Christopher Newport University
Audited Financial Statements

For the year ended June 30, 2017

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The youngest comprehensive university in the Commonwealth, Christopher Newport University was founded in 1960 as Christopher Newport College, a two-year branch of the College of William & Mary in Williamsburg, Virginia. Located in historic Hampton Roads, the institution was named for the 17th-century English mariner who helped establish the Jamestown Colony. The University became independent in 1977 and gained university status in 1992.

Today, CNU is a four-year, undergraduate liberal arts university, enrolling 5,000 students in rigorous academic programs through the College of Arts and Humanities, the College of Natural and Behavioral Sciences, and the College of Social Sciences including the Luter School of Business. CNU combines traditional liberal arts and sciences curriculum with contemporary teaching ideologies and an emphasis on growing leaders of the future.

OVERVIEW

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, 2017, with comparative numbers for the year ended June 30, 2016. 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 Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows. The following analysis discusses elements from the Statement of Net Position, the Statement of Revenues, Expenses, and Change in Net Position, and the Statement of Cash Flows, as well as an overview of the University's activities.

STATEMENT OF NET POSITION

The *Statement of Net Position* (SNP) presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the University. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. Finally, the SNP provides a picture of net position and their availability for expenditure by the University. Sustained increases in net position over time are one indicator of the financial health of the organization.

The University's net position is classified as follows:

- **Net investment in capital assets –** Net investment in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net position, expendable –** Expendable restricted net position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net position, nonexpendable –** Nonexpendable restricted net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net position –** Unrestricted net position represents resources used for transactions relating to academic departments and general operations of the University, and may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of the University's primary missions. These resources are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the University's auxiliaries are student residential and dining programs.

The University's assets and deferred outflows increased by $6.2 million, or 1.1%, during fiscal year 2017, bringing the total assets and deferred outflows to $579.3 million at year-end. This increase is a combination of the increase in current assets ($5.6 million), in net capital assets ($9.3 million) and in deferred outflows of resources ($1.8 million), offset by the decrease in other non-current assets, net ($10.5 million).

The increase in current assets is primarily due to the increase in operating revenues over expenses by Auxiliary Services and the increase in the total due from Commonwealth of Virginia for construction reimbursements on Virginia College Building Authority (VCBA) 9(d) bonds.

The net capital asset increase reflects ongoing construction at the University and is discussed in detail in the following section Capital Asset and Debt Administration. The decrease in other noncurrent assets represents the University not issuing any bonds in fiscal year 2017 and reductions due to drawdowns for capitalized interest on construction activity.

The increase in deferred outflows is primarily due to the increase in the investment experience for the change in net pension liability as provided by the Virginia Retirement System (VRS).

Condensed Statement of Net Position

For the years ended June 30, 2017 and 2016

(All dollars in millions)

	2017	2016	Change Amount	Change Percent
Assets and Deferred Outflows:				
Current assets	$ 40.3	$ 34.7	$ 5.6	16.1 %
Capital assets, net	517.5	508.2	9.3	1.8 %
Other noncurrent assets	7.9	18.4	(10.5)	(57.1) %
Deferred outflows of resources	13.6	11.8	1.8	15.3 %
Total assets & deferred outflows	579.3	573.1	6.2	1.1 %
Liabilities and Deferred Inflows:				
Current liabilities	39.9	36.8	3.1	8.4 %
Noncurrent liabilities	203.9	215.2	(11.3)	(5.3) %
Deferred inflows of resources	2.7	3.0	(0.3)	(10.0) %
Total liabilities & deferred inflows	246.5	255.0	(8.5)	(3.3) %
Net position:				
Net investment in capital assets	353.2	342.9	10.3	3.0 %
Unrestricted	(20.4)	(24.8)	4.4	17.7 %
Total net position	$ 332.8	$ 318.1	$ 14.7	4.6 %

This is the third year of reporting for Governmental Accounting Standards Board (GASB) statements 68, Accounting and Financial Reporting for Pensions and 71, Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB 68. These reporting changes require the University to record its portion of the pension liabilities and expenses from (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan. Prior to the implementation of GASB 68, VRS did not measure assets and pension benefit obligations separately for individual state institutions. As a result of this change in reporting, the University has recorded its proportionate share of the net pension liability, pension expense, deferred outflows and deferred inflows in the financial statements presented within. Note 1 of the *Notes to Financial Statements* includes the summary of significant accounting policies for pensions. Note 12 and the required supplementary information discloses information on the pension plans available to all full-time, salaried permanent employees of the University, along with detail on pension liability, pension expense, and pension contributions by the University. GASB 68 states that changes in proportion and differences between employer contributions and proportionate share of contributions as well as employer contributions subsequent to the measurement date are recognized as deferred outflows of resources, and net difference between projected and actual earnings on pension plan investments are reported as deferred inflows of resources.

The University's total liabilities and deferred inflows decreased by $8.5 million, or 3.3%, during fiscal year 2017. This is due to the decrease in noncurrent liabilities offset by an increase in current liabilities. The decrease in noncurrent liabilities of $11.3 million is primarily due to the 2016A VCBA 9(d) bond refunding portions of 2006A, 2007A and 2008B bond issues, which will be discussed in detail in the next section. The increase in current liabilities is due to additional payables for capital outlay in the current year over the prior year.

The decrease in total liabilities combined with the increase in total assets resulted in an overall increase to the University's net position by $14.7 million, or 4.6% for fiscal year 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures, as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality instructional programs and residential lifestyles.

Note 4 describes the University's significant investment in capital assets with gross additions of $55.2 million.

Capital Assets
For the year ended June 30, 2017
(All dollars in millions)

	Amount
Additions	
Land	$ 0.6
Buildings & other improvements	27.9
Infrastructure	0.3
Equipment, library & intangibles	2.3
Construction in progress (see table)	24.1
Total capital asset additions	$ 55.2
Reductions	
Buildings & other improvements	$ 0.1
Equipment, library & intangibles	0.2
Construction in progress	28.9
Total capital asset reductions	$ 29.2

Ongoing investments in capital assets for fiscal year 2017 included additions to land for athletic fields. Additions to buildings and other improvements for Greek Residential Housing, the Alumni House, and the paving of parking lot C.

Infrastructure additions included the campus wide network.

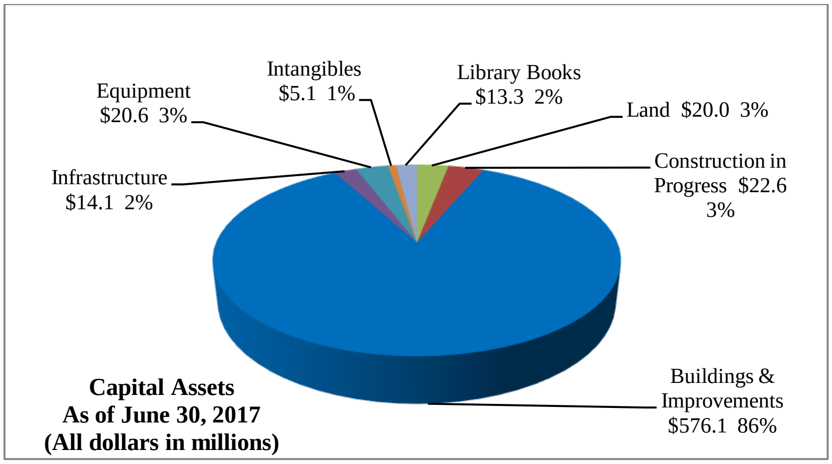
Equipment, library and intangibles additions included instructional, research, and information system technology equipment; additional library books; and a new vehicle for Auxiliary services.

The investment in construction in progress is detailed in the table to the right. Construction in progress completed projects this year consisted of Greek Residential Housing, the Alumni House, and the colonnade canopy and column repairs.

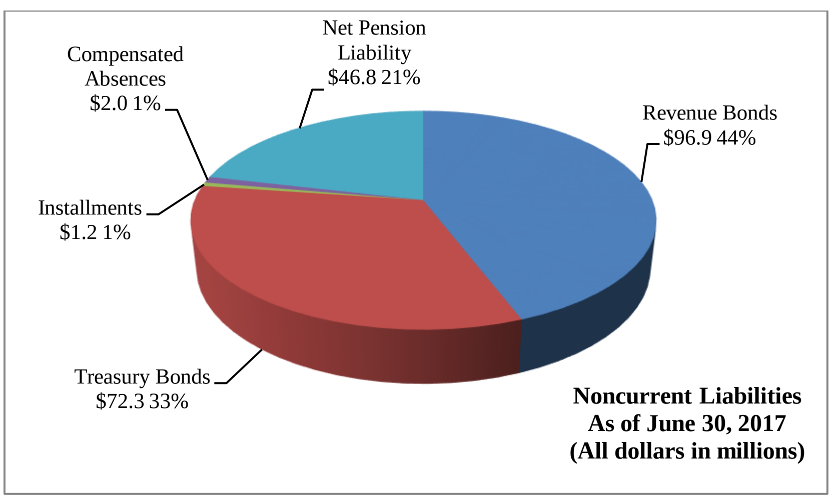
Construction in Progress
For the year ended June 30, 2017
(All dollars in millions)

	Project Amount
Trible Library Phase II	$ 13.9
Regattas Dining Expansion	6.1
Residence Hall VII	1.1
Fine Arts and Rehearsal Space	0.6
Indoor Track Replacement	0.5
Telephone System	0.2
Band Rehearsal Hall	0.1
Miscellaneous	0.1
Total construction in progress	$ 22.6

Ending balances of capital assets at June 30, 2017 are presented in the graph below. Buildings and improvements continue to account for the majority of capital assets of the University. The majority of the costs currently in construction in progress will eventually become part of buildings and improvements once the projects are completed.



Notes 7 and 8 of the *Notes to Financial Statements* contain information relating to the long-term debt of the University. In fiscal year 2017, the Commonwealth of Virginia issued $0.7 million in 9(c) general obligation refunding bonds, series 2016B on behalf of the University. The 2016B refunding series refunded $0.8 million of Series 2009B and resulted in a premium of $0.1 million. Premiums are amortized over the life of the old bonds or new bonds depending on which is shorter. Also, in fiscal year 2017 the VCBA issued $20.3 million in 9(d) revenue refunding bonds, series 2016A on behalf of the University. The 2016A revenue refunding refunded $23.5 million of Series 2006A, 2007A and 2009B. Series 2016A refunding resulted in a premium of $2.7 million. Premiums are amortized over the life of the old bonds or new bonds depending on which is shorter. The 2016A refunding also resulted in a loss on debt defeasance of $4.4 million for a portion of Series 2006A and 2009B and a gain on debt defeasance of $1.5 million for a portion of Series 2007A and 2009B. The loss on debt defeasance is now classified as a deferred outflow of resources under the asset portion and the gain is classified as a deferred inflow of resources under the liability section of the statement of net position and is no longer included with the long-term liabilities under GASB 65. As a result of the GASB 68, $46.8 million was recorded as net pension liability as of June 30, 2017. Total long-term liabilities at the end of fiscal year 2017 are $219.2 million.



STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating and non-operating activities creating changes in the University's total net position are presented in the *Statement of Revenues, Expenses, and Change in Net Position*. The purpose of this statement is to present all revenues received and accrued, all expenses paid and accrued, gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the University. Operating expenses are expenditures made to acquire or procure 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 expenses. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations included in this category provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Summary of the Statement of Revenues, Expenses, and Changes in Net Position

For the years ended June 30, 2017 and 2016

(All dollars in millions)

	2017	2016	Change Amount	Change Percent
Operating revenues	$ 114.6	$ 113.7	$ 0.9	0.8 %
Operating expenses	147.8	149.0	(1.2)	(0.8) %
Operating loss	(33.2)	(35.3)	2.1	5.9 %
Non-operating revenues, net	35.3	31.9	3.4	10.7 %
Net other revenues (expenses)	12.6	6.5	6.1	93.8 %
Increase in net position	14.7	3.1	11.6	374.2 %
Net position beginning of the year	318.1	315.0	3.1	1.0 %
Net position end of year	$ 332.8	$ 318.1	$ 14.7	4.6 %

Per the University's Mission Statement, our primary focus is excellence in teaching, inspired by sound scholarship. At CNU, personal attention in small classes creates a student-centered environment where creativity and excellence can flourish. First, second and third year students are required to live on campus. The University feels that students who live on campus statistically achieve higher academic success, are more engaged with faculty, more connected with campus, more likely to return for a second year, and go on to graduate.

In fiscal year 2017 the University had an increase in net position of $14.7 million resulting from increases in certain revenue items offset by decreases in expenses. Revenues and expenses are discussed in detail on the following pages.

OPERATING REVENUES

Total operating revenues increased by $0.9 million, or 0.8%, from the prior fiscal year. Increases in auxiliary revenue ($0.9 million) were due to the room and board rate adjustment approved by the Board of Visitors, as well as an increase in the number of students housed on campus.

NON-OPERATING REVENUES

Total non-operating revenues increased by $2.2 million, or 5.9%, from prior fiscal year. This increase is primarily due to the $1.5 million increase the University received from State appropriations. Other non-operating revenues increased due to the VRS special revenue allocation for contributions.

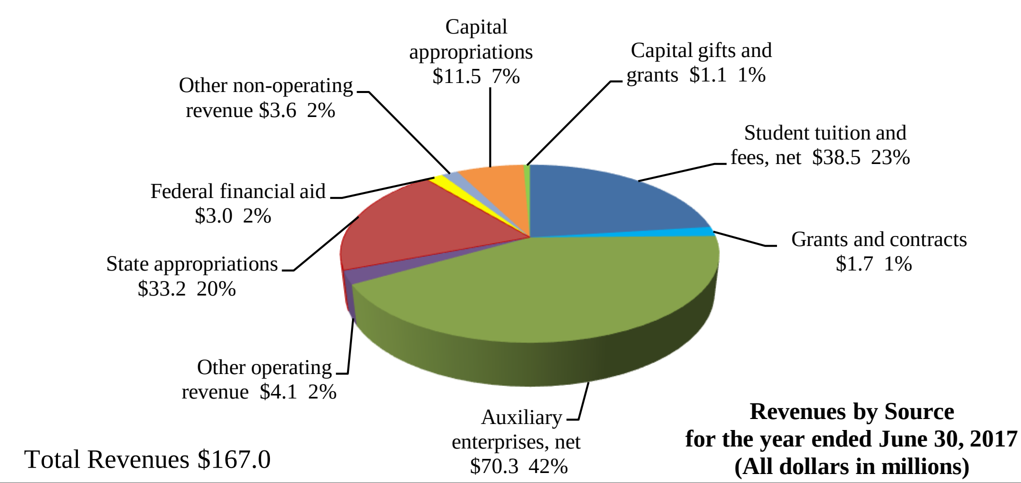
OTHER REVENUES

Other revenues increased by $6.2 million, or 96.9%, from prior fiscal year due to the increase in capital appropriations. In current year, capital appropriations were received for the construction of Greek Residential Housing, expansion of Regatta's Dining Hall and the Alumni House.

Summary of Revenues
For the years ended June 30, 2017 and 2016
(All dollars in millions)

	2017	2016	Change Amount	Change Percent
Operating revenues				
Student tuition and fees, net	$ 38.5	$ 38.7	$ (0.2)	(0.5) %
Grants and contracts	1.7	1.9	(0.2)	(10.5) %
Auxiliary enterprises, net	70.3	69.4	0.9	1.3 %
Other operating revenue	4.1	3.7	0.4	10.8 %
Total operating revenue	114.6	113.7	0.9	0.8 %
Non-operating revenues				
State appropriations	33.2	31.7	1.5	4.7 %
Federal financial aid	3.0	3.3	(0.3)	(9.1) %
Other non-operating revenue*	3.6	2.6	1.0	38.5 %
Total non-operating revenue	39.8	37.6	2.2	5.9 %
Other revenue				
Capital appropriations	11.5	6.3	5.2	82.5 %
Capital gifts and grants	1.1	0.1	1.0	1,000.0 %
Total other revenue	12.6	6.4	6.2	96.9 %
Total revenue	$ 167.0	$ 157.7	$ 9.3	5.9 %

* Includes gifts, Build America Bond subsidy, investment income, and other non-operating revenue.



Revenues by Source for the year ended June 30, 2017 (All dollars in millions)

TOTAL EXPENSES

The expenses of the University are also separated into operating and non-operating expenses. The operating expenses are presented in the financial statements by function.

Summary of Expenses
For the years ended June 30, 2017 and 2016
(All dollars in millions)

	2017	2016	Change Amount	Change Percent	
Operating expenses					
Instruction	$ 35.5	$ 35.5	$ -	-	%
Research	1.7	1.9	(0.2)	(10.5)	%
Academic support	9.1	9.4	(0.3)	(3.2)	%
Student services	7.3	7.1	0.2	2.8	%
Institutional support	9.9	9.6	0.3	3.1	%
Operation & maintenance of plant	9.1	8.9	0.2	2.2	%
Depreciation	17.0	16.4	0.6	3.7	%
Student aid	1.7	1.9	(0.2)	(10.5)	%
Auxiliary enterprises	56.4	58.2	(1.8)	(3.1)	%
Total operating expenses	147.7	148.9	(1.2)	(0.8)	%
Non-operating expenses					
Interest on capital asset related debt	4.6	5.6	(1.0)	(17.9)	%
Other non-operating expenses and loss on disposal of plant assets	0.0	0.1	(0.1)	(100.0)	%
Total non-operating expenses	4.6	5.7	(1.1)	(19.3)	%
Total expenses	$ 152.3	$ 154.6	(2.3)	(1.5)	%

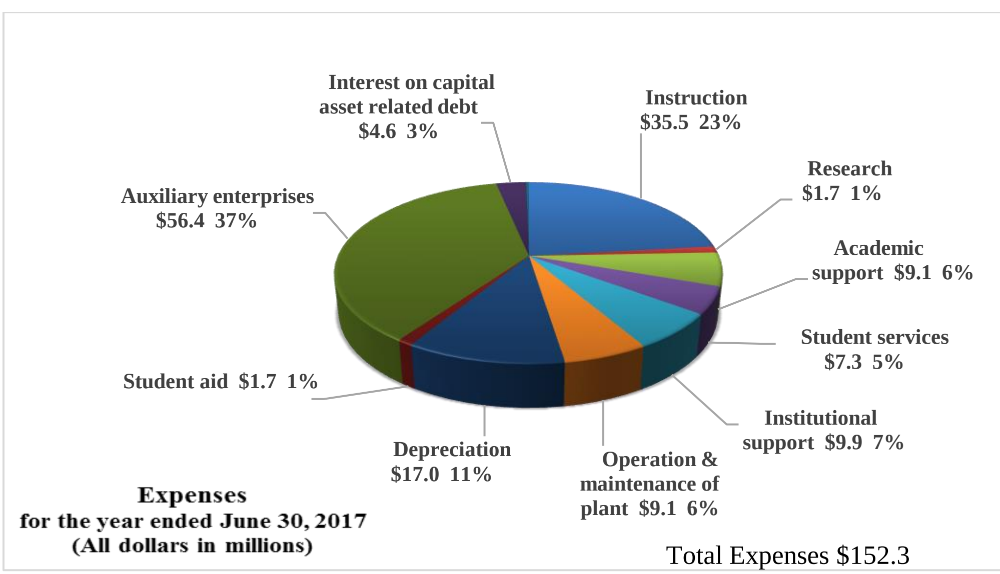
OPERATING EXPENSES

Total operating expenses for the fiscal year totaled $147.7 million, down $1.2 million from fiscal year 2016. The net change resulted primarily from Auxiliary enterprises decrease in expenses for skilled services.

Operating expenses in most areas remained consistent from fiscal year 2017 over 2016.

NON-OPERATING EXPENSES

Non-operating expenses consist of losses on disposal of capital assets and interest paid on capital-related debt which decreased by $1.0 million due to the Commonwealth of Virginia and VCBA refunding of bond issues as discussed in the capital asset and debt administration section.



STATEMENT OF CASH FLOWS

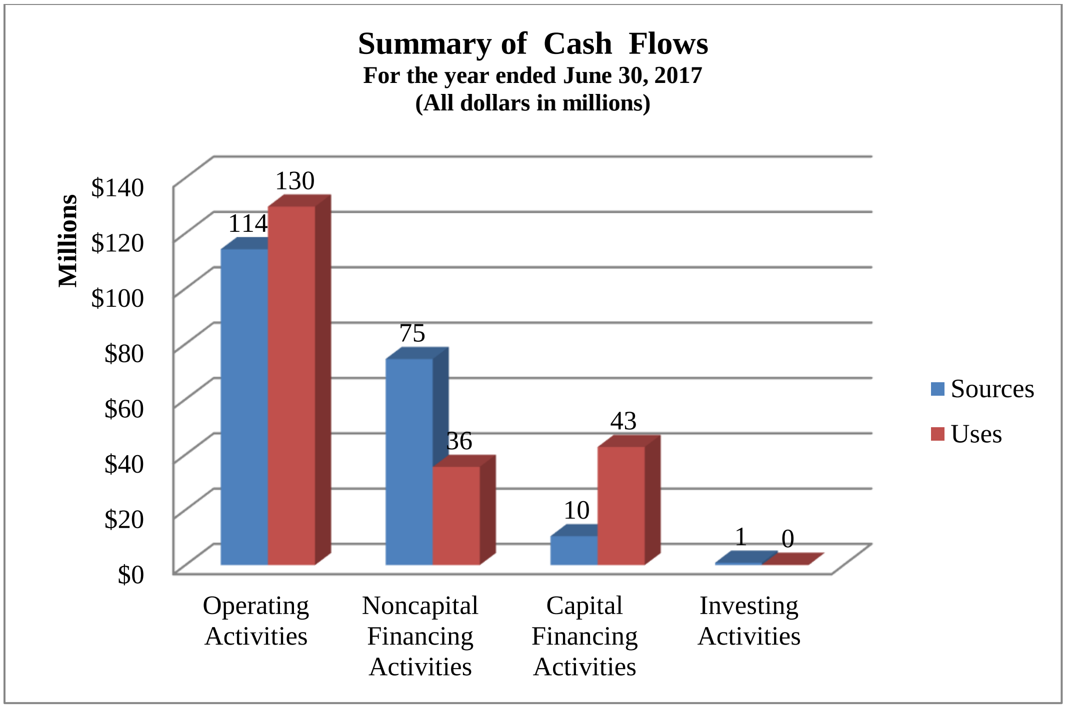
The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Change in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections:

- *Cash flows from operating activities* deals with operating cash flows and shows net cash used by the operating activities of the University.
- *Cash flows from noncapital financing activities* reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires that general appropriations from the Commonwealth be shown as cash flows from noncapital financing activities. Since state appropriations are used to cover the operating expenses of the University, net cash should always be used by operating activities and provided by noncapital financing activities.
- *Cash flows from capital financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as capital appropriations, are included in cash flows from capital financing activities.
- *Cash flows from investing activities* reflects the cash flows generated from investments, including purchases, proceeds, and interest.
- The last section reconciles the operating loss reflected on the *Statement of Revenues, Expenses, and Change in Net Position* to the net cash used by operating activities.

Summary of Cash Flows
For the years ended June 30, 2017 and 2016
(All dollars in millions)

	2017	2016	Change Amount	Change Percent
Net cash provided/(used) by operating activities	$ (15.4)	$ (16.5)	$ 1.1	(6.7) %
Net cash provided/(used) by noncapital activities	39.0	36.9	2.1	5.7 %
Net cash provided/(used) by capital and related financing activities	(32.3)	(34.2)	1.9	(5.6) %
Net cash provided/(used) by investing activities	0.7	0.7	-	- %
Net increase (decrease) in cash and cash equivalents	(8.0)	(13.1)	5.1	(38.9) %
Cash and cash equivalents - beginning of year	49.6	62.7	(13.1)	(20.9) %
Cash and cash equivalents - end of year	$ 41.6	$ 49.6	$ (8.0)	(16.1) %



The University ended 2017 with cash and cash equivalents of $41.6 million, a net decrease in cash of $8.0 from prior fiscal year.

Net cash used by operating activities was $15.4 million. The primary sources of cash from operating activities was $69.6 million from Auxiliary services and $38.0 million from student tuition and fees. The primary uses of cash from operating activities were payments to employees for salaries, wages and fringe benefits of $75.4 million and payments for services and supplies of $46.6 million.

Noncapital financing activities had net cash provided of $39.0 million. The primary sources of cash from noncapital financing activities consisted of state appropriations of $33.2 million, federal student financial aid of $3.0 million, gifts and grants of $2.0 million and the VRS special revenue allocation of $1.2 million.

Net cash used by capital financing activities was $32.3 million. Primary uses of cash from capital financing activities were for the purchase of capital assets of $25.0 million and the principal and interest payments on debt of $13.2 million and $4.5 million, respectively. Primary sources of cash from capital financing was $8.5 million from capital appropriations and $1.2 million from capital grants and contributions.

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. The University's governing board increased in-state tuition by $400; out-of-state tuition by $970; comprehensive fees by $200; and room and board by $310 for fiscal year 2018.

Christopher Newport University is a young institution, but our formidable reputation is growing quickly thanks to our commitment to the principles of liberal learning and our dedication to the ideals of scholarship, leadership and service. This dedication has earned the University a spot in *U.S. News & World Report*'s Best Colleges guide as fourth among public regional universities in the South and eleventh among all regional universities in the South.

CNU has also been named a "College of Distinction" by a top national guide to colleges that highlights innovative learning opportunities at top schools. Per the national guide, "CNU offers great teaching and small class sizes with an emphasis on leadership, civic engagement, and honor. The University's success at creating an incomparable environment for academic and student life alike has received top recognition being named one of America's schools to watch for having made "the most promising and innovative changes in academics, faculty, student life, campus, and facilities". Over 40,000 guidance counselors and thousands of parents and students use the *Colleges of Distinction guide* across the country as they decide where to go to college. In addition, the *Princeton Review* included CNU as one of the nation's best institutions for undergraduate education. Rankings are based on widely accepted indicators of excellence, such as the retention and graduation of students, the commitment to instruction as measured by class size, faculty salaries and the proportion of professors with the highest degrees in their field, student selectivity, and alumni giving.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2017

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	$ 3,907,896	$ 5,818,484
Cash and cash equivalents Treasurer of Virginia (Note 2)	30,156,191	-
Accounts receivable, net of allowance (Note 3)	857,155	735,728
Contributions receivable, net of allowance (Note 3)	-	2,720,442
Due from Commonwealth (Note 3)	2,732,379	-
Prepaid expenses	2,433,588	51,892
Inventory	214,135	-
Total current assets	40,301,344	9,326,546
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	7,371,878	2,257,660
Restricted cash/cash equivalents Treasurer of Virginia (Note 2)	211,493	-
Restricted investments (Note 2)	225,874	28,634,830
Appropriations available/due from	71,023	-
Contributions receivable, net of allowance (Note 3)	-	11,743,572
Other restricted assets	-	1,279,649
Non-depreciable capital assets (Note 4)	42,660,893	21,481,616
Capital assets, net (Note 4)	474,814,927	86,405,436
Total noncurrent assets	525,356,088	151,802,763
Deferred outflows of resources (Note 5)	13,660,296	-
Total assets and deferred outflows of resources	579,317,728	161,129,309
Current Liabilities:		
Accounts payable and accrued expenses (Note 6)	19,236,559	614,063
Unearned revenue	1,439,519	18,353
Accrued interest payable	1,534,736	141,426
Deposits held in custody for others	2,363,474	-
Fair value of hedges	-	1,047,369
Long-term liabilities - current portion (Note 7)	15,286,287	4,520,284
Total current liabilities	39,860,575	6,341,495
Noncurrent liabilities (Notes 7 and 8)	203,885,089	95,553,125
Deferred inflows of resources (Note 5)	2,697,955	-
Total liabilities and deferred inflows of resources	246,443,619	101,894,620
Net investment in capital assets	353,289,018	10,093,749
Restricted for:		
Nonexpendable - scholarships and fellowships	-	25,246,478
Expendable:		
Scholarships and fellowships	-	3,408,703
Academic support	-	11,438,187
Capital projects	-	5,587,955
Other	-	566,452
Unrestricted	(20,414,909)	2,893,165
Total net position	$ 332,874,109	$ 59,234,689

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended June 30, 2017

	University	Component Unit Foundations
Operating Revenues:		
Student tuition and fees, Net of scholarship allowance of $5,666,669	$ 38,512,479	$ -
Federal grants and contracts	1,412,258	-
State grants and contracts	234,588	-
Nongovernmental grants and contracts	78,177	-
Gifts and contributions	-	8,892,221
Auxiliary enterprises, Net of scholarship allowance of $6,432,983	70,252,796	-
Lease and rental revenue	-	11,304,944
Other operating revenue	4,115,481	77,061
Total operating revenues	114,605,779	20,274,226
Operating Expenses:		
Instruction	35,500,350	-
Research	1,727,941	-
Academic support	9,133,293	-
Student services	7,334,143	-
Institutional support	9,869,718	4,809,344
Operation and maintenance of plant	9,103,014	3,044,772
Depreciation	16,969,430	3,791,235
Student aid	1,678,798	1,935,712
Auxiliary enterprises	56,438,326	-
Total operating expenses	147,755,013	13,581,063
Operating gain/(loss)	(33,149,234)	6,693,163
Non-operating Revenues/(Expenses):		
State appropriations (Note 9)	33,191,138	-
Federal student financial aid	3,038,043	-
Gifts	1,986,353	-
Investment income, net of investment expenses of $6,000	291,338	4,949,126
Interest on capital asset related debt	(4,525,710)	(3,404,938)
Build America Bonds subsidy	530,228	-
Other non-operating revenues (expenses)	772,793	-
Gain (Loss) on disposal of plant assets	(26,088)	-
Net nonoperating revenues/(expenses)	35,258,095	1,544,188
Income before other revenues/(expenses)/gains/(losses)	2,108,861	8,237,351
Capital appropriations	11,469,616	263,377
Capital gifts and grants	1,159,771	-
Additions to permanent endowments	-	1,283,118
Net other revenues	12,629,387	1,546,495
Increase/(decrease) in net position	14,738,248	9,783,846
Net Position - Beginning of year	318,135,861	49,450,843
Net Position - End of year	$ 332,874,109	$ 59,234,689

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, 2017

Cash flows from operating activities:	
Student tuition and fees	$ 37,997,642
Grants and contracts	1,764,401
Auxiliary enterprises	69,618,814
Other receipts	4,131,005
Payments to employees	(75,374,179)
Payments for services and supplies	(46,608,118)
Payments for utilities	(5,576,439)
Payments for scholarships and fellowships	(449,216)
Payments for plant improvements and equipment	(854,929)
Loans and advances issued to students and employees	(739,371)
Collection of loans and advances from students and employees	696,092
Net cash used by operating activities	(15,394,298)
Cash flows from noncapital financing activities:	
State appropriations	33,191,138
Gifts and grants for other than capital purposes	1,986,353
Federal student financial aid	3,038,043
Federal direct lending program receipts	25,080,329
Federal direct lending program disbursements	(25,080,329)
PLUS loan receipts	8,702,396
PLUS loan disbursements	(8,702,396)
Agency receipts	1,375,627
Agency payments	(1,382,645)
Other nonoperating revenues	1,163,100
Other nonoperating expenses	(390,307)
Net cash provided by noncapital financing activities	38,981,309
Cash flows from capital financing activities:	
Capital appropriations	8,461,296
Capital grants and contributions	1,159,771
Proceeds from sale of revenue bonds	841,413
Purchase of capital assets	(25,037,580)
Principal paid on capital debt, leases, and installments	(13,183,849)
Interest paid on capital debt, leases, and installments	(4,527,106)
Net cash used by capital financing activities	(32,286,055)
Cash flows from investing activities:	
Interest on investments	783,465
Purchase of investments	(111,476)
Sales of investments	80,332
Net cash provided by investing activities	752,321
Net decrease in cash	(7,946,723)
Cash and cash equivalents - Beginning of year	49,594,181
Cash and cash equivalents - End of year	$ 41,647,458

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$	(33,149,233)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		16,969,430
Changes in assets, liabilities and deferred outflows:		
Receivables, net		(147,922)
Inventory		31,867
Prepaid expenses		(691,864)
Deferred outflow of resources		(2,350,867)
Accounts payable and accrued expenses		1,226,535
Unearned revenue		184,564
Deposits held in custody		56,183
Accrued compensated absences		63,009
Deferred inflow of resources		(1,799,000)
Net pension liability		4,213,000
Net cash used by operating activities	$	(15,394,298)
Non Cash investing, non capital financing, and capital and related financing transactions:		
Amortization of bond premium	$	2,483,507
Capitalization of interest expense	$	1,280,753
VRS Special Employer Contributions	$	1,146,000
Amortization of deferred net loss on defeased bonds	$	(762,731)
Change in fair value of investments recognized as a component of interest income	$	31,144
Loss on disposal of plant assets	$	26,088

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

NOTES TO THE FINANCIAL STATEMENTS

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 14, as amended by Statements 39 and 61, the Christopher Newport University Education and Real Estate Foundations, Inc. are discretely presented 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 Education and Real Estate Foundations are tax-exempt, nonprofit, nonstock corporations. The Christopher Newport University Education Foundation was organized in September 1980 and Christopher Newport University Real Estate Foundation was organized in June 1997. The Foundations were created to receive, administer and distribute funds and property exclusively in furtherance of the educational activities and objectives of Christopher Newport University. Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or incomes thereon, which the Foundations hold and invest, are restricted to the activities of the University by the donors. Since 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, 2017, the Foundations distributed $3,233,108 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. 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 GASB 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 Foundations' financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

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

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

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 Position. The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of 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, excluding computer software, infrastructure and building improvements, with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Computer software developed or obtained for internal use is defined as having a license cost of $10,000 or more and an estimated useful life in excess of one year. Computer software and licenses purchased on installment agreements have a cost of $50,000 or more. Infrastructure is defined as having an initial cost of $100,000 or more and an estimated useful life in excess of one year. Building improvements are defined as the lesser of $100,000 or 20% of the building's cost and must enhance the use of or extend the life of the building beyond its original estimated life. Donated capital assets are recorded at acquisition 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	5-50 years
Other improvements	12-30 years
Infrastructure	5-50 years
Equipment	5-20 years
Intangible Assets – Computer Software	3-5 years
Library materials	5 years

F. Prepaid Expenses

As of June 30, 2017, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2018 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 Position.

I. Unearned Revenue

Unearned revenue includes amounts received for tuition, fees, and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2017.

J. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as Non-operating expenses.

K. 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, 2017. 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.

L. 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. The Office of Management and Budget (OMB) recently incorporated OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122 and A-133 into a single document. The new document is now titled 2 CFR, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

M. Deferred Inflows and Outflows of Resources

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

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

N. Net Position

GASB Statement 34 requires that the Statement of Net Position report the difference between assets and liabilities as net position. GASB Statement 63 changes that terminology from *net assets* to *net position*. Net position consists of *Net Investment in Capital Assets*, *Restricted* and *Unrestricted*. *Net Investment in Capital Assets* 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 position is reported as *Restricted* when constraints on the net position use are either externally imposed by creditors, grantors, or contributors or imposed by law. *Unrestricted* net position consists 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.

O. 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.

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

Q. Pensions

The Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan are single employer pension plans that are treated like cost-sharing plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Virginia Retirement System (VRS) State Employee Retirement Plan and the Virginia Law Officers' System (VaLORS) Retirement Plan; and the additions to/deductions from the VRS State Employee Retirement Plan's and the VaLORS Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The information included in the Required Supplemental Information (RSI) reflects GASB Statement 82 by the plan. The statement resolved two outstanding issues from GASB Statement 68; the Presentation of Payroll Measures in RSI and the Classification of Employer-paid Member Contributions.

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 2017 to disclose.

GASB Statement 40 requires the following risk disclosures:

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.

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, 2017.

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/deposits for 2017.

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 and monitors CNU's investment strategy. 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.

The University implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during fiscal year 2016. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. The fair value hierarchy is based on the valuation inputs used to measure the fair value of assets.

Summarized below are cash equivalents and investments as of June 30, 2017:

Cash and cash equivalents:	
Deposits with financial institutions	$ 3,907,896
Treasurer of Virginia	30,367,684
State non-arbitrage program (SNAP)	7,371,878
Total cash and cash equivalents	41,647,458
Investments:	
Collateral held for securities lending	-
Mutual funds (level 1 inputs) and Money Market	225,874
Total investments	225,874
Total cash, cash equivalents and investments	$ 41,873,332

Level 1 inputs are quoted prices in active markets for identical assets.

Christopher Newport University Education 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, 2017.

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 estimated fair value determined at the date of the combined statement of financial position. Because some investment valuations at June 30 are not available on a timely basis, certain private equity and hedge funds are valued using March 31 valuations, adjusted for any purchase or sale activity in the fourth fiscal quarter. In addition, due to the absence of readily determinable market values, management estimates fair value based on a broad range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, comparable private and public investments used to determine enterprise value, overall financial condition, current and projected operating performance and discounted cash flow models. Because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. Management believes the carrying value of these investments is a reasonable estimate of their fair value at June 30. Income from investments, including realized gains and losses, is accounted for as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the nature of donor restrictions.

Summarized below are investments recorded at fair value:

Mutual Funds	$ 2,262,558
Private Equity Funds	4,625,682
Hedge Funds	21,746,590
Total investments	$ 28,634,830

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

Unrestricted	$ 238,374
Temporarily restricted	7,729,005
Permanently Restricted	20,667,451
Total investments	$ 28,634,830

Fair Value of Financial Instruments

The Foundations' have adopted the provisions of FASB ASC 820-10, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. FASB ASC 820-10 expands disclosures about instruments measured at fair value.

ASC 820-55 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument.
Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The Foundations have no Level 2 financial instruments.

The following table presents the financial instruments carried at fair value on a recurring basis as of June 30, 2017 by ASC 820-55 valuation hierarchy defined above:

	Level 1	Level 3	Total Fair Value
Assets:			
Mutual Funds	$ 2,262,558	$ -	$ 2,262,558
Charitable Remainder Trusts	-	1,185,835	1,185,835
Total assets in the fair value hierarchy	$ 2,262,558	$ 1,185,835	3,448,393
Investments measured at net asset value			26,372,272
Total assets at fair value			$ 29,820,665
Liabilities:			
Fair Value of Hedges	$ -	$ 1,047,369	$ 1,047,369
Total liabilities at fair value	$ -	$ 1,047,369	$ 1,047,369

Following is a description of the Foundations' valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Level 3 consists of charitable remainder trusts. Investments measured at net asset value are valued based on the net asset value reported by such investment vehicles. As a result of adopting ASU 2015-07, the investments in investment vehicles are excluded from the fair value hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the organizations believe its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The fair value measurements of investments in entities that calculate net asset value as of June 30, 2017 are disclosed below:

	Fair Value	Unfunded Commitments	Redemption Frequency (If Eligible)	Redemption Notice Period
Global Equity	$ 10,779,210	$ -	Quarterly	105 Days
Hedged Equity	4,814,856	-	Quarterly	105 Days
Absolute Strategies	4,298,278	-	Quarterly	105 Days
Fixed Income	1,854,246	-	Quarterly	105 Days
Private Investments	2,801,275	2,558,720	Not Applicable	None
Real Estate	1,824,407	122,858	Not Applicable	None
Total	$ 26,372,272	$ 2,681,578		

The Global Equity asset class seeks to outperform the broad equity markets over a full market cycle by providing relative downside protection and participating in upward-moving markets. That said, it should be expected that the strategies implemented in this asset class are generally unhedged. Capital is allocated across the globe in those countries, market capitalizations and asset classes that offer value with a primary objective of capital appreciation.

The Hedged Equity asset class seeks to generate equity-like returns with significantly less volatility over a full market cycle. Managers generally maintain long and short positions, primarily in equities across sectors, geographies and market capitalizations.

The Absolute Strategies asset class seeks to generate absolute investment returns with low volatility. Generally speaking, there are two primary components to the asset class: credit and multi-strategy. Credit managers include publicly and privately traded credit and credit-related securities. Multi-strategy managers allocate capital opportunistically across a broad array of investments including equities, credit, commodities, structured products, currencies, etc.

The Fixed Income asset class seeks to exhibit a low correlation with other asset classes and serve as a hedge against inflation. Investments may include, but are not limited to, U.S. dollar- denominated bonds; including U.S. Treasury and Agency securities, mortgage-backed and asset- backed securities; U.S. and non-U.S. domiciled corporations; and sovereign and supranational issuers.

The Private Investments and Real Estate asset classes seek to provide a portfolio with diversification and an illiquidity premium. Investment opportunities are sought within the sub-strategies of private equity, private real estate and private real assets.

The following table is a roll forward of the combined statements of financial position amounts for charitable remainder trusts classified by the Organizations within Level 3 of the valuation hierarchy defined above as of June 30, 2017:

Fair value, beginning of year	$ 1,066,710
Realized and unrealized gains	119,125
Fair value, end of year	$ 1,185,835

The following table is a roll forward of the combined statements of financial position amounts for fair value of hedges classified by the Organizations within Level 3 of the valuation hierarchy defined above as of June 30, 2017:

Fair value, beginning of year	$ 1,982,834
Realized and unrealized gains	(935,465)
Fair value, end of year	$ 1,047,369

The fair value of the interest rate swap agreement is the estimated amount the Organizations would receive or pay to terminate the agreement as of the reporting date. As part of the $26.9 million bond financing entered into in July 2004, an interest rate swap was obtained to fix the rate at 3.73% rather than the stated rate of 67% of LIBOR. The swap expires on May 1, 2019.

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

3. ACCOUNTS RECEIVABLE

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

Student tuition and fees	$ 107,734
Auxiliary enterprises	247,747
Federal, state, private grants and contracts	347,362
Other activities	225,408
Gross receivables	928,251
Less: Allowance for doubtful accounts	(71,096)
Net accounts receivable	$ 857,155

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2017:

Virginia College Building Authority 21st Century Bonds	$ 2,732,379
Total Due from Commonwealth of Virginia	$ 2,732,379

Christopher Newport University Education 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, 2017, pledges receivable are as follows:

Receivable in less than one year	$ 2,720,442
Receivable in one to five years	8,311,537
Receivable in more than five years	7,448,952
Total unconditional pledges	18,480,931
Less discount to net present value	(3,172,829)
Less allowances for uncollectible pledges receivable	(844,088)
Net unconditional pledges receivable	$ 14,464,014

4. CAPITAL ASSETS

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

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 19,478,866	$ 559,361	$ -	$ 20,038,227
Construction in progress	27,390,061	24,093,268	(28,860,663)	22,622,666
Total nondepreciable capital assets	46,868,927	24,652,629	(28,860,663)	42,660,893
Depreciable capital assets:				
Buildings	516,140,653	27,761,712	(119,737)	543,782,628
Infrastructure	13,768,350	324,207	-	14,092,557
Equipment	19,543,367	1,200,380	(186,032)	20,557,715
Intangibles	4,458,776	641,069	-	5,099,845
Other improvements	32,158,666	147,903	-	32,306,569
Library materials	12,767,837	504,592	(9,913)	13,262,516
Total depreciable capital assets	598,837,649	30,579,863	(315,682)	629,101,830
Less accumulated depreciation:				
Buildings	90,974,130	11,538,487	-	102,512,617
Infrastructure	7,391,007	1,146,732	-	8,537,739
Equipment	10,405,038	1,825,194	(158,944)	12,071,288
Intangibles	3,815,975	615,718	-	4,431,693
Other improvements	13,470,499	1,403,023	-	14,873,522
Library materials	11,419,768	440,276	-	11,860,044
Total accumulated depreciation	137,476,417	16,969,430	(158,944)	154,286,903
Depreciable capital assets, net	461,361,232	13,610,433	(156,738)	474,814,927
Total capital assets, net	$ 508,230,159	$ 38,263,062	$ (29,017,401)	$ 517,475,820

During fiscal year 2017, the University incurred interest charges totaling $5,806,463. Of this amount, $1,280,753 was capitalized as part of the cost of construction and $4,525,710 was expensed.

Christopher Newport University Education and Real Estate Foundations - Capital Assets

Land, buildings, furniture, equipment and collections for 2017 are summarized as follows:

Land	$ 19,863,100
Buildings	110,433,511
Furniture and equipment	2,583,828
Held for sale	19,600
Construction in progress	980,582
	133,880,621
Less accumulated depreciation	(26,611,903)
	$ 107,268,718

Depreciation charged to expense totaled $3,791,235 in 2017. Interest capitalized was $0 in 2017.

5. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES:

The composition of deferred outflows and inflows of resources at June 30, 2017 is summarized below:

Loss on debt defeasance (see Note 8)	$ 4,435,938
Pension related (see Note 12)	9,224,358
Total deferred outflows of resources	$ 13,660,296
Gain on debt defeasance (see Note 8)	$ 1,478,955
Pension related (see Note 12)	1,219,000
Total deferred inflows of resources	$ 2,697,955

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

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

Employee salaries, wages and fringe benefits payable	$ 8,715,866
Vendors and suppliers accounts payable	9,757,312
Retainage payable	763,381
Total accounts payable and accrued liabilities	$ 19,236,559

7. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2017 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$107,208,859	$23,024,638	$33,384,110	$ 96,849,387	$ 8,370,000
Treasury-general obligation bonds	77,648,856	826,421	6,204,579	72,270,698	4,962,018
Installment purchases	284,825	1,250,355	338,668	1,196,512	365,883
Total long-term debt	185,142,540	25,101,414	39,927,357	170,316,597	13,697,901
Accrued compensated absences	1,965,770	1,992,876	1,929,867	2,028,779	1,588,386
Net pension liability (see Note 12)	42,613,000	4,213,000	-	46,826,000	-
Total long-term liabilities	$229,721,310	$31,307,290	$41,857,224	$219,171,376	$15,286,287

8. LONG TERM DEBT

On behalf of The University, the Commonwealth 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.

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2017
General obligation bonds:			
Residence Halls:			
Series 2009C	4.0	2021	$ 1,840,947
Series 2010A-1 & 2010A-2	2.75-4.7	2040	30,005,000
Series 2011A	2.2-5.0	2021	1,900,000
Series 2014B	5.0	2019	1,910,917
Series 2014B	5.0	2020	4,563,051
Series 2015A	3.0-5.0	2035	18,225,000
Series 2016B	5.0	2021	600,000
Dining Services:			
Series 2015A	3.0-5.0	2035	8,655,000
Total general obligation bonds			$ 67,699,915
Revenue bonds:			
Athletics:			
Series 2007A	5.0	2038	$ 175,000
Series 2007B	4.25-4.5	2019	1,460,000
Series 2007B	4.0-4.5	2020	1,116,182
Series 2007B	4.0-4.5	2020	251,609
Series 2009A	3.0-5.0	2021	410,000
Series 2009B	5.0	2020	1,340,000
Series 2010B	5.0	2021	290,000
Series 2010B	5.0	2023	290,000
Series 2010B	5.0	2023	1,300,000
Series 2012A	5.0	2024	240,000
Series 2014A	5.0	2030	3,055,000
Series 2014B	4.0-5.0	2026	1,680,000
Series 2015B	3.0-5.0	2029	1,600,000
Series 2016A	3.0-5.0	2038	3,425,000
Series 2016A	3.0-5.0	2040	13,815,000
Dining Services:			
Series 2007B	4.0-4.5	2020	215,000
Series 2007B	4.0-4.5	2020	61,564
Series 2010B	5.0	2022	155,000
Series 2010B	5.0	2023	60,000
Series 2011A	5.0	2022	2,320,000
Student Union:			
Series 2007B	4.0-4.5	2020	1,710,409
Series 2010B	5.0	2023	1,995,000
Series 2012A	2.75-5.0	2026	12,040,000
Series 2014B	5.0	2024	905,000
Series 2016A	3.0-5.0	2027	485,000

Description	Interest Rates	Fiscal Year Maturity	Outstanding Balance at June 30, 2017
Parking Decks/Surface:			
Series 2007B	4.0-4.5	2020	1,632,784
Series 2010B	5.0	2023	1,895,000
Series 2011A	5.0	2022	1,635,000
Series 2012A	3.0-5.0	2025	965,000
Series 2012B	5.0	2023	615,000
Series 2014B	4.0	2026	150,000
Residence Halls:			
Series 2007B	4.0-4.5	2020	4,657,451
Series 2010A-1	5.0	2018	220,000
Series 2010B	5.0	2023	5,415,000
Land Acquisition/Other:			
Series 2009A	3.0-5.0	2021	1,275,000
Series 2009A	3.0-5.0	2021	275,000
Series 2009B	5.0	2020	430,000
Series 2009B	5.0	2020	125,000
Series 2010A-1	3.75-5.6	2041	4,145,000
Series 2011A	5.0	2022	1,700,000
Series 2014A	5.0	2030	3,300,000
Series 2015B	3.0-5.0	2029	5,000,000
Series 2015B	3.0-5.0	2029	1,050,000
Series 2016A	3.0-5.0	2030	2,010,000
Series 2016A	3.0-5.0	2030	550,000
Total revenue bonds			$ 87,439,999
Total bonds payable			$ 155,139,914
Unamortized premiums - GOB bonds			$ 4,570,783
Unamortized premiums - VCBA bonds			9,409,388
Total unamortized premiums			$ 13,980,171
Installment purchases			$ 1,196,512
Total long-term debt			$ 170,316,597

Long-term debt matures as follows:

	Principal	Interest
2018	$ 13,697,899	$ 6,685,762
2019	13,972,663	6,065,273
2020	12,591,092	5,443,490
2021	13,331,808	4,855,016
2022	11,358,670	4,227,960
2023-2027	37,029,294	15,181,547
2028-2032	25,640,000	8,585,933
2033-2037	19,795,000	3,906,870
2038-2042	8,920,000	719,745
	$ 156,336,426	$ 55,671,596

Defeasance of Debt

In July of 2016, the VCBA issued $231,880,000 of Educational Facilities Revenue Refunding Bonds, Series 2016A, with interest rates ranging from 3.0% to 5.0%. The sale of these bonds enabled the University to advance refund $23,455,000 of debt outstanding on the Series 2006A, 2007A and 2009B 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 2006A, 2007A and 2009B bonds. The reacquisition price of the refunded debt was $22,949,000.

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 trust assets and liabilities associated with these bonds are not included in the University's financial statements.

The advance refunding resulted in the recognition of a deferred loss of $353,000 for portions of 2006A and 2009B that will be amortized over the next thirteen years, and a deferred gain of $1,545,000 for portions of 2007A and 2009B that is being amortized over the next twenty-three years. The aggregate debt service payments, principal and interest, will be decreased by $8,927,780 over the next twenty-three years which represents the maturity time of the old debt. This resulted in a net present value savings on Series 2006A of $64,462 based on a 1.730% discount rate, on Series 2007A of $1,598,179 based on a 2.057% discount rate and Series 2009B of $5,432,716 based on a discount rate of 1.849%.

In November of 2016, the Commonwealth of Virginia issued $117,075,000 of General Obligation Refunding Bonds, Series 2016B, with interest rates ranging from 3.0% to 5.0%. The sale of these bonds enabled the University to advance refund $805,000 of debt outstanding on the Series 2006A bond issue, which had interest rates ranging from 4.0% to 5.0%. This refunding represents a defeasance of the outstanding debt on the Series 2006A bonds. The reacquisition price of the refunded debt was $821,000.

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 trust assets and liabilities associated with these bonds are not included in the University's financial statements.

The advance refunding resulted in the recognition of a deferred loss of $3,000 for Series 2006A that will be amortized over the next four years, which represents the maturity of the new debt. The aggregate debt service payments, principal and interest, will be decreased by $56,962 over the next four years which represents the maturity time of the new debt. This resulted in a net present value savings on Series 2006A of $55,420 based on a 1.002% discount rate.

For fiscal year 2017 the deferred outflow of resources from the amortization of losses on debt defeasance was $4,435,938 and the deferred inflow of resources from the amortization of gains on debt defeasance was $1,478,955.

At June 30, 2017, $32,365,000 of the bonds considered defeased remain outstanding.

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

Notes Payable

Notes payable at June 30, 2017 consists of the following:

Old Point National Bank, secured by deed of trust on leasehold interest and assignment of rents and leases. At June 30, 2017, interest is at the Wall Street Journal (WSJ) prime rate less 0.25% with a maximum rate of 5.75%. Principal payments of $13,951 are due monthly and the note matures August 2029.	$ 1,509,482
Towne Bank, secured by deed of trust on 12270 Warwick Boulevard, interest due monthly at the WSJ prime rate plus 0.5%, with a maximum rate of 6.5%. Principal and interest payments of $14,238 beginning August 2012, balance due July 2032.	1,969,335

Towne Bank, secured by deed of trust on leasehold interest and assignment of rents and leases on Hidenwood Shopping Center located at 2 Hidenwood Boulevard, 12423, 12435, and 12437 Warwick Boulevard, interest due monthly at the WSJ prime rate plus 0.5%. Interest only payments began November 2013, note payable is due December 2019. The maximum amount of the note may not exceed $12,354,479.	12,315,352
CGA Mortgage Capital, secured by a deed of trust on leasehold interest and assignment of rents and leases on Riverside Medical Center located at 12422 Warwick Boulevard and 4 and 8 Glendale Road, interest due monthly at 4.738%. Principal and interest payments of $74,875 beginning December 2013, balance due December 2033.	10,272,506
Union Bank and Trust, unsecured, interest due monthly at the WSJ prime rate minus 0.25%. Principal is due annually each August beginning in 2016 at various amounts between $42,000 and $52,600, balance is due June 2025.	1,304,750
Total	$ 27,371,425

During 2017 and 2016 the Foundations have available two lines of credit facilities of $4,500,000 and $2,000,000 with TowneBank. The lines of credit mature on January 10, 2018. The lines are unsecured and are subject to certain financial covenants. Borrowings under these facilities accrue interest at the Wall Street Journal Prime Rate less 0.25% with a minimum rate of 3.00%. This amount was 3.75% at June 30, 2017 and 3.00% at June 30, 2016. The credit facilities may be used to finance any lawful activity of the Foundations.

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. The bonds were refinanced in June 2016 at a fixed rate of 2.68%. Prior to the refinance, the bonds were financed at 64% of LIBOR plus 0.82%. At June 30, 2017, the balance outstanding on the bonds was $2,558,119. The bonds mature in June 2026.

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. In December 2013, the bonds were refinanced through the Industrial Development Authority of Poquoson City at a fixed interest rate of 1.69%. At June 30, 2017, the balance outstanding on the bonds was $6,135,355. The bonds mature in December 2018.

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. In December 2013, the bonds were refinanced with the Industrial Authority of Richmond County at a fixed interest rate of 1.69%. At June 30, 2017, the balance outstanding on the bonds was $3,496,126. The bonds mature in December 2018.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, 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. The bonds were payable interest only until November 2005 at 67% of LIBOR, at which time principal curtailments began. At June 30, 2017, the balance outstanding on the bonds was $20,405,000. 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, Virginia, 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 June 2015, the bonds were refinanced with the Economic Development Authority of Newport News at a variable interest rate of 65% of LIBOR plus 1.5% with a cap of 3.5% until June 1, 2022 and 3.82% thereafter. At June 30, 2017, the balance outstanding on the bonds was $6,597,000. The bonds mature in August 2036.

In November 2013, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, under which the Authority issued $41.29 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 Rappahannock Residence Hall. The interest rate on the bonds is 65% of LIBOR plus 1.6% with a floor of 1.92% and a cap of 4.5%. At June 30, 2017, the balance outstanding on the bonds was $34,628,278. The bonds mature in November 2043.

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.

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

Year	Amount
2018	$ 3,702,049
2019	24,662,363
2020	3,500,715
2021	3,696,588
2022	3,946,165
Thereafter	61,683,423
	$ 101,191,303

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 780:	
Educational and general programs	$ 28,055,607
Student financial assistance	4,875,601
Supplemental adjustments:	
Other central appropriation adjustments	200,175
Financial aid adjustments	59,755
Adjusted Appropriation	$ 33,191,138

10. COMMITMENTS

At June 30, 2017, the University was committed to construction contracts totaling approximately $54,769,173 of which $33,966,536 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 fifteen year lease agreement with the Foundations for the lease of certain properties to be used for the purposes of student housing and administrative offices. In August 2017, the lease was extended for an additional five year term.

Rental expense for the fiscal year ended June 30, 2017 was $8,859,674. The University has, as of June 30, 2017 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2018	$ 8,868,562
2019	8,562,520
2020	8,724,274
2021	8,898,760
2022	9,076,735
2023	771,522
Total	$ 44,902,373

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 Prudent Management of Institutional Funds Act of 2006, Code of Virginia, Title 64.2, Chapter 11, 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. For the Foundations, the net appreciation on the investments on donor-restricted endowments was an overall gain of $3,325,932 for the year ended June 30, 2017.

12. RETIREMENT PLANS

General Information about the Pension Plan

Plan Description

All full-time, salaried permanent employees of state agencies are automatically covered by the VRS State Employee Retirement Plan or the VaLORS Retirement Plan upon employment, unless they are eligible and choose to enroll in the optional retirement program described below under "Optional Retirement Plans". These plans are administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

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

RETIREMENT PLAN PROVISIONS BY PLAN STRUCTURE		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • State employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Members of the Virginia Law Officers' Retirement System (VaLORS) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions State employees, excluding state elected officials, and optional retirement plan participants, contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** State employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **<u>Defined Benefit Component:</u>** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

		<u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>Defined Contributions Component:</u>** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1 **<u>Defined Contribution Component:</u>** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **VaLORS:** The retirement multiplier for VaLORS employees is 1.70% or 2.00%.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **VaLORS:** The retirement multiplier for VaLORS employees is 2.00%.	**Service Retirement Multiplier** **<u>Defined Benefit Component:</u>** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Not applicable.
Normal Retirement Age **VRS:** Age 65. **VaLORS:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **VaLORS:** Same as Plan 1.	**Normal Retirement Age** **<u>Defined Benefit Component:</u>** **VRS:** Same as Plan 2. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of

VaLORS: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**VaLORS:** Same as Plan 1.	creditable service or when their age and service equal 90. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **VaLORS:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **VaLORS:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. **VaLORS:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **<u>Eligibility:</u>** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **<u>Eligibility:</u>** Same as Plan 1. **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable. **<u>Eligibility:</u>** Same as Plan 1 and Plan 2. **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. **Purchase of Prior Service** Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits. **Purchase of Prior Service** Same as Plan 1.	**Disability Coverage** State employees (including Plan 1 and Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. **Purchase of Prior Service** **<u>Defined Benefit Component:</u>** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or

period of service first. Members also may be eligible to purchase periods of leave without pay.		return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 state employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. The University's contractually required contribution rate for the year ended June 30, 2017 was 13.49% of covered employee compensation for employees in the VRS State Employee Retirement Plan. For employees in the VaLORS Retirement Plan, the contribution rate was 21.05% of covered employee compensation. These rates were based on actuarially determined rates from an actuarial valuation as of June 30, 2015. The contribution rate for the VRS State Employee Retirement Plan also reflects the transfer in June 2016 of $162,406,273 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The contribution rate for the VaLORS Retirement Plan also reflects the transfer in June 2016 of $16,491,559 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the University to the VRS State Employee Retirement Plan were $3,696,487 and $3,708,521 for years ended June 30, 2017 and June 30, 2016, respectively. Contributions from the University to the VaLORS Retirement Plan were $152,871 and $157,970 for the year ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the University reported a liability of $44,560,000 for its proportionate share of the VRS State Employee Retirement Plan Net Pension Liability and a liability of $2,266,000 for its proportionate share of the VaLORS Retirement Plan Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The University's proportion of the Net Pension Liability was based on the University's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the University's proportion of the VRS State Employee Retirement Plan was 0.67610% as compared to 0.66479% at June 30, 2015. At June 30, 2016, the University's proportion of the VaLORS Retirement Plan was 0.29275% as compared to 0.26894% at June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of $4,735,000 for the VRS State Employee Retirement Plan and $428,000 for the VaLORS Retirement Plan. Since there was a change in proportionate share between June 30, 2015 and June 30, 2016, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	VRS Deferred Outflows of Resources	VRS Deferred Inflows of Resources
Differences between expected and actual experience	$ 191,000	$ 1,213,000
Net difference between projected and actual earnings on pension plan investments	2,840,000	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,972,000	-
Employer contributions subsequent to the measurement date	3,696,487	-
Total	$ 8,699,487	$ 1,213,000

	VaLORS Deferred Outflows of Resources	VaLORS Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,000	$ 6,000
Net difference between projected and actual earnings on pension plan investments	93,000	-
Change in assumptions	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	269,000	-
Employer contributions subsequent to the measurement date	152,871	-
Total	$ 524,871	$ 6,000

$3,696,487 for the VRS Retirement Plan and $152,871 for the VaLORS Retirement Plan reported as deferred outflows of resources related to pensions resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	VRS Retirement Plan	VaLORS Retirement Plan
FY 2018	$ (796,000)	$ (173,000)
FY 2019	(324,000)	(87,000)
FY 2020	(1,507,000)	(69,000)
FY 2021	(1,163,000)	(37,000)
	$ (3,790,000)	$ (366,000)

Actuarial Assumptions

The total pension liability for the VRS State Employee and VaLORS Retirement Plan was based on an actuarial valuation as of June 30, 2015, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Inflation	2.5 percent
Salary increases, including Inflation	3.5 percent – 5.35 percent (3.5 - 4.75 for VaLORS)
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

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

Mortality rates:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 2 years (5 years for VaLORS) and females were set back 3 years.

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

VRS State Employee Retirement Plan

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

VaLORS Retirement Plan

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

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS State Employee Retirement Plan and the VaLORS Retirement Plan are as follows (amounts expressed in thousands):

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

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement 67 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

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

The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

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

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
CNU proportionate share of the VRS State Employee Retirement Plan Net Pension Liability	$62,710,000	$44,560,000	$29,322,000

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
CNU proportionate share of the VaLORS Retirement Plan Net Pension Liability	$3,033,000	$2,266,000	$1,634,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS State Employee Retirement Plan's Fiduciary Net Position or the VaLORS Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in Optional Retirement Plans, as authorized by the *Code of Virginia,* rather than the VRS retirement plan. The Optional Retirement Plans are defined contribution plans to which the University contributes an amount established by statute. 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). The employer contribution rates will be 10.4% for Plan 1 participants (hired prior to July 1, 2010) and 8.5% for Plan 2 participants (hired on or after July 1, 2010), with Plan 2 participants continuing to contribute 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 $2,182,494 for the year ended June 30, 2017. Contributions were calculated using the base salary amount of approximately $23,098,798.

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 $219,595 for 2017.

13. POSTEMPLOYMENT BENEFITS

The University participates in postemployment benefit programs that are sponsored by the Commonwealth and administered by the Virginia Retirement System. These programs include the Group Life Insurance Program, Virginia Sickness and Disability Program, Retiree Health Insurance Credit Program and Line of Duty Act Program.

The Group Life Insurance Program provides members basic group life insurance upon employment. In addition to benefits provided to active members during employment, the Virginia Sickness and Disability Program provides inactive members with long-term disability and long-term care benefits. The Retiree Health Insurance Credit Program provides members health insurance credits to offset the monthly health insurance premiums for retirees who have at least 15 years of service. The Line of Duty Act Program provides death and health insurance reimbursement benefits to eligible state employees, such as campus police, who die or become disabled as a result of the performance of their duties as a public safety officer. The University is required to contribute to the costs of participating in these programs.

The University also participates in the Pre-Medicare Retiree Healthcare Plan, which is sponsored by the Commonwealth and administered by the Department of Human Resources Management. The plan provides the option for retirees who are not yet eligible to participate in Medicare to participate in the Commonwealth's healthcare plan for its active employees. The University does not pay a portion of the retirees' healthcare premium, however, since both active employees and retirees are included in the same pool for purposes of determining health insurance rates, this generally results in a higher rate for active employees. Therefore, the University effectively subsidizes the costs of the participating retirees' healthcare through payment of the employer's portion of premiums for active employees.

Additional information related to all of these plans is available 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, 2017, 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 for the fiscal year ended June 30, 2017 totaled $735,769. 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 Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2017 cash used by the program totaled $25,080,329.

17. SUBSEQUENT EVENTS

Christopher Newport University Education and Real Estate Foundations Subsequent Event

The Foundations have available two lines of credit facilities of $4,500,000 and $2,000,000 with TowneBank. The lines of credit matured on January 10, 2018 but were extended until July 10, 2018. The lines are unsecured and are subject to certain financial covenants. Borrowings under these facilities accrue interest at the Wall Street Journal Prime Rate less 0.25% with a minimum rate of 3.00%. This amount was 3.75% at June 30, 2017. The credit facilities may be used to finance any lawful activity of the Foundations.

CHRISTOPHER NEWPORT UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION (RSI)
AS OF JUNE 30, 2017

Schedule of Christopher Newport University's Share of Net Pension Liability
VRS State Employee and VaLORS Retirement Plans
For the Year Ended June 30, 2017, 2016 and 2015*

		2017	2016	2015
Employer's Proportion of the Net Pension				
Liability (Asset)	State Employees	0.67%	0.66%	0.62%
	VaLORS Employees	0.29%	0.27%	0.24%
Employer's Proportionate Share of the Net Pension				
Liability (Asset)	State Employees	$ 44,560,000	$ 40,702,000	$ 34,952,000
	VaLORS Employees	2,266,000	1,911,000	1,621,000
TOTAL		$ 46,826,000	$ 42,613,000	$ 36,573,000
Employer's Covered Payroll				
	State Employees	$ 26,521,211	$ 25,863,124	$ 23,839,726
	VaLORS Employees	1,005,098	903,094	842,938
TOTAL		$ 27,526,309	$ 26,766,218	$ 24,682,664
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its				
Employee Payroll	State Employees	168.02%	157.37%	146.61%
	VaLORS Employees	225.45%	211.61%	192.30%
Plan Fiduciary Net Position as a Percentage of				
the Total Pension Liability	State Employees	71.29%	72.81%	74.28%
	VaLORS Employees	61.01%	62.64%	63.05%

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

Schedule of Employer Contributions
For the Year Ended June 30, 2017

State Employees:

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2017	$ 3,696,487	$ 3,696,487	$ -	$ 26,984,837	13.70%
2016	3,708,521	3,708,521	-	26,521,211	13.98%
2015	3,113,867	3,113,867	-	25,863,124	12.04%
2014	2,111,836	2,111,836	-	23,839,726	8.86%
2013	2,016,265	2,016,265	-	23,472,417	8.59%
2012	1,824,568	1,824,568	-	21,730,079	8.40%
2011	2,352,642	2,352,642	-	21,009,959	11.20%
2010	1,848,835	1,848,835	-	20,544,885	9.00%
2009	2,355,026	2,355,026	-	21,055,949	11.18%
2008	2,174,108	2,174,108	-	19,331,143	11.25%

Schedule of Employer Contributions
For the Year Ended June 30, 2017

VaLORS Employees:

Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Employee Payroll
2017	$ 152,871	$ 152,871	$ -	$ 978,964	15.62%
2016	157,970	157,970	-	1,005,098	15.72%
2015	133,272	133,272	-	903,094	14.76%
2014	105,329	105,329	-	842,938	12.50%
2013	102,789	102,789	-	820,404	12.53%
2012	77,101	77,101	-	641,626	12.02%
2011	65,201	65,201	-	605,309	10.77%
2010	96,688	96,688	-	626,294	15.44%
2009	122,141	122,141	-	641,893	19.03%
2008	118,728	118,728	-	632,497	18.77%

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is still a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

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

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

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

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 4, 2018

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Christopher Newport University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2017, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 11, the Schedule of Christopher Newport University's Share of Net Pension Liability on page 48, the Schedule of Employer Contributions on page 49, and the Notes to Required Supplementary Information on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2018, 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 in considering the University's internal control over financial reporting and compliance.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

LCW/alh

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