



## **2013-2014 Financial Statements**

**NORFOLK STATE UNIVERSITY**  
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January 20, 2015

Mr. Eddie N. Moore, Jr., Interim President/CEO and the Board of Visitors  
Norfolk State University  
700 Park Avenue  
Norfolk, VA 23504

The official Financial Statements of Norfolk State University (NSU) for the fiscal year ended June 30, 2014 are hereby submitted. The statements include an accompanying statement of net position, statement of revenues, expenses, changes in net position and statement of cash flows, along with accompanying notes and schedules.

These financial statements were prepared in conformity with Generally Accepted Accounting Principles and represent a comprehensive record of the financial position of NSU operations for the fiscal year ended June 30, 2014.

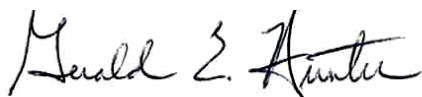
Responsibility for both the accuracy and the completeness of the data and the fairness of presentation, including disclosures is the responsibility of University management. University management assumes full responsibility and to the best of our knowledge and belief asserts that the information is accurate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

The Commonwealth of Virginia Auditor of Public Accounts audited and rendered an opinion on the University's financial statements on pages 37-40 and issued a report on internal control titled "Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other matters", dated January 20, 2015.

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

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

Sincerely,



Gerald E. Hunter  
Vice President  
Finance and Administration

# NORFOLK STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of Norfolk State University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2014. Note that although the University's foundations identified as component units under GASB Statement No. 14, as amended by GASB Statement No. 39 and 61 are reported in the financial statements, they are excluded from this MD&A, except where specifically noted. Comparative numbers, where presented, are for the fiscal year ended June 30, 2013. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, notes to the financial statements, and other supplementary information. University management is responsible for all of the financial information presented, including this discussion and analysis.

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

### Statement of Net Position

The Statement of Net Position presents the University's assets, liabilities, deferred inflows and net position as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2014. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net Position is divided into three major categories. The first category, net investment in capital assets, represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is restricted which is divided into two categories in the financial statements, nonexpendable and expendable. Restricted nonexpendable net position consists solely of the permanent endowment fund and is only available for investment purposes. As of June 30, 2014, the University does not have any permanent endowments. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by the donors and/or external entities that have placed time or purpose restrictions on the use of the asset. Unrestricted net position is available to the University for any lawful purpose of the University.

**NORFOLK STATE UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Condensed Summary of Net Position**  
(amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2014	Restated 2013	Amount	Percent
<b>Assets:</b>				
Current	\$ 37,610	\$ 40,642	\$ (3,032)	-7%
Capital, net of accumulated depreciation	227,036	199,698	27,338	14%
Other non-current	14,549	18,178	(3,629)	-20%
<b>Total assets</b>	<b>279,195</b>	<b>258,518</b>	<b>20,677</b>	<b>8%</b>
<b>Liabilities:</b>				
Current	22,320	27,280	(4,960)	-18%
Non-current	48,383	51,298	(2,915)	-6%
<b>Total liabilities</b>	<b>70,703</b>	<b>78,578</b>	<b>(7,875)</b>	<b>-10%</b>
Deferred Inflows	61	66	(5)	-8%
<b>Total liabilities and deferred inflows</b>	<b>70,764</b>	<b>78,644</b>	<b>(7,880)</b>	<b>-10%</b>
<b>Net position:</b>				
Net investment in capital assets	181,014	151,119	29,895	20%
Unrestricted	27,417	28,755	(1,338)	-5%
<b>Total net position</b>	<b>\$ 208,431</b>	<b>\$ 179,874</b>	<b>\$ 28,557</b>	<b>16%</b>

**Comments:**

The University's financial position remained strong at the end of the fiscal year 2014 with an increase in total assets of \$20.7 million or 8%. Current assets decrease \$3.0 million or 7% primarily due to the decrease in cash, which pertains to the decrease in federal grants and contracts and auxiliary enterprises. Capital Assets increased \$27.3 million or 14% due to the continued construction costs related to the new Nursing Building and renovations to the Wilder center. Other non-current assets decreased by \$3.6 million or 20% due to decrease in appropriations due from primary government. Current liabilities decreased \$5.0 million or 18% due to a decrease in the accounts payable balance due from the reduction of construction costs at year end. Non-current liabilities decreased \$3.0 million or 6% due to normal payment of debt. The overall financial position of the University improved over the prior fiscal year as evidence by the growth in net position of \$28.6 or 16%.

# NORFOLK STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Statement of Revenues, Expenses, and Changes in Net Position**

Changes in total Net Position as presented on the Statement of Net Position are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the University's operating and 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 expense.

Non-operating 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.

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

**NORFOLK STATE UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

	<u>As of June 30,</u>		<u>Increase/(Decrease)</u>	
	<u>2014</u>	<u>Restated 2013</u>	<u>Amount</u>	<u>Percent</u>
<b>Operating revenues:</b>				
Student tuition and fees, net of scholarship allowances of \$10,418 and \$10,342	\$ 27,012	\$ 25,769	\$ 1,243	5%
Federal grants and contracts	16,246	18,566	(2,320)	-12%
State grants and contracts	335	399	(64)	-16%
Nongovernmental grants and contracts	1,691	2,225	(534)	-24%
Public service	394	376	18	5%
Auxiliary enterprises, net of scholarship allowances of \$12,582 and \$12,611	26,296	28,175	(1,879)	-7%
Other operating revenues	503	437	66	15%
Total operating revenues	<u>72,477</u>	<u>75,947</u>	<u>(3,470)</u>	<u>-5%</u>
<b>Operating expenses:</b>				
Instructional	37,076	37,366	(290)	-1%
Research	6,413	7,046	(633)	-9%
Public service	867	783	84	11%
Academic support	15,802	14,865	937	6%
Student services	4,384	4,900	(516)	-11%
Institutional support	12,912	8,625	4,287	50%
Operation and maintenance - plant	13,543	11,526	2,017	17%
Depreciation expense	11,504	10,656	848	8%
Student Aid	20,697	21,083	(386)	-2%
Auxiliary activities	23,505	24,934	(1,429)	-6%
Loss on disposal of assets	236	1,999	(1,763)	-88%
Total operating expenses	<u>146,939</u>	<u>143,783</u>	<u>3,156</u>	<u>2%</u>
Operating loss	<u>(74,462)</u>	<u>(67,836)</u>	<u>(6,626)</u>	<u>10%</u>
Net non-operating revenues	<u>65,249</u>	<u>58,698</u>	<u>6,551</u>	<u>11%</u>
Increase (decrease) before other revenues, expenses, gains or losses	(9,213)	(9,138)	(75)	1%
Net other revenues	<u>37,770</u>	<u>13,028</u>	<u>24,742</u>	<u>190%</u>
Increase in net position	28,557	3,890	24,667	634%
Net position - beginning of the year	179,874	175,984	3,890	2%
Net position - end of year	<u>\$ 208,431</u>	<u>\$ 179,874</u>	<u>\$ 28,557</u>	<u>16%</u>

**NORFOLK STATE UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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**Comments:**

Operating revenues primarily consist of tuition and fees, auxiliary enterprises and revenues from grants and contracts. The 5% or \$3.5 million decrease is mainly attributed to a decrease in grants and contracts and auxiliary enterprises. Operating expenses increase by \$3.2 million or 2% mainly due to the increase expenses in institutional support expenses. Net Non-Operating Revenues and Expenses increased by \$6.6 million or 11% mainly due to the increase state appropriation and other non-operating revenues. Net Other Revenues increased by \$24.7 million or 190% due to the increase of capital bond proceeds received from the 21<sup>ST</sup> Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Nursing Building, maintenance reserve projects and renovations of the Wilder Center.

**Statement of Cash Flows**

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$26.4 million), grants and contracts (\$18.8 million), and auxiliary enterprises receipts (\$26.3 million). Major uses of cash include payments for salaries, wages, and fringe benefits (\$82.0 million), payments for scholarships and fellowships (\$20.7 million), payments for services and supplies (\$34.4 million) and payments for utilities (\$3.6 million).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid (\$54.1 million) and Pell grants (\$16.8 million). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from bond issues (\$36.5 million). Significant cash outflows include the purchase of capital assets (\$37.5 million), repayment of principal on capital related debt (\$3.1 million), and interest paid on capital debt (\$2 million). Cash flows from investing activities include interest from 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 Position.

**Summary Statement of Cash Flows**  
**(amounts in thousands)**

	<b>As of June 30,</b>		<b>Increase/(Decrease)</b>	
	<b>2014</b>	<b>2013</b>	<b>Amount</b>	<b>Percent</b>
Cash flows from operating activities	\$ (67,131)	\$ (48,538)	\$ (18,593)	38.3%
Cash flows from noncapital financing activities	70,556	53,274	\$ 17,282	32.4%
Cash flows from capital financing activities	(5,161)	(16,070)	\$ 10,909	-67.9%
Cash flows from investing activities	1	47	\$ (46)	-97.9%
Net change in cash	\$ (1,735)	\$ (11,287)	\$ 9,552	-84.6%



# NORFOLK STATE UNIVERSITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### Capital Asset and Debt Administration

Overall, invested in capital assets, net of accumulated depreciation increased \$32.7 million due ongoing campus construction as indicated in Note 4. The University continues to maintain and upgrade current structures across campus and have completed \$4.4 million of building and infrastructure improvement projects during fiscal year 2014. Construction projects in progress include the new Nursing and Allied Health Building with an anticipated completion date of December 2014.

As calculated under the State Council of Higher Education in Virginia's formula, the University's 2014 debt service to expenditures ratio was 2.08%. This ratio measures the University's ability to satisfy its long-term debt as it becomes due.

Overall, unpaid construction and other related contractual commitments on capital projects decreased from \$22.9 million in 2013 to \$2.21 million in 2014 due to the Nursing building project nearing completion. Construction in progress totaled \$47.8 million as of June 30, 2014.

### Economic Outlook

As one of Virginia's comprehensive higher education institutions, the University's economic outlook is closely tied to the Commonwealth of Virginia (Commonwealth). Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). There is a direct correlation between the amount of state appropriations and establishment of tuition and fees. As such, tuition and fee rates are largely dependent upon ongoing financial support from the state government. State appropriations currently cover 45.10% of operating expenses, excluding auxiliary activities and depreciation.

The University's financial position improved with an overall increase of \$28.6 million in Net Position for the 2014 fiscal year. The increase is largely attributed to the increase in capital bond proceeds related to the funding for the construction of the Nursing Building, renovations of the Wilder Center, and the maintenance and upgrades across campus.

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

**NORFOLK STATE UNIVERSITY**  
**STATEMENT OF NET POSITION**

JUNE 30, 2014

	<u>Norfolk State University</u>	<u>Component Units</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 2)	\$ 20,821,205	\$ 1,741,642
Cash held for securities lending (Note 2)	2,672,667	-
Restricted cash and cash equivalents	-	400,058
Short-term investments (Note 2)	86,532	106,178
Accounts receivable, net of allowance for doubtful accounts of \$432,081 (Note 3)	5,031,765	-
Contributions receivable, net of allowance for doubtful accounts of \$77,360 (Note 3)	-	242,566
Due from the Commonwealth	8,271,345	-
Prepaid expenses	398,537	143,229
Notes receivable, net of allowance for doubtful accounts of \$377,276	328,165	-
Other assets	-	1,538,407
<b>Total current assets</b>	<u>37,610,216</u>	<u>4,172,080</u>
<b>Noncurrent assets:</b>		
Restricted cash and cash equivalents (Note 2)	6,410,038	2,927,374
Appropriation available/due from primary government	6,796,012	-
Investments	-	27,340,360
Contributions receivable, net of allowance for uncollectible contributions of \$48,406	-	159,584
Notes receivable, net of allowance for doubtful accounts of \$2,146,268	1,342,695	-
Nondepreciable capital assets (Note 4)	53,702,894	570,384
Depreciable capital assets, net (Note 4)	173,332,874	23,332,960
<b>Total noncurrent assets</b>	<u>241,584,513</u>	<u>54,330,662</u>
<b>Total Assets</b>	<u>\$ 279,194,729</u>	<u>\$ 58,502,742</u>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses (Note 5)	\$ 11,190,688	\$ 417,501
Unearned revenue	2,987,344	20,943
Obligations under securities lending	2,759,199	-
Deposits held in custody for others	1,267,625	-
Long-term liabilities - current portion (Note 6)	4,115,011	320,000
<b>Total current liabilities</b>	<u>22,319,867</u>	<u>758,444</u>
Noncurrent liabilities (Note 6)	48,382,715	33,481,124
<b>Total Liabilities</b>	<u>70,702,582</u>	<u>34,239,568</u>
Deferred inflows	61,086	-
<b>Total Liabilities and deferred inflows</b>	<u>70,763,668</u>	<u>34,239,568</u>
<b>Net position:</b>		
Net investment in capital assets	181,014,407	(7,505,954)
Restricted for:		
Nonexpendable	-	8,686,517
Expendable	-	16,521,288
Unrestricted	27,416,654	6,561,323
<b>Total Net Position</b>	<u>\$ 208,431,061</u>	<u>\$ 24,263,174</u>

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

**NORFOLK STATE UNIVERSITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGE OF NET POSITION**

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Norfolk State University</u>	<u>Component Units</u>
<b>Operating revenues:</b>		
Student tuition and fees, net of scholarship allowances of \$10,418,241	\$ 27,012,439	\$ -
Federal grants and contracts	16,246,420	-
State grants and contracts	334,058	-
Nongovernmental grants and contracts	1,690,844	-
Public service	393,463	-
Auxiliary enterprises, net of scholarship allowances of \$12,582,432	26,296,239	-
Other operating revenues	503,421	4,875,038
Total operating revenues	<u>72,476,884</u>	<u>4,875,038</u>
<b>Operating expenses:</b>		
Instructional	37,076,121	-
Research	6,413,366	-
Public service	866,995	-
Academic support	15,802,038	-
Student services	4,384,137	-
Institutional support	12,911,734	4,380,608
Operation and maintenance - plant	13,542,900	1,369,462
Depreciation expense	11,504,256	1,188,519
Student Aid	20,696,077	796,311
Auxiliary activities	23,505,006	-
Loss of disposal of assets	236,421	-
Total operating expenses (Note 8)	<u>146,939,051</u>	<u>7,734,900</u>
Operating loss	<u>(74,462,167)</u>	<u>(2,859,862)</u>
<b>Non-operating revenues:</b>		
State appropriations (Note 9)	50,477,266	-
Investment income net of investment expense	627	470,388
Realized/unrealized gain on investments	-	3,566,034
Unrealized gain on interest rate swap	-	574,283
Interest on capital asset - related debt	(1,985,044)	-
Gifts	987,630	1,615,329
Pell grants	16,757,504	-
Other non-operating revenues	(988,906)	35,748
Net non-operating revenues	<u>65,249,077</u>	<u>6,261,782</u>
Increase (decrease) before other revenues, expenses, gains or losses	<u>(9,213,090)</u>	<u>3,401,920</u>
Capital bond proceeds	36,954,350	-
Capital gifts and grants	815,854	-
Contributions to permanently restricted endowments	-	166,096
Net other revenues	<u>37,770,204</u>	<u>166,096</u>
Increase in net position	28,557,114	3,568,016
Net position - beginning of the year (restated)	<u>179,873,947</u>	<u>20,695,158</u>
Net position - end of year	<u>\$ 208,431,061</u>	<u>\$ 24,263,174</u>

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

**NORFOLK STATE UNIVERSITY**  
**STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED JUNE 30, 2014

**Cash flows from operating activities:**

Student tuition and fees	\$ 26,374,781
Grants and contracts	18,773,284
Public service	393,463
Auxiliary enterprises	26,294,622
Other receipts	503,421
Payments to employees	(61,994,113)
Payments for fringe benefits	(20,022,249)
Payments for services and supplies	(34,436,446)
Payments for utilities	(3,632,002)
Payments scholarships and fellowships	(20,696,077)
Payments for non-capitalized plant improvements and equipment	822,901
Collections of loans from students	2,854,521
Loans issued to students	(2,367,046)
Net cash used in operating activities	<u>(67,130,940)</u>

**Cash flows from non-capital financing activities:**

State appropriations	54,146,552
Gifts and grants for other than capital purposes	987,630
Direct lending receipts	53,881,620
Direct lending payments	(53,881,620)
Agency receipts	44,676,288
Agency payments	(45,023,067)
Pell grant receipts	16,757,504
Other non-operating revenues	(988,906)
Net cash provided by non-capital financing activities	<u>70,556,001</u>

**Cash flows from capital financing activities:**

Capital gifts	815,854
Proceeds from bond issues	36,533,174
Purchase of capital assets	(37,469,840)
Principal paid on capital debt, leases and installments	(3,055,139)
Interest paid on capital debt, leases and installments	(1,985,044)
Net cash used in capital financing activities	<u>(5,160,995)</u>

**Cash flows from investing activities:**

Interest on investments	627
Net cash provided by investing activities	<u>627</u>

Net decrease in cash and cash equivalents	(1,735,307)
Cash and cash equivalents - beginning of year	28,966,550
Cash and cash equivalents - end of year	<u>\$ 27,231,243</u>

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

**NORFOLK STATE UNIVERSITY**  
**STATEMENT OF CASH FLOWS (CONTINUED)**

*FOR THE YEAR ENDED JUNE 30, 2014*

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RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH  
USEB BY OPERATING ACTIVITIES:

Operating loss	\$ (74,462,167)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	11,504,256
Loss on disposal of assets	236,421
Change in assets and liabilities:	
Receivables, net	446,900
Notes receivable, net	487,475
Prepaid expenses	728,320
Accounts payable and accrued expenses	(5,359,153)
Unearned revenue	(584,213)
Accrued compensated absences	(128,779)
Net cash used in operating activities	<u>\$ (67,130,940)</u>

# NORFOLK STATE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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### Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

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

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

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

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

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

During the year ended June 30, 2014, the Norfolk State University Foundation, Inc. and the Athletics Foundation of Norfolk State, Inc. made distributions of \$641,943 and \$345,686, respectively, to or on behalf of the University for both restricted and unrestricted purposes.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Basis of Presentation

Norfolk State University prepares its financial statements in conformity with accounting principles generally accepted in the United States of America. As a public institution, the University adheres to standards promulgated by the Governmental Accounting Standards Board (GASB). 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 and 35 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.

In June 2011, the GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net position*, effective for the University’s fiscal year ended June 30, 2013. This statement modifies the presentation of deferred inflows and deferred out-flows in the financial statements and establishes the concept of net position.

In March 2012, the GASB issued Statement 65, *Items Previously Reported as Assets and Liabilities*, effective for the University’s fiscal year beginning July 1, 2013. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The effect of the changes from the implementation of GASB 65 on the University’s financial statements for the year ended June 30, 2013, was as follows:

<b>Net Position (in thousands)</b>	<b>2013 Balance Previously Issued</b>	<b>Change</b>	<b>2013 Ending Balance As Restated in MD&amp;A</b>
Current	\$ 27,285	\$ (5)	\$ 27,280
Non-current	51,359	(61)	51,298
Total liabilities	78,644	(66)	78,578
Deferred inflow s of resources	0	66	66
Total liabilities and deferred inflow s of resources	\$ 78,644	\$ -	\$ 78,644

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

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

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**Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Basis of Accounting

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

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

D. Cash and Cash Equivalents

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

E. Investments

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

F. Prepaid Expenses

As of June 30, 2014, the University's prepaid expenses included items such as insurance premiums, advertising, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications.

G. Receivables

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

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, intangible assets, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value.



**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

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**Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Capital Assets (continued)

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

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

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

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

I. Non-current Cash and Investments

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

J. Unearned Revenue

Unearned revenue represents monies received, but not earned as of June 30, 2014. 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.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

K. Accrued Compensated Absences

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

L. Non-current Liabilities

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

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. Deferred Outflows of Resources

Deferred outflows of resources is defined as the consumption of net assets applicable to a future reporting period. The deferred outflows of resources has a positive effect on net position similar to assets.

O. Deferred Inflows of Resources

Deferred inflows of resources is defined as the acquisition of net assets applicable to future reporting period. The deferred inflows of resources has a negative effect on net position similar to liabilities.

P. Net Position

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

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

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

P. Net Position (continued)

Restricted Net Position:

Nonexpendable – represents endowment and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal; is to be maintained in perpetuity.

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

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

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

Q. 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.

R. Scholarship Discounts and Allowances

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

# NORFOLK STATE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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### Note 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

#### A. Investments

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

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

Concentration of Credit Risk – Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represents 5% or more of total investments. As of June 30, 2014, 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 risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University does not have investments in foreign currency.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

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

B. Securities Lending Transactions

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

C. Credit and Concentration of Credit Risks

	<u>Fair Value</u>	<u>0-3 Months</u>	<u>Credit Rating</u>
<b>Cash Equivalents:</b>			
Repurchase Agreements	\$ 2,915,594	\$ 2,915,594	A-1
Money Market Funds	853,762	853,762	A-1
SNAP	1,848,381	1,848,381	AAAm
Securities Lending	2,672,667	2,672,667	Unrated
<b>Investments:</b>			
Security Lending	86,532	86,532	Unrated
<b>Totals</b>	<u>\$ 8,376,936</u>	<u>\$ 8,376,936</u>	

The Norfolk State University Foundation's investments are managed by external investment managers in compliance with investments guidelines established by the Board of Directors. Financial instruments, which potentially subject the Foundation to concentration of credit risk, consist principally of cash, investments, and pledges receivable. The Foundation places unrestricted cash and temporary overnight investments with high credit quality financial institutions. At June 30, 2014, the Foundation did not have funds in excess of the FDIC limit. Pledges receivable include one pledge that is approximately 53% of gross pledges receivable.

As of June 30, 2014, the Norfolk State University Foundation held the following investments:

<u>Investments:</u>	<u>Total Fair Value</u>
Commonfund - multi strategy equity fund	\$ 17,847,806
Commonfund - multi strategy bond fund	7,628,376
Securities and money market funds	1,536,385
Commonfund - Capital Partner IV	228,610
Exchange traded funds	18,905
Other	80,278
<b>Total</b>	<u>\$ 27,340,360</u>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

**Note 3—ACCOUNTS RECEIVABLE**

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	\$ 1,592,097
Federal, state and nongovernmental grants and contracts	3,594,033
Other receivables	<u>277,716</u>
Gross receivables	5,463,846
Less: Allowance for doubtful accounts	<u>(432,081)</u>
Net accounts receivable	<u>\$ 5,031,765</u>

Accounts Receivable-Component Units

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

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

Pledges receivable represent pledges made by individuals, corporations, and organizations for various purposes. The following details the timing of expected receipts on pledges receivable at June 30, 2014:

Contributions currently due	\$ 242,566
Contributions due in one to five years	88,880
Contributions due in more than five years	196,470
Less - time value discount	(48,406)
Less - allowance for uncollectible pledges	<u>(77,360)</u>
Non-current contributions receivable	<u>159,584</u>
Total contributions receivable	<u>\$ 402,150</u>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 4—CAPITAL ASSETS**

A summary of changes in the various capital asset categories for the year ended June 30, 2014, is presented as follows.

	<b>Beginning Balance</b>			<b>Ending Balance</b>
	<b>July 1, 2013 as restated (1)</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2014</b>
<b>Nondepreciable capital assets:</b>				
Land	\$ 5,941,099	\$ -	\$ -	\$ 5,941,099
Construction in progress	17,185,352	34,995,236	4,418,793	47,761,795
Total nondepreciable capital assets	<u>23,126,451</u>	<u>34,995,236</u>	<u>4,418,793</u>	<u>53,702,894</u>
<b>Depreciable capital assets:</b>				
Buildings	273,521,561	2,945,743	-	276,467,304
Infrastructure	6,052,709	1,473,053	-	7,525,762
Equipment	40,021,040	3,868,374	8,743,834	35,145,580
Other improvements	60,823	-	-	60,823
Software	1,060,520	180,389	-	1,240,909
Library materials	8,847,187	34,184	16,664	8,864,707
Total depreciable capital assets	<u>329,563,840</u>	<u>8,501,743</u>	<u>8,760,498</u>	<u>329,305,085</u>
<b>Less accumulated depreciation for:</b>				
Buildings	112,048,588	8,449,931	-	120,498,519
Infrastructure	5,309,572	94,438	-	5,404,010
Equipment	26,704,859	2,565,700	8,507,413	20,763,146
Other improvements	42,788	10,340	-	53,128
Software	414,488	217,710	-	632,198
Library materials	8,471,737	166,137	16,664	8,621,210
Total accumulated depreciation	<u>152,992,032</u>	<u>11,504,256</u>	<u>8,524,077</u>	<u>155,972,211</u>
<b>Depreciable capital assets, net</b>	<u>176,571,808</u>	<u>(3,002,513)</u>	<u>236,421</u>	<u>173,332,874</u>
Total capital assets, net	<u>\$ 199,698,259</u>	<u>\$ 31,992,723</u>	<u>\$ 4,655,214</u>	<u>\$ 227,035,768</u>

Note (1): Beginning balance have been restated by \$3,090,016 as discussed in Note 16 for construction in progress, infrastructure, depreciable equipment, library materials and accumulated depreciation for equipment and library materials.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 4—CAPITAL ASSETS (CONTINUED)**

Capital Assets – Component Units

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	NSU Research and Innovation Foundation and Affiliates	Total
<b>Nondepreciable capital assets:</b>				
Land	\$ 24,310	\$ -	\$ -	\$ 24,310
Development Costs	-	-	546,074	546,074
Total nondepreciable capital assets	<u>24,310</u>	<u>-</u>	<u>546,074</u>	<u>570,384</u>
<b>Depreciable capital assets:</b>				
Buildings	-	-	28,137,869	28,137,869
Equipment	857,082	43,424	3,316,581	4,217,087
Total depreciable capital assets	<u>857,082</u>	<u>43,424</u>	<u>31,454,450</u>	<u>32,354,956</u>
<b>Less accumulated depreciation</b>	<u>(610,711)</u>	<u>(40,979)</u>	<u>(8,370,306)</u>	<u>(9,021,996)</u>
Total depreciable capital assets, net	<u>246,371</u>	<u>2,445</u>	<u>23,084,144</u>	<u>23,332,960</u>
Total capital assets, net	<u>\$ 270,681</u>	<u>\$ 2,445</u>	<u>\$ 23,630,218</u>	<u>\$ 23,903,344</u>

**Note 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

Accounts payable and accrued expenses consisted of the following at June 30, 2014:

Vendors and suppliers accounts payable	\$ 4,306,218
Employee salaries, wages, and fringe benefits payable	4,379,963
Accrued interest payable	683,903
Retainage payable	1,770,986
Spartan Suites rent and scholarships	<u>49,618</u>
Total accounts payable and accrued liabilities	<u>\$ 11,190,688</u>



**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 6—NON-CURRENT LIABILITIES**

The University, Norfolk State University Research and Innovation Foundation and Affiliates and Norfolk State University Foundation, Inc.'s non-current liabilities consist of long-term debt (further described in Note 7) and other non-current liabilities. A summary of changes in non-current liabilities for the year ended June 30, 2014, is presented as follows:

<b>University</b>	<b>Beginning Balance (1)</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Bonds payable 9c and 9d	\$ 4,414,601	\$ -	\$ 696,381	\$ 3,718,220	\$ 730,503
Notes payable	35,966,946	-	1,194,880	34,772,066	1,255,377
Installment purchases	8,102,224	438,246	1,044,998	7,495,472	1,214,073
Unamortized bond discount	(122,075)	-	(18,135)	(103,940)	(19,037)
Unamortized bond premium	2,059,154	-	132,316	1,926,838	132,316
<b>Total long-term debt</b>	<b>50,420,850</b>	<b>438,246</b>	<b>3,050,440</b>	<b>47,808,656</b>	<b>3,313,232</b>
Accrued compensated absences	3,290,922	1,429,552	1,558,331	3,162,143	801,779
Federal loan capital contributions	1,526,927	-	-	1,526,927	-
<b>Total long-term liabilities</b>	<b>\$55,238,699</b>	<b>\$ 1,867,798</b>	<b>\$ 4,608,771</b>	<b>\$52,497,726</b>	<b>\$ 4,115,011</b>

Note (1): Beginning balance of noncurrent liabilities was revised to reclassify retainage payable to current liabilities and deferred gain on refunding of debt to deferred inflows in accordance with GASB 65.

<b>Research and Innovation Foundation and Affiliates</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Bonds payable	\$31,490,000	\$ -	\$ 255,000	\$31,235,000	\$ 320,000
Notes payable	403,460	-	229,162	174,298	-
<b>Total long-term debt</b>	<b>31,893,460</b>	<b>-</b>	<b>484,162</b>	<b>31,409,298</b>	<b>320,000</b>
Derivative - interest rate swap	2,783,788	-	574,283	2,209,505	-
<b>Total long-term liabilities</b>	<b>\$34,677,248</b>	<b>\$ -</b>	<b>\$ 1,058,445</b>	<b>\$33,618,803</b>	<b>\$ 320,000</b>

<b>Norfolk State University Foundation, Inc. and Subsidiary</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term liabilities:					
Split-interest agreement	\$ 178,095	\$ 4,226	\$ -	\$ 182,321	\$ -
<b>Total long-term liabilities</b>	<b>\$ 178,095</b>	<b>\$ 4,226</b>	<b>\$ -</b>	<b>\$ 182,321</b>	<b>\$ -</b>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 7—LONG-TERM DEBT**

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

The Virginia College Building Authority (VCBA) issued 9(d) VCBA pooled bonds in previous fiscal years, the proceeds of which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on other debt. The notes representing that other debt are therefore considered defeased. Accordingly, the trust account's assets and liabilities for the defeased notes are not included in the University's financial statements. On June 30, 2012, \$8,956,000 of Notes from Series 2004A bonds were considered defeased. As of June 30, 2014 \$7,865,000 remains outstanding from the Series 2004 A bonds.

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, 2014, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements are for five years and the interest rates charged are from 1.207 % to 4.500 %.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

**Note 7—LONG-TERM DEBT (CONTINUED)**

	<u>Interest Rates (%)</u>	<u>Maturity</u>	<u>Balance at June 30, 2014</u>
<b>Revenue bonds:</b>			
Dormitories:			
Phyllis Wheatley and Rosa Alexander 1982 (d)	3.00	2022	\$ 1,163,220
Athletic facility:			
Dick Price Stadium Series 1996 (d)	5.125 - 5.375	2018	<u>2,555,000</u>
<b>Total revenue bonds</b>			3,718,220
<b>Notes payable:</b>			
Brambleton Center, series 1998		2019	132,066
Student Center 2004A	4.625 - 5.00	2035	9,335,000
Student Center 2010A and 2010B	2.00 - 5.00	2030	17,440,000
Student Center 2012A refunding 2004A	2.75 - 5.00	2027	<u>7,865,000</u>
Total notes payable			34,772,066
Less: unamortized bond discount			(103,940)
Add: unamortized bond premium			1,926,838
<b>Net notes payable</b>			<u>36,594,964</u>
<b>Installments payable:</b>			
Master equipment lease program	1.207-1.175	2014 - 2019	733,598
Energy lease project	3.739 - 4.500	2016 - 2021	<u>6,761,874</u>
<b>Net installments payable</b>			<u>7,495,472</u>
<b>Total</b>			<u>\$ 47,808,656</u>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

**Note 7—LONG-TERM DEBT (CONTINUED)**

Long-term debt matures as follows:

<u>Year ending:</u>	<u>Principal</u>	<u>Interest</u>
2015	3,199,951	2,044,019
2016	3,329,330	1,900,582
2017	3,315,564	1,751,676
2018	3,288,081	1,606,242
2019	2,690,407	1,457,643
2020-2024	10,577,424	5,755,636
2025-2029	9,065,000	3,706,241
2030-2034	7,995,000	1,407,219
2035-2036	2,525,000	121,244
Unamortized Premium	1,926,838	-
Unamortized Discount	(103,939)	-
Total	<u>\$ 47,808,656</u>	<u>\$ 19,750,501</u>

Norfolk State University Research and Innovation Foundation and Affiliates Debt

In February 2005, the Norfolk State University Research and Innovation Foundation and Affiliates Debt entered into an agreement to finance the construction of a 620-bed student housing facility. The terms of the agreement obligate the Foundation pursuant to \$32,000,000 Tax-Exempt Variable Rate Demand Qualified 501(c)(3) Bonds Series 2005. The terms of the indenture call for varying annual maturities through July 1, 2034, with a variable interest rate determined based on the flexible weekly rate as determined by the remarketing agent; principal payments are due semiannually starting July 1, 2008. The terms of the agreement require a debt service coverage ratio of at least 1.2:1 beginning July 1, 2006. The balance due on this loan as of June 30, 2014 was \$31,235,000.

Notes payable to bank, interest at LIBOR plus 1.5% due monthly, principal payments to be escrowed by the Foundation beginning July 1, 2008 through July 1, 2015, secured by property and equipment is \$1,210,000. The balance as of June 30, 2014 was \$174,298.

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 7—LONG-TERM DEBT (CONTINUED)**

As of June 30, 2014, the Norfolk State University Research and Innovation Foundation and Affiliates bonds and notes payable mature as follows:

Future principal payments are as follows:

2015	320,000
2016	574,298
2017	480,000
2018	570,000
2019	660,000
2020-2024	4,975,000
2025-2029	8,575,000
2030-2034	13,590,000
2035	<u>1,665,000</u>
Total	<u>\$ 31,409,298</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 \$574,283 from changes in the swap contract's fair value during the fiscal year is included as unrealized gain on interest swap in the Statement of Revenues, Expenses and Changes in Net Position. The contract includes a provision for three optional early termination periods between January 2016 and January 2018. The balance as of June 30, 2014 was \$2,209,505.

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

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

**Note 8—EXPENSES BY NATURAL CLASSIFICATIONS**

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

	<b>Salaries and Wages</b>	<b>Fringe Benefits</b>	<b>Services and Supplies</b>	<b>Scholarship and Fellowship</b>	<b>Utilities</b>	<b>Plant and Equipment</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 26,317,454	\$ 7,735,802	\$ 2,612,669		\$ -	\$ 410,196	\$ -	\$ 37,076,121
Research	2,802,764	343,322	2,874,569	-	-	392,711	-	6,413,366
Public Service	439,951	112,608	298,030	-	-	16,406	-	866,995
Academic Support	8,791,500	2,594,934	1,502,470	-	-	2,913,134	-	15,802,038
Student Services	2,375,081	1,036,897	880,259	-	-	91,900	-	4,384,137
Institutional Support	9,556,720	3,828,668	(843,139)	-	-	369,485	-	12,911,734
Operations and Maintenance-Plant	4,355,946	1,886,707	10,703,631	-	2,258,173	(5,661,557)	-	13,542,900
Depreciation	-	-	-	-	-	-	11,504,256	11,504,256
Loss on disposal of Assets	-	-	-	-	-	236,421	-	236,421
Scholarship and Fellowship	-	-	-	20,696,077	-	-	-	20,696,077
Auxiliary Activities	7,239,631	2,483,311	11,700,647	-	1,373,829	707,588	-	23,505,006
<b>Total operating expenses</b>	<b>\$ 61,879,047</b>	<b>\$ 20,022,249</b>	<b>\$ 29,729,136</b>	<b>\$ 20,696,077</b>	<b>\$ 3,632,002</b>	<b>\$ (523,716)</b>	<b>\$ 11,504,256</b>	<b>\$ 146,939,051</b>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 9—STATE APPROPRIATIONS**

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

Original legislative appropriation:

Educational and general programs	\$ 40,473,227
Student financial assistance	8,219,664

Adjustments:

VIVA ILL allocation	4,084
Virginia military survivors and dependents	93,825
Two year college transfer grant	3,000
Interest earnings (chapter 890, item 465C)	53,947
Personnel cost	1,718,283
Brown vs. Board of Education	11,811
Reversion to the State - designation of general fund balances	(100,000)
Reversion to the State	(575)
Adjusted appropriation	<u>\$ 50,477,266</u>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 10—COMMITMENTS**

At June 30, 2014, the University was committed to construction contracts totaling approximately \$44,574,307. Outstanding commitments on these contracts totaled \$2,213,701 as of June 30, 2014.

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, 2014, was \$978,119

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, 2014, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2015	1,019,994
2016	813,877
2017	739,780
2018	758,264
2019	465,574
2020	475,026
Total	<u>4,272,515</u>



# NORFOLK STATE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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### Note 11—RETIREMENT PLANS

#### Virginia Retirement System

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

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2014. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled approximately \$5,381,021 for the year ended June 30, 2014. Changes to the Commonwealth's VRS plan were made effective June 25, 2012, which required all state employees, to contribute 5% toward VRS. Other changes were made to the Commonwealth's VRS plan effective July 1, 2014, which requires all new employees to participate in the Hybrid Plan. The contributions that were assumed by the employer were 8.76% and 14.80% for University Police. Contributions to VRS were calculated using the base salary amount of approximately \$38,728,294 for the year ended June 30, 2014. The University's total payroll was approximately \$62,774,696 for the fiscal year ended June 30, 2014.

#### Optional Retirement Plans

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

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately \$1,302,581 for year ended June 30, 2014. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$13,025,319 for fiscal year 2014.

#### Deferred Compensation Plan

State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period. During the fiscal year, the maximum match from the Commonwealth was \$20 per pay period or \$40 per month. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately \$119,660 for the fiscal year 2014.

# NORFOLK STATE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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### Note 12—POSTEMPLOYMENT BENEFITS

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

### Note 13—CONTINGENCIES

#### Grants and Contracts

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

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2014, the University estimates that no material liabilities will result from such audits or questions.

#### Litigation

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

### Note 14—RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 15—COMPONENT UNITS**

As of June 30, 2014:

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Norfolk State University Research and Innovation Foundation and Affiliates	Total
<b>Current assets:</b>				
Cash and cash equivalents	\$ 110,051	\$ 39,625	\$ 1,591,966	\$ 1,741,642
Restricted cash and cash equivalents	-	-	400,058	400,058
Short-term investments	-	106,178	-	106,178
Contributions receivable, net	233,612	8,954	-	242,566
Prepaid expenses	-	-	143,229	143,229
Other assets	206,310	-	1,332,097	1,538,407
Total current assets	<u>549,973</u>	<u>154,757</u>	<u>3,467,350</u>	<u>4,172,080</u>
<b>Noncurrent assets:</b>				
Restricted cash and cash equivalents	-	-	2,927,374	2,927,374
Investments	27,340,360	-	-	27,340,360
Contributions receivable, net	159,584	-	-	159,584
Nondepreciable capital assets	24,310	-	546,074	570,384
Depreciable capital assets, net	246,371	2,445	23,084,144	23,332,960
Total noncurrent assets	<u>27,770,625</u>	<u>2,445</u>	<u>26,557,592</u>	<u>54,330,662</u>
<b>Total Assets</b>	<u>\$ 28,320,598</u>	<u>\$ 157,202</u>	<u>\$ 30,024,942</u>	<u>\$ 58,502,742</u>
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	56,476	8,341	352,684	\$ 417,501
Unearned revenue	-	14,070	6,873	20,943
Long-term liabilities - current portion	-	-	320,000	320,000
Total current liabilities	<u>56,476</u>	<u>22,411</u>	<u>679,557</u>	<u>758,444</u>
Noncurrent liabilities	182,321	-	33,298,803	33,481,124
<b>Total Liabilities</b>	<u>238,797</u>	<u>22,411</u>	<u>33,978,360</u>	<u>34,239,568</u>
<b>Net position:</b>				
Net investment in capital assets	270,681	2,445	(7,779,080)	(7,505,954)
Restricted for:				
Nonexpendable	8,636,517	50,000	-	8,686,517
Expendable	16,440,801	80,487	-	16,521,288
Unrestricted	2,733,802	1,859	3,825,662	6,561,323
<b>Total Net Position</b>	<u>\$ 28,081,801</u>	<u>\$ 134,791</u>	<u>\$ (3,953,418)</u>	<u>\$ 24,263,174</u>

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2014

**Note 15—COMPONENT UNITS (CONTINUED)**

As of June 30, 2014:

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	Norfolk State University Research and Innovation Foundation and Affiliates	Total
<b>Operating revenues:</b>				
Other operating revenues	\$ -	\$ 365,438	\$ 4,509,600	\$ 4,875,038
Total operating revenues	-	365,438	4,509,600	4,875,038
<b>Operating expenses:</b>				
Institutional support	1,228,565	546,792	2,605,251	4,380,608
Operation and maintenance - plant	-	-	1,369,462	1,369,462
Depreciation expense	23,073	-	1,165,446	1,188,519
Student Aid	796,311	-	-	796,311
Total operating expenses	2,047,949	546,792	5,140,159	7,734,900
Operating loss	(2,047,949)	(181,354)	(630,559)	(2,859,862)
<b>Non-operating revenues:</b>				
Investment income net of investment expense	462,895	7,493	-	470,388
Realized/unrealized gain on investments	3,566,319	(285)	-	3,566,034
Unrealized gain on interest rate swap	-	-	574,283	574,283
Gifts	1,528,993	86,336	-	1,615,329
Other non-operating revenues	(9,265)	45,013	-	35,748
Net non-operating revenues	5,548,942	138,557	574,283	6,261,782
Increase (decrease) before other revenues, expenses, gains or losses	3,500,993	(42,797)	(56,276)	3,401,920
Contributions to permanently restricted endowments	166,096	-	-	166,096
Net other revenues	166,096	-	-	166,096
Increase in net position	3,667,089	(42,797)	(56,276)	3,568,016
Net position - beginning of the year	24,414,712	177,588	(3,897,142)	20,695,158
Net position - end of year	\$ 28,081,801	\$ 134,791	\$ (3,953,418)	\$ 24,263,174

**NORFOLK STATE UNIVERSITY**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2014*

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**Note 16—RESTATEMENT OF NET POSITION**

The following prior period adjustments were made to the beginning net position previously reported in the University's financial statements at June 30, 2013.

Net position as originally stated at June 30, 2013	\$177,019,964
Change in reporting for implementation of GASB No. 65, Items previously reported as assets and liabilities	(236,033)
Inventory valuation restatement due to results of physical inventory	<u>3,090,016</u>
Net position restated at June 30, 2013	\$179,873,947

**Note 17—SUBSEQUENT EVENTS**

On July 1, 2014, the University defeased two debt obligations that were close to maturity, Phyllis Wheatley and Rosa Alexander dormitories (Series 1982) and the Dick Price Stadium athletic facility (Series 1996). The University used funds that were held in reserves by the State Treasury to extinguish the remaining debt of \$1.2 million for the dormitories and \$2.6 million for the stadium. The bonds were called on July 1, 2014.

Action regarding Norfolk State University was taken by the Board of Trustees of the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) during its meeting held on December 7, 2014. The SACSCOC Board of Trustees reviewed the institution's First Monitoring Report and financial statements requested after review of a December 2013 Special Committee Report on standards related to finances, governance, and qualified administrative/academic officers. The information used as a basis for the review originated with newspaper and other media accounts. In addition, the review included a Monitoring Report stemming from a June 2014 Fifth-Year Interim Report submission. Based on the findings of these reviews, the Committee recommended that the institution be placed on Probation for 12 months for failure to comply with Core Requirement 2.2 (Governing board), Core Requirement 2.8 (Faculty), Core Requirement 2.11.1 (Financial resources and stability), Comprehensive Standard 3.2.5 (Board dismissal), Comprehensive Standard 3.2.6 (Board/administrative distinction), Comprehensive Standard 3.3.1.1 (Institutional effectiveness: educational programs), Comprehensive Standard 3.7.5 (Faculty role in governance), Comprehensive Standard 3.10.1 (Financial stability), Comprehensive Standard 3.10.2 (Financial aid audits), Comprehensive Standard 3.10.3 (Control of finances), Comprehensive Standard 3.10.4 (Control of sponsored research/external funds), Comprehensive Standard 3.11.1 (Control of physical resources), Comprehensive Standard 3.13.1 (Policy compliance), and Federal Requirement 4.7 (Title IV program responsibilities) of the Principles of Accreditation. The Committee also authorized a Special Committee. The institution is requested to submit a Second Monitoring Report due September 8, 2015, or not later than four weeks prior to the Special Committee visit, addressing the visiting committee's recommendations and the findings of the Compliance and Reports Committee applicable to the referenced standards of the Principles of Accreditation.

While the action taken by the SACSCOC to place NSU on probation is very serious, the institution continues to be accredited. The NSU Board of Visitors and administration are fully committed and prepared to implement all of the necessary corrective actions to satisfactorily address the cited compliance areas of concern.

# NORFOLK STATE UNIVERSITY

## HIGHLIGHTS

### FIVE YEARS IN REVIEW

FALL SEMESTER	2009-10	2010-11	2011-12	2012-13	2013-14
<b>ENROLLMENT</b>					
<b>Total</b>	<b>6,993</b>	<b>6,964</b>	<b>7,091</b>	<b>7,100</b>	<b>6,728</b>
In-state	5,712	5,752	5,932	6,004	5,773
Out-of-state	1,281	1,212	1,159	1,096	955
<b>FRESHMAN APPLICATIONS</b>					
<b>Number of Applications Received</b>	<b>5,317</b>	<b>3,967</b>	<b>4,163</b>	<b>4,231</b>	<b>3,373</b>
In-state	2,077	1,734	1,756	2,107	1,964
Out-of-state	3,240	2,233	2,407	2,124	1,409
<b>Number of Applications Accepted</b>	<b>3,348</b>	<b>2,521</b>	<b>2,811</b>	<b>2,847</b>	<b>2,192</b>
In-state	1,410	1,115	1,164	1,446	1,312
Out-of-state	1,938	1,406	1,647	1,401	880
<b>Number of Accepted Enrolled</b>	<b>1,205</b>	<b>942</b>	<b>923</b>	<b>1,088</b>	<b>818</b>
In-state	868	710	728	899	686
Out-of-state	337	232	195	189	132
<b>TRANSFER APPLICATIONS</b>					
<b>Number of Applications Received</b>	<b>1,112</b>	<b>1,214</b>	<b>1,216</b>	<b>995</b>	<b>959</b>
In-state	641	671	701	675	677
Out-of-state	471	543	515	320	282
<b>Number of Applications Accepted</b>	<b>954</b>	<b>1,042</b>	<b>1,075</b>	<b>868</b>	<b>854</b>
In-state	548	576	628	584	604
Out-of-state	406	466	447	284	250
<b>Number of Accepted Enrolled</b>	<b>428</b>	<b>471</b>	<b>499</b>	<b>534</b>	<b>496</b>
In-state	353	380	425	462	432
Out-of-state	75	91	74	72	64
<b>GRADUATE APPLICATIONS</b>					
<b>Number of Applications Received</b>	<b>498</b>	<b>433</b>	<b>409</b>	<b>335</b>	<b>344</b>
In-state	292	257	227	222	250
Out-of-state	206	176	182	113	94
<b>Number of Applications Accepted</b>	<b>448</b>	<b>346</b>	<b>302</b>	<b>247</b>	<b>261</b>
In-state	263	218	175	167	187
Out-of-state	185	128	127	80	74
<b>Number of Accepted Enrolled</b>	<b>333</b>	<b>225</b>	<b>216</b>	<b>187</b>	<b>175</b>
In-state	274	193	170	150	138
Out-of-state	59	32	46	37	37
<b>TUITION AND FEES</b>					
<b>Undergraduate</b>					
In-state	\$5,872	\$6,327	\$6,700	\$6,860	\$7,226
Out-of-state	\$17,931	\$19,380	\$20,343	\$20,360	20,696
<b>Graduate</b>					
In-state	\$8,069	\$8,577	\$9,115	\$9,388	9,916
Out-of-state	\$23,804	\$25,534	\$26,809	\$26,812	27,268
<b>ROOM AND BOARD</b>					
<b>Total Room and Board</b>	<b>\$7,329</b>	<b>\$7,622</b>	<b>\$7,927</b>	<b>\$8,130</b>	<b>\$8,374</b>
Room rates	\$4,670	\$4,857	\$5,051	\$5,254	5,412
Board rates	\$2,659	\$2,765	\$2,876	\$2,876	2,962



# Commonwealth of Virginia

*Auditor of Public Accounts*

Martha S. Mavredes, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

January 20, 2015

The Honorable Terence R. McAuliffe  
Governor of Virginia

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

Board of Visitors  
Norfolk State University

## **INDEPENDENT AUDITOR'S REPORT**

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Norfolk State University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

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

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

#### *Opinion*

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matter*

##### Restatement of 2013 Financial Statements

As discussed in Note 16 to the financial statements, the 2013 financial statements have been restated to correct a prior misstatement and implement Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.



## Subsequent Event

As discussed in Note 17 to the financial statements, in December 2014, the Southern Association of Colleges and Schools Commission on Colleges placed the University on probation for 12 months. Our opinion is not modified with respect to this matter.

## *Other Matters*

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the **Management's Discussion and Analysis** on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Other Information

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2015, on our consideration of the 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 in considering the University's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Matthew S. Mansfield".

AUDITOR OF PUBLIC ACCOUNTS

EMS/ah

**NORFOLK STATE UNIVERSITY**  
Norfolk, Virginia

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Clementine S. Cone, Executive Assistant to the President for University Compliance  
Paula Gentius, Assistant to the President  
Marty L. Miller, Athletics Director

\*Represents Board of Visitors and University Administrators as of June 30, 2014

**ACKNOWLEDGEMENTS**

The preparation of this report has been accomplished by the efficient and dedicated services of the staff of the University Controller's Office and various departments who have been assisted by the Auditor of Public Accounts. The contributions of all are invaluable and sincerely appreciated and clearly reflect the high standards which have been set by the University.

The following Controller's Office employees were instrumental in the preparation of this report:

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Bobbie Berger	Sherry Flegler	Jennifer Holmes	Stephanie Logan	Renee Stewart
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Dimitra Dales	Denise Henderson	Joyce Jones	Katina Roberts	
Neressa Darroux	Beverly Herndon	Tanisha Jones	deLisa Roberts-Jenkins	

It is also appropriate to thank the Interim President, and Members of the Board of Visitors for their interest and support in planning and conducting the financial affairs of the University.