



2007 - 2008 Financial Report

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May 1, 2009

Dr. Carolyn W. Meyers, President
and The Board of Visitors
Norfolk State University
700 Park Avenue
Norfolk, VA 23504

I am pleased to submit the 2007-2008 Financial Statements for Norfolk State University. These financial statements are prepared in accordance with generally accepted accounting principles, and represent a comprehensive record of the financial position and results of operations for the year ended June 30, 2008.

My staff and I believe the University's system of internal accounting controls assures proper recording of transactions. We accept responsibility for the integrity of the information presented and believe that the data presented is accurate in all material respects. We further believe that the accompanying statement of net assets, statement of revenues, expenses, changes in net assets, and statement of cash flows along with the accompanying notes and schedules, fairly presents the financial position of the University.

I would like to recognize and thank the Finance and Business Division staff for their efforts in maintaining the fiscal system through out the year, and especially for the preparation and presentation of these statements.

Sincerely,

Ralph W. Johnson
Vice President for Finance and Business

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the new 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, 2008. Note that although the University's foundations identified as component units under GASB Statement 39 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2007. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

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

Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2008. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

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

Statement of Net Assets
(amounts in thousands)

	As of June 30,		Increase/Decrease	
	2008	2007	Amount	Percent
Assets:				
Current	\$ 23,356	\$ 21,027	\$ 2,329	11.1%
Capital, net of accumulated depreciation	131,569	129,203	2,366	1.8%
Other non-current	32,120	31,790	330	1.0%
Total assets	<u>187,045</u>	<u>182,020</u>	<u>5,025</u>	2.8%
Liabilities:				
Current	22,418	23,095	(677)	-2.9%
Non-current	46,462	49,276	(2,814)	-5.7%
Total liabilities	<u>68,880</u>	<u>72,371</u>	<u>(3,491)</u>	-4.8%
Net assets:				
Invested in capital assets, net of related debt	102,987	101,562	1,425	1.4%
Restricted	14,199	8,457	5,742	67.9%
Unrestricted	979	(369)	1,348	-365.3%
Total net assets	<u>\$ 118,165</u>	<u>\$ 109,650</u>	<u>\$ 8,515</u>	7.8%

In 2008, the University's total assets increased by \$5,023,935 due to an increase in cash and cash equivalents and capital assets. The increase in cash and cash equivalents is related to increased cash balances for fees assessed to renovate and expand the student center, auxiliary operations and facilities and administrative costs charged to grants and contracts. This increase was partially offset by a decrease in auxiliary maintenance reserve cash. Overall, capital assets increased \$2,366,102 due to completing the Police and Public Safety building and additional construction costs related to Robinson Technology, McDemmond Center, Wilson Hall, West Dining, recreation facility and campus-wide infrastructure wiring to enhance student access to technology projects. Total liabilities decreased by \$3,491,704 primarily due to the retirement of long-term debt.

Statement of Revenues, Expenses, and Changes in Net Assets

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

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the 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.

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

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

	Year ended June 30,		Increase/Decrease	
	2008	2007	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of \$5,972 and \$6,319	\$ 23,305	\$ 22,959	\$ 346	1.5%
Federal grants and contracts	22,695	21,758	937	4.3%
State grants and contracts	1,589	1,769	(180)	-10.2%
Nongovernmental grants and contracts	1,909	3,521	(1,612)	-45.8%
Public service*	516	-	516	100.0%
Auxiliary enterprises, net of scholarship allowances of \$5,972 and \$5,767	25,510	24,207	1,303	5.4%
Other operating revenues	631	934	(303)	-32.4%
Total operating revenues	<u>76,155</u>	<u>75,148</u>	<u>1,007</u>	1.3%
Operating expenses:				
Instruction	33,506	32,638	868	2.7%
Research	8,637	7,054	1,583	22.4%
Public service	1,688	2,493	(805)	-32.3%
Academic support	15,064	17,825	(2,761)	-15.5%
Student services	5,707	5,290	417	7.9%
Institutional support	12,162	12,674	(512)	-4.0%
Operation and maintenance of plant	10,279	10,677	(398)	-3.7%
Depreciation	8,376	6,605	1,771	26.8%
Student aid	13,988	11,703	2,285	19.5%
Auxiliary activities	21,265	19,682	1,583	8.0%
Total operating expenses	<u>130,672</u>	<u>126,641</u>	<u>4,031</u>	3.2%
Operating loss	<u>(54,517)</u>	<u>(51,493)</u>	<u>(3,024)</u>	5.9%
Net nonoperating revenues and expenses	<u>51,396</u>	<u>50,533</u>	<u>863</u>	1.7%
Increase before other revenues, expenses, gains, and losses	(3,121)	(960)	(2,161)	225.1%
Net other revenues	<u>11,637</u>	<u>22,630</u>	<u>(10,993)</u>	-48.6%
Increase in net assets	8,515	21,670	(13,155)	-60.7%
Net assets - beginning of year	<u>109,650</u>	<u>87,980</u>	<u>21,670</u>	24.6%
Net assets - end of year	<u>\$ 118,165</u>	<u>\$ 109,650</u>	<u>\$ 8,515</u>	7.8%

* Public service income was included with Other operating revenues in FY07.

Operating revenues primarily include tuition and fees, auxiliary enterprises and revenues from grants and contracts. The increase of \$1,006,165 in operating revenues is mainly attributable to an increase in student tuition and fees, auxiliary enterprises and federal grants and contracts. Increases in operating revenues were offset by a decrease in nongovernmental grants and contracts. Total operating expenses increased \$4,030,895 in 2008. Increases in instruction, research, student services, student aid, auxiliary enterprises and depreciation were offset by decreases in public service, academic support, institutional support and operation and maintenance.

The increase of \$863,154 in nonoperating revenues and expenses is mainly attributable to an increase in state appropriations of \$1,555,552. The decrease \$10,992,386 in other revenues is primarily related to appropriations for the completion of the Marie V. McDemmond Center for Applied Research.

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 (\$23,472,688), grants and contracts (\$26,450,158) and auxiliary enterprises receipts (\$25,084,100). Major uses of cash include payments for salaries, wages, and fringe benefits (\$67,442,089), payments for services and supplies (\$22,216,718), and payments for scholarships and fellowships (\$21,484,305).

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 (\$51,892,856). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash include capital appropriations (\$4,559,994) and proceeds from bond issues (\$4,310,383). Significant cash outflows include the purchase of capital assets (\$11,949,552), repayment of principal and interest on capital related debt (\$3,458,509) and interest paid on capital debt (\$1,997,621). Cash flows from investing activities include interest income on investments (\$873,226). The final section of the cash flow statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenue, Expenses, and Changes in Net Assets.

Statement of Cash Flows (amounts in thousands)

	Year ended June 30,		Increase/Decrease	
	2008	2007	Amount	Percent
Cash flows from operating activities	\$ (46,307)	\$ (43,851)	\$ (2,456)	5.6%
Cash flows from noncapital financial activities	52,800	50,643	2,157	4.3%
Cash flows from capital financing activities	(7,717)	(7,115)	(602)	8.5%
Cash flows from investing activities	873	1,150	(277)	-24.1%
Net change in cash	\$ (351)	\$ 827	\$ (1,178)	

Capital Asset and Debt Administration

Overall, invested in capital assets increased \$1,425,854 due to the completion of the new Police and Public Safety building as well as additional construction costs related to Robinson Technology, McDemmond Center, Wilson Hall, West Dining, recreation facility and campus-wide infrastructure wiring to enhance student access to technology projects. Construction projects currently underway on campus include the new student center which is scheduled for completion in fall 2009. Future construction projects include renovation of the Godwin Center (September 2009) and a new Library (January 2009).

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2008 debt service to expenditures ratio was 2.20%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due. No new long-term debt was issued in 2008.

Overall, unpaid construction and other related contractual commitments on capital projects increased from \$5,066,638 in 2007 to \$21,003,253 in 2008. Construction in progress on these contracts totaled \$6,020,949 as of June 30, 2008.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, it is largely dependent upon ongoing financial and political support from the state government. State appropriations currently cover 51 percent of operating expenses, excluding auxiliary activities and depreciation. To offset projected shortfalls for fiscal year 2008, the University's Board of Visitors approved an overall increase of 4.65% in tuition and fees for in-state undergraduates.

The University's financial position remains strong with an overall increase of \$8,515,639 in net assets for the 2008 fiscal year. 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. Our goals, priorities and vision are reflected throughout the University's strategic plan, most specifically in the areas of enhancing student success, funding, facilities and grounds and organizational effectiveness. Resources will continue to be closely monitored to ensure its ability to counter unknown internal and external issues.

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NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

ASSETS

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	\$ 16,631,916	\$ 1,936,281
Cash held for securities lending (Note 2)	715,857	-
Short-term investments (Note 2)	2,696,644	-
Accounts receivable, Net of allowance for doubtful accounts of \$233,940 (Note 3)	2,260,998	160,879
Contributions Receivable, Net of allowance for uncollectible contributions of \$118,925	-	502,127
Due from the Commonwealth	330,982	-
Prepaid expenses	375,537	65,556
Notes receivable, Net of allowance for doubtful accounts of \$146,576	227,070	-
Unamortized bond issuance expense	117,283	1,652,180
Other assets	-	171,465
Total current assets	23,356,287	4,488,488
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	21,684,206	3,179,197
Appropriation available/due from primary government	8,795,354	-
Investments (Note 2)	-	14,193,271
Contributions receivable	-	2,226,883
Notes receivable, Net of allowance for doubtful accounts of \$1,835,584	1,639,724	-
Nondepreciable capital assets (Note 4)	13,434,431	441,297
Depreciable capital assets, net (Note 4)	118,134,811	28,334,066
Total noncurrent assets	163,688,526	48,374,714
Total assets	187,044,813	52,863,202

LIABILITIES

Current liabilities:		
Accounts payable and accrued expenses (Note 5)	8,619,792	588,121
Deferred revenue	4,077,868	705,603
Obligations under securities lending	3,412,500	-
Deposits held in custody for others	1,283,921	-
Due to primary government	244,948	-
Long-term liabilities - current portion (Note 6)	4,778,897	100,000
Total current liabilities	22,417,926	1,393,724
Noncurrent liabilities (Note 6)	46,461,679	34,133,386
Total liabilities	68,879,605	35,527,110

NET ASSETS

Invested in capital assets, Net of related debt	102,987,373	(4,649,637)
Restricted for:		
Nonexpendable:		
Permanently restricted	-	9,632,022
Expendable	14,198,704	4,162,342
Unrestricted	979,131	8,191,365
Total net assets	\$ 118,165,208	\$ 17,336,092

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

NORFOLK STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, Net of scholarship allowances of \$5,971,773	\$ 23,304,558	\$ -
Gifts and contributions	-	419,359
Federal grants and contracts	22,694,682	-
State grants and contracts	1,588,702	-
Nongovernmental grants and contracts	1,909,324	-
Public service	516,666	-
Auxiliary enterprises, Net of scholarship allowances of \$6,485,709	25,510,128	-
Other operating revenues	630,839	5,241,873
Total operating revenues	76,154,899	5,661,232
Operating expenses		
Instruction	33,506,173	-
Research	8,636,673	-
Public service	1,687,700	-
Academic support	15,063,872	-
Student services	5,707,461	-
Institutional support	12,162,551	4,925,039
Operation and maintenance - Plant	10,279,505	1,290,231
Depreciation	8,376,212	1,018,330
Student aid	13,987,582	625,511
Auxiliary activities (Note 8)	21,264,602	-
Total operating expenses (Note 9)	130,672,331	7,859,111
Operating gain (loss)	(54,517,432)	(2,197,879)
Nonoperating revenues (expenses):		
State appropriations (Note 10)	51,892,856	-
Investment income net of investment expense	870,001	(337,197)
Interest on capital asset - related debt	(1,992,177)	123,011
Gifts	595,095	1,025,418
Loss on transfer of property	-	(25,828)
Other non-operating revenue	30,013	-
Net nonoperating revenues (expenses)	51,395,788	785,404
Increase (decrease) before other revenues, expenses, gains or losses	(3,121,644)	(1,412,475)
Capital appropriations	6,509,000	-
Capital bond proceeds	4,310,383	-
Capital gifts and grants	817,900	-
Contributions to permanently restricted endowments	-	302,508
Net other revenues	11,637,283	302,508
Increase (decrease) in net assets	8,515,639	(1,109,967)
Net assets - Beginning of year as restated (Note 17)	109,649,569	18,446,059
Net assets - End of year	\$ 118,165,208	\$ 17,336,092

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOW
For the Year Ended June 30, 2008

Cash flows from operating activities:	
Student tuition and fees	23,472,688
Grants and contracts	26,450,158
Auxiliary enterprises	25,084,100
Other receipts	904,124
Payments to employees	(49,331,629)
Payments for fringe benefits	(18,110,460)
Payments for services and supplies	(22,216,718)
Payments for utilities	(4,432,001)
Payments scholarships and fellowships	(21,484,305)
Payments for noncapitalized plant improvements and equipment	(6,399,388)
Collections of loans from students	9,977,725
Loans issued to students	(10,221,293)
Net cash used by operating activities:	<u>(46,306,999)</u>
Cash flows from noncapital financing activities:	
State appropriations	51,892,856
Gifts and grants for other than capital purposes	595,095
Direct lending receipts	34,795,330
Direct lending payments	(34,538,769)
Agency receipts	697,977
Agency payments	(641,994)
Other non-operating expenses	-
Net cash provided by noncapital financing activities	<u>52,800,495</u>
Cash flows from capital financing activities:	
Capital appropriations	4,559,994
Capital gifts	817,900
Proceeds from bond issues	4,310,383
Purchase of capital assets	(11,949,552)
Principal paid on capital debt, leases, and installments	(3,458,509)
Interest paid on capital debt, leases, and installments	(1,997,621)
Net cash provided capital financing activities	<u>(7,717,401)</u>
Cash flows from investing activities:	
Interest on investments	870,001
Payment of bond issue cost	3,225
Net cash provided by investing activities	<u>873,226</u>
Net increase in cash	(350,679)
Cash and cash equivalents - Beginning of the year (Note 1)	<u>38,666,801</u>
Cash and cash equivalents - End of the year	<u>\$ 38,316,122</u>

Reconciliation of Net Operating Loss to Net Cash
used by operating activities:

Operating loss	\$ (54,517,431)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	8,376,212
Changes in assets and liabilities:	
Receivables, net	(118,937)
Due from the Commonwealth	558,619
Due to the Commonwealth	244,948
Notes receivable, net	(408,119)
Prepaid expenses	(97,878)
Accounts payable and accrued expenses and securities lending obligation	(566,567)
Deferred revenue	636,890
Deposits held in custody of others	(414,738)
Net cash used by operating activities	<u>\$ (46,306,999)</u>

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

**NORFOLK STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

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

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

During the year ended June 30, 2008 the Norfolk State University Foundation and the Norfolk State Athletic Foundation made distributions of \$595,094.52 to or on behalf of the University for both restricted and unrestricted purposes.

B. Basis of Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local 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.

Effective with fiscal year 2008, the University implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEBs)*; GASB Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*; and GASB Statement 50, *Pension Disclosures*. Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expenses and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental entities. Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received in exchange for an interest in their expected cash flows from collecting specific receivables or specific future revenues should be reported as revenue or as a liability. Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The term *other post employment benefits* (OPEB) refers to post employment benefits other than pension benefits and includes (a) post-employment healthcare benefits and (b) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan.

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

C. Basis of Accounting

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

The University’s accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting

Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

D. Cash and Cash Equivalents

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

E. Investments

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

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, 2008, 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, 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 costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. The University has reviewed its capital assets for Impairment using criteria set forth in GASB 42, *Impairment of Capital Assets*, and has no impaired assets at year end.

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

- Buildings - 30 years
- Other improvements and infrastructure – 8 to 25 years
- Equipment – 4 to 20 years
- Library materials - 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. Noncurrent Cash and Investments

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

J. Deferred Revenue

Deferred revenue represents monies received, but not earned as of June 30, 2008. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

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

L. Non-current Liabilities

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

M. Federal Financial Assistance Programs

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

N. Net Assets

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

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

Restricted Net Assets – 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 Assets – 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.

P. Scholarship Discounts and Allowances

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

Q. Restatement of Cash and Cash Equivalents Beginning balance

Effective in fiscal year 2008, Commonwealth institutions no longer report general fund appropriation available amounts as part of cash and cash equivalents. The following is a reconciliation of Cash and Cash Equivalents ending balance at June 30, 2007 to the Cash and Cash Equivalents beginning balance at July 1, 2007 as a result of this change of reporting.

Cash and Cash Equivalents at June 30, 2007	\$45,513,150
Change of reporting for Appropriation Available	<u>(6,846,349)</u>
Cash and Cash Equivalents at July 1, 2007	<u>\$38,666,801</u>

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, or covered by depository insurance. Under this Act, banks holding public deposits in excess of amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with GASB Statement 9 definition of cash and cash equivalents, cash represents Cash with the Treasurer, cash on hand, cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less. Cash equivalents also include the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the federal Security and Exchange Commission.

The carrying amount of cash not held by the Treasurer of Virginia is \$5,416,380. The carrying amount is the University's bank balance reported at June 30, 2008 for the University's energy lease project activity, deposits held in custody for others and drawdowns from bonds for the Student Center construction project. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

A. Investments

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

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

Concentration of credit risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents five percent or more of total investments. As of June 30, 2007, none of the University’s investments involve concentration of credit risk.

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

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

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

B. Securities Lending Transactions

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

<u>Type of Investment</u>	<u>Fair Value</u>	<u>0-3 months</u>	<u>Credit Rating</u>
Cash equivalents:			
Repurchase agreements	\$ 1,555,750	\$ 1,555,750	AAA
Money market funds	837,940	837,940	A-1
Securities lending	715,857	715,857	Unrated
SNAP	20,398,657	20,398,657	AAAm
Investments:			
Securities lending	<u>2,696,644</u>	<u>2,696,643</u>	Unrated
Totals	<u>\$26,204,848</u>	<u>\$26,204,848</u>	

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2008:

Student tuition and fees	\$ 872,456
Federal, state, and nongovernmental grants and contracts	995,751
Other activities	<u>626,731</u>
Gross receivables	2,494,938
Less: Allowance for doubtful accounts	<u>(233,940)</u>
Net accounts receivable	<u>\$2,260,998</u>

Contributions Receivable – Norfolk State University 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, 2008:

Contributions currently due	\$ 630,552
Less – allowance for uncollectible pledges	<u>(118,925)</u>
Current contributions receivable	<u>511,627</u>
Contributions due in one to five years	1,153,181
Contributions due in more than five years	1,333,391
Less – time value discount	<u>(269,189)</u>
Non-current contributions receivable	<u>2,217,383</u>
Total contributions receivable	<u>\$ 2,729,010</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2008, is presented as follows.

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
Nondepreciable capital assets:				
Land	\$ 4,786,099	\$ -	\$ -	\$ 4,786,099
Construction in progress	11,356,329	8,049,775	10,757,772	8,648,332
Total nondepreciable capital assets	<u>16,142,428</u>	<u>8,049,775</u>	<u>10,757,772</u>	<u>13,434,431</u>
Depreciable capital assets:				
Buildings	183,623,073	10,539,474	-	194,162,547
Infrastructure	5,394,616	-	-	5,394,616
Equipment	27,594,609	2,462,813	1,693,315	28,364,107
Other improvements	60,823	-	-	60,823
Library materials	6,874,609	448,023	21,896	7,300,736
Total depreciable capital assets	<u>223,547,730</u>	<u>13,450,310</u>	<u>1,715,211</u>	<u>235,282,828</u>
Less accumulated depreciation for:				
Buildings	82,252,970	5,624,034	-	87,877,004
Infrastructure	4,829,504	130,154	-	4,959,658
Equipment	17,075,961	2,448,074	1,693,315	17,830,720
Other improvements	21,053	3,622	-	24,675
Library materials	6,307,530	170,328	21,896	6,455,962
Total accumulated depreciation	<u>110,487,018</u>	<u>8,376,212</u>	<u>1,715,211</u>	<u>117,148,019</u>
Depreciable capital assets, Net	<u>113,060,712</u>	<u>5,074,097</u>	<u>-</u>	<u>118,134,811</u>
Total capital assets, Net	<u><u>129,203,140</u></u>	<u><u>\$13,123,872</u></u>	<u><u>\$10,757,772</u></u>	<u><u>131,569,242</u></u>

Capital Assets - Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk State University	Total
Nondepreciable capital assets:				
Land	\$ 24,310	\$ -	\$ -	\$ 24,310
Development Costs	-	-	416,987	416,987
Total nondepreciable capital assets	<u>24,310</u>	<u>-</u>	<u>416,987</u>	<u>441,297</u>
Depreciable capital assets:				
Buildings	-		28,137,869	28,137,869
Equipment	679,949	36,501	2,167,848	2,884,298
Total depreciable capital assets	<u>679,949</u>	<u>36,501</u>	<u>30,305,717</u>	<u>31,022,167</u>
Less accumulated depreciation	<u>(237,264)</u>	<u>(13,754)</u>	<u>(2,437,083)</u>	<u>(2,688,101)</u>
Total depreciable capital assets, net	<u>442,685</u>	<u>22,747</u>	<u>27,868,634</u>	<u>28,334,066</u>
Total capital assets, net	<u>\$ 466,995</u>	<u>\$ 22,747</u>	<u>\$ 27,868,634</u>	<u>\$ 28,775,363</u>

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2008:

Employee salaries, wages, and fringe benefits payable	\$ 4,275,249
Vendors and suppliers accounts payable	4,139,437
Accrued interest payable	19,877
Spartan Suites rent and scholarships	<u>185,229</u>
Total accounts payable and accrued liabilities	<u>\$ 8,619,792</u>

6. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2008, is presented as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable	\$12,854,096	\$ -	\$1,766,590	\$11,087,506	\$1,824,356
Notes payable	21,250,389	-	374,771	20,875,618	384,186
Installment Purchases	14,515,460	-	1,229,127	13,286,333	1,270,549
Unamortized Bond Premium	366,110	-	12,625	353,485	12,625
	<u>48,986,055</u>	<u>-</u>	<u>3,383,113</u>	<u>45,602,942</u>	<u>3,491,716</u>
Accrued compensated absences	3,376,584	1,385,957	1,133,909	3,628,632	882,035
Capital projects retainage payable	1,449,331	339,522	1,449,331	339,522	339,522
Federal loan capital contributions	1,486,576	-	-	1,486,576	-
Deferred gain on early retirement of debt	248,529	-	65,625	182,904	65,625
	<u>248,529</u>	<u>-</u>	<u>65,625</u>	<u>182,904</u>	<u>65,625</u>
Total long-term liabilities	<u>\$ 55,547,075</u>	<u>\$ 1,725,479</u>	<u>\$ 6,031,978</u>	<u>\$ 51,240,576</u>	<u>\$ 4,778,897</u>

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.

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, 2008, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The length of the purchase agreements are for five years and the interest rates charged are from 2.151 percent to 3.9218 percent.

	<u>Interest Rates</u> (%)	<u>Maturity</u>	<u>Balance at June</u> <u>30, 2008</u>
Revenue bonds:			
Dormitories:			
Charles Smith Hall Series 2003 (c)	5.500 - 5.000	2010	\$ 615,738
Midrise Hall Series 2003 (c)	5.500 - 5.000	2011	2,102,486
Phyllis Wheatley & Rosa Alexander 1985 (d)	3.00	2022	1,923,784
Athletic Facility:			
Dick Price Stadium Series 1996 (d)	5.000 - 5.375	2018	5,530,000
Cafeteria:			
Mary Scott Dozier Series 2003 (c)	5.500 - 5.000	2011	<u>915,498</u>
Total revenue bonds			<u>11,087,506</u>
Unamortized bond premium			<u>353,486</u>
Net revenue bonds			<u>\$ 11,440,992</u>
Notes payable:			
Brambleton Center, Series 1998		2019	274,216
Student Center 2004 (d)	3.00 - 5.00	2036	<u>20,800,000</u>
Total notes payable			<u>21,074,216</u>
Less: Unamortized bond discount			<u>(198,599)</u>
Net notes payable			<u>\$ 20,875,617</u>
Installments payable:			
MELP	2.151 - 3.9218	2012	643,731
Energy Lease Project	3.739 - 4.500	2016 - 2021	12,384,689
Dyntek Server Farm Lease	8.25	2011	<u>257,913</u>
Net installments payable			<u>13,286,333</u>
Total			<u>\$ 45,602,942</u>

Long term debt matures as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	3,492,439	1,981,191
2010	3,542,674	1,834,437
2011	3,089,378	1,685,796
2012	2,074,219	1,551,068
2013	2,122,063	1,461,574
2014-2018	11,581,993	5,828,911
2019-2023	6,605,289	3,656,932
2024-2028	4,095,000	2,575,263
2029-2033	5,140,000	1,510,453
2033-2038	3,705,000	269,206
Unamortized Discount	353,486	-
Unamortized Premium	(198,599)	-
Total	<u>\$ 45,602,942</u>	<u>\$ 22,354,830</u>

Enterprise and Empowerment Foundation Debt

In February 2005, the Enterprise and Empowerment Foundation entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the 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 January 1, 2008. On June 30, 2008 interest was computed based on an annualized weekly rate of 1.55 percent. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principle payments beginning July 1, 2008 through July 1, 2015, secured by property and equipment is \$1,450,000.

As of June 30, 2008, the Enterprise and Empowerment Foundation's bonds and notes payable mature as follows:

Future principal payments are as follows:

2009	\$ 100,000
2010	200,000
2011	270,000
2012	380,000
2013	435,000
Thereafter	<u>32,040,000</u>
	<u>\$ 33,425,000</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 \$123,011 from changes in the swap contract's fair value during the fiscal year is included as interest on capital asset related debt in the Statement of Revenues, Expenses and Changes in Net Assets. The contract includes a provision for three optional early termination periods between January, 2016 and January, 2018.

8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2008. Additionally, the University used auxiliary revenues to pay debt service of \$2,369,334. This amount is not included in the auxiliary operating expenses below.

Revenues:

Residential, net of scholarship allowances of \$2,477,976	\$ 6,420,323
Athletics, net of scholarship allowances of \$2,101,499	6,522,291
Food services, net of scholarship allowances of \$325,184	5,552,737
Auxiliary enhancement, net of scholarship allowances of \$243,518	1,486,760
Student activities, Net of scholarship allowances of \$416,651	1,275,017
Other auxiliary revenues, net of scholarship allowances of \$920,881	<u>4,253,000</u>

Total auxiliary enterprises revenues \$25,510,128

Expenses:

Residential	\$ 5,178,358
Athletics	6,846,901
Food services	4,615,547
Auxiliary enhancement	547,513
Student activities	1,467,432
Other auxiliary activities	<u>2,608,851</u>

Total auxiliary enterprises expenses \$21,264,602

9. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringes Benefits	Services and Supplies	Scholarship and Fellowship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$ 23,612,170	\$ 7,231,022	\$ 2,179,369	\$ 12,290	\$ -	\$ 471,321	\$ -	\$ 33,506,173
Research	2,929,519	841,218	1,663,187	1,078,451	-	2,124,300	-	\$ 8,636,673
Public Service	943,460	168,724	322,342	10,663	-	242,511	-	\$ 1,687,700
Academic Support	7,422,723	2,522,337	2,408,058	56,986	-	2,653,769	-	\$ 15,063,872
Student Services	3,327,326	1,242,940	977,680	20,558	-	138,956	-	\$ 5,707,461
Institutional Support	9,073,404	2,137,873	(260,221)	768	1,037,318	173,408	-	\$ 12,162,551
Operation and Maintenance-Plant	3,526,709	1,829,969	2,284,536	-	1,946,204	692,087	-	\$ 10,279,505
Depreciation	-	-	-	-	-	-	8,376,212	\$ 8,376,212
Scholarship and Fellowship	-	-	-	13,987,582	-	-	-	\$ 13,987,582
Auxiliary Activities	5,088,981	1,692,653	8,864,361	3,952,181	889,301	777,125	-	\$ 21,264,602
Total	<u>\$ 55,924,291</u>	<u>\$ 17,666,736</u>	<u>\$ 18,439,313</u>	<u>\$ 19,119,479</u>	<u>\$ 3,872,823</u>	<u>\$ 7,273,476</u>	<u>\$ 8,376,212</u>	<u>\$ 130,672,331</u>

10. 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 per Chapter 4:	
Educational and general programs	\$46,464,375
Student financial assistance	5,746,050
Adjustments:	
Appropriation Reduction	(2,027,454)
Salary annualization, increases & regrades	772,496
Employer fringe benefit increases	336,230
Health insurance premium	507,264
Eminent Scholar	29,989
Virginia Military Survivors and Dependents	35,436
Tuition Incentive Fund	72,597
VIVA ILL allocation	5,085
Sprinkler System reversion	<u>(49,212)</u>
Adjusted appropriation	<u>\$51,892,856</u>

11. COMMITMENTS

At June 30, 2008, the University was committed to construction contracts totaling approximately \$53,507,604. Outstanding commitments on these contracts totaled \$21,003,253 as of June 30, 2008.

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, 2008, was \$1,437,704.

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, 2008, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2009	\$ 1,098,047
2010	1,051,769
2011	909,659
2012	702,747
2013	714,797
2014-2018	3,721,099
2019-2023	<u>942,476</u>
Total	<u>\$ 9,140,594</u>

12. 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, 2008. 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 \$3,878,448 for the year ended, June 30, 2008. The retirement contribution rate was 11.23 percent for fiscal year 2008. Contributions to VRS were calculated using the base salary amount of approximately \$34,536,489 for the year ended June 30, 2008. The University's total payroll was approximately \$56,564,332 for the fiscal year ended June 30, 2008.

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 (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,282,356 for year ended June 30, 2008. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$12,330,346 for fiscal year 2008.

Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$10,408 for the fiscal year 2008.

13. POST-EMPLOYMENT BENEFITS

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

14. 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, 2008, the University estimates that no material liabilities will result from such audits or questions.

Litigation

To its knowledge, the University has been named as a defendant in one lawsuit. The final outcome of this lawsuit 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.

15. 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*.

16. COMPONENT UNITS

STATEMENT OF NET ASSETS

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk state University	Total
Assets:				
Current assets	\$ 1,149,763	\$ 36,639	\$ 3,302,086	\$ 4,488,488
Noncurrent assets	16,694,547	215,349	31,464,818	48,374,714
Total assets	<u>17,844,310</u>	<u>251,988</u>	<u>34,766,904</u>	<u>52,863,202</u>
Liabilities:				
Current liabilities	75,024	4,760	1,313,940	1,393,724
Noncurrent liabilities	-	-	34,133,386	34,133,386
Total liabilities	<u>75,024</u>	<u>4,760</u>	<u>35,447,326</u>	<u>35,527,110</u>
Net Assets	<u>\$ 17,769,286</u>	<u>\$ 247,228</u>	<u>\$ (680,422)</u>	<u>\$ 17,336,092</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Enterprise and Empowerment Foundation at Norfolk State University	Total
Operating revenues	\$ 160,507	\$ 313,375	\$ 5,187,350	\$ 5,661,232
Operating expenses	1,611,260	446,898	5,800,953	7,859,111
Operating gain	<u>(1,450,753)</u>	<u>(133,523)</u>	<u>(613,603)</u>	<u>(2,197,879)</u>
Net nonoperating revenues	696,075	(33,682)	123,011	785,404
Income (loss) before other revenues, expenses, gains or losses	<u>(754,678)</u>	<u>(167,205)</u>	<u>(490,592)</u>	<u>(1,412,475)</u>
Net other revenues	<u>302,508</u>	<u>-</u>	<u>-</u>	<u>302,508</u>
Increase (Decrease) in net assets	(452,170)	(167,205)	(490,592)	(1,109,967)
Net assets - Beginning of year	<u>18,221,456</u>	<u>414,433</u>	<u>(189,830)</u>	<u>18,446,059</u>
Net assets - End of year	<u>\$ 17,769,286</u>	<u>\$ 247,228</u>	<u>\$ (680,422)</u>	<u>\$ 17,336,092</u>

The following note was included in the audited financial statements for the Enterprise and Empowerment Foundation:

CONTINGENCY: As shown in the accompanying consolidated financial statements, the Foundation incurred a decrease in net assets of \$490,592 during 2008 and a decrease in net assets of \$136,906 during 2007. Additionally, for 2008, the Foundation has breached its debt service ratio covenant by not meeting the required ratio in accordance with the terms of its debt agreement. These factors create an uncertainty as to the Foundation's ability to continue as a going concern. The Foundation has developed a plan to increase revenues. The ability of the Foundation to continue as a going concern is dependent upon the success of the plan. The consolidated financial statements do not include any adjustments that might be necessary should the Foundation be unable to continue as a going concern.

NORFOLK STATE UNIVERSITY
AUXILIARY ENTERPRISES STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2008

	Total	Food Services	Residential Services	Student Activities	Auxiliary Security	Student Center	Athletics
REVENUES							
Student Fees	13,375,651	-	-	1,426,186	996,485	811,445	7,292,413
Sales and Services	18,432,799	5,877,921	8,868,070	265,482	-	1,295	1,331,377
Investment Income	187,387	-	30,229	-	-	-	-
Other Fund Additions	-	-	-	-	-	-	-
TOTAL REVENUES & OTHER FUND ADDITIONS	31,995,837	5,877,921	8,898,299	1,691,668	996,485	812,740	8,623,790
EXPENSES OF OPERATIONS							
Personal Service	5,089,521	-	1,414,427	62,019	434,033	247,943	1,933,074
Fringe Benefits	1,698,454	-	557,092	891	129,932	81,289	648,848
Supplies and Material	1,176,303	85,243	501,308	152,227	5,754	54,602	294,808
Equipment/Property Improvement	2,258,036	33,592	495,863	12,131	765	7,559	3,108
Current Charges and Obligations	1,820,996	109,888	1,085,318	76,725	-	123,710	38,922
Scholarships and Fellowships	3,926,991	11,426	790,216	448,255	-	-	2,677,094
Contractual Services	11,323,017	4,700,582	1,820,587	886,260	307,522	221,894	2,127,927
Subtotal	27,293,318	4,940,731	6,664,811	1,638,508	878,006	736,997	7,723,782
E & G Indirect Costs	2,028,549	-	717,348	172,322	95,204	79,688	824,833
Auxiliary Administration	(12,197)	-	274,330	73,290	36,140	30,334	399,786
Total Expense of Operations	29,309,670	4,940,731	7,656,489	1,884,121	1,009,350	847,019	8,948,400
Nonoperating Revenue							
Gifts and Grants	381,750	-	-	20,990	-	-	360,760
EXCESS OF REVENUE OVER (UNDER)							
EXPENSES OF OPERATION	3,067,918	937,190	1,241,810	(171,462)	(12,865)	(34,279)	36,150
MANDATORY TRANSFERS							
Debt Service	(2,369,334)	-	(1,309,436)	-	-	-	-
Nonmandatory Transfers	(1,062,946)	-	247,537	34,499	-	-	16,420
NET INCREASE (DECREASE) IN FUND BALANCE	(364,362)	937,190	179,911	(136,964)	(12,865)	(34,279)	52,570
Fund Balance Beginning of Year	10,393,582	1,620,638	1,182,835	150,367	(146,652)	413,366	(1,197,052)
Fund Balance End of Year	10,029,221	2,557,828	1,362,746	13,403	(159,517)	379,087	(1,144,482)

Auxiliary Administration	Parking and Transportation	Contingency Fund	Printing Services	Fitness Center	Communication Systems Enhancement	Auxiliary Enhancement	Debt Service	Maintenance Reserve
-	271,515	390,041	-	122,986	177,899	691,625	1,195,056	-
13,844	479,614	-	556,395	120	28	1,038,653	-	-
157,158	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
171,002	751,129	390,041	556,395	123,106	177,927	1,730,278	1,195,056	-
598,015	300,508	-	35,350	64,153	-	-	-	-
148,005	103,586	-	19,495	9,316	-	-	-	-
40,757	15,474	-	15,352	5,511	-	5,267	-	-
81,584	-	-	6,725	15,837	-	2,058	-	1,598,814
76,415	45,886	-	238,788	-	-	25,344	-	-
-	-	-	-	-	-	-	-	-
437,749	73,401	23,601	113,951	6,795	142,557	443,428	16,762	-
1,382,525	538,855	23,601	429,661	101,612	142,557	476,097	16,762	1,598,814
-	56,558	-	43,707	11,029	15,378	12,482	-	-
(1,211,523)	39,723	-	33,217	4,182	5,868	302,456	-	-
171,002	635,135	23,601	506,585	116,823	163,803	791,035	16,762	1,598,814
-	-	-	-	-	-	-	-	-
-	115,994	366,440	49,810	6,283	14,124	939,243	1,178,294	(1,598,814)
-	-	-	-	-	-	-	(1,059,898)	-
7,437	-	(351,700)	-	13,027	-	(251,000)	-	(779,166)
7,437	115,994	14,740	49,810	19,310	14,124	688,243	118,396	(2,377,980)
11,500	1,120,774	3,474,408	(880,659)	192,381	129,514	1,836,030	108,153	2,377,979
18,937	1,236,768	3,489,148	(830,849)	211,691	143,638	2,524,273	226,549	-

NORFOLK STATE UNIVERSITY HIGHLIGHTS

FIVE YEARS IN REVIEW

FALL SEMESTER	2003-04	2004-05	2005-06	2006-07	2007-08
ENROLLMENT					
Total	6,846	6,165	6,096	6,238	6,155
In-State	5,023	4,516	4,533	4,806	4,844
Out-of-State	1,823	1,649	1,563	1,432	1,311
FRESHMAN APPLICATIONS					
Number of Applications Received	4,651	4,090	4,807	4,538	4,656
In-State	1,961	1,483	2,133	1,603	1,672
Out-of-State	2,690	2,607	2,674	2,935	2,984
Number of Applications Accepted	3,297	3,116	3,300	4,453	3,132
In-State	1,442	1,152	1,154	1,562	1,178
Out-of-State	1,855	1,964	2,146	2,891	1,954
Number of Accepted Enrolled	1,154	1,010	1,001	1,057	995
In-State	746	656	676	806	719
Out-of-State	408	354	325	251	276
TRANSFER APPLICATIONS					
Number of Applications Received	1,452	849	784	827	843
In-State	725	383	392	405	438
Out-of-State	727	466	392	422	405
Number of Applications Accepted	811	727	693	750	744
In-State	501	327	347	361	383
Out-of-State	310	400	346	389	361
Number of Accepted Enrolled	453	364	374	362	358
In-State	319	238	268	293	280
Out-of-State	134	126	106	69	78
TUITION AND FEES					
Undergraduate					
In-State	\$3,840	\$4,295	\$4,670	\$5,056	\$5,322
Out-of-State	\$13,260	\$14,255	\$14,480	\$15,376	\$16,242
Graduate					
In-State	\$6,024	\$6,803	\$6,308	\$6,820	\$7,182
Out-of-State	\$16,920	\$18,155	\$18,380	\$20,572	\$21,726
ROOM AND BOARD					
Total Room & Board	\$5,882	\$6,236	\$6,474	\$6,667	\$6,909
Room Rates	\$3,718	\$3,942	\$4,110	\$4,233	\$4,402
Board Rates	\$2,164	\$2,294	\$2,364	\$2,434	\$2,507

UNRESTRICTED CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES
Years Ended June 30

	2003-04	2004-05	2005-06	2006-07	2007-08
Revenues					
Student Tuition and Fees	\$ 28,139,698	\$ 28,636,502	\$ 30,476,595	\$ 29,278,424	\$ 26,918,139
State Appropriations	38,881,221	40,430,511	43,899,220	45,228,371	46,130,592
Gifts, Grants, & Contracts	732,659	350,671	1,516,663	1,759,600	3,252,547
Sales and Services Auxiliary Enterprises	23,176,663	25,021,455	23,946,966	29,974,852	31,811,785
Other Sources	<u>520,330</u>	<u>532,468</u>	<u>105,112</u>	<u>118,448</u>	<u>670,751</u>
Total Current Revenues	\$ 91,450,571	\$ 94,971,607	\$ 99,944,556	\$ 106,359,695	\$ 108,783,814
Expenditures & Mandatory Transfers					
Educational & General	\$ 64,921,133	\$ 70,386,806	\$ 77,187,002	\$ 78,038,294	\$ 77,934,136
Auxiliary Enterprises	<u>21,954,079</u>	<u>25,085,251</u>	<u>21,118,240</u>	<u>24,959,044</u>	<u>27,411,548</u>
Total Expenditures & Mandatory Transfers	86,875,212	95,472,057	100,608,553	105,203,627	107,715,017
Other Transfers and Additions (Deductions)	<u>46,831</u>	<u>2,028,474</u>	<u>(46,730)</u>	<u>2,993,059</u>	<u>279,380</u>
Net Increase (Decrease) in Fund Balances	\$ 4,622,190	\$ 1,528,024	\$ (710,727)	\$ 4,149,127	\$ 1,348,176
GENERAL FUND APPROPRIATIONS AND OTHER REVENUES					
State General Fund Appropriations	\$ 38,881,221	\$ 40,430,511	\$ 43,899,220	\$ 45,228,371	\$ 46,130,592
Other Revenues	<u>52,569,350</u>	<u>54,541,096</u>	<u>56,045,336</u>	<u>61,131,324</u>	<u>62,653,222</u>
Total	\$ 91,450,571	\$ 94,971,607	\$ 99,944,556	\$ 106,359,695	\$ 108,783,814
FINANCIAL AID					
Loans	\$ 22,342,054	\$ 22,709,984	\$ 23,776,885	\$ 26,155,567	\$ 38,193,866
Grants/Scholarships	21,970,780	21,542,284	23,672,516	26,958,998	24,928,123
Other	<u>1,389,504</u>	<u>1,142,483</u>	<u>1,247,069</u>	<u>1,305,008</u>	<u>652,649</u>
Total	\$ 45,702,338	\$ 45,394,751	\$ 48,696,470	\$ 54,419,573	\$ 63,774,638
SPONSORED PROGRAM RECEIPTS	\$ 15,631,234	\$ 18,975,491	\$ 21,577,068	\$ 24,075,755	\$ 32,874,957



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

April 24, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
And Review Commission

Board of Visitors
Norfolk 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 **Norfolk State University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Norfolk State University as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

The Auxiliary Enterprises Statement of Operations and the University Highlights have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, we have also issued our report dated April 24, 2009 on our consideration of Norfolk 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.



AUDITOR OF PUBLIC ACCOUNTS

HV/clj

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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*Represents Board of Visitors and University Administrators as of June 30, 2008