NSU

NORFOLK STATE UNIVERSITY®

2015-2016 Financial Statements

NORFOLK STATE UNIVERSITY

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NORFOLK STATE UNIVERSITY

Vice President for Finance and Administration
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June 20, 2017

Mr. Eddie N. Moore, Jr., 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, 2016 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, 2016.

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 63-65 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 June 20, 2017.

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 and required supplementary information.

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

Gerald E. Hunter
Vice President
Finance and Administration

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, 2016. 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, 2015. 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, 2016. 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, 2016, 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.

Effective fiscal year 2015, the GASB issued Statement 68*, Accounting and Financial Reporting for Pensions,* and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date,* an amendment of GASB Statement 68. These reporting changes require the University to record its portion of the pension liabilities and expenses from the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan. Prior to the implementation of GASB 68, VRS did not measure assets and pension benefit obligations separately for individual state institutions. As of result of this change in reporting, the University has recorded its proportionate share of the net pension liability, pension expense, deferred outflows and deferred inflows in the financial statements presented within. Footnote 1 to the financial statements includes the summary of significant accounting policies for pensions. Footnote 11 and the required supplementary information discloses information on the pension plans available to all full-time, salaried permanent employees of Norfolk State University, along with detail on pension liability and pension expense, and pension contributions by the University.

Condensed Summary of Net Position
(amounts in thousands)

	As of June 30,		Increase/(Decrease)	
	2016	**2015**	**Amount**	**Percent**
Assets:				
Current	$ 29,114	$ 31,449	$ (2,335)	-7%
Capital, net of accumulated depreciation	242,403	235,373	7,030	3%
Other non-current	6,340	9,804	(3,464)	-35%
Total assets	277,857	276,626	1,231	0%
Deferred outflows	5,430	4,576	854	19%
Total assets and deferred outflows	$ 283,287	$ 281,202	$ 2,085	1%
Liabilities:				
Current	23,004	22,556	448	2%
Non-current	98,273	94,377	3,896	4%
Total liabilities	121,277	116,933	4,344	4%
Deferred inflows	7,018	10,220	(3,202)	-31%
Total liabilities and deferred inflows	128,295	127,153	1,142	1%
Net position:				
Net investment in capital assets	205,318	195,608	9,710	5%
Restricted	877	4,743	(3,866)	-82%
Unrestricted	(51,203)	(46,302)	(4,901)	11%
Total net position	$ 154,992	$ 154,049	$ 943	1%

The University's financial position continues to remain strong at the end of the fiscal year 2016. The increase in total assets is attributed to a decrease in current and non-current assets offset by an increase in capital assets. Current assets decreased by $2.3 million or 7% as a result of a decrease in cash, grants receivable, and auxiliary enterprises transactions. Capital assets increased by $7.0 million or 3% primarily due to the construction-in-progress costs for the new Brown Hall Classroom Building ($19.7 million). The increase in capital assets is further discussed in the Capital Asset section of this analysis. Other non-current assets decreased by $3.5 million or 35% due to decrease in appropriations due from primary government.

Deferred outflows increase by $.9 million or 19% and includes the fiscal year 2016 retirement contributions of $4.9 million made by the University after the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

The increase in current liabilities of $448 thousand or 2% is primarily attributed to the increase in deposits held in custody for others. Significant increases in deposits compared to last year includes non-institutional scholarship received for students of $341 thousand, student Spartan card deposits of $176 thousand, and resident hall deposits of $86 thousand offset by various smaller decreases. Non-current liabilities increased by $3.9 million or 4% primarily due to increase in the non-current portion of the University's net pension liability of $6.8 million; offset by the annual debt service payment decreasing non-current portion of long-term debt by $2.7 million and the decrease of accrued compensated absences of $444 thousand.

Deferred inflows decreased by $3.2 million or 31% primarily due to the decrease in deferred inflows of resources related to pensions. These deferred inflows represent pension plan investments and contributions that will be recognized as pension expenses in future years. The pension expense recognition is shown in detail in footnote 11 of the notes to the financial statements.

The increase in total net position is attributed to the increase in net investment in capital asset offset by the decrease in restricted and the decrease in unrestricted net position. Net investment in capital assets increased by $9.7 million is largely attributed to the capitalization of construction-in progress for various capital projects, other improvements and equipment purchases netted against the decrease in outstanding debt related to capital assets. This reflects the University's continued investment in new facilities and equipment supporting the university's mission as well as prudent management of the University's fiscal resources. Restricted net position decreased by $3.9 million primarily due to the use of funding set aside for maintenance reverse projects during the year. The decrease of 4.9 million in unrestricted net position is largely attributed to the increase in year-end expenses related to accounts payable.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

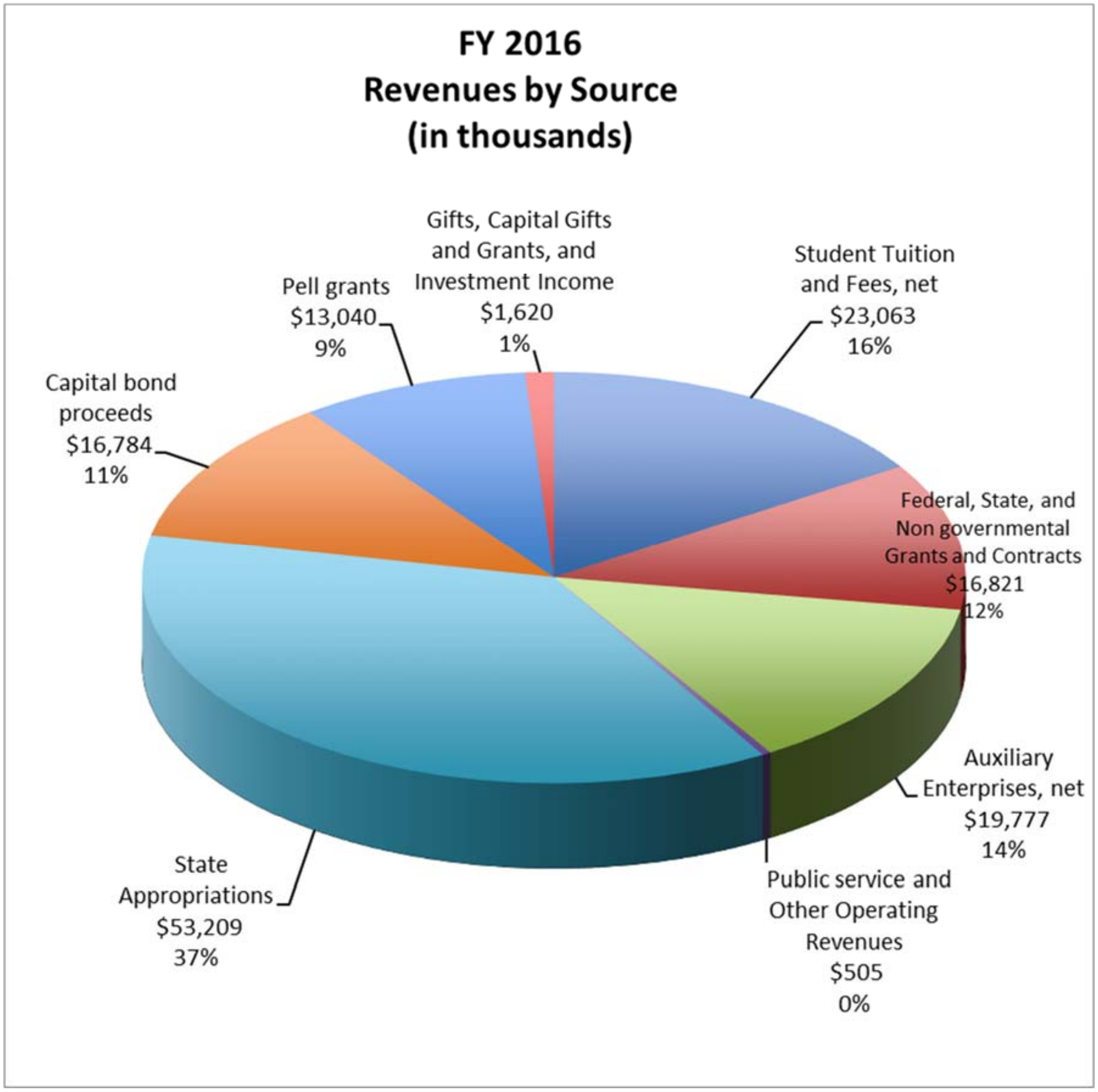
Non-operating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are non-operating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Other sources of revenue mainly consist of capital bond proceeds received from the 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of the Brown Hall Building, the Nursing Building, and maintenance reserve projects.

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

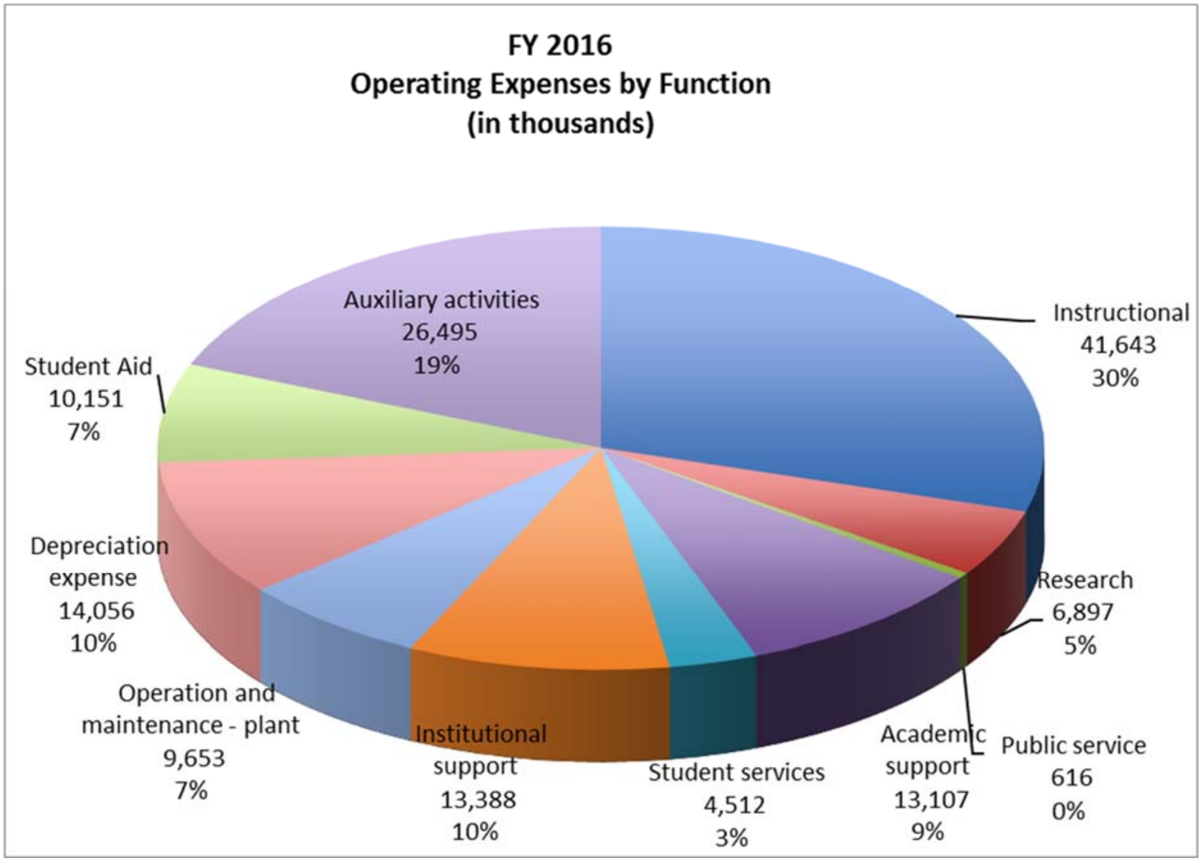
	As of June 30,		Increase/(Decrease)	
	2016	**2015**	**Amount**	**Percent**
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $12,876 and $11,741	$ 23,063	$ 26,354	$ (3,291)	-12%
Federal grants and contracts	15,506	13,937	1,569	11%
State grants and contracts	334	559	(225)	-40%
Nongovernmental grants and contracts	981	1,240	(259)	-21%
Public service	429	354	75	21%
Auxiliary enterprises, net of scholarship allowances of $11,018 and $10,889	19,777	20,665	(888)	-4%
Other operating revenues	76	204	(128)	-63%
Total operating revenues	60,166	63,313	(3,147)	-5%
Operating expenses:				
Instructional	41,643	37,952	3,691	10%
Research	6,897	4,895	2,002	41%
Public service	616	1,098	(482)	-44%
Academic support	13,107	12,025	1,082	9%
Student services	4,512	4,314	198	5%
Institutional support	13,388	14,844	(1,456)	-10%
Operation and maintenance - plant	9,653	15,612	(5,959)	-38%
Depreciation expense	14,056	12,886	1,170	9%
Student Aid	10,151	17,398	(7,247)	-42%
Auxiliary activities	26,495	25,835	660	3%
Total operating expenses	140,518	146,859	(6,341)	-4%
Operating loss	(80,352)	(83,546)	3,194	-4%
Net non-operating revenues	63,687	63,840	(153)	0%
Increase (decrease) before other revenues, expenses, gains or losses	(16,665)	(19,706)	3,041	-15%
Net other revenues	17,608	28,382	(10,774)	-38%
Increase in net position	943	8,676	(7,733)	-89%
Net position - beginning of the year	154,049	145,373	8,676	6%
Net position - end of year	$ 154,992	$ 154,049	$ 943	1%

The following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the year ended June 30, 2016. Critical recurring revenue sources such as state appropriation, Pell grants, capital bond proceeds, and capital gifts and grants are considered non-operating.



Operating revenues primarily consist of tuition and fees, auxiliary enterprises and revenues from grants and contracts. Overall operating revenues decreased from prior year by $3.1 million or 5% primarily due to the enrollment declined of 6,027 headcount in Fall 2014 (fiscal year 2015) to 5,107 headcount in Fall 2015 (fiscal year 2016). Also contributing to the decrease in tuition and fee revenues is the increase of the scholarship allowance of $1.1 million which nets against tuition and fee revenue. Federal grants and revenue increased by $1.6 million or 11% primarily due to funds received from the Department of Energy for the Consortium K-20 Cybersecurity grant. Although the board approved an $188 dollars increase in mandatory fees for resident undergraduate and graduate students, Auxiliary enterprises revenues decreased by $888 thousand or 4% due to the decrease in full-time student from 4,870 in Fall 2014 (fiscal year 2015) to 4,124 in Fall 2015 (fiscal year 2016).

The following is a graphic illustration of total operating expenses for fiscal year 2016 by function.



Total operating expenses decreased by $6.3 million or 4%. Pension expense of $2.9 million related to the implementation of GASB 68/71 is reported as operating expense. The University's fiscal year 2016 VRS and VaLORS retirement contributions of $4.9 million are credited against operating expenses and reported as deferred outflows on the Statement of Net Position. Compensation expenses, consisting of the natural expense classifications of salaries, wages, and fringe benefits, comprise the largest University expense. Compensation expense comprised 53.1% of the total operating expenses in fiscal year 2016 and 53.9% in fiscal year 2015.

Net non-operating revenues and expenses decreased by $153 thousand or 0% mainly due to the increase in state appropriations of $2.2 million offset by a decrease in Pell grants of $2.2 million. Other contributing factors includes a decrease in other non-operating expenses of $389 thousand, which includes non-general fund payment to the Treasury Board for debt service on bonds issued under VCBA 21st Century and Equipment Trust Fund Programs; a decrease on interest on capital assets related debt of $115 thousand offset by an increase in loss on disposal of assets of $769 thousand, and an increase in gifts of $88 thousands. Net other revenues decreased by $10.8 million or 38% due to the decrease of capital bond proceeds received from the VCBA 21ST Century Program that is managed by the Virginia College Building Authority (VCBA) for the construction of Brown Hall, the Nursing Building, and maintenance reserve projects.

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 ($22.8 million), grants and contracts ($17.7 million), and auxiliary enterprises receipts ($19.8 million). Major uses of cash include payments for salaries, wages, and fringe benefits ($76.9 million), payments for scholarships and fellowships ($17.9 million), payments for services and supplies ($29.1 million) and payments for non-capitalized plant improvements and equipment ($4.4 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 ($56.4 million) and Pell grants ($13.0 million). The cash flows from capital financing activities section reflect cash used for capital and related items. Primary sources of cash are proceeds from capital debt ($15.1 million). Significant cash outflows include the purchase of capital assets ($21.9 million), repayment of principal on capital related debt ($2.7 million), and interest paid on capital debt ($1.5 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)

	As of June 30,		Increase/(Decrease)	
	2016	**2015**	**Amount**	**Percent**
Cash flows from operating activities	$ (63,236)	$ (73,010)	$ 9,774	-13.4%
Cash flows from noncapital financing activities	69,988	66,697	3,291	4.9%
Cash flows from capital financing activities	(10,086)	1,534	(11,620)	-757.5%
Cash flows from investing activities	24	10	14	140.0%
Net change in cash	$ (3,310)	$ (4,769)	$ 1,459	-30.6%

Capital Asset and Debt Administration

One of the key factors in maintaining the high quality academic, research, and residential life functions is investment and renewal of the University's capital assets. The University continues to sustain and upgrade current facilities as well as pursue funding opportunities for renewal and replacement and purchase of additional equipment and facilities. Overall, capital assets, net of accumulated depreciation increased $7.0 million due to ongoing campus construction as indicated in Note 4. The University continues to maintain and upgrade current structures across campus and have completed $16.8 million of building and infrastructure improvement projects during fiscal year 2016. A significant portion of the capital projects completed was related to the Wilder Center improvements $5.7 million, Residents Hall building improvements $4.1 million, Communication Tower $2.0 million, campus lighting $1.0 million, campus security call box $1.0 million. Major projects still under construction at June 30, 2016 includes Brown Hall Building project $19.7 million and Residential Hall equipment replacement of $1.8 million.

The University's total long-term debt decreased to $38.9 million in 2016 from $41.5 million in 2015. This decrease of $2.6 million is attributed to the debt service principal payments made throughout the year on outstanding debt balances. The University's Board of Visitors approved "Debt Management Policy Number 11" established that annual debt service as a percentage of total operating expenses shall not exceed seven percent. The University's 2016 ratio was 2.92 percent compared to 4.37 percent in 2015. This ratio is intended to maintain the University's long-term operating flexibility to finance existing requirements and new initiatives. The board also established within the Debt Management Policy the debt service coverage ratio of greater than 2 times revenues. The ratio is intended to ensure operating revenues are sufficient to meet debt service requirements and that debt service does not consume too large a portion of income. The University's 2016 debt service coverage ratio was 3.63 compared to 3.35 in 2015.

Overall, unpaid construction and other related contractual commitments on capital projects increased from $6.0 million in 2015 to $9.0 million in 2016 due to the Brown Hall building project. Construction in progress totaled $23.2 million as of June 30, 2016. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statement in Notes 4 and 7.

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 48.83% of operating expenses, excluding auxiliary activities and depreciation.

The University's financial position remains strong with net position of $155 million for the 2016 fiscal year. Management continues to evaluate and review current policies and procedures in an effort to enhance operational efficiency and fiscal stability while providing excellent services to its students and constituents. 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, 2016

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	$ 16,937,609	$ 2,440,529
Cash held for securities lending (Note 2)	73,342	-
Restricted cash and cash equivalents	-	468,695
Short-term investments (Note 2)	-	110,175
Accounts receivable, net of allowance for doubtful accounts of $ 404,949 (Note 3)	3,309,389	-
Contributions receivable, net of allowance for doubtful accounts of $66,071 (Note 3)	-	490,865
Due from the Commonwealth	6,315,502	-
Prepaid expenses	2,219,382	68,794
Notes receivable, net of allowance for doubtful accounts of $310,116	258,339	-
Other assets	-	1,416,239
Total current assets	29,113,563	4,995,297
Noncurrent assets:		
Restricted cash and cash equivalents	2,214,204	2,652,241
Appropriation available/due from primary government	2,958,517	-
Investments	-	26,805,977
Contributions receivable, net of allowance for uncollectible contributions of $76,506	-	452,811
Notes receivable, net of allowance for doubtful accounts of $2,486,896	1,167,526	-
Nondepreciable capital assets (Note 4)	29,133,679	570,384
Depreciable capital assets, net (Note 4)	213,269,211	21,621,719
Total noncurrent assets	248,743,137	52,103,132
Total Assets	277,856,700	57,098,429
Deferred outflows - pension (Note 11)	5,429,656	-
Total Assets and deferred outflows	$ 283,286,356	$ 57,098,429
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	$ 14,353,361	$ 605,978
Unearned revenue	2,968,121	61,947
Obligations under securities lending	73,342	-
Deposits held in custody for others	2,016,479	128
Long-term liabilities - current portion (Note 6)	3,592,565	480,000
Total current liabilities	23,003,868	1,148,053
Noncurrent liabilities (Note 6)	98,272,989	31,088,814
Total Liabilities	121,276,857	32,236,867
Deferred inflows - gain on refunding	73,666	-
Deferred inflows - pension (Note 11)	6,944,000	-
Total Deferred inflows	7,017,666	-
Total Liabilities and deferred inflows	128,294,523	32,236,867
Net position:		
Net investment in capital assets	205,317,423	(8,322,897)
Restricted for:		
Nonexpendable	-	9,531,748
Expendable	877,110	16,717,790
Unrestricted	(51,202,700)	6,934,921
Total Net Position	$ 154,991,833	$ 24,861,562

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, 2016

	Norfolk State University	Component Units
Operating revenues:		
Student tuition and fees, net of scholarship allowances of 12,876,459	$ 23,063,550	$ -
Federal grants and contracts	15,506,711	-
State grants and contracts	333,831	-
Nongovernmental grants and contracts	981,062	-
Public service	428,562	-
Auxiliary enterprises, net of scholarship allowances of $11,017,879	19,777,415	-
Other operating revenues	75,621	5,157,347
Total operating revenues	60,166,752	5,157,347
Operating expenses:		
Instructional	41,643,226	-
Research	6,897,152	-
Public service	615,871	-
Academic support	13,107,483	-
Student services	4,511,826	-
Institutional support	13,387,971	4,256,943
Operation and maintenance - plant	9,652,791	1,424,317
Depreciation expense	14,055,598	1,132,786
Student Aid	10,151,208	1,661,530
Auxiliary activities	26,495,075	-
Total operating expenses (Note 8)	140,518,201	8,475,576
Operating loss	(80,351,449)	(3,318,229)
Non-operating revenues (expenses):		
State appropriations (Note 9)	53,208,690	-
Investment income net of investment expense	23,703	482,671
Realized/unrealized loss on investments	-	(716,658)
Unrealized gain on interest rate swap	-	331,488
Interest on capital asset - related debt	(1,465,795)	-
Loss of disposal of assets	(1,164,287)	-
Gifts	772,205	1,996,534
Pell grants	13,040,424	-
Other non-operating expenses	(728,570)	-
Net non-operating revenues	63,686,370	2,094,035
Increase (decrease) before other revenues, expenses, gains or losses	(16,665,079)	(1,224,194)
Capital appropriations	16,783,716	-
Capital gifts and grants	824,280	-
Contributions to permanently restricted endowments	-	569,336
Net other revenues	17,607,996	569,336
Increase in net position	942,917	(669,808)
Net position - beginning of the year	154,048,916	25,531,370
Net position - end of year	$ 154,991,833	$ 24,861,562

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Student tuition and fees	$ 22,801,998
Grants and contracts	17,738,956
Public service	428,562
Auxiliary enterprises	19,841,416
Other receipts	75,621
Payments to employees	(55,627,151)
Payments for fringe benefits	(21,302,402)
Payments for services and supplies	(29,109,546)
Payments for utilities	(3,695,894)
Payments scholarships and fellowships	(10,151,208)
Payments for non-capitalized plant improvements and equipment	(4,400,858)
Collections of loans from students	2,218,110
Loans issued to students	(2,053,716)
Net cash used in operating activities	(63,236,112)
Cash flows from non-capital financing activities:	
State appropriations	56,429,091
Gifts and grants for other than capital purposes	772,205
Direct lending receipts	42,878,358
Direct lending payments	(42,878,358)
Agency receipts	37,294,080
Agency payments	(36,818,969)
Pell grant receipts	13,040,424
Other non-operating expenses	(728,570)
Net cash provided by non-capital financing activities	69,988,261
Cash flows from capital financing activities:	
Capital gifts	824,280
Proceeds from capital debt	15,148,304
Purchase of capital assets	(21,920,059)
Principal paid on capital debt, leases and installments	(2,672,704)
Interest paid on capital debt, leases and installments	(1,465,795)
Net cash used by capital financing activities	(10,085,974)
Cash flows from investing activities:	
Interest on investments	23,703
Net cash provided by investing activities	23,703
Net decrease in cash and cash equivalents	(3,310,122)
Cash and cash equivalents - beginning of year	22,461,935
Cash and cash equivalents - end of year	$ 19,151,813

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

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USEB BY OPERATING ACTIVITIES:		
Operating loss	$	(80,351,449)
Adjustment to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		14,055,598
Change in assets, deferred outflows, liabilities, and deferred inflows:		
Receivables, net		1,426,147
Notes receivable, net		164,394
Prepaid expenses		(1,330,744)
Deferred outflows of resources - pension		(854,001)
Accounts payable and accrued expenses		5,565,563
Unearned revenue		(706,347)
Accrued compensated absences		(387,273)
Net pension liability		2,378,000
Deferred inflows of resources - pension		(3,196,000)
Net cash used in operating activities	$	(63,236,112)
Non-cash investing, capital and financing activities:		
Amortization of bond premium	$	125,219
Amortization of bond discount	$	(22,926)
Amortization of deferred net gain on defeased bonds	$	5,831
Change in fair value of investments	$	2,162
Donated capital assets	$	2,678

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, 2016, the Norfolk State University Foundation, Inc. and the Athletics Foundation of Norfolk State, Inc. made distributions of $559,117 and $213,087, respectively, to or on behalf of the University for both restricted and unrestricted purposes.

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.

In June 2012, the GASB issued Statement 68*, Accounting and Financial Reporting for Pensions,* effective for the University's fiscal year beginning July 1, 2014. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employees,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement improves the reporting of pension liabilities and expenses, resulting in a more faithful representation of the full impact of pension obligation. The new note disclosures and required supplementary information will provide a better explanation of how and why the net pension liability changes from year to year. It will improve consistency and transparency of the information reported about pension transactions, as well as, the improvement of the comparability of reported pension information. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The definition in GASB 68 for Covered Employee Payroll included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition has been modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios that are presented use the same measure.

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2013, the GASB issued Statement 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date,* an amendment of GASB Statement 68*.* The provisions of this Statement was required to be applied simultaneously with the provisions of Statement 68; and therefore, effective for the University's fiscal year beginning July 1, 2014. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 for the University.

In February 2015, the GASB issued Statement 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University was engaged in activity governed by GASB No. 72 during the year ended June 30, 2016. The effect of implementation of Statement 72 on the University's financial statements is reported in Footnote 2 – Cash and Cash Equivalents and Investments.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* objective is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. The University pension and related asset are within the scope of GASB Statement 68 and therefore, was not engaged in activity governed by GASB No. 73 during the year ended June 30, 2016.

In June 2015, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The University's financial statements as of June 30, 2016 were prepared in accordance with GAAP.

In December 2015, the GASB issued Statement 79, *Certain External Investment Pools and Pool Participants,* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The University was not engaged in activity governed by GASB No. 79 during the year ended June 30, 2016.

In March 2016, the GASB issued Statement 82, *Pension Issues*. This Statement address issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an classification of payment made by employers to satisfy employee (plan member) contribution requirements.

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This Statement is effective for reporting periods beginning after June 30, 2016 and has been early implemented within the University's financial statements.

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. Reclassifications have been made to convert the foundations' financial information to GASB format. The foundation statements and subsequent notes comply with the GASB presentation format.

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, 2016, the University's prepaid expenses included items such as, advertising, software license renewal, insurance, and publication subscriptions, which include initial and renewal annual subscriptions for technical and professional publications. The University recognizes prepaids when purchased and expensed when used.

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.

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as parking lots, sidewalks, campus lighting, intangible assets, and computer network cabling systems. The University generally defines capital assets as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost except for land acquired prior to 1979, which is valued at appraisal value. Library materials are valued using cost of the 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. 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, 2016. 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.

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, notes payable with contractual maturities greater than one year, estimated amounts for accrued compensated absences that will not be paid within the next fiscal year, and University's proportionate share of the Virginia Retirement System (VRS) State Employee Retirement Plan and Virginia Law Officers' System (VaLORS) net pension liability.

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.

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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. 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. As of June 30, 2016, the University's share of the securities lending transactions held by the Treasurer of Virginia is $73,342. Details of the General Account securities lending program are included in the Commonwealth's *Comprehensive Annual Financial Report*.

B. 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, 2016, none of the University's investments involves concentration of credit risk.

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

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

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

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

Norfolk State University and the Norfolk State University Foundation follows accounting standards on fair value measurements, which define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards establish a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quotes prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for sustainably the same term of the financial statements.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement. The valuation method is determined in good faith by the investment advisors of the respective entities and may not reflect amounts that could be realized upon immediate sale, nor amount that may be ultimately realized.

	Amount	0-3 months	Credit Rating
Cash equivalents:			
Repurchase agreements (Level 2 inputs)	$ 3,915,768	$ 3,915,768	A-1
Money market funds [1]	856,226	856,226	A-1
SNAP [2]	1,852,577	1,852,577	AAAm
Totals	$ 6,624,571	$ 6,624,571	

[1] The University invests certain short-term cash balances held within its accounts in money market funds. The funds are reported at amortized cost, which approximates fair value.

[2]SNAP investments are reported using the net asset value per share, which is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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

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 promises to give receivable. The Foundation places unrestricted cash and temporary overnight investments with high credit quality financial institutions. At times the balances may exceed the FDIC insurable limit. Promises to give – net include one promise that is approximately 56% of gross balance.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of December 31, 2015, the Norfolk State University Foundation held the following investments carried at fair value and listed by the valuation hierarchy defined above:

Investments:	Level 1	Level 2	Level 3	Total Fair Value
Commonfund - multi strategy equity fund	$ -	$ -	$ 15,341,397	$ 15,341,397
Commonfund - multi strategy bond fund	-	-	10,028,428	10,028,428
Securities and money market funds	1,149,251	-	-	1,149,251
Commonfund - Capital Partner IV	-	-	208,923	208,923
Other	77,978	-	-	77,978
Total	$ 1,227,229	$ -	$ 25,578,748	$ 26,805,977

Note 3—ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2016:

Student tuition and fees	$ 1,136,363
Federal, state and nongovernmental grants and contracts	2,468,471
Other receivables	109,504
Gross receivables	3,714,338
Less: Allowance for doubtful accounts	(404,949)
Net accounts receivable	$ 3,309,389

Accounts Receivable-Component Units

Included in accounts receivable for component units are amounts due from 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.

Note 3—ACCOUNTS RECEIVABLE (CONTINUED)

Contributions Receivable – Component Units

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 December 31 for Norfolk State University Foundation and June 30 for Research and Innovation Foundation and Affiliates, Athletics Foundation:

	NSU Foundation Inc.	The Athletics Foundation of Norfolk State University, Inc.	University Research and Innovation Foundation and Affiliates	Total
Contributions currently due	$ 485,333	$ -	$ 12,759	$ 498,092
Contributions due in one to five years	256,500	-	-	256,500
Contributions due in more than five years	331,661	-	-	331,661
Grants receivable	-	-	-	-
Gross receivables	1,073,494	-	12,759	1,086,253
Less - time value discount	(76,506)	-	-	(76,506)
Less - allowance for uncollectible accounts	(62,529)	-	(3,542)	(66,071)
Total contributions receivable	$ 934,459	-	$ 9,217	$ 943,676

Note 4—CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2016, is presented as follows:

	Beginning Balance July 1, 2015	Additions	Deletions	Ending Balance June 30, 2016
Nondepreciable capital assets:				
Land	$ 5,941,099	$ -	$ -	$ 5,941,099
Construction in progress	19,612,549	20,364,075	16,784,044	23,192,580
Total nondepreciable capital assets	25,553,648	20,364,075	16,784,044	29,133,679
Depreciable capital assets:				
Buildings	313,602,962	6,789,886	139,037	320,253,811
Infrastructure	9,871,361	2,193,284	5,394,616	6,670,029
Equipment	40,484,771	3,451,123	3,747,272	40,188,622
Other improvements	4,212,947	6,067,626	34,840	10,245,733
Software	1,249,409	111,710	18,499	1,342,620
Library materials	7,674,736	56,456	230,678	7,500,514
Total depreciable capital assets	377,096,186	18,670,085	9,564,942	386,201,329
Less accumulated depreciation for:				
Buildings	129,708,831	9,880,244	21,435	139,567,640
Infrastructure	5,629,340	406,848	5,306,014	730,174
Equipment	23,533,112	2,844,118	2,810,298	23,566,932
Other improvements	141,841	563,552	30,388	675,005
Software	881,633	252,031	1,842	1,131,822
Library materials	7,382,418	108,805	230,678	7,260,545
Total accumulated depreciation	167,277,175	14,055,598	8,400,655	172,932,118
Depreciable capital assets, net	209,819,011	4,614,487	1,164,287	213,269,211
Total capital assets, net	$ 235,372,659	$ 24,978,562	$ 17,948,331	$ 242,402,890

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
Nondepreciable capital assets:				
Land	$ 24,310	$ -	$ -	$ 24,310
Development costs	-	-	546,074	546,074
Total nondepreciable capital assets	24,310	-	546,074	570,384
Depreciable capital assets:				
Buildings	-	-	28,488,525	28,488,525
Equipment	878,590	124,138	3,280,350	4,283,078
Total depreciable capital assets	878,590	124,138	31,768,875	32,771,603
Less accumulated depreciation	(654,275)	(52,185)	(10,443,424)	(11,149,884)
Total depreciable capital assets, net	224,315	71,953	21,325,451	21,621,719
Total capital assets, net	$ 248,625	$ 71,953	$ 21,871,525	$ 22,192,103

Note 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2016:

Vendors and suppliers accounts payable	$ 6,250,935
Employee salaries, wages, and fringe benefits payable	6,407,578
Accrued interest payable	503,289
Retainage payable	1,119,777
Spartan Suites rent and scholarships	71,782
Total accounts payable and accrued liabilities	$ 14,353,361

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, 2016, is presented as follows:

University	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term debt:					
Notes payable	$ 33,741,688	$ -	$ 1,305,885	$ 32,435,803	$ 1,376,403
Installment purchases	6,281,399	-	1,258,695	5,022,704	1,135,036
Unamortized bond discount	(146,189)	-	(22,926)	(123,263)	(23,801)
Unamortized bond premium	1,654,353	-	125,219	1,529,134	125,219
Total long-term debt	41,531,251	-	2,666,873	38,864,378	2,612,857
Accrued compensated absences	2,885,522	1,354,008	1,741,281	2,498,249	979,708
Federal loan capital contributions	1,526,927	-	-	1,526,927	-
Net pension liability	56,598,000	2,378,000	-	58,976,000	-
Total long-term liabilities	$102,541,700	$ 3,732,008	$ 4,408,154	$ 101,865,554	$ 3,592,565

Research and Innovation Foundation and Affiliates	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term debt:					
Bonds payable	$ 30,915,000	$ -	$ 400,000	$ 30,515,000	$ 480,000
Total long-term debt	30,915,000	-	400,000	30,515,000	480,000
Derivative - interest rate swap	1,235,263	-	331,488	903,775	-
Total long-term liabilities	$ 32,150,263	$ -	$ 731,488	$ 31,418,775	$ 480,000

Norfolk State University Foundation, Inc. and Subsidiary	Beginning Balance	Additions	Deletions	Ending Balance	Current Portion
Long-term liabilities:					
Split-interest agreement	$ 167,332	$ -	$ 17,293	$ 150,039	$ -
Total long-term liabilities	$ 167,332	$ -	$ 17,293	$ 150,039	$ -

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.

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 $6,341 with the final amount due in 2019.

At June 30, 2016, 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%.

Note 7—LONG-TERM DEBT (CONTINUED)

	Interest Rates (%)	Maturity	Balance at June 30, 2016
Notes payable:			
Brambleton Center, series 1998		2019	80,803
Student Center 2010A & 2010B	3.75 - 5.50	2030	15,920,000
Student Center 2012A refunding 2004A	2.75 - 5.00	2035	7,365,000
Student Center 2014B refunding 2004A	3.00 - 3.25	2035	9,070,000
Total notes payable			32,435,803
Less: unamortized bond discount			(123,263)
Add: unamortized bond premium			1,529,134
Net notes payable			33,841,674
Installments payable:			
Master equipment lease program	1.207 - 1.175	2014 - 2019	440,352
Energy lease project	3.739 - 4.500	2016 - 2021	4,582,352
Net installments payable			5,022,704
Total			$ 38,864,378

Long-term debt matures as follows:

Year ending:	Principal	Interest
2017	2,511,439	1,514,684
2018	2,444,449	1,408,963
2019	2,532,132	1,302,096
2020	2,475,450	1,196,440
2021	2,545,037	1,093,652
2022-2026	8,850,000	4,188,921
2027-2031	10,190,000	2,152,075
2032-2036	5,910,000	478,500
Unamortized Premium	1,529,134	-
Unamortized Discount	(123,263)	-
Total	$ 38,864,378	$ 13,335,331

Note 7—LONG-TERM DEBT (CONTINUED)

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 interest rate was .84% at June 30, 2016. The balance due on this loan as of June 30, 2016 was $30,515,000.

As of June 30, 2016, the Norfolk State University Research and Innovation Foundation and Affiliates bonds mature as follows:

Future principal payments are as follows:

2017	480,000
2018	570,000
2019	660,000
2020	760,000
2021	870,000
2022-2026	6,270,000
2027-2031	10,385,000
2032-2035	10,520,000
Total	$ 30,515,000

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 unrealized gain of $331,488 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, 2016 was $903,775.

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.

Note 8—EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship and Fellowship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$ 25,317,930	$ 7,954,333	$ 6,814,453	$ -	$ -	$ 1,556,510	$ -	$ 41,643,226
Research	1,569,121	327,077	5,000,954	-	-	-	-	6,897,152
Public service	301,217	100,058	207,977	-	-	6,619	-	615,871
Academic support	7,954,890	2,707,245	1,126,155	-	-	1,319,193	-	13,107,483
Student services	2,750,025	1,052,037	704,760	-	-	5,004	-	4,511,826
Institutional support	9,974,294	3,892,790	(722,174)	-	-	243,061	-	13,387,971
Operations and maintence-plant	3,777,000	1,651,062	1,433,195	-	1,991,638	799,896	-	9,652,791
Depreciation expense	-	-	-	-	-	-	14,055,598	14,055,598
Scholarship and fellowship	-	-	-	10,151,208	-	-	-	10,151,208
Auxiliary activities	5,827,392	1,945,798	16,559,191	-	1,704,256	458,438	-	26,495,075
Total operating expenses	$ 57,471,869	$ 19,630,400	$ 31,124,511	$ 10,151,208	$ 3,695,894	$ 4,388,721	$ 14,055,598	$ 140,518,201

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	$ 42,592,139
Student financial assistance	8,619,664
Adjustments:	
Virtual Library of Virginia (VIVA) allocation	3,331
Virginia military survivors and dependents	83,025
Two year college transfer grant	25,500
Line of duty	(579)
Maintenance reserve	366,587
Central appropriation transfers	1,522,800
Worker's comp premium	2,714
Appropriation transfer from general fund for motor vehicle fuels	(6,491)
Adjusted appropriation	$ 53,208,690

Note 10—COMMITMENTS

At June 30, 2016, the University was committed to construction contracts totaling approximately $18,882,327. Outstanding commitments on these contracts totaled $8,969,412 as of June 30, 2016.

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, 2016, was $943,139.

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, 2016, the following total future minimum rental payments due under the above leases:

Year	Operating Lease Obligation
2017	1,001,052
2018	1,026,510
2019	734,543
2020	473,524
Total	$ 3,235,629

Note 11—RETIREMENT PLANS

Virginia Retirement System - General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies and institutions are automatically covered by VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment. These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. The VRS State Employee Retirement Plan and VaLORS Retirement Plan are single employer plans treated as a cost-sharing employer plan for financial reporting purposes. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees in the VRS State Employee Retirement Plan – Plan 1, Plan 2, and, Hybrid and two different benefit structures for covered employees in the VaLORS Retirement Plan – Plan 1 and Plan 2. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

		• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Note 11—RETIREMENT PLANS (CONTINUED) *Plan Description*		
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Note 11—RETIREMENT PLANS (CONTINUED) *Plan Description*		
		<u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

		withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **VaLORS:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

• The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 11—RETIREMENT PLANS (CONTINUED)
Plan Description

Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost./ After that on-year period, the rate for most categories of service will change to actuarial cost. **<u>Defined Contribution Component:</u>** Not applicable.

Note 11—RETIREMENT PLANS (CONTINUED)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each state agency's contractually required contribution rate for the year ended June 30, 2016 was 12.33% of covered employee compensation for employees in the VRS State Employee Retirement Plan for July 2015, 13.28% for August 2015 and 14.22% for September 2015 through June 2016. For employees in the VaLORS Retirement Plan, the contribution rate was 17.67% of covered employee compensation for July 2015, 18.34% for August 2015 and 19.00% for September 2015 through June 2016. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the VRS State Employee Retirement Plan was 15.80% and the actuarial rate for VaLORS Retirement Plan was 21.06%. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the *Code of Virginia*, as amended, the contributions for the VRS State Employee Retirement Plan were funded at 78.02% of the actuarial rate and the contributions for the VaLORS Retirement Plan were funded at 83.88% of the actuarial rate for the year ended June 30, 2016. Additional funding provided by the General Assembly moved the contribution rates to 90% of the actuarial rate by September 2015 and for the remainder of FY 2016. Contributions from Norfolk State University to the VRS State Employee Retirement Plan were $ 4,754,221 and $ 4,405,042 for the years ended June 30, 2016 and June 30, 2015, respectively. Contributions from Norfolk State University to the VaLORS Retirement Plan were $ 171,435 and $ 170,613 for the years ended June 30, 2016 and June 30, 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, Norfolk State University reported a liability of $ 56,950,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $ 2,026,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. Norfolk State University's proportion of the Net Pension Liability was based on Norfolk State University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, Norfolk State University's proportion of the VRS State Employee Retirement Plan was .93016% as compared to .97878 % at June 30, 2014. At June 30, 2015, the state agency's proportion of the VaLORS Retirement Plan was .28159 % as compared to .26742% at June 30, 2014.

For the year ended June 30, 2016, Norfolk State University recognized pension expense of $ 2,743,000 for the VRS State Employee Retirement Plan and $ 202,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

Note 11—RETIREMENT PLANS (CONTINUED)

At June 30, 2016, Norfolk State University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

VRS Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 410,000	$ -
Net difference between projected and actual earnings on pension plan investments	-	4,096,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,728,000
Employer contributions subsequent to the measurement date	4,754,221	-
Total	$ 5,164,221	$ 6,824,000

Note 11—RETIREMENT PLANS (CONTINUED)

VaLOR Retirement Plan

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 10,000
Net difference between projected and actual earnings on pension plan investments	-	86,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	94,000	24,000
Employer contributions subsequent to the measurement date	171,435	-
Total	$ 265,435	$ 120,000

Norfolk State University has $ 4,754,221 for VRS and $ 171,435 for VaLORS reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the Fiscal Year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30

	VRS Retirement Plan	VaLORS Retirement Plan
FY 2017	$ 2,453,000	$ 14,000
FY 2018	$ 2,447,000	$ 10,000
FY 2019	$ 2,234,000	$ 18,000
FY 2020	$ (720,000)	$ (16,000)
FY 2021	$ -	$ -

Note 11—RETIREMENT PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 11—RETIREMENT PLANS (CONTINUED)

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Pre-Retirement:
RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 5 years and females were set back 3 years.

Post-Retirement:
RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with females set back 1 year.

Post-Disablement:
RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

Note 11—RETIREMENT PLANS (CONTINUED)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2015, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

	State Employee Retirement Plan	VaLORS Retirement Plan
Total Pension Liability	$ 22,521,130	$ 1,902,051
Plan Fiduciary Net Position	16,398,575	1,191,353
Employers' Net Pension Liability (Asset)	$ 6,122,555	$ 710,698
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	62.64%

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

Note 11—RETIREMENT PLANS (CONTINUED)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Note 11—RETIREMENT PLANS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the state agency for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State Agency's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents Norfolk State University's proportionate share of the VRS State Employee Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	(6.00%)	Rate (7.00%)	(8.00%)
State agency's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$ 81,797,000	$ 56,950,000	$ 36,113,000

The following presents Norfolk State University's proportionate share of the VaLORS Retirement Plan net pension liability using the discount rate of 7.00%, as well as what the state agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	(6.00%)	Rate (7.00%)	(8.00%)
State agency's proportionate share of the VaLORS VaLORS Retirement Plan Net Pension Liability	$ 2,756,000	$ 2,026,000	$ 1,427,000

Note 11—RETIREMENT PLANS (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Optional Retirement Plans

The Commonwealth's colleges and universities participate in the retirement plans administered by VRS. In addition, full-time faculty and certain administrative staff of the Commonwealth's colleges and universities may participate in optional retirement plans as authorized by the Code of Virginia rather than the VRS retirement plans. These optional retirement plans are defined contributions plans offered through Teachers Insurance and Annuity Association – college Retirement Equities Fund (TIAA-CREF), and Fidelity Investments Tax-Exempt Services Company. There are two defined contributions plans. Plan 1 is for employees hired prior to July 1, 2010, and retirement benefits received are based upon the employer's 10.4 percent contributions, plus net investment gains. Plan 2 is for employees hired on or after July 1, 2010, and retirement benefits received are based upon the employer's 8.5 percent not to exceed 8.9 percent contribution and the employee's 5.0 percent contribution, plus net investment gains. For Plan 2, the employer contributions for fiscal year 2016 were 8.5 percent. Vesting is full and immediate for both employer and employee contributions. For fiscal year 2016, total pension expense recognized was $1,586,623. For fiscal year 2016, contributions were calculated using the base salary amount of $13,477,027.

Deferred Compensation Plan

Most employees of the Commonwealth's colleges and universities may participate in the Commonwealth's deferred compensation plan in accordance with Internal Revenue Code Section 457(b) and/or the institution's deferred compensation plan in accordance with Internal Revenue Code Sections 403(b). Under either plan, the institution's cash match under the Internal Revenue Code Sections 401(a) during fiscal year 2016 was a maximum match up to $20 per pay period or $40 per month. This employer match is for either plan but not both plans. Employer contributions under these plans were approximately $179,352 for fiscal year 2016.

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, 2016, the University estimates that no material liabilities will result from such audits or questions.

In May 2016, the University entered into a five-year renewable food service contract with Thompson Hospitality. In the event the renewals are exercised, the full contract term will be 15 years. As part of the contract, Thompson will invest $3.6 million of capital improvement to the University's dining facilities. These improvements will be amortized straight-line over 15 years. The University is contingently liable for an early termination under this contract through fiscal year end June 30, 2031. The University will be responsible to reimburse Thompson Hospitality for the unamortized portion of the capital investments within 30 days of the contract termination. Capital improvements are schedule to begin July 2016. As of June 30, 2016 Thompson Hospitality made no capital improvements investments.

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*.

Note 15—COMPONENT UNITS

	NSU Foundation Inc. as of December 31, 2015	The Athletics Foundation of Norfolk State University, Inc. as of June 30, 2016	University Research and Innovation Foundation and Affiliates as of June 30, 2016	Total
Current assets:				
Cash and cash equivalents	$ 628,066	$ 77,827	$ 1,734,636	$ 2,440,529
Restricted cash and cash equivalents	-	-	468,695	468,695
Short-term investments	-	110,175	-	110,175
Contributions receivable, net	481,648	-	9,217	490,865
Prepaid expenses	-	-	68,794	68,794
Other assets	217,069	-	1,199,170	1,416,239
Total current assets	1,326,783	188,002	3,480,512	4,995,297
Restricted cash and cash equivalents	-	-	2,652,241	2,652,241
Investments	26,805,977	-	-	26,805,977
Contributions receivable, net	452,811	-	-	452,811
Nondepreciable capital assets	24,310	-	546,074	570,384
Depreciable capital assets, net	224,315	71,953	21,325,451	21,621,719
Total noncurrent assets	27,507,413	71,953	24,523,766	52,103,132
Total Assets	$ 28,834,196	$ 259,955	$ 28,004,278	$ 57,098,429
Accounts payable and accrued expenses	217,334	19,898	368,874	$ 606,106
Unearned revenue	-	60,265	1,682	61,947
Long-term liabilities - current portion	-	-	480,000	480,000
Total current liabilities	217,334	80,163	850,556	1,148,053
Noncurrent liabilities	150,039	-	30,938,775	31,088,814
Total Liabilities	367,373	80,163	31,789,331	32,236,867
Net position:				
Net investment in capital assets	248,625	71,953	(8,643,475)	(8,322,897)
Restricted for:				
Nonexpendable	9,481,748	50,000	-	9,531,748
Expendable	16,644,411	73,379	-	16,717,790
Unrestricted	2,092,039	(15,540)	4,858,422	6,934,921
Total Net Position	$ 28,466,823	$ 179,792	$ (3,785,053)	$ 24,861,562

Note 15—COMPONENT UNITS (CONTINUED)

	NSU Foundation Inc. as of December 31, 2015	The Athletics Foundation of Norfolk State University, Inc. as of June 30, 2016	Norfolk State University Research and Innovation Foundation and Affiliates as of June 30, 2016	Total
Operating revenues:				
Other operating revenues	$ -	$ 167,892	$ 4,989,455	$ 5,157,347
Total operating revenues	-	167,892	4,989,455	5,157,347
Operating expenses:				
Institutional support	1,223,442	284,718	2,748,783	4,256,943
Operation and maintenance - plant	-	39,404	1,384,913	1,424,317
Depreciation expense	22,235	14,284	1,096,267	1,132,786
Student Aid	1,640,044	21,486	-	1,661,530
Total operating expenses	2,885,721	359,892	5,229,963	8,475,576
Operating loss	(2,885,721)	(192,000)	(240,508)	(3,318,229)
Non-operating revenues:				
Investment income net of investment expense	478,937	3,734	-	482,671
Realized/unrealized gain (loss) on investments	(722,998)	6,340	-	(716,658)
Unrealized gain on interest rate swap	-	-	331,488	331,488
Gifts	1,819,016	177,518	-	1,996,534
Other non-operating revenues	-		-	-
Net non-operating revenues	1,574,955	187,592	331,488	2,094,035
Increase before other revenues, expenses, gains or losses	(1,310,766)	(4,408)	90,980	(1,224,194)
Contributions to permanently restricted endowments	569,336	-	-	569,336
Net other revenues	569,336	-	-	569,336
Increase in net position	(741,430)	(19,358)	90,980	(669,808)
Net position - beginning of the year	29,208,253	199,150	(3,876,033)	25,531,370
Net position - end of year	$ 28,466,823	$ 179,792	$ (3,785,053)	$ 24,861,562

Note 16—SUBSEQUENT EVENTS

On November 10, 2016, $71,200,000 Commonwealth of Virginia General Obligation Bonds, Series 2016A were issued for University projects authorized under Article X, Section 9(c) of the Constitution of Virginia. These bonds were issued to finance the costs of acquiring, constructing, and equipping revenue-producing capital projects at institutions of higher education in the Commonwealth. With the issuance of these bonds, Norfolk State University intends to use $9,237,000 of the bond proceeds to renovate and upgrade various residence halls on campus. Debt payments are scheduled to begin June 1, 2017 and will mature on June 1, 2031.

The Norfolk State University Research and Innovation Foundation entered into a contract with ABS Technology for the Spartan Suites Infrastructure upgrade effective July 2016. Time and material rates will be charged monthly at varying rates from $135 to $235 depending on the level of service needed.

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2016 and 2015*

	2016	2015
Employer's Proportion of the Net Pension Liability (Asset)	0.93%	0.98%
Employer's Proportionate Share of the Net Pension Liability (Asset)	56,950,000	54,796,000
Employer's Covered Payroll	35,843,667	$37,797,709
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	158.88%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer's Share of Net Pension Liability
VaLORS Retirement Plan
For the Years Ended June 30, 2016 and 2015*

	2016	**2015**
Employer's Proportion of the Net Pension Liability (Asset)	0.29%	0.27%
Employer's Proportionate Share of the Net Pension Liability (Asset)	2,026,000	1,802,000
Employer's Covered Payroll	965,553	942,647
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	209.83%	191.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.64%	63.05%

Schedule is intended to show information for 10 years. Since 2016 is the second year for this presentation, only one additional year of data is available. However, additional years will be included as they become available.

* The amounts presented have a measurement date of the previous fiscal year end.

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2007 through 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	$ 4,780,212	$ 4,780,212	$ -	$ 34,046,270	14.04%
2015	$ 4,419,524	$ 4,419,524	$ -	$ 35,847,794	12.33%
2014	$ 3,311,079	$ 3,311,079	$ -	$ 37,797,709	8.76%
2013	$ 3,194,466	$ 3,194,466	$ -	$ 36,466,507	8.76%
2012	$ 1,147,030	$ 1,147,030	$ -	$ 35,513,407	3.23%
2011	$ 748,320	$ 748,320	$ -	$ 35,132,384	2.13%
2010	$ 1,742,606	$ 1,742,606	$ -	$ 35,230,612	4.95%
2009	$ 2,209,740	$ 2,209,740	$ -	$ 35,469,348	6.23%
2008	$ 2,136,454	$ 2,136,454	$ -	$ 34,739,085	6.15%
2007	$ 1,918,240	$ 1,918,240	$ -	$ 33,418,821	5.74%

Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ended June 30, 2007 through 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	$ 171,435	$ 171,435	$ -	$ 909,368	18.85%
2015	$ 170,613	$ 170,613	$ -	$ 965,553	17.67%
2014	$ 139,512	$ 139,512	$ -	$ 942,647	14.80%
2013	$ 138,277	$ 138,277	$ -	$ 934,307	14.80%
2012	$ 66,371	$ 66,371	$ -	$ 935,293	7.10%
2011	$ 50,504	$ 50,504	$ -	$ 986,397	5.12%
2010	$ 110,275	$ 110,275	$ -	$ 981,610	11.23%
2009	$ 139,300	$ 139,300	$ -	$ 978,919	14.23%
2008	$ 166,546	$ 166,546	$ -	$ 1,050,101	15.86%
2007	$ 163,335	$ 163,335	$ -	$ 1,091,812	14.96%

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

Changes of assumptions – The following changes in actuarial assumptions were made for the VRS - State Employee Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of withdrawals for less than 10 years of service
- Decrease in rates of male disability retirement
- Reduce rates of salary increase by 0.25% per year

The following changes in actuarial assumptions were made for the VaLORS Retirement Plan effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for females under 10 years of service
- Increase in rates of disability
- Decrease service related disability rate from 60% to 50%

NORFOLK STATE UNIVERSITY
HIGHLIGHTS

FIVE YEARS IN REVIEW

FALL SEMESTER	2011-12	2012-13	2013-14	2014-15	2015-16
ENROLLMENT					
Total	**7,091**	**7,100**	**6,728**	**6,027**	**5,107**
In-state	5,932	6,004	5,773	5,191	4,403
Out-of-state	1,159	1,096	955	836	704
FRESHMAN APPLICATIONS					
Number of Applications Received	**4,163**	**4,231**	**3,373**	**2,817**	**2,445**
In-state	1,756	2,107	1,964	1,509	1,346
Out-of-state	2,407	2,124	1,409	1,308	1,099
Number of Applications Accepted	**2,811**	**2,847**	**2,192**	**1,850**	**1,930**
In-state	1,164	1,446	1,312	1,007	1,078
Out-of-state	1,647	1,401	880	843	852
Number of Accepted Enrolled	**923**	**1,088**	**818**	**572**	**475**
In-state	728	899	686	440	354
Out-of-state	195	189	132	132	121
TRANSFER APPLICATIONS					
Number of Applications Received	**1,216**	**995**	**959**	**884**	**641**
In-state	701	675	677	628	443
Out-of-state	515	320	282	256	198
Number of Applications Accepted	**1,075**	**868**	**854**	**687**	**577**
In-state	628	584	604	483	393
Out-of-state	447	284	250	204	184
Number of Accepted Enrolled	**499**	**534**	**496**	**446**	**352**
In-state	425	462	432	379	290
Out-of-state	74	72	64	67	62
GRADUATE APPLICATIONS					
Number of Applications Received	**409**	**335**	**344**	**293**	**256**
In-state	227	222	250	211	176
Out-of-state	182	113	94	82	80
Number of Applications Accepted	**302**	**247**	**261**	**239**	**202**
In-state	175	167	187	176	145
Out-of-state	127	80	74	63	57
Number of Accepted Enrolled	**216**	**187**	**175**	**183**	**167**
In-state	170	150	138	154	144
Out-of-state	46	37	37	29	23
TUITION AND FEES					
Undergraduate					
In-state	$6,700	$6,860	$7,226	$7,552	$8,366
Out-of-state	$20,343	$20,360	$20,696	$20,696	$20,884
Graduate					
In-state	$9,115	$9,388	$9,916	$8,692	$9,506
Out-of-state	$26,809	$26,812	$27,268	$21,560	$21,748
ROOM AND BOARD					
Total Room and Board	**$7,927**	**$8,130**	**$8,374**	**$8,658**	**$8,970**
Room rates	$5,051	$5,254	$5,412	$5,574	$5,798
Board rates	$2,876	$2,876	$2,962	$3,050	$3,172

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 20, 2017

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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 (University), a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2016, 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, 2016, 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.

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 9, the Schedule of Employer's Share of Net Pension Liability, the Schedule of Employer Contributions, and the Notes to Required Supplementary Information on pages 57 through 61 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.

Supplementary and 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 June 20, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.

AUDITOR OF PUBLIC ACCOUNTS

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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