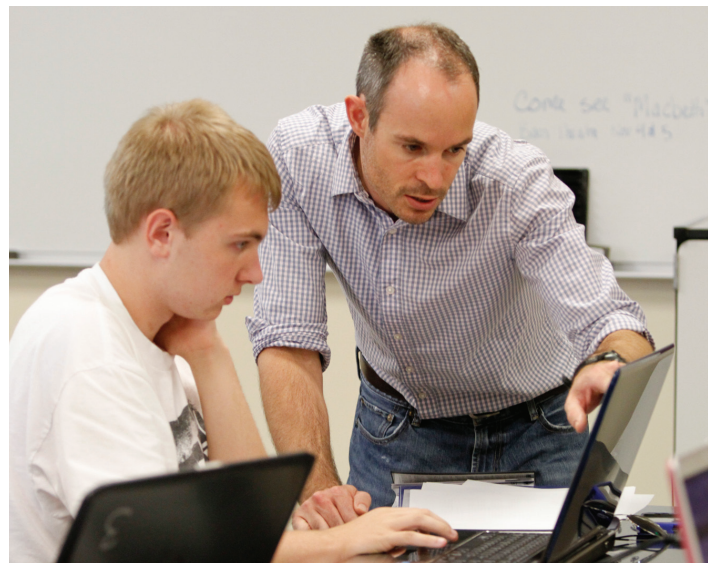




CHRISTOPHER NEWPORT UNIVERSITY

Audited Financial Statements

For the
year ended
June 30, 2012



CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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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, 2012, with comparative numbers for the year ended June 30, 2011. 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, 2012. 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

	June 30, 2012	June 30, 2011	Variance	Percent
Assets:				
Current assets	\$ 31,744,656	\$ 26,442,449	\$ 5,302,207	20%
Capital assets, net	442,918,503	370,125,103	72,793,400	20%
Other noncurrent assets	13,765,518	38,907,083	(25,141,565)	(65%)
Total assets	488,428,677	435,474,635	52,954,042	12%
Liabilities:				
Current liabilities	32,122,663	31,874,427	248,236	1%
Noncurrent liabilities	173,533,661	168,041,731	5,491,930	3%
Total liabilities	205,656,324	199,916,158	5,740,166	3%
Net assets:				
Invested in capital assets, net of related debt	272,716,049	232,407,516	40,308,533	17%
Unrestricted	10,056,304	3,150,961	6,905,343	219%
Total net assets	\$ 282,772,353	\$ 235,558,477	\$ 47,213,876	20%

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, 2012 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 \$53.0 million and total liabilities increased by \$5.7 million. Specifically,

- Current Assets increased by \$5.3 million primarily due to the net income derived from Auxiliary operations.
- Net Capital assets increased by \$72.8 million primarily due to the following:
 - Buildings and expansions acquired totaled \$91.4 million and consisted of;
 - Phase I of the Mary Brock Forbes Hall for \$58.7 million,
 - Freeman Center expansion for \$27.8 million,
 - Santoro Hall renovations for \$4.5 million,
 - Gosnold Hall roof repairs for \$232 thousand, and
 - Emergency Generator connection for \$172 thousand.
 - Buildings disposed net of accumulated depreciation totaled \$2.1 million and is primarily due to the demolition of multiple properties for the expansion of the University’s academic halls, residence halls and green space.
 - Land acquisition from the Christopher Newport University Real Estate Foundation (CNUREF) totaled \$854 thousand.
 - A net decrease in construction in progress of \$13.7 million primarily due to capitalization of Mary Brock Forbes Hall and the Freeman Center expansion offset by additional construction in progress of the Luter School of Business, Residence Hall V and Mary Brock Forbes Hall phase II.
 - Other improvements increased by \$3.9 million and consisted of Football Stadium lighting \$640 thousand and parking lot expansion for \$3.3 million.
 - A net increase in furniture and equipment of \$1.7 million.
 - An increase in intangibles of \$153 thousand.
 - An increase in infrastructure of \$1.3 million which includes campus wide network, lighting, irrigation and alert system.
 - Library book additions of \$476 thousand and the Rouse Bottom Collection donation of \$186 thousand.
 - Depreciation expense of \$11.3 million.
- Other noncurrent assets had a net decrease of \$25.1 million primarily as a result of the activity in the SNAP accounts, which is the investment account for the bond proceeds.
 - Proceeds, inclusive of premiums, were received for the construction of:
 - Ratcliffe renovation of \$3.2 million,
 - Parking expansion of \$3.3 million,
 - Santoro Residence Hall renovation of \$4.5 million, and
 - Commons expansion of \$4.4 million.
 - Draws from the SNAP accounts to pay for construction from new and existing proceeds were:
 - Land Acquisition \$457 thousand,
 - Ratcliffe renovation \$2.9 million,
 - Residence Hall V \$23.9 million,
 - Residence Hall roof replacement \$27 thousand,
 - Freeman Center expansion \$2.0 million,
 - Athletic Facilities II expansion \$66 thousand,
 - Parking expansion \$3.2 million,
 - Santoro Residence Hall renovation \$4.4 million,

- Commons expansion \$950 thousand, and
 - Capitalized Interest payments of \$2.6 million.
- Noncurrent liabilities increased by \$5.5 million due to the 2011 Bond issues less principal payments and refunded debt.
 - Bond issues and increases to noncurrent liabilities included:
 - Santoro Residence Hall renovation \$4.1 million,
 - Parking Deck II and Surface Parking \$2.9 million,
 - Ratcliffe Hall renovation \$2.8 million,
 - Residential Dining expansion \$3.8 million, and
 - Net premiums/gains/(losses) on bond issues \$2.5 million.
 - Noncurrent liabilities were reduced by:
 - Principal payments \$7.9 million,
 - Refunded debt of \$700 thousand, and
 - Increase in current portion of \$2.0 million.

The combination of increase in total assets and increase in total liabilities resulted in an increase in net assets at June 30, 2012 of \$47.2 million.

Statement of Revenues, Expenses and Change in Net Assets

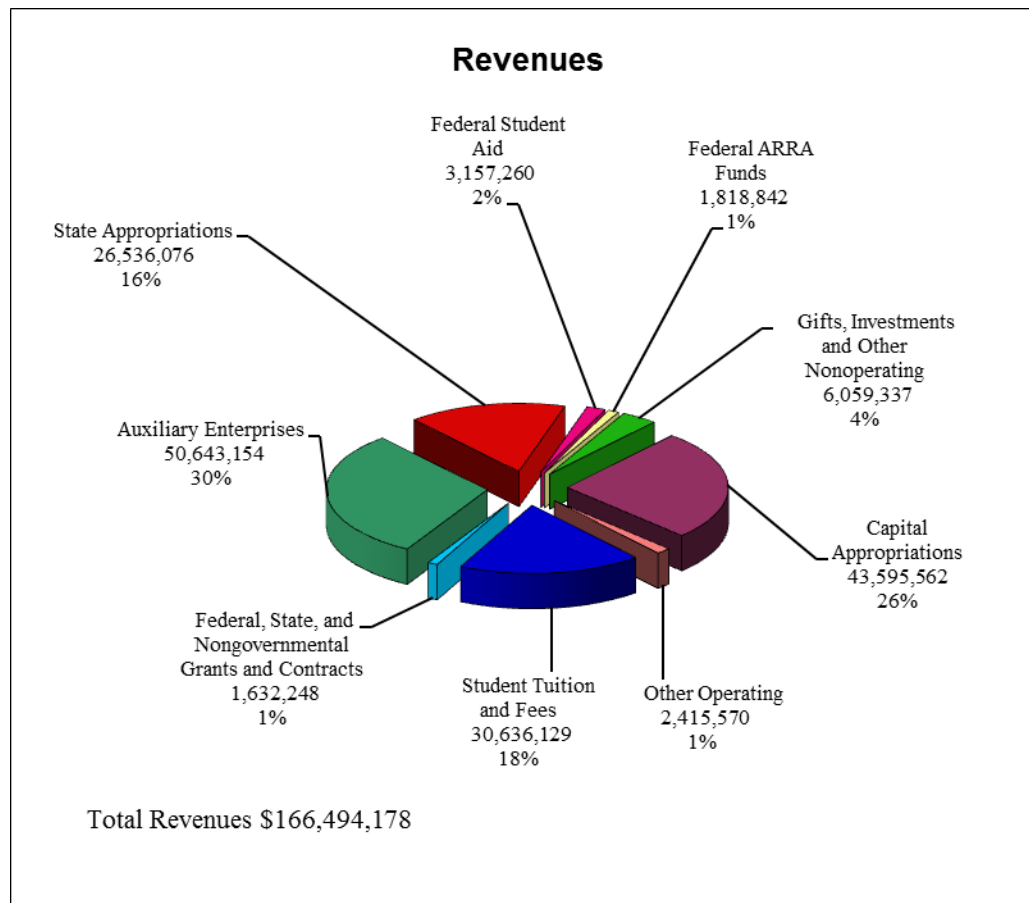
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present revenues received by the University, both operating and non-operating, and expenses 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, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>	<u>Percent</u>
Operating revenues	\$ 85,327,101	\$ 80,522,105	\$ 4,804,996	6%
Operating expenses	<u>109,389,121</u>	<u>107,020,516</u>	<u>2,368,605</u>	2%
Operating loss	(24,062,020)	(26,498,411)	2,436,391	(9%)
Non-operating revenues, net	23,687,860	27,452,287	(3,764,427)	(14%)
Net other revenues (expenses)	<u>47,588,036</u>	<u>35,846,218</u>	<u>11,741,818</u>	33%
Increase in net assets	47,213,876	36,800,094	10,413,782	28%
Net assets beginning of year	<u>235,558,477</u>	<u>198,758,383</u>	<u>36,800,094</u>	19%
Net assets end of year	<u>\$ 282,772,353</u>	<u>\$ 235,558,477</u>	<u>\$ 47,213,876</u>	20%

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 goods 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/or services for these revenues.

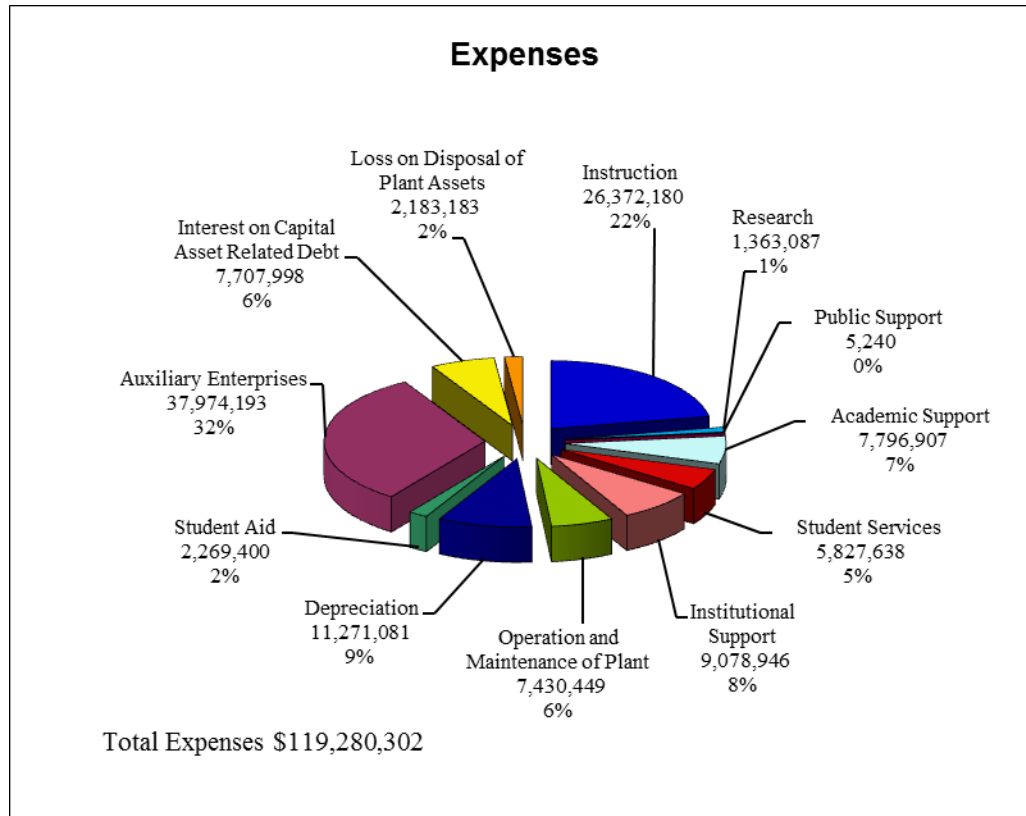


The graph above is based on the Statement of Revenues, Expenses, and Change in Net Assets for all revenue items.

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 \$3.4 million due in part to the increase in the tuition rates. Annual In-State tuition rates increased by \$634 and Out-of-State tuition rates increased by \$1,114. Auxiliary enterprises increased by \$2.1 million primarily due the increase in comprehensive fee plus room and board rates. The comprehensive fee, which is used to support non-instructional activities such as student health services, athletics, recreational activities, student and cultural activities, student union, facilities maintenance and capital debt service, increased by \$200. Annual room and board rates increased by \$188. Federal, state and nongovernmental grants and contracts decreased by \$1.1 million due primarily to decreased revenue received from the National Science Foundation grants and the expiration of the government grant program, the Academic Competitiveness Grant. Other operating revenue increased by \$450 thousand primarily due to the revenues received for the 50th Anniversary Gala celebration in honor of the University's 50 years of service.

Net non-operating revenues (expenses) decreased by \$3.8 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 2012 state appropriation was \$1.4 million lower than the previous fiscal year, gifts increased by \$561 thousand due to an increase in private gifts from the foundation, interest expense on capital asset related debt increased by \$1.5 million due to the new and continuing bond issues, and the loss on disposal of plant assets in fiscal year 2012 increased by \$2.1 million due to the demolition of multiple properties for the expansion of the University's academic halls, residence halls and green space.

Net other revenues (expenses) encompass capital appropriations and capital gifts and grants. Fiscal year 2012 increased by \$11.7 million from prior year primarily due to the increase in capital appropriations of \$9.5 million less the \$1.8 million that was a receivable in fiscal year 2011 for the Luter School of Business, the Mary Brock Forbes Hall, and Santoro Hall renovations, gift revenue increased by \$4.6 million due to the gifting of software, computers, the Dorothy Rouse Bottom book collection and private gifts received for the construction of the Christopher Newport University Chapel expected to be completed by the winter of 2012.



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 \$2.4 million from the previous year primarily due to the following:

- Instructional expenses decreased by \$1.2 million primarily due to the funding in fiscal year 2011 of an early retirement incentive plan and the deferred retirement contribution.
- Research decreased by \$646 thousand due to decrease grant activity in the National Science Foundation grants and the expiration of the government grant program, the Academic Competitiveness Grant.
- Academic support increased by \$1.5 million primarily due to an academic affairs salary split for faculty sabbaticals and administrative functions performed.
- Institutional support increased by \$1.3 million primarily due to increases in salaries for new and filled positions and an increase in services and supplies for the 50th Anniversary Gala celebration in honor of the University's 50 years of service.
- Operation and maintenance of plant increased by \$877 thousand primarily due to new and filled positions and increased expenses for repairs and maintenance on University facilities.
- Depreciation expense increased by \$1.6 million due to the increase in capital assets.

- Auxiliary enterprises decreased by \$957 thousand primarily due to a decrease in services and supplies due to the outsourcing of the University Bookstore and Spirit sales in fiscal year 2011.

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 \$634 and Out-of-State tuition by \$1,114,
- Auxiliary enterprises increased over prior year due to an increase in comprehensive fee of \$200 and room and board rates of \$188,
- Payments to employees decreased over prior year primarily due to the funding of an early retirement incentive plan of \$882 thousand in fiscal year 2011 and deferred retirement of \$1.0 million,

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 decreased by \$1.4 million over prior year due to state budget reductions for educational and general, as well as benefit and retirement reductions as enacted by the 2011 Acts of the Assembly.

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 \$9.5 million from prior year primarily due to draws on construction for the Luter School of Business, the Mary Brock Forbes Hall, and Santoro Hall renovations,
- Proceeds from sale of revenue bonds of \$25.3 million less than prior year consists primarily of the draws on construction for the Freeman Center expansion and Land acquisition,
- Capital gifts and grants increased by \$4.0 million due to the gifting of software, computers, the Dorothy Rouse Bottom book collection and private gifts received for the construction of the Christopher Newport University Chapel expected to be completed by the winter of 2012,
- Purchase of capital assets increased by \$24.9 million primarily due to the capitalization of the Mary Brock Forbes Hall, Freeman Center expansion, and Santoro Hall renovations,
- Principal and interest on capital debt increased by \$2.3 million due to additional debt 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 \$72 thousand.

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, 2012</u>	<u>June 30, 2011</u>	<u>Variance</u>	<u>Percent</u>
Cash flows from operating activities	\$ (13,454,714)	\$ (16,235,425)	\$ 2,780,711	(17%)
Cash flows from noncapital financing activities	32,541,206	33,761,989	(1,220,783)	(4%)
Cash flows from capital financing activities	(39,116,013)	512,715	(39,628,728)	(7,729%)
Cash flows from investing Activities	<u>303,373</u>	<u>231,071</u>	<u>72,302</u>	31%
Net change in cash	<u>\$ (19,726,148)</u>	<u>\$ 18,270,350</u>	<u>\$ (37,996,498)</u>	(208%)

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 2012 capital projects include the new Mary Brock Forbes Hall, the Luter School of Business, Residence Hall V, the Freeman Center expansion, Parking Deck II and surface parking, Residential Dining expansion, the University Chapel, Ratcliffe Hall, and Santoro Hall renovation. 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 \$7.5 million as of June 30, 2012 primarily due to the 2011A GOB and VCBA bond issues for Residential Dining, Ratcliffe Hall, Parking Deck II and Santoro Hall, plus the 2012A Bond refunding of 2003, 2004, and 2005 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 the prior biennium the University's budget was reduced by \$6.1 million in order to offset the projected decrease in State revenue projections. The University carried forward \$1.8 million in ARRA fiscal stabilization funding from fiscal year 2011 to fiscal year 2012 to partially offset the budget reductions that continue to carry forward each year. In fiscal year 2013 the state appropriation for education and general is \$23.8 million and per the Governor's communications appears to be stable for the upcoming biennium. In addition, the University's governing board increased in-state tuition by \$296; out-of-state tuition by \$588; comprehensive fees by \$192 and room and board by \$200 for fiscal year 2013.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2012

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 1,868,876	\$ 3,988,488
Cash and cash equivalents Treasurer of Virginia (Note 2)	23,526,740	-
Cash and cash equivalents - securities lending (Note 2)	315,059	-
Accounts receivable, net of allowance (Note 3)	678,799	569,422
Contributions receivable, net of allowance (Note 3)	-	5,928,148
Due From Commonwealth (Note 3)	2,973,384	-
Prepaid expenses	2,210,931	35,615
Inventory	170,867	-
Total current assets	<u>31,744,656</u>	<u>10,521,673</u>
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	12,705,742	1,410,713
Restricted investments (Note 2)	159,470	16,327,363
Other investments (Note 2)	9,741	-
Appropriations available/due from	890,565	-
Contributions receivable, net of allowance (Note 3)	-	5,379,771
Other assets	-	913,019
Other restricted assets	-	865,353
Non-depreciable capital assets (Note 4)	98,164,138	16,285,188
Capital assets, net (Note 4)	<u>344,754,365</u>	<u>39,686,865</u>
Total noncurrent assets	<u>456,684,021</u>	<u>80,868,272</u>
Total assets	<u>488,428,677</u>	<u>91,389,945</u>

LIABILITIES

Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	15,460,256	2,175,480
Deferred revenue	1,294,177	15,653
Short-term Debt (Note 7)	-	2,538,114
Obligations under securities lending	324,800	-
Accrued Interest Payable	1,997,245	200,608
Deposits held in custody for others	2,216,476	159,470
Long-term liabilities - current portion (Note 6)	<u>10,829,709</u>	<u>2,992,532</u>
Total current liabilities	<u>32,122,663</u>	<u>8,081,857</u>
Noncurrent liabilities (Notes 6 and 7)	<u>173,533,661</u>	<u>57,168,079</u>
Total liabilities	<u>205,656,324</u>	<u>65,249,936</u>

NET ASSETS

Invested in capital assets, net of related debt	272,716,049	2,045,087
Restricted for:		
Nonexpendable - scholarships and fellowships	-	16,409,366
Expendable:		
Scholarships and fellowships	-	3,115,705
Academic support	-	1,422,180
Capital projects	-	3,640,332
Other	-	563,723
Unrestricted	<u>10,056,304</u>	<u>(1,056,384)</u>
Total net assets	<u>\$ 282,772,353</u>	<u>\$ 26,140,009</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, 2012

	June 30, 2012	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of \$1,280,246	\$ 30,636,129	-
Federal grants and contracts	1,437,402	8,333
State grants and contracts	133,198	-
Nongovernmental grants and contracts	61,648	-
Gifts and contributions	-	7,080,160
Auxiliary enterprises, Net of scholarship allowance of \$6,569,740	50,643,154	-
Lease and rental revenue	-	6,492,350
Other operating revenue	2,415,570	889,600
Total operating revenues	85,327,101	14,470,443
Operating expenses (Note 8):		
Instruction	26,372,180	-
Research	1,363,087	-
Public Service	5,240	-
Academic support	7,796,907	-
Student services	5,827,638	-
Institutional support	9,078,946	6,890,916
Operation and maintenance of plant	7,430,449	2,445,207
Depreciation	11,271,081	1,844,952
Student aid	2,269,400	1,432,715
Auxiliary enterprises	37,974,193	-
Total operating expenses	109,389,121	12,613,790
Operating gain/(loss)	(24,062,020)	1,856,653
Non-operating revenues/(expenses):		
State appropriations (Note 9)	26,536,076	-
Federal student financial aid	3,157,260	-
Federal state fiscal stabilization funds (ARRA)	1,818,842	-
Gifts	1,233,422	-
Investment income, net of investment expenses of \$8,402	215,927	(2,174,872)
Interest on capital asset related debt	(7,707,998)	(2,094,226)
Build America Bonds subsidy	530,464	-
Other non-operating revenues (expenses)	87,050	-
Gain (Loss) on disposal of plant assets	(2,183,183)	(60,139)
Net nonoperating revenues/(expenses)	23,687,860	(4,329,237)
Income before other revenues/(expenses)/gains/(losses)	(374,160)	(2,472,584)
Capital appropriations	43,595,562	1,193,302
Capital appropriation reductions	-	-
Capital gifts and grants	3,992,474	-
Additions to permanent endowments	-	1,876,061
Net other revenues	47,588,036	3,069,363
Increase/(decrease) in net assets	47,213,876	596,779
Net assets Beginning of year	235,558,477	25,543,230
Net assets End of year	\$ 282,772,353	\$ 26,140,009

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, 2012

Cash flows from operating activities:

Student tuition and fees	\$ 29,959,919
Grants and contracts	1,904,229
Auxiliary enterprises	50,086,063
Other receipts	2,481,310
Payments to employees	(56,821,465)
Payments for services and supplies	(32,312,136)
Payments for utilities	(4,614,987)
Payments for scholarships and fellowships	(1,808,532)
Payments for plant improvements and equipment	(2,315,132)
Loans issued to students and employees	(480,905)
Collection of loans from students and employees	466,922
Net cash used by operating activities	(13,454,714)

Cash flows from noncapital financing activities:

State appropriations	26,672,568
Gifts and grants for other than capital purposes	998,244
Federal student financial aid	3,157,260
Federal state fiscal stabilization funds (ARRA)	1,818,842
Federal direct lending program receipts	23,555,758
Federal direct lending program disbursements	(23,555,758)
PLUS loan receipts	6,212,380
PLUS loan disbursements	(6,212,380)
Agency receipts	3,007,670
Agency payments	(3,113,378)
Net cash provided by noncapital financing activities	32,541,206

Cash flows from capital financing activities:

Capital appropriations	44,159,250
Capital grants and contributions	3,992,474
Proceeds from sale of revenue bonds	15,716,032
Purchase of capital assets	(87,419,079)
Principal paid on capital debt, leases, and installments	(7,792,750)
Interest paid on capital debt, leases, and installments	(7,771,940)
Net cash used by capital financing activities	(39,116,013)

Cash flows from investing activities:

Interest on investments	295,437
Purchase of investments	(8,376,841)
Sales of investments	8,384,777
Net cash provided by investing activities	303,373

Net Increase in cash	(19,726,148)
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Cash and cash equivalents - beginning of the year	57,827,506
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Cash and cash equivalents - end of the year	\$ 38,101,358
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CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

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

Operating loss	\$ (24,062,020)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	11,271,081
Changes in assets and liabilities:	
Receivables, net	342,537
Prepaid expenses	(401,345)
Inventory	(17,967)
Accounts payable and accrued expenses	(465,658)
Deferred revenue	(322,836)
Deposits held in custody	101,806
Accrued compensated absences	99,688
Net cash used by operating activities	<u><u>\$ (13,454,714)</u></u>

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

Capitalization of interest expense	\$ 2,477,685
Amortization of bond premium	\$ 567,001
Amortization of deferred net loss on defeased bonds	\$ (218,904)
Change in fair value of investments recognized as a component of interest income	\$ 15,313

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, 2012

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, 2012, the Foundations distributed \$5,192,131 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 Avenue of the Arts, 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, 2012, the University’s prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2013 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, 2012.

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, 2012. 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 2012. 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, 2012.

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 2012.

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	\$1,868,876
Treasurer of Virginia	23,841,799
State non-arbitrage program (SNAP)	<u>12,705,742</u>
Total cash and cash equivalents	<u>38,416,417</u>
Investments:	
Collateral held for securities lending	9,741
Mutual funds and Money Market	<u>159,470</u>
Total investments	<u>169,211</u>
Total cash, cash equivalents and investments	<u>\$38,585,628</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, 2012.

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 consolidated 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	\$16,167,893
Managed Investments	<u>159,470</u>
Total investments	<u>\$16,327,363</u>

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

Unrestricted	\$ 82,313
Funds invested for the University	159,470
Temporarily restricted	1,642,196
Permanently restricted	<u>14,443,384</u>
Total investments	<u>\$16,327,363</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, 2012:

Student tuition and fees	\$ 42,037
Auxiliary enterprises	130,904
Federal, state, private grants and contracts	471,696
Other activities	<u>77,398</u>
Gross receivables	<u>722,035</u>
Less: Allowance for doubtful accounts	<u>(43,236)</u>
Net accounts receivable	<u>\$678,799</u>

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2012:

Interest/rebate Allocation	\$ 180,639
Virginia College Building Authority 21 st Century Bonds/ETF	<u>2,792,745</u>
Total Due from Commonwealth of Virginia	<u>\$2,973,384</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, 2012, pledges receivable are as follows:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	\$ 1,473,303	\$4,198,960	\$1,220,050	\$6,892,313
Receivable in one to five years	3,850,000	1,924,017	165,560	5,939,577
Receivable in more than five years	-	83,000	-	83,000
Total unconditional pledges	5,323,303	6,205,977	1,385,610	12,914,890
Less discount to net present value	(396,728)	(210,065)	(16,296)	(623,089)
Less allowances for uncollectible pledges receivable	(30,664)	(912,373)	(40,845)	(983,882)
Net unconditional pledges receivable	<u>\$4,895,911</u>	<u>\$5,083,539</u>	<u>\$1,328,469</u>	<u>\$11,307,919</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$18,624,734	\$854,132	\$0	\$19,478,866
Construction in progress	<u>92,446,755</u>	<u>84,518,377</u>	<u>(98,279,860)</u>	<u>78,685,272</u>
Total nondepreciable capital assets	<u>111,071,489</u>	<u>85,372,509</u>	<u>(98,279,860)</u>	<u>98,164,138</u>
Depreciable capital assets:				
Buildings	281,331,480	91,362,558	(5,141,002)	367,553,036
Infrastructure	8,191,801	1,253,743	0	9,445,544
Equipment	11,470,551	1,919,578	(229,388)	13,160,741
Intangibles	2,551,126	152,771	0	2,703,897
Other improvements	19,366,556	3,932,453	0	23,299,009
Library materials	<u>10,478,139</u>	<u>661,916</u>	<u>(54,053)</u>	<u>11,086,002</u>
Total depreciable capital assets	<u>333,389,653</u>	<u>99,283,019</u>	<u>(5,424,443)</u>	<u>427,248,229</u>
Less accumulated depreciation:				
Buildings	47,494,843	8,084,398	(2,914,524)	52,664,717
Infrastructure	2,652,301	710,081	0	3,362,382
Equipment	5,218,182	1,019,144	(198,733)	6,038,593
Intangibles	1,995,209	134,966	0	2,130,175
Other improvements	7,604,369	1,002,443	0	8,606,812
Library materials	<u>9,371,135</u>	<u>320,050</u>	<u>0</u>	<u>9,691,185</u>
Total accumulated depreciation	<u>74,336,039</u>	<u>11,271,082</u>	<u>(3,113,257)</u>	<u>82,493,864</u>
Depreciable capital assets, net	<u>259,053,614</u>	<u>88,011,937</u>	<u>(2,311,186)</u>	<u>344,754,365</u>
Total capital assets, net	<u>\$370,125,103</u>	<u>\$173,384,446</u>	<u>(\$100,591,046)</u>	<u>\$442,918,503</u>

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

Land, buildings, furniture, equipment and collections for 2012 are summarized as follows:

Construction in progress	\$ 4,518,962
Property held for investment	61,702,608
Furniture and equipment	2,788,065
Collections	<u>588,684</u>
	69,598,319
Less accumulated depreciation	<u>(13,626,266)</u>
Total capital assets, net	<u>\$55,972,053</u>

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled \$1,747,394 in 2012.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2012:

Employee salaries, wages and fringe benefits payable	\$ 3,558,933
Vendors and suppliers accounts payable	8,195,442
Retainage payable	<u>3,705,881</u>
Total accounts payable and accrued liabilities	<u>\$15,460,256</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, 2012 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	116,681,317	\$27,383,926	\$21,742,318	\$122,322,925	\$6,097,780
Treasury-general obligation bonds	58,354,772	4,525,148	2,664,734	60,215,186	3,789,584
Installment purchases	<u>330,910</u>	<u>47,994</u>	<u>133,794</u>	<u>245,110</u>	<u>90,984</u>
Total long-term debt	175,366,999	31,957,068	24,540,846	182,783,221	9,978,348
Accrued compensated absences	<u>1,480,461</u>	<u>1,517,346</u>	<u>1,417,658</u>	<u>1,580,149</u>	<u>851,361</u>
Total long-term liabilities	<u>\$176,847,460</u>	<u>\$33,474,414</u>	<u>\$25,958,504</u>	<u>\$184,363,370</u>	<u>\$10,829,709</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 November 2011, the University issued \$4,100,000 of general obligation bonds, Series 2011A to renovate Santoro Residence Hall. The bonds were issued by the Commonwealth of Virginia on behalf of the University. The series 2011A bonds were issued with preliminary interest rates varying from 2.0% to 5.0% and will mature in 2021.

In November 2011, the University issued \$9,500,000 of revenue bonds, Series 2011A to fund a parking deck and additional surface parking, construct Ratcliffe Hall and expand residential dining facilities. 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 3.0% to 5.0% and will mature in 2021.

In March 2012, the University issued \$15,475,000 of Series 2012A revenue bonds to refund part of Series 2003A, 2004A and 2005A 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 2012A bonds were issued with interest rates varying from 2.75% to 5.0% and will have maturity dates of 2023, 2024 and 2025.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2012
General obligation bonds:			
Dormitory and dining hall:			
Series 2004B	4.0-5.0	2020	\$11,349,186
Series 2004B	4.0-5.0	2019	6,161,192
Series 2006	3.87-5.0	2021	1,355,000
Series 2008B	3.0-5.0	2014	356,804
Series 2009B	3.0-4.0	2021	1,877,837
Series 2010A-1 & 2010A-2	2.1-5.0	2040	34,480,000
Series 2011A	2.0-5.0	2021	<u>3,875,000</u>
Total general obligation bonds			<u>\$59,455,019</u>
Revenue bonds:			
Athletics, Series 2002A	5.0	2012	\$ 275,000
Series 2002A	5.0	2012	60,000
Series 2003A	5.0	2013	115,000
Series 2004B	3.0-5.0	2014	1,130,000
Series 2007A	4.5-5.0	2038	6,975,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,125,245
Series 2007B	4.0-4.5	2020	479,071
Series 2009A	2.1-5.0	2029	2,590,000
Series 2009B	3.0-5.0	2040	19,275,000
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
Series 2012A	5.0	2023	425,000
Student Center, Series 2002A	5.0	2012	15,000
Series 2007B	4.0-4.5	2020	215,000
Series 2007B	4.0-4.5	2020	117,220
Series 2010B	2.0-5.0	2021	435,000
New Student Center, Series 2002A	5.0	2012	425,000
Series 2004A	5.0	2014	2,840,000
Series 2006A	3.0-5.0	2027	2,030,000
Series 2007B	4.0-4.5	2020	3,256,669
Series 2010B	2.0-5.0	2022	2,440,000
Series 2010B	2.0-5.0	2022	75,000
Series 2012A	2.75-5.0	2025	14,085,000

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2012
Revenue bonds (continued):			
Parking Deck I, Series 2002A	5.0	2012	400,000
Series 2007B	4.0-4.5	2020	3,108,869
Series 2010B	2.0-5.0	2022	2,315,000
Parking Deck II, Series 2005A	5.0	2026	605,000
Series 2011A	3.0-5.0	2021	2,910,000
Series 2012A	3.0-5.0	2024	965,000
Residence Hall IV, Series 2002A	5.0	2012	1,150,000
Series 2007B	4.0-4.5	2020	8,867,926
Series 2010B	2.0-5.0	2022	6,620,000
Ratcliffe Hall, Series 2009A	2.1-5.0	2029	1,715,000
Series 2009B	3.0-5.0	2030	865,000
Series 2011A	5.0	2021	2,785,000
Residence Hall, Series 2010A-1	2.0-5.0	2017	1,175,000
Land Acquisition, Series 2009A	2.1-5.0	2029	8,060,000
Series 2009B	2.0-5.0	2030	3,005,000
Series 2010A-1	2.0-5.6	2040	4,645,000
Dining Expansion, 2011A	5.0	2021	<u>3,805,000</u>
Total revenue bonds			<u>\$118,045,000</u>
Total bonds payable			<u>\$177,500,019</u>
Deferred loss - advance refundings – GOB bonds			(74,300)
Deferred loss - advance refundings – VCBA bonds			(4,159,329)
Unamortized premiums- GOB bonds			834,467
Unamortized premiums – VCBA bonds			<u>8,437,254</u>
Total Deferred Gain/Loss & Unamortized Premiums			<u>\$ 5,038,092</u>
Installment purchases			<u>245,110</u>
Total long-term debt			<u>\$182,783,221</u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2013	\$9,978,348	\$7,870,285
2014	\$10,491,649	\$7,458,049
2015	\$11,066,043	\$7,037,571
2016	\$11,455,846	\$6,540,538
2017	\$11,913,817	\$6,050,346
2018-2022	\$57,932,090	\$22,186,458
2023-2027	\$28,204,372	\$12,435,404
2028-2032	\$15,998,143	\$7,783,420
2033-2037	\$15,610,865	\$4,393,064
2038-2042	<u>\$10,132,048</u>	<u>\$849,420</u>
	<u>\$182,783,221</u>	<u>\$82,604,555</u>

Defeasance of Debt – Current Year

In March 2012, the Commonwealth of Virginia issued \$164,475,000 of VCBA Pooled Series 2012A bonds with an interest rate ranging from 2.75% to 5.0%. The sale of these bonds enabled the University to advance refund \$16,175,000 of debt outstanding on the Series 2003A, 2004A and 2005A VCBA bond issues, which had interest rates ranging from 3.0% to 5.0%. This refunding represents a partial defeasance of the outstanding debt on the Series 2003A, 2004A and 2005A bond issues. The original bonds have a cumulative remaining balance of \$3,560,000. The reacquisition price of the refunded debt was \$18,106,000.

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 \$1,893,000 that is being amortized over the next thirteen 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 \$1,631,479 over the next thirteen years which represents the maturity time of the old debt. This amount results in a net present value savings of \$1,398,364 based on a rate of 2.09%.

Defeasance of Debt – Prior Years

During fiscal years 2007, 2010 and 2011, certain 2001A, 2002A, 2003A 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, 2012, \$47,610,000 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, 2012 consists of the following:

Old Point National Bank, secured by deed of trust on leasehold & 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.	\$2,241,905
Towne Bank, secured by deed of trust on 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 September 2012.	1,159,311
Towne Bank, secured by deed of trust on 12270 Warwick Boulevard, interest due monthly at the Wall Street Journal (WSJ) prime rate, with a maximum rate of 6.5%. Principal and interest payments of \$14,238 beginning August 2012, balance due July 2032.	<u>2,389,193</u>
	<u>\$5,790,409</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, 2012 was \$3,572,101. 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, 2012.

Bonds Payable

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, 2012, the balance outstanding on the bonds was \$2,918,119. 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, 2012, the balance outstanding on the bonds was \$7,821,228. 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, 2012, the balance outstanding on the bonds was \$4,418,392. 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, 2012, the balance outstanding on the bonds was \$24,135,000. 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, 2012, the balance outstanding on the bonds was \$7,280,000. 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, 2012, the Foundations were in compliance with all financial covenants.

Notes and maturities for the succeeding fiscal years ending June 30, 2012 are as follows:

<u>Year</u>	<u>Amount</u>
2013	\$ 2,992,532
2014	13,240,332
2015	3,497,352
2016	4,221,579
2017	1,444,460
Thereafter	<u>26,966,892</u>
	<u>\$52,363,147</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, 2012 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%	09/01/13	(394,449)
\$10 million interest rate swap	65% of LIBOR + 0.88%	5.22%	09/01/13	(228,487)
\$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(4,454,462)
\$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	<u>(1,882,090)</u>
				<u><u>\$(6,959,488)</u></u>

Lines of Credit

During the year ended June 30, 2012, the Foundations had available a \$3,000,000 line of credit facility with Wells Fargo Bank. The line of credit matures on December 31, 2012. The line is unsecured. Borrowings under this facility accrue interest at the one month London Interbank Offered Rate (LIBOR) plus 1.50%. This amount was 1.75% at June 30, 2012. The purpose of this credit facility is to pay soft costs related to the construction of Rappahannock Hall and to finance any other lawful activities of the Foundation as approved by the Bank in writing. At June 30, 2012, the outstanding balance under this credit facility totaled \$2,538,114.

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	\$18,050,061	\$5,811,601	\$2,360,213	\$4,322	-	\$145,983	-	\$26,372,180
Research	737,666	90,520	497,956	-	-	36,945	-	1,363,087
Public Service	-	-	5,240	-	-	-	-	5,240
Academic Support	3,344,386	1,306,088	2,602,874	3,771	-	539,788	-	7,796,907
Student Services	3,196,951	955,020	1,489,984	2,712	-	182,971	-	5,827,638
Institutional Support	4,195,442	1,843,201	2,319,104	84,050	-	637,149	-	9,078,946
Operation Plant	2,526,737	1,313,394	1,310,806	-	2,109,054	170,458	-	7,430,449
Depreciation	-	-	-	-	-	-	11,271,081	11,271,081
Scholarships	-	-	-	2,269,400	-	-	-	2,269,400
Auxiliary Activities	10,229,499	3,011,371	21,396,094	478,342	2,505,933	352,954	-	37,974,193
Total	<u>\$42,280,742</u>	<u>\$14,331,195</u>	<u>\$31,982,271</u>	<u>\$2,842,597</u>	<u>\$4,614,987</u>	<u>\$2,066,248</u>	<u>\$11,271,081</u>	<u>\$109,389,121</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 890:	
Educational and general programs	22,087,051
Student financial assistance	4,170,020
Supplemental adjustments:	
Central appropriations adjustments	476,416
Financial aid adjustments	123,476
Cash transfer out non-general fund	(305,218)
Miscellaneous	(15,471)
Credit card rebates	136,294
Reversal of PY due from primary interest/rebate	<u>(136,492)</u>
Adjusted Appropriation	<u><u>26,536,076</u></u>

10. COMMITMENTS

At June 30, 2012, the University was committed to construction contracts totaling approximately \$112,560,352 of which \$33,969,552 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, 2012 was \$6,154,192. The University has, as of June 30, 2012 the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2013	\$ 5,823,660
2014	6,173,143
2015	5,822,212
2016	5,935,804
2017	6,051,669
2018	<u>621,077</u>
Total	<u><u>\$30,427,565</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, 2012 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 \$1,604,324 for the year ended June 30, 2012. For Plan 1 participants (individuals hired prior to July 1, 2010), effective July 1, 2011, the employer contribution rate was reduced by 5% to 6.58% (13.09% for University police), with the employee contributing 5%. For Plan 2 participants, hired on or after July 1, 2010, there was no change effective July 1, 2011 since participants hired after July 1, 2010 were already paying 5%. The effect of this change is that the contributions by the employer are now 6.58% and 13.09% for University police for all VRS Plan 1 and Plan 2 participants.

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. 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 \$1,769,366 for the year ended June 30, 2012. Contributions were calculated using the base salary amount of approximately \$17.6 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 \$20 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 \$207,911 for 2012.

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, 2012, 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, 2012 totaled \$568,236. 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, 2012, cash provided by the program totaled \$23,555,758 and cash used by the program totaled \$23,555,758.

17. SUBSEQUENT EVENTS

In fiscal year 2013, the University issued \$1,124,174 of Series 2012B Pooled 9(d) revenue bonds for the construction of parking spaces on the campus of Christopher Newport University. The bonds will be issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program.

Also, in fiscal year 2013, the University participated in the Master Equipment Leasing Program (MELP) agreement for grounds and athletic equipment in the amount of \$224,737 through the Commonwealth of Virginia with JP Morgan Chase. The leases will be paid back over a seven to ten year period with varying interest rates.



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 6, 2013

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, 2012, 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 Christopher Newport 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 previously 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated June 6, 2013, 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.

A handwritten signature in dark ink, reading "Matthew S. Mansueti". The signature is written in a cursive, flowing style.

AUDITOR OF PUBLIC ACCOUNTS

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Newport News, Virginia

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