NORFOLK STATE UNIVERSITY

NORFOLK, VIRGINIA

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Norfolk State University for the year ended June 30, 2002, found:

- the financial statements present fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance that are required to be reported.

-TABLE OF CONTENTS-

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

May 23, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit and Review Commission

Board of Visitors
Norfolk State University

We have audited the accounts and records of **Norfolk State University**, as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Norfolk State University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Norfolk State University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the University has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* as of June 30, 2002.

The Management's Discussion and Analysis on pages nine through thirteen is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

In planning and performing our audit of the financial statements of Norfolk State University as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

Status of Prior Findings

The University has not taken adequate corrective action with respect to previously reported findings "Enforce Policies and Procedures for the Small Purchase Charge Card," "Enhance Contract Administration over Cell Phones," and "Enforce Procedures to Reconcile Housing and Meal Charges and Maintain Adequate Documentation." Accordingly, we include these findings in the section entitled "Internal Control Findings and Recommendations." The University has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on June 6, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

INFORMATION TECHNOLOGY

Update Information Technology Security and Contingency Plans

The University has not updated certain components of its information technology security program to reflect its current operating environment, nor its contingency plan. These components of the security program include a business impact and risk analysis and security awareness programs.

Business analysis and risk assessments should identify confidential information resources critical to the University, and evaluate potential security threats and risks to those resources. Security awareness refers to the practices that promote user awareness, user training, and user responsibility of security risks and procedures for information technology resources.

The contingency plan should encompass all critical information technology systems and provide for the continuation of critical business functions in the event of disruptions. The University may avert many potential contingencies and disasters, or reduce the damage they may cause if management has a plan to take the appropriate steps early to control the event.

The University has experienced several changes in its computing environment in recent years including new management of its Information Technology Department. These changes emphasize the need to periodically update important information technology security components and related contingency plans. The Commonwealth of Virginia's Department of Technology Planning has issued COV ITRM Standard SEC 2001-01.1 defining the minimum requirements for an Institution's information technology security program and contingency planning. The University should refer to this standard for guidance in developing its plan.

Management's Response and Corrective Action: *The University concurs with this finding. The final version of the Security Plan and the Contingency Plan will be completed by 2004. Estimated completion date is January 1, 2004.*

Develop and Implement Information Security Policies and Procedures over Network Environment

The University has not developed formal information technology policies and procedures to provide security controls for their network environment in accordance with the Commonwealth's ITRM Standard SEC2001-01.1

An Information Security Policy provides direction and guidance for maintaining security controls. It contains management's views and directives toward security. Having no policies and procedures in place or not following them could place the University at risk for fraud, inappropriate access, and unauthorized access to critical systems and data resulting in critical data being unreliable.

We recommend that the University immediately develop and implement Information Security Policies and Procedures to provide direction on maintaining security controls for the security of their network environment.

Management's Response and Corrective Action: *The University concurs with this finding. The Security Policies and Procedures over the network environment have been developed but must go through the formal policy approval process. Once approved, policies and procedures will be implemented to strengthen security controls. Estimated completion date is January 1, 2004.*

Develop Policies and Procedures for Maintaining Security Controls on AIX UNIX

The University does not have written policies and procedures for maintaining security controls on the AIX UNIX Server. The policies and procedures should include the following specifications for securing UNIX:

- Implementing a shadow/security password file
- Minimize users with root capability
- Remove IP services that are not needed
- Ensure there are no critical files that are world writeable
- Ensure that superusers do not log on as root
- Requirements for granting users root access capability
- Ensure unnecessary network services are turned off
- Review security logs for unusual activity
- Procedures for implementing security patches

Our review of the controls on the UNIX system revealed certain services turned on that could allow for unauthorized access. Also, no user accountability exists for changes made to the UNIX system because all administrators log on as root directly.

The Development of UNIX policies and procedures would provide controls for minimizing risk and allow the University to continue to function in the same manner in the event of employee transfer or termination. Policies and procedures would provide direction on what controls management deems necessary, and therefore, what restrictions to impose for the system. Failure to implement proper policies and procedures could lead to improper controls placed on the system and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk. The University has begun working on establishing UNIX policies and procedures. We recommend that the University complete, approve, and follow policies and procedures as soon as possible.

> ***Management's Response and Corrective Action:*** *The University concurs that written policies and procedures for maintaining security controls on the AIX UNIX server need to be completed. Written policies and procedures will be completed. Analysis and elimination of unnecessary Internet Protocol (IP) is currently underway. User roles will be implemented in order to minimize the need for root user logons. Estimated completion date is January 1, 2004.*

OTHER ISSUES

Adhere to Contract Administrator Responsibilities

Contract administration begins after award of a contract. The University properly assigns each contract an administrator and informs them of their responsibilities in writing. The administrator monitors the contractor's performance ensuring compliance with all terms and conditions of the contract. We reviewed seven contracts for compliance with the contract's agreed upon terms and conditions and identified the following issues:

- The University entered into a five-year contractual agreement with a food service vendor beginning in fiscal year 2000, to operate the campus cafeterias and catering services. The contractor over billed the University by $57,000 for catering services during fiscal year 2002, based on a percentage of total costs. The overpayment projected out for the three year period to date totals $170,000

- The University expended $126,000 for an electrical services contract. The contract provides established hourly billing rates for electricians and their assistants based on if an electrician or their assistant performs the work. The contractor's work orders and invoices did not provide the job title of the employees performing the services, which is necessary to determine compliance with the charged hourly rate.

- A Contract Administrator for temporary services authorized the payment of five invoices totaling $61,000 at an hourly rate $3.87 higher than the agreed upon contractual rate. This resulted in overpayments of $20,500 to the contractor. In addition, there were two invoices, which did not indicate an hourly rate.

In each instance above, the University did not properly monitor and enforce the contract requirements. Contract administrators should know their responsibilities and enforce contract provisions for both the vendor and the University. When the contractor does not comply with those provisions, the administrators should notify the Office of Materiel Management to determine future procurement actions involving the contractor, including recovery of overpayments. Proper planning prior to developing contract requirements may prevent cost overpayments for services.

> ***Management's Response and Corrective Action:*** *The University concurs with the finding. In the first instance above, the Contractor misinterpreted the terms and conditions of the billing for catering services per the Memorandum of Understanding. A contract modification will be negotiated with the vendor to clearly define the administrative cost on deliverables charged to University departments for catering services. The appropriate individuals will meet to discuss the issue with the vendor and move to correct the matter on or before the renewal period begins. Estimated completion date is August 1, 2003.*
>
> *In the second instance, the position title and hourly billing rates were not specified on the purchase order. Therefore, the vendor did not include the job titles or the hourly rates on the invoice. The services provided were in compliance with the contract. The Contract Administrator will ensure that billing rates and position titles are identified on purchase orders, work orders, and invoices for all service contracts, if applicable. Estimated completion date is August 1, 2003.*
>
> *In the third instance noted above, the University paid more than what the contract pricing allowed due to the requirement of the position. Departments and activities may require a higher-level skilled employee than what the contract allows, and therefore, based on the need, the contractor works with the department to satisfy the requirement. The University will reissue the service contract to support the level of personnel and qualifications needed by the University departments. Estimated completion date is September 30, 2003.*

Obtain Proper Approval for Information Technology Contracts

In February 2002, the University entered into a three-year contract for $9.4 million, with a two-year renewal option for management of its Information Technology Department. The University did not obtain the required approval from the Department of Information Technology Planning for technology procurements exceeding $100,000

The University has identified several issues where the contractor has not complied with the terms of this contract. The University has begun the official grievance process based on contractor's failure to comply with the agreement. Obtaining the required approvals before initiating these types of contracts provides assurance that all parties involved deal in good faith. University officials should also begin considering whether to opt for the additional renewal periods allowed in the contract, or initiate the approval and procurement process to obtain a new contractor for management of its information technology services.

Management's Response and Corrective Action: *The University concurs with the finding. It is the practice and continues to be the practice of the University to obtain appropriate approvals for technology procurements. This is an isolated case in which the University failed to submit the Agency Procurement Request (APR) to obtain approval from the Department of Information Technology. The University will continue to follow procurement guidelines established by the Department of Information Technology in relation to information procurements.*

Obtaining the required approvals authorizes the University to move forward with the procurement process. The grievance process is a tool to assure that all parties involved in good faith. The University has issued a Vendor's Complaint to the appropriate agency. The University will continue to monitor contracts for compliance.

Enhance Contract Administration over Cell Phones

As noted in prior year findings, the University needs to enhance contract administration over use and distribution of cell phones. The University has addressed several issues raised in the prior year audit, which include the development of cell phone policies and procedures, obtaining a consolidated bill and the assignment of a cell phone contract administrator. However, as indicated by the following, the University needs to continue to strengthen controls over cell phones.

- Departments continue to pay a higher monthly state contract rate for cellular and enhanced services (text messages and caller ID), which the state contract already provides. The University has 134 cell phones and 112 are paying charges greater than the contractual rate.

- The University's cell phone policy and procedures do not conform to the Commonwealth Accounting Policies and Procedures (CAPP) manual guidelines. State guidelines require the use of cell phones for official business only; however, the University's policy states that employees should keep personal calls placed on agency cell phones to a minimum.

- Many employees obtained cell phone service prior to the establishment of new University policy in October 2002. The University has not reviewed these users to justify cell phone usage.

The University should continue to strengthen its administration over cell phone usage by receiving all services available under the state contract. University policy should require cell phone usage for business purposes only. The contract administrator over cell phones should review all cell phone services obtained prior to October 2002 to provide justification for cell phone services.

Management's Response and Corrective Action: *The University concurs with the finding. The University will review the "higher" monthly state contract rate and eliminate cell phones that are not cost effective. The University will revise current policy to conform to the Commonwealth Accounting Policies and Procedures (CAAP) manual guidelines. The University will review the cell phone user list and request each Vice President submit a list of current users that require the use of cell phones for official University business. Estimated completion date is August 15, 2003.*

Enhance Small Purchase Charge Card Controls

As noted in prior audits, the University has not followed its policies and procedures over the use of Small Purchase Charge Cards (SPCC). The University's use of the SPCC program continues to grow, with purchases totaling $1,063,000 during our audit period. The University has begun to implement corrective actions, which include additional training and audit site visits by the program administrators. The in-house audit results have resulted in cancellation of several cards. The University has also strengthened policies and procedures to help ensure appropriate charge card purchases and accurate reconciliations. However, we still identified the following specific internal control weaknesses.

- Seventeen of forty cardholders could not provide receipts to verify over $34,000 in purchases.
- Three cardholders purchased computer items using their SPCC. University SPCC procedures prohibit these types of purchases.
- Five cardholders' monthly reconciliations did not have a supervisor's review.
- Forty-four of 195 University cardholders have not completed the mandatory SPCC on-line training.
- The University erroneously paid $390 in sales tax for 12 SPCC cardholders.

The Small Purchase Charge Card Program provides an excellent tool for the Commonwealth to operate more efficiently; however, strict adherence to state guidelines is essential. Internal control weaknesses noted above could result in unnecessary or inappropriate expenditures. The University should continue training cardholders and perform additional internal audits. The University should enforce compliance with its procedures over the charge card payment and reconciliation process and consider revoking charge cards from cardholders who violate policies and procedures.

Management's Response and Corrective Action: *The University concurs with the finding. The University has followed its policies and procedures over the use of the Small Purchase Charge Card. The University implemented corrective actions procedures to strengthen controls with the assistance of the University's Internal Audit Department prior to the audit. The University continuously trains, performs internal audits, and reports quarterly to the Executive Vice President on the status of corrective actions taken. Small purchase charge cards are cancelled or suspended for cardholders who violate the established policies and procedures.*

The University's prior corrective action is ongoing and to further strengthen controls, the Small Purchase Charge Card Agreement will be revised to clarify the supervisor's role of responsibility for enforcing policies and procedures over the use of the Small Purchase Charge Card.

Enforce Procedures to Reconcile Housing and Meal Charges and Maintain Adequate Documentation

The University Housing Office established procedures to reconcile student room and meal charges on the Student Information System to its internal records. However, we continue to identify errors indicating that procedures need to be enforced. We reviewed thirteen student housing records and noted the following issues:

- Two students did not have contracts to support housing and meal charges.

- Two students deregistered from the University (all tuition charges removed) but their housing and meal assignments remained on the student system.

- The Housing Office could not provide support that the students actually withdrew from housing.

- One student received housing and meal plans, but did not register for classes at the University.

As a result, invalid student housing and meal charges remain on the Student Information System. The Housing Office must follow its established procedures for maintaining adequate documentation with respect to housing and meal assignments. The Housing Office should review and adjust current room and meal charges and ensure that only students who register for classes live in the dormitories.

Management's Response and Corrective Action: *The University concurs with this finding. In the first instance, the two students were University athletes. Historically, athletes were processed with accelerated check-ins through their respective coaches or program directors. The procedure for check-ins will be revised to ensure all students have completed the required paperwork prior to check-in. Estimated completion date is July 1, 2003.*

To address the second instance, the University has developed a query report to assist staff in identifying students that have housing and meal assignments but no tuition and fess charges. The Office of Residential Life/Housing (RLH) has instituted a new policy. This policy ensures that staff from departments must request in writing the removal of student charges from the Colleague System. A facsimile is permitted. RLH will notify the Office of Auxiliary Enterprises and the Spartan Card Office to remove student's meal plans from the Odyssey System (Debit Card). Estimated completion date was March 1, 2003.

In the third instance noted above, the Office of RLH currently operates with a complete office staff, which had not been the case previously. Filing was backlogged. During the audit, the paperwork had not been filed and remained in collection boxes. Additionally, students would vacate from the residential halls without properly notifying the RLH staff; therefore, documentation was missing from the student's housing records. RLH has hired temporary staffing to complete filing immediately after check-in (fall and spring) instead of permanent staff filing during non-peak periods. To assist in eliminating the lack of communication from unauthorized vacating, the resident assistants will implement an improved format that involves weekly floor assessment reports and will be held accountable for bi-monthly room inspections mandating contact with the actual resident student. Estimated completion date was May 26, 2003.

For the fourth instance, RLH has access to ASUM (Colleague screen) and manually investigates each housing applicant's admission status prior to assigning a room. This review will ensure that the applicant has paid the enrollment fees and has progressed from accepted to admitted. RLH has implemented the Internal Safeguard Measurement (ISM) to ensure a systematic check and balance system. RLH will use queries to assist in the management of the Housing module and to ensure housing and meal plans are assigned to registered students. RLH will continue to implement and modify these procedures to ensure the accuracy of documentation. This policy was implemented September 30, 2002.

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions will implement GASB Statement 35 at the same time the state government implements GASB Statement 34.

The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; 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, 2002. 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 related debt," provides the University's equity in property, plant, and equipment. The next category is "Restricted net assets - expendable," which are restricted resources available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

Statement of Net Assets

June 30, 2002	
Assets:	
Current	$ 15,082,377
Capital, net of accumulated depreciations	59,231,921
Other non-current	9,369,665
Total assets	83,683,963
Liabilities:	
Current	13,446,824
Non-current	22,080,347
Total liabilities	35,527,171
Net Assets:	
Invested in capital assets, net of related debt	36,534,890
Restricted	9,548,705
Unrestricted	2,073,197
Total net assets	$ 48,156,792

Note: Prior year financial information is not available as the result of implementation of GASB Statement 34 during fiscal year 2002.

The University's total assets decreased due to state appropriations used for renovations and improvements. A reduction in capital assets was caused by an adjustment to reflect prior year equipment purchases not meeting the University's capitalization policy. Classification of advances related to grants as deferred revenue also contributed to the increase.

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.

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

	June 30, 2002
Operating revenues:	
Student tuition and fees, net of scholarship allowances of $5,496,349	$ 12,774,000
Federal grants and contracts	20,284,355
State & nongovernmental grants and contracts	3,341,065
Auxiliary enterprises, net of scholarship allowances of $4,963,322	20,869,968
Other operating revenues	705,630
Total operating revenues	57,975,018
Operating expenses:	
Instruction	29,405,918
Research	5,197,063
Public service	1,382,473
Academic support	10,154,731
Student services	4,690,086
Institutional support	15,219,327
Operation and maintenance of plant	6,789,184
Depreciation	5,234,104
Student aid	6,571,329
Auxiliary activities	16,644,744
Total operating expenses	101,288,959
Operating Loss	(43,313,941)
Net nonoperating revenues and expenses	41,061,464
Loss before other revenues, expenses, gains or losses	(2,252,477)
Other revenues	164,024
Decrease in net assets	(2,088,453)
Net assets- beginning of year	50,245,245
Net assets-end of year	$ 48,156,792

Note: Prior year financial information is not available as the result of implementation of GASB Statement No. 34 during fiscal year 2002.

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue remained relatively stable given the state's continued freeze on tuition increases. Auxiliary revenues increased slightly for food services, residential services, parking, and auxiliary enhancement operations. An increase in operating revenues is attributed to new grants and contracts for the fiscal year ended June 30, 2002. Operating expense increases were primarily due to renovations, equipment, and furniture purchases, establishment of new offices on campus, gearing up for the establishment of new academic programs, marketing initiatives, and unfunded scholarships. Grant and contract expenses increased in relation to an increase in grant and contract revenues.

Nonoperating revenue decreases are attributable to decreases in state appropriations. Other revenues and expenses include a capital appropriation from the Commonwealth's 21st Century Bond Program to renovate the communication building, which is offset by reversions to the Commonwealth of Virginia.

Overall, the University's financial position is stable. While considering the reductions in state support for the University's budget and selective increases in tuition and fees, management responded with a budget balancing plan of cost reductions and re-estimate of revenues. These actions will preserve academic and fiscal integrity of operations.

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 ($15,941,021), grants and contracts ($24,184,798) and auxiliary enterprises receipts ($17,317,617). Major uses of cash include payments for salaries, wages, and fringe benefits ($53,473,059), payments for services and supplies ($21,946,445), payments for student aid ($6,534,964) and payments for noncapitalized plant improvements and equipment ($9,516,073).

The next section reflects the cash flows from noncapital financial activities and includes state appropriations for the University's educational and general programs and financial aid of $41,551,341. The cash flows from capital financing activities section reflect cash used for capital and related items. Significant cash outflows include the purchase of capital assets ($5,357,639) and the repayment of principal and interest on capital related debt ($3,422,765). Cash flows from investing activities shows $61,209 in interest earned on investments. 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.

Cash flows from operating activities	$ (36,042,056)
Cash flows from non-capital financing activities	42,118,425
Cash flows from capital financing activities	(8,663,217)
Cash flows from investing activities	61,209
Net change in cash	$ (2,525,639)

Capital Asset and Debt Administration

Overall, invested in capital assets remained constant. No new long-term debt was issued. The University is conducting a study to determine the feasibility to issue 9D bonds to renovate and construct an addition to the student union building during fiscal 2004.

The University decreased its total long-term debt from $24,170,452 in fiscal year 2001 to $22,047,273 in fiscal year 2002. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2002 debt service to expenditures ratio was 3.35 percent.

Overall, unpaid construction and other related contractual commitments increased from $947,923 in 2001 to $5,288,475 in 2002. Unpaid commitments at June 30, 2002, primarily reflect ongoing renovations in the Communication, Wood Science, and Twin Towers buildings. Construction in progress on these contracts totaled $2,643,355 at June 30, 2002.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. Due to projected reduced state revenue collections, all state agencies, including higher education institutions suffered three percent cuts in General Fund appropriations for fiscal year 2002. In establishing the 2003-2004 biennial budget, the Virginia General Assembly applied further budget cuts to all state colleges and universities. Cuts were moderated for institutions that have been underfunded in the past. The University's scheduled budget cuts were $1.8 million and $2.6 million for 2003 and 2004 respectively. Additional cuts during the biennium may be required in order for the Commonwealth to balance the budget.

The state legislature authorized colleges and universities to increase tuition for the first time since 1996. The University's governing board has increased tuition and mandatory fees to offset the 2003 scheduled budget reduction in the state General Fund appropriations noted above.

FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	$ 7,430,972
Short-term investments (Note 3)	396,324
Accounts receivable, Net of allowance for doubtful accounts $2,375,268 (Note 4)	4,928,657
Due from the Commonwealth (Note 8)	1,009,080
Prepaid expenses	1,103,293
Inventory	4,966
Notes receivable, Net of allowance for doubtful accounts of $215,506	209,085
Total current assets	15,082,377
Noncurrent assets:	
Restricted cash and cash equivalents (Note 3)	6,899,492
Other long-term investments (Note 3)	581,400
Notes receivable, Net of allowance for doubtful accounts of $1,948,763	1,888,773
Capital assets, Net (Note 5)	59,231,921
Total noncurrent assets	68,601,586
Total assets	83,683,963
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 6)	5,874,358
Deferred revenue	3,406,388
Obligations under securities lending	191,083
Deposits held in custody for others	630,151
Long-term liabilities - current portion (Note 7)	3,344,844
Total current liabilities	13,446,824
Noncurrent liabilities (Note 7)	22,080,347
Total liabilities	35,527,171
NET ASSETS	
Invested in capital assets, Net of related debt	36,534,890
Restricted for:	
Expendable:	
Scholarships and fellowships	255,132
Research and public service	13,184
Debt service	1,298,647
Capital projects	5,648,863
Loans	2,332,879
Unrestricted	2,073,197
Total net assets	$ 48,156,792

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, 2002

Operating revenues:	
Student tuition and fees, Net of scholarship allowances of $5,496,349	$ 15,978,501
Federal grants and contracts	20,284,355
State grants and contracts	2,463,412
Nongovernmental grants and contracts	877,653
Auxiliary enterprises, Net of scholarship allowances of $4,963,322	17,665,467
Other operating revenues	705,630
Total operating revenues	57,975,018
Operating expenses (Note 11)	
Instruction	29,405,918
Research	5,197,063
Public service	1,382,473
Academic support	10,154,731
Student services	4,690,086
Institutional support	15,219,327
Operation and maintenance - Plant	6,789,184
Depreciation	5,234,104
Student aid	6,571,329
Auxiliary activities (Note 10)	16,644,744
Total operating expenses	101,288,959
Operating loss	(43,313,941)
Nonoperating revenues (expenses):	
State appropriations (Note 12)	41,551,341
Investment income	44,386
Interest on capital asset - related debt	(1,110,425)
Gifts	209,329
Grant & Contract non operating revenue	366,833
Net nonoperating revenues	41,061,464
Loss before other revenues, expenses, gains or losses	(2,252,477)
Capital appropriations	4,255,942
Capital reversion	(4,091,918)
Net other revenues	164,024
Decrease in net assets	(2,088,453)
Net assets - Beginning of year as restated (Note 2)	50,245,245
Net assets - End of year	$ 48,156,792

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operation activities:	
Student tuition and fees	$ 15,941,021
Grants and contracts	24,184,798
Auxiliary enterprises	17,317,617
Other receipts	1,237,233
Payments to employees	(42,815,340)
Payments for fringe benefits	(10,657,719)
Payments for services and supplies	(21,946,445)
Payments for utilities	(2,693,007)
Payments scholarships and fellowships	(6,534,964)
Payments for noncapitalized plant improvements and equipment	(9,516,073)
Collections of loans from students	556,981
Loans issued to students	(1,116,158)
Net cash used by operating activities:	(36,042,056)
Cash flows from noncapital financing activities:	
State appropriations	41,551,341
Gifts and grants for other than capital purposes	576,162
Direct Lending receipts	18,553,760
Direct Lending payments	(18,553,760)
Agency receipts	245,831
Agency payments	(254,909)
Net cash provided by noncapital financing activities	42,118,425
Cash flows from capital financing activities:	
Capital appropriations	4,209,105
Appropriation reversions	(4,091,918)
Purchase of capital assets	(5,357,639)
Principal paid on capital debt, leases, and installments	(2,093,060)
Interest paid on capital debt, leases, and installments	(1,329,705)
Net cash used by capital financing activities	(8,663,217)
Cash flows from investing activities:	
Interest on investments	61,209
Net cash provided by investing activities	61,209
Net (decrease) in cash	(2,525,639)
Cash and cash equivalents-Beginning of the year	16,856,103
Cash and cash equivalents-End of the year	$ 14,330,464

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Reconciliation of Net Operating Loss to Net Cash used by operating activities:		
Operating loss	$	(43,313,941)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		5,234,104
Changes in assets and liabilities:		
Receivables, net		(1,548,736)
Due from the Commonwealth		(448,616)
Notes receivable, net		(409,301)
Prepaid expenses		1,638,574
Accounts payable and accrued expenses		832,570
Deferred revenue		1,973,290
Net cash used by operating activities	$	(36,042,056)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Principal and interest on capital lease debt paid by State agency on behalf of the University	$	522,354

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

NOTES TO FINANCIAL STATEMENTS

NORFOLK STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Norfolk State University (the "University") is a comprehensive university that is a 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 the 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 University has no component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*; however, the University does have related party corporations whose combined financial conditions are stated in Note 13. These organizations are separate legal entities from Norfolk State University and the University exercises no control over them. For these reasons, the University's related parties are not included in these financial statements.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements that conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public College and Universities*. These new statements will be effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002. The University now follows Statement 34 requirements for "reporting by special purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide look at the University's financial activities and replaces the fund-group perspective previously required.

C. Basis of Accounting

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

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), is reported as nonoperating revenue in the Statement of Revenues, Expense, and Changes in Net Assets.

F. 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.

G. 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 except for assets acquired under the Higher Education Trust Fund that is capitalized at $500 as required by the State Council of Higher Education. Library materials are valued using published average prices for library acquisitions. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Donated capital assets are recorded at the estimated fair market value at the date of contribution. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized.

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

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

H. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or replacement reserve funds are classified as noncurrent in the Statement of Net Assets.

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees, certain auxiliary activities, and advance payments on grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2002.

J. 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 pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans 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.

L. Net Assets

GASB Statement No. 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets rather than fund balance. Accordingly, the University's net assets are classified as follows:

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

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

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

M. 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.

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

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

M. Scholarship Discounts and Allowances

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

2. ACCOUNTING CHANGES AND RESTATEMENT OF NET ASSETS

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or non-operating and classifying assets and liabilities as current or non-current.

In connection with the implementation of GASB Statements 34 and 35, the following adjustment was made to reflect the cumulative effect of this accounting change:

Fund balances reported at June 30, 2001	$131,228,302
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(82,627,531)
Infrastructure not previously reported	4,502,984
Writedown of prior year equipment	(2,581,615)
Interest accrual on capital asset debt	(276,895)
Net asset balance at July 1, 2001	$ 50,245,245

3. CASH AND CASH EQUIVALENS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2002.

A. Cash and Cash Equivalents

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

B. Investments

The investment policy of the University is established by the Board of Visitors and monitored by the Audit and Finance Committee of the Board. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's investments are in investment pools held by the Treasurer of Virginia and are not categorized as to level of credit risk.

	Market Value
Cash and cash equivalents:	
Deposits with financial institutions	$ 2,794,076
Securities lending transactions	17,197
Money market funds	708,500
Cash with the Treasurer	10,810,691
Total cash and cash equivalents	$14,330,464
Investments:	
Investments with the Treasurer of Virginia	$ 803,838
Securities lending transactions	173,886
Total investments	$ 977,724

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Student tuition and fees	$ 4,204,296
Federal, state, and nongovernmental grants and contracts	2,067,953
Other activities	1,031,676
Total	7,303,925
Less: Allowance for doubtful accounts	(2,375,268)
Net accounts receivable	$ 4,928,657

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2002, is presented as follow:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	$ 3,678,404	$ 43,160	$ -	$ 3,721,564
Construction in progress	608,446	2,643,355	608,446	2,643,355
Total nondepreciable capital assets	4,286,850	2,686,515	608,446	6,364,919
Depreciable Capital Assets:				
Buildings	78,218,203	614,176	-	78,832,379
Infrastructure	4,502,984	-	-	4,502,984
Equipment	18,421,090	2,705,152	-	21,126,242
Other improvements	29,758,451	402,662	-	30,161,113
Library materials	6,056,117	49,802	-	6,105,919
Total depreciable capital assets	136,956,845	3,771,792	-	140,728,637
Less Accumulated Depreciation For:				
Buildings	38,363,706	2,096,913	-	40,460,619
Infrastructure	3,982,130	81,372	-	4,063,502
Equipment	11,257,294	1,286,436	-	12,543,730
Other improvements	23,214,935	1,660,488	-	24,875,423
Library materials	5,809,466	108,895	-	5,918,361
Total accumulated depreciation	82,627,531	5,234,104	-	87,861,635
Depreciable capital assets, net	54,329,314	(1,462,313)	-	52,867,002
Total capital assets, net	$58,616,164	$1,224,202	$ 608,446	$59,231,921

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Employee salaries, wages, and fringe benefits payable	$ 2,903,903
Vendors and suppliers accounts payable	2,315,134
Position flexibility retirement plan	401,192
Accrued interest payable	254,129
Total accounts payable and accrued liabilities	$ 5,874,358

7. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2002, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$20,564,585	$ -	$1,486,687	$19,077,898	$ 1,571,282
Notes payable	2,814,170	-	109,842	2,704,328	111,596
Capital leases	791,697	-	526,650	265,047	265,047
Total long-term debt	24,170,452	-	2,123,179	22,047,273	1,947,925
Accrued compensated absences	3,110,373	1,917,480	1,795,823	3,232,030	1,396,919
Capital projects retainage payable	16,010	145,888	16,010	145,888	-
Total long-term liabilities	$27,296,835	$2,063,368	$3,935,012	$25,425,191	$ 3,344,844

8. LONG-TERM DEBT

The 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 of Virginia, 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 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.

Description	Interest Rates (%)	Maturity	Outstanding Balance at June 30, 2002
Revenue bonds:			
Dormitory:			
Series 1993c	4.500 – 5.000	2010	$ 2,286,911
Series 1993c	4.500 – 5.000	2011	5,471,011
eries 1996c	4.750	2003	495,278
Athletic Facility:			
Series, 1996d	4.25 – 5.375	2018	7,775,000
Health:			
Series 1993c	4.800 – 4.900	2004	240,828
Series 1993c	4.500	2003	210,280
Cafeteria:			
Series 1993c	4.500 - 5.000	2011	2,381,275
Series 1996c	4.750	2003	217,315
Total revenue bonds			19,077,898
Notes payable:			
Dormitory, Series 1985d	3.000	2022	2,559,910
Brambleton Center, Series 1998		2019	144,418
Total notes payable			2,704,328
Capital Leases:			
Higher education equipment trust fund leases payable	Various	2002-2003	265,047
Total			$22,047,273

Long-term debt matures as follows:

Year(s) Ending	Principal	Interest
2003	$ 1,947,925	$ 1,029,907
2004	1,777,145	950,187
2005	1,605,050	871,748
2006	1,679,934	801,123
2007	1,756,720	725,176
2008-2012	8,156,473	2,320,319
2013-2017	3,694,962	939,210
2018-2022	1,429,064	137,016
Total	$22,047,273	$ 7,777,686

Capital Leases

The University has entered into lease agreements with the Virginia College Building Authority (VCBA). The agreements are payable over a six-year period with interest of 2.5 percent to 5 percent payable semiannually, principal outstanding totaling $265,047. Under the terms of the leases, the University is authorized to purchase equipment from an approved list of equipment items in an amount not to exceed the principal amount of the leases. The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling $1,009,080 at June 30, 2002, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

Payment for such purchases are to be reimbursed to the University or directly paid by the VCBA from the VCBA Equipment Trust Fund financed from proceeds of bonds issued by the VCBA for such purpose. The General Assembly has appropriated from the General Fund of the Commonwealth an amount sufficient to repay principal and interest requirements under the leases. The continuation of the leases is subject to funding by the legislature. At June 30, 2002, the University had purchased equipment totaling $6,899,963 under the lease agreements.

9. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal years 1994 and 1996, certain 1990B and 1991A General Obligation Bonds were defeased by the University. The net proceeds from the sale of those bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2002, the following amounts of the defeased bonds were outstanding:

1990 Series B	$ 2,240,000
1991 Series A	8,240,000
Total	$10,480,000

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2002. Additionally, the University used auxiliary revenues to pay debt service of $2,670,538. This amount is not included in the auxiliary operating expenses below.

Revenues:	
Residential, net of scholarship allowances of $1,639,417	$ 4,787,174
Athletics, net of scholarship allowances of $1,499,272	5,071,090
Food services, net of scholarship allowances of $1,045,408	3,539,119
Auxiliary enhancement, net of scholarship allowances of $174,457	925,788
Student activities, net of scholarship allowances of $174,375	947,674
Other student fees and sales and services	2,394,622
Total auxiliary enterprises revenues	$17,665,467
Expenses:	
Residential	$ 3,774,502
Athletics	5,018,903
Food services	3,690,866
Auxiliary enhancement	709,149
Student activities	1,285,174
Other auxiliary activities	2,166,150
Total auxiliary enterprises expenses	$16,644,744

11. 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	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 20,870,261	$ 4,782,339	$ 2,586,911	$ 193,259	$ -	$ 973,148	$ -	$ 29,405,918
Research	1,682,284	337,114	1,765,764	523,282	-	888,619	-	5,197,063
Public Service	577,572	78,135	584,927	35,500	-	106,339	-	1,382,473
Academic Support	5,123,276	1,258,108	2,047,932	74,095	-	1,651,320	-	10,154,731
Student Services	2,692,163	714,613	1,156,396	19,550	-	107,364	-	4,690,086
Institutional Support	7,025,592	1,897,381	5,243,675	4,300	-	1,048,379	-	15,219,327
O & M	1,861,717	627,695	335,015	-	1,458,474	2,506,283	-	6,789,184
Depreciation							5,234,104	5,234,104
Scholarships and Fellowships	-	-	-	6,571,329	-	-	-	6,571,329
Auxiliary Activities	3,551,801	890,331	8,987,976	1,039,774	911,439	1,263,423	-	16,644,744
Total	$ 43,384,666	$ 10,585,716	$22,708,596	$ 8,461,089	$ 2,369,913	$ 8,544,875	$5,234,104	$101,288,959

12. 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 state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriation per Chapter 1073:	
Educational and general programs	$ 39,587,017
Student financial assistance	3,813,049
Adjustments:	
Central Fund appropriation transfers	(68,440)
Applied Research Center Partnership	26,250
Group life rate	(19,302)
VRS rate and reduction	(699,420)
Across the board cuts	(792,189)
Deferred compensation match	135,048
Salary regrade	132,572
Health insurance	386,276
Retirement health	(114,364)
VIVA libraries	2,392
Reduction per Appropriation Act Part 2	(194,109)
Supplemental Appropriations for student financial assistance	207,000
Governor Budget Reduction	(770,390)
Reversion to the General Fund of the Commonwealth	(80,049)
Adjusted appropriation	$ 41,551,341

13. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and fund balances of the Norfolk State University Foundation, Inc. and the Athletic Foundation of Norfolk State University, Inc. The Athletic Foundation of Norfolk State University, Inc. and the Norfolk State University Foundation, Inc. were audited for the year ended June 30, 2002, by independent certified public accountants.

The following is a condensed summary of the audited financial conditions, which the Foundations have submitted to the University.

	Norfolk State Athletic Foundation at June 30, 2002	Norfolk State University Foundation at June 30, 2002
Assets	$294,650	$9,277,971
Liabilities	$ -	$ 157,505
Net assets	294,650	9,120,466
Total liabilities and net assets	$294,650	$9,277,971

The aggregated revenues and expenditures of these organizations were $2,046,264 and $1,123,581, respectively.

14. COMMITMENTS

At June 30, 2002, the University was committed to construction contracts totaling approximately $5,288,475. Construction in progress on these contracts totaled $2,643,355 at June 30, 2002.

The University is committed under various operating leases for equipment and space. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $925,525 for the year ended June 30, 2002.

The University has, as of June 30, 2002, the following total future minimum rental payments due under the above leases:

Year Ending June 30,	Operating Lease Obligation
2003	$ 964,204
2004	961,641
2005	673,536
2006	579,611
2007	558,943
2008-2012	2,778,757
2013-2017	2,781,352
2018-2020	1,080,962
Total	$10,379,006

15. STATE STUDENT LOAN FUND

The University makes loans to qualified students from its Commonwealth of Virginia - Student Loan Fund. During the fiscal year, new loans totaling $75,310 were made to 46 students. At June 30, 2002, total loans outstanding were $384,674 and the allowance for doubtful accounts was $194,846. Summarized below is the fund activity of the State Student Loan Fund for the fiscal year ended June 30, 2002:

Beginning fund balance	$ 297,183
Interest income and collection fees	37,404
Loan write-offs and expenses	(40,907)
Ending fund balance	$ 293,680

16. RETIREMENT AND PENSION SYSTEMS

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, 2002. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

<u>Optional Retirement Plans</u>

Full-time faculty and certain administrative staff participate in a defined contribution plan administered by five different providers rather than the VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments Tax-Exempt Services and MetLife Resources, Great-West Life Assurance Co., T. Rowe Price Associates, and VALIC. This plan is a fixed-contribution program where the retirement benefits received are based upon the employer's 5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends. Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $1,092,176 for year ended June 30, 2002. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $10,501,692 for fiscal year 2002.

Norfolk State University (the "University") established the Norfolk State University Supplemental Retirement Plan for Faculty (the "Plan") effective January 1, 2000, to effectuate its policy regarding early retirement of faculty members. The Plan is intended to provide a financial early retirement incentive for certain tenured faculty who are selected to participate in the Plan, thereby, providing the University with increased flexibility in the allocation of faculty positions among academic departments in order to meet changing enrollment demands. The Plan is intended to be a qualified plan within the meaning of section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is a governmental plan within the meaning of section 414(d) of the Code. As a governmental plan, the Plan is not subject to the Employee Retirement Income Security Act of 1974, as amended. As of June 20, 2002, assets and liabilities for the supplemental retirement plan totaled $401,192.

17. 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.*

18. 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, 2002, the University estimates that no material liabilities will result from such audits or questions.

Litigation

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

19. 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*.

SUPPLEMENTARY INFORMATION

NORFOLK STATE UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUE AND EXPENDITURES
For the Year Ended June 30, 2002

	Food Services	Residential Facilities	Student Activities	Student Center	Athletics	Parking
Revenues:						
Student fees	$ 444,511	$ -	$ 681,301	$ 352,036	$ 5,857,822	$ 216,742
Sales and services	4,140,016	6,405,384	434,170	52,242	684,210	607,934
Rental and other income	-	21,207	6,578	-	28,330	-
	4,584,527	6,426,591	1,122,049	404,278	6,570,362	824,676
Expenses of operation:						
Personal service	-	591,295	12,172	133,610	1,539,086	239,508
Fringe benefits	-	184,176	1,628	39,840	385,656	70,509
Contractual services	3,525,136	536,750	694,245	-	732,627	-
Supplies and materials	19,568	186,607	162,659	44,746	165,440	104,401
Current charges and obligations	146,162	1,549,060	130,776	100,212	475,929	17,813
Equipment	-	78,661	26,705	11,408	24,865	213,656
Scholarships and fellowships	-	711,735	265,419	-	1,861,762	-
Auxiliary administration expense	-	388,006	159,578	36,122	682,382	79,774
Total expenses of operation	3,690,866	4,226,290	1,453,182	365,938	5,867,747	725,661
Excess (deficiency) of revenues over (under) expenses of operation before transfers	893,661	2,200,301	(331,133)	38,340	702,615	99,015
Nonoperating revenue:						
Gifts and grants	-	-	46,177	-	91,814	-
Transfers:						
Mandatory:						
Debt service and sinking fund	(362,061)	(1,362,432)	-	-	(946,045)	-
Nonmandatory - (To)/From other funds	-	191,750	136,920	-	29,707	14,939
Net increase (decrease) in fund balances	531,600	1,029,619	(148,036)	38,340	(121,909)	113,954
Fund balances at July 1, 2001	(67,041)	(705,098)	474,476	770,241	(769,079)	678,915
Fund balances at June 30, 2002	$ 464,559	$ 324,521	$ 326,440	$ 808,581	$ (890,988)	$ 792,869

Printing Services	Auxiliary Administration	Contingency Fund	Auxiliary Security	Fitness Center	Telephone Services	Auxiliary Enhancement	Total
$ -	$ -	$ 260,259	$ 852,559	$ -	$ -	$ 681,622	$ 9,346,852
356,338	130,348	-	-	-	10,195	418,623	13,239,460
-	5,312	-	-	-	-	-	61,427
356,338	135,660	260,259	852,559	-	10,195	1,100,245	22,647,739
32,244	293,429	-	417,986	50,237	-	-	3,309,567
12,785	77,133	-	61,787	11,500	-	-	845,014
293,916	18,178	-	-	-	-	590,239	6,391,091
13,147	31,399	-	28,981	591	-	1,873	759,412
28,904	-	-	84,688	6,388	-	30,946	2,570,878
-	10,053	-	3,000	5,827	-	4,945	379,120
-	-	-	-	-	-	-	2,838,916
42,321	(257,610)	-	64,326	8,280	-	202,897	1,406,076
423,317	172,582	-	660,768	82,823	-	830,900	18,500,074
(66,979)	(36,922)	260,259	191,791	(82,823)	10,195	269,345	4,147,665
-	-	-	-	-	-	-	137,991
-	-	-	-	-	-	-	(2,670,538)
-	36,922	-	-	-	-	-	410,238
(66,979)	-	260,259	191,791	(82,823)	10,195	269,345	2,025,356
(117,894)	11,500	4,793,227	(728,486)	306,773	140,468	1,422,930	6,210,932
$ (184,873)	$ 11,500	$ 5,053,486	$ (536,695)	$ 223,950	$ 150,663	$ 1,692,275	$ 8,236,288