CHRISTOPHER NEWPORT UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

APA
Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2007, found the following:

- the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting principles;
- no internal control matters that we consider to be material weaknesses;
- one instance of noncompliance required to be reported under Government Auditing Standards; and
- the University has taken adequate corrective action with respect to the audit finding reported in the prior year.

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COMPLIANCE FINDING AND RECOMMENDATION

Properly Complete Employment Eligibility Verification Forms

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

In our sample of fifteen I-9 forms completed, we found one or more errors on five of the forms as follows:

- Three employees did not date the form on the first day of employment; and

- Two forms did not provide sufficient information regarding the verification documents such as document number, expiration date, or issuing authority.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. In addition, we recommend that the University be cautious regarding the number of documents requested from each employee because employers requesting more than the minimum required documentation from employees could be subject to fines and penalties, as the U.S. Department of Homeland Security considers this a form of harassment. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process in place to complete I-9 forms even more important.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following Management's Discussion 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, 2007, with comparative numbers for the year ended June 30, 2006. 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 Foundation's 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, 2007. 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. Beginning net assets and other current assets have been restated by a reduction of $5,845,119 due to reporting guideline changes for the Treasury reimbursement program.

Statement of Net Assets

	As of June 30, 2007	As of June 30, 2006	Variance	Percent
Assets:				
Current assets	$ 14,679,350	$ 11,766,748	$ 2,912,602	25%
Capital assets, net	244,245,913	236,534,231	7,711,682	3%
Other noncurrent assets	26,082,907	9,322,769	16,760,138	>100%
Total assets	285,008,170	257,623,748	27,384,422	11%
Liabilities:				
Current liabilities	18,339,793	15,517,257	2,822,536	18%
Noncurrent liabilities	106,806,068	109,802,480	(2,996,412)	(3%)
Total liabilities	125,145,861	125,319,737	(173,876)	(<1%)

Net assets:				
Invested in capital assets,				
net of related debt	132,343,123	121,384,140	10,958,983	9%
Restricted, nonexpendable	3,484,662	3,100,218	384,444	12%
Restricted, expendable	19,134,947	2,340,008	16,794,939	>100%
Unrestricted	4,899,577	5,479,645	(580,068)	(11%)
Total net assets	$159,862,309	$132,304,011	$27,558,298	21%

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

The University's total assets increased $27,384,422 while total liabilities decreased slightly by $173,876. This is due to an increase of current assets, a decrease in net Capital assets and an increase to non-depreciable Capital Assets and unspent state appropriations for capital projects. Specifically,

- Current assets increased by $2.9 million due to the change in reporting on the treasury reimbursement program. This change required Universities to report a Due from the Commonwealth for Virginia College Building Authority reimbursement requests for capital project expenses incurred prior to June 30, 2007, but not reimbursed until fiscal year 2008. Current assets also increased because of additional Cash with Treasurer due to the payment of only two payrolls in June 2007, compared to three payrolls paid in June 2006 which was a result of not having a state approved budget for fiscal year 2007 at June 30, 2006.

- The increase in net capital assets of $7.7 million consists primarily of an increase in non-depreciable capital assets due to an increase in construction in progress consisting primarily of the Library Information Technology Center of $3.6 million, David Student Union of $2.0 million and Gosnold Hall of $2.0 million; plus an increase in land due to the Yoder Barn property of $2.2 million which was gifted to the University in Spring 2007. The increases were offset by $1.7 million due to the increase in depreciation expense.

- Other non-current assets increased by $16.8 million because of unspent state appropriations for capital projects at year end. The increase in unspent state appropriations consisted of the construction of a new academic building and Gosnold Hall renovations for $16.6 million and the new science building planning of $1.0 million. The increases were offset by a decrease in investments.

The combination of increase in total assets and slight decrease in total liabilities resulted in an increase in net assets at June 30, 2007 of $27,558,298 or twenty one percent.

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, 2007	June 30, 2006	Variance	Percent
Operating revenues:				
Student tuition and fees, net	$ 19,122,359	$ 16,793,004	$ 2,329,355	14%
Federal grants and contracts	2,690,880	2,378,413	312,467	13%
State grants and contracts	430,045	537,271	(107,226)	(20%)
Nongovernmental grants and contracts	978,638	930,250	48,388	5%
Auxiliary enterprises, net	43,069,202	34,593,937	8,475,265	24%
Other operating revenues	315,510	4,220,718	(3,905,208)	(93%)
Total operating revenues	66,606,634	59,453,593	7,153,041	12%
Operating expenses:				
Instruction	22,574,299	20,599,180	1,975,119	10%
Research	1,611,359	815,352	796,007	98%
Public service	915,313	6,209,186	(5,293,873)	(85%)
Academic support	6,246,186	6,535,000	(288,814)	(4%)
Student services	4,333,831	3,858,964	474,867	12%
Institutional support	5,989,567	6,280,175	(290,608)	(5%)
Operation and maintenance of plant	5,804,165	7,332,096	(1,527,931)	(21%)
Depreciation	6,206,733	4,500,460	1,706,273	38%
Student aid	1,669,525	1,812,241	(142,716)	(8%)
Auxiliary enterprises	38,361,026	27,657,061	10,703,965	39%
Total operating expenses	93,712,004	85,599,715	8,112,289	9%
Operating loss	(27,105,370)	(26,146,122)	(959,248)	4%
Non-operating revenues, net	26,045,407	25,306,274	739,133	3%
Net other revenues	28,618,261	1,665,393	26,952,868	>100%
Increase in net assets	27,558,298	825,545	26,732,753	>100%
Net assets beginning of year	132,304,011	131,478,466	825,545	1%
Net assets end of year	$159,862,309	$132,304,011	$ 27,558,298	21%

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 a non-operating revenue because it is provided by the state legislature without the legislature directly receiving commensurate goods and services for these revenues.

Operating revenues include tuition and fees and auxiliary enterprises revenues. Tuition and fee revenues increased by $2,329,355. In-state and out-of-state tuition increased by $342 or 9.9 percent and 3.2 percent, respectively for fiscal year 2007. Auxiliary revenues increased due to an increase in comprehensive fees of $292 or 12.4 percent, an increase in room and board of approximately eight percent, an increase in housing occupancy, and the reclassification of the Ferguson Center Concert Hall from other operating revenue to Auxiliary.

Operating expenses increased by $8,112,289 from the previous year. This increase was due to an average increase in salaries and wages of four percent, an increase in depreciation expense for the Yoder Barn Property, and a full year of depreciation on the Ferguson Center Concert Hall and the David Student Union. Public service expenses decreased due to the reclassification of the Ferguson Center Concert Hall which caused a corresponding increase to Auxiliary.

The non-operating revenue saw an increase in the state appropriations of $1,164,705 as a result of adjustments for salary and fringe benefit increases. However, net investment income decreased by $347,847 due to the receipt in fiscal year 2006 of investment income on bond supported projects which were not received in fiscal year 2007.

Net other revenues increased by $26,952,868 due to an increase in state appropriations for capital expenditures to fund the construction of a new Academic Building and Gosnold Hall renovations for $18.6 million, new Science Building planning for $1.0 million the Library Information Technology Center for $2.9 million and the Yoder Barn gift of $3.7 million.

Statement of Cash Flows

The Statement of Cash Flows presents the detailed information pertaining to the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by operating activities of the institution. Significant sources of cash include student tuition and fees ($18,630,245), auxiliary enterprises receipts ($43,350,137), and grants and contracts ($4,101,170). Major uses of cash include payments for salaries, wages, and fringe benefits ($46,574,452), payments for supplies and services ($30,457,466), utilities ($3,339,261), and plant improvements and equipment ($3,113,339). The increase in operating activities of $4,810,982 is primarily due to increased cash flows from Auxiliary enterprises.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs and financial aid of $29,796,364, which is an increase from the prior year of $1,164,705.

The third section reflects cash flows from capital financing activities used for the acquisition and construction of capital related items. The primary source of cash was proceeds from state appropriation for capital projects to fund the construction of a new Academic Building and Gosnold Hall renovations for $18.6 million, new Science Building planning for $1.0 million, and the Library Information Technology Center for $2.9 million. In addition, capitalized asset additions decreased in fiscal year 2007.

The fourth section reflects cash flows from investing activities and includes interest on investments, purchase of investments, and sales of investments. Investment activity, which decreased by $10,552,210 in fiscal year 2007, is due to the completion of the construction of the Student Union Center.

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

Statement of Cash Flows

	June 30, 2007	June 30, 2006	Variance	Percent
Cash flows from operating activities	$ (17,887,824)	$ (22,698,806)	$ 4,810,982	21%
Cash flows from noncapital financing activities	30,438,250	29,210,702	1,227,548	4%
Cash flows from capital financing activities	3,905,341	(31,474,887)	35,380,228	>100%
Cash flows from investing activities	2,588,177	13,140,387	(10,552,210)	(80%)
Net change in cash	$ 19,043,944	$ (11,822,604)	$ 30,866,548	>100%

Capital Asset and Debt Administration

Overall, increases to "Invested in capital assets" reflect the continued substantial campus construction taking place at the University. Significant fiscal year 2007 capital projects include the Library Information Technology Center, Student Union, and Gosnold Hall renovations. The Library and Gosnold Hall are funded through state appropriations. The remainder of the projects were funded through the issuance of 9(d) revenue bonds.

The University's bond debt decreased by $2,529,131 as of June 30, 2007, due to principal payments in excess of new debt issuances. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statements in Note 4 and 7.

Economic Outlook

The University's economic outlook is closely related to its role as one the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. In fiscal year 2008 the original state appropriations for education and general increased by $1,232,691. However, in October 2007 the Governor issued a five percent budget reduction in order to offset the decrease in revenue projections for fiscal year 2008. The total reduction for the University is $1,369,720. In addition, the University's governing board increased tuition by six percent, comprehensive fees by 13.7 percent and room and board by 4.9 percent for fiscal year 2008.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

	Christopher Newport University	Component Units CNU Educational and Real Estate Foundations
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 2)	$ 840,492	$ 4,712,790
Cash and cash equivalents Treasurer of Virginia (Note 2)	9,198,145	-
Cash and cash equivalents - securities lending (Note 2)	490,598	-
Accounts receivable, net of allowance (Note 3)	313,874	1,784,578
Contributions receivable, net of allowance (Note 3)	-	2,180,579
Due from Commonwealth (Note 3)	1,645,085	-
Prepaid expenses	1,004,034	14,708
Inventory	1,187,122	-
Total current assets	14,679,350	8,692,655
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	20,102,956	-
Restricted investments (Note 2)	3,484,662	11,906,161
Other investments (Note 2)	2,495,289	192,887
Contributions receivable, net of allowance (Note 3)	-	5,955,724
Other assets	-	1,800,009
Other restricted assets	-	535,071
Non-depreciable capital assets (Note 4)	67,206,617	15,169,653
Capital assets, net (Note 4)	177,039,296	49,545,815
Total noncurrent assets	270,328,820	85,105,320
Total assets	285,008,170	93,797,975

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

	Christopher Newport University	Component Units CNU Educational and Real Estate Foundations
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	7,156,270	1,474,306
Deferred revenue	957,756	-
Obligations under securities lending (Note 2)	2,423,344	-
Deposits held in custody for others	848,597	3,439,028
Long-term liabilities - current portion (Note 6)	6,953,826	1,548,224
Total current liabilities	18,339,793	6,461,558
Noncurrent liabilities (Note 6)	106,806,068	65,179,845
Total liabilities	125,145,861	71,641,403
NET ASSETS		
Invested in capital assets, net of related debt	132,343,123	1,183,351
Restricted for:		
Nonexpendable - scholarships and fellowships	3,484,662	9,709,627
Expendable:		
Scholarships and fellowships	139,880	450,090
Academic support	-	903,074
Capital projects	18,916,594	662,916
Other	78,473	4,933,160
Unrestricted	4,899,577	4,314,354
Total net assets	$ 159,862,309	$ 22,156,572

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, 2007

	Christopher Newport University	Component Units CNU Educational and Real Estate Foundations
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $474,604	$ 19,122,359	$ -
Federal grants and contracts	2,690,880	-
State grants and contracts	430,045	-
Nongovernmental grants and contracts	978,638	-
Gifts and contributions	-	2,606,528
Auxiliary enterprises, net of scholarship allowances of $3,323,586	43,069,202	-
Lease and rental revenue	-	5,516,763
Other operating revenue	315,510	986,922
Total operating revenues	66,606,634	9,110,213
Operating expenses (Note 8):		
Instruction	22,574,299	-
Research	1,611,359	-
Public service	915,313	-
Academic support	6,246,186	-
Student services	4,333,831	-
Institutional support	5,989,567	1,463,138
Operation and maintenance of plant	5,804,165	2,022,492
Depreciation	6,206,733	2,023,373
Student aid	1,669,525	308,258
Auxiliary enterprises	38,361,026	3,074,500
Total operating expenses	93,712,004	8,891,761
Operating gain/(loss)	(27,105,370)	218,452
Nonoperating revenues (expenses):		
State appropriations (Note 9)	29,796,364	-
Gifts	817,659	-
Investment income, net of investment expenses of $16,629	1,128,733	1,219,663
Interest on capital asset related debt	(5,518,263)	(3,039,044)
Other non-operating revenues (expenses)	67,191	-
Gain (loss) on disposal of plant assets	(246,277)	65,766
Net nonoperating revenues/(expenses)	26,045,407	(1,753,615)

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2007

	Christopher Newport University	Component Units CNU Educational and Real Estate Foundations
Loss before other revenues/(expenses) and gains/(losses)	(1,059,963)	(1,535,163)
Capital appropriations	24,904,598	-
Capital gifts and grants	3,700,176	267,654
Extraordinary income (Note 16)	-	2,531,499
Additions to permanent endowments	13,487	3,389,370
Net other revenues	28,618,261	6,188,523
Increase in net assets	27,558,298	4,653,360
Net assets beginning of year - restated (Note 17)	132,304,011	17,503,212
Net assets end of year	$ 159,862,309	$ 22,156,572

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, 2007

Cash flows from operating activities:	
Student tuition and fees	$ 18,630,245
Grants and contracts	4,101,170
Auxiliary enterprises	43,350,137
Other receipts	323,683
Payments to employees	(46,574,452)
Payments for services and supplies	(30,457,466)
Payments for utilities	(3,339,261)
Payments for scholarships and fellowships	(805,116)
Payments for plant improvements and equipment	(3,113,339)
Loans issued to students and employees	(316,591)
Collection of loans from students and employees	313,166
Net cash used by operating activities	(17,887,824)
Cash flows from noncapital financing activities:	
State appropriations	29,796,364
Gifts and grants for other than capital purposes	866,327
Stafford loan receipts	9,969,633
Stafford loan disbursements	(9,969,633)
PLUS loan receipts	4,357,717
PLUS loan disbursements	(4,357,717)
Agency receipts	754,065
Agency payments	(778,506)
Payment to Treasurer of Virginia	(200,000)
Net cash provided by noncapital financing activities	30,438,250
Cash flows from capital financing activities:	
Capital appropriations	23,755,432
Proceeds from sale of revenue bonds	2,684,843
Purchase of capital assets	(11,670,779)
Principal paid on capital debt, leases, and installments	(5,345,347)
Interest paid on capital debt, leases, and installments	(5,518,808)
Net cash provided by capital financing activities	3,905,341
Cash flows from investing activities:	
Interest on investments	621,110
Purchase of investments	(2,945,124)
Sales of investments	4,912,191
Net cash provided by investing activities	2,588,177
Net increase in cash	19,043,944
Cash and cash equivalents - beginning of the year, restated	11,097,649
Cash and cash equivalents - end of the year	$ 30,141,593

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	$ (27,105,370)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	6,206,733
Changes in assets and liabilities:	
Receivables, net	34,250
Prepaid expenses	(996,178)
Inventory	196,947
Accounts payable and accrued expenses	2,948,903
Deferred revenue	279,784
Deposits held in custody	428,800
Accrued compensated absences	118,307
Net cash used by operating activities	$ (17,887,824)
Non-cash investing, non-capital financing, and capital and related financing transactions:	
Gift of capital assets	$ 3,700,176
Amortization of bond premium	$ 2,135
Change in fair value of investments recognized as a component of interest income	$ 362,512

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

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NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

Christopher Newport University (the 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 Standards Board (GASB) Statement 39, the Christopher Newport University Educational and Real Estate Foundations, Inc. (Foundations) 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. are legally separate, tax-exempt component units of Christopher Newport University. The Foundations 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, 2007, the Foundations distributed $435,618 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 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 and 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 Changes in Net Assets.

E. Capital Assets

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

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

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

F. 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.

G. 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.

H. 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, 2007.

I. 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, 2007. 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.

J. 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, *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

K. 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 expenses and apply resources on a case by case basis.

L. 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.

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

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures,* became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2007. The following risk disclosures are required by GASB.

Credit Risk – Credit risk is 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.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The University is not exposed to custodial credit risk at June 30, 2007.

Concentration of Credit Risk – Concentration of credit risk is 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 – Interest rate risk is 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, 2007.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2007.

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 Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, 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	$ 288,189
Money market and mutual funds	552,303
Treasurer of Virginia	29,791,699
Total cash and cash equivalents	30,632,191
Investments:	
State non-arbitrage program (SNAP)	562,543
Collateral held for securities lending	1,932,746
Mutual funds and Money Market	3,484,662
Total investments	5,979,951
Total cash, cash equivalents and investments	$36,612,142

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, cash equivalents, and investments at June 30, 2007.

The Foundations maintain several bank accounts. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At June 30, 2007, the Foundations had bank cash deposit balances of approximately $2,946,197 in excess of FDIC insured amounts. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC. These balances totaled approximately $128,807 at June 30, 2007.

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	$ 8,660,020
Managed investments	3,439,028
Total investments	$12,099,048

Investments are recorded on the Statement of Financial Condition as follows:

Unrestricted	$ 192,887
Funds invested for related entities	3,439,028
Temporarily restricted	1,727,262
Permanently restricted	6,739,871
Total investments	$12,099,048

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 brokers, 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. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	$ 82,273
Auxiliary enterprises	117,145
Federal, state, private grants and contracts	145,531
Other activities	3,425
Gross receivables	348,374
Less: Allowance for doubtful accounts	(34,500)
Net accounts receivable	$313,874

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2007:

Small Purchase Charge Card rebate	$ 212,302
Virginia College Building Authority 21st Century Bonds	2,400
Equipment Trust Fund	118,669
General Obligation Bonds	1,311,714
Total Due from Commonwealth of Virginia	$1,645,085

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, 2007, pledges receivable are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$ 418,134	$ 976,674	$1,057,764	$2,452,572
Receivable in one to five years	2,896,236	2,479,662	1,282,988	6,658,886
Receivable in more than five years	80,000	430,466	-	510,466
Total unconditional pledges	3,394,370	3,886,802	2,340,752	9,621,924
Less discount to net present value	(441,001)	(466,643)	(106,449)	(1,014,093)
Less allowance for uncollectible pledges receivable	(3,743)	(76,606)	(391,179)	(471,528)
Net unconditional pledges receivable	$2,949,626	$3,343,553	$1,843,124	$8,136,303

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 8,993,602	$2,161,833	$ -	$ 11,155,435
Construction in progress	48,411,948	9,467,189	1,827,955	56,051,182
Total non-depreciable capital assets	57,405,550	11,629,022	1,827,955	67,206,617
Depreciable capital assets:				
Buildings	182,957,611	1,780,827	-	184,738,438
Infrastructure	3,809,757	165,833	-	3,975,590
Equipment	9,077,448	946,151	1,349,888	8,673,711
Other improvements	14,562,269	1,215,734	-	15,778,003
Library materials	8,938,308	248,341	153,642	9,033,007
Total depreciable capital assets	219,345,393	4,356,886	1,503,530	222,198,749
Less accumulated depreciation:				
Buildings	22,116,662	4,179,065	-	26,295,727
Infrastructure	169,115	278,996	-	448,111
Equipment	6,481,085	792,856	1,110,350	6,163,591
Other improvements	3,685,488	598,038	-	4,283,526
Library materials	7,764,362	357,778	153,642	7,968,498
Total accumulated depreciation	40,216,712	6,206,733	1,263,992	45,159,453
Depreciable capital assets, net	179,128,681	(1,849,847)	239,538	177,039,296
Total capital assets, net	$236,534,231	$9,779,175	$2,067,493	$244,245,913

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

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

Property held for investment	$63,819,464
Property held for sale	33,590
Furniture and equipment	2,544,029
Construction in progress	4,516,502
Collections	148,870
Total	71,062,455
Less accumulated depreciation	(6,346,987)
Net assets	$64,715,468

Depreciation charged to expense, including depreciation on buildings, furniture, and equipment and property held for investment, totaled $1,858,886 in 2007. No interest expense was capitalized during fiscal year 2007.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages, and fringe benefits payable	$ 3,408,704
Vendors and suppliers accounts payable	2,900,102
Retainage payable	847,464
Total accounts payable and accrued liabilities	$ 7,156,270

6. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 7), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2007 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 79,270,000	$2,512,278	$3,042,135	$ 78,740,143	$3,258,660
General obligation bonds	34,799,885	-	1,999,274	32,800,611	2,083,784
Capital leases	12,206	-	12,206	-	-
Installment purchases	1,068,000	185,310	361,874	891,436	393,082
Total long-term debt	115,150,091	2,697,588	5,415,489	112,432,190	5,735,526
Accrued compensated absences	1,209,397	1,452,134	1,333,827	1,327,704	1,218,300
Total long-term liabilities	$116,359,488	$4,149,722	$6,749,316	$113,759,894	$6,953,826

7. LONG TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(d) bonds are revenue bonds, which are limited obligations of the University, payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia. Pledged revenues include revenues of the University not required by law to be used for another purpose. The University issued 9(d) bonds through the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

In November 2006 the University issued Series 2006, 9(d) revenue bonds through the Virginia College Building Authority's (VCBA) Public Higher Education Financing Pooled Bond Program in the amount of $2,440,000. Proceeds from the bonds will be used towards construction of new Student Housing. The bonds were issued with interest rates varying from 3.0 percent to 5.0 percent and mature in 2027. In addition, the premium associated with these revenue bonds was amortized over the life of the series as opposed to being expensed as in prior years.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2007
Revenue bonds:			
Athletics, Series 1998A	4.53	2019	$ 5,970,000
Series 2002A	3.0 – 5.25	2023	5,155,000
Series 2002A	3.0 – 5.25	2023	1,165,000
Series 2003A	2.0 – 5.00	2024	1,145,000
Series 2004R	3.0 – 5.00	2014	1,130,000
Student Center, Series 2001A	3.0 – 4.87	2021	930,000
Series 2002A	3.0 – 5.25	2023	290,000
New Student Center, Series 2002A	4.0 – 5.25	2023	7,910,000
Series 2004A	3.0 – 5.00	2026	21,550,000
Parking Deck I, Series 2002A	4.0 – 5.25	2023	7,525,000
Parking Deck II, Series 2005A	3.5 – 5.00	2026	1,960,000
Residence Hall IV, Series 2002A	4.0 – 5.25	2023	21,500,000
Student Center, Series 2006A	3.0 – 5.00	2027	2,510,143
Total revenue bonds			78,740,143
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 1998R	3.5 – 4.7	2015	2,320,163
Series 1998R	3.5 – 4.3	2008	80,000
Series 1999	4.8 – 5.3	2019	1,220,000
Series 2001	2.1 – 4.9	2021	5,970,000
Series 2003R	2.5 – 5.5	2011	662,797

Series 2004R	4.0 – 5.0	2019	8,240,372
Series 2004R	4.0 – 5.0	2020	12,582,279
Series 2006R	3.87 – 5.0	2021	1,725,000
Total general obligation bonds			32,800,611
Total bonds payable			111,540,754
Installment purchases	3.0	2009	891,436
Total			$112,432,190

Long-term debt matures as follows:

	Principal	Interest
2008	$ 5,735,526	$ 5,390,055
2009	5,970,730	5,115,734
2010	5,925,327	4,831,746
2011	6,192,248	4,557,482
2012	6,272,236	4,267,395
2013-2017	35,046,351	16,311,512
2018-2022	35,559,525	7,136,749
2023-2027	11,730,247	852,292
Total	$112,432,190	$48,462,965

Defeasance of Debt – Prior Years

During fiscal years 1994, 1997, 1998, 2004, 2005 and 2006, certain 1992C, 1994, 1999, and 2001 General Obligation Bonds were defeased by the University. The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2007, $29,859,045 of the bonds considered defeased remained outstanding.

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

Bonds Payable

In March 2001, the Foundations entered into an agreement with the Industrial 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, 2007, the balance outstanding on the bonds was $3,432,972. The bonds are payable, interest only, until July 2006 at which time principal curtailments are scheduled to begin. The bonds mature June 2011.

In November 2001, the Foundations entered into an agreement with the Industrial Development Authority of the County of James City, 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, 2007, the balance outstanding on the bonds was $9,172,540. 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 Industrial Development Authority of the County of James City, 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, 2007, the balance outstanding on the bonds was $5,091,175. 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 $26,900,000 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, 2007, the balance outstanding on the bonds was $26,600,000. 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 $17,500,000 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. At June 30, 2007, the balance outstanding on the bonds was $15,975,000. Scheduled principal curtailments begin in August 2007. The bonds mature August 2036.

The Bond Commitment documents contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2007, the Foundations were in compliance with all financial covenants.

Long-term debt and bond maturities for the succeeding fiscal years ending June 30 are as follows:

Year	Amount
2008	$ 834,439
2009	924,428
2010	1,013,640
2011	4,921,555
2012	2,320,252
Thereafter	54,903,538
Total	$64,917,852

Notes Payable

Notes payable at June 30, 2007 consists of the following:

Bank of America, secured, interest due quarterly at the Eurodollar rate plus 0.95 percent. Principal due August 2010.	$ 648,473
Towne Bank, secured, interest due monthly at WSJ prime rate less 5 percent, maximum rate of 6 percent. Six $25,000 annual principal payments. Principal due December 2011.	1,284,311
Old Point National Bank, secured, interest at 5.375 percent. Principal and interest payments of $19,186 due monthly. Principal due August 2014.	2,713,381
Total	$4,646,165

Fair Value of Financial Instruments

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

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

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

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, 2007 is as follows:

Hedging Instrument	Variable Rate	Fixed Rate Percent	Expiration	Fair Value
$8,000,000 interest rate swap	65 percent of LIBOR + 0.82 percent	5.23	September 2013	$(220,365)
$5,500,000 interest rate swap	65 percent of LIBOR + 0.88 percent	5.14	September 2013	(352,230)
$10,000,000 interest rate swap	65 percent of LIBOR + 0.88 percent	5.22	June 2011	(100,975)
$26,900,000 interest rate swap	67 percent of LIBOR	3.73	May 2019	(33,784)
$17,500,000 interest rate swap	70 percent of LIBOR	3.94	June 2036	(6,431)
Total				$(713,785)

Lines of Credit

During the year ended June 30, 2007, the Foundations had available a $15,000,000 line of credit facility with Wachovia. The line of credit matures on August 25, 2007. Borrowings under this facility pay interest at the one month London Interbank Offered Rate plus one percent. The purpose of the credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion and to provide bridge financing for various projects deemed beneficial to the University. At June 30, 2007, there was not an outstanding balance under this line of credit facility.

During 2007, the Foundations had available a $7,500,000 line of credit facility with Bank of America. The balance of this line of credit was repaid with proceeds from the Wachovia line of credit in August 2005. Borrowings under this facility paid interest at the one month London Interbank Offered Rate plus 1.45 percent. The purpose of the credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion and to provide bridge financing for various projects deemed beneficial to the University. At June 30, 2007, there was no outstanding balance under this line of credit facility.

8. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes 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	Scholarships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$15,836,628	$5,068,861	$1,379,308	$ -	$ -	$ 289,502	$ -	$22,574,299
Research	738,795	143,201	699,501	-	-	29,862	-	1,611,359
Public Service	646,547	127,869	119,833	-	-	21,064	-	915,313
Academic Support	3,283,837	1,361,730	1,600,619	-	-	-	-	6,246,186
Student Services	2,399,647	768,532	1,139,638	-	45	25,969	-	4,333,831
Institutional Support	3,263,226	1,367,295	1,141,776	91,425	45	125,800	-	5,989,567
Operation of Plant	1,947,649	1,195,519	1,249,902	-	1,334,841	76,254	-	5,804,165
Depreciation	-	-	-	-	-	-	6,206,733	6,206,733
Scholarships	-	-	-	1,669,525	-	-	-	1,669,525
Auxiliary Activities	8,233,563	2,547,959	22,969,841	-	2,004,330	2,605,333	-	38,361,026
Total	$36,349,892	$12,580,966	$30,300,418	$1,760,950	$3,339,261	$3,173,784	$6,206,733	$93,712,004

9. STATE APPROPRIATIONS

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

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

Original legislative appropriations per Chapter 847:	
Educational and general programs	$26,595,270
Student financial assistance	3,292,709
Educational and general financial assistance	250,000
Supplemental adjustments:	
Salary and fringe benefit adjustments	703,722
Salary adjustment related to prior year timing difference	(995,684)
Miscellaneous	(49,653)
Adjusted Appropriations	$29,796,364

10. COMMITMENTS

At June 30, 2007, the University was committed to construction contracts totaling approximately $57,835,177 of which $54,581,562 had been incurred and is recorded as construction in progress.

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 a term of 15 years for the lease of residential facilities for student housing.

Rental expense for the fiscal year ended June 30, 2007, was $5,100,810. The University has, as of June 30, 2007, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2008	$ 5,603,006
2009	5,710,320
2010	5,822,103
2011	5,935,848
2012	6,054,485
2013-17	31,895,073
Total	$61,020,835

11. DONOR-RESTRICTED ENDOWMENTS

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

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

12. RETIREMENT PLANS

Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth of Virginia's *Comprehensive Annual Financial Report* (CAFR). The CAFR discloses the unfunded pension benefit obligation at June 30, 2007, 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 $1,972,556 for the year ended June 30, 2007. These contributions included the employee contribution assumed by the employer, at a rate of 10.74 percent and 19.96 percent for University police. Contributions to the VRS were calculated using the base salary amount of approximately $18,366,445 for the fiscal year ended June 30, 2007. The University's total payroll was approximately $38,966,983 for the year ended June 30, 2007.

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 percent, 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, $1,647,310 for the year ended June 30, 2007. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $15,839,522. The University's total payroll in fiscal year 2007 was approximately $38,966,983.

Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. 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 $163,815 for fiscal year 2007.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2007, the University estimates that no material liabilities will result from such audits or questions.

Litigation

Christopher Newport University Educational and Real Estate Foundations - Litigation

During 2006, a lawsuit was filed by CNU Village Retail, LLC, a wholly-owned subsidiary of the Real Estate Foundation, claiming that DBP, LLC failed to perform under a lease agreement which required DBP, LLC to make certain improvements to the leased premises and is seeking possession of the premises. DBP, LLC has since filed a counter-claim for $104,433 stating CNU Village Retail, LLC breached the terms of the lease agreement and that DBP, LLC has no further obligations under the lease. No date has been set for mediation. No loss contingency has been recorded in the financial statements as of June 30, 2007, because (a) neither the outcome, nor the likelihood of settlement can be reasonably estimated until sufficient discovery has occurred, and (b) from the facts ascertained to date, the Foundations have substantial defenses to the claim.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these

Departments for its insurance coverage, which totaled $279,346 for the fiscal year ended June 30, 2007. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report*.

16. SUBSEQUENT EVENTS

In October 2007, the University issued $7,350,000 of revenue bonds, Series 2007A, to expand the Freeman Center gymnasium and $21,295,000 of revenue refunding bonds, Series 2007B, to refund portions of their 1998A, 2001A, and 2002A bond issues to effect debt service savings. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program. The Series 2007A bonds were issued with varying interest rates and will mature in 2037.

In September 2007, a settlement from litigation was negotiated and approved by the Board of Visitors in the amount of $68,000.

In August 2007, a depository agreement was signed between the University and the Mariner's Museum (Museum). The agreement is for the Museum to house their "Museum Collection" and "Monitor Collection" in the University's new Trible Library which will magnify the stature, scope, and reach of both institutions. As part of this agreement the University agrees to make improvements to its Trible Library at a cost of approximately $3,000,000. The Museum will be responsible for reimbursing one-half of the interest cost incurred by the University. The University plans to seek Commonwealth of Virginia funding for the improvements.

Christopher Newport University Educational and Real Estate Foundations - Damage to Buildings, Furniture and Equipment

In August 2006, lightening struck a student apartment building that the Foundations owned causing a fire. There was a near total loss of the building due mainly to water, mold, and fire damage. The building was fully insured for the replacement value of the building, estimated at $4.5 million. Management decided, in conjunction with the insurance carrier, that the building should be demolished and rebuilt. At the time of the fire the net book value of this property and improvements was $2,801,788. Estimated insurance proceeds to be received to reconstruct the building total $5,028,742. The Foundations also expect to receive $304,545 of business interruption proceeds. The Foundations recognized extraordinary income of $2,531,499 during the year ended June 30, 2007, representing the excess of the insurance proceeds over the net book value of the property and improvements. The replacement student apartment building was completed subsequent to year end and placed into service on August 17, 2007.

17 RESTATEMENT OF BEGINNING NET ASSETS

Due to reporting guideline changes for Treasury's reimbursement programs, Beginning Net Assets decreased $5,845,119 from $138,149,130 as previously reported, June 30, 2006, to $132,304,011 as adjusted, July 1, 2006.

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

June 16, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
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 discretely presented component units of **Christopher Newport University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2007, 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 the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Christopher Newport University as of June 30, 2007, 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 two through six 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.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Properly Complete Employment Eligibility Verification Forms" is described in the section of the report entitled "Compliance Finding and Recommendation." There were no other matters that are required to be reported.

The University's response to the finding identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, 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.

We discussed this report with management at an exit conference held on June 17, 2008.

AUDITOR OF PUBLIC ACCOUNTS

MNJ/wdh

CHRISTOPHER NEWPORT
UNIVERSITY

June 16, 2008

Mr. Walter J. Kurcharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski,

Christopher Newport University has reviewed the finding and recommendation provided by the Auditor of Public Accounts for fiscal year ended June 30, 2007. The University concurs with the finding and has taken the following actions:

- the process for completing the I-9 form has been thoroughly reviewed;
- human resources staff responsible for completing the I-9 forms have been trained on the requirements for successfully completing these forms; and
- additional oversight responsibilities have been implemented for reviewing each form.

Since the implementation of these procedures, the Internal Auditor has conducted an initial test of compliance on the I-9 process and found no exceptions. Additional testing will be performed within the next six months to insure on-going compliance.

I would like to thank you and your staff on another successful year and I look forward to working with you and your staff in the future.

Sincerely,

William L. Brauer

William L. Brauer
Executive Vice President

Office of the Executive Vice President
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