



2016-2017 Financial Statements

NORFOLK STATE UNIVERSITY
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April 26, 2018

Melvin T. Stith, Sr., Ph.D., Interim President 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, 2017 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, 2017.

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 61-63 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 April 26, 2018.

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
Vice President
Finance and Administration

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

The following Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily readable analysis of Norfolk State University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2017. 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, 2016. 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, 2017. 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, 2017, 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.

NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Summary of Net Position

	(amounts in thousands)		Increase/(Decrease)	
	As of June 30,		Amount	Percent
	2017	2016		
Assets:				
Current	\$ 25,730	\$ 29,114	\$ (3,384)	-12%
Capital, net of accumulated depreciation	278,209	242,403	35,806	15%
Other non-current	15,209	6,340	8,869	140%
Total assets	319,148	277,857	41,291	15%
Deferred outflows	8,731	5,430	3,301	61%
Total assets and deferred outflows	\$ 327,879	\$ 283,287	\$ 44,592	16%
Liabilities:				
Current	26,605	23,004	3,601	16%
Non-current	105,413	98,273	7,140	7%
Total liabilities	132,018	121,277	10,741	9%
Deferred inflows	6,642	7,018	(376)	-5%
Total liabilities and deferred inflows	138,660	128,295	10,365	8%
Net position:				
Net investment in capital assets	239,199	205,318	33,881	17%
Restricted	-	877	(877)	-100%
Unrestricted	(49,980)	(51,203)	1,223	-2%
Total net position	\$ 189,219	\$ 154,992	\$ 34,227	22%

The University's financial position continues to remain strong at the end of the fiscal year 2017. The increase in total assets is primarily attributed to capital assets. Current assets decreased by \$3.4 million or 12% as a result of a decrease in cash in auxiliary enterprise operations and a decrease in capital proceeds due from the Commonwealth. Capital assets increased by \$35.8 million or 15% primarily due to the construction-in-progress costs for the Brown Hall Replacement Building project (\$33.2 million) and the Residence Hall Renovation projects (\$4.2 million). The increase in capital assets is further discussed in the Capital Asset section of this analysis. Other non-current assets increased by \$8.9 million or 140% mainly due to the balance of the restricted bond proceeds invested by the State Treasury in the State Non-Arbitrage Program (SNAP). On November 10, 2016, \$71,200,000 Commonwealth of Virginia General Obligation (GO) Bonds, Series 2016A were issued for University projects authorized under Article X, Section 9(c) of the Constitution of Virginia. GO Bonds of \$9.2 million were issued to finance the costs to renovate and upgrade various residence halls on campus. The bond proceeds from this debt issuance were deposited into SNAP and are reported as restricted cash and cash equivalents on the Statement of Net Position.

Deferred outflows increase by \$3.3 million or 61% and includes the fiscal year 2017 retirement contributions of \$4.7 million made by the University after the measurement date and will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

The increase in current liabilities of \$3.6 million or 16% is primarily attributed to the increase in accounts payable and accrued expenses. During fiscal year 2017, \$3.9 million of capital project expenses were accrued. Payments for invoices of \$1.8 million for the Brown Hall Replacement Building project and \$1.7 million Residence

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hall Renovation projects contributed to this increase. Deposits held in custody also contributed to the increase in current liabilities by \$833 thousand. This is mainly due to the non-institutional scholarships received for students due to an increase in enrollment. Non-current liabilities increased by \$7.1 million or 7% primarily due to issuance of general obligations bonds for the Residence Hall Renovation projects. The principal balance on this debt as of June 30, 2017 is \$7.7 million.

Deferred inflows decreased by \$376 thousand or 5% 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 unrestricted net position. Net investment in capital assets increased by \$33.9 million is largely attributed to the capitalization of construction-in progress for various capital projects (such as Brown Hall Replacement building), 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 \$877 thousand primarily due to the use of funding set aside for maintenance reserve projects during the year. The decrease of \$1.2 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 Replacement Building, the Residence Hall Renovation, Nursing Building and maintenance reserve projects.

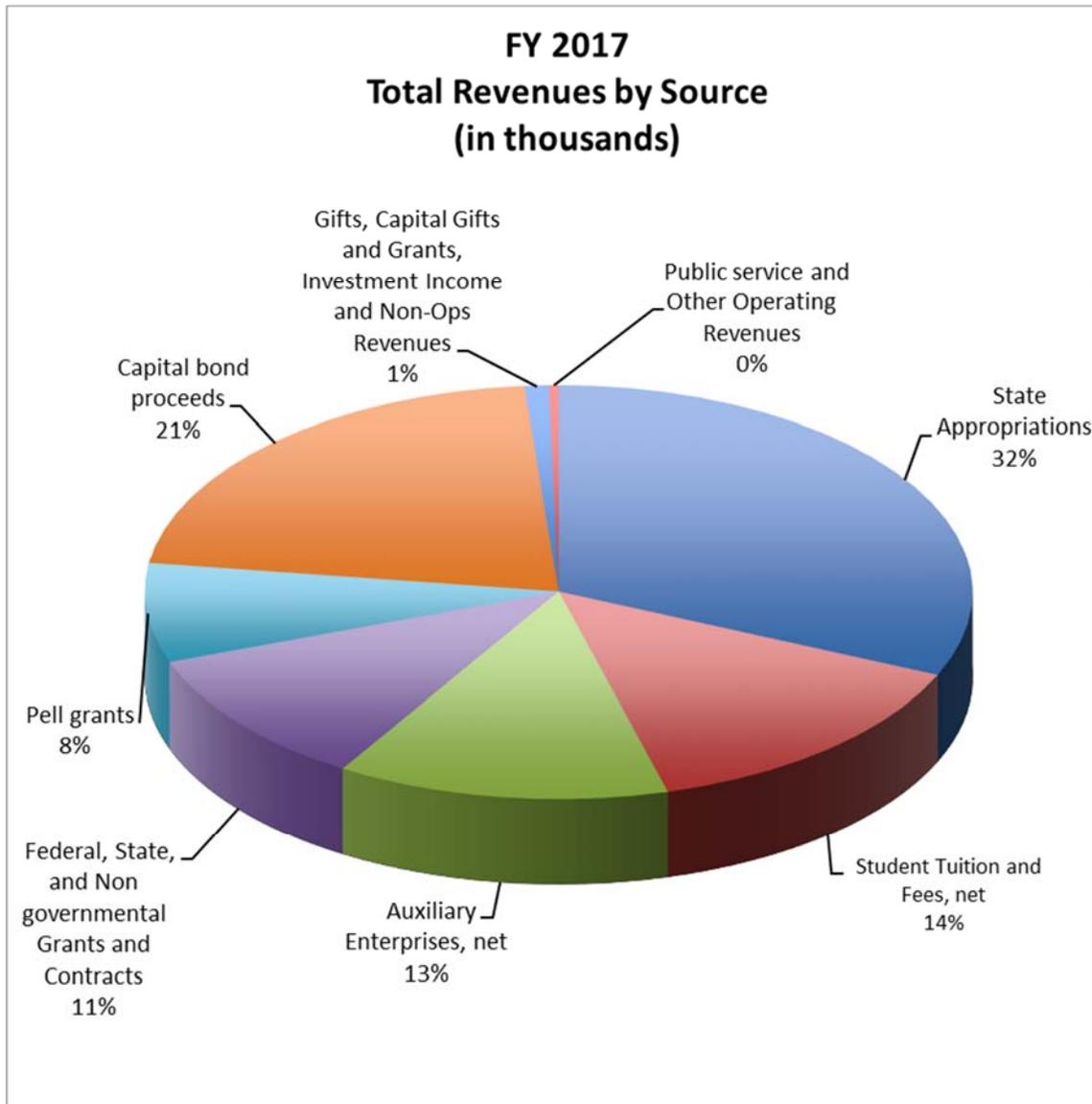
NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2017	2016	Amount	Percent
Operating revenues:				
Student tuition and fees, net of scholarship allowances of \$15,802 and \$12,876	\$ 26,088	\$ 23,063	\$ 3,025	13%
Federal grants and contracts	17,994	15,506	2,488	16%
State grants and contracts	358	334	24	7%
Nongovernmental grants and contracts	1,050	981	69	7%
Public service	605	429	176	41%
Auxiliary enterprises, net of scholarship allowances of \$13,537 and \$11,018	23,473	19,777	3,696	19%
Other operating revenues	84	76	8	11%
Total operating revenues	69,652	60,166	9,486	16%
Operating expenses:				
Instructional	37,509	41,643	(4,134)	-10%
Research	8,592	6,897	1,695	25%
Public service	541	616	(75)	-12%
Academic support	12,712	13,107	(395)	-3%
Student services	5,255	4,512	743	16%
Institutional support	14,028	13,388	640	5%
Operation and maintenance - plant	10,376	9,653	723	7%
Depreciation expense	14,564	14,056	508	4%
Student Aid	10,589	10,151	438	4%
Auxiliary activities	30,942	26,495	4,447	17%
Total operating expenses	145,108	140,518	4,590	3%
Operating loss	(75,456)	(80,352)	4,896	-6%
Net non-operating revenues	70,055	63,687	6,368	10%
Increase (decrease) before other revenues, expenses, gains or losses	(5,401)	(16,665)	11,264	-68%
Net other revenues	39,628	17,608	22,020	125%
Increase in net position	34,227	943	33,284	3530%
Net position - beginning of the year	154,992	154,049	943	1%
Net position - end of year	\$ 189,219	\$ 154,992	\$ 34,227	22%

NORFOLK STATE UNIVERSITY
MANAGEMENT’S DISCUSSION AND ANALYSIS

The following is a graphic illustration of total revenues by source (both operating and non-operating) used to fund the University’s activities for the year ended June 30, 2017. Critical recurring revenue sources such as state appropriation, Pell grants, capital bond proceeds, and capital gifts and grants are considered non-operating.

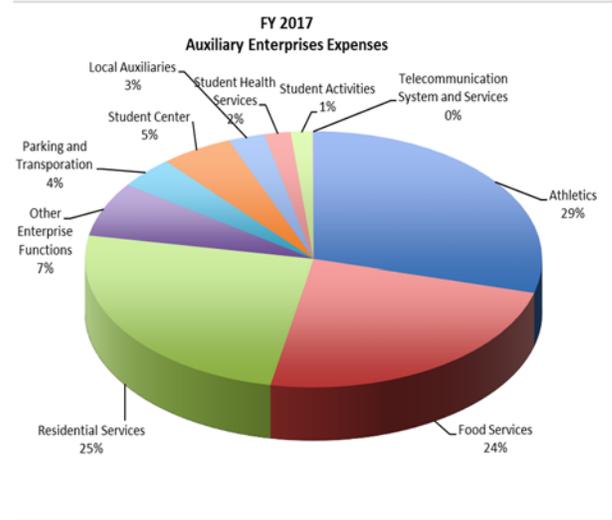
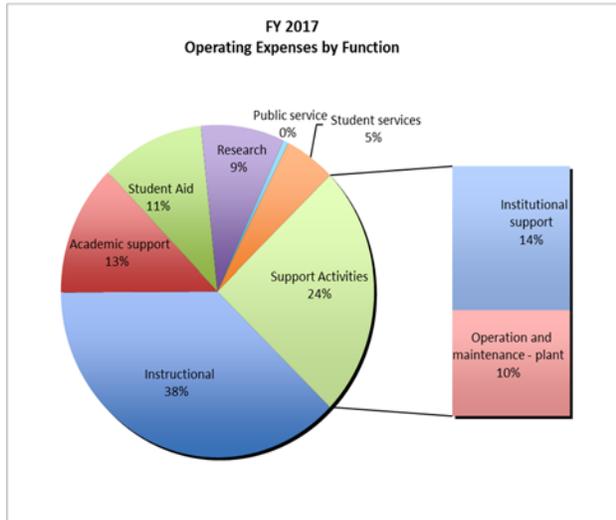


Operating revenues primarily consist of tuition and fees, auxiliary enterprises and revenues from grants and contracts. Overall operating revenues increased by \$9.5 million or 16% primarily due to the enrollment increase of 5,107 headcount in Fall 2015 (fiscal year 2016) to 5,421 headcount in Fall 2016 (fiscal year 2017). The University’s Board of Visitors also approved an increase in tuition by \$156 dollars for resident undergraduate students and \$846 dollars for resident graduate students, which contributed to the increase in revenues. Federal grants and revenue increased by \$2.5 million or 16% primarily due to funds received from the Department of Education for the Title III grant and from the Department of Energy for the Consortium K-20 Cybersecurity grant. The Board of Visitors approved a \$216 dollars increase in mandatory fees for all full-time students and increased room and board rates for FY 2017. This coupled with the increase enrollment of full-time students during FY 2017, 4,124 in Fall 2015 (fiscal year 2016) to 4,445 in Fall 2016 (fiscal year 2017), contributed to the increase of \$3.7 million in auxiliary enterprises revenues.

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a graphic illustration of operating expenses for fiscal year 2017 by function.



Total operating expenses increased by \$4.6 million or 3%. Pension expense of \$2.6 million related to the implementation of GASB 68/71 is reported as operating expense and is allocated to the functions. The instruction category decrease by \$4.1 million or 10% primarily due to decreases in post-retirement and leave benefits paid out during fiscal year 2016, along with a decrease in other operating expenses for non-recurring cost. The research category saw an increase of \$1.7 million or 25% due to increases in contractual services. In the functional categories for support activities, institutional support and operations and maintenance of plant increased by \$640 thousand (5%) and \$723 thousand (7%) respectively. These increases were mostly due to a combination of increases in contractual services and compensation and benefits. Auxiliary enterprises expenses increased by \$4.5 million or 17%, of which the majority occurred in areas of Residence Life (\$2.3 million), Food Services (\$1.4 million), and Athletics (\$738k). The increase in Residence Life and Food Services were expected given an increasing student population. The majority of the increase occurred in the contractual services and operating expenses categories, while the increase in Athletics was a combination of increases in compensation and benefits, travel cost, and other operating expenses.

Net non-operating revenues and expenses increased by \$6.4 million or 10% mainly due to the increase in state appropriations of \$4.0 million and an increase in Pell grants of \$1 million. Other contributing factors include an increase in other non-operating expenses of \$753 thousand, which includes a special employer VRS contribution of \$1.5 million as part of the University's pension liability allocation. This is offset by the non-general fund payment to the Treasury Board for debt service on bonds issued under VCBA 21st Century and Equipment Trust Fund Programs of \$511 thousand and \$486 thousand transfer to the State for the University's share of cost for the expedited repayment of deferred contributions to the VRS. Net other revenues increased by \$22.0 million or 125% due to the increase 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 Replacement Building, the Nursing Building, and maintenance reserve projects.

NORFOLK STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 (\$25.9 million), grants and contracts (\$18.3 million), and auxiliary enterprises receipts (\$23.4 million). Major uses of cash include payments for salaries, wages, and fringe benefits (\$80.1 million), payments for scholarships and fellowships (\$10.6 million), payments for services and supplies (\$29.6 million) and payments for non-capitalized plant improvements and equipment (\$7.6 million).

The next section reflects the cash flows from non-capital financial activities and includes state appropriations for the University's educational and general programs and financial aid (\$56.7 million) and Pell grants (\$14.0 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 (\$41.8 million) and proceeds from a bond issuance (\$9.3 million). Significant cash outflows include the purchase of capital assets (\$50.1 million), repayment of principal on capital related debt (\$2.9 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)	
	2017	2016	Amount	Percent
Cash flows from operating activities	\$ (63,453)	\$ (63,236)	\$ (217)	0.3%
Cash flows from noncapital				
financing activities	71,648	69,988	1,660	2.4%
Cash flows from capital financing activities	(2,647)	(10,086)	7,439	-73.8%
Cash flows from investing activities	72	24	48	200.0%
Net change in cash	<u>\$ 5,620</u>	<u>\$ (3,310)</u>	<u>\$ 8,930</u>	<u>-269.8%</u>

NORFOLK STATE UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

One of the key factors in maintaining the high quality academic, research, and residence 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 \$35.8 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 \$9.8 million of building and infrastructure improvement projects during fiscal year 2017. A significant portion of the capital projects completed was related to the Residence Hall building improvements \$3.4 million, various building improvements and equipment \$4.0 million, and campus infrastructure \$1.5 million. Major projects still under construction at June 30, 2017 includes Brown Hall Replacement Building project \$52.9 million and Residence Hall Renovation project \$3.9 million.

The University's total long-term debt increased to \$46.6 million in 2016 from \$38.9 million in 2017. This increase of \$7.7 million is attributed to issuance of general obligation bonds of \$9.2 million for the upgrade or renovations of the University's residence halls. In addition, the University entered into an installment purchase agreement with the State Department of Treasury, through the Master Equipment Lease Program, for the purchase of the digital display boards for Echols Hall in the amount of \$1.4 million. This increase in long-term debt obligation is offset by the debt service principal payments of \$2.9 million 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 2017 ratio was 3.04 percent compared to 2.92 percent in 2016. 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 2017 debt service coverage ratio was 11.01 compared to 3.63 in 2016.

Overall, unpaid construction and other related contractual commitments on capital projects increased from \$9.0 million in 2016 to \$14.2 million in 2017 due to the Brown Hall Replacement building project. Construction in progress totaled \$60.6 million as of June 30, 2017. 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 57.39% of operating expenses, excluding auxiliary activities and depreciation.

The University's financial position remains strong with net position of \$189 million for the 2017 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, 2017

	Norfolk State University	Component Units
Current assets:		
Cash and cash equivalents (Note 2)	\$ 14,444,920	\$ 2,501,156
Restricted cash and cash equivalents	-	994,879
Short-term investments	-	62,589
Accounts receivable, net of allowance for doubtful accounts of \$1,104,168 (Note 3)	4,619,877	-
Contributions receivable, net of allowance for doubtful accounts of \$22,475 (Note 3)	-	360,574
Due from the Commonwealth	3,292,943	-
Prepaid expenses	3,171,552	71,764
Notes receivable, net of allowance for doubtful accounts of \$463,538 (Note 3)	200,181	-
Other assets	-	218,402
Total current assets	25,729,473	4,209,364
Noncurrent assets:		
Restricted cash and cash equivalents (Note 2)	10,326,981	2,239,564
Appropriation available/due from primary government	3,406,047	-
Investments (Note 2)	-	27,606,701
Contributions receivable, net of allowance for uncollectible contributions of \$50,391 (Note 3)	-	661,220
Notes receivable, net of allowance for doubtful accounts of \$2,367,591 (Note 3)	1,475,881	-
Nondepreciable capital assets (Note 4)	66,567,050	570,384
Depreciable capital assets, net (Note 4)	211,642,157	20,910,321
Total noncurrent assets	293,418,116	51,988,190
Total Assets	319,147,589	56,197,554
Deferred outflows - pension (Note 11)	8,730,644	-
Total Assets and deferred outflows	\$ 327,878,233	\$ 56,197,554
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	\$ 17,498,214	\$ 757,689
Unearned revenue	2,928,548	44,272
Deposits held in custody for others	2,346,990	-
Long-term liabilities - current portion (Note 6)	3,830,897	570,000
Total current liabilities	26,604,649	1,371,961
Noncurrent liabilities (Note 6)	105,412,631	28,963,485
Total Liabilities	132,017,280	30,335,446
Deferred inflows - gain on refunding	67,835	-
Deferred inflows - pension (Note 11)	6,574,000	-
Total Deferred inflows	6,641,835	-
Total Liabilities and deferred inflows	138,659,115	30,335,446
Net position:		
Net investment in capital assets	239,198,603	(7,421,588)
Restricted for:		
Nonexpendable	-	7,567,914
Expendable	-	17,626,681
Unrestricted	(49,979,485)	8,089,101
Total Net Position	\$ 189,219,118	\$ 25,862,108

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, 2017

	<u>Norfolk State University</u>	<u>Component Units</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowances of 15,801,674	\$ 26,088,360	\$ -
Federal grants and contracts	17,994,288	-
State grants and contracts	357,451	-
Nongovernmental grants and contracts	1,050,284	-
Public service	604,933	-
Auxiliary enterprises, net of scholarship allowances of \$13,537,286	23,473,176	-
Other operating revenues	84,268	5,384,501
Total operating revenues	<u>69,652,760</u>	<u>5,384,501</u>
Operating expenses:		
Instructional	37,509,076	-
Research	8,591,939	-
Public service	541,097	-
Academic support	12,711,775	-
Student services	5,254,814	-
Institutional support	14,028,705	5,385,187
Operation and maintenance - plant	10,376,095	692,451
Depreciation expense (Note 4)	14,564,032	1,003,401
Student Aid	10,588,775	1,532,389
Auxiliary activities	30,941,964	-
Total operating expenses (Note 8)	<u>145,108,272</u>	<u>8,613,428</u>
Operating loss	<u>(75,455,512)</u>	<u>(3,228,927)</u>
Non-operating revenues (expenses):		
State appropriations (Note 9)	57,166,283	-
Investment income net of investment expense	71,949	423,347
Realized/unrealized loss on investments	-	1,193,816
Unrealized gain on interest rate swap	-	404,699
Interest on capital asset - related debt	(1,517,886)	-
Loss of disposal of assets (Note 4)	(265,038)	(7,651)
Gifts	807,325	1,638,533
Pell grants	14,014,038	-
Other non-operating expenses	(222,346)	-
Net non-operating revenues	<u>70,054,325</u>	<u>3,652,744</u>
Decrease before other revenues, expenses, gains or losses	<u>(5,401,187)</u>	<u>423,817</u>
Capital appropriations (Note 9)	38,824,442	-
Capital gifts (Note 9)	804,030	-
Contributions to permanently restricted endowments	-	576,729
Net other revenues	<u>39,628,472</u>	<u>576,729</u>
Increase in net position	34,227,285	1,000,546
Net position - beginning of the year	<u>154,991,833</u>	<u>24,861,562</u>
Net position - end of year	<u>\$ 189,219,118</u>	<u>\$ 25,862,108</u>

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:

Student tuition and fees	\$ 25,901,226
Grants and contracts	18,300,852
Public service	604,933
Auxiliary enterprises	23,411,421
Other receipts	84,267
Payments to employees	(57,174,478)
Payments for fringe benefits	(22,879,089)
Payments for services and supplies	(29,561,464)
Payments for utilities	(3,688,357)
Payments scholarships and fellowships	(10,588,775)
Payments for non-capitalized plant improvements and equipment	(7,613,474)
Collections of loans from students	1,887,796
Loans issued to students	(2,137,993)
Net cash used in operating activities	<u>(63,453,135)</u>

Cash flows from non-capital financing activities:

State appropriations	56,718,753
Gifts and grants for other than capital purposes	807,325
Direct lending receipts	46,904,010
Direct lending payments	(46,904,010)
Agency receipts	39,912,984
Agency payments	(39,582,473)
Pell grant receipts	14,014,038
Other non-operating expenses	(222,346)
Net cash provided by non-capital financing activities	<u>71,648,281</u>

Cash flows from capital financing activities:

Capital gifts	804,030
Proceeds from capital debt	41,847,001
Proceeds from bonds issues	9,264,200
Purchase of capital assets	(50,148,922)
Principal paid on capital debt, leases and installments	(2,895,430)
Interest paid on capital debt, leases and installments	(1,517,886)
Net cash used by capital financing activities	<u>(2,647,007)</u>

Cash flows from investing activities:

Interest on investments	71,949
Net cash provided by investing activities	<u>71,949</u>

Net decrease in cash and cash equivalents	5,620,088
Cash and cash equivalents - beginning of year	19,151,813
Cash and cash equivalents - end of year	<u>\$ 24,771,901</u>

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

NORFOLK STATE UNIVERSITY
STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

RECONCILIATION OF NET OPERATING LOSS TO NET CASH
 USED BY OPERATING ACTIVITIES:

Operating loss	\$ (75,455,512)
Adjustment to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	14,564,032
Change in assets, deferred outflows, liabilities, and deferred inflows:	
Receivables, net	(1,310,488)
Notes receivable, net	(250,197)
Prepaid expenses	(952,170)
Deferred outflows of resources - pension	(3,300,988)
Accounts payable and accrued expenses	4,030,388
Unearned revenue	(39,573)
Accrued compensated absences	(357,627)
Net pension liability	(11,000)
Deferred inflows of resources - pension	(370,000)
Net cash used in operating activities	<u>\$ (63,453,135)</u>

Non-cash investing, capital and financing activities:

Donated capital assets	\$ 323
Change in fair value of investments	\$ 4,345
Amortization of deferred net gain on defeased bonds	\$ 5,831
Amortization of bond discount	\$ (23,801)
Amortization of bond premium	\$ 186,961
Loss on disposal of assets	\$ (265,038)
VRS and VaLORS Special Revenue Allocation	\$ 1,446,000

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, the Norfolk State University Foundation, Inc. and the Athletics Foundation of Norfolk State, Inc. made distributions of \$624,328 and \$182,997, respectively, to or on behalf of the University for both restricted and unrestricted purposes.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 non-employer entity has a legal requirement to make contributions directly to a pension plan. The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers’ System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. 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.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2017. 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, 2017.

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, 2017 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, 2017.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Other current year implementations of Governmental Accounting Standards Board (GASB) statements, which are not applicable to the University, are as follows: GASB No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, GASB No. 77 *Tax Abatement Disclosures*, GASB No. 78 *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*, and GASB No. 80 *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*.

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*, modified by GASB Statement 59, *Financial Instruments Omnibus* and GASB Statement 72, *Fair Value Measurement*, 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.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Prepaid Expenses

As of June 30, 2017, 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.

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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017. This primarily includes amounts received for tuition and fees and certain auxiliary activities in advance of the academic term as well as advance payments on grants and contracts that have not been spent or earned before the end of the fiscal year.

K. Accrued Compensated Absences

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

L. Non-current Liabilities

Non-current liabilities include principal amounts of bonds payable, 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 Title 2, Part 200 of the U.S. code of Federal Regulations, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Cash deposits held by the university are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. Cash and cash equivalents represent cash with the treasurer, cash on hand, certificates of deposit and temporary investments with original maturities of 90 days or less, and cash equivalents with the Virginia State Non-Arbitrage Program® (SNAP®). This program offers a professionally-managed money market mutual fund, which provides a temporary pooled investment vehicle for proceeds pending expenditure, and with record keeping, depository and arbitrage rebate calculations. SNAP® complies with all standards of GASB Statement 79. SNAP® investments are reported using the net asset value (NAV) per share, which is calculated on an amortized cost basis that provides an NAV that approximates fair value. Cash and cash equivalents reporting requirements are defined by GASB Statement 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting

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

GASB Statement 28, Accounting and Financial Reporting for Securities Lending Transactions, establishes accounting and financial reporting standards for security 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. In October 2016, the Department of Treasury suspended participation in the securities lending program for the Commonwealth's General Account. Participation may resume in the future depending upon market conditions.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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, 2017, none of the University's investments involves concentration of credit risk.

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

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

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

Norfolk State University 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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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

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.

	<u>Amount</u>	<u>0-3 months</u>	<u>Credit Rating</u>
Cash equivalents:			
Money market funds ⁽¹⁾	\$ 860,065	\$ 860,065	A-1
SNAP ⁽²⁾	9,965,510	9,965,510	AAAm
Totals	<u>\$ 10,825,575</u>	<u>\$ 10,825,575</u>	

⁽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.

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.

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, 2016, the Norfolk State University Foundation held the following investments carried at fair value and listed by the valuation hierarchy defined above:

<u>Investments:</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
Commonfund - multi strategy equity fund	-	-	16,506,399	\$ 16,506,399
Commonfund - multi strategy bond fund	-	-	9,864,479	\$ 9,864,479
Securities and money market funds	968,019	-	-	\$ 968,019
Commonfund - Capital Partner IV	-	-	184,854	\$ 184,854
Other	82,950	-	-	\$ 82,950
Total	<u>\$ 1,050,969</u>	<u>\$ -</u>	<u>\$ 26,555,732</u>	<u>\$ 27,606,701</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 3—ACCOUNTS RECEIVABLE & NOTES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2017:

Student tuition and fees	\$ 1,661,916
Federal, state and nongovernmental grants and contracts	3,909,742
Other receivables	152,387
Total accounts receivables	<u>5,724,045</u>
Less allowance for doubtful accounts	(1,104,168)
Net accounts receivable	<u>\$ 4,619,877</u>

Notes receivable consisted of the following at June 30, 2017:

Current notes receivables	
Federal Perkins Student loan program	\$ 570,364
Virginia State Student loan program	45,151
Other short-term loans	48,204
Total current notes receivable	<u>663,719</u>
Less allowance for doubtful accounts	(463,538)
Net current notes receivables	<u>\$ 200,181</u>
Noncurrent notes receivables	
Federal Perkins Student loan program	\$ 3,293,845
Federal Nursing loan program	9,395
Virginia State Student loan program	540,232
Total current notes receivable	<u>3,843,472</u>
Less allowance for doubtful accounts	(2,367,591)
Net noncurrent notes receivables	<u>\$ 1,475,881</u>

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, 2016 for Norfolk State University Foundation.

Contributions currently due	\$ 360,574
Contributions due in one to five years	629,300
Contributions due in more than five years	104,786
Total contribution receivables	<u>1,094,660</u>
Less - time value discount	(50,391)
Less - allowance for uncollectible accounts	(22,475)
Net contributions receivable	<u>\$ 1,021,794</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 4—CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2017, is presented as follows:

	Beginning Balance			Ending Balance
	July 1, 2016	Additions	Deletions	June 30, 2017
Nondepreciable capital assets:				
Land	\$ 5,941,099	\$ -	\$ -	\$ 5,941,099
Construction in progress	23,192,580	47,250,424	9,817,053	60,625,951
Total nondepreciable capital assets	<u>29,133,679</u>	<u>47,250,424</u>	<u>9,817,053</u>	<u>66,567,050</u>
Depreciable capital assets:				
Buildings	320,253,811	3,055,325	-	323,309,136
Infrastructure	6,670,029	967,991	-	7,638,020
Equipment	40,188,622	3,939,171	2,157,582	41,970,211
Other improvements	10,245,733	4,695,821	-	14,941,554
Software	1,342,620	478,380	5,198	1,815,802
Library materials	7,500,514	65,329	1,526,716	6,039,127
Total depreciable capital assets	<u>386,201,329</u>	<u>13,202,017</u>	<u>3,689,496</u>	<u>395,713,850</u>
Less accumulated depreciation for:				
Buildings	139,567,640	10,058,449	-	149,626,089
Infrastructure	730,174	544,357	-	1,274,531
Equipment	23,566,932	2,955,975	1,895,144	24,627,763
Other improvements	675,005	823,183	-	1,498,188
Software	1,131,822	75,467	2,599	1,204,690
Library materials	7,260,545	106,603	1,526,716	5,840,432
Total accumulated depreciation	<u>172,932,118</u>	<u>14,564,034</u>	<u>3,424,459</u>	<u>184,071,693</u>
Depreciable capital assets, net	<u>213,269,211</u>	<u>(1,362,017)</u>	<u>265,037</u>	<u>211,642,157</u>
Total capital assets, net	<u>\$ 242,402,890</u>	<u>\$ 45,888,407</u>	<u>\$ 10,082,090</u>	<u>\$ 278,209,207</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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	<u>24,310</u>	<u>-</u>	<u>546,074</u>	<u>570,384</u>
Depreciable capital assets:				
Buildings	-	-	28,544,665	28,544,665
Equipment	890,757	126,681	3,412,288	4,429,726
Total depreciable capital assets	<u>890,757</u>	<u>126,681</u>	<u>31,956,953</u>	<u>32,974,391</u>
Less accumulated depreciation	<u>(676,535)</u>	<u>(67,159)</u>	<u>(11,320,375)</u>	<u>(12,064,069)</u>
Total depreciable capital assets, net	<u>214,222</u>	<u>59,522</u>	<u>20,636,578</u>	<u>20,910,322</u>
Total capital assets, net	<u>\$ 238,532</u>	<u>\$ 59,522</u>	<u>\$ 21,182,652</u>	<u>\$ 21,480,706</u>

Note 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2017:

Vendors and suppliers accounts payable	\$ 10,092,302
Employee salaries, wages, and fringe benefits payable	6,684,932
Accrued interest payable	471,408
Retainage payable	234,241
Spartan Suites rent and scholarships	15,331
Total accounts payable and accrued liabilities	<u>\$ 17,498,214</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, is presented as follows:

<u>University</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable 9c	\$ -	\$ 7,875,000	\$ 215,000	\$ 7,660,000	\$ 390,000
Notes payable	32,435,803	-	1,376,403	31,059,400	1,441,931
Installment purchases	5,022,704	1,372,000	1,135,036	5,259,668	1,134,956
Unamortized bond discount	(123,263)	-	(23,801)	(99,462)	(24,664)
Unamortized bond premium	1,529,134	1,389,200	186,961	2,731,373	220,037
Total long-term debt	38,864,378	10,636,200	2,889,599	46,610,979	3,162,260
Accrued compensated absences	2,498,249	1,353,244	1,710,872	\$ 2,140,622	668,637
Federal loan capital contributions	1,526,927	-	-	1,526,927	-
Net pension liability	58,976,000	-	11,000	58,965,000	-
Total long-term liabilities	\$101,865,554	\$11,989,444	\$ 4,611,471	\$ 109,243,528	\$ 3,830,897

<u>Research and Innovation Foundation and Affiliates</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Bonds payable	\$ 30,515,000	\$ -	\$ 480,000	\$ 30,035,000	\$ 570,000
Unamortized debt issuance costs ¹	(1,199,170)	-	(66,463)	(1,132,707)	-
Total long-term debt	29,315,830	-	413,537	28,902,293	570,000
Derivative - interest rate swap	903,775	-	404,699	499,076	-
Total long-term liabilities	\$ 30,219,605	\$ -	\$ 818,236	\$ 29,401,369	\$ 570,000

<u>Norfolk State University Foundation, Inc. and Subsidiary</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term liabilities:					
Split-interest agreement	\$ 150,039	\$ -	\$ 17,923	\$ 132,116	\$ -
Total long-term liabilities	\$ 150,039	\$ -	\$ 17,923	\$ 132,116	\$ -

(1) Effective July 1, 2016, The Research and Innovation Foundation and Affiliates has adopted ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30); Simplifying the presentation of Debt Issuance Costs*, which amends the current presentation guidance by requiring debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of the ASU, an entity would present debt issuance costs as an asset. The new accounting guidance simplifies the presentation as debt issuance costs are now shown as a deduction from long-term debt. The Statement of Net Position and the non-current liabilities footnote above has been adjusted to reflect the application of the new accounting guidance.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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. On November 10, 2016, \$71,200,000 Commonwealth of Virginia General Obligation Bonds, Series 2016A were issued for residence hall projects authorized under Article X, Section 9(c) of the Constitution of Virginia. Bonds of \$7,875,000 were issued at a premium of \$1,389,200 to finance the costs to renovate and upgrade various residence halls on campus. Debt payments began on June 1, 2017 and will mature on June 1, 2031. The interest rates charged are from 3.00% - 5.00% and the bond proceeds were deposited in the State Non-Arbitrage Program. As of June 30, 2017, the principal balance of \$7,660,000 remains outstanding.

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 fiscal year 2019.

At June 30, 2017, installment purchases consist of the current and long-term portions of obligations resulting from various contracts used to finance the acquisition of equipment. The lengths of the purchase agreements are for five years and the interest rates charged are from 1.207% to 4.500%.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 7—LONG-TERM DEBT (CONTINUED)

	<u>Interest Rates</u> (%)	<u>Maturity</u> <u>Fiscal Year End</u>	<u>Balance at June</u> <u>30, 2017</u>
Bond payable:			
9C Debt Residential Halls Renovations, Series 2016A	3.00-5.00	2031	7,660,000
Net bonds payable			<u>7,660,000</u>
Notes payable:			
Brambleton Center, series 1998		2019	54,400
Student Center 2010A & 2010B	3.75 - 5.50	2031	15,100,000
Student Center 2012A refunding 2004A	2.75 - 5.00	2036	6,835,000
Student Center 2014B refunding 2004A	3.00 - 3.25	2036	<u>9,070,000</u>
Total notes payable			31,059,400
Less: unamortized bond discount			(99,462)
Add: unamortized bond premium			2,731,373
Net notes payable			<u>33,691,311</u>
Installments payable:			
Master equipment lease program	1.207 - 1.175	2019 - 2023	1,662,055
Energy lease project	3.739 - 4.500	2017 - 2021	<u>3,597,613</u>
Net installments payable			<u>5,259,668</u>
Total			<u>\$ 46,610,979</u>

Long-term debt matures as follows:

<u>Year ending:</u>	<u>Principal</u>	<u>Interest</u>
2018	2,966,886	1,768,256
2019	3,210,125	1,648,852
2020	3,182,653	1,518,485
2021	3,276,518	1,389,670
2022	2,410,824	1,263,579
2023-2027	11,667,062	4,736,953
2028-2032	12,470,000	1,947,750
2033-2036	4,795,000	311,750
Unamortized Premium	2,731,373	-
Unamortized Discount	(99,462)	-
Total	<u>\$ 46,610,979</u>	<u>\$ 14,585,295</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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 1.17% at June 30, 2017. The balance due on this loan as of June 30, 2017 was \$30,035,000.

As of June 30, 2017, the Norfolk State University Research and Innovation Foundation and Affiliates bonds mature as follows:

Future principal payments are as follows:

2018	570,000
2019	660,000
2020	760,000
2021	870,000
2022	985,000
2023-2027	6,990,000
2028-2032	11,385,000
2033-2035	7,815,000
Total	<u>\$ 30,035,000</u>

The bonds payable bear interest at a variable interest rate based on the flexible weekly rate as determined by the remarketing agent. To minimize the effect of changes in the variable rate, the Foundation entered an interest rate swap contract with a notional amount of \$32,000,000 with a term of 29 years. The contract pays interest at a fixed 3.733% rate and receives interest at 67% of LIBOR. The unrealized gain of \$404,699 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, 2017 was \$499,076.

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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	\$ 23,216,235	\$ 7,263,440	\$ 5,973,436	\$ -	\$ -	\$ 1,055,965	\$ -	\$ 37,509,076
Research	1,477,797	340,363	6,326,266	-	-	447,513	-	8,591,939
Public service	258,859	99,657	175,526	-	-	7,055	-	541,097
Academic support	7,498,037	2,347,836	924,741	-	-	1,941,161	-	12,711,775
Student services	3,133,670	1,021,438	1,083,460	-	-	16,246	-	5,254,814
Institutional support	10,710,771	4,157,999	(997,110)	-	-	157,045	-	14,028,705
Operations and maintenance-plant	4,412,893	1,891,759	668,657	-	1,902,292	1,500,494	-	10,376,095
Depreciation expense	-	-	-	-	-	-	14,564,032	14,564,032
Scholarship and fellowship	-	-	-	10,588,775	-	-	-	10,588,775
Auxiliary activities	6,385,943	2,074,609	18,295,684	-	1,786,065	2,399,663	-	30,941,964
Total operating expenses	\$ 57,094,205	\$ 19,197,101	\$ 32,450,660	\$ 10,588,775	\$ 3,688,357	\$ 7,525,142	\$ 14,564,032	\$ 145,108,272

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 9—STATE APPROPRIATIONS & CAPITAL 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 state appropriation:	
Educational and general programs	\$ 45,083,024
Student financial assistance	11,648,182
Adjustments:	
VIVA ILL allocation	2,739
Virginia military survivors and dependents	49,500
Two year college transfer grant	24,720
Cybersecurity	50,000
Appropriation Transfer from HEOF to GF	298,914
Chapter 836 operating amendments	9,204
Adjusted state appropriation	<u>\$ 57,166,283</u>

The Commonwealth has established several programs to provided state-supported institutions for higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2017, funding was provided to the University from the 21st Century program and the Equipment Trust Fund, managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University for expenses incurred in the acquisition of equipment and facilities.

The following is a summary of capital appropriation and gifts recognized by the University for year ended June 30, 2017

VCBA 21 st Century program	\$38,824,442
VCBA Equipment Trust Fund program	\$804,030

A portion of the funding from the 21st Century program, \$3,292,943, is reported as a receivable, due from the Commonwealth at June 30, 2017.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 10—COMMITMENTS

At June 30, 2017, the University was committed to construction contracts totaling approximately \$41,135,620. Outstanding commitments on these contracts totaled \$14,223,197 as of June 30, 2017.

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, 2017, was \$922,205.

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, 2017, the following total future minimum rental payments due under the above leases:

<u>Year</u>	<u>Operating Lease Obligation</u>
2018	\$ 1,044,900
2019	752,216
2020	473,524
Total	<u>\$ 2,270,640</u>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS

Virginia Retirement System - General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the 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. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as 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 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
<p>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.</p>	<p>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.</p>	<p>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”)</p> <ul style="list-style-type: none"> • 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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
		<ul style="list-style-type: none"> • 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.
<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • 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 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Members of the Virginia Law Officers' Retirement System (VaLORS) <p>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.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
<p>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.</p>	<p>Retirement Contributions State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>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.</p>
<p>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.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>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.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
		<p><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.</p>
<p>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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p><u>Vesting 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.</p> <p><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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
		<ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p> <p>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.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> 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.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>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%.</p>	<p>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.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
<p>VaLORS: The retirement multiplier for VaLORS employees is 1.70% or 2.00%.</p>	<p>VaLORS: The retirement multiplier for VaLORS employees is 2.00%.</p>	<p>VaLORS: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>VaLORS: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>VaLORS: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>VaLORS: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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.</p> <p>VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>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.</p> <p>VaLORS: Same as Plan 1.</p>	<p>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.</p> <p>VaLORS: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
<p>VaLORS: 50 with at least five years of creditable service.</p>	<p>VaLORS: Same as Plan 1.</p>	<p>VaLORS: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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%.</p> <p><u>Eligibility:</u> 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.</p> <p>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.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. 	<p>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%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
<ul style="list-style-type: none"> • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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. 		
<p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>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.</p> <p>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>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.</p> <p>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.</p>

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)		
<i>Plan Description</i>		
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • 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 one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

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, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on an actuarially determined rate(s) from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of \$162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of \$16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. 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. Contributions from Norfolk State University to the VRS State Employee Retirement Plan were \$ 4,465,685 and \$ 4,754,221 for the years ended June 30, 2017 and June 30, 2016, respectively. Contributions from Norfolk State University to the VaLORS Retirement Plan were 242,959 and \$ 171,435 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, Norfolk State University reported a liability of \$56,926,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of \$ 2,039,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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 the state agency's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, Norfolk State University's proportion of the VRS State Employee Retirement Plan was .86372 % as compared to .93016 % at June 30, 2015. At June 30, 2016, the state agency's proportion of the VaLORS Retirement Plan was .26334 % as compared to .28519 % at June 30, 2015.

For the year ended June 30, 2017, Norfolk State University recognized pension expense of \$ 2,377,000 for the VRS State Employee Retirement Plan and \$ 175,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, 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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

Norfolk State University has \$4,465,685 for VRS and \$ 242,959 for VaLORS reported as deferred outflows of resources related to pensions resulting from Norfolk State 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, 2018. 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			
<u>VRS Retirement Plan</u>		<u>VaLOR Retirement Plan</u>			
FY 2018	\$ (2,596,000)	FY 2018	\$ (20,000)		
FY 2019	\$ (2,381,000)	FY 2019	\$ (28,000)		
FY 2020	\$ 917,000	FY 2020	\$ 37,000		
FY 2021	\$ 1,486,000	FY 2021	\$ 33,000		
FY 2022	\$ -	FY 2022	\$ -		

Actuarial Assumptions

The total pension liability for the VRS State Employee Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

The actuarial assumptions used in the June 30, 2015 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

The total pension liability for the VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

The actuarial assumptions used in the June 30, 2015 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%

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, 2016, 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	\$ 22,958,593	\$ 1,985,618
Plan Fiduciary Net Position	<u>16,367,842</u>	<u>1,211,446</u>
Employers' Net Pension Liability (Asset)	<u>\$ 6,590,751</u>	<u>\$ 774,172</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 71.29%	 61.01%

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.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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%.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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:

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Norfolk State's proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	\$80,113	\$56,926	\$37,459

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Norfolk State's proportionate share of the VaLORS Retirement Plan Net Pension Liability	\$2,729	\$2,039	\$1,471

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 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payable to the Pension Plan

At June 30, 2017, the University had accrued retirement contributions payable to the pension plan of \$520,228 including \$491,461 payable to the VRS State employee Retirement Plan and \$28,767 payable to the VaLORS Retirement Plan. The payable is based on retirement contributions earned by University employees through June 30, 2017, but not yet paid to the plan.

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 2017 were 8.5 percent. Vesting is full and immediate for both employer and employee contributions. For fiscal year 2017, total pension expense recognized was \$1,642,550. For fiscal year 2017, contributions were calculated using the base salary amount of \$13,894,451.

NORFOLK STATE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 11—RETIREMENT PLANS (CONTINUED)

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 2017 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 \$170,108 for fiscal year 2017.

Note 12—POSTEMPLOYMENT BENEFITS

The University participates in postemployment benefit programs that are sponsored by the commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program, and Line of Duty Act Program. The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs. The University also participates in the Pre-Medicare Retiree Healthcare Plan, sponsored by the commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible for Medicare to participate in the commonwealth's healthcare plan for active employees. The University does not pay a portion of the retirees' healthcare premium; however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees. Additional information related to all of these plans is available in Virginia'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, 2017, the University estimates that no material liabilities will result from such audits or questions.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 13—CONTINGENCIES (CONTINUED)

Contingent Liability

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 began July 2016. As of June 30, 2017 Thompson Hospitality made \$2.0 million in 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*.

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 15—COMPONENT UNITS

	NSU Foundation Inc. as of December 31, 2016	The Athletics Foundation of Norfolk State University, Inc. as of June 30, 2017	Norfolk State University Research and Innovation Foundation and Affiliates as of June 30, 2017	Total
Current assets:				
Cash and cash equivalents	\$ 783,569	\$ 91,955	\$ 1,625,632	\$ 2,501,156
Restricted cash and cash equivalents	-	-	994,879	994,879
Short-term investments	-	62,589	-	62,589
Contributions receivable, net	360,574	-	-	360,574
Prepaid expenses	-	-	71,764	71,764
Other assets	218,402	-	-	218,402
Total current assets	<u>1,362,545</u>	<u>154,544</u>	<u>2,692,275</u>	<u>4,209,364</u>
Restricted cash and cash equivalents	-	-	2,239,564	2,239,564
Investments	27,606,701	-	-	27,606,701
Contributions receivable, net	661,220	-	-	661,220
Nondepreciable capital assets	24,310	-	546,074	570,384
Depreciable capital assets, net	214,222	59,521	20,636,578	20,910,321
Total noncurrent assets	<u>28,506,453</u>	<u>59,521</u>	<u>23,422,216</u>	<u>51,988,190</u>
Total Assets	<u><u>\$ 29,868,998</u></u>	<u><u>\$ 214,065</u></u>	<u><u>\$ 26,114,491</u></u>	<u><u>\$ 56,197,554</u></u>
Accounts payable and accrued expenses	303,507	41,594	412,588	\$ 757,689
Unearned revenue	-	43,430	842	44,272
Long-term liabilities - current portion	-	-	570,000	570,000
Total current liabilities	<u>303,507</u>	<u>85,024</u>	<u>983,430</u>	<u>1,371,961</u>
Noncurrent liabilities	132,116	-	28,831,369	28,963,485
Total Liabilities	<u>435,623</u>	<u>85,024</u>	<u>29,814,799</u>	<u>30,335,446</u>
Net position:				
Net investment in capital assets	238,532	59,521	(7,719,641)	(7,421,588)
Restricted for:				
Nonexpendable	7,517,914	50,000	-	7,567,914
Expendable	17,549,235	77,446	-	17,626,681
Unrestricted	4,127,694	(57,926)	4,019,333	8,089,101
Total Net Position	<u><u>\$ 29,433,375</u></u>	<u><u>\$ 129,041</u></u>	<u><u>\$ (3,700,308)</u></u>	<u><u>\$ 25,862,108</u></u>

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

NORFOLK STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

Note 15—COMPONENT UNITS (CONTINUED)

	NSU Foundation Inc. as of December 31, 2016	The Athletics Foundation of Norfolk State University, Inc. as of June 30, 2017	Norfolk State University Research and Innovation Foundation and Affiliates as of June 30, 2017	Total
Operating revenues:				
Other operating revenues	\$ -	\$ 452,405	\$ 4,932,096	\$ 5,384,501
Total operating revenues	<u>-</u>	<u>452,405</u>	<u>4,932,096</u>	<u>5,384,501</u>
Operating expenses:				
Institutional support	1,315,722	441,155	3,628,310	5,385,187
Operation and maintenance - plant		42,529	649,922	692,451
Depreciation expense	22,260	14,974	966,167	1,003,401
Student Aid	1,530,482	1,907	-	1,532,389
Total operating expenses	<u>2,868,464</u>	<u>500,565</u>	<u>5,244,399</u>	<u>8,613,428</u>
Operating loss	<u>(2,868,464)</u>	<u>(48,160)</u>	<u>(312,303)</u>	<u>(3,228,927)</u>
Non-operating revenues:				
Investment income net of investment expense	421,790	1,557	-	423,347
Realized/unrealized gain (loss) on investments	1,197,964	(4,148)	-	1,193,816
Unrealized gain on interest rate swap	-	-	404,699	404,699
Loss on disposal of assets	-	-	(7,651)	(7,651)
Gifts	1,638,533	-	-	1,638,533
Net non-operating revenues	<u>3,258,287</u>	<u>(2,591)</u>	<u>397,048</u>	<u>3,652,744</u>
Increase before other revenues, expenses, gains or losses	<u>389,823</u>	<u>(50,751)</u>	<u>84,745</u>	<u>423,817</u>
Contributions to permanently restricted endowments	<u>576,729</u>	<u>-</u>	<u>-</u>	<u>576,729</u>
Net other revenues	<u>576,729</u>	<u>-</u>	<u>-</u>	<u>576,729</u>
Increase in net position	966,552	(50,751)	84,745	1,000,546
Net position - beginning of the year	<u>28,466,823</u>	<u>179,792</u>	<u>(3,785,053)</u>	<u>24,861,562</u>
Net position - end of year	<u>\$ 29,433,375</u>	<u>\$ 129,041</u>	<u>\$ (3,700,308)</u>	<u>\$ 25,862,108</u>

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

NORFOLK STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

JUNE 30, 2017

Schedule of Employer's Share of Net Pension Liability
VRS State Employee Retirement Plan
For the Years Ended June 30, 2017, 2016 and 2015*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.86%	0.93%	0.98%
Employer's Proportionate Share of the Net Pension Liability (Asset)	56,926,000	\$56,950,000	\$54,796,000
Employer's Covered Payroll	\$34,046,270	\$35,843,667	\$37,797,709
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	167.20%	158.88%	144.97%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.29%	72.81%	74.28%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two 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.

NORFOLK STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

JUNE 30, 2017

Schedule of Employer's Share of Net Pension Liability
VaLORS Retirement Plan
For the Years Ended June 30, 2017, 2016 and 2015*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.26%	0.29%	0.27%
Employer's Proportionate Share of the Net Pension Liability (Asset)	2,039,000	2,026,000	1,802,000
Employer's Covered Payroll	\$909,368	\$965,553	\$942,647
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	2.24%	2.49%	1.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.01%	62.64%	63.05%

Schedule is intended to show information for 10 years. Since 2017 is the third year for this presentation, only two 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.

NORFOLK STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

JUNE 30, 2017

Schedule of Employer Contributions
VRS State Employee Retirement Plan
For the Years Ended June 30, 2008 through 2017

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)
2017	\$4,534,693	\$4,534,693	0	\$33,615,222	13.49%
2016	\$4,780,212	\$4,780,212	0	\$34,046,270	14.04%
2015	\$4,419,524	4,419,524	0	\$35,843,667	12.33%
2014	\$3,311,079	\$3,311,079	0	\$37,797,709	8.76%
2013	3,194,466	3,194,466	0	36,466,507	3.23%
2012	1,147,030	1,147,030	0	35,513,407	2.13%
2011	748,320	748,320	0	35,132,384	4.95%
2010	1,742,606	1,742,606	0	35,230,612	6.23%
2009	2,209,740	2,209,740	0	35,469,348	6.15%
2008	2,136,454	2,136,454	0	34,739,085	5.74%

NORFOLK STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

JUNE 30, 2017

Schedule of Employer Contributions
VaLORS Retirement Plan
For the Years Ended June 30, 2008 through 2017

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)
2017	\$244,730	\$244,730	0	1,162,617	21.05%
2016	\$171,435	\$171,435	0	\$909,368	18.85%
2015	\$170,613	\$170,613	0	\$965,553	17.67%
2014	\$139,512	\$139,512	0	\$942,647	14.80%
2013	138,277	138,277	0	934,307	14.80%
2012	66,371	66,371	0	935,293	7.10%
2011	50,504	50,504	0	986,397	5.12%
2010	110,275	110,275	0	981,610	11.23%
2009	139,300	139,300	0	978,919	14.23%
2008	66,546	66,546	0	1,050,101	15.86%

NORFOLK STATE UNIVERSITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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 is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 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	2012-13	2013-14	2014-15	2015-16	2016-17
ENROLLMENT					
Total	7,100	6,728	6,027	5,107	5,421
In-state	6,004	5,773	5,191	4,403	4,499
Out-of-state	1,096	955	836	704	922
FRESHMAN APPLICATIONS					
Number of Applications Received	4,231	3,373	2,817	2,445	4,439
In-state	2,107	1,964	1,509	1,346	1,901
Out-of-state	2,124	1,409	1,308	1,099	2,538
Number of Applications Accepted	2,847	2,192	1,850	1,930	3,795
In-state	1,446	1,312	1,007	1,078	1,625
Out-of-state	1,401	880	843	852	2,170
Number of Accepted Enrolled	1,088	818	572	475	1,039
In-state	899	686	440	354	706
Out-of-state	189	132	132	121	33
TRANSFER APPLICATIONS					
Number of Applications Received	995	959	884	641	1,039
In-state	675	677	628	443	746
Out-of-state	320	282	256	198	293
Number of Applications Accepted	868	854	687	577	893
In-state	584	604	483	393	636
Out-of-state	284	250	204	184	257
Number of Accepted Enrolled	534	496	446	352	491
In-state	462	432	379	290	413
Out-of-state	72	64	67	62	78
GRADUATE APPLICATIONS					
Number of Applications Received	335	344	293	256	387
In-state	222	250	211	176	284
Out-of-state	113	94	82	80	103
Number of Applications Accepted	247	261	239	202	325
In-state	167	187	176	145	239
Out-of-state	80	74	63	57	86
Number of Accepted Enrolled	187	175	183	167	263
In-state	150	138	154	144	221
Out-of-state	37	37	29	23	42
TUITION AND FEES					
Undergraduate					
In-state	\$6,860	\$7,226	\$7,552	\$8,366	\$8,738
Out-of-state	\$20,360	\$20,696	\$20,696	\$20,884	\$21,100
Graduate					
In-state	\$9,388	\$9,916	\$8,692	\$9,506	\$10,568
Out-of-state	\$26,812	\$27,268	\$21,560	\$21,748	\$21,964
ROOM AND BOARD					
Total Room and Board	\$8,130	\$8,374	\$8,658	\$8,970	\$9,490
Room rates	\$5,254	\$5,412	\$5,574	\$5,798	\$6,222
Board rates	\$2,876	\$2,962	\$3,050	\$3,172	\$3,268



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 26, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
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, 2017, 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, 2017, 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 55 through 59 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 April 26, 2018, 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

JMR/clj

NORFOLK STATE UNIVERSITY
Norfolk, Virginia

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Mona Adkins-Easley, Associate Vice President for Human Resources

Marty L. Miller, Athletics Director

Pamela F. Boston, Esq., University Counsel

Harry Aristakesian, Chief Audit Executive

Represents Board of Visitors and University Administrators as of June 30, 2017

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 standard set by the University.

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

Karla Amaya Gordon	Karen Funk	Sonya Jackson	Elena Ottey	Candace Thompson
Bobbie Berger	Garry Galote	Karma Johnson-Freeman	Sandra Riggs	Eve Turner
Rita Bowen	Sarah Green	Danielle Jones	Katina Roberts	Delores White
Audra Bunch	Sabrina Gregory	Monsurat Kadri	deLisa Roberts-Jenkins	Vermara Williams
Delores Britton	Debra Haper-Moyler	Edsel Laririt	Benny Scala	Shaquay Wragg
Candice Esper	Michelle Holland-Frazier	Jackie Matthews	Joy Scott	
Sherry Flegler	Jennifer Holmes-Scott	Janice Moore	Linda Smith	
Betty Fulgham	Nichole Horton	Monica Morris	Zaheer Tariq	

It is also appropriate to thank the President and Board of Visitors for making possible the sound financial resources and stable financial position through their interest and support in planning and conducting the financial affairs of the University.

