehensive facilities and housing data collection models are just a sample of the various data technology successes VSU achieved in 2012.

As we turn our attention to Fiscal Year 2013, Virginia State University is poised to see a steady and sustained level of improvement and focus in many key financial segments. Our goal of a fully implemented Enterprise Risk Management assessment, mitigation and monitoring program is on schedule, the Vice President's Council continues to fund technology projects, academic research is poised to grow exponentially and turn intellectual ideas into capital, we have begun to set aside funding for a new Student Union facility, we continue to make capital investments in construction, renovation and maintenance in our infrastructure, and for the 19th consecutive year, the university received an unqualified opinion on its financial statements from the Auditor of Public Accounts.

Thank you President Keith T. Miller for your steadfast leadership and vision, to our Board of Visitors for their unwavering support of this historic institution, and to our faculty and staff for their commitment to making VSU the quality educational institution it is. But most of all, thank you to the greatest student body. Go Trojans!

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 assets as well as its overall financial position. This report was prepared in accordance with generally accepted accounting principles for public colleges and universities in the United States of America as prescribed by the Governmental Accounting Standards Board. Management is responsible for the objectivity and integrity of all representations herein. The Annual Financial Report includes all disclosures necessary for the reader of this report to gain a broad understanding of the University's operations for the year ended June 30, 2012.

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 42 and 43. 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, 2012.

VIRGINIA STATE UNIVERSITY
FY2012 ACCOMPLISHMENTS

- Implemented the ERM (Enterprise Risk Management) Program.
- KRONOS Automated Timekeeping System for Hourly and Students went live in November 2011.
- Made a Presentation at NACCU'S 19TH Annual Conference on the Benefits of Engaging the University's Constituents in Using the Campus Card.
- Replacement and upgrades to the campus storm water management system in 2012 resulted in better control of rain water, reduced flooding and less damage to campus property during rain events.
- Renovations to approximately 160,000 GSF of space at Hunter McDaniel Hall and Singleton Hall were completed in 2012 with Leadership in Energy and Environmental Design (LEED) Silver certification at Hunter McDaniel.
- The Gateway II Residence Hall began construction in June, 2011 and completed in only 14 months, in time for the fall, 2012 semester.
- Implemented Computer Incident Response Team for rapid response to IT security incidents.
- Implemented a new website and web content management system.
- Implemented wireless local area network (WLAN) in academic, administrative, and residence life buildings.
- Implemented a video conference bridge that allows each School to host or participate in internal and external video conferences securely.
- Implemented Blackboard Analytics business intelligence tools for Finance and Student subject areas.
- Implemented collaboration and social media tools for Faculty and Students.
- Implemented plans for business continuity and IT disaster recovery to improve the University's ability to function during natural and unplanned catastrophes.
- The university contracted with Sightlines to perform a comprehensive study and in-depth analysis of our capital facilities and residence life program.
- Developed and compiled data for the FY11 Academic Profitability Analysis.
- Hired a full time Training and Development Consultant.
- Began development of University Customer Service Training Program.

- Named Best Business Program in the country among the 108 HBCUs by the Center for HBCU Media Advocacy. The Center annually recognizes a program which has demonstrated a commitment to innovation and community contributions in research academic exposition and professional development.

- Received the *RichTech, Richmond Technology Council's* Technology Innovation Deployment Award. The award honors companies or organizations that successfully implement creative technologies to enhance processes, methodologies and/or services for their own, or others' benefit.

- Received the Governor Bob McDonnell's prestigious Governor's Award for Innovation using Technology.

- During FY2012, the Concurrent Enrollment Partnerships (CEP) Program established CEP agreements with 11 partnering high school districts.

- VSU partnered with the New College Institute and the Southside Virginia Community College System to develop a Bachelor of Science (B.S.) Degree in Agri-Food Business Management.

- More than $4,900,000 in external grant funds were generated in the School of Agriculture to conduct basic and applied research grant projects.

- The first faculty-led service learning program in Ghana for graduate students at Virginia State University was facilitated by the Department of Doctoral Studies in the Professional Education Programs Unit. Graduate students volunteered in the classroom in Cape Coast, Ghana, and participated in several impact projects.

- The Professional Education Program's Doctoral Studies Department facilitated the securing of a collaborative National Foundation Grant entitled *Broadening Participation Research Grant: The Impact of Engagement, Capacity and Continuity in Preparing Elementary Education Pre-Service Teachers for Science Teaching,* National Science Foundation/HBCU-UP. 2012-2015 (Funded $314,430).

- Initiated and planned November 2012 visit to VSU by First Lady Michelle Obama, the first time in VSU history that a President or First Lady visited.

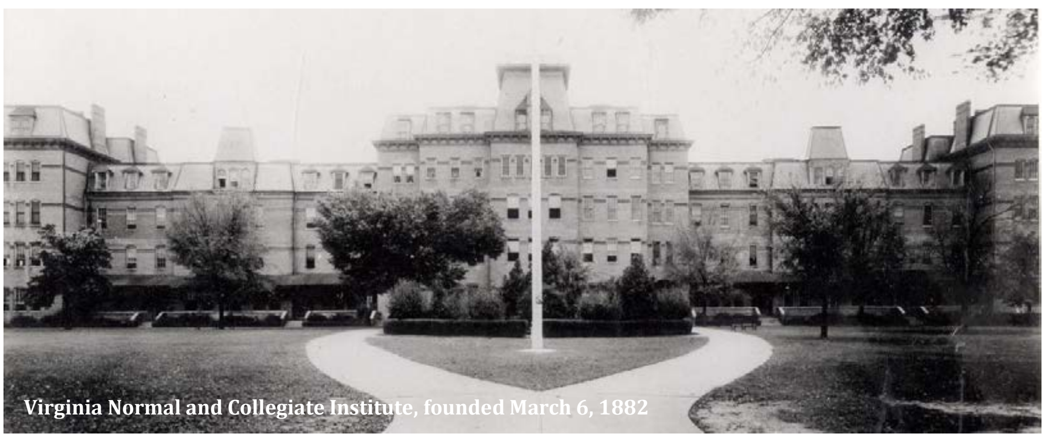
- *Water Tank and Campus Water Distribution Piping* – VSU requested and was approved for bond funding to support the replacement of the water tank and campus water distribution piping. This is a $40M joint project between the University and Chesterfield County.

- The National Academy of Television Arts & Sciences presented VSU with two Emmy Awards for the school's *VSU Today* newsmagazine and for its *Building a Better World* commercial campaign.

MANAGEMENT DISCUSSION AND ANALYSIS
(Unaudited)

INTRODUCTION

Virginia State University (the University) 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).


Virginia Normal and Collegiate Institute, founded March 6, 1882

The University is one of two land grant institutions in the Commonwealth. As a land grant institution, the University engages in natural resource related research projects and agriculture extension services. The University, founded in 1882, was designated a land grant institution in 1920, and attained University status in 1979. Virginia State University's 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 five schools namely: School of Agriculture; School of Business; School of Engineering, Science and Technology; School of Liberal Arts and Education; and School of Graduate Studies. 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. The University has partnerships with Fort Lee, Commonwealth Center for Advanced Manufacturing, 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. These programs and services provide the citizens of Virginia many significant opportunities that will prepare them to share in the American dream. The University is dedicated to educating its students to building a better world for tomorrow.

1. 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, 2012. This overview has been prepared by management and should be read in conjunction with the financial statements and footnotes that follow this section. Comparative information for the fiscal year ended June 30, 2011, has been provided where applicable. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB).

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

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

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

FINANCIAL HIGHLIGHTS

During FY2012, the University continued to invest in capital assets and infrastructure in order to meet its long range planning goals. Renovations were completed on the Hunter McDaniel academic building and construction was started on two new residence halls, Gateway II and Howard Quad II. The University also purchased additional properties for the planned construction of a multipurpose center. The University completed several projects to improve information technology infrastructure. This included deploying WI-FI access throughout the campus and deploying six video conference centers in preparation for the roll out of distance education. In November of 2011, the University implemented the KRONOS automated time keeping system for hourly and student employees. Using KRONOS eliminates the need for processing manual time sheets, resulting in significant cost saving, greater efficiency, and improved internal controls.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between the total assets and total liabilities which equals net assets is one indicator of the current financial condition of the University. While the change in net assets is an indication of whether the overall financial condition of the University has improved or worsened during the year. Assets and liabilities are generally measured using current values. Two notable exceptions are capital assets, which are stated at historical cost less an allowance for depreciation, and endowment investments which are reported at current market value. Comparing the FY2012 SNA to the previous fiscal year, total assets increased by $75.6 million or 31.2%.

Currents assets decreased by $17.5 million during FY2012. Current assets are comprised of cash and cash equivalents, short term investments, notes and loans receivable, due from the commonwealth, and securities lending. The largest portion of this change was a result of a decrease in amounts due from the commonwealth for outstanding reimbursements for capital projects.

Noncurrent assets increased by $93.1 million during FY2012. Noncurrent assets are comprised of restricted cash and cash equivalents, state appropriations available, investments, and capital assets net of depreciation. There was an increase in restricted cash and cash equivalents of $39.1 million which was primarily due to additional bond proceeds for the construction of two residence halls, Gateway II and Howard Quad II. The remainder was primarily due to an increase in capital assets of $52.4 million. This is related to three major construction projects, the renovation of Hunter McDaniel academic building, Gateway II residence hall, and Howard Quad II residence hall.

Compared to the previous fiscal year, total liabilities increased by $66.6 million or 80.6%. Total liabilities are comprised of current and noncurrent liabilities. Current liabilities increased by $2.2 million during FY2012. 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 increased by $64.4 million during FY2012. Noncurrent Liabilities are comprised primarily of the noncurrent portion of long-term debt (bonds and notes payable). The overall increases in current and noncurrent liabilities were primarily due to the issuance of two 9(c) general obligation bonds for Howard Quad II and Gateway II residence halls of $63.3 million in new principal and related bond issuance premium.

A summary of the University's assets, liabilities, and net assets at June 30, 2012 and 2011 follows:

Summary of the Statement of Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Assets:				
Current Assets:	$ 24,921,210	$ 42,436,281	$ (17,515,071)	(41.3%)
Noncurrent assets:				
Restricted cash and cash equivalents	39,055,082	(85,497)	39,140,579	45780.1%
State appropriations available available	212,951	176,428	36,523	20.7%
Investments	24,070,287	22,934,524	1,135,763	5.0%
Capitals assets, net	227,590,914	175,146,197	52,444,717	29.9%
Other	2,229,791	1,899,877	329,914	17.4%
Total noncurrent assets	293,159,025	200,071,529	93,087,496	46.5%
Total assets	318,080,235	242,507,810	75,572,425	31.2%
Liabilities:				
Current liabilities	25,040,453	22,834,577	2,205,876	9.7%
Noncurrent liabilities	124,253,236	59,837,189	64,416,047	107.7%
Total liabilities	149,293,689	82,671,766	66,621,923	80.6%
Net assets:				
Invested in capital assets, net of related debt	131,578,585	114,362,825	17,215,760	15.1%
Restricted:				
Nonexpendable	8,029,774	7,284,313	745,461	10.2%
Expendable	17,081,555	18,729,693	(1,648,138)	(8.8%)
Unrestricted	12,096,632	19,459,213	(7,362,581)	(37.8%)
Total net assets	$ 168,786,546	$ 159,836,044	$ 8,950,502	5.6%

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's results of activities for the fiscal year. Below is a summarized statement of the University's Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2012 and 2011.

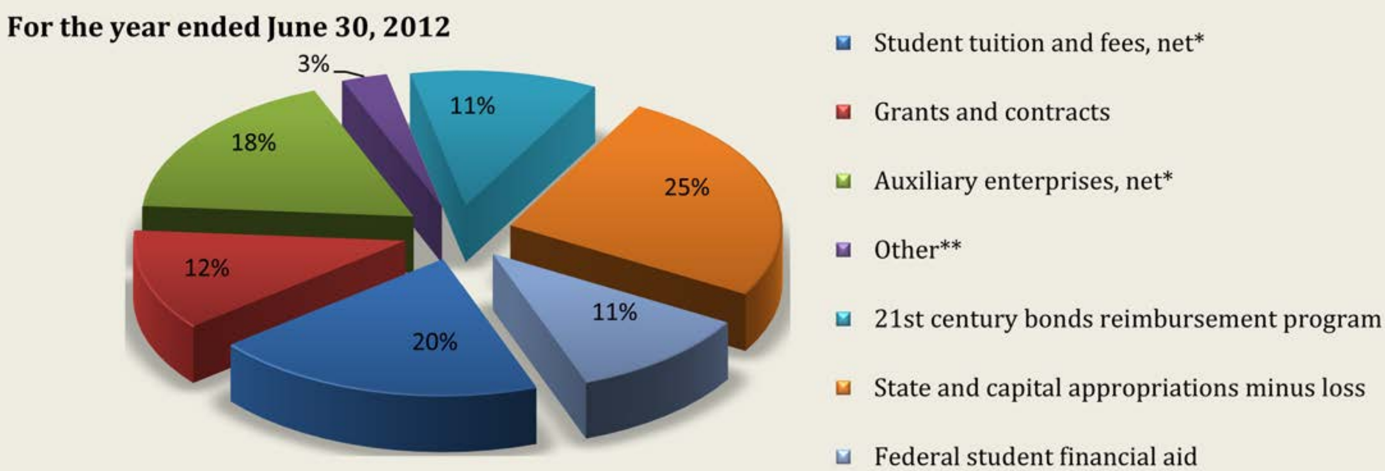
Summary of the Statement of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30, 2012	2011	Increase/(Decrease) Amount	Percent
Operating revenues	$ 74,825,788	$ 66,689,101	$ 8,136,687	12.2%
Operating expenses	140,540,541	128,175,078	12,365,463	9.6%
Operating loss	(65,714,753)	(61,485,977)	(4,228,776)	(6.9%)
Nonoperating revenues/(expenses)				
State appropriations	38,176,916	38,378,276	(201,360)	(0.5%)
Federal student financial aid	16,466,352	15,827,932	638,420	4.0%
Other nonoperating revenues/(expenses)	282,237	4,034,389	(3,752,152)	(93.0%)
Net nonoperating revenues and expenses	54,925,505	58,240,597	(3,315,092)	(5.7%)
Income/(loss) before other revenues and reductions	(10,789,248)	(3,245,380)	(7,543,868)	232.4%
Capital grants and gifts	2,143,641	1,018,308	1,125,333	110.5%
Additions/(reductions) to permanent endowments	916,729	515,292	401,437	77.9%
Other capital revenues	16,679,380	27,637,115	(10,957,735)	(39.6%)
Total other revenues	19,739,750	29,170,715	(9,430,965)	(32.3%)
Total increase in net assets	8,950,502	25,925,335	(16,974,833)	(65.5%)
Net assets, beginning of year	159,836,044	133,910,709	25,925,335	19.4%
Net assets, end of year	$ 168,786,546	$ 159,836,044	$ 8,950,502	5.6%

There was an overall increase in net assets of $9.0 million in FY2012 as compared to an increase of $25.9 million in the previous year. The net operating loss increased by $4.2 million over FY2011. Net nonoperating revenues and expenses decreased by $3.3 million and total other revenues decreased by $9.4 million in FY2012. 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, 2012 and 2011 follows:

SUMMARY OF REVENUES



Summary of Revenues
Increase (Decrease) in Revenues
For the years ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating revenues				
Student tuition and fees, net*	$ 29,548,572	$ 26,275,461	$ 3,273,111	12.5%
Grants and contracts	17,972,270	15,470,690	2,501,580	16.2%
Auxiliary enterprises, net*	26,580,305	24,456,246	2,124,059	8.7%
Other operating revenue**	724,641	486,704	237,937	48.9%
Total operating revenues	74,825,788	66,689,101	8,136,687	12.2%
Non operating revenues/(expenses):				
State appropriations	38,176,916	38,378,276	(201,360)	(0.5%)
Federal student financial aid	16,466,352	15,827,932	638,420	4.0%
Other non operating revenues, net**	282,237	4,034,389	(3,752,152)	(93.0%)
Total non operating revenues	54,925,505	58,240,597	(3,315,092)	(5.7%)
Capital revenues and gains:				
Capital grants and gifts	2,143,641	1,018,308	1,125,333	110.5%
Additions to permanent endowment	916,729	515,292	401,437	77.9%
Other capital revenues**	16,679,380	27,637,115	(10,957,735)	(39.6%)
Total other revenues	19,739,750	29,170,715	(9,430,965)	(32.3%)
Total revenues	$ 149,491,043	$ 154,100,413	$ (4,609,370)	(3.0%)

* Net of scholarship allowance

** Other includes: Other operating revenues, gifts, investment income, interest on indebtedness, loss on disposal of assets, federal stabilization funds (ARRA), other nonoperating revenues and expenses, 21st century bonds, general obligation bonds.

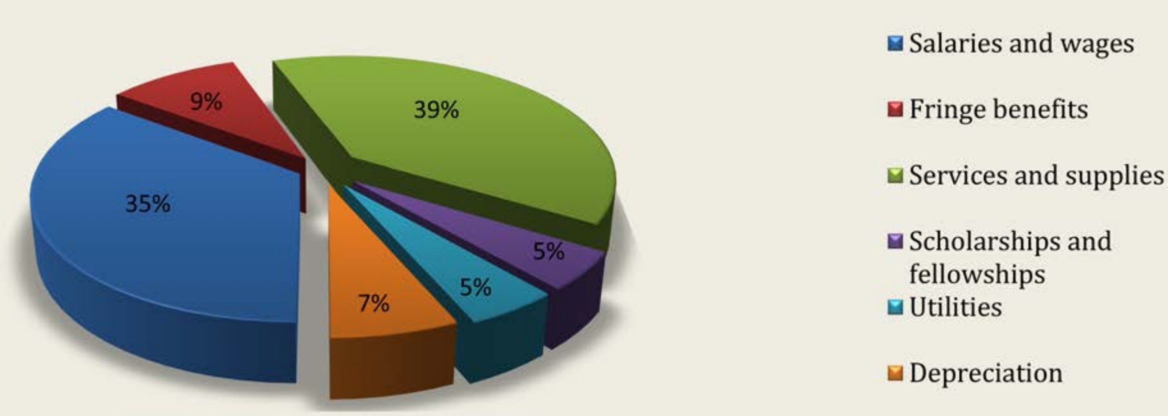
Total operating revenues increased by $8.1 million in FY2012 to $74.8 million from $66.7 million in the previous year, an increase of 12.2%. As reflected in the chart above, two of the largest items of the increase in operating revenues were from student tuition and fees and auxiliary enterprises revenues, net of scholarship allowance. These items were driven by an increase in student fees and an increase in enrollment. Additionally, there was a $2.5 million increase in grants and contracts revenue. This increase was offset by a decrease in other nonoperating revenues of $3.8 million. This was primarily the result of a significant decrease in investment income of $2.9 million and a reduction of the American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Funds of $1.2 million.

Other revenues decreased by $9.4 million. This was primarily a result of reduced revenues from the Commonwealth's bond reimbursement programs of $11.8 million. This was offset by an increase in capital grants and contributions of $1.1 million, which was the result of an increase in reimbursements for the Commonwealth's Equipment Trust Fund, Also, in FY2011 there was an extraordinary loss of $856 thousand for the demolition of the Student Village. There was no extraordinary loss in FY2012.

SUMMARY OF EXPENSES

Overall, total operating expenses increased by $12.4 million in FY2012 compared to the previous fiscal year. This represents a 9.6% increase. Comparative summaries of the University's operating expenses by both natural classification and function for the years ended June 30, 2012 and 2011 appear below.

For the year ended June 30, 2012

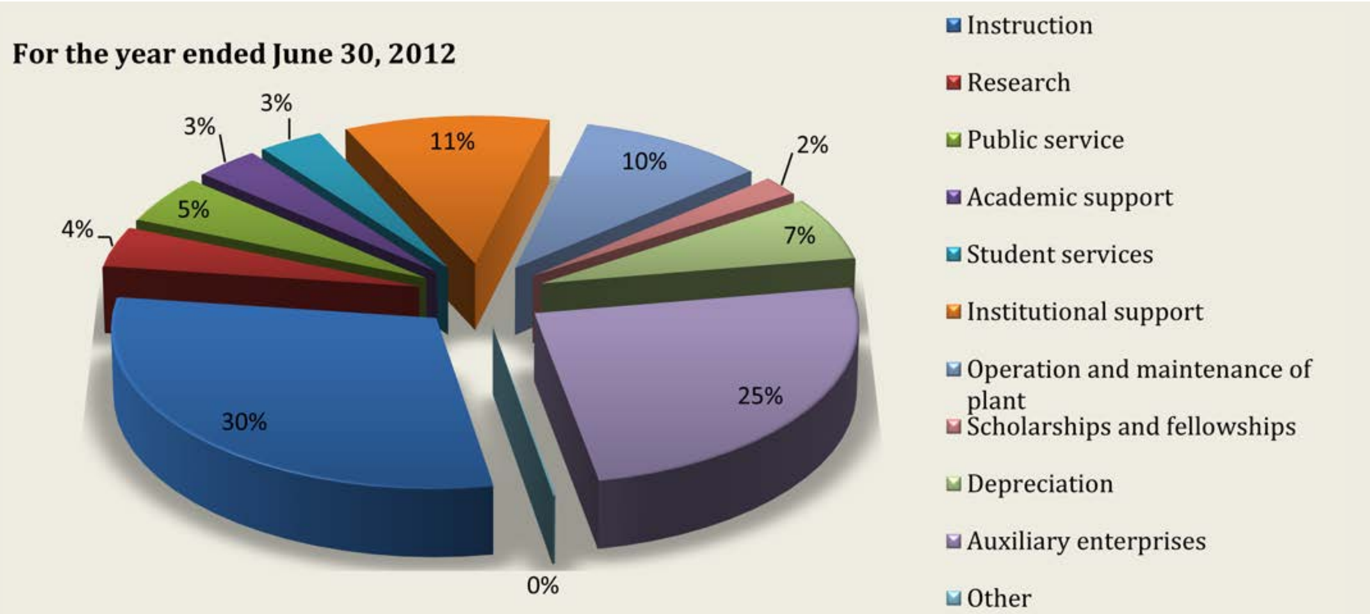


Increase in Operating Expenses by Natural Classification
For the years ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Percent
Salaries and wages	$ 49,485,183	$ 46,782,644	$ 2,702,539	5.8%
Fringe benefits	13,217,794	13,892,973	(675,179)	(4.9%)
Services and supplies	54,938,640	44,575,378	10,363,262	23.2%
Scholarships/fellowships	6,891,718	6,185,497	706,221	11.4%
Utilities	6,821,077	7,174,925	(353,848)	(4.9%)
Depreciation	9,186,129	9,563,661	(377,532)	(3.9%)
Total operating expenses	$ 140,540,541	$ 128,175,078	$ 12,365,463	9.6%

The overall increase in operating expenses of $12.4 million was due to increases in personal services of $2.7 million and services and supplies of $10.4 million.

The increase in personal services was due to a combination of factors. Expenses for fringe benefits decreased and expenses for salaries and wages increased as a result of a change made by the Commonwealth in the funding of employee retirement. An amount of five percent that was previously funded by the Commonwealth is now funded by employees. Employees were given a five percent pay raise to compensate for this funding. The University also added additional employees, primarily in information technology services. Previously, the University contracted outside vendors for these services, but in FY2011, the University initiated a project to insource this function.



Increase in Operating Expenses by Function
For the years ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating expenses:				
Instruction	$ 41,977,540	$ 41,673,127	$ 304,413	0.7%
Research	5,820,807	4,338,349	1,482,458	34.2%
Public service	6,997,280	6,845,224	152,056	2.2%
Academic support	4,765,644	4,275,020	490,624	11.5%
Student services	4,806,316	4,518,710	287,606	6.4%
Institutional support	15,302,409	13,537,160	1,765,249	13.0%
Operation/maintenance of plant	13,976,956	14,285,346	(308,390)	(2.2%)
Scholarships and fellowships	2,813,698	3,201,814	(388,116)	(12.1%)
Depreciation	9,186,129	9,563,661	(377,532)	(3.9%)
Auxiliary enterprises	34,728,763	25,779,273	8,949,490	34.7%
Other	164,999	157,394	7,605	100.0%
Total operating expenses	$ 140,540,541	$ 128,175,078	$12,365,463	9.6%

The major factors in the increase for supplies and services were for expenditures related to housing and transportation services for students who were housed off campus. In FY2011, the Student Village Housing complex was demolished and construction commenced on a replacement residence hall, Gateway II.

Construction of Howard Quad II residence hall was also initiated in FY2012. Both of these housing units are scheduled to be opened in FY2013. There was an increase in Food Services expenses which was primarily related to an increase in enrollment and an increase in room and board fees. The increase in these two auxiliary enterprises also resulted in a corresponding increase in applied auxiliary indirect costs. The University also had increases for accrued services and supplies.

By function, the $12.4 million increase in operating expenses was primarily due to a $1.5 million increase in expenses for research, a $1.8 million increase for institutional support, and an $8.9 million increase for auxiliary enterprises. The increase in expenditures for research were the result of additional grant funding for the Commonwealth Center for Advanced Manufacturing (CCAM), Research Infrastructure in Minority Institutions (RIMI), NASA grants, and the USDA's Evans Allen 1890 Research Formula Grant. The increase in expenses for institutional support was due to increases in salaries and wages and services and supplies. The major factor for the change in salaries and wages was the hiring of additional staff for information technology services. The change in services and supplies was due to an increase in accrued expenses as noted above. The increase in auxiliary enterprises was primarily the result of increases in services and supplies, salaries and wages, and scholarships. The change in services and supplies expenses was primarily due to increases in residential services and food services as explained above. The increase in salaries and wages is also explained above. The increase in expenses for scholarships and fellowships was due to a combination of increase in tuition and fees and an increase in the number of students requiring financial assistance.

STATEMENT OF CASH FLOWS

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

This statement provides a slightly different perspective from the Statement of Revenues, Expenses, and Changes in Net Assets. On the latter statement, state appropriations and gifts are considered nonoperating revenue. However, on the 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)	
	2012	2011	Amount	Percent
Cash flows from:				
Operating activities	$ (57,098,305)	$ (50,556,760)	$ (6,541,545)	(12.9%)
Noncapital financing activities	58,690,753	57,854,906	835,847	1.4%
Capital and related financing activities	29,160,231	(23,861,518)	53,021,749	222.2%
Investing activities	(517,694)	(1,222,556)	704,862	57.7%
Net increase/(decrease) in cash and cash equivalents	30,234,985	(17,785,928)	48,020,913	270.0%
Cash and cash equivalents, beginning of year	22,727,429	40,513,357	(17,785,928)	(43.9%)
Cash and cash equivalents, end of year	$ 52,962,414	$ 22,727,429	$ 30,234,985	133.0%

Overall, there was approximately a $6.5 million increase in net cash used by operating activities in FY2012 compared to FY2011. The increases in cash were used for payments to suppliers of $7.9 million, payments to employees of $2.3 million, scholarships and fellowships of $706 thousand, and there was a reduction of cash received from grants and contracts of $1 million. These decreases in cash were partially offset by additional revenues from tuition and fees of $3.3 million and an associated increase in revenues from auxiliary enterprises of $2.0 million.

There was an increase of $836 thousand in cash flows from noncapital financing activities. There were three primary factors for this increase. There was an increase in cash received from gifts of $1.0 million and cash flows from deposits-held-in-custody increased by $838 thousand. This was offset by a decrease of $1.2 million in cash received from ARRA fiscal stabilization funds.

In FY2012 there was a net increase in cash for capital financing activities of $53 million. The primary factor was an increase in cash received for 21st century bonds of $5.7 million and proceeds from the sale of 9(c) general obligation bonds of $71 million. This was offset by an increase in cash used for the purchase of capital assets of $21 million and payment of principal on debt of $2.2 million.

The last major category on the statement of cash flow is cash flows from investing activities. Overall, net cash from investing activities increase by $705 thousand. There was a decrease in investment income from the prior year of $2.9 million. This was offset by an increase in proceeds from the sale and maturities of investments of $3.2 million and reduced purchase of investments of $462 thousand in FY2012 versus FY2011.

In summary, there was an overall $30.2 million increase in cash between FY2011 and FY2012.

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.


Gateway Residence Halls and Courtyard

Capital assets, net of depreciation, increased by $52.4 million in FY2012. As noted above, this is related to three major construction projects, the renovation of Hunter McDaniel academic building, Gateway II residence hall, and Howard Quad II residence hall.

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, 2012, the University had $113.1 million in outstanding general obligation bonds. During the fiscal year bonds payable increased by a net of $66.1 million. This was primarily the result of the issuance of general obligation bonds for Gateway II residence hall and Howard Quad II residence hall. In addition, the

University had a total of $8.8 million in outstanding notes payable. Lastly, the University has an installment purchase agreement in the amount of $2.5 million related to energy performance upgrades and vehicles purchased through the Commonwealth's Master Equipment Leasing Program (MELP).

FUTURE ECONOMIC OUTLOOK

The *2012-13 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 2012, indicates that over much of the last decade, the Commonwealth has aspired to make college education more affordable for Virginia students, and has made progress toward this goal. Further, the SCHEV report states that the Governor and General Assembly have made a concerted effort to reverse the downward trend in state support for higher education. The reinvestment in higher education for the next biennium will 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.

As part of the Six-Year Plan, Virginia State University proposes to expand its membership roles in large STEM-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, and implement three-year (fewer than eight semesters) bachelor degree programs in selected disciplines for highly qualified students through non-traditional terms.

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 is attempting to hold its tuition and fees down, but inflation and other costs, including borrowing costs for new residence halls, are pushing up the need for increases. For the 2012-2013 academic year, Virginia State University will have the third 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 2011-2012 operating budget of over $150 million. During this past fiscal year there were major improvements in the University's information technology (IT) infrastructure with the deployment of Wi-Fi across the campus, installation of new hardware and software and the deployment of six video conference centers in preparation for distance education rollout.

In accordance with the Campus Master Plan and the need to update its residence halls, work was started on the replacement of the Student Village with Gateway II which was opened in the fall of 2012. In addition, work commenced on Quad II and the University continued to expand its footprint which will provide the real estate needed for construction of the Multipurpose Center.

As evident in the accompanying financial statements, the University's finances remain strong. However, there are some possible troubling events on the horizon. The University is already experiencing enrollment challenges due to the current economic conditions and changes in financial aid requirements. This is a trend being experienced across the nation, not just at VSU. To address these issues, the University is taking proactive steps in a number of areas. A number of new positions have been created in Enrollment Management, new software has been installed to assist with enrollment management, and the University is partnering with various high schools to help students be better prepared for college.

In addition to the above, a major effort is being made to increase the University's endowment and gift revenues. Although the stock market has experienced a rebound recently, there are many troubling signs that this will not continue and that there could be a downturn due to the global economy. This would have an impact on both the University and Foundation endowment funds and impact the support funds from these sources provides, particularly for scholarships and financial aid.

The University continues to seek ways to improve its finances. However, there are some events and circumstances that are obviously out of its control. To address these, the University works diligently to stay abreast of the changing financial environment facing higher education and the Commonwealth and utilize best practices and sound financial management techniques.

First Graduating Class of Virginia Normal and Collegiate Institute, 1886

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

As of June 30, 2012 with comparative financial information as of June 30, 2011

	2012		2011	
ASSETS	**Virginia State University**	**Component Units**	**Virginia State University**	**Component Units**
Current assets:				
Cash and cash equivalents (Note 2)	$ 13,907,330	$ 5,079,847	$ 22,812,926	$ 4,887,332
Cash and cash equivalents - Securities Lending (Note 2)	354,229	-	266,944	-
Short-term investments (Note 2)	10,952	-	81,856	-
Accounts and loans receivable, net of allowance (Note 3)	6,246,030	724,789	3,479,087	899,954
Due from the Commonwealth (Note 3)	2,305,618	-	11,634,170	-
Due from affiliates	14,282	-	132,661	-
Prepaid expenses	2,043,583	9,753	3,996,077	-
Notes and mortgages receivable, net of allowance (Note 3)	39,186	-	32,560	-
Total current assets	$24,921,210	5,814,389	42,436,281	5,787,286
Noncurrent assets:				
Restricted cash and cash equivalents (Note 2)	39,055,082	1,576,354	(85,497)	1,485,012
Restricted investments (Note 2)	563,679	56,200	506,300	-
Endowment investments (Note 2)	21,748,221	8,118,922	20,226,520	7,782,972
State appropriation available	212,951	-	176,428	-
Notes and mortgages receivable, net of allowance (Note 3)	1,723,633	-	1,762,312	-
Other long-term investments (Note 2)	1,758,387	-	2,201,704	-
Unamortized issuance cost	506,158	102,261	137,565	107,975
Nondepreciable capital assets (Note 4)	64,265,951	542,828	31,050,717	542,828
Depreciable capital assets, net (Note 4)	163,324,963	9,905,636	144,095,480	10,525,789
Total noncurrent assets	293,159,025	20,302,201	200,071,529	20,444,576
Total assets	318,080,235	26,116,590	242,507,810	26,231,862
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities (Note 5)	11,790,977	152,324	11,305,610	123,291
Due to Commonwealth - Treasury Loan	-	14,282	1,200,000	-
Due to affiliates	-	44,290	-	132,661
Deferred revenue	3,309,022	-	3,615,533	32,458
Retainage payable	1,724,535	-	647,233	-
Obligations under securities lending (Note 2)	365,181	139,027	348,800	-
Deposits held in custody for others	1,629,550	490,000	1,499,669	141,238
Long-term liabilities - current portion (Notes 6 and 7)	6,179,541	64,496	4,176,879	410,000
Other current liabilities	41,647	-	40,853	66,091
Total current liabilities	25,040,453	904,419	22,834,577	905,739
Noncurrent liabilities:				
Long-term liabilities - noncurrent (Notes 6 and 7)	124,253,236	23,897,016	59,837,189	22,709,450
Total liabilities	149,293,689	24,801,435	82,671,766	23,615,189
NET ASSETS				
Invested in capital assets (net of related debt)	131,578,585	(8,779,275)	114,362,825	(8,563,408)
Restricted for:				
Nonexpendable:				
Scholarships and fellowships	4,451,635	8,410,166	3,716,042	7,778,943
Instruction	3,217,966	-	3,213,059	-
Other	360,173	-	355,212	-
Expendable:		-		
Scholarships and fellowships	14,775,627	2,458,020	13,457,366	2,330,928
Instruction	230,587	-	143,044	-
Loans	932,794	-	899,956	-
Capital projects	221,724	-	2,459,095	-
Other	920,823	-	1,770,232	-
Unrestricted	12,096,632	(773,756)	19,459,213	1,070,210
Total net assets	**$ 168,786,546**	**$ 1,315,155**	**$ 159,836,044**	**$ 2,616,673**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

As of June 30, 2012 with comparative financial information as of June 30, 2011

	2012		2011	
	Virginia State University	Component Units	Virginia State University	Component Units
Operating revenues:				
Student tuition and fees (net of scholarship allowance of $12,933,154)	$ 29,548,572	$ -	$ 26,275,461	$ -
Federal grants and contracts	17,373,413	-	15,005,759	-
State and local grants and contracts	598,857	-	464,931	-
Sales and services - educational departments	-	-	1,470	-
Auxiliary enterprises (net of scholarship allowance of $14,595,910)	26,580,305	-	24,456,246	-
Other operating revenues	724,641	3,356,965	485,234	3,154,837
Total operating revenues	74,825,788	3,356,965	66,689,101	3,154,837
Operating expenses: (Note 9)				
Education and general:				
Instruction	41,977,540	-	41,673,127	-
Research	5,820,807	-	4,338,349	-
Public service	6,997,280	-	6,845,224	-
Academic support	4,765,644	-	4,275,020	-
Student services	4,806,316	-	4,518,710	-
Institutional support	15,302,409	2,349,309	13,537,160	1,814,896
Operation and maintenance of plant	13,976,956	-	14,285,346	-
Scholarships and fellowships	2,813,698	167,506	3,201,814	194,240
Depreciation	9,186,129	625,868	9,563,661	650,073
Auxiliary enterprises	34,728,763	-	25,779,273	-
Other	164,999	-	157,394	-
Total operating expenses	140,540,541	3,142,683	128,175,078	2,659,209
Operating income/(loss)	(65,714,753)	214,282	(61,485,977)	495,628
Nonoperating revenues/(expenses):				
State appropriations (Note 8)	38,176,916	-	38,378,276	-
Gifts	1,373,110	1,727,657	729,611	2,846,378
Investment income	618,067	(1,872,569)	3,540,584	727,922
Interest on indebtedness	(3,898,872)	(989,019)	(2,739,926)	(1,029,794)
Loss on disposal of assets	554,923	-	(593,544)	-
Federal student financial aid	16,466,352	-	15,827,932	-
Federal Stabilization Funds (ARRA)	1,368,629	-	2,575,695	-
Other nonoperating revenues	513,200	13,704	648,100	8,271
Other nonoperating expenses	(246,820)	(395,573)	(126,131)	(204,211)
Net nonoperating revenue	54,925,505	(1,515,800)	58,240,597	2,348,566
Income/(Loss) before other revenues	(10,789,248)	(1,301,518)	(3,245,380)	2,844,194
Capital grants and gifts	2,143,641	-	1,018,308	-
Additions to permanent endowments	916,729	-	515,292	-
21st Century bonds reimbursement program	16,679,038	-	28,295,330	-
General obligation bonds reimbursement program	342	-	197,988	-
Extraordinary loss - disposal of student village	-	-	(856,203)	-
Total other revenues	19,739,750	-	29,170,715	-
Increase in net assets	8,950,502	(1,301,518)	25,925,335	2,844,194
Net assets, beginning of year	159,836,044	2,616,673	133,910,709	(227,521)
Net assets, end of year	**$ 168,786,546**	**$ 1,315,155**	**$ 159,836,044**	**$ 2,616,673**

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

STATEMENT OF CASH FLOWS

As of June 30, 2012 with comparative financial information as of June 30, 2011

	2012	2011
Cash flows from operating activities:		
Tuition and fees	$ 29,536,358	$ 26,205,534
Grants and contracts	14,961,462	15,987,335
Auxiliary enterprises	26,559,743	24,541,226
Departmental sales and services, and other revenues	874,772	1,186,243
Payments to employees	(62,695,421)	(60,415,120)
Payments to suppliers	(52,706,344)	(44,849,775)
Payments for utilities	(6,821,078)	(7,174,924)
Payments for scholarships and fellowships	(6,891,718)	(6,185,498)
Loans issued to students	(126,133)	(29,163)
Collection of loans from students	158,186	123,638
Other payments	51,868	53,744
Net cash used by operating activities	(57,098,305)	(50,556,760)
Cash flows from noncapital financing activities:		
State appropriations	38,169,672	38,392,038
Gifts	2,289,839	1,244,903
Federal student financial aid	16,466,352	15,827,932
ARRA fiscal stabilization	1,368,629	2,575,695
Other nonoperating revenue	266,380	521,969
Funds held in custody for others - receipts	5,025,182	4,751,139
Funds held in custody for others - disbursements	(4,898,042)	(5,461,514)
Federal direct lending program receipts	(449)	(16,211)
Federal direct lending program disbursements	3,190	18,955
Net cash provided by noncapital financing activities	58,690,753	57,854,906
Cash flows from capital financing activities:		
Capital appropriations	(29,279)	68,533
Capital gifts and grants	2,041,749	1,233,673
21st Century bonds	26,035,695	20,358,968
General obligation bonds	12,509	187,075
Interest paid on capital debt, leases, and installments	(3,700,863)	(2,758,063)
Principal paid on capital debt, leases, and installments	(7,175,065)	(4,968,561)
Principal received on capital debt, leases, and installments	73,174,106	2,215,292
Purchase of capital assets	(61,198,621)	(40,198,435)
Net cash used by capital financing activities	29,160,231	(23,861,518)
Cash flows from investing activities:		
Investment income	618,067	3,540,584
Proceeds from sales and maturities of investments	180,589	(2,984,438)
Purchase of investments	(1,316,350)	(1,778,702)
Net cash used by investing activities	(517,694)	(1,222,556)
Net increase in cash	30,234,984	(17,785,928)
Cash and cash equivalents - beginning of the year	22,727,429	40,513,357
Cash and cash equivalents - end of the year	**$ 52,962,414**	**$ 22,727,429**

STATEMENT OF CASH FLOWS (cont.)

As of June 30, 2012 with comparative financial information as of June 30, 2011

	2012	2011
Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities		
Operating income (loss)	(65,714,753)	(61,485,977)
Adjustments to reconcile net cash used by operating activities:		
Depreciation expense	9,186,129	9,563,661
Changes in assets and liabilities:		
Receivables	(2,586,944)	905,687
Prepaid items	1,952,494	(909,636)
Other assets	(368,593)	5,946
Accounts payable	(714,633)	3,381,797
Less: Interest payable	(198,009)	18,137
Less: Payables for capital assets	1,200,000	(2,504,199)
Deferred revenue	(306,511)	325,552
Other liabilities	420,462	47,798
Net loans	32,053	94,474
Net cash used by operating activities	**$ (57,098,305)**	**$ (50,556,760)**

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

NOTES TO FINANCIAL STATEMENTS

VIRGINIA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012

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, 2012, the VSUF distributed $612,753 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 Institutional Advancement, 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 Institutional Advancement, Storum Hall, P.O. Box 9027, Petersburg, VA 23806.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Cash Equivalents

The University considers all highly liquid investments with an original maturity of 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, 2012. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Prepaid Expenses

Prepaid expenses represent university library books, memberships, subscriptions, postage, system maintenance agreements, service agreements and licenses that were paid in advance as of June 30, 2012.

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, 2012, interest expenses exceeded interest earned by $1,481,067 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 Assets

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

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

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

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

I. Deferred Revenue

Deferred revenue represents revenues collected, but not earned as of June 30, 2012. This consists primarily of student tuition and fees received in advance of the academic term and advance payments from grant and contract sponsors.

J. Accrued Compensated Absences

The amount of leave earned, but not taken by 12-month faculty and salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave payout policy as of June 30, 2012. The applicable share of employer-related taxes payable on eventual termination payments is also included.

K. Revenue and Expense Classifications

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

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

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

L. Discounts, Premiums, and Bond Issuance Costs

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

M. Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowance in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowance is the difference between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf. The scholarship allowance is reported using the alternative method as recommended by the National Association of College and University Business 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 TEACH Grants; Federal Supplemental Educational Opportunity Grant (SEOG); Federal Perkins Loan; 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, 2012, the carrying amount of cash and cash equivalents was $53,316,641.

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, 2012, the University had the following investments:

Investments	
Spider Management Group	$ 24,070,287
Treasurer of Virginia	10,952
Total investments	$ 24,081,239

Investments held by the Treasurer of Virginia include the University's allocated share of securities totaling $10,952 received for securities lending transactions and held in the General Account of the Commonwealth. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2 4516, et seq., Code of Virginia. 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, 2012. 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, 2012:

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

Asset Class	Desired Range	Allocation
Domestic Equity	5 - 25%	18.40%
International Equity	5 - 25%	15.60%
Global Equity	5 - 25%	11.80%
Opportunistic(P/E, Venture)	10 - 25%	17.50%
Multi Strategy	5 - 20%	11.50%
Credit	0 - 15%	10.70%
Real Estate	0 - 10%	4.00%
Real Assets	0 - 10%	6.50%
Cash	0 -10%	4.00%

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, 2012, 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.

G. VSUF – Cash and Investments

The investments of the VSUF consist primarily of equity securities and mutual funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. The amount of cash and investments held by the VSUF at June 30, 2012, was $10,715,286.

H. VSUREF - Cash and Investments

The investments of the VSUREF consist primarily of U.S. government money market funds. All investments are stated at fair value as reported by investment managers and reflect readily determinable market prices. All investments are considered available for sale. Realized gains are calculated based on the difference between the costs and selling price of the security. Cost is determined based on the initial purchase price of each individual investment. The amount of cash and investments held by the VSUREF at December 31, 2011 was $4,116,037.

3. ACCOUNTS RECEIVABLE AND NOTES

A. Accounts Receivable

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

At June 30, 2012, accounts receivable consisted of the following:

Student tuition and fees	$ 1,526,294
Federal, state and private grants and contracts	5,530,095
Auxiliary enterprises	192,162
Third party receivables - students	49,715
Other receivables	61,394
Total	$ 7,359,660
Less: allowance for doubtful accounts	(1,113,630)
Net accounts receivable	$ 6,246,030

B. Due from Affiliates

Due from VSUF	$	14,282

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, 2012, Due from the Commonwealth consisted of the following:

Equipment Trust Fund Reimbursement	$	101,892
Interest Earned on Tuition and Fees and other E&G Revenues		79,299
21st Century Bond Reimbursement – Steam Tunnels		45,346
21st Century Bond Reimbursement - Handicap Access		6,839
21st Century Bond Reimbursement – Maintenance Reserve		1,458,648
21st Century Bond Reimbursement - Repair Sanitary and Storm/Sewer Line		175,176
21st Century Bond Reimbursement - Student Housing		144,635
21st Century Bond Reimbursement – Singleton Hall		22,159
21st Century Bond Reimbursement – Improve Handicapped Access		116,777
21st Century Bond Reimbursement – Hunter McDaniel		70,312
21st Century Bond Reimbursement - Multipurpose Center Project		84,535
Total Due from the Commonwealth	$	2,305,618

D. Notes Receivable

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

At June 30, 2012, notes receivable consisted of the following:

Current notes receivable:		
Federal student loans	$	42,240
Local student loans	$	980
Less: Allowance for doubtful accounts		(4,034)
Net current notes receivable		39,186
Noncurrent notes receivables:		
Federal student loans		1,962,344
Less: Allowance for doubtful accounts		(238,711)
Net noncurrent notes receivables		1,723,633
Total notes receivable	$	1,762,819

4. CAPITAL ASSETS

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

	Beginning Balance	Increase	Decrease	Ending Balance
Nondepreciable capital assets:				
Land	$ 11,403,477	$ 3,347,395	$ -	$ 14,750,872
Inexhaustible works of art and treasures	119,000	-	-	119,000
Construction in progress	19,528,240	54,106,610	(24,238,771)	49,396,079
Total nondepreciable capital assets	31,050,717	57,454,005	(24,238,771)	64,265,951
Depreciable capital assets:				
Buildings	220,562,466	24,320,216	-	244,882,682
Equipment	32,938,555	2,734,285	(286,139)	35,386,701
Intangible assets - computer softwar(	3,347,006	531,250	-	3,878,256
Infrastructure(includes Improvements other than buildings)	15,873,151	119,500	-	15,992,651
Library books	20,644,807	235,439	(335,448)	20,544,798
Total depreciable capital assets	293,365,985	27,940,690	(621,587)	320,685,088
Less accumulated depreciation for:				
Buildings	92,581,310	5,273,892	-	97,855,202
Equipment	24,156,499	1,972,627	(201,169)	25,927,957
Intangible assets - computer softwar(	3,280,419	172,837	-	3,453,256
Infrastructure(includes Improvemen other than buildings)	10,603,792	746,165	-	11,349,957
Library books	18,648,485	1,020,608	(895,340)	18,773,753
Total accumulated depreciation	149,270,505	9,186,129	(1,096,509)	157,360,125
Net depreciable capital assets	144,095,480	18,754,561	474,922	163,324,963
Total	$ 175,146,197	$76,208,566	$ (23,763,849)	$ 227,590,914

Net capital assets of the VSUREF consist of $542,828 for land and $9,905,636 (net of accumulated depreciation of $5,455,938 for buildings, land improvements, and equipment as of December 31, 2011.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at June 30, 2012:

Employee salaries, wages, and fringe benefits payable	$ 3,781,120
Matured interest payable	502,468
Vendor and supplier accounts payable	7,507,389
Total	$ 11,790,977

6. LONG-TERM LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2012 is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent
Long-term debt:						
General obligation bonds	$ 46,998,262	$ 70,109,674	$ (3,997,184)	$ 113,110,752	$ 3,940,674	$ 109,170,078
Notes payable	9,408,435	2,231,516	(2,808,498)	8,831,453	607,086	8,224,367
Installment purchases	2,461,080	301,666	(263,132)	2,499,614	320,534	2,179,080
Total long-term debt	58,867,777	72,642,856	(7,068,814)	124,441,819	4,868,294	119,573,525
Other noncurrent liabilities:						
Accrued compensated absences	3,676,939	2,265,763	(1,812,931)	4,129,771	1,204,997	2,924,774
Federal Perkins Loan contributions	1,469,352	41,426	(74,591)	1,436,187	-	1,436,187
Software license agreements	-	531,250	(106,250)	425,000	106,250	318,750
Total long-term liabilities	$ 64,014,068	$ 75,481,295	$ (9,062,586)	$ 130,432,777	$ 6,179,541	$ 124,253,236

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, 2012, are as follows:

	Interest Rate	Maturity	Total
General obligation revenue bonds:			
Jones Dining Hall - 96 Ref - 2002 Refunded Portion, Series 2012A	4.0% - 5.6%	2016	$ 646,126
Jones Dining Hall - 98 Refunded Portion, Series 2004B	4.0% - 4.8%	2018	400,707
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
Construct Residence Halls, Series 2006 B	4.2% - 4.6%	2026	8,765,000
Construct Dining Hall, Series 2006 B	4.2% - 4.6%	2026	2,260,000
Construct Residence Halls, Series 2007 A	4.7% - 5.0%	2027	1,675,000
Construct Two Residence Halls, Series 2007 B	4.4% - 4.5%	2027	23,160,000
Construct Gateway Residence Hall Phase, Series 2011A	4.2% - 4.9%	2031	33,990,000
Construct Quad Phase II, Series 2011A	4.2% - 4.9%	2031	28,555,000
Add unamortized premiums			7,413,919
Total bonds payable			$ 113,110,752

Aggregate annual maturities of bonds payable for fiscal years after 2012 are:

Maturity	Principal	Interest	Total
2013	$ 3,498,719	$ 4,654,679	$ 8,153,398
2014	4,733,510	4,495,854	9,229,364
2015	5,116,508	4,294,283	9,410,791
2016	5,323,153	4,073,658	9,396,811
2017	5,338,094	3,842,817	9,180,911
2018 - 2022	29,371,849	15,470,524	44,842,373
2023 - 2027	34,650,000	8,384,988	43,034,988
2028 - 2021	17,665,000	2,088,900	19,753,900
Add unamortized premiums	7,413,919		7,413,919
Total	$ 113,110,752	$ 47,305,703	$ 160,416,455

New Construction Bonds

In November of 2011, Virginia State University participated in the issuance of Commonwealth of Virginia General Obligation Bonds, Series 2011A-1 (Negotiated) and Series 2011A-2 (Competitive), issued for projects authorized under Article X, Section 9(c) of the Constitution of Virginia. Proceeds from the issuance of these bonds will be used for the construction of Howard Quad Phase II and Gateway Residence Hall Phase II. These bonds sold at a premium at a combined true interest cost of 3.402662%. Net proceeds were $38,012,252 for Gateway Residence Hall Phase II and $31,365,152 for Howard Quad Phase II.

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, 2012, the outstanding principal balances were $1,496,539 for the HUD loan and $7,334,914 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, 2012, are as follows:

	Interest Rate	Maturity	Total
Virginia College Building Authority and HUD notes payable:			
VSU Pooled Bonds, Series 2002A	2.5%	2012	$ 280,000
VSU 2002A Rogers Stadium Ref Portion, Series 2007B	2.0% - 4.2%	2019	2,165,000
VSU 2002A Rogers Statium Ref Portion, Series 2010B	2.5% - 5.0%	2022	1,610,000
VSU Rogers Stadium Proj. 2005A Ref Portion, Series 2012A	1.5% - 4.7%	2024	1,215,000
VSU Student Village Hsg. - 2005A Ref Portion, Series 2012A	1.5% - 4.7%	2024	630,000
VSU Pooled Bonds - Roger's Stadium, Series 2005A	2.2% - 4.5%	2025	770,000
VSU Pooled Bonds - Student Village Housing, Series 2005A	2.2% - 4.5%	2025	395,000
Department of Housing and Urban Development	3.0%	2022	1,496,539
Add unamortized premium			269,914
Total notes payable			$ 8,831,453

Aggregate annual maturities of notes payable for fiscal years after 2012 are:

	Principal	Interest	Total
2013	$ 582,967	$ 391,000	$ 973,967
2014	606,986	365,206	972,192
2015	636,126	338,191	974,317
2016	660,392	311,475	971,867
2017	689,786	284,687	974,473
2018 - 2022	3,850,282	970,697	4,820,979
2023 - 2026	1,535,000	210,453	1,745,453
Add unamortized premium:	269,914		269,914
Total	$ 8,831,453	$ 2,871,709	$ 11,703,162

C. New Refunded Debt

In March 2012, the Virginia College Building Authority issued $164,475,000 in Educational Facilities Refunding Revenue Bonds, Series 2012A. The sale of these bonds enabled the University to advance refund $1,245,000 of Series 2005A Roger's Stadium bonds and $645,000 of Series 2005A Student Village bonds.

The net proceeds of $1,453,268 for Roger's Stadium and $753,317 for Student Village (after payment of underwriter's fees and other issuance costs) were deposited in 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 debt service payments over the next thirteen years by $93,695 for Roger's Stadium resulting in an economic gain of $81,406, and by $45,927 for Student Village resulting in an economic gain of $40,789; both discounted at the rate of 2.0897 percent.

Also issued in April 2012 were $95,490,000 in Commonwealth of Virginia General Obligation Refunding Bonds, Series 2012A. The sale of these bonds enabled the University to advance refund $736,310 of Series 2002-Series 1996 Refunded Portion of Jones Dining Hall bonds.

The net proceeds of $727,224 (after payment of underwriter's fees and other issuance costs) were deposited in 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 debt service payments over the remaining four years by $102,845 resulting in an economic gain of $101,051 discounted at the rate of 1.561 percent.

D. Installment Purchases

Installment purchase obligations in FY2012 consisted of the Energy Performance Program lease with $2,010,650 in principal remaining, and seven vehicles through the Commonwealth's Master Equipment Leasing Program with $488,964 in principal remaining.

Principal and interest payment commitments as of June 30, 2012, are as follows:

	Interest Rate	Maturity	Total
Installment purchase obligations:			
Master Equipment Leasing Program - Motor Coach	2.4% - 3.0%	2014	$ 178,957
Master Equipment Leasing Program - Chevy GMT Van	0.7% - 2.0%	2013	8,341
Master Equipment Leasing Program - Bus Fleet	2.0%	2017	301,666
Energy Leasing Program	4.32%	2022	2,010,650
Total installment purchase obligations:			$ 2,499,614

The aggregate maturities of installment purchase obligations for fiscal years after 2012 are:

Maturity	Principal	Interest	Total
2013	$ 320,534	$ 94,872	$ 415,406
2014	322,717	84,211	406,928
2015	239,882	74,017	313,899
2016	248,252	65,647	313,899
2017	256,962	56,936	313,898
2018-2022	1,111,267	148,138	1,259,405
Total	$ 2,499,614	$ 523,821	$ 3,023,435

E. Foundation Debt

The VSUREF refinanced and paid off the Series 2006 bonds and obtained $20,330,000 in Series 2008 bonds of which $19,330,000 in principal remains at December 31, 2011. 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
2012	$ 490,000
2013	590,000
2014	700,000
2015	800,000
2016	850,000
2017 and Thereafter	15,900,000
Total	$ 19,330,000

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, 2011 and 2010 was $5,714 and $5,528, 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 $5,057,016 and $3,379,450 at December 31, 2011 and 2010, 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, 2012:

Virginia State University:	
Original legislative appropriation:	
Education & general programs	$ 27,778,992
Higher education student financial assistance	5,613,358
Supplemental adjustments:	
State grants and scholarships	169,191
VIVA Interlibrary loan allocation	6,282
SPCC Rebate and interest Earnings	(251)
FY11 reappropriation/cash transfer-in	3,445,523
VCBA Debt service appropriations	(889,546)
Year end cash reversion	(2,773,911)
FY12 Transfers out	(214,837)
	$ 33,134,801
Cooperative Extension and Agricultural Research Services:	
Original legislative appropriation:	
Education & general programs	5,110,671
Supplemental adjustments:	
FY11 reappropriation/cash transfer-in	63,758
FY12 Transfer out	(409)
Year end cash reversion	$ (131,905)
	5,042,115
Total state appropriations	$ 38,176,916

9. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Depreciation	Total
Instruction	$22,735,185	$ 5,904,471	$12,905,660	$ 252,443	$ 179,781	$ -	$ 41,977,540
Research	3,265,354	663,488	1,719,136	70,478	102,351	-	5,820,807
Public Service	3,468,757	716,509	2,691,637	14,555	105,822	-	6,997,280
Academic Support	2,994,964	687,571	924,278	118,938	39,893	-	4,765,644
Student Services	2,959,722	745,843	1,048,967	7,500	44,284	-	4,806,316
Institutional Support	8,372,162	2,897,478	3,606,616	165,249	260,904	-	15,302,409
Operation and Maintenance of Plant	675,952	310,392	9,813,919	-	3,176,693	-	13,976,956
Scholarships and Fellowships	-	-	-	2,813,698	-	-	2,813,698
Depreciation	-	-	-	-	-	9,186,129	9,186,129
Auxiliary Enterprises	5,013,087	1,292,042	22,063,428	3,448,857	2,911,349	-	34,728,763
Other	-	-	164,999	-	-	-	164,999
Total	$49,485,183	$ 13,217,794	$54,938,640	$ 6,891,718	$6,821,077	$9,186,129	$ 140,540,541

10. COMMITMENTS

A. Construction Commitments

As of June 30, 2012, the University was a party to construction contracts totaling $119,470,662 of which $16,748,587 was still outstanding, at June 30, 2012.

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, 2012 through August 14, 2022.

The second lease is with Midway Avenue, LLC which is being used for storage. Rent payments for FY2012 were $52,788 with the initial term ending July 31, 2013.

The schedule of combined future rental payments is as follows:

Fiscal Year	Amount
2013	$ 302,755
2014	259,365
2015	260,065
2016	265,266
2017	270,572
2017 - 2022	1,436,228
Total	$ 2,794,251

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, 2012, 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 now required to make a 5 percent contribution that was previously part of the employer's retirement contributions and were given a 5 percent raise to compensate. The University's total VRS contributions were $2,318,581 for the year ended June 30, 2012, which does not include the 5 percent employee contribution. The employer contributions represent 6.6 percent of eligible payroll total of $34,936,889 for the year ended June 30, 2012. The University's total payroll costs for the year ended was $49,485,183.

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 $781,115 for the year ended June 30, 2012. Contributions to these retirement programs were calculated using the base salary amount of approximately $7,510,721.

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 $89,532 for the year ended June 30, 2012. Contributions to these retirement programs were calculated using the base salary amount of approximately $1,053,318.

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 $188,994 for FY2012.

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, 2012 that was recognized in accordance with this statement. The Virginia State University "Early Retirement Incentive Plan" (ERIP) is a volunteer early retirement plan for tenured teaching and research faculty which provides supplemental retirement benefits to faculty members. Eligible participant must be 1) Volunteer 2) 50 years of age 3) Tenured or contractual right to continued employment 4) Full-time employee.

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, 2012, 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.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 1, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

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

Board of Visitors
Virginia State University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Virginia State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2013 on our consideration of Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

VIRGINIA STATE UNIVERSITY
BOARD OF VISITORS

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Rector

Ms. Katherine E. Busser
Vice Rector

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Secretary

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Mr. Brandon Randleman (Student Representative)

VIRGINIA STATE UNIVERSITY
ADMINISTRATIVE OFFICERS

As of June 30, 2012

Dr. Keith T. Miller
President

Dr. W. Weldon Hill
Provost and Vice President of Academic Affairs

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

Dr. Michael Shackleford
Vice President for Student Affairs

James B. Tyson, CFRE
Vice President for Institutional Advancement

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