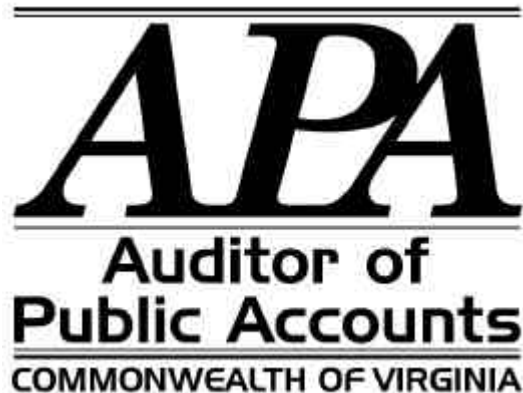


**CHRISTOPHER NEWPORT UNIVERSITY
NEWPORT NEWS, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2001, found:

- the accompanying financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be reportable conditions;
- no instances of noncompliance with applicable laws and regulations that are required to be reported; and
- corrective action of prior audit findings.

Our report includes an update of the University's implementation of new administrative information systems.

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UNIVERSITY OFFICIALS

May 13, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Christopher Newport University

We have audited the accounts and records of **Christopher Newport University** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Christopher Newport University, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christopher Newport University as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues and Expenditures" is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Christopher Newport University as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants 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.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year. The section of our report entitled "Systems Development Update" contains additional information on this issue.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, audit committee, and management, and is not intended to be and should not be used by

anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 16, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva
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SYSTEMS DEVELOPMENT UPDATE

In July 1997, the University purchased an integrated administrative system from PeopleSoft and planned to implement that system to ensure the University's administrative information systems were Year 2000 compliant. The implementation process fell behind and senior management decided not to rely on PeopleSoft as its Year 2000 solution. Instead, management reallocated resources to modify the current administrative system for Year 2000 readiness. In August 2001, the University projected that continuing to implement PeopleSoft's student system would cost another \$2 million in consulting services alone. At that time, the University issued another request for proposal for a comprehensive administrative system. The University evaluated the proposals and discontinued the PeopleSoft system implementation.

The University proposal process resulted in the selection of Banner software and implementation consulting from Systems and Computer Technology (SCT). A key factor in the decision was the successful implementation of SCT Banner at similar universities within the Commonwealth. The University finalized its contract with SCT in December 2001 and expects project costs, excluding the University's normal operating budget costs, to be approximately \$3.2 million and financed through the Department of Treasury's Master Equipment Leasing Program.

The University has taken the following steps to address our prior report's recommendations and promote a successful implementation:

- Senior management meets weekly with the Project Manager to evaluate progress, ensure that project teams are on task, and take necessary administrative action related to the project.
- The President established the position of Special Assistant to the President for Information Technology and appointed the former Dean of the College of Science and Technology to the position. The Special Assistant spends approximately 95 percent of his time as the Project Manager.
- The Project Manager meets regularly with the technical and functional teams to ensure an open line of communication and a consistent flow of information.
- The University purchased SCT's Surefire Implementation Services, which include project management consulting, business process analyses, training, data conversion support, and database administration services.
- The Project Manager, in conjunction with SCT, developed a project plan with clearly defined roles and responsibilities and firm task completion and implementation dates.

The University plans for a 24-month project duration, during which it will implement Banner Student, Banner Financial Aid, Banner Finance, and Campus Pipeline. The University has made significant progress thus far; however, the project is still in its early stages. Senior management and the Project Manager must continue to actively monitor and participate in this project in order for it to succeed. We will continue to monitor the progress of the project through regular contact with the Project Manager.

CHRISTOPHER NEWPORT UNIVERSITY
BALANCE SHEET
As of June 30, 2001

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
A S S E T S				
Cash (Note 3)	\$ 3,358,142	\$ 322,157	\$ 587,677	\$ -
Investments (Note 4)	1,302,388	42,396	-	2,414,048
Investments held with the Treasurer of Virginia (Note 4)	-	-	-	-
Accounts and loans receivable (Net of allowance for doubtful accounts of \$10,651)	291,428	150,553	3,052	-
Inventories	498,129	-	-	-
Prepaid expenses	392,621	-	-	-
Land	-	-	-	-
Buildings	-	-	-	-
Equipment	-	-	-	-
Library books	-	-	-	-
Construction in progress	-	-	-	-
Total assets	\$ 5,842,708	\$ 515,106	\$ 590,729	\$ 2,414,048
LIABILITIES AND FUND BALANCES				
Accounts payable and accrued liabilities	\$ 2,296,444	\$ 176,701	\$ 45	\$ -
Accrued leave (Note 1 D)	870,562	1,025	-	-
Deferred revenue (Note 1 H)	584,492	-	-	-
Retainage payable (Note 7)	-	-	-	-
Notes payable (Note 5)	-	-	-	-
Bonds payable (Note 5)	-	-	-	-
Bond anticipation notes payable	-	-	-	-
Leases payable (Note 5)	-	-	-	-
Funds held in custody for others	-	-	-	-
Obligations under securities lending (Note 4)	-	-	-	-
Fund balances:				
Unrestricted current funds	2,091,210	-	-	-
Restricted current funds	-	337,380	-	-
Loan funds, U.S. Government grants	-	-	485,533	-
Loan funds, University - Restricted	-	-	105,151	-
Endowment funds	-	-	-	2,362,091
Quasi-endowment	-	-	-	51,957
Unexpended plant funds	-	-	-	-
Renewals and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Net investment in plant	-	-	-	-
Total liabilities and fund balances	\$ 5,842,708	\$ 515,106	\$ 590,729	\$ 2,414,048

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

Unexpended	Plant Funds			Agency Funds	Total (Memorandum Only)
	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		
\$ 4,751,931	\$ 1,941,067	\$ 1,170,616	\$ -	\$ 748,741	\$ 12,880,331
-	-	-	-	-	3,758,832
-	475,292	-	-	-	475,292
601,114	187,026	-	-	-	1,233,173
-	-	-	-	-	498,129
-	-	-	-	-	392,621
-	-	-	7,751,502	-	7,751,502
-	-	-	56,700,566	-	56,700,566
-	-	-	7,256,268	-	7,256,268
-	-	-	7,157,306	-	7,157,306
-	-	-	28,433,065	-	28,433,065
\$ 5,353,045	\$ 2,603,385	\$ 1,170,616	\$ 107,298,707	\$ 748,741	\$ 126,537,085

\$ 1,657,732	\$ 544,754	\$ -	\$ -	\$ 65,631	\$ 4,741,307
-	5,606	-	-	3,457	880,650
-	-	-	-	-	584,492
237,960	187,365	-	-	-	425,325
-	-	-	5,242	-	5,242
-	-	-	32,348,263	-	32,348,263
-	125,980	-	2,374,020	-	2,500,000
-	-	-	433,565	-	433,565
-	-	-	-	679,653	679,653
-	475,292	-	-	-	475,292
-	-	-	-	-	2,091,210
-	-	-	-	-	337,380
-	-	-	-	-	485,533
-	-	-	-	-	105,151
-	-	-	-	-	2,362,091
-	-	-	-	-	51,957
3,457,353	-	-	-	-	3,457,353
-	1,264,388	-	-	-	1,264,388
-	-	1,170,616	-	-	1,170,616
-	-	-	72,137,617	-	72,137,617
\$ 5,353,045	\$ 2,603,385	\$ 1,170,616	\$ 107,298,707	\$ 748,741	\$ 126,537,085

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
Revenues and other additions:				
Unrestricted current funds revenue	\$ 49,123,836	\$ -	\$ -	\$ -
State appropriations - Restricted	-	1,976,550	-	-
Student tuition and fees - Restricted	-	-	-	-
Federal grants and contracts - Restricted	-	4,307,238	-	-
State grants and contracts - Restricted	-	163,247	-	-
Local grants and contracts - Restricted	-	129,957	-	-
Private gifts, grants, and contracts - Restricted	-	519,145	-	3,255
Investment income - Restricted	-	73,486	-	25,711
Security lending proceeds	-	-	-	-
Interest on loans receivable	-	-	14,582	-
Expended for plant facilities (Including \$1,044,836 charged to current funds)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Other sources	-	6,300	1,721	-
Total revenues and other additions	49,123,836	7,175,923	16,303	28,966
Expenditures and other deductions:				
Educational and general expenditures	33,947,665	7,122,756	-	-
Auxiliary enterprises expenditures	11,469,981	-	-	-
Indirect costs recovered	-	205,394	-	-
Loan cancellations, assignments and write-offs	-	-	575,808	-
Administrative and collection costs	-	-	998	-
Expended for plant facilities (Including \$1,959,552 not capitalized)	-	-	-	-
Security lending payments	-	-	-	-
Unrealized loss on investments	-	-	-	44,864
Realized loss on sale of investments	-	-	-	125,389
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Disposal of plant assets	-	-	-	-
Refunded to grantors	-	7,036	-	-
Reversion to the general fund of the Commonwealth	-	-	-	-
Total expenditures and other deductions	45,417,646	7,335,186	576,806	170,253
Transfers among funds - Additions/(Deductions):				
Mandatory:				
Debt service	(2,883,881)	(130,565)	-	2,216
Nonmandatory- (To)/from other funds	(1,552,851)	217,288	-	-
Total transfers among funds	(4,436,732)	86,723	-	2,216
Net increase (decrease) for the year	(730,542)	(72,540)	(560,503)	(139,071)
Fund balances at beginning of year	2,821,752	409,920	1,151,187	2,553,119
Fund balances at end of year	\$ 2,091,210	\$ 337,380	\$ 590,684	\$ 2,414,048

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

Plant Funds			
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -
2,179,321	210,556	265,815	-
-	565,220	-	-
2,002	-	-	-
-	-	-	-
1,653,296	-	-	-
520,000	-	-	-
104,828	341,762	1,033	-
-	23,996	-	-
-	-	-	-
-	-	-	11,102,111
-	-	-	1,582,393
-	460,376	-	-
4,459,447	1,601,910	266,848	12,684,504
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
6,469,277	5,547,550	-	-
-	23,131	-	-
-	-	-	-
-	-	-	-
-	-	1,582,393	-
-	-	1,639,695	-
-	-	-	426,839
-	-	-	-
-	431,540	-	-
6,469,277	6,002,221	3,222,088	426,839
-	-	2,905,240	-
3,336,215	(2,000,652)	-	-
3,336,215	(2,000,652)	2,905,240	-
1,326,385	(6,400,963)	(50,000)	12,257,665
2,130,968	7,665,351	1,220,616	59,879,952
\$ 3,457,353	\$ 1,264,388	\$ 1,170,616	\$ 72,137,617

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	\$ 10,340,275	\$ -	\$ 10,340,275
State appropriations (Note 8)	22,787,065	1,971,415	24,758,480
Federal grants and contracts	-	4,180,502	4,180,502
State grants and contracts	-	177,708	177,708
Local grants and contracts	-	122,130	122,130
Private gifts, grants, and contracts	-	505,205	505,205
Investment income	-	77,001	77,001
Sales and services of educational departments	24,186	-	24,186
Sales and services of auxiliary enterprises	14,986,180	-	14,986,180
Other sources	986,130	219,360	1,205,490
Total current revenues	49,123,836	7,253,321	56,377,157
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	17,385,647	103,718	17,489,365
Research	-	2,007,645	2,007,645
Public service	434,654	76,916	511,570
Academic support	4,520,025	43,985	4,564,010
Student services	3,067,091	6,750	3,073,841
Institutional support	4,900,211	17,364	4,917,575
Operation and maintenance of plant	3,629,405	-	3,629,405
Scholarships and fellowships	10,632	4,996,943	5,007,575
Educational and general expenditures	33,947,665	7,253,321	41,200,986
Mandatory transfer for debt service	78,077	-	78,077
Total educational and general	34,025,742	7,253,321	41,279,063
Auxiliary enterprises:			
Operating expenditures	11,469,981	-	11,469,981
Mandatory transfers for debt service	2,805,804	-	2,805,804
Total auxiliary enterprises	14,275,785	-	14,275,785
Total expenditures and mandatory transfers	48,301,527	7,253,321	55,554,848
Other transfers and additions/(deductions):			
Deficiency of restricted receipts under transfers to revenue	-	(282,792)	(282,792)
Refunded to grantors	-	(7,036)	(7,036)
Nonmandatory transfers	(1,552,851)	217,288	(1,335,563)
Net decrease in fund balances	\$ (730,542)	\$ (72,540)	\$ (803,082)

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

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Christopher Newport University have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the University are as follows:

A. Reporting Entity

Christopher Newport University is an institution of higher education located in Newport News, Virginia. The University operates under policy guidelines established by the State Council of Higher Education in Virginia and is governed by a Board of Visitors.

A separate report is prepared for the Commonwealth of Virginia, which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The University utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants' audit guide, Audits of Colleges and Universities. The accompanying financial statements include no provision for the depreciation of plant assets.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds which may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally-restricted funds may only be utilized in accordance with the purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to state laws and regulations governing such funds.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Current Restricted Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the University.

Loan Funds - Loan funds represent funds which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students, faculty, and staff.

Endowment and Similar Funds - Endowment and similar funds record the usage of income from moneys subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, and any portion of quasi-endowment may be expended.

Plant Funds - Plant funds are divided into four groups: Unexpended Plant, Renewals and Replacements, Retirement of Indebtedness, and Investment in Plant. Unexpended plant funds represent funds which were specified by external sources or designated by the Board of Visitors for the acquisition and construction of physical properties. Renewal and replacement funds represent funds for the renovation and replacement of physical properties. Retirement of indebtedness funds represent resources held for the retirement of both principal and interest on debt. Investment in Plant represents the capitalized value of physical property owned by the University, less associated long-term debt.

Agency Funds - Agency funds reflect funds held in custody for others by the University.

D. Accrued Leave

Accrued leave represents the amount of annual, sick, and compensatory leave earned, but not taken as of June 30, 2001. The amount represents all earned annual, 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.

E. Investments

Investments are stated at fair market value. Realized and unrealized gains and losses arising from the sale, collection, or other disposition of investments, market fluctuations, and other noncash assets are accounted for in the fund which owns such assets, except income derived from investments of endowment and similar funds, whose income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in current unrestricted funds.

F. Inventory

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

G. Investment in Plant

Plant assets are stated at cost, or if donated, at fair market value at the date of donation. Construction in progress is capitalized as expended and reflected in investments in plant. Expenditures for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of moveable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

H. Deferred Revenue

Deferred revenue represents monies received, but not earned as of June 30, 2001. This is primarily composed of student tuition and fees received in advance of the academic term.

I. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities and fund balances of the Christopher Newport University Educational Foundation, Inc. or the Christopher Newport University Real Estate Foundation, Inc. The purpose of these foundations is to solicit, receive, hold, and administer gifts of real and personal property for the continuing support of the University. The foundations have not been audited.

The following is a condensed summary of the financial position, which the foundations have submitted to the University at June 30, 2001:

	<u>Educational and Real Estate Foundations</u>
Assets	<u>\$25,247,808</u>
Liabilities	\$15,265,269
Fund balances	<u>9,982,539</u>
Total liabilities and fund balances	<u>\$25,247,808</u>
Revenues	<u>\$ 3,365,201</u>
Expenditures	<u>\$ 1,222,932</u>

3. CASH

All state funds of the University are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying balance sheet and is not categorized as to credit risk. Certain deposits also are held by the University. Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits.

4. INVESTMENTS

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments, which are otherwise legal investments of the University.

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2001. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. The University had no investments in categories 2 and 3. Since they do not represent specific securities investments, mutual and money market funds are not categorized as to risk.

	<u>Category 1</u>	<u>Market Value</u>
U.S. Government securities	\$ 272,184	\$ 272,184
Corporate bonds	1,439,008	1,439,008
Corporate stocks	<u>1,645,272</u>	<u>1,645,272</u>
Total long term investments	<u>\$3,356,464</u>	<u>\$3,356,464</u>
Mutual, money market funds		<u>402,368</u>
Total investments		<u>\$3,758,832</u>

Collateral held for securities lending totaling \$475,292 represents the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth.

5. LONG-TERM DEBT

A summary of changes in long-term indebtedness follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2001</u>
Bonds payable	\$33,614,160	\$ -	\$1,265,897	\$32,348,263
Notes payable	10,531	-	5,289	5,242
Leases payable	<u>674,245</u>	<u>70,523</u>	<u>311,207</u>	<u>433,565</u>
Total	<u>\$34,298,936</u>	<u>\$70,523</u>	<u>\$1,582,393</u>	<u>\$32,787,070</u>

Long-term debt of the University at June 30, 2001, consists of the following:

<u>Bonds Payable</u>	<u>Balance at June 30, 2001</u>
Dormitory Revenue Bonds, Series 1992 issued \$7,970,000 (reduced to \$1,175,000 due to refinancing in March 1998); balance payable in annual installments of \$175,000 to \$195,000 with interest of 5.6% to 5.8% payable semiannually, final installment due in 2004	\$ 555,000
Campus Center Phase II Revenue Bonds, Refunding Series June 1993, issued \$463,037; balance payable in annual installments varying from \$388 to \$225,388 with interest of 4.7% to 4.9% payable semiannually, final installment due in 2004	226,164
Track Revenue Bonds, Refunding Series June 1993, issued \$79,865; balance payable in annual installments varying from \$60 to \$35,060 with interest of 4.7% to 4.9% payable semiannually, final installment due in 2004	35,181
Track Revenue Bonds, Refunding Series December 1993, issued \$185,483; balance payable in annual installments varying from \$29,479 to \$32,710 with interest of 4.3% to 4.5% payable semiannually, final installment due in 2003	62,189
Campus Center Phase II Revenue Bond, Refunding Series December 1993, issued \$1,117,349; balance payable in annual installments varying from \$185,856 to \$186,916 with interest of 4.3% to 4.5% payable semiannually, final installment due in 2003	372,772
Dormitory Revenue Bond, Refunding Series December 1993, issued \$3,570,000; balance payable in annual installments varying from \$10,000 to \$555,000 with interest of 4.300% to 5.125% payable semiannually, final installment due in 2022	3,515,000
Dormitory Revenue Bond, Series December 1994, issued \$2,435,000 (reduced to \$755,000 in January 1996 and subsequently to \$520,000 in March 1998 due to refinancing); balance payable in annual installments varying from \$55,000 to \$70,000 with interest of 6.0% to 6.1% payable semiannually, final installment due in 2006	320,000
Dormitory Revenue Bond, Refunding Series 1996, issued \$1,891,844; balance payable in annual installments varying from \$9,363 to \$175,000 with interest of 4.750% to 5.125% payable semiannually, final installment due in 2021	1,834,771

Dormitory Revenue Bond, Refunding Series 1998, issued \$3,260,396; balance payable in annual installments varying from \$27,717 to \$338,903 with interest of 3.9% to 5.0% payable semiannually, final installment due in 2015	\$ 3,158,143
Dormitory Revenue Bond, Refunding Series 1998, issued \$170,067; balance payable in annual installments varying from \$1,506 to \$80,000 with interest of 3.9% to 5.0% payable semiannually, final installment due in 2008	164,043
Sports and Wellness Center Revenue Bond, Series 1998A, issued \$10,255,000; balance payable in annual installments varying from \$365,000 to \$760,000 with interest of 4.53% payable semiannually, final installment due in 2019	9,555,000
Dormitory II Revenue Bond, Series 1999, issued \$12,980,000; balance payable in annual installments varying from \$450,000 to \$1,030,000 with interest of 4.75% to 5.25% payable semiannually, final installment due in 2019	<u>12,550,000</u>
Total bonds payable	<u>32,348,263</u>

Notes Payable

Pitney Bowes postage mailing system; issued \$23,050, payable in quarterly installments of \$1,611, including interest of 13.42%, final installment due in 2002	<u>5,242</u>
Total notes payable	<u>5,242</u>

Leases Payable

The University has entered into a capital lease agreement with the Virginia College Building Authority (VCBA). Under the terms of the lease, the University is authorized to purchase instructional equipment from an approved list of equipment items in an amount not to exceed the principal amount of the lease. Payments for such purchases are to be reimbursed to the University by the VCBA from bond proceeds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund of the Commonwealth, an amount sufficient to repay principal and interest, for the general fund portion of the lease payment, and the University is required to pay the non-general fund portion of the lease payment. The agreement is payable over a five-year period with interest of 3.50% to 5.35% payable semiannually.	362,647
On September 1, 1998, the University entered into a capital lease with Software Productivity Strategist, Inc. for the lease of a Hewlett Packard 3000, Series 939. The lease is payable over a three year period at a lease rate of 3.178%.	4,621

On February 21, 2001, the University entered into a capital lease through the Commonwealth of Virginia for the purchase of a Vingcard System for the Residence Hall. The lease is payable over five years at a lease rate of 4.471%.

\$ 66,297

Total leases payable

433,565

Total long-term indebtedness

\$32,787,070

A summary of future principal and interest obligations under long-term debt as of June 30, 2001, follows:

Year Ending <u>June 30,</u>	Bonds <u>Payable</u>	Notes <u>Payable</u>	Capital <u>Leases</u>
2002	\$ 2,859,381	\$5,242	\$278,346
2003	2,858,141	-	143,596
2004	2,891,966	-	15,766
2005	2,621,287	-	15,766
2006	2,613,396	-	10,511
Later years	<u>35,961,568</u>	<u>-</u>	<u>-</u>
Total	49,805,739	5,242	\$463,985
Less: Interest	<u>(17,457,476)</u>	<u>-</u>	<u>(30,420)</u>
Net	<u>\$32,348,263</u>	<u>\$5,242</u>	<u>\$433,565</u>

6. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal years 1994, 1997, and 1998, certain 1992C and 1994 General Obligation Bonds were defeased by the University. The net proceeds from the sale 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, 2001, the following amount of defeased bonds were outstanding:

	Balance at <u>June 30, 2001</u>
Series 1992C	\$6,405,000
Series 1994	<u>1,820,000</u>
Total	<u>\$8,225,000</u>

7. COMMITMENTS

At June 30, 2001, the University was committed to construction contracts totaling approximately \$42,928,189 of which \$22,877,880 had been recorded as construction in progress. Retainage payable at \$425,325 represents amounts owed to contractors for work completed, but held by the University pending project completion.

The University is a party to several operating lease agreements for a period of one year, which generally have renewal options. Rental expense under operating leases was \$670,262 for the year ended June 30, 2001. Commitments for subsequent fiscal years are as follows:

Year Ending <u>June 30,</u>	
2002	\$1,667,241
2003	1,748,373
2004	1,759,265
2005	1,758,606
2006	<u>1,771,221</u>
Total	<u>\$8,704,706</u>

8. STATE APPROPRIATIONS - CURRENT FUNDS-UNRESTRICTED

The Appropriation Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the 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.

During the year ended June 30, 2001, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the Appropriation Act of 2000, Chapter 1073, Acts of Assembly:

Appropriation	\$22,659,721
Supplemental appropriations:	
Salary regrades	99,642
Health care premiums	222,830
Virtual Library of Virginia	4,863
Applied Research Center	26,250
Mandatory budget reductions:	
Employee benefits	(183,982)
VCBA debt obligation	<u>(42,259)</u>
Adjusted appropriations	<u>\$22,787,065</u>

9. STUDENT LOAN FUNDS

On May 24, 2000, the University notified the U.S. Department of Education that the University had decided to end its participation in the Perkins Federal Loan Program. The University made no new loans from this program during the fiscal year. All outstanding loans from this program will be assigned to the U.S. Department of Education and the federal capital contribution will be returned upon closure of this program.

10. RETIREMENT AND PENSION PLANS

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed contribution programs where the retirement benefits received are based upon the employer contributions of 5.4 percent and employee contributions of five percent (also paid by the employer) plus interest and dividends. Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employees' contributions. Total pension costs under this plan were approximately \$1,031,744 for the year ended June 30, 2001. Contributions to other retirement plans were calculated using the base salary amount of approximately \$9,920,615.

11. POST-EMPLOYMENT BENEFITS

The University participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees of the Commonwealth. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate 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).

12. CONTINGENCIES

The University receives assistance from grantor agencies in the form of grants and contracts for specific purposes that are subject to review and audit by the grantor agencies. Claims against those resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from final settlement may become a liability of the University. As of June 30, 2001, the University estimates that no material liabilities will result from such settlements.

13. RISK MANAGEMENT

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. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

14. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, issued November 1999, will be effective for Christopher Newport University for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the University's overall financial position and results of operations including a comparison of current year results with the prior year. Christopher Newport University has completed its assessment of the changes required by this Statement and is preparing for implementation.

CHRISTOPHER NEWPORT UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES
AND EXPENDITURES
For the Year Ended June 30, 2001

	Auxiliary Support	Intercollegiate Athletics	Bookstore	Residential Life	Dining Services	Total
Revenues:						
Student fees	\$1,193,887	\$3,341,892	\$ -	\$3,639,415	\$1,672,630	\$9,847,824
Sales and services	396,568	101,570	2,947,972	145,168	1,434,926	5,026,204
Other income	-	-	112,152	-	-	112,152
Total revenues	1,590,455	3,443,462	3,060,124	3,784,583	3,107,556	14,986,180
Cost of sales	-	-	2,069,021	-	1,304,279	3,373,300
Net revenues	1,590,455	3,443,462	991,103	3,784,583	1,803,277	11,612,880
Expenses of operation:						
Personal services	699,483	1,466,595	298,582	565,598	1,244,575	4,274,833
Contractual services	214,085	394,534	93,258	369,440	203,756	1,275,073
Supplies and materials	89,156	308,022	15,248	131,635	71,379	615,440
Continuous charges and obligations	180,349	459,029	100,080	510,889	370,693	1,621,040
Equipment	78,363	136,235	10,903	58,494	26,300	310,295
Total expenses of operation	1,261,436	2,764,415	518,071	1,636,056	1,916,703	8,096,681
Excess (deficiency) of revenues over (under) expenses of operation before transfers	329,019	679,047	473,032	2,148,527	(113,426)	3,516,199
Transfers:						
Mandatory:						
Debt service	(203,856)	(763,848)	-	(1,841,151)	3,051	(2,805,804)
Nonmandatory:						
(To)/from other funds	(630,076)	-	(217,288)	(705,487)	-	(1,552,851)
Net increase (decrease) in fund balances	(504,913)	(84,801)	255,744	(398,111)	(110,375)	(842,456)
Fund balances (deficits) at beginning of year	780,699	(66,469)	1,872,358	644,237	7,479	3,238,304
Fund balances (deficits) at end of year	\$ 275,786	\$ (151,270)	\$ 2,128,102	\$ 246,126	\$ (102,896)	\$ 2,395,848

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia

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