CHRISTOPHER NEWPORT
UNIVERSITY

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2010

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2010, with comparative numbers for the year ended June 30, 2009. 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, 2010. 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, 2010	June 30, 2009	Variance	Percent
Assets:				
Current assets	$ 25,872,524	$ 20,328,232	$ 5,544,292	27%
Capital assets, net	311,156,759	274,478,162	36,678,597	13%
Other noncurrent assets	25,438,279	12,720,380	12,717,899	100%
Total assets	362,467,562	307,526,774	54,940,788	18%
Liabilities:				
Current liabilities	29,271,848	23,492,692	5,779,156	25%
Noncurrent liabilities	134,437,331	116,974,204	17,463,127	15%
Total liabilities	163,709,179	140,466,896	23,242,283	17%
Net assets:				
Invested in capital assets, net of related debt	192,847,682	160,552,867	32,294,815	20%
Unrestricted	5,910,701	6,507,011	(596,310)	(9%)
Total net assets	$ 198,758,383	$ 167,059,878	$ 31,698,505	19%

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of debt," provides the University's equity in property, plant and equipment owned by the institution. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. As of June 30, 2010 the University did not have any Restricted net assets. Unrestricted net assets are available to the University for any lawful purpose of the institution.

The University's total assets and total liabilities increased by $54.9 million and $23.2 million, respectively. Specifically,

- Current assets increased by $5.5 million primarily due to net income derived from Auxiliary operations.
- Net Capital assets increased by $36.7 million due to the following:
    - Acquisition of four properties from the Christopher Newport University Real Estate Foundation (CNUREF) totaling $3.2 million plus donated land of $2.0 million.
    - A new academic building, McMurran Hall, was completed and opened during FY2010. The total value of this facility was $28.0 million.
    - A net increase in furniture and equipment of $1.6 million.
    - In compliance with GASB 51 a new line item, intangibles, was created and $2.1 million was reclassed from furniture and equipment.
    - A new athletic building for ticket sales at $500 thousand
    - Addition to the Ratcliffe ITS building totaling $1.2 million.
    - Library book additions of $400 thousand.
    - Infrastructure for Storm Water improvements of $917 thousand, the Blackboard Auxiliary system of $281 thousand and other miscellaneous infrastructure totaling $700 thousand.
    - Track renovations and soccer bleachers totaling $1.1 million.
    - Construction in progress increased by $5.7 million.
    - Depreciation expense of $8.9 million.
- Other noncurrent assets increased by $12.7 million primarily as a result of activity in the SNAP accounts, which is the investment account for the bond proceeds. Proceeds were received for the Land Acquisition project of $3.5 million, Ratcliffe Hall $900 thousand and the Freeman Center $20.0 million. Draws from the SNAP accounts to pay for construction from new and existing proceeds were as follows: Land Acquisition $3.0 million, Ratcliffe $1.0 million, Freeman Center $6.0 million, Athletic Facilities II Expansion $1.0 million and Capitalized Interest payments of $400 thousand.
- Current liabilities increased by $5.8 million primarily due to the increase in accounts payable for vendors and retainage at year end totaling $2.2 million, a change in accounting policy to record the accrued interest payable on the portion of bond interest from the payment due date to the end of the fiscal year totaling $1.9 million, a $694 thousand increase in obligations under securities lending, an increase in the current portion of long-term liabilities of $556 thousand due to a bond issue in 2010 and an increase of $469 thousand in deposits held for others primarily due to the agency funds' cash balances held by the University.
- Noncurrent liabilities increased by $17.5 million primarily due to the 2009B Bond issue for the Freeman Center of $20.0 million, Ratcliffe renovation of $1.0 million and Land Acquisition of $3.0 million. A 2009C Bond refunding of 2001 Bond issue for $1.8 million. Reductions for principal payments and refunded debt totaled $8.4 million.

The combination of increase in total assets and increase in total liabilities resulted in an increase in net assets at June 30, 2010 of $31.7 million.

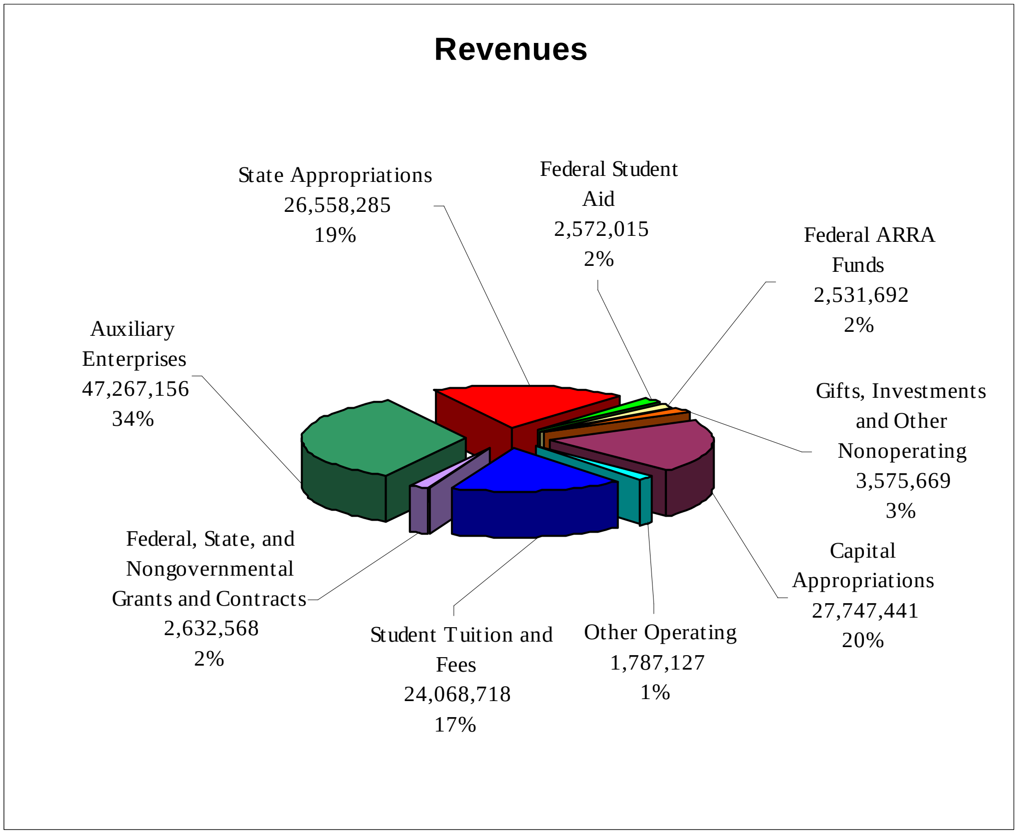
Statement of Revenues, Expenses and Change in Net Assets

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

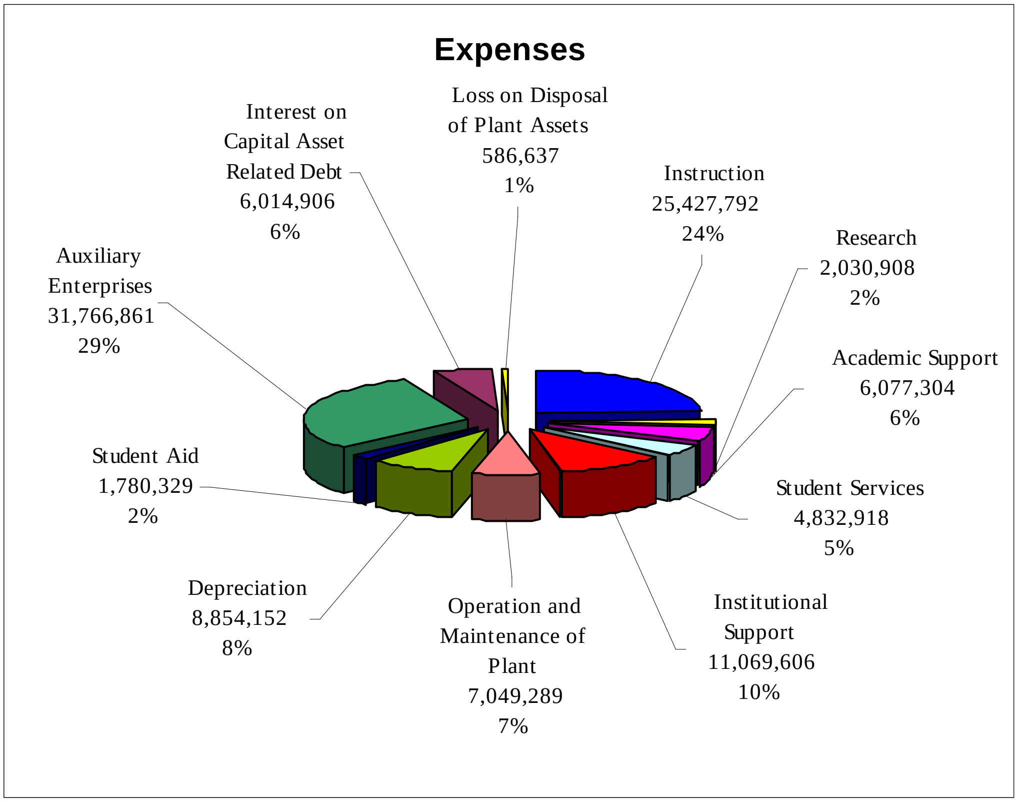
	June 30, 2010	June 30, 2009	Variance	Percent
Operating revenues	$ 75,755,569	$ 73,334,563	$ 2,421,006	3%
Operating expenses	98,889,159	102,257,496	(3,368,337)	(3%)
Operating loss	(23,133,590)	(28,922,933)	5,789,343	(20%)
Non-operating revenues, net	28,636,118	29,494,968	(858,850)	(3%)
Net other revenues (expenses)	27,747,441	5,234,049	22,513,392	430%
Increase in net assets	33,249,969	5,806,084	27,443,885	473%
Net assets beginning of year	165,508,414	161,253,794	4,254,620	3%
Net assets end of year	$ 198,758,383	$ 167,059,878	$ 31,698,505	19%

Beginning net assets originally reported in the University's financial statements as of June 30, 2009 were restated to reflect accrued interest payable of $1.6 million. This amount represents the interest accrued between the payment date and the end of the fiscal year. The payable was not accrued in prior years due to the insignificant difference between fiscal years.



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 $2.4 million and includes tuition and fees, auxiliary enterprises revenues and other operating revenues. Tuition and fee revenues increased by $1.9 million due in part to the increase in the tuition rates. In-State tuition rates increased by $208 or 5.0% and Out-of-State tuition rates increased by $580 or 5.0% and the University raised tuition by $200 for In-State and Out-of State students for the spring 2010 semester. Grants and contracts decreased by $448 thousand and other operating revenue increased by $1.0 million due to an increase in loan and scholarship funds.



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

Operating expenses decreased by $3.4 million from the previous year primarily due to the following:

- Instructional expenses decreased by $472 thousand primarily due to $130 thousand for salaries and wages, $237 thousand in fringe benefits and $146 thousand for services and supplies. These decreases were offset by an increase in plant and equipment of $47 thousand.
- Research expenses decreased by $44 thousand; a decrease of $216 thousand for salaries and wages, an increase of $56 thousand for fringe benefits, an increase of $159 thousand for services and supplies and a decrease of $42 thousand for plant and equipment.
- Public service decreased by $869 thousand due to the discontinuation of the VECTEC program.
- Academic support increased by $397 thousand; $212 thousand decrease for salaries and wages, a decrease in fringe benefits of $121 thousand, an increase in services and supplies of $1.4 million due to the new Academic building and a decrease in plant and equipment of $652 thousand.
- Student services decreased by $281 thousand; due to decreases of $149 thousand in wages and salaries, $88 thousand in fringe benefits, and $53 thousand in services and supplies.
- Institutional support increased by $3.7 million; due to increases in salaries and wages of $187 thousand, services and supplies of $270 thousand, scholarships of $86 thousand, plant and equipment of $3.3 million, fringe benefits decreased by 112 thousand.
- Operation and maintenance of plant decreased by $4.9 million; salaries and wages increased by $90 thousand, fringe benefits decreased by $168 thousand, services and supplies decreased by $384 thousand, utilities increased by $43 thousand and plant and equipment decreased by $4.5 million consisting primarily of renewals and replacements of plant assets in the prior year.
- Depreciation expense increased by $156 thousand.

- Auxiliary enterprises decreased by $1.1 million due to decreases of $551 thousand in salaries and wages, $166 thousand in fringe benefits, $310 thousand in services and supplies, $438 thousand in utilities and an increase in plant and equipment of $402 thousand.

Non-operating revenues, net of expenses decreased by $859 thousand and include items such as state appropriation, financial aid, ARRA fiscal stabilization funding, gifts, interest on capital related debt and gains or losses on disposal of plant assets. Fiscal year 2010 state appropriation was $5.5 million lower then the previous fiscal year due to budget cuts enacted by the Governor and legislation, federal student financial aid was $1.1 million higher due to increased need and availability for financial aid for students, gift revenue went up by $2.4 million primarily due to the gifting of land from the CNUREF, the University received $2.5 million in ARRA fiscal stabilization funds to help offset the state budgetary cuts, investment income decreased by $264 thousand, interest expense on capital asset related debt increased by $675 thousand due to the new bond issue, other operating increased by $34 thousand and the loss on disposal of plant assets in fiscal year 2010 increased by $484 thousand primarily due to the loss on acquisition of property acquired from the CNUREF.

Net other revenues (expenses) primarily encompass capital appropriations and capital gifts and grants. Fiscal year 2010 increased by $22.5 million from prior year primarily due to the receipt of capital appropriations for the new academic building and the four new property acquisitions from the CNUREF.

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 the following:

- Student tuition and fees $23.7 million
- Auxiliary enterprises receipts $46.6 million
- Grants and contracts of $2.7 million.

Major uses of cash include the following:

- Payments for salaries, wages, and fringe benefits $51.4 million
- Payments for supplies and services $25.5 million
- Utilities $3.8 million
- Plant improvements and equipment $6.8 million.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs, gifts and grants, ARRA fiscal stabilization funds plus financial aid totaling approximately $35.1 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 of $30.1 million
- Proceeds from sale of revenue bonds of $24.9 million from the issuance of the 2009B bonds for the Freeman Center, Ratcliffe renovation and Land acquisition.

Major uses of cash were the following:

- Purchase of capital assets of $44.9 million consisting of the acquisition of four properties from the CNUREF, the new academic building, McMurran Hall, furniture and equipment, a new athletic building for ticket sales, an addition to the Ratcliffe ITS building, library book additions, infrastructure for Storm Water improvements and the Blackboard Auxiliary system, track renovations, soccer bleachers and construction in progress.

- The principal and interest on capital debt, leases and installments totaling $12.5 million.

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 $361 thousand primarily due to the decrease of interest earned on investments.

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

Statement of Cash Flows

	June 30, 2010	June 30, 2009	Variance	Percent
Cash flows from operating activities	$ (13,668,536)	$ (20,515,900)	$ 6,847,364	33%
Cash flows from noncapital financing activities	35,550,872	35,314,870	236,002	1%
Cash flows from capital financing activities	(2,213,708)	(14,762,026)	12,548,318	85%
Cash flows from investing Activities	119,585	518,573	(398,988)	(77%)
Net change in cash	$ 19,788,213	$ 555,517	$ 19,232,696	3462%

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 2010 capital projects include the four properties acquired from the CNUREF, the new McMurran Hall, a new track and bleachers, renovations of Ratcliffe ITS and construction in progress consisting of the new Science building, Freeman Center renovations, Athletic Facilities II expansion, new Luter School of Business and Storm Water improvements. McMurran Hall, the new Science building and the Luter School of Business are funded through state appropriations. 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 $18.1 million as of June 30, 2010 primarily due to the issuance of the 2009B Bond issue for the Freeman Center, Ratcliffe renovation and Land Acquisition, plus a 2009C Bond refunding of 2001 Bond issue. 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 $6.2 million in order to offset the projected decrease in State revenue projections. The cuts will continue to be a reduction in the University's budget. To partially offset the fiscal year 2010 budget reductions the University received $2.5 million in ARRA fiscal stabilization funding and the University anticipates receiving $3.5 million of ARRA fiscal stabilization funding in fiscal year 2011. In addition, the University's governing board increased in-state tuition by $700, out-of-state tuition by $1,380, comprehensive fees by $300 and room and board by $300 for fiscal year 2011.

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FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2010

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 3)	$ 1,343,958	$ 3,492,757
Cash and cash equivalents Treasurer of Virginia (Note 3)	15,407,345	-
Cash and cash equivalents - securities lending (Note 3)	2,963,492	-
Accounts receivable, net of allowance (Note 4)	357,318	419,984
Contributions receivable, net of allowance (Note 4)	-	4,218,337
Due From Commonwealth (Note 4)	2,373,175	-
Prepaid expenses	2,246,127	46,504
Inventory	1,181,109	-
Total current assets	25,872,524	8,177,582
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 3)	22,805,854	2,741,548
Restricted investments (Note 3)	140,645	12,483,594
Other investments (Note 3)	1,597,199	-
Appropriations available/due from	894,581	-
Contributions receivable, net of allowance (Note 4)	-	4,922,140
Other assets	-	1,014,490
Other restricted assets	-	1,927,564
Non-depreciable capital assets (Note 5)	50,133,300	11,467,339
Capital assets, net (Note 5)	261,023,459	46,344,300
Total noncurrent assets	336,595,038	80,900,975
Total assets	362,467,562	89,078,557

LIABILITIES

	University	Component Unit Foundations
Current Liabilities:		
Accounts payable and accrued expenses (Note 6)	11,376,774	338,526
Accrued interest payable (Note 6)	1,852,737	270,609
Deferred revenue	1,352,479	28,704
Short-term debt (Note 8)	-	800,000
Obligations under securities lending	4,560,691	-
Deposits held in custody for others	2,044,990	140,645
Long-term liabilities - current portion (Note 7)	8,084,177	8,635,634
Total current liabilities	29,271,848	10,214,118
Noncurrent liabilities (Notes 7 and 8)	134,437,331	57,083,636
Total liabilities	163,709,179	67,297,754

NET ASSETS

	University	Component Unit Foundations
Invested in capital assets, net of related debt	192,847,682	886,271
Restricted for:		
Nonexpendable - scholarships and fellowships	-	13,798,368
Expendable:		
Scholarships and fellowships	-	2,975,801
Academic support	-	1,388,861
Capital projects	-	5,128,909
Other	-	1,016,337
Unrestricted	5,910,701	(3,413,744)
Total net assets	$ 198,758,383	$ 21,780,803

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, 2010

	June 30, 2010	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of $1,162,520	$ 24,068,718	$ -
Federal grants and contracts	1,540,971	102,916
State grants and contracts	838,719	-
Nongovernmental grants and contracts	252,878	-
Gifts and contributions	-	2,832,822
Auxiliary enterprises, Net of scholarship allowance of $5,920,542	47,267,156	-
Lease and rental revenue	-	6,027,746
Other operating revenue	1,787,127	146,650
Total operating revenues	75,755,569	9,110,134
Operating expenses (Note 9):		
Instruction	25,427,792	-
Research	2,030,908	-
Academic support	6,077,304	-
Student services	4,832,918	-
Institutional support	11,069,606	4,056,878
Operation and maintenance of plant	7,049,289	2,472,028
Depreciation	8,854,152	1,856,572
Student aid	1,780,329	1,081,640
Auxiliary enterprises	31,766,861	-
Total operating expenses	98,889,159	9,467,118
Operating gain/(loss)	(23,133,590)	(356,984)
Non-operating revenues/(expenses):		
State appropriations (Note 10)	26,558,285	-
Federal student financial aid	2,572,015	-
Federal state fiscal stabilization funds (ARRA)	2,531,692	-
Gifts	3,191,729	-
Investment income, net of investment expenses of $9,054	325,814	(20,473)
Interest on capital asset related debt	(6,014,906)	(2,338,896)
Other non-operating revenues (expenses)	58,126	-
Gain (Loss) on disposal of plant assets	(586,637)	194,714
Net nonoperating revenues/(expenses)	28,636,118	(2,164,655)
Income before other revenues/(expenses)/gains/(losses)	5,502,528	(2,521,639)
Capital appropriations	27,747,441	533,036
Capital appropriation reductions	-	-
Capital gifts and grants	-	-
Additions to permanent endowments	-	394,046
Net other revenues	27,747,441	927,082
Increase/(decrease) in net assets	33,249,969	(1,594,557)
Net assets Beginning of year*	165,508,414	23,375,360
Net assets End of year	$ 198,758,383	$ 21,780,803

*Certain 2009 amounts have been restated.

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, 2010

Cash flows from operating activities:	
Student tuition and fees	$ 23,688,677
Grants and contracts	2,650,887
Auxiliary enterprises	46,615,391
Other receipts	1,787,137
Payments to employees	(51,357,706)
Payments for services and supplies	(25,484,110)
Payments for utilities	(3,807,046)
Payments for scholarships and fellowships	(947,719)
Payments for plant improvements and equipment	(6,811,129)
Loans issued to students and employees	(389,786)
Collection of loans from students and employees	386,868
Net cash used by operating activities	(13,668,536)
Cash flows from noncapital financing activities:	
State appropriations	26,775,839
Gifts and grants for other than capital purposes	3,191,729
Federal student financial aid	2,572,015
Federal state fiscal stabilization funds (ARRA)	2,531,692
Stafford loan receipts	16,368,078
Stafford loan disbursements	(16,368,078)
PLUS loan receipts	3,876,148
PLUS loan disbursements	(3,876,148)
Agency receipts	1,949,912
Agency payments	(1,470,315)
Net cash provided by noncapital financing activities	35,550,872
Cash flows from capital financing activities:	
Capital appropriations	30,102,619
Capital appropriation reduction	-
Proceeds from sale of revenue bonds	25,004,020
Purchase of capital assets	(44,873,138)
Principal paid on capital debt, leases, and installments	(6,672,050)
Interest paid on capital debt, leases, and installments	(5,775,159)
Net cash used by capital financing activities	(2,213,708)
Cash flows from investing activities:	
Interest on investments	133,409
Purchase of investments	(24,388,315)
Sales of investments	24,374,491
Net cash provided by investing activities	119,585
Net Increase in cash	19,788,213
Cash and cash equivalents - beginning of the year	19,768,944
Cash and cash equivalents - end of the year	$ 39,557,157

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2010

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$	(23,133,590)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		8,854,152
Changes in assets and liabilities:		
Receivables, net		(39,826)
Prepaid expenses		(253,734)
Inventory		68,643
Accounts payable and accrued expenses		958,051
Deferred revenue		(41,621)
Deposits held in custody		(10,748)
Accrued compensated absences		(69,863)
Net cash used by operating activities	$	(13,668,536)
Non Cash investing, non capital financing, and capital and related financing transactions:		
Capitalization of interest expense	$	664,377
Amortization of bond premium	$	134,110
Amortization of deferred net loss on defeased bonds	$	(48,904)
Change in fair value of investments recognized as a component of interest income	$	3,548

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, 2010

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, 2010, the Foundations distributed $3,191,669 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 University Place, Newport News, Virginia 23606.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

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

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

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

F. Prepaid Expenses

As of June 30, 2010, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2011 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, 2010.

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, 2010. 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. RESTATEMENT OF NET ASSETS

Beginning net assets originally reported in the University's financial statements as of June 30, 2009 have been restated to reflect accrued interest payable, as follows:

Net assets as previously reported June 30, 2009	$167,059,878
Record prior year accrued interest expense	(1,551,464)
Net asset balance at July 1, 2009	$165,508,414

3. 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 2010. 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, 2010.

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 2010.

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	$1,243,958
Money market and mutual funds	100,000
Treasurer of Virginia	18,370,837
State non-arbitrage program (SNAP)	22,805,854
Total cash and cash equivalents	42,520,649
Investments:	
Collateral held for securities lending	1,597,199
Mutual funds and Money Market	140,645
Total investments	1,737,844
Total cash, cash equivalents and investments	$44,258,493

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, 2010.

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	$12,342,949
Managed Investments	140,645
Total investments	$12,483,594

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

Unrestricted	$ 127,461
Funds invested for the University	140,645
Temporarily restricted	1,429,087
Permanently restricted	10,786,401
Total investments	$12,483,594

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.*

4. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2010:

Student tuition and fees	$ 66,303
Auxiliary enterprises	178,587
Federal, state, private grants and contracts	139,592
Other activities	33,435
Gross receivables	417,917
Less: Allowance for doubtful accounts	(60,599)
Net accounts receivable	$ 357,318

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2010:

Interest/rebate Allocation	$ 206,866
Virginia College Building Authority 21st Century Bonds	2,166,309
Total Due from Commonwealth of Virginia	$ 2,373,175

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, 2010, pledges receivable are as follows:

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$ 455,735	$3,426,463	$ 473,345	$4,355,543
Receivable in one to five years	1,710,000	3,386,222	236,000	5,332,222
Receivable in more than five years	-	235,000	15,000	250,000
Total unconditional pledges	2,165,735	7,047,685	724,345	9,937,765
Less discount to net present value	(226,471)	(385,663)	(28,292)	(640,426)
Less allowances for uncollectible pledges receivable	(29,061)	(78,376)	(49,425)	(156,862)
Net unconditional pledges receivable	$1,910,203	$6,583,646	$ 646,628	$9,140,477

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2010 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 15,503,021	$ 2,300,889	$ -	$ 17,803,910
Construction in progress	26,600,749	40,398,617	34,669,976	32,329,390
Total nondepreciable capital assets	42,103,770	42,699,506	34,669,976	50,133,300
Depreciable capital assets:				
Buildings	246,086,325	32,491,712	1,479,878	277,098,159
Infrastructure	5,391,248	1,888,741	-	7,279,989
Equipment	8,681,438	2,176,757	526,238	10,331,957
Intangibles	2,064,345	-	-	2,064,345
Other improvements	18,344,433	1,051,761	-	19,396,194
Library materials	9,603,249	402,011	16,132	9,989,128
Total depreciable capital assets	290,171,038	38,010,982	2,022,248	326,159,772
Less accumulated depreciation:				
Buildings	35,580,840	6,238,763	1,103,437	40,716,166
Infrastructure	1,230,200	787,956	-	2,018,156
Equipment	4,293,629	703,766	411,047	4,586,348
Intangibles	1,979,489	-	-	1,979,489
Other improvements	5,854,203	860,488	-	6,714,691
Library materials	8,858,284	263,179	-	9,121,463
Total accumulated depreciation	57,796,645	8,854,152	1,514,484	65,136,313
Depreciable capital assets, net	232,374,393	29,156,830	507,764	261,023,459
Total capital assets, net	$ 274,478,163	$ 71,856,336	$ 35,177,740	$ 311,156,759

Note: In accordance with GASB 51 a reclassification of $2,064,345 was made from Equipment capital asset to Intangibles capital asset as well as the associated accumulated depreciation of $1,979,489. Also, to reflect actual balances a reclassification was done in the amount of $356,324 from Equipment accumulated depreciation to Library materials accumulated depreciation.

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

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

Construction in progress	$ 4,942
Property held for investment	65,129,910
Property held for sale	31,590
Furniture and equipment	2,476,019
Collections	588,684
	68,231,145
Less accumulated depreciation	(10,419,506)
Total capital assets, net	$57,811,639

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled $1,752,134 in 2010.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2010:

Employee salaries, wages and fringe benefits payable	$ 3,587,070
Vendors and suppliers accounts payable	6,743,579
Interest expense payable	1,852,737
Retainage payable	1,046,125
Total accounts payable and accrued liabilities	$13,229,511

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, 2010 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$94,158,933	$24,828,419	$4,249,073	$114,738,279	$4,552,788
Treasury-general obligation bonds	28,453,052	1,802,327	4,177,547	26,077,832	2,498,641
Installment purchases	321,596	-	115,635	205,961	110,121
Total long-term debt	122,933,581	26,630,746	8,542,255	141,022,072	7,161,550
Accrued compensated absences	1,569,299	730,728	800,591	1,499,436	922,627
Total long-term liabilities	$124,502,880	$27,361,474	$9,342,846	$142,521,508	$8,084,177

8. 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 October 2009, the University issued $1,877,837 of general obligation refunding bonds, Series 2009C, to refund part of the Series 2001 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 November 2009, the University issued $23,690,000 of revenue bonds, Series 2009B, to expand athletic facilities, construct an addition to Ratcliffe Hall and acquire land. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financial Pooled Bonds Program. The Series 2009C bonds were issued with interest rates varying from 3.0% to 4.0% and will mature in 2021. The Series 2009B bonds were issued with interest rates varying from 2.0% to 5.0%; $4,100,000 will mature in 2029 and $19,590,000 will mature in 2039.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2010
General obligation bonds:			
Dormitory and dining hall:			
Series 2001	2.1-4.9	2011	$ 1,110,000
Series 2003	2.5-5.5	2011	179,589
Series 2004B	4.0-5.0	2020	12,531,053
Series 2004B	4.0-5.0	2019	7,571,748
Series 2006	3.87-5.0	2021	1,590,000
Series 2008B	3.0-5.0	2014	1,016,407
Series 2009B	3.0-4.0	2021	1,877,837
Total general obligation bonds			$ 25,876,634
Revenue bonds:			
Athletics, Series 1998A	4.53	2012	$ 1,065,000
Series 2002A	3.0-5.25	2023	2,390,000
Series 2002A	3.0-5.25	2023	540,000
Series 2003A	2.0-5.0	2024	1,000,000
Series 2004B	3.0-5.0	2014	1,130,000
Series 2007A	4.5-5.0	2038	7,230,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,147,143
Series 2007B	4.0-4.5	2020	484,007
Series 2009A	2.1-5.0	2029	2,785,000
Series 2009B	3.0-5.0	2040	19,590,000
Student Center, Series 2001A	3.0-4.87	2022	575,000
Series 2002A	3.0-5.25	2023	135,000
Series 2007B	4.0-4.5	2020	220,000
Series 2007B	4.0-4.5	2020	118,428

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2010
Revenue bonds (continued):			
New Student Center, Series 2002A	4.0-5.25	2023	3,670,000
Series 2004A	3.0-5.0	2026	19,240,000
Series 2006A	3.0-5.0	2027	2,205,000
Series 2007B	4.0-4.5	2020	3,290,224
Parking Deck I, Series 2002A	4.0-5.25	2023	3,480,000
Series 2007B	4.0-4.5	2020	3,140,901
Parking Deck II, Series 2005A	3.5-5.0	2026	1,755,000
Residence Hall IV, Series 2002A	4.0-5.25	2023	9,960,000
Series 2007B	4.0-4.5	2020	8,959,297
Ratcliffe Hall, Series 2009A	2.1-5.0	2029	1,845,000
Series 2009B	3.0-5.0	2030	895,000
Land Acquisition, Series 2009A	2.1-5.0	2029	8,685,000
Series 2009B	2.0-5.0	2030	3,205,000
Total revenue bonds			$113,170,000
Total bonds payable			$139,046,634
Deferred loss - advance refundings – GOB bonds			(6,300)
Deferred loss - advance refundings – VCBA bonds			(742,136)
Unamortized premiums- GOB bonds			207,497
Unamortized premiums – VCBA bonds			2,310,416
Total Deferred Gain/Loss & Unamortized Premiums			$1,769,477
Installment purchases			205,961
Total long-term debt			$141,022,072

Long-term debt matures as follows:

	Principal	Interest
2011	$ 7,161,550	$ 6,388,630
2012	7,595,699	6,059,599
2013	7,860,654	5,691,538
2014	7,858,869	5,303,578
2015	8,187,427	4,929,294
2016-2020	44,853,389	18,677,841
2021-2025	31,560,425	9,065,186
2026-2030	12,732,615	4,121,809
2031-2035	6,325,357	2,234,413
2036-2040	6,886,087	728,438
Total	$141,022,072	$63,200,326

Defeasance of Debt – Current Year

In October 2009, the Commonwealth of Virginia issued $332,480,000 of general obligation refunding bonds, Series 2009BC&D, with an interest rate ranging from 3.0% to 4.0%. The sale of these bonds enabled the University to advance refund $1,785,000 of debt outstanding on the Series 2001 general obligation refunding bond issue. The Series 2001 bond issue has interest rates ranging from 4.0% to 5.0%. This refunding represents a partial defeasance of the outstanding debt on the Series 2001bond issue. The original bonds have a remaining balance of $1,110,000. The Series 2001 bond issue was utilized to expand the University's dormitory facilities. The reacquisition price of the refunded debt was $2,029,000.

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

The advance refunding resulted in the recognition of an accounting loss of $244,000 that is being amortized over the next twelve years which represents the shorter maturity of the new debt versus the old. The aggregate debt service payments, principle and interest, will be decreased by $85,449 over the next eleven years which represents the maturity time of the old debt. This amount results in a net present value savings of $82,269 based on a rate of 2.8%.

Defeasance of Debt – Prior Years

During fiscal years 1998, 2003, 2004, 2005, 2006 and 2009, 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.

Defeasance of Debt – Year-to-Date Totals

At June 30, 2010, $29,589,963 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, 2010 consists of the following:

Bank of America, secured by Ferguson Center pledges receivable, due quarterly, principal (as required by the agreement) and interest at the Eurodollar rate plus 0.95%, matures August 2010	$ 97,966
Towne Bank, secured by deed of trust on 12407 and 12401 Warwick Boulevard, interest due monthly at the Wall Street Journal (WSJ) prime rate less .5%, with a maximum rate of 6%. Six annual principal payments of $25,000 beginning December 2005, balance due December 2011.	1,209,310
Old Point National Bank, secured by deed of trust on leasehold interest and assignment of rents and leases, construction/permanent financing with interest at 5.375%. Principal and interest payments of $19,186 due monthly, matures August 2014.	2,446,016
Wachovia Bank, unsecured, interest due quarterly at the one month LIBOR plus 1.8%, principal payment is due in full February 11, 2011	4,270,000
	$8,023,292

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, 2010, the balance outstanding on the bonds was $3,228,847. 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, 2010, the balance outstanding on the bonds was $8,403,760. 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, 2010, the balance outstanding on the bonds was $4,708,961. 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, 2010, the balance outstanding on the bonds was $25,005,000. 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, 2010, the balance outstanding on the bonds was $7,710,000. Scheduled principal curtailments began in August 2007. The bonds mature August 2036.

The Foundations have entered into various letter of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2010, 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
2011	$ 8,635,634
2012	1,155,331
2013	2,801,072
2014	13,046,377
2015	1,404,711
Thereafter	30,036,735
	$57,079,860

Fair Value of Financial Instruments

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

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

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

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

The fair value of the interest rate swaps at June 30, 2010 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	$ (110,911)
$5.5 million interest rate swap	65% of LIBOR + 0.88%	5.14%	09/01/13	(899,247)
$10 million interest rate swap	65% of LIBOR + 0.88%	5.22%	06/01/11	(520,057)
$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(3,676,504)
$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	(1,203,804)
				$ (6,410,523)

Lines of Credit

During the year ended June 30, 2010, the Foundations had available a $1,000,000 line of credit facility with Wachovia Bank. The line of credit matures on May 31, 2011. The line is unsecured. Borrowings under this facility accrue interest at the one month London Interbank Offered Rate (LIBOR) plus 2.25%. The purpose of this credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion, to provide bridge financing for various projects deemed beneficial to the University and for working capital. At June 30, 2010, the outstanding balance under this line of credit facility totaled $800,000.

9. 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	$17,754,862	$5,205,633	$2,238,242	$4,467	$13	$224,575	$ -	$25,427,792
Research	858,115	231,603	753,635	1,005	16	186,534	-	2,030,908
Academic Support	2,602,169	1,281,227	1,901,147	3,554	3,585	285,622	-	6,077,304
Student Services	2,461,178	715,801	1,635,498	1,005	33	19,403	-	4,832,918
Institutional Support	3,918,848	1,627,333	1,433,252	87,433	33	4,002,707	-	11,069,606
Operation Plant	2,168,758	1,156,096	888,019	-	1,489,000	1,347,416	-	7,049,289
Depreciation	-	-	-	-	-	-	8,854,152	8,854,152
Scholarships	5,553	310	-	1,774,466	-	-	-	1,780,329
Auxiliary Activities	8,665,674	2,803,800	17,145,560	-	2,314,366	837,461	-	31,766,861
Total	$38,435,157	$13,021,803	$25,995,353	$1,871,930	$3,807,046	$6,903,718	$8,854,152	$98,889,159

10. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursement.

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

Original legislative appropriations Per Chapter 872:	
Educational and general programs	$28,952,048
Student financial assistance	3,924,950
Educational & general financial assistance	362,500
Supplemental adjustments:	
Approved FY 2010 budget reduction strategies	(6,151,251)
Cash transfer out non-general fund	(495,664)
Miscellaneous	18,802
Interest earned	164,454
Reversal of PY due from primary interest/rebate	(217,554)
Adjusted Appropriation	$26,558,285

11. COMMITMENTS

At June 30, 2010, the University was committed to construction contracts totaling approximately $96,728,360 of which $55,496,714 was unexpended.

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

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

Rental expense for the fiscal year ended June 30, 2010 was $5,264,704. The University has, as of June 30, 2010 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2011	$ 5,465,731
2012	4,998,185
2013	5,092,302
2014	5,191,445
2015	5,292,571
2016-18	11,465,362
Total	$37,505,596

12. 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.

13. 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, 2010 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,916,401 for the year ended June 30, 2010. These contributions included the employee contribution assumed by the employer, at a rate of 11.26% and 19.23% for University police. Contributions to the VRS were calculated using the base salary amount of approximately $16.6 million for the fiscal year ended June 30, 2010. The University's total payroll, before recoveries, was approximately $44.1 million for the year ended June 30, 2010.

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, $1,732,231 for the year ended June 30, 2010. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $16.7 million. The University's total payroll, before recoveries, in fiscal year 2010 was approximately $44.1 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 $191,304 for 2010.

14. 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).

15. 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, 2010, the University estimates that no material liabilities will result from such audits or questions.

16. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, non-performance of duty; injuries to employees and athletes; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. For athletes, the University maintains insurance through a third party provider. The University's insurance premiums paid for the fiscal year ended June 30, 2010 totaled $503,995. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report.*

17. SUBSEQUENT EVENTS

In fiscal year 2011, the University issued through the Virginia College Building Authority (VCBA) Public Higher Educational Financing Pooled Bonds Program Series 2010A-1 9(d) (Tax-Exempt Revenue Bonds) and 2010A-2 9(d) (Taxable Build America Bonds): $1,340,000 for residence halls roof replacement and $4,730,000 to purchase property the University leased from the Christopher Newport University Real Estate Foundation. Payments will be made semi-annually, with an interest rate ranging from 2 percent to 5.6 percent with final payment due in 2041. Thirty-five percent of each interest payment on the portion financed with Build American Bonds will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009. Also, in fiscal year 2011 the VCBA sold Educational Facilities Revenue Refunding Bonds (Public Higher Educational Financing Program) Series 2010B to refund a portion of maturities for Series 2000A, 2001A, 2002A and 2003A Bond Issues.

In fiscal year 2011, the University also issued Commonwealth of Virginia General Obligation Bonds Series 2010A-1 9(c) (Tax-Exempt) and 2010A-2 9(c) (Taxable Build American Bonds): $34,480,000 to construct Residence Hall V. 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. Payments will be made semi-annually, with an interest rate ranging from 2.1 percent to 5 percent with final payment due in 2040. Thirty-five percent of each interest payment on the portion financed with Build American Bonds will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 29, 2011

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 **Christopher Newport University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2011 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.

Walter J. Kucharski

AUDITOR OF PUBLIC ACCOUNTS

GDS/ clj

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