



CHRISTOPHER NEWPORT UNIVERSITY

Audited Financial Statements

for the year ended June 30, 2011



CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

- TABLE OF CONTENTS –

	<u>Pages</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1-7
FINANCIAL STATEMENTS:	
Statement of Net Assets	8
Statement of Revenues, Expenses and Changes in Net Assets	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-28
INDEPENDENT AUDITOR’S REPORT:	
Report on Financial Statements	29-30
UNIVERSITY OFFICIALS	31

MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

The following Management's Discussions 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 analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2011, with comparative numbers for the year ended June 30, 2010. This presentation includes highly summarized data, and should be read in conjunction with the accompanying financial statements and notes to financial statements. University management is responsible for all of the financial information presented, including the discussion and analysis.

The Christopher Newport University Educational and Real Estate Foundations, Inc. are component units and are included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include the Foundations' financial condition and activities.

The basic financial statements for Christopher Newport University are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets, as well as an overview of the University's activities.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of this statement is to present the financial position of the University at June 30, 2011. The data presented indicates the assets available to continue the University's operations as well as show the amounts the institution owes to vendors and creditors.

Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>	<u>Percent</u>
Assets:				
Current assets	\$ 26,442,449	\$ 25,872,524	\$ 569,925	2%
Capital assets, net	370,125,103	311,156,759	58,968,344	19%
Other noncurrent assets	<u>38,907,083</u>	<u>25,438,279</u>	<u>13,468,804</u>	53%
Total assets	<u>435,474,635</u>	<u>362,467,562</u>	<u>73,007,073</u>	20%
Liabilities:				
Current liabilities	31,874,427	29,271,848	2,602,579	9%
Noncurrent liabilities	<u>168,041,731</u>	<u>134,437,331</u>	<u>33,604,400</u>	25%
Total liabilities	<u>199,916,158</u>	<u>163,709,179</u>	<u>36,206,979</u>	22%
Net assets:				
Invested in capital assets, net of related debt	232,407,516	192,847,682	39,559,834	21%
Unrestricted	<u>3,150,961</u>	<u>5,910,701</u>	<u>(2,759,740)</u>	(47%)
Total net assets	<u>\$ 235,558,477</u>	<u>\$ 198,758,383</u>	<u>\$ 36,800,094</u>	19%

Net assets are divided into three major categories. The first category, “Invested in capital assets, net of debt,” provides the University’s equity in property, plant and equipment owned by the institution. The next category is “Restricted net assets,” which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. As of June 30, 2011 the University did not have any Restricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

The University’s total assets increased by \$73.0 million and total liabilities increased by \$36.2 million. Specifically,

- Net Capital assets increased by \$59.0 million primarily due to the following:
 - Acquisition of property from the Christopher Newport University Real Estate Foundation (CNUREF) totaling \$5.2 million.
 - An increase in construction in progress of \$60.0 million primarily due to construction of a new academic building, Mary Brock Forbes Hall, the Freeman Center expansion, beginning construction on the New Residence Hall and the New Luter School of Business, and renovations made to Santoro Hall. Mary Brock Forbes Hall and the Freeman Center expansion were opened in the summer of 2011.
 - A net increase in furniture and equipment of \$1.1 million.
 - An increase in intangibles of \$500 thousand.
 - An increase in infrastructure of \$912 thousand.
 - Library book additions of \$489 thousand.
 - Depreciation expense of \$9.6 million.
- Other noncurrent assets had a net increase of \$13.5 million primarily as a result of the increased activity in the SNAP accounts of \$15.0 million, which is the investment account for the bond proceeds.
 - Proceeds, inclusive of premiums, were received for the construction of:
 - A New Residence Hall of \$34.6 million,
 - Land Acquisition of \$4.8 million,
 - and the Residence Hall Roof Replacement of \$1.5 million.
 - Draws from the SNAP accounts to pay for construction from new and existing proceeds were as follows:
 - Land Acquisition \$4.9 million,
 - Ratcliffe \$500 thousand,
 - Residence Hall \$3.2 million,
 - Freeman Center \$16.3 million,
 - Athletic Facilities II Expansion \$203 thousand
 - and Capitalized Interest payments of \$956 thousand.
- Current liabilities increased by \$2.6 million primarily due to the increase in accounts payable for vendors and retainage at year end totaling \$5.6 million a large portion of which is attributable to construction invoices, an increase in the current portion of long-term liabilities of \$722 thousand due to the bond issues in 2011, an increase in other current liabilities of \$566 thousand, and a decrease of \$4.3 million in obligations under securities lending.
- Noncurrent liabilities increased by \$33.6 million due to the 2010 Bond issues for the New Residence Hall of 34.5 million, Land Acquisition of \$4.7 million and Residence Hall Roof Replacement of \$1.3 million. Offset by 2010B Bond refunding of 2001, 2002, and 2003 Bond issues. Reductions for principal payments and refunded debt totaled \$7.1 million.

The combination of increase in total assets and increase in total liabilities resulted in an increase in net assets at June 30, 2011 of \$36.8 million.

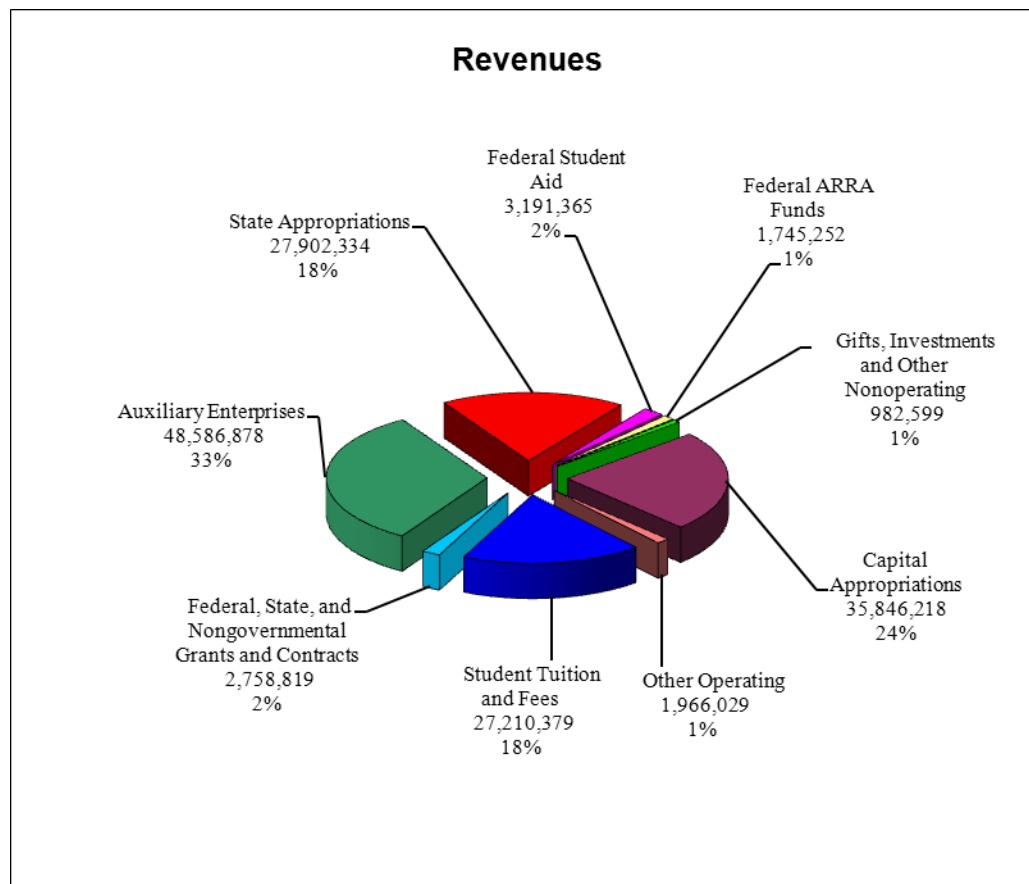
Statement of Revenues, Expenses and Change in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present revenues received by the University, both operating and non-operating, and expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains or losses. This statement measures the success of the University's operations and can be used to determine how the University's fiscal condition has changed during the year.

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>	<u>Percent</u>
Operating revenues	\$ 80,522,105	\$ 75,755,569	\$ 4,766,536	6%
Operating expenses	<u>107,020,516</u>	<u>98,889,159</u>	<u>8,131,357</u>	8%
Operating loss	(26,498,411)	(23,133,590)	(3,364,821)	15%
Non-operating revenues, net	27,452,287	28,636,118	(1,183,831)	(4%)
Net other revenues (expenses)	<u>35,846,218</u>	<u>27,747,441</u>	<u>8,098,777</u>	29%
Increase in net assets	36,800,094	33,249,969	3,550,125	11%
Net assets beginning of year	<u>198,758,383</u>	<u>165,508,414</u>	<u>33,249,969</u>	20%
Net assets end of year	<u>\$ 235,558,477</u>	<u>\$ 198,758,383</u>	<u>\$ 36,800,094</u>	19%

Generally, operating revenues are received for providing goods and services to the students and other constituencies of the University. Operating expenses are those expenses paid to acquire or produce the good and services provided in return for the operating revenues, and to carry out the mission of the University. Salaries 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. The University's state appropriation is non-operating revenue because it is provided by the state legislature without the legislature directly receiving commensurate goods and services for these revenues.

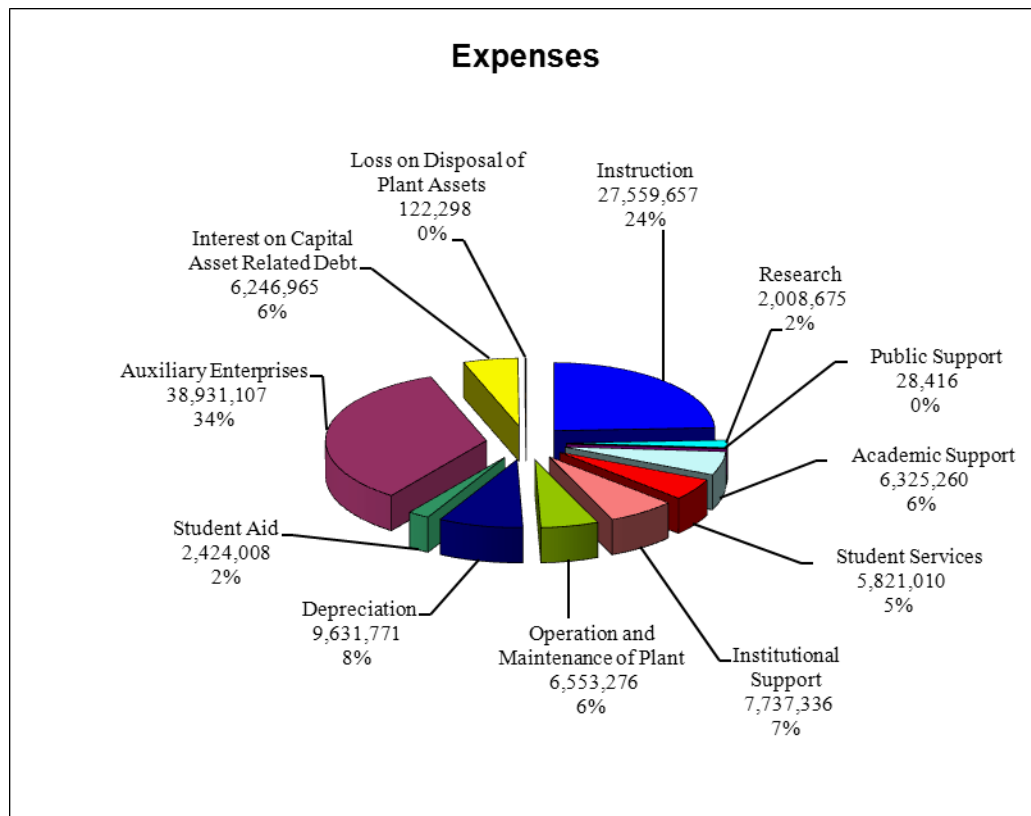


The graph above is based on the Statement of Revenues, Expenses, and Change in Net Assets for all revenue items.

Operating revenues increased by \$4.8 million and includes tuition and fees, auxiliary enterprises revenues and other operating revenues. Tuition and fee revenues increased by \$3.1 million due in part to the increase in the tuition rates. Annual In-State tuition rates increased by \$700 and Out-of-State tuition rates increased by \$1,380. Auxiliary enterprises increased by \$1.3 million primarily due the increase in room and board rates. Annual room rates and annual board rates increased by \$300. Federal grants and contracts increased due to additional grants and funding from NASA and the National Science Foundation. State and nongovernmental grants and contracts decreased by \$741 thousand primarily due to the VDOE Governor's school that was no longer hosted by the University in 2011.

Net non-operating revenues (expenses) decreased by \$1.2 million and include items such as state appropriation, financial aid, federal fiscal stabilization funding (ARRA), gifts, interest on capital related debt and gains or losses on disposal of plant assets. Fiscal year 2011 state appropriation was \$1.3 million higher than the previous fiscal year, federal student financial aid was \$619 thousand higher due to increased need and availability for financial aid for students, ARRA revenue was \$766 thousand less than prior year due to the University electing to defer a portion of the appropriation into fiscal year 2012. Gift revenue decreased by \$2.5 million primarily due to the gifting of land from the CNUREF in fiscal year 2010, interest expense on capital asset related debt increased by \$232 thousand due to the new bond issues, and the loss on disposal of plant assets in fiscal year 2011 decreased by \$464 thousand primarily due to the gain on the sale of the President's residence.

Net other revenues (expenses) primarily encompass capital appropriations and capital gifts and grants. Fiscal year 2011 increased by \$8.1 million from prior year primarily due to the receipt of capital appropriations for the Freeman Center expansion, the Mary Brock Forbes Hall, the new Residence Hall and property acquisitions from the CNUREF.



The graph above is based on the Statement of Revenues, Expenses, and Change in Net Assets for all operating, non-operating and other expense items.

Operating expenses increased by \$8.1 million from the previous year primarily due to the following:

- Instructional expenses increased by \$2.1 million primarily due to the increase in fringe benefits of \$1.6 million. The increase in fringe benefits was due to funding of an early retirement incentive plan, the 3% state bonus, and deferred retirement contribution. Faculty salary and wages increased by \$279 thousand due to an increase of faculty at the University, services and supplies increased by \$128 thousand due to increased information technology and travel related expenses, and plant and equipment increased by \$107 thousand due to new laboratory and educational equipment purchased for the new Mary Brock Forbes science building.
- Academic support increased by \$248 thousand primarily due to an increase in fringe benefits of \$131 thousand for the 3% state bonus and deferred retirement contribution. Services and supplies increased \$361 thousand due to the increase in software and hardware maintenance expenses. Salaries decreased by \$230 thousand due to a decrease in classified and information technology salaries. Other miscellaneous expenses decreased by \$13 thousand.
- Student services increased by \$988 thousand due to an increase in fringe benefits of \$217 thousand for the 3% state bonus, deferred retirement contribution, increase in medical hospitalization and teacher's annuity for additional staff hired. Salaries increased by \$285 thousand due to an increase in Administrative higher education salaries for new staff. Services and supplies increased by \$205 thousand for the reversal of a prior year prepaid for services that are now being done in house. Plant and equipment increased by \$282 thousand for purchase of a document management system for the University.

- Institutional support decreased by \$3.3 million due to increases in fringe benefits of \$220 thousand for the 3% state bonus and deferred retirement contribution offset by prior year's purchases of plant and equipment of \$3.4 million.
- Operation and maintenance of plant decreased by \$496 thousand; salaries and wages decreased by \$107 thousand due to a decrease in Virginia Law Officer's salaries for vacant positions. Fringe benefits increased by \$170 thousand for the 3% state bonus and deferred retirement contribution. Services and supplies increased by \$76 thousand for repairs and maintenance and skilled services. Utilities increased by \$324 thousand due to increases in electricity and water and sewer costs. Plant and equipment decreased by \$958 thousand due to prior year's purchases for maintenance and reserve and renewals and replacements.
- Depreciation expense increased by \$778 thousand due to the increase in capital assets.
- Auxiliary enterprises increased by \$7.2 million due to an increase in salaries of \$862 thousand for Administrative Higher Education, Virginia Law Officers, General, Student and Teaching and Research salaries and wages. Fringe benefits increased by \$502 thousand due to the 3% state bonus and deferred retirement contribution. Services and supplies increased by \$5.4 million due to the capitalization of expenses for capital outlay prior year. Scholarships increased \$456 thousand due to the room and board waivers for the resident assistants. Utilities increased by \$175 thousand due to an increase in building and equipment rentals. Plant and equipment decreased by \$234 thousand due to the capitalization of expenses for capital outlay in the current year.

Statement of Cash Flows

The Statement of Cash Flows presents the detailed information pertaining to the cash activity of the University during the year. The statement is divided into five parts.

The first section deals with operating cash flows and shows the net cash used by operating activities of the institution. Significant increases and decreases in cash from operating activities include:

- Student tuition and fees increased over prior year due to an increase in annual In-State tuition by \$700 and Out-of-State tuition by \$1,380,
- Auxiliary enterprises increased over prior year due to an increase in comprehensive fee and room rates of \$300,
- Payments to employees increased over prior year primarily due to the funding of an early retirement incentive plan of \$882 thousand, deferred retirement of \$1 million, a 3% bonus of \$1.1 million, and a decrease from ARRA funding which was used to support faculty salaries and fringe benefits from prior year of \$786 thousand,
- Additional payments for scholarships of \$1.1 million were made in the current year,
- Payments for plant and improvements decreased by \$4.1 million from prior year due to a decreased need for plant and improvements as well as budget constraints.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs, gifts and grants, ARRA fiscal stabilization funds plus financial aid. Significant increases and decreases in cash from noncapital financing activities include:

- State appropriation increased by \$1.3 million over prior year,
- Gifts and grants decreased by \$2.5 million over prior year primarily due to the donation of land in the prior year from CNUREF.

The third section reflects cash flows from capital financing activities used for the acquisition and construction of capital related items. Significant increases and decreases in cash from capital financing activities include:

- Capital appropriation increased by \$4.6 million from prior year primarily due to construction of the Mary Brock Forbes Hall,

- Proceeds from sale of revenue bonds of \$16.2 million over prior year from the issuance of the 2010 Bond issues for the New Residence Hall, Land Acquisition and Residence Hall Roof Replacement, offset by 2010B Bond refunding of 2001, 2002, and 2003 Bond issues.

The fourth section reflects cash flows from investing activities and includes interest on investments, purchase of investments, and sales of investments. Investment activity increased by \$111 thousand primarily due to 2010 bond issues.

The last section of this statement (not shown in the table on page 7) reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Assets.

Statement of Cash Flows

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Variance</u>	<u>Percent</u>
Cash flows from operating activities	\$ (16,235,425)	\$ (13,668,536)	\$ (2,566,889)	19%
Cash flows from noncapital financing activities	33,761,989	35,550,872	(1,788,883)	(5%)
Cash flows from capital financing activities	512,715	(2,213,708)	2,726,423	(123%)
Cash flows from investing Activities	231,071	119,585	111,486	93%
	<u> </u>	<u> </u>	<u> </u>	
Net change in cash	<u>\$ 18,270,350</u>	<u>\$ 19,788,213</u>	<u>\$ (1,517,863)</u>	(8%)

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction taking place at the University. Significant fiscal year 2011 capital projects include the new Mary Brock Forbes Science Hall, the beginning of construction of the new Luter School of Business, a new Residence Hall, the beginning construction of a new Parking Deck, the Freeman Athletic Center Expansion and other Athletic Facilities Expansions, property acquisition acquired from the CNUREF to include the CNU Village, the Ratcliffe Hall Addition, the renovation of Santoro Hall and the Residence Halls Roof Replacement. All academic capital projects are funded through state appropriations. The remaining projects are funded through the issuance of 9(d) revenue bonds or other funding as appropriate.

The University's long-term debt increased by \$34.3 million as of June 30, 2011 primarily due to the 2010A, 2010A-1 & 2010A-2 Bond issues for the New Residence Hall, Land Acquisition and the Residence Hall Roof Replacement, plus the 2010B Bond refunding of 2001, 2002, and 2003 Bond issues. Further information relating to capital assets, construction and capital debt is included in the Notes to the Financial Statements.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. In fiscal year 2011 the state appropriation for education and general was \$23.4 million and per the Governor's communications appears to be stable for the upcoming biennium. In the prior year the University's budget was reduced by \$6.1 million in order to offset the projected decrease in State revenue projections. The University received \$3.5 million in ARRA fiscal stabilization funding in fiscal year 2011 to partially offset the fiscal year 2010 budget reductions that continue to carry forward each year. The University elected to defer \$1.8 million of the \$3.5 million of ARRA funding from fiscal year 2011 until fiscal year 2012. In addition, the University's governing board increased in-state tuition by \$634, out-of-state tuition by \$1,114, comprehensive fees by \$200, and room and board by \$188 for fiscal year 2012.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2011

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 1,503,594	\$ 1,923,072
Cash and cash equivalents Treasurer of Virginia (Note 2)	18,519,159	-
Cash and cash equivalents - securities lending (Note 2)	208,182	-
Accounts receivable, net of allowance (Note 3)	756,104	653,128
Contributions receivable, net of allowance (Note 3)	-	3,921,444
Due From Commonwealth (Note 3)	3,492,924	-
Prepaid expenses	1,809,586	23,986
Inventory	152,900	-
Total current assets	<u>26,442,449</u>	<u>6,521,630</u>
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	37,804,753	3,724,589
Restricted investments (Note 2)	167,406	16,572,463
Other investments (Note 2)	63,837	-
Appropriations available/due from	871,087	-
Contributions receivable, net of allowance (Note 3)	-	3,267,759
Other assets	-	1,082,340
Other restricted assets	-	904,966
Non-depreciable capital assets (Note 4)	111,071,489	11,451,729
Capital assets, net (Note 4)	<u>259,053,614</u>	<u>41,680,511</u>
Total noncurrent assets	<u>409,032,186</u>	<u>78,684,357</u>
Total assets	<u>435,474,635</u>	<u>85,205,987</u>

LIABILITIES

Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	16,980,967	893,275
Deferred revenue	1,617,013	15,588
Short-term Debt (Note 7)	-	800,000
Obligations under securities lending	272,019	-
Accrued Interest Payable	1,978,321	258,872
Deposits held in custody for others	2,220,378	167,406
Long-term liabilities - current portion (Note 6)	<u>8,805,729</u>	<u>2,386,642</u>
Total current liabilities	<u>31,874,427</u>	<u>4,521,783</u>
Noncurrent liabilities (Notes 6 and 7)	<u>168,041,731</u>	<u>55,140,974</u>
Total liabilities	<u>199,916,158</u>	<u>59,662,757</u>

NET ASSETS

Invested in capital assets, net of related debt	232,407,516	2,055,721
Restricted for:		
Nonexpendable - scholarships and fellowships	-	14,524,972
Expendable:		
Scholarships and fellowships	-	2,931,742
Academic support	-	1,531,908
Capital projects	-	4,713,071
Other	-	3,263,232
Unrestricted	<u>3,150,961</u>	<u>(3,477,416)</u>
Total net assets	<u>\$ 235,558,477</u>	<u>\$ 25,543,230</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2011

	June 30, 2011	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of \$1,321,332	\$ 27,210,379	-
Federal grants and contracts	2,408,467	8,333
State grants and contracts	163,934	-
Nongovernmental grants and contracts	186,418	-
Gifts and contributions	-	2,762,952
Auxiliary enterprises, Net of scholarship allowance of \$6,111,725	48,586,878	-
Lease and rental revenue	-	6,071,642
Other operating revenue	1,966,029	222,257
Total operating revenues	80,522,105	9,065,184
Operating expenses (Note 8):		
Instruction	27,559,657	-
Research	2,008,675	-
Public Service	28,416	-
Academic support	6,325,260	-
Student services	5,821,010	-
Institutional support	7,737,336	2,248,226
Operation and maintenance of plant	6,553,276	3,164,903
Depreciation	9,631,771	1,848,367
Student aid	2,424,008	1,206,774
Auxiliary enterprises	38,931,107	-
Total operating expenses	107,020,516	8,468,270
Operating gain/(loss)	(26,498,411)	596,914
Non-operating revenues/(expenses):		
State appropriations (Note 9)	27,902,334	-
Federal student financial aid	3,191,365	-
Federal state fiscal stabilization funds (ARRA)	1,745,252	-
Gifts	672,830	-
Investment income, net of investment expenses of \$7,850	244,941	3,707,428
Interest on capital asset related debt	(6,246,965)	(2,251,592)
Other non-operating revenues (expenses)	64,828	-
Gain (Loss) on disposal of plant assets	(122,298)	268,144
Net nonoperating revenues/(expenses)	27,452,287	1,723,980
Income before other revenues/(expenses)/gains/(losses)	953,876	2,320,894
Capital appropriations	35,846,218	723,262
Capital appropriation reductions	-	-
Capital gifts and grants	-	-
Additions to permanent endowments	-	718,271
Net other revenues	35,846,218	1,441,533
Increase/(decrease) in net assets	36,800,094	3,762,427
Net assets Beginning of year	198,758,383	21,780,803
Net assets End of year	\$ 235,558,477	\$ 25,543,230

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

Cash flows from operating activities:

Student tuition and fees	\$ 26,795,243
Grants and contracts	2,468,640
Auxiliary enterprises	48,464,028
Other receipts	1,897,277
Payments to employees	(55,017,524)
Payments for services and supplies	(31,807,866)
Payments for utilities	(4,304,482)
Payments for scholarships and fellowships	(2,041,312)
Payments for plant improvements and equipment	(2,659,449)
Loans issued to students and employees	(455,848)
Collection of loans from students and employees	425,868
Net cash used by operating activities	<u>(16,235,425)</u>

Cash flows from noncapital financing activities:

State appropriations	28,109,200
Gifts and grants for other than capital purposes	672,830
Federal student financial aid	3,191,365
Federal state fiscal stabilization funds (ARRA)	1,745,252
Federal direct lending program receipts	22,163,050
Federal direct lending program disbursements	(22,163,050)
Stafford loan receipts	13,789
Stafford loan disbursements	(13,789)
PLUS loan receipts	5,653,002
PLUS loan disbursements	(5,653,002)
Agency receipts	3,396,534
Agency payments	(3,353,192)
Net cash provided by noncapital financing activities	<u>33,761,989</u>

Cash flows from capital financing activities:

Capital appropriations	34,656,095
Capital appropriation reduction	-
Proceeds from sale of revenue bonds	41,027,377
Purchase of capital assets	(62,483,882)
Proceeds from sale of capital assets	580,061
Principal paid on capital debt, leases, and installments	(7,067,609)
Interest paid on capital debt, leases, and installments	(6,199,327)
Net cash used by capital financing activities	<u>512,715</u>

Cash flows from investing activities:

Interest on investments	257,832
Purchase of investments	(40,074,087)
Sales of investments	40,047,326
Net cash provided by investing activities	<u>231,071</u>

Net Increase in cash 18,270,350

Cash and cash equivalents - beginning of the year 39,557,157

Cash and cash equivalents - end of the year \$ 57,827,507

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2011

Reconciliation of Net Operating Loss to Net Cash
Used by Operating Activities:

Operating loss	\$ (26,518,895)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	9,631,771
Changes in assets and liabilities:	
Receivables, net	(398,786)
Prepaid expenses	436,541
Inventory	1,028,209
Accounts payable and accrued expenses	(812,354)
Deferred revenue	264,534
Deposits held in custody	132,046
Accrued compensated absences	(18,975)
Net cash used by operating activities	<u><u>\$ (16,255,909)</u></u>

Non Cash investing, non capital financing, and
capital and related financing transactions:

Capitalization of interest expense	\$ 1,763,416
Amortization of bond premium	\$ 296,849
Amortization of deferred net loss on defeased bonds	\$ (218,903)
Change in fair value of investments recognized as a component of interest income	\$ 27,057

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

Christopher Newport University is a comprehensive university that is part of the Commonwealth of Virginia's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia, which includes all agencies over which the Commonwealth exercises oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The University includes all entities over which the University exercises or has the ability to exercise oversight authority for financial reporting purposes. Under Governmental Accounting Standards Board (GASB) Statement 39, the Christopher Newport University Educational and Real Estate Foundations, Inc. are included as component units of the University. The Foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the University.

Christopher Newport University Educational and Real Estate Foundations, Inc. act primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. 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 are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the University, the Foundations are considered a component unit of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2011, the Foundations distributed \$726,242 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 University Place, Newport News, Virginia 23606.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. 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 Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. The University follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities."

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, intangible assets such as computer software, and infrastructure assets such as sidewalks. Capital assets are defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at fair market value at the date of the donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. The cost of normal maintenance and repairs that do not add to the asset’s value or materially extend its useful life are not capitalized. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

Depreciation is calculated 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	40-50 years
Other improvements and infrastructure	15 years
Equipment	5-15 years
Intangible Assets – Computer Software	5 years
Library materials	5 years

F. Prepaid Expenses

As of June 30, 2011, the University’s prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2012 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. The inventory held by the University consists of expendable supplies and items for resale. The cost of inventories are recorded as expenditures when consumed or sold rather than when purchased.

H. Noncurrent Cash and Investments

Cash and investments that are externally restricted to construct capital and other noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

I. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2011.

J. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned but not taken as of June 30, 2011. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

The University participates in federally funded Pell Grant, Supplemental Educational Opportunity Grants, and Federal Work-Study programs. In addition, the University has numerous federal research grants. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, Audit of State, *Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

L. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. Net assets are classified as Invested in capital assets, net of related debt; Restricted and Unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "Restricted" when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors or imposed by law. "Unrestricted" net assets consist of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

M. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state and nongovernmental grants and contracts.

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

Non-operating expenses include interest on debt related to the purchase of capital assets and losses on disposal of capital assets. All other expenses are classified as operating expenses.

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2011. The following risk disclosures are required by GASB.

Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This Statement requires the disclosure of the credit quality ratings of all investments subject to credit risk. Information with respect to University deposit exposure to credit risk is discussed below.

Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This Statement requires disclosure of investments with any one issuer that represents five percent or more of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external pools and other pooled investments are excluded from the requirement.

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2011.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for 2011.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, *et seq.*, Code of Virginia, all state funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of state funds. 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. In accordance with the GASB 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand and cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less.

B. Investments

The Board of Visitors establishes the University's investment policy which is monitored by the Board's Investment Committee. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days, but less than or equal to one year. Long-term investments have an original maturity greater than one year.

	<u>Market Value</u>
Cash and cash equivalents:	
Deposits with financial institutions	\$1,503,594
Treasurer of Virginia	18,727,341
State non-arbitrage program (SNAP)	<u>37,804,753</u>
Total cash and cash equivalents	<u>58,035,688</u>
Investments:	
Collateral held for securities lending	63,837
Mutual funds and Money Market	<u>167,406</u>
Total investments	<u>231,243</u>
Total cash, cash equivalents and investments	<u>\$58,266,931</u>

Christopher Newport University Educational and Real Estate Foundations Cash and Investments

The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2011.

Financial instruments that potentially subject the Foundations to concentrations of credit risk consist of cash balances and overnight investments. The Foundations maintain operating accounts in excess of the \$250,000 limit of federal insurance with one financial institution. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC.

Investments are carried at their market value determined at the date of the statement of financial position. Income from investments, including the unrealized gains and losses, is accounted for as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the nature of donor restrictions.

Summarized below are investments recorded at market value:

Money Market and Mutual Funds	\$16,405,057
Managed Investments	<u>167,406</u>
Total investments	<u>\$16,572,463</u>

Investments are recorded on the statement of financial condition as follows:

Unrestricted	\$ 155,581
Funds invested for the University	167,406
Temporarily restricted	2,476,487
Permanently restricted	<u>13,772,989</u>
Total investments	<u>\$16,572,463</u>

C. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer their securities to broker, dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. 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. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2011:

Student tuition and fees	\$ 64,959
Auxiliary enterprises	233,503
Federal, state, private grants and contracts	397,841
Other activities	<u>126,160</u>
Gross receivables	<u>822,463</u>
Less: Allowance for doubtful accounts	<u>(66,359)</u>
Net accounts receivable	<u>\$756,104</u>

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2011:

Interest/rebate Allocation	\$ 136,492
Virginia College Building Authority 21 st Century Bonds	<u>3,356,432</u>
Total Due from Commonwealth of Virginia	<u>\$3,492,924</u>

Christopher Newport University Educational and Real Estate Foundations - Contributions Receivable

The Foundations have on-going fundraising campaigns to benefit the University. The pledges receivable are unconditional. At June 30, 2011, pledges receivable are as follows:

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	\$ 452,353	\$3,925,638	\$ 391,436	\$4,769,427
Receivable in one to five years	1,280,000	2,252,815	121,000	3,653,815
Receivable in more than five years	-	134,000	-	134,000
Total unconditional pledges	1,732,353	6,312,453	512,436	8,557,242
Less discount to net present value	(137,460)	(227,046)	(14,646)	(379,152)
Less allowances for uncollectible pledges receivable	(21,071)	(929,916)	(37,900)	(988,887)
Net unconditional pledges receivable	<u>\$1,573,822</u>	<u>\$5,155,491</u>	<u>\$ 459,890</u>	<u>\$7,189,203</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$17,803,910	\$869,094	(\$48,270)	\$18,624,734
Construction in progress	<u>32,329,390</u>	<u>62,018,196</u>	<u>(1,900,831)</u>	<u>92,446,755</u>
Total nondepreciable capital assets	<u>50,133,300</u>	<u>62,887,290</u>	<u>(1,949,101)</u>	<u>111,071,489</u>
Depreciable capital assets:				
Buildings	277,098,158	4,738,247	(504,926)	281,331,479
Infrastructure	7,279,990	911,812	-	8,191,802
Equipment	10,331,957	1,368,161	(229,567)	11,470,550
Intangibles	2,064,345	507,609	(20,828)	2,551,126
Other improvements	19,396,194	-	(29,638)	19,366,556
Library materials	<u>9,989,129</u>	<u>489,011</u>	<u>-</u>	<u>10,478,140</u>
Total depreciable capital assets	<u>326,159,773</u>	<u>8,014,840</u>	<u>(784,959)</u>	<u>333,389,653</u>
Less accumulated depreciation:				
Buildings	40,716,166	6,948,815	(170,139)	47,494,842
Infrastructure	2,018,156	634,146	-	2,652,302
Equipment	4,586,348	843,275	(211,441)	5,218,182
Intangibles	1,979,489	36,548	(20,828)	1,995,209
Other improvements	6,714,691	919,315	(29,637)	7,604,369
Library materials	<u>9,121,464</u>	<u>249,672</u>	<u>-</u>	<u>9,371,136</u>
Total accumulated depreciation	<u>65,136,314</u>	<u>9,631,771</u>	<u>(432,045)</u>	<u>74,336,040</u>
Depreciable capital assets, net	<u>261,023,459</u>	<u>(1,616,931)</u>	<u>(352,914)</u>	<u>259,053,614</u>
Total capital assets, net	<u>\$311,156,759</u>	<u>\$61,270,359</u>	<u>(\$2,302,015)</u>	<u>\$370,125,103</u>

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

Land, buildings, furniture, and equipment for 2011 are summarized as follows:

Construction in progress	\$ 697,697
Property held for investment	61,344,193
Property held for sale	51,190
Furniture and equipment	2,498,519
Collections	<u>588,684</u>
	65,180,283
Less accumulated depreciation	<u>(12,048,043)</u>
Total capital assets, net	<u>\$53,132,240</u>

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled \$1,750,399 in 2011.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2011:

Employee salaries, wages and fringe benefits payable	\$ 3,861,171
Vendors and suppliers accounts payable	10,871,367
Retainage payable	<u>2,248,429</u>
Total accounts payable and accrued liabilities	<u>\$16,980,967</u>

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2011 is presented below:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Current <u>Portion</u>
Long-term debt:					
Revenue bonds	114,738,279	\$20,748,188	\$18,805,150	\$116,681,317	\$5,424,692
Treasury-general obligation bonds	26,077,832	34,782,398	2,505,457	58,354,773	2,410,159
Installment purchases	<u>205,961</u>	<u>239,000</u>	<u>114,051</u>	<u>330,910</u>	<u>133,794</u>
Total long-term debt	141,022,072	55,769,586	21,424,658	175,367,000	7,968,645
Accrued compensated absences	<u>1,499,436</u>	<u>1,450,739</u>	<u>1,469,715</u>	<u>1,480,460</u>	<u>837,084</u>
Total long-term liabilities	<u>\$142,521,508</u>	<u>\$57,220,325</u>	<u>\$22,894,373</u>	<u>\$176,847,460</u>	<u>\$8,805,729</u>

7. LONG TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.

Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia. Pledged revenues include revenues of the University not required by law to be used for another purpose. The University issued 9(d) bonds through 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) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education.

In October 2010, the University issued \$34,480,000 of general obligation bonds, Series 2010A-1 (tax-exempt) and 2010A-2 (BABs) to construct a residence hall. The bonds were issued by the Commonwealth of Virginia on behalf of the University. The series 2010A-1 and 2010A-2 were issued with interest rates varying from 2.1% to 5.0% and will mature in 2040.

In November 2010, the University issued \$6,070,000 of revenue bonds, Series 2010A-1 and 2010A-2, to fund a residence hall roof replacement and acquire land. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financial Pooled Bonds Program. These bonds were issued with interest rates varying from 2.0% to 5.6% and will mature in 2017 and 2040.

In November 2010, the University issued \$14,120,000 of Series 2010B revenue bonds to refund part of Series 2001A, 2002A and 2003A VCBA bonds and affect debt service savings. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financial Pooled Bonds Program. The Series 2010B bonds were issued with interest rates varying from 2.0% to 5.0% and will have maturity dates of 2020, 2021 and 2022.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2011
General obligation bonds:			
Dormitory and dining hall:			
Series 2004B	4.0-5.0	2020	12,501,574
Series 2004B	4.0-5.0	2019	6,886,772
Series 2006	3.87-5.0	2021	1,480,000
Series 2008B	3.0-5.0	2014	692,791
Series 2009B	3.0-4.0	2021	1,877,837
Series 2010A-1 & 2010A-2	2.1-5.0	2040	<u>34,480,000</u>
Total general obligation bonds			<u>\$ 57,918,974</u>
Revenue bonds:			
Athletics, Series 1998A	4.53	2012	\$ 545,000
Series 2002A	5.0	2012	540,000
Series 2002A	5.0	2012	120,000
Series 2003A	4.0-5.0	2023	640,000
Series 2004B	3.0-5.0	2014	1,130,000
Series 2007A	4.5-5.0	2038	7,105,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,136,490
Series 2007B	4.0-4.5	2020	481,606
Series 2009A	2.1-5.0	2029	2,690,000
Series 2009B	3.0-5.0	2040	19,590,000
Series 2010B	2.0-5.0	2022	355,000
Series 2010B	2.0-5.0	2020	290,000
Series 2010B	2.0-5.0	2022	1,590,000
Student Center, Series 2001A	5.0	2011	55,000
Series 2002A	5.0	2012	30,000
Series 2007B	4.0-4.5	2020	220,000
Series 2007B	4.0-4.5	2020	117,840
Series 2010B	2.0-5.0	2021	435,000
New Student Center, Series 2002A	5.0	2012	830,000
Series 2004A	3.0-5.0	2026	18,410,000
Series 2006A	3.0-5.0	2027	2,120,000
Series 2007B	4.0-4.5	2020	3,273,900
Series 2010B	2.0-5.0	2022	2,440,000
Series 2010B	2.0-5.0	2022	75,000

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2011
Revenue bonds (continued):			
Parking Deck I, Series 2002A	5.0	2012	785,000
Series 2007B	4.0-4.5	2020	3,125,318
Series 2010B	2.0-5.0	2022	2,315,000
Parking Deck II, Series 2005A	3.5-5.0	2026	1,680,000
Residence Hall IV, Series 2002A	5.0	2012	2,245,000
Series 2007B	4.0-4.5	2020	8,914,846
Series 2010B	2.0-5.0	2022	6,620,000
Ratcliffe Hall, Series 2009A	2.1-5.0	2029	1,780,000
Series 2009B	3.0-5.0	2030	895,000
Residence Hall, Series 2010A-1	2.0-5.0	2017	1,340,000
Land Acquisition, Series 2009A	2.1-5.0	2029	8,380,000
Series 2009B	2.0-5.0	2030	3,105,000
Series 2010A-1	2.0-5.6	2040	<u>4,730,000</u>
Total revenue bonds			<u>\$114,565,000</u>
Total bonds payable			<u>\$172,483,974</u>
Deferred loss - advance refundings – GOB bonds			(40,300)
Deferred loss - advance refundings – VCBA bonds			(2,519,233)
Unamortized premiums- GOB bonds			476,099
Unamortized premiums – VCBA bonds			<u>4,635,550</u>
Total Deferred Gain/Loss & Unamortized Premiums			<u>\$2,552,116</u>
Installment purchases			<u>330,910</u>
Total long-term debt			<u>\$175,367,000</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$7,968,645	\$7,753,369
2013	9,072,530	7,376,469
2014	9,100,745	6,945,653
2015	9,499,303	6,517,562
2016	9,884,018	6,080,268
2017-2021	51,328,566	23,752,529
2022-2026	32,996,501	13,859,950
2027-2031	16,986,608	8,530,618
2032-2036	15,035,865	5,090,259
2037-2041	<u>13,494,219</u>	<u>1,437,603</u>
	<u>\$175,367,000</u>	<u>\$87,344,280</u>

Defeasance of Debt – Current Year

In November 2010, the Commonwealth of Virginia issued \$101,040,000 of VCBA Pooled 2010B Series bonds with an interest rate ranging from 2.0% to 5.0%. The sale of these bonds enabled the University to advance refund \$14,290,000 of debt outstanding on the Series 2001A, 2002A and 2003A VCBA bond issues, which had interest rates ranging from 3.0% to 5.25%. This refunding represents a partial defeasance of the outstanding debt on the Series 2001A, 2002A and 2003A bond issues. The original bonds have a cumulative remaining balance of \$5,245,000. The reacquisition price of the refunded debt was \$16,320,000.

The proceeds of the refunding bonds were deposited into irrevocable trusts with escrow agents to provide for all future debt service payments on the refunded bonds. As a result, these bonds are considered to be defeased and the liability associated with these bonds has been removed from the long-term liabilities.

The advance refunding resulted in the recognition of an accounting loss of \$2,030,000 that is being amortized over the next twelve years which represents the shorter maturity of the new debt versus the old. The aggregate debt service payments, principle and interest, will be decreased by \$711,608 over the next eleven years which represents the maturity time of the old debt. This amount results in a net present value savings of \$612,895 based on a rate of 3.0%.

Defeasance of Debt – Prior Years

During fiscal years 2007 and 2010, certain 2001A and 2002A revenue bonds were defeased by the University. The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements.

Defeasance of Debt – Year-to-Date Totals

At June 30, 2011, \$32,120,000 of the revenue bonds considered defeased remains outstanding.

Christopher Newport University Educational and Real Estate Foundations - Long Term Debt

Notes Payable

Notes payable at June 30, 2011 consists of the following:

Towne Bank, secured by deed of trust on 12407 and 12401 Warwick Boulevard, interest due monthly at the Wall Street Journal (WSJ) prime rate less .5%, with a maximum rate of 6%. Six annual principal payments of \$25,000 beginning December 2005, balance due December 2011.	1,184,311
Old Point National Bank, secured by deed of trust on leasehold interest and assignment of rents and leases, construction/permanent financing with interest at 5.375%. Principal and interest payments of \$19,186 due monthly, matures August 2014.	<u>2,346,588</u>
	<u>\$3,530,899</u>

In June 2011, the Foundations entered into a note payable with TowneBank which allows for principal borrowing of up to \$1,302,000. The note is secured by CNU Chapel pledges receivable. The balance of pledges receivable for the CNU Chapel at June 30, 2011 was \$3,293,160. Interest is due monthly at the WSJ prime rate with a maximum rate of 5.75%. Principal payment is due in one lump sum in June 2016. There was no outstanding amount due at June 30, 2011.

Bonds Payable

Subsequent to year end, in July 2011, the Foundations entered into a construction note payable with TowneBank which allows for principal borrowing of up to \$2,500,000. The note is secured by property and improvements at 12270 Warwick Boulevard. Interest is accrued at the WSJ prime rate with a maximum rate of 6.5%. Payment of interest and principal is due upon demand. If no demand is made, borrower will pay loan in one payment of all outstanding principal plus all accrued unpaid interest on July 12, 2012. In addition borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date beginning August 2012.

In March 2001, the Foundations entered into an agreement with the Economic Development Authority of the County of James City, Virginia, under which the Authority issued \$8.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In March and April 2011, the Foundations sold assets to the University and retired \$164,200 of the outstanding debt. At June 30, 2011, the balance outstanding on the bonds was \$2,990,119. The bonds were payable interest only until July 2006, at which time principal curtailments began. The bonds originally matured in June 2011, but have been extended to June 2016.

In November 2001, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2011, the balance outstanding on the bonds was \$8,119,505. The bonds were payable interest only until October 2003, at which time principal curtailments began. The bonds mature September 2013.

In July 2002, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2011, the balance outstanding on the bonds was \$4,567,232. The bonds were payable interest only until October 2003, at which time principal curtailments began. The bonds mature September 2013.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued \$26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2011, the balance outstanding on the bonds was \$24,610,000. The bonds were payable interest only until November 2005, at which time principal curtailments began. The bonds mature November 2028.

In August 2006, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued \$17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundations used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In March and April 2011, the Foundations sold assets to the University and retired \$230,000 of the outstanding debt. At June 30, 2011, the balance outstanding on the bonds was \$7,385,000. Scheduled principal curtailments began in August 2007. The bonds mature August 2036.

The Foundations have entered into various letter of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2011, the Foundations were in compliance with all financial covenants.

Notes and maturities for the succeeding fiscal years ending June 30 are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 2,386,642
2013	1,713,761
2014	13,119,594
2015	3,380,640
2016	4,102,118
Thereafter	<u>26,500,000</u>
	<u><u>\$51,202,755</u></u>

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts payable, other current liabilities and other liabilities (excluding derivative financial instruments discussed below) approximate fair value because of the short maturity of these instruments.

The carrying amounts of the pledges and pledges receivable approximate fair value because they have been discounted to their net present value. The discount rate employed by the Foundations is 6%.

The carrying value of the Foundations' long-term debt approximates its fair value.

The fair values of the interest rate swap agreements are the estimated amounts the Foundations would receive or pay to terminate the agreements as of the reporting date.

The fair value of the interest rate swaps at June 30, 2011 is as follows:

<u>Hedging Instrument</u>	<u>Variable Rate</u>	<u>Fixed Rate</u>	<u>Expiration</u>	<u>Fair Value</u>
\$5.5 million interest rate swap	65% of LIBOR + 0.88%	5.14%	09/03/13	(682,057)
\$10 million interest rate swap	65% of LIBOR + 0.88%	5.23%	09/03/13	(394,543)
\$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(3,274,677)
\$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	<u>(985,404)</u>
				<u><u>\$(5,336,681)</u></u>

Lines of Credit

During the year ended June 30, 2011, the Foundations had available a \$1,000,000 line of credit facility with Wachovia Bank. The line of credit matures on August 1, 2012. The line is unsecured. Borrowings under this facility accrue interest at the one month London Interbank Offered Rate (LIBOR) plus 2.25%. This amount was 2.43% at June 30, 2011. The purpose of this credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion, to provide bridge financing for various projects deemed beneficial to the University and for working capital. At June 30, 2011, the outstanding balance under this line of credit facility totaled \$800,000.

8. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$18,033,580	\$6,814,144	\$2,366,570	\$13,406	-	\$331,957	-	\$27,559,657
Research	922,208	131,239	813,783	-	2,006	139,439	-	2,008,675
Public Service	4,250	1,834	22,332	-	-	-	-	28,416
Academic Support	2,371,763	1,412,325	2,261,818	-	-	279,354	-	6,325,260
Student Services	2,745,962	932,356	1,840,604	1,155	-	300,933	-	5,821,010
Institutional Support	3,833,227	1,847,128	1,374,394	64,994	-	617,593	-	7,737,336
Operation Plant	2,061,596	1,326,216	963,701	-	1,812,663	389,100	-	6,553,276
Depreciation	-	-	-	-	-	-	9,631,771	9,631,771
Scholarships	244	19	-	2,423,745	-	-	-	2,424,008
Auxiliary Activities	9,527,987	3,306,048	22,547,026	456,695	2,489,813	603,538	-	38,931,107
Total	<u>\$39,500,817</u>	<u>\$15,771,309</u>	<u>\$32,190,228</u>	<u>\$2,959,995</u>	<u>\$4,304,482</u>	<u>\$2,661,914</u>	<u>\$9,631,771</u>	<u>\$107,020,516</u>

9. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a 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 disbursement.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriations Per Chapter 872:	
Educational and general programs	23,381,851
Student financial assistance	3,924,950
Educational & general financial assistance	326,875
Supplemental adjustments:	
Central appropriations adjustments	397,569
Financial aid adjustments	130,308
Cash transfer out non-general fund	(261,662)
Miscellaneous	60,569
Interest earned	148,740
Reversal of PY due from primary interest/rebate	<u>(206,866)</u>
Adjusted Appropriation	<u><u>27,902,334</u></u>

10. COMMITMENTS

At June 30, 2011, the University was committed to construction contracts totaling approximately \$96,985,360 of which \$37,945,422 was unexpended.

The University is committed under various operating leases for buildings and equipment. In general, the leases are for a one year term and the University has renewal options on these leases for up to three additional one year terms. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases.

On August 1, 2002 the University entered into a lease with the Christopher Newport University Educational Foundation, Inc. for the lease of residential facilities for student housing. That agreement terminates in fiscal year 2018.

Rental expense for the fiscal year ended June 30, 2011 was \$5,430,087. The University has, as of June 30, 2011 the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2012	\$ 5,871,392
2013	6,005,642
2014	6,070,595
2015	5,717,666
2016	5,829,223
2017-18	<u>6,552,821</u>
Total	<u><u>\$36,047,339</u></u>

11. DONOR-RESTRICTED ENDOWMENTS

Investments of the University's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor-imposed limitations.

The Uniform Management of Institutional Funds Act, Code of Virginia, Title 55, Chapter 15, Sections 268.1-268.10, permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long- and short-term needs of the University, present and anticipated financial requirements, expected total return on investment, price level trends, and general economic conditions.

12. RETIREMENT PLANS

Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2011 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$1,355,200 for the year ended June 30, 2011. Changes to the Commonwealth's VRS plan were made effective July 1, 2010 which required individuals hired on July 1, 2010 and thereafter to contribute 5% toward VRS. For Plan 1 employees, hired prior to July 1, 2010, employee contributions were assumed by the employer at a rate of 11.58% and 18.09% for University police. For Plan 2 participants, hired on or after July 1, 2010, the contributions that were assumed by the employer were 6.58% and 13.09% for University police.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in two Optional Retirement Plans. University employees currently participate in both of these plans to include: Fidelity Investments Institutional Service and Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4%, plus interest and dividends for participants in Plan 1. Plan 1 includes employees hired prior to July 1, 2010. These retirement benefits received for Plan 2 employees, hired on or after July 1, 2010, are based upon the employer and employee contributions totaling 13.5%, plus interest and dividends, with the employee contributing 5% of the 13.5%.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these Optional Retirement Plans were approximately \$1,733,897 for the year ended June 30, 2011. Contributions were calculated using the base salary amount of approximately \$16.4 million.

Deferred Compensation

University employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$10 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$118,911 for 2011.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

Christopher Newport University has received federal, state and private 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 laws, including the expenditure of resources for eligible purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems 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, 2011, the University estimates that no material liabilities will result from such audits or questions.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, non-performance of duty; injuries to employees and athletes; 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. For athletes, the University maintains insurance through a third party provider. The University's insurance premiums paid for the fiscal year ended June 30, 2011 totaled \$526,677. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report*.

16. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Assets. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2011, cash provided by the program totaled \$22,163,050 and cash used by the program totaled \$22,163,050.

17. SUBSEQUENT EVENTS

In fiscal year 2012, the University will issue three Series 2011A Pooled 9(d) revenue bonds: \$2,880,000 to construct Parking Deck II and make improvements to surface parking; \$3,755,000 to expand residential dining facilities; and \$2,750,000 to construct Ratcliffe Hall. The bonds will be issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program.

In fiscal year 2012, the University will also issue Commonwealth of Virginia General Obligation Bonds, Series 2011 9(c), in the amount of \$3,860,000 to renovate the Santoro Residence Hall. Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit and taxing power of the Commonwealth of Virginia.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 14, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Christopher Newport University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2011, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of the University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted

in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2012 on our consideration of Christopher Newport University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.


AUDITOR OF PUBLIC ACCOUNTS

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia

BOARD OF VISITORS

John A. Conrad, Rector

Jane Susan Frank, Vice Rector

Carlos Brown

Bryan K. Meals

Flora Crittenden

Margo D. Taylor

Vicki Siokis Freeman

W.L. Thomas, Jr.

Ann N. Hunnicutt

Preston White

Frances Luter

Veasey Wilson

Michael C. Martin

Peter Carlson, Faculty Representative

Ross Snare, Student Representative

UNIVERSITY OFFICIALS

Paul S. Tribble, President

Mark Padilla, Provost

Cynthia R. Perry, Chief of Staff

William L. Brauer, Executive Vice President

Maurice J. O'Connell, Vice President for Student Services

William P. Heath, Jr., Acting Vice President of University Advancement



CHRISTOPHER NEWPORT

UNIVERSITY

1 University Place • Newport News, VA 23606-2949
www.cnu.edu