



2012-2013 Financial Statements

NORFOLK STATE UNIVERSITY
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November 3, 2014

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

The official Financial Statements of Norfolk State University (NSU) for the fiscal year ended June 30, 2013 are hereby submitted. The statements include an accompanying statement of net position, statement of revenues, expenses, changes in net position and statement of cash flows, along with accompanying notes and schedules.

These financial statements were prepared in conformity with Generally Accepted Accounting Principles and represent a comprehensive record of the financial position of NSU operations for the fiscal year ended June 30, 2013.

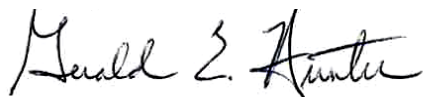
Responsibility for both the accuracy and the completeness of the data and the fairness of presentation, including disclosures is the responsibility of University management. University management assumes full responsibility and to the best of our knowledge and belief asserts that the information is accurate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

The Commonwealth of Virginia Auditor of Public Accounts audited and rendered an opinion on the University's financial statements on pages 36-38 and issued a report on internal control titled "Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other matters", dated November 3, 2014.

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

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

Sincerely,



Gerald E. Hunter
Vice President
Finance and Administration

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of Norfolk State University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2013. Note that although the University's foundations identified as component units under GASB Statement 14, as amended by GASB Statement 39 and 61 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2012. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to the financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

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

Statement of Net Position

The Statement of Net Position presents the University's assets, liabilities, and net position as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2013. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net Position is divided into three major categories. The first category, net investment in capital assets, represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is restricted which is divided into two categories in the financial statements, nonexpendable and expendable. Restricted nonexpendable net position consists solely of the permanent endowment fund and is only available for investment purposes. As of June 30, 2013, the University does not have any permanent endowments. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by the donors and/or external entities that have placed time or purpose restrictions on the use of the asset. Unrestricted net position is available to the University for any lawful purpose of the University.

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Net Position (amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2013	Restated 2012	Amount	Percent
Assets:				
Current	\$ 40,642	\$ 44,467	\$ (3,825)	-9%
Capital, net of accumulated depreciation	196,608	189,927	6,681	4%
Other non-current	18,414	11,248	7,166	64%
Total Assets	<u>\$ 255,664</u>	<u>\$ 245,642</u>	<u>\$ 10,022</u>	<u>4%</u>
Liabilities:				
Current	\$ 27,285	\$ 15,718	\$ 11,567	74%
Non-current	51,359	53,940	(2,581)	-5%
Total Liabilities	<u>78,644</u>	<u>69,658</u>	<u>8,986</u>	<u>13%</u>
Net Position:				
Net investment in capital assets	148,265	139,547	8,718	6%
Restricted	-	6,389	(6,389)	-100%
Unrestricted	28,755	30,048	(1,293)	-4%
Total Net Position	<u>\$ 177,020</u>	<u>\$ 175,984</u>	<u>\$ 1,036</u>	<u>1%</u>

Comments:

Current Assets – Current assets consist of cash, short-term investments, accounts receivable, contribution receivable, due from the Commonwealth and prepaid items such as insurance and maintenance contracts. The 9% decrease is primarily related to the decrease in cash, which pertains to the decrease in capital bond proceeds received from the 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Nursing Building and renovations of the Wilder Center.

- *Capital Assets* – During fiscal year (FY) 2013, the net increase in capital assets of 4% was due to the continued construction costs related to the new Nursing Building and renovations to the Wilder center.
- *Other Non-Current* – Other non-current assets consists of restricted cash, appropriation due from primary government and notes receivable related to financial aid. During FY 2013, the increase in non-current assets of 64% was due to the increase in appropriations due from primary government.
- *Current Liabilities* – Current liabilities increased 74%, mainly due to an increase in the accounts payable balance in FY 2013 due to the increase of construction costs at year end.
- *Non-Current Liabilities* – Non-current liabilities decreased 5% mainly due to no new bond debt issuance in FY 2013; therefore a majority of the debt activity in the current year were principal payments.

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

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

NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	As of June 30,		Increase/(Decrease)	
	2013	Restated 2012	Amount	Percent
Operating Revenues:				
Student tuition and fees, net of scholarship allowances of \$10,342 and \$10,563, respectively	\$ 25,769	\$ 27,827	\$ (2,058)	-7.4%
Federal grants and contracts	18,566	13,998	4,568	32.6%
State grants and contracts	399	333	66	19.8%
Nongovernmental grants and contracts	2,225	1,383	842	60.9%
Public service	376	472	(96)	-20.3%
Auxiliary enterprises, net of scholarship allowances of \$12,611 and \$12,738, respectively	28,175	26,406	1,769	6.7%
Other operating revenues	437	213	224	105.2%
Total Operating Revenues	75,947	70,632	5,315	7.5%
Operating Expenses:				
Instructional	37,366	37,364	2	0.0%
Research	7,046	7,066	(20)	-0.3%
Public service	783	760	23	3.0%
Academic support	14,865	12,826	2,039	15.9%
Student services	4,900	4,205	695	16.5%
Institutional support	8,625	12,888	(4,263)	-33.1%
Operation and maintenance - plant	14,616	7,647	6,969	91.1%
Depreciation expense	10,656	10,301	355	3.4%
Student Aid	21,083	22,240	(1,157)	-5.2%
Auxiliary activities	24,934	21,493	3,441	16.0%
Loss on disposal of assets	1,999	1,956	43	2.2%
Total Operating Expenses	146,873	138,746	8,127	5.9%
Operating Gain (Loss)	(70,926)	(68,114)	(2,812)	4.1%
Net Non-operating Revenues and Expenses	58,934	68,808	(9,874)	-14.4%
Increase (decrease) before other revenues, expenses, gains or losses	(11,992)	694	(12,686)	-1828.0%
Net other revenues	13,028	22,948	(9,920)	-43.2%
Increase (decrease) in net position	1,036	23,642	(22,606)	-95.6%
Net position - beginning of year	175,984	152,342	23,642	15.5%
Net position - end of year	\$ 177,020	\$ 175,984	\$ 1,036	0.6%

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Comments:

- *Operating Revenues* - Operating revenues primarily consist of tuition and fees, auxiliary enterprises and revenues from grants and contracts. The 7.5% increase is mainly attributed to an increase in grants and contracts and auxiliary enterprises.
- *Operating Expenses* – During FY 2013, the increase in operating expenses of 5.9% was attributable to the increase in operation and maintenance related to various repairs and replacements of buildings doors, windows, etc.
- *Non-Operating Revenues and Expenses* – The decrease in non-operating revenues and expenses of 14.4% is mainly attributed to the decreases in Pell grants as well as decreases due to other non-operating revenues.
- *Net Other Revenues* – The decrease in net other revenues of 43.2% is mainly attributed to the decrease of capital bond proceeds received from the 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Nursing Building and renovations of the Wilder Center.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$26.97 million), grants and contracts (\$20.41 million), and auxiliary enterprises receipts (\$28.26 million). Major uses of cash include payments for salaries, wages, and fringe benefits (\$79.05 million), payments for scholarships and fellowships (\$21.51 million), and payments for non-capitalized plant improvements and equipment (\$5.53 million).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid (\$41.74 million) and Pell grants (\$17.42 million). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from bond issues (\$5.93 million). Significant cash outflows include the purchase of capital assets (\$18.83 million), repayment of principal on capital related debt (\$2.25 million), and interest paid on capital debt (\$2.07 million). Cash flows from investing activities include interest from investments (\$47 thousand). The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Position.

Statement of Cash Flows (amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Cash flows from operating activities	\$ (48,538)	\$ (59,185)	\$ 10,647	-18.0%
Cash flows from noncapital financing activities	53,274	71,283	(18,009)	-25.3%
Cash flows from capital financing activities	(16,070)	4,547	(20,617)	-453.4%
Cash flows from investing activities	47	(26)	73	-280.8%
Net change in cash	<u>\$ (11,287)</u>	<u>\$ 16,619</u>	<u>\$ (27,906)</u>	<u>-167.9%</u>

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Overall, invested in capital assets, net of accumulated depreciation increased \$8.6 million due to the continued construction of the new Nursing and Allied Health Building with an anticipated completion date of December 2014.

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2013 debt service to expenditures ratio was 1.74%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due.

Overall, unpaid construction and other related contractual commitments on capital projects increased from \$3,850,934 in 2012 to \$22,938,441 in 2013 due to the groundbreaking on the new Nursing and Allied Health Care Building. Construction in progress totaled \$17,066,102 as of June 30, 2013.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth of Virginia (Commonwealth). Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, tuition and fee rates are largely dependent upon ongoing financial support from the state government. State appropriations currently cover 43.82% of operating expenses, excluding auxiliary activities and depreciation.

The University's financial position improved with an overall increase of \$1.0 million in Net Position for the 2013 fiscal year. The increase is attributed to grants and contracts and auxiliary enterprises.

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

NORFOLK STATE UNIVERSITY
STATEMENT OF NET POSITION

JUNE 30, 2013

	Norfolk State University	Component Units
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 22,801,324	\$ 2,583,996
Cash held for securities lending (Note 2)	2,632,298	-
Short-term investments (Note 2)	141,927	154,521
Accounts receivable, net of allowance for doubtful accounts of \$450,969 (Note 3)	5,478,665	760
Contributions receivable, net of allowance for uncollectible contributions of \$721,578 (Note 3)	-	117,653
Due from the Commonwealth	7,850,169	-
Prepaid expenses	1,126,857	129,995
Notes receivable, net of allowance for doubtful accounts of \$113,182	374,725	-
Unamortized bond issuance expense	236,033	1,399,907
Other assets	-	201,003
Total Current Assets	40,641,998	4,587,835
Non-current Assets:		
Restricted cash and cash equivalents (Note 2)	6,165,226	2,869,322
Appropriation available/due from primary government	10,465,298	-
Investments	-	23,597,410
Contributions receivable, net allowance for uncollectible contributions of \$9,418 (Note 3)	-	15,582
Notes receivable, net of allowance for doubtful accounts of \$1,751,853	1,783,610	-
Non-depreciable capital assets (Note 4)	23,007,201	570,384
Depreciable capital assets, net (Note 4)	173,601,042	24,230,724
Total Non-current Assets	215,022,377	51,283,422
Total Assets	\$ 255,664,375	\$ 55,871,257
Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	\$ 14,778,855	\$ 285,544
Unearned revenue	3,571,557	35,212
Obligations under securities lending	2,774,225	-
Deposits held in custody for others	1,614,404	-
Long-term liabilities - current portion (Note 6)	4,546,682	255,000
Total Current Liabilities	27,285,723	575,756
Non-current Liabilities (Note 6)	51,358,688	34,600,343
Total Liabilities	78,644,411	35,176,099
Net Position		
Net investment in capital assets	148,264,815	(7,092,352)
Restricted for:		
Non-expendable	-	8,520,421
Expendable	-	13,199,480
Unrestricted	28,755,149	6,067,609
Total Net Position	\$ 177,019,964	\$ 20,695,158

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

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

FOR THE YEAR ENDED JUNE 30, 2013

	Norfolk State University	Component Units
Operating Revenues:		
Student tuition and fees, net of scholarship allowances of \$10,341,705	\$ 25,768,805	\$ -
Federal grants and contracts	18,566,152	-
State grants and contracts	398,605	-
Non-governmental grants and contracts	2,224,708	-
Public service	376,335	-
Auxiliary enterprises, net of scholarship allowances of \$12,611,389	28,174,976	-
Other operating revenues	437,571	5,106,363
Total Operating Revenues	75,947,152	5,106,363
Operating Expenses:		
Instructional	37,366,095	-
Research	7,046,124	-
Public service	782,527	-
Academic support	14,865,081	-
Student services	4,900,210	-
Institutional support	8,625,276	4,543,326
Operation and maintenance - plant	14,616,126	1,417,679
Depreciation expense	10,655,655	1,141,216
Student Aid	21,083,063	903,621
Auxiliary activities	24,933,715	-
Loss of disposal of assets	1,999,230	-
Total Operating Expenses (Note 8)	146,873,102	8,005,842
Operating Loss	(70,925,950)	(2,899,479)
Non-operating Revenues (Expenses):		
State appropriations (Note 9)	48,768,758	-
Investment income net of investment expense	46,709	440,147
Unrealized gain on investments	-	2,438,476
Unrealized gain on interest rate swap	-	1,158,318
Interest on capital asset - related debt	(2,080,772)	-
Gifts	651,573	1,579,330
Pell grants	17,417,185	-
Other non-operating revenues (expenses)	(5,869,773)	(26,397)
Net Non-operating Revenues	58,933,680	5,589,874
Increase (decrease) before other revenues, expenses, gains, or losses	(11,992,270)	2,690,395
Capital bond proceeds	11,871,391	-
Capital gifts and grants	1,156,537	-
Contributions to permanently restricted endowments	-	245,843
Net Other Revenues	13,027,928	245,843
Increase (decrease) in net position	1,035,658	2,936,238
Net position - beginning of year, restated (Note 16)	175,984,306	17,758,920
Net position - end of year	<u>\$ 177,019,964</u>	<u>\$ 20,695,158</u>

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

NORFOLK STATE UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013

Cash flows from operating activities:

Student tuition and fees	\$ 26,965,759
Grants and contracts	20,412,990
Public service	376,335
Auxiliary enterprises	28,260,784
Other receipts	437,571
Payments to employees	(60,989,246)
Payments for fringe benefits	(18,063,207)
Payments for services and supplies	(15,383,081)
Payments for utilities	(3,742,769)
Payments scholarships and fellowships	(21,508,884)
Payments for non-capitalized plant improvements and equipment	(5,534,709)
Collections of loans from students	2,343,399
Loans issued to students	(2,112,515)
Net cash used in operating activities	<u>(48,537,573)</u>

Cash flows from non-capital financing activities:

State appropriations	41,736,527
Gifts and grants for other than capital purposes	651,573
Direct lending receipts	55,622,064
Direct lending payments	(55,622,064)
Agency receipts	43,603,173
Agency payments	(44,264,641)
Pell grant receipts	17,417,185
Other non-operating revenues (expenses)	(5,869,773)
Net cash provided by non-capital financing activities	<u>53,274,044</u>

Cash flows from capital financing activities:

Capital gifts	1,156,537
Proceeds from bond issues	5,926,876
Purchase of capital assets	(18,834,888)
Principal paid on capital debt, leases and installments	(2,250,557)
Interest paid on capital debt, leases and installments	(2,067,972)
Net cash used in capital financing activities	<u>(16,070,004)</u>

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2013

Cash flows from investing activities:

Interest on investments	46,709
Net cash provided by investing activities	<u>46,709</u>

Net decrease in cash and cash equivalents	(11,286,824)
Cash and cash equivalents - beginning of year	40,253,374
Cash and cash equivalents - end of year	<u>\$ 28,966,550</u>

Adjustments to reconcile operating loss:

Operating loss	\$ (70,925,950)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	10,655,655
Loss on disposal of assets	1,999,230
Change in assets and liabilities:	
Increase in receivables, net	(123,595)
Decrease in notes receivable, net	230,884
Decrease in prepaids	816,739
Increase in accounts payable and accrued expenses	8,179,582
Increase in unearned revenue	629,882
Net cash used in operating activities	<u>\$ (48,537,573)</u>

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The Norfolk State University Foundation, Inc. and Subsidiary, the Athletics Foundation of Norfolk State University, Inc. and the Norfolk State University Research and Innovation Foundation and Affiliates meet criteria under GASB Statement No. 14, As amended by GASB Statements 39 and 61, qualifying them as component units of the University.

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

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

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

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

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

During the year ended June 30, 2013, the Norfolk State University Foundation, Inc. and the Athletics Foundation of Norfolk State, Inc. made distributions of \$314,973 and \$334,947, respectively, to or on behalf of the University for both restricted and unrestricted purposes.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

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

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

C. Basis of Accounting

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

The University’s accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements.

D. Cash and Cash Equivalents

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Investments

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

F. Prepaid Expenses

Prepays are reported using the purchase method whereby purchases are recorded as expenses when acquired and adjusted for unused benefits at the end of the fiscal year. As of June 30, 2013, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

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

H. Capital Assets

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (continued)

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

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

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

I. Non-current Cash and Investments

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

J. Unearned Revenue

Unearned revenue represents monies received, but not earned as of June 30, 2013. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

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

L. Non-current Liabilities

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Federal Financial Assistance Programs

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

N. Net Position

GASB standards require the classification of net position into three components: net investment in capital assets, amounts that are restricted and amounts that are unrestricted. These classifications are defined as follows:

Net investment in Capital Assets – component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is also included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

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

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

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

O. Revenue and Expense Classifications

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

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

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

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Scholarship Discounts and Allowances

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

Note 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Certain deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Cash equivalents are defined as investments with original maturities of three months or less.

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

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

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

A. Investments

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

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

Concentration of Credit Risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents 5% or more of total investments. As of June 30, 2013, none of the University's investments involve concentration of credit risk.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

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

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

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

B. Securities Lending Transactions

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

C. Credit and Concentration of Credit Risks

	<u>Fair Value</u>	<u>0-3 Months</u>	<u>Credit Rating</u>
Cash equivalents:			
Repurchase agreements	\$ 4,059,325	\$ 4,059,325	A-1
Money market funds	853,355	853,355	A-1
SNAP	1,907,174	1,907,174	AAAm
Securities lending	2,632,298	2,632,298	Unrated
Investments:			
Securities lending	141,927	141,927	Unrated
Totals	<u>\$ 9,594,079</u>	<u>\$ 9,594,079</u>	

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 3—ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	\$	1,294,503
Federal, state and nongovernmental grants and contracts		4,078,696
Other receivables		556,435
		<u>5,929,634</u>
Gross receivables		5,929,634
Less: Allowance for doubtful accounts		<u>(450,969)</u>
Net accounts receivable	\$	<u>5,478,665</u>

Accounts Receivable-Component Units

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

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

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2013:

Contributions currently due	\$	839,231
Contributions due in one to five years		25,000
Contributions due in more than five years		-
Less - time value discount		(9,418)
Less - allowance for uncollectible pledges		<u>(721,578)</u>
Total contributions receivable		133,235
Less - long term portion		<u>(15,582)</u>
Current portion of contributions receivable	\$	<u>117,653</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 4—CAPITAL ASSETS

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

	Beginning Balance July 1, 2012 as restated (1)	Additions	Reductions	Ending Balance June 30, 2013
Non-depreciable capital assets:				
Land	\$ 4,786,099	\$ 1,155,000	\$ -	\$ 5,941,099
Construction in progress	2,474,539	16,613,702	2,022,139	17,066,102
Total non-depreciable capital assets	7,260,638	17,768,702	2,022,139	23,007,201
Depreciable capital assets:				
Buildings	275,426,936	782,731	2,688,106	273,521,561
Infrastructure	5,918,919	84,406	-	6,003,325
Equipment	31,117,230	2,675,554	-	33,792,784
Other improvements	60,823	-	-	60,823
Software	1,060,520	-	-	1,060,520
Library materials	7,184,023	46,499	4,483	7,226,039
Total depreciable capital assets	320,768,451	3,589,190	2,692,589	321,665,052
Less accumulated depreciation for:				
Buildings	104,216,794	8,520,671	688,877	112,048,588
Infrastructure	5,283,590	24,500	-	5,308,090
Equipment	21,695,742	1,648,269	-	23,344,011
Other improvements	39,166	3,622	-	42,788
Software	202,384	212,104	-	414,488
Library materials	6,664,039	246,489	4,483	6,906,045
Total accumulated depreciation	138,101,715	10,655,655	693,360	148,064,010
Depreciable capital assets, net	182,666,736	(7,066,465)	1,999,229	173,601,042
Total capital assets, net	\$ 189,927,374	\$ 10,702,237	\$ 4,021,368	\$ 196,608,243

Note (1): Beginning balance have been restated by \$130,529 as discussed in Note 16. Additionally, there was a reclassification in the beginning balances between construction-in progress and depreciable building for \$770,337.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 4—CAPITAL ASSETS (CONTINUED)

Capital Assets – Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University,	NSU Research and Innovation Foundation	Total
Non-depreciable capital assets:				
Land	\$ 24,310	\$ -	\$ -	\$ 24,310
Development costs	-	-	546,074	546,074
Total non-depreciable capital assets	<u>24,310</u>	<u>-</u>	<u>546,074</u>	<u>570,384</u>
Depreciable capital assets:				
Buildings	-	-	28,137,869	28,137,869
Equipment	846,151	43,424	3,102,259	3,991,834
Total depreciable capital assets	<u>846,151</u>	<u>43,424</u>	<u>31,240,128</u>	<u>32,129,703</u>
Less accumulated depreciation	<u>(587,638)</u>	<u>(38,671)</u>	<u>(7,272,670)</u>	<u>(7,898,979)</u>
Total depreciable capital assets, net	<u>258,513</u>	<u>4,753</u>	<u>23,967,458</u>	<u>24,230,724</u>
Total capital assets, net	<u>\$ 282,823</u>	<u>\$ 4,753</u>	<u>\$ 24,513,532</u>	<u>\$ 24,801,108</u>

Note 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2013:

Vendors and suppliers accounts payable	\$ 9,741,848
Employee salaries, wages and fringe benefits payable	4,366,250
Accrued interest payable	645,223
Spartan Suites rent and scholarships	25,534
	<u>\$ 14,778,855</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 6—NON-CURRENT LIABILITIES

The University, Norfolk State University Research and Innovation Foundation and Affiliates and Norfolk State University Foundation, Inc.'s non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ended June 30, 2013, is presented as follows:

University	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable 9c and 9d	\$ 5,081,981	\$ -	\$ 667,380	\$ 4,414,601	\$ 696,381
Notes payable	37,101,338	-	1,134,392	35,966,946	1,194,880
Installment purchases	8,431,231	311,490	640,497	8,102,224	1,044,998
Unamortized bond discount	(139,292)	-	(17,217)	(122,075)	(18,135)
Unamortized bond premium	2,191,470	-	132,316	2,059,154	132,316
Deferred gain on refunding	70,484	-	4,699	65,785	4,699
Total long-term debt	52,737,212	311,490	2,562,067	50,486,635	3,055,139
Accrued compensated absences	3,358,423	1,346,738	1,414,239	3,290,922	890,657
Retainage payable	100,000	600,886	100,000	600,886	600,886
Federal loan capital contributions	1,526,927	-	-	1,526,927	-
Total long-term liabilities	\$ 57,722,562	\$ 2,259,114	\$ 4,076,306	\$ 55,905,370	\$ 4,546,682

Research and Innovation Foundation and Affiliates	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	\$ 31,675,000	\$ -	\$ 185,000	\$ 31,490,000	\$ 255,000
Notes payable	611,790	-	208,330	403,460	-
Total long-term debt	32,286,790	-	393,330	31,893,460	255,000
Derivative - interest rate swap	3,942,106	-	1,158,318	2,783,788	-
Total long-term liabilities	\$ 36,228,896	\$ -	\$ 1,551,648	\$ 34,677,248	\$ 255,000

Norfolk State University Foundation, Inc. and Subsidiary	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Split-interest agreement	141,807	36,288	-	178,095	-
Total long-term liabilities	\$ 141,807	\$ 36,288	\$ -	\$ 178,095	\$ -

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7—LONG-TERM DEBT

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

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years, the proceeds of which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2012, \$8,956,000 of Notes from Series 2004A bonds were considered defeased.

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

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

At June 30, 2013, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements are for five years and the interest rates charged are from 1.207 % to 4.500 %.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7—LONG-TERM DEBT (CONTINUED)

	Interest Rates (%)	Maturity	Balance at June 30, 2013
Revenue bonds:			
Dormitories:			
Phyllis Wheatley & Rosa Alexander 1985 (d)	3.00	2022	\$ 1,299,601
Athletic facility:			
Dick Price Stadium Series 1996 (d)	5.125 - 5.375	2018	3,115,000
Total revenue bonds			<u>4,414,601</u>
Notes payable:			
Brambleton Center, series 1998		2019	156,946
Student Center 2012A refunding	4.625 - 5.00	2035	9,800,000
Student Center 2010A & 2010B	2.00 - 5.00	2030	18,145,000
Student Center 2012A refunding 2004A	2.75-5.00	2027	7,865,000
Total notes payable			35,966,946
Less: unamortized bond discount			(122,075)
			<u>35,844,871</u>
Unamortized bond premium			2,059,154
Add: deferred gain on refunding			65,785
Net notes payable			<u>37,969,810</u>
Installments payable:			
Master equipment lease program	1.207 - 1.175	2014 - 2019	\$ 311,490
Energy lease project	3.739 - 4.500	2016 - 2021	7,790,734
Net installments payable			<u>8,102,224</u>
Total			<u>\$ 50,486,635</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7—LONG-TERM DEBT (CONTINUED)

Long-term debt matures as follows:

<u>Year Ending:</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,936,259	\$ 2,166,517
2015	3,115,693	2,035,658
2016	3,243,036	1,894,624
2017	3,227,818	1,747,170
2018	3,198,859	1,603,213
2019 - 2023	11,402,106	6,235,772
2024 - 2028	8,670,000	4,108,636
2029 - 2033	8,985,000	1,832,891
2034 - 2037	3,705,000	269,206
Unamortized premium	2,059,154	-
Unamortized discount	(122,075)	-
Deferred loss on refunding	65,785	-
Total	<u>\$ 50,486,635</u>	<u>\$ 21,893,687</u>

Norfolk State University Research and Innovation Foundation and Affiliates Debt

In February 2005, the Norfolk State University Research and Innovation Foundation and Affiliates Debt entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Foundation pursuant to \$32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent; principal payments are due semiannually starting July 1, 2008. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006. The balance due on this loan as of June 30, 2013 was \$31,490,000.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principal payments to be escrowed by the Foundation beginning July 1, 2008 through July 1, 2015, secured by property and equipment is \$1,210,000. The balance as of June 30, 2013 was \$403,460.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 7—LONG-TERM DEBT (CONTINUED)

As of June 30, 2013, the Norfolk State University Research and Innovation Foundation and Affiliates bonds and notes payable mature as follows:

Future principal payments are as follows:

2014	\$ 255,000
2015	320,000
2016	803,460
2017	480,000
2018	570,000
2019-2023	4,385,000
2024-2028	7,760,000
2029-2033	12,450,000
2034-2035	<u>4,870,000</u>
Total	<u>\$ 31,893,460</u>

The bonds payable bear interest at a variable interest rate based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Foundation entered an interest rate swap contract with a notional amount of \$32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733% rate and receives interest at 67% of LIBOR. The net interest gain of \$1,158,318 from changes in the swap contract's fair value during the fiscal year is included as unrealized gain on interest swap in the Statement of Revenues, Expenses and Changes in Net Position. The contract includes a provision for three optional early termination periods between January 2016 and January 2018. The balance as of June 30, 2013 was \$2,783,788.

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 8—EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$ 26,033,852	\$ 7,206,921	\$ 2,646,675	\$ -	\$ -	\$ 1,478,647	\$ -	\$ 37,366,095
Research	2,722,554	437,130	3,252,383	24,234	-	609,823	-	7,046,124
Public Service	401,559	101,699	236,352	-	-	42,917	-	782,527
Academic Support	8,893,013	2,395,997	1,376,450	166,976	-	2,032,645	-	14,865,081
Student Services	2,888,213	956,249	804,430	234,611	-	16,707	-	4,900,210
Institutional Support	9,299,721	3,195,104	(2,871,526)	-	-	(998,023)	-	8,625,276
Operation and Maintenance-Plant	4,039,492	1,650,850	5,564,128	-	1,917,031	1,444,625	-	14,616,126
Depreciation	-	-	-	-	-	-	10,655,655	10,655,655
Loss on disposal of assets	-	-	-	-	-	1,999,230	-	1,999,230
Scholarship and fellowship	-	-	-	21,083,063	-	-	-	21,083,063
Auxiliary Activities	6,993,237	2,119,257	13,075,521	-	1,825,738	919,962	-	24,933,715
Total operating expenses	\$ 61,271,641	\$ 18,063,207	\$ 24,084,413	\$ 21,508,884	\$ 3,742,769	\$ 7,546,533	\$ 10,655,655	\$ 146,873,102

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 9—STATE APPROPRIATIONS

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

Original legislative appropriation:	
Educational and general programs	\$ 39,740,782
Student financial assistance	7,731,131
Adjustments:	
Central appropriation adjustment	1,033,048
CSAP	172,951
Traineeship for Education of Special Education	15,433
Virginia military survivors and dependents	68,000
VIVA ILL allocation	4,413
College transfer	3,000
Adjusted appropriation	<u>\$ 48,768,758</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 10—COMMITMENTS

At June 30, 2013, the University was committed to construction contracts totaling approximately \$28,691,187. Outstanding commitments on these contracts totaled \$22,938,441 as of June 30, 2013.

The University is committed under various operating leases for equipment and facilities. In general, the leases are for a one-year term and the University has renewal options on equipment and facilities for another one-year term. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2013, was \$945,027.

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

Norfolk State University has as of June 30, 2013, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2014	\$ 995,481
2015	1,004,862
2016	798,745
2017	739,780
2018	758,265
2019 - 2020	940,599
Total	<u>\$ 5,237,732</u>

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 11—RETIREMENT PLANS

Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2013. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$5,320,437 for the year ended June 30, 2013. Changes to the Commonwealth's VRS plan were made effective June 25, 2012 which required all state employees, to contribute 5% toward VRS. The contributions that were assumed by the employer were 8.76% and 14.80% for University Police. Contributions to VRS were calculated using the base salary amount of approximately \$38,255,853 for the year ended June 30, 2013. The University's total payroll was approximately \$61,614,196 for the fiscal year ended June 30, 2013.

Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,312,931 for year ended June 30, 2013. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$12,151,346 for fiscal year 2013.

Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period. During the fiscal year, the maximum match from the Commonwealth was \$20 per pay period or \$40 per month. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$71,699 for the fiscal year 2013.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 12—POSTEMPLOYMENT BENEFITS

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

Note 13—CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2013, the University estimates that no material liabilities will result from such audits or questions.

Litigation

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

Note 14—RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 15—COMPONENT UNITS

As of June 30, 2013:

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Norfolk State University Research and Innovation and Foundation and Affiliates	Total
Assets:				
Current assets	\$ 749,368	\$ 211,453	\$ 3,627,014	4,587,835
Noncurrent assets	23,895,815	4,753	27,382,854	51,283,422
Total Assets	24,645,183	216,206	31,009,868	55,871,257
Liabilities:				
Current liabilities	52,376	38,618	484,762	575,756
Non-current liabilities	178,095	-	34,422,248	34,600,343
Total Liabilities	230,471	38,618	34,907,010	35,176,099
Net Position	<u>\$ 24,414,712</u>	<u>\$ 177,588</u>	<u>\$ (3,897,142)</u>	<u>\$ 20,695,158</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 15—COMPONENT UNITS (CONTINUED)

As of June 30, 2013:

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Norfolk State University Research and Innovation and Foundation and Affiliates	Total
Operating revenues	\$ -	\$ 401,350	\$ 4,705,013	\$ 5,106,363
Operating expenses	2,576,292	497,827	4,931,723	8,005,842
Operating loss	(2,576,292)	(96,477)	(226,710)	(2,899,479)
Net non-operating revenues	4,305,274	126,282	1,158,318	5,589,874
Income before other revenues, expenses, gains or losses	1,728,982	29,805	931,608	2,690,395
Net other revenues	245,843	-	-	245,843
Increase in net position	1,974,825	29,805	931,608	2,936,238
Net position - beginning of year	22,439,887	147,783	(4,828,750)	17,758,920
Net position - end of year	<u>\$ 24,414,712</u>	<u>\$ 177,588</u>	<u>\$ (3,897,142)</u>	<u>\$ 20,695,158</u>

Note 16 – PRIOR PERIOD ADJUSTMENT

The following prior period adjustment is made to the beginning net position previously reported in the University's financial statements at June 30, 2012:

Net position at June 30, 2012, as originally stated	\$ 176,114,835
Building depreciation restatement not previously recorded	<u>(130,529)</u>
Net position at June 30, 2012, restated	<u>\$ 175,984,306</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2013

Note 17—SUBSEQUENT EVENT

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

NORFOLK STATE UNIVERSITY

HIGHLIGHTS

FIVE YEARS IN REVIEW

FIVE YEARS IN REVIEW

FALL SEMESTER	2008-09	2009-10	2010-11	2011-12	2012-13
ENROLLMENT					
Total	6,325	6,993	6,964	7,091	7,100
In-state	5,149	5,712	5,752	5,932	6,004
Out-of-state	1,176	1,281	1,212	1,159	1,096
FRESHMAN APPLICATIONS					
Number of Applications Received	4,748	5,317	3,967	4,163	4,231
In-state	1,816	2,077	1,734	1,756	2,107
Out-of-state	2,932	3,240	2,233	2,407	2,124
Number of Applications Accepted	3,238	3,348	2,521	2,811	2,847
In-state	1,287	1,410	1,115	1,164	1,446
Out-of-state	1,951	1,938	1,406	1,647	1,401
Number of Accepted Enrolled	1,188	1,205	942	923	1,088
In-state	867	868	710	728	899
Out-of-state	321	337	232	195	189
TRANSFER APPLICATIONS					
Number of Applications Received	935	1,112	1,214	1,216	995
In-state	513	641	671	701	675
Out-of-state	422	471	543	515	320
Number of Applications Accepted	818	954	1,042	1,075	868
In-state	440	548	576	628	584
Out-of-state	378	406	466	447	284
Number of Accepted Enrolled	366	428	471	499	534
In-state	298	353	380	425	462
Out-of-state	68	75	91	74	72
GRADUATE APPLICATIONS					
Number of Applications Received	310	498	433	409	335
In-state	218	292	257	227	222
Out-of-state	92	206	176	182	113
Number of Applications Accepted	261	448	346	302	247
In-state	186	263	218	175	167
Out-of-state	75	185	128	127	80
Number of Accepted Enrolled	195	333	225	216	187
In-state	159	274	193	170	150
Out-of-state	36	59	32	46	37
TUITION AND FEES					
Undergraduate					
In-state	\$5,560	\$5,872	\$6,327	\$6,700	\$6,860
Out-of-state	\$16,807	\$17,931	\$19,380	\$20,343	\$20,360
Graduate					
In-state	\$7,658	\$8,069	\$8,577	\$9,115	\$9,388
Out-of-state	\$22,457	\$23,804	\$25,534	\$26,809	\$26,812
ROOM AND BOARD					
Total Room and Board	\$7,116	\$7,329	\$7,622	\$7,927	\$8,130
Room rates	\$4,534	\$4,670	\$4,857	\$5,051	\$5,254
Board rates	\$2,582	\$2,659	\$2,765	\$2,876	\$2,876



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

November 3, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

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

Board of Visitors
Norfolk State University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it

relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 16 to the financial statements, the 2012 financial statements have been restated to correct a prior misstatement. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The University Highlights section is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The University Highlights section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.



AUDITOR OF PUBLIC ACCOUNTS

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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*Represents Board of Visitors and University Administrators as of June 30, 2013