CHRISTOPHER NEWPORT UNIVERSITY

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

FINANCIAL STATEMENTS

For the Year Ended June 30, 2009

- TABLE OF CONTENTS –

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2009, with comparative numbers for the year ended June 30, 2008. This presentation includes highly summarized data, and should be read in conjunction with the accompanying financial statements and notes to financial statements. University management is responsible for all of the financial information presented, including the discussion and analysis.

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

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

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of this statement is to present the financial position of the University at June 30, 2009. The data presented indicates the assets available to continue the University's operations as well as show the amounts the institution owes to vendors and creditors.

Statement of Net Assets

	June 30, 2009	June 30, 2008	Variance	Percent
Assets:				
Current assets	$ 20,328,232	$ 16,062,262	$ 4,265,970	27%
Capital assets, net	274,478,162	246,127,938	28,350,224	12%
Other noncurrent assets	12,720,380	26,814,278	(14,093,898)	(53%)
Total assets	307,526,774	289,004,478	18,522,296	6%
Liabilities:				
Current liabilities	23,492,692	18,283,924	5,208,768	28%
Noncurrent liabilities	116,974,204	109,466,760	7,507,444	7%
Total liabilities	140,466,896	127,750,684	12,716,212	10%
Net assets:				
Invested in capital assets, net of related debt	160,552,867	137,834,270	22,718,597	16%
Restricted, nonexpendable	-	48,282	(48,282)	(100%)
Restricted, expendable	-	16,278,496	(16,278,496)	(100%)
Unrestricted	6,507,011	7,092,746	(585,735)	(8%)
Total net assets	$ 167,059,878	$ 161,253,794	$ 5,806,084	4%

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of debt," provides the University's equity in property, plant and equipment owned by the institution. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. Unrestricted net assets are available to the University for any lawful purpose of the institution.

The University's total assets and total liabilities increased by $18.5 million and $12.7 million, respectively. Specifically,

- Current assets increased by $4.3 million primarily due to the increase in due from Commonwealth for the Virginia College Building Authority 21st Century Bonds totaling $4.5 million. The increase relates to expenses for work completed or goods received prior to June 30, 2009 that were due from bond proceeds and had not yet been received. $1.2 million of this figure is related to the construction of the new Science building and $3.3 million is related to the renovation and expansion of Gosnold Hall.
- Net Capital assets increased by $28.3 million primarily due to the purchase of 38 properties previously owned by the Christopher Newport University Real Estate Foundation (CNUREF) for $9.2 million, the increase in Construction in Progress by $21.5 million. (The $21.5 increase consists of $16.4 million for the renovation and expansion of Gosnold Hall, $2.9 million for the construction of the new Science building and $1.3 million for the Freeman Center expansion. The remaining $900 thousand represents work on various other capital projects.) Other projects finished during the year were the Mariner's museum in the amount of $2.5 million, an Athletics expansion for $1.1 million plus other improvements and equipment totaling $3.4 million. These increases of $37.7 million less depreciation expense of $8.7 million and other reductions of $652 thousand equal the net increase of $28.3 million.
- Other Noncurrent assets decreased by $14.1 million primarily due to the decrease in Appropriations available because the Commonwealth reduced the University's Capital appropriation for Academic buildings in fiscal year 2009 with the intention to replace the funding with bonds to be issued in fiscal year 2010.
- Current liabilities increased by $5.2 million primarily due to the increase in accounts payable for vendors and retainage at year end totaling $3.0 million, a $1.0 million increase in obligations under securities lending, an increase in the current portion of long-term liabilities of $600 thousand due to a bond issue in 2009 and an increase of $623 thousand in deposits held for others primarily due to the agency funds' cash balances held by the University.
- Noncurrent liabilities increased by $7.5 million due to the 2009A Bond issue of $13.8 million representing $2.9 million on expansion of Athletic facilities II, $1.9 million on construction of the Ratcliff Hall addition, $9.0 million on Land acquisition, plus a Refunding Bonds Series 2008B of Series 1998 for $1.7 million less $5.9 million in principal payments made and Series 1998 refunding debt of $2.1 million.

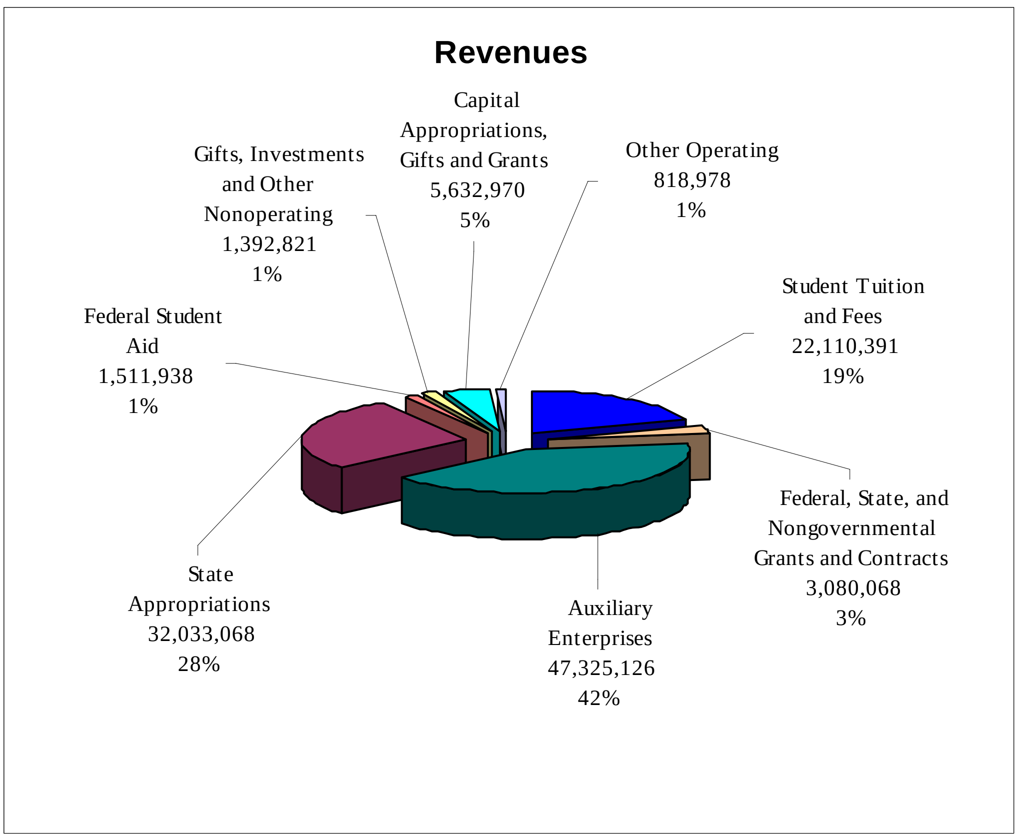
The combination of increase in total assets and increase in total liabilities resulted in an increase in net assets at June 30, 2009 of $5.8 million.

Statement of Revenues, Expenses and Change in Net Assets

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

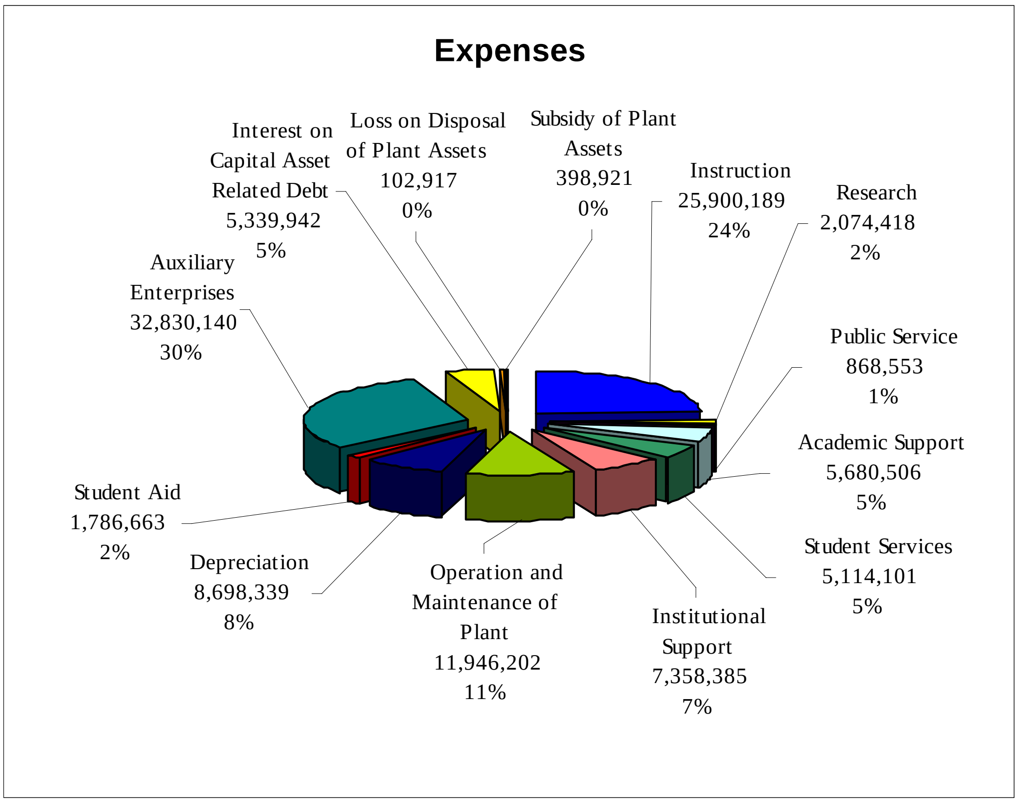
Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2009	June 30, 2008	Variance	Percent
Operating revenues	$ 73,334,563	$ 71,451,307	$ 1,883,256	3%
Operating expenses	102,257,496	99,557,129	2,700,367	3%
Operating loss	(28,922,933)	(28,105,822)	(817,111)	3%
Non-operating revenues, net	29,494,968	27,348,278	2,146,690	8%
Net other revenues (expenses)	5,234,049	2,149,029	3,085,020	144%
Increase in net assets	5,806,084	1,391,485	4,414,599	317%
Net assets beginning of year	161,253,794	159,862,309	1,391,485	1%
Net assets end of year	$ 167,059,878	$ 161,253,794	$ 5,806,084	4%



Generally, operating revenues are received for providing goods and services to the students and other constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University. Salaries and fringe benefits for faculty and staff are the largest type of operating expense. Non-operating revenues are revenues received for which goods and services are not provided. The University's state appropriation is non-operating revenue because it is provided by the state legislature without the legislature directly receiving commensurate goods and services for these revenues. The graph above is based on the Statement of Revenues, Expenses, and Change in Net Assets for all revenue items.

Operating revenues increased by $1.9 million and includes tuition and fees, auxiliary enterprises revenues and other operating revenues. Tuition and fee revenues increased by $980 thousand due in part to the increase in the tuition rates. In-State increased by $160 or 4.0% and Out-of-State tuition increased by $440 or 4.0%. Grants and contracts increased by $287 thousand due to additional grants awarded in fiscal year 2009. Auxiliary enterprises increased by $172 thousand due primarily to the increase in the comprehensive fee by $340. Other operating revenue increased by $445 thousand due to a reclassification of scholarship revenue received from the Christopher Newport University Educational Foundation (CNUEF) previously recorded in tuition and fees less prior year refund revenue and rental fees received in fiscal year 2008 not received in fiscal year 2009.



Operating expenses increased by $2.7 million from the previous year primarily due to the following:

- Instructional expenses increased by $2.1 million; $1.6 million for salaries and wages and $482 thousand for services and supplies.
- Research expenses increased by $493 thousand; $242 thousand for salaries and wages, $11 thousand for fringe benefits, $155 for plant and equipment and $85 thousand for services and supplies.
- Academic support decreased by $2.0 million; $903 thousand decrease for salaries and wages, a decrease in services and supplies of $2.0 million and an increase in plant and equipment of $926 thousand.
- Student services increased by $356 thousand; due to increases of $146 thousand in wages and salaries, $220 thousand in services and supplies, $17 thousand in fringe benefits, and decreases in scholarships by $3 thousand and plant and equipment by $24 thousand.
- Operation and maintenance of plant increased by $4.5 million; salaries and wages decreased by $136 thousand, services and supplies decreased by $184 thousand, utilities increased by $158 thousand and plant and equipment increased by $4.7 million consisting primarily of renewals and replacements of plant assets.
- Depreciation expense increased by $1.9 million due to the purchase of 38 properties previously owned by the CNUREF, the capitalization of the Mariner's museum, the Athletics expansion and a general increase in plant and equipment.
- Student aid increased by $783 thousand primarily due to the disbursement of the foundation scholarships.
- Auxiliary enterprises decreased by $5.4 million primarily due to a decrease in services and supplies by $6.9 million due to the capitalization of assets from expenses, an increase in wages and salaries of $241 thousand, an increase in utilities of $827 thousand and an increase in plant and equipment of $435 thousand.

The graph on page 4 is based on the Statement of Revenues, Expenses, and Change in Net Assets for all operating, non-operating and other expense items.

Non-operating revenues, net of expenses increased by $2.1 million and include items such as state appropriation, financial aid, gifts, interest on capital related debt and gains or losses on disposal of plant assets. Fiscal year 2009 state appropriation was $270 thousand over the previous fiscal year, federal student financial aid was $180 thousand over prior year, gift revenue went down by $323 thousand which represents the Yoder Barn which was gifted in fiscal year 2008, investment income decreased by $200 thousand, interest expense on capital asset related debt increased by $181 thousand and the loss on disposal of plant assets in fiscal year 2009 decreased by $2.5 million due to the demolition of the old student union in the previous fiscal year.

Net other revenues (expenses) primarily encompass capital appropriations and capital gifts and grants. Fiscal year 2009 increased by $3.1 million from prior year primarily due to the transfer in fiscal year 2008 of $3.2 million of University Endowments/professorships to the CNUEF.

Statement of Cash Flows

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

The first section deals with operating cash flows and shows the net cash used by operating activities of the institution. Significant sources of cash include student tuition and fees $21.7 million, auxiliary enterprises receipts $46.8 million and grants and contracts of $3.1 million. Major uses of cash include payments for salaries, wages, and fringe benefits $54.0 million, payments for supplies and services $25.6 million, utilities $4.2 million and plant improvements and equipment $8.4 million.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs plus financial aid totaling approximately $33.9 million.

The third section reflects cash flows from capital financing activities used for the acquisition and construction of capital related items. The primary sources of cash were the following:

- Proceeds from state appropriation for capital projects net of reduction of $13.6 million which is $7.3 million over prior year.
- Proceeds from sale of revenue bonds of $16.5 million which is $8.4 million over prior year and consists of the 2009A bond issue for the expansion of Athletic facilities II, the construction of the Ratcliff Hall addition, Land acquisition, plus a Refunding Bonds Series 2008B, of Series 1998.

Major uses of cash were the following:

- Purchase of capital assets of $34.8 million which is $23.1 million over prior year and consists primarily of construction in progress, 38 properties purchased from the CNUREF, the Mariner's Museum expansion, the expansion of Athletics facilities II.
- The principal and interest on capital debt, leases and installments in the amount of $10.0 million which is $1.0 million under prior year.

The fourth section reflects cash flows from investing activities and includes interest on investments, purchase of investments, and sales of investments. Investment activity decreased by $3.4 million due to the sale of investments virtually equaling the purchase of investments providing a net of $519 thousand in the current year versus prior year's net cash provided of $3.9 million.

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

Statement of Cash Flows

	June 30, 2009	June 30, 2008	Variance	Percent
Cash flows from operating activities	$ (20,515,900)	$ (21,332,500)	$ 816,600	(4%)
Cash flows from noncapital financing activities	35,314,870	34,418,959	895,911	3%
Cash flows from capital financing activities	(14,762,026)	(8,360,808)	(6,401,218)	77%
Cash flows from investing activities	518,573	3,886,596	(3,368,023)	(87%)
Net change in cash	$ 555,517	$ 8,612,247	$ (8,056,730)	(94%)

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction taking place at the University. Significant fiscal year 2009 capital projects include the 38 Properties acquired from the CNUREF, the Mariner's Museum library expansion, the expansion of Athletics Facilities II and construction in progress consisting of Gosnold Hall renovations, stormwater improvements, new Science building, expansion of the Freeman Center and the Ratcliffe renovations. Gosnold Hall and the Science building are funded through state appropriations and the 2009 Appropriation Act, authorized the use of VCBA or VPBA bond funding for certain capital outlay projects previously funded from the general fund. The remainder of the projects are funded through the issuance of 9(d) revenue bonds or other funding as appropriate.

The University's long-term debt increased by $8.1 million as of June 30, 2009 primarily due to the issuance of the 2009A Bond issue of $13.8 million representing the expansion of Athletic facilities II, construction of the Ratcliff Hall addition, and Land acquisition, plus a refunding Bond, Series 2008B, of Series 1998 for $1.7 million less principal payments made during fiscal year 2009 and Series 1998 refunding debt. Further information relating to capital assets, construction and capital debt is included in the Notes to the Financial Statements.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. In fiscal year 2010 the original state appropriations for education and general was $28.9 million but was subsequently reduced by $4.3 million in order to offset the projected decrease in State revenue projections. Also, in October 2009 the Governor issued his intention to assess another budget reduction however, the second reduction for the University is not yet known. The state reductions will be partially offset by the $3.5 million in ARRA Fiscal Stabilization funding. In addition, the University's governing board increased in-state tuition by $408, out-of-state tuition by $780, comprehensive fees by $292 and room and board by $140 for fiscal year 2010.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2009

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	$ 1,138,237	$ 4,449,875
Cash and cash equivalents Treasurer of Virginia (Note 2)	9,133,353	-
Cash and cash equivalents - securities lending (Note 2)	1,757,964	-
Accounts receivable, net of allowance (Note 3)	317,492	510,839
Contributions receivable, net of allowance (Note 3)	-	4,585,668
Due From Commonwealth (Note 3)	4,739,041	-
Prepaid expenses	1,992,393	19,141
Inventory	1,249,752	-
Total current assets	20,328,232	9,565,523
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	9,497,354	1,625,534
Restricted investments (Note 2)	126,821	10,740,524
Other investments (Note 2)	2,109,170	-
Appropriations available/due from	987,035	-
Contributions receivable, net of allowance (Note 3)	-	5,698,716
Other assets	-	1,064,530
Other restricted assets	-	2,347,818
Non-depreciable capital assets (Note 4)	42,103,770	12,205,356
Capital assets, net (Note 4)	232,374,392	46,005,781
Total noncurrent assets	287,198,542	79,688,259
Total assets	307,526,774	89,253,782

LIABILITIES

	University	Component Unit Foundations
Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	9,126,640	667,223
Deferred revenue	1,394,100	7,096
Short-term Debt (Note 7)	-	3,000,000
Obligations under securities lending	3,867,134	-
Deposits held in custody for others	1,576,142	126,821
Long-term liabilities - current portion (Note 6)	7,528,676	1,013,640
Total current liabilities	23,492,692	4,814,780
Noncurrent liabilities (Notes 6 and 7)	116,974,204	61,063,642
Total liabilities	140,466,896	65,878,422

NET ASSETS

	University	Component Unit Foundations
Invested in capital assets, net of related debt	160,552,867	2,293,811
Restricted for:		
Nonexpendable - scholarships and fellowships	-	12,630,050
Expendable:		
Scholarships and fellowships	-	2,749,274
Academic support	-	1,082,434
Capital projects	-	4,460,971
Other	-	713,625
Unrestricted	6,507,011	(554,805)
Total net assets	$ 167,059,878	$ 23,375,360

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2009

	June 30, 2009	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of $978,361	$ 22,110,391	$ -
Federal grants and contracts	1,541,981	-
State grants and contracts	589,342	-
Nongovernmental grants and contracts	948,745	-
Gifts and contributions	-	3,215,581
Auxiliary enterprises, Net of scholarship allowance of $4,511,531	47,325,126	-
Lease and rental revenue	-	6,410,964
Other operating revenue	818,978	178,898
Total operating revenues	73,334,563	9,805,443
Operating expenses (Note 8):		
Instruction	25,900,189	-
Research	2,074,418	-
Public service	868,553	-
Academic support	5,680,506	-
Student services	5,114,101	-
Institutional support	7,358,385	2,230,396
Operation and maintenance of plant	11,946,202	3,022,317
Depreciation	8,698,339	1,904,816
Student aid	1,786,663	827,393
Auxiliary enterprises	32,830,140	-
Total operating expenses	102,257,496	7,984,922
Operating gain/(loss)	(28,922,933)	1,820,521
Non-operating revenues/(expenses):		
State appropriations (Note 9)	32,033,068	-
Federal student financial aid	1,511,938	-
Gifts	778,743	-
Investment income, net of investment expenses of $6,816	590,314	(4,049,906)
Interest on capital asset related debt	(5,339,942)	(2,561,532)
Other non-operating revenues (expenses)	23,764	-
Gain (Loss) on disposal of plant assets	(102,917)	(25,536)
Net nonoperating revenues/(expenses)	29,494,968	(6,636,974)
Income before other revenues/(expenses)/gains/(losses)	572,035	(4,816,453)
Capital appropriations	20,813,169	-
Capital appropriation reductions	(15,180,199)	-
Capital gifts and grants	-	788,022
Transfer (subsidy) of capital asset	(398,921)	398,921
Additions to permanent endowments	-	746,818
Net other revenues	5,234,049	1,933,761
Increase/(decrease) in net assets	5,806,084	(2,882,692)
Net assets Beginning of year	161,253,794	26,258,052
Net assets End of year	$ 167,059,878	$ 23,375,360

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, 2009

Cash flows from operating activities:	
Student tuition and fees	$ 21,672,565
Grants and contracts	3,112,466
Auxiliary enterprises	46,838,787
Other receipts	825,207
Payments to employees	(53,960,320)
Payments for services and supplies	(25,631,993)
Payments for utilities	(4,200,890)
Payments for scholarships and fellowships	(794,236)
Payments for plant improvements and equipment	(8,363,327)
Loans issued to students and employees	(376,883)
Collection of loans from students and employees	362,724
Net cash used by operating activities	(20,515,900)
Cash flows from noncapital financing activities:	
State appropriations	32,416,034
Gifts and grants for other than capital purposes	778,743
Federal student financial aid	1,511,938
Stafford loan receipts	13,614,754
Stafford loan disbursements	(13,614,754)
PLUS loan receipts	3,937,922
PLUS loan disbursements	(3,937,922)
Agency receipts	1,726,378
Agency payments	(1,118,223)
Net cash provided by noncapital financing activities	35,314,870
Cash flows from capital financing activities:	
Capital appropriations	28,731,298
Capital appropriation reduction	(15,180,199)
Proceeds from sale of revenue bonds	16,581,459
Purchase of capital assets	(34,865,797)
Principal paid on capital debt, leases, and installments	(4,646,629)
Interest paid on capital debt, leases, and installments	(5,382,158)
Net cash used by capital financing activities	(14,762,026)
Cash flows from investing activities:	
Interest on investments	493,945
Purchase of investments	(14,530,565)
Sales of investments	14,555,193
Net cash provided by investing activities	518,573
Net Increase in cash	555,517
Cash and cash equivalents - beginning of the year	19,213,427
Cash and cash equivalents - end of the year	$ 19,768,944

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$	(28,922,933)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		8,698,339
Changes in assets and liabilities:		
Receivables, net		71,771
Prepaid expenses		(358,708)
Inventory		(206,573)
Accounts payable and accrued expenses		148,685
Deferred revenue		9,240
Deposits held in custody		14,702
Accrued compensated absences		29,577
Net cash used by operating activities	$	(20,515,900)
Non Cash investing, non capital financing, and capital and related financing transactions:		
Capitalization of interest expense	$	450,890
Amortization of bond premium	$	70,820
Amortization of deferred net loss on defeased bonds	$	(28,604)
Change in fair value of investments recognized as a component of interest income	$	10,277

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

NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

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

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

Christopher Newport University Educational and Real Estate Foundations, Inc. act primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. Although the University does not control the timing or amount of receipts from the Foundations, the majority of resources, or income thereon, that the Foundations hold and invest are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the University, the Foundations are considered a component unit of the University and are discretely presented in the University's financial statements.

During the year ended June 30, 2009 the Foundations distributed $545,445 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 University Place, Newport News, Virginia 23606.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

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

Depreciation is calculated using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

Buildings	40-50 years
Other improvements and infrastructure	15 years
Equipment	5-15 years
Library materials	5 years

F. Prepaid Expenses

As of June 30, 2009, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2010 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

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

H. Noncurrent Cash and Investments

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

I. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2009.

J. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned but not taken as of June 30, 2009. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

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

L. Net Assets

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

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2009. The following risk disclosures are required by GASB.

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

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

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2009.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for 2009.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand and cash deposits including certificates of deposit, and temporary investments with original maturities of three months or less.

B. Investments

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

	Market Value
Cash and cash equivalents:	
Deposits with financial institutions	$ 991,380
Money market and mutual funds	146,857
Treasurer of Virginia	10,891,317
State non-arbitrage program (SNAP)	9,497,354
Total cash and cash equivalents	21,526,908
Investments:	
Collateral held for securities lending	2,109,170
Mutual funds and Money Market	126,821
Total investments	2,235,991
Total cash, cash equivalents and investments	$23,762,899

Christopher Newport University Educational and Real Estate Foundations Cash and Investments

The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2009.

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

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

Summarized below are investments recorded at market value:

Money Market and Mutual Funds	$10,613,704
Managed Investments	126,820
Total investments	$10,740,524

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

Unrestricted	$ 214,494
Funds invested for related	126,820
Temporarily restricted	1,287,282
Permanently restricted	9,111,928
Total investments	$10,740,524

C. Securities Lending Transactions

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

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2009:

Student tuition and fees	$ 59,220
Auxiliary enterprises	143,508
Federal, state, private grants and contracts	129,151
Other activities	30,517
Gross receivables	362,396
Less: Allowance for doubtful accounts	(44,904)
Net accounts receivable	$ 317,492

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2009:

Interest/rebate Allocation	$ 217,554
Virginia College Building Authority 21st Century Bonds	4,521,487
Total Due from Commonwealth of Virginia	$ 4,739,041

Christopher Newport University Educational and Real Estate Foundations - Contributions Receivable

The Foundations have on-going fundraising campaigns to benefit the University. The pledges receivable are unconditional. At June 30, 2009, pledges receivable are as follows:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$1,108,000	$ 2,798,900	$ 1,214,662	$ 5,122,450
Receivable in one to five years	1,740,000	3,932,934	355,500	6,028,434
Receivable in more than five years	400,000	406,733	30,000	836,733
Total unconditional pledges	3,248,888	7,138,567	1,600,162	11,987,617
Less discount to net present value	(332,559)	(537,499)	(39,312)	(909,370)
Less allowance for uncollectible pledges receivable	(10,111)	(572,922)	(210,830)	(793,863)
Net unconditional pledges Receivable	$ 2,906,218	$ 6,028,146	$ 1,350,020	$10,284,384

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2009 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 11,155,435	$ 4,677,138	$ 329,552	$ 15,503,021
Construction in progress	5,054,315	26,244,550	4,698,116	26,600,749
Total non-depreciable capital assets	16,209,750	30,921,688	5,027,668	42,103,770
Depreciable capital assets:				
Buildings	238,096,012	8,089,418	99,105	246,086,325
Infrastructure	4,686,189	705,058	-	5,391,247
Equipment	10,531,189	908,968	694,374	10,745,783
Other improvements	17,060,697	1,283,737	-	18,344,434
Library materials	9,178,058	489,806	64,615	9,603,249
Total depreciable capital assets	279,552,145	11,476,987	858,094	290,171,038
Less accumulated depreciation:				
Buildings	29,426,475	6,154,364	-	35,580,839
Infrastructure	790,542	439,658	-	1,230,200
Equipment	6,469,100	695,449	535,105	6,629,444
Other improvements	4,994,340	859,863	-	5,854,203
Library materials	7,953,500	549,004	544	8,501,960
Total accumulated depreciation	49,633,957	8,698,338	535,649	57,796,646
Depreciable capital assets, net	229,918,188	2,778,649	322,445	232,374,392
Total capital assets, net	$246,127,938	$33,700,337	$5,350,113	$274,478,162

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

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

Property held for investment	$63,602,793
Property held for sale	33,590
Furniture and equipment	2,853,604
Collections	456,684
	66,946,671
Less accumulated depreciation	(8,735,534)
Total capital assets, net	$58,211,137

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled $1,810,661 in 2009.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2009:

Employee salaries, wages and fringe benefits payable	$3,418,778
Vendors and suppliers accounts payable	4,888,320
Retainage payable	819,542
Total accounts payable and accrued liabilities	$9,126,640

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2009 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$83,378,957	$16,060,640	$5,280,663	$94,158,934	$4,222,873
General obligation bonds	30,716,827	2,058,790	4,322,565	28,453,052	2,403,150
Installment purchases	720,041	50,012	448,457	321,596	115,635
Total long-term debt	114,815,825	18,169,442	10,051,685	122,933,582	6,741,658
Accrued compensated absences	1,539,722	1,377,588	1,348,012	1,569,298	787,018
Total long-term liabilities	$116,355,547	$19,547,030	$11,399,697	$124,502,880	$7,528,676

7. LONG TERM DEBT

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

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.

In November 2008, the University issued $1,664,396 of general obligation refunding bonds, Series 2008B, to refund the Series 1998 general obligation refunding bond issue and affect debt service savings. The bonds were issued by the Commonwealth of Virginia on behalf of the University. In January 2009, the University issued $13,765,000 of revenue bonds, Series 2009A, to expand athletic facilities, construct an addition to Ratcliff Hall and acquire land. This bond issue also paid off the outstanding balance of the bond anticipation note that was issued during fiscal year 2008 for the purposes of expanding athletic facilities on campus. This bond anticipation note had an outstanding balance of $250,000 at June 30, 2008. During 2009, additions to this note totaled $1,550,000. The entire $1,800,000 balance of the bond anticipation note was paid off as of June 30, 2009. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program. The Series 2008B bonds were issued with interest rates varying from 3.0% to 5.0% and will mature in 2014. The Series 2009A bonds were issued with interest rates varying from 2.1% to 5% and will mature in 2029.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2009
General obligation bonds:			
Dormitory and dining hall:			
Series 2001	2.1-4.9	2021	$3,960,000
Series 2003	2.5-5.5	2011	351,341
Series 2004B	4.0-5.0	2020	12,559,327
Series 2004B	4.0-5.0	2019	8,222,386
Series 2006	3.87-5.0	2021	1,695,000
Series 2008B	3.0-5.0	2014	1,332,158
Total general obligation bonds			$28,120,212

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2009
Revenue bonds:			
Athletics, Series 1998A	4.53	2012	$1,565,000
Series 2002A	3.0-5.25	2023	2,630,000
Series 2002A	3.0-5.25	2023	595,000
Series 2003A	2.0-5.0	2024	1,050,000
Series 2004B	3.0-5.0	2014	1,130,000
Series 2007A	4.5-5.0	2038	7,350,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,157,204
Series 2007B	4.0-4.5	2020	486,275
Series 2009A	2.1-5.0	2029	2,880,000
Student Center, Series 2001A	3.0-4.87	2021	625,000
Series 2002A	3.0-5.25	2023	150,000
Series 2007B	4.0-4.5	2020	220,000
Series 2007B	4.0-4.5	2020	118,983
New Student Center, Series 2002A	4.0-5.25	2023	4,035,000
Series 2004A	3.0-5.0	2026	20,035,000
Series 2006A	3.0-5.0	2027	2,285,000
Series 2007B	4.0-4.5	2020	3,305,641
Parking Deck I, Series 2002A	4.0-5.25	2023	3,830,000
Series 2007B	4.0-4.5	2020	3,155,619
Parking Deck II, Series 2005A	3.5-5.0	2026	1,825,000
Residence Hall IV, Series 2002A	4.0-5.25	2023	10,955,000
Series 2007B	4.0-4.5	2020	9,001,278
Ratcliffe Hall, Series 2009A	2.1-5.0	2029	1,905,000
Land Acquisition, Series 2009A	2.1-5.0	2029	8,980,000
Total revenue bonds			93,700,000
Total bonds payable			121,820,212
Deferred gain - advance refundings – GOB bonds			271,700
Deferred loss - advance refundings – VCBA bonds			(825,040)
Unamortized premiums- GOB bonds			61,140
Unamortized premiums – VCBA bonds			1,283,974
Total Deferred Gain/Loss & Unamortized Premiums			791,774
Installment purchases			321,596
Total long-term debt			$122,933,582

Long-term debt matures as follows:

	Principal	Interest
2010	$6,741,659	$5,586,610
2011	7,022,389	5,290,981
2012	7,111,538	4,969,624
2013	7,356,494	4,619,863
2014	7,334,709	4,255,653
2015-2019	41,596,886	15,867,878
2020-2024	32,009,667	6,669,287
2025-2029	10,336,258	1,728,147
2030-2034	1,734,684	578,250
2035-2038	1,689,298	155,700
Total	$122,933,582	$49,721,993

Defeasance of Debt – Current Year

In November 2008, the Commonwealth of Virginia issued $270,865,000 of general obligation refunding bonds, Series 2008B, with an interest rate ranging from 3.0% to 5.0%. The sale of these bonds enabled the University to advance refund $2,048,548 of debt outstanding on the Series 1998 general obligation refunding bond issue. The Series 1998 bond issue had interest rates ranging from 3.5% to 4.7%. This refunding represents a 100% defeasance of the outstanding debt on the Series 1998 bond issue. The Series 1998 bond issue was previously utilized to refund an outstanding Series 1992C bond. The reacquisition price of the refunded debt was $1,722,000.

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

The advance refunding resulted in the recognition of an accounting gain of $326,000 that is being amortized over the next six years which represents the shorter maturity of the new debt versus the old. The aggregate debt service payments, principle and interest, will be decreased by $571,592 over the next seven years which represents the maturity time of the old debt. This amount results in a net present value savings of $450,992 based on a rate of 4.3%.

Defeasance of Debt – Prior Years

During fiscal years 1998, 2003, 2004, 2005 and 2006 certain 1992C, 1993B, 1996, 1998, 1999 and 2001general obligation bonds were defeased by the University. During fiscal year 2008, certain 1998A, 2001A and 2002A revenue bonds were defeased by the University. The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2009, $29,179,398 of the general obligation bonds and $17,830,000 of the revenue bonds considered defeased remain outstanding.

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

Notes Payable

Notes payable at June 30, 2009 consists of the following:

Bank of America, secured, due quarterly, principal (as required by the agreement) and interest at the Eurodollar Rate plus 0.95%, matures August 2010	$ 252,278
Towne Bank, secured, interest due monthly at WSJ prime rate less 5%, maximum rate of 6%. Six $25,000 annual principal payments, beginning December 2005, balance due December 2011	1,242,000
Old Point National Bank, secured, interest at 5.375%. Principal and interest payments of $19,186 due monthly. Principal due August 2014	2,534,534
	$4,028,812

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. At June 30, 2009, the balance outstanding on the bonds was $3,300,449. The bonds were payable interest only until July 2006, at which time principal curtailments began. The bonds mature June 2011.

In November 2001, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued $10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2009, the balance outstanding on the bonds was $8,673,610. The bonds were payable interest only until October 2003 at which time principal curtailments began. The bonds mature September 2013.

In July 2002, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued $5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2009, the balance outstanding on the bonds was $4,843,385. The bonds were payable interest only until October 2003 at which time principal curtailments began. The bonds mature September 2013.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued $26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2009, the balance outstanding on the bonds was $25,330,000. The bonds were payable interest only until November 2005 at which time principal curtailments began. The bonds mature November 2028.

In August 2006, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued $17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundations used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In March 2009, the Foundations sold assets to the University and retired $8 million of the outstanding debt. At June 30, 2009, the balance outstanding on the bonds was $7.8 million. Scheduled principal curtailments began in August 2007. The bonds mature August 2036.

The Foundations have entered into various letter of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2009, the Foundations were in compliance with all financial covenants.

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

Year	Amount
2010	$ 1,013,640
2011	4,525,272
2012	2,327,941
2013	1,646,330
2014	13,052,817
Thereafter	31,410,256
	$53,976,256

Fair Value of Financial Instruments

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

The carrying values of the Foundations' investments have been adjusted to their market value.

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

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

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

The fair value of the interest rate swaps at June 30, 2009 is as follows:

Hedging Instrument	Variable Rate	Fixed Rate	Expiration	Fair Value
$8 million interest rate swap	65% of LIBOR + 0.82%	5.23%	09/01/13	$ (196,572)
$5.5 million interest rate swap	65% of LIBOR + 0.88%	5.14%	09/01/13	(898,410)
$10 million interest rate swap	65% of LIBOR + 0.88%	5.22%	06/01/11	(521,439)
$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(2,754,056)
$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	(911,212)
				$(5,281,689)

Lines of Credit

During the year ended June 30, 2009, the Foundations had available a $3,000,000 line of credit facility with Wachovia. The line of credit matures on May 31, 2010. The line is unsecured. Borrowings under this facility accrue interest at the one month London Interbank Offered Rate plus 1.95%. In addition, there is a 0.50% charge on any unused portion of the line. The purpose of the credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion and to provide bridge financing for various projects deemed beneficial to the University and for working capital. At June 30, 2009, the outstanding balance under this line of credit facility totaled $3,000,000.

8. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$17,884,503	$5,442,815	$2,384,159	$ 5,670	$ 5,206	$ 177,836	$ -	$25,900,189
Research	1,074,266	176,347	594,978	945	-	227,882	-	2,074,418
Public Service	601,186	133,878	124,186	-	-	9,303	-	868,553
Academic Support	2,813,745	1,402,193	524,209	2,835	45	937,479	-	5,680,506
Student Services	2,610,239	803,659	1,688,933	945	50	10,275	-	5,114,101
Institutional Support	3,731,587	1,739,204	1,162,990	1,890	130	722,584	-	7,358,385
Operation Plant	2,078,923	1,324,121	1,271,660	-	1,442,714	5,828,784	-	11,946,202
Depreciation	-	-	-	-	-	-	8,698,339	8,698,339
Scholarships	2,855	218	-	1,783,590	-	-	-	1,786,663
Auxiliary Activities	9,217,031	2,969,355	17,455,972	-	2,752,745	435,037	-	32,830,140
Total	$40,014,335	$13,991,790	$25,207,087	$1,795,875	$4,200,890	$8,349,180	$ 8,698,339	$102,257,496

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 847:	
Educational and general programs	$28,382,048
Student financial assistance	3,773,990
Educational & general financial assistance	237,500
Supplemental adjustments:	
Tuition Moderation Incentive	1,292,576
Interest earned	315,885
Miscellaneous	60,006
VECTEC adjustment	(11,875)
Salary and fringe benefit adjustments	(214,981)
Reversal of PY Due from Primary interest/rebate	(382,979)
Approved FY 2009 budget Reduction Strategies	(1,419,102)
Adjusted Appropriation	$32,033,068

10. COMMITMENTS

At June 30, 2009 the University was committed to construction contracts totaling approximately $37,139,917 of which $13,965,690 was unexpended.

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

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

Rental expense for the fiscal year ended June 30, 2009 was $5,920,958. The University has, as of June 30, 2009 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2010	$ 5,232,138
2011	4,900,966
2012	5,127,813
2013	5,224,459
2014	5,326,183
2015-18	17,192,636
Total	$43,004,195

11. DONOR-RESTRICTED ENDOWMENTS

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

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

12. RETIREMENT PLANS

Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2009 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $2,477,167 for the year ended June 30, 2009. These contributions included the employee contribution assumed by the employer, at a rate of 11.23% and 19.23% for University police. Contributions to the VRS were calculated using the base salary amount of approximately $22.0 million for the fiscal year ended June 30, 2009. The University's total payroll, before recoveries, was approximately $45.5 million for the year ended June 30, 2009.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in two Optional Retirement Plans. University employees currently participate in both of these plans to include: Fidelity Investments Institutional Service and Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4%, plus interest and dividends.

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 this plan were approximately, $1,807,232 for the year ended June 30, 2009. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $17.0 million. The University's total payroll, before recoveries, in fiscal year 2009 was approximately $45.5 million.

Deferred Compensation

University employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $190,649 for 2009.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

Christopher Newport University has received federal, state and private grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal laws, including the expenditure of resources for eligible purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2009, 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 natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker’s compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage, which totaled $387,777 for the fiscal year ended June 30, 2009. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth’s Comprehensive Annual Financial Report*.

16. SUBSEQUENT EVENTS

In FY10, the University will issue three Series 2009B Pooled 9(d) revenue bonds: $18,750,000 to expand the Freeman Center gymnasium for construction of a 65,000 gross square foot addition and renovation of 3,500 square feet of the existing structure, $925,000 to construct a 6,585 square foot addition to Ratcliffe Hall and renovation of 7,479 square feet of athletic and IT facilities to be housed within the building, and $3,490,000 for land acquisition. The bonds will be issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

June 1, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the **Christopher Newport University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2010 on our consideration of Christopher Newport University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

GDS/alh

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Newport News, Virginia

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