

CHRISTOPHER NEWPORT UNIVERSITY

Audited Financial Statements

For the
year ended
June 30, 2013




CHRISTOPHER NEWPORT
UNIVERSITY

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

- TABLE OF CONTENTS -

	<u>Pages</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS	1-7
FINANCIAL STATEMENTS:	
Statement of Net Position	8
Statement of Revenues, Expenses and Change in Net Position	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-28
INDEPENDENT AUDITOR'S REPORT:	
Report on Financial Statements	29-31
UNIVERSITY OFFICIALS	32

MANAGEMENT'S DISCUSSION AND ANALYSIS

(unaudited)

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2013, with comparative numbers for the year ended June 30, 2012. This presentation includes highly summarized data, and should be read in conjunction with the accompanying financial statements and notes to financial statements. University management is responsible for all of the financial information presented, including the discussion and analysis.

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

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

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position 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, 2013. The data presented indicates the assets available to continue the University's operations as well as show the amounts the institution owes to vendors and creditors.

Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Variance</u>	<u>Percent</u>
Assets:				
Current assets	\$ 36,146,305	\$ 31,744,656	\$ 4,401,649	14%
Capital assets, net	470,996,277	442,918,503	28,077,774	6%
Other noncurrent assets	<u>2,741,165</u>	<u>13,765,518</u>	<u>(11,024,353)</u>	(80%)
Total assets	<u>509,883,747</u>	<u>488,428,677</u>	<u>21,455,070</u>	4%
Liabilities:				
Current liabilities	29,340,051	32,122,663	(2,782,612)	(9%)
Noncurrent liabilities	<u>164,171,188</u>	<u>173,533,661</u>	<u>(9,362,473)</u>	(5%)
Total liabilities	<u>193,511,239</u>	<u>205,656,324</u>	<u>(12,145,085)</u>	(6%)
Net position:				
Net investment in capital assets	298,969,114	272,716,049	26,253,065	10%
Unrestricted	<u>17,403,394</u>	<u>10,056,304</u>	<u>7,347,090</u>	73%
Total net position	<u>\$ 316,372,508</u>	<u>\$ 282,772,353</u>	<u>\$ 33,600,155</u>	12%

Net position is divided into three major categories. The first category, “Net investment in capital assets,” provides the University’s equity in property, plant and equipment owned by the institution. The next category is “Restricted,” which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. As of June 30, 2013 the University did not have any Restricted expendable or nonexpendable. The Unrestricted portion of net position is available to the University for any lawful purpose of the institution.

The University’s total assets increased by \$21.5 million and total liabilities decreased by \$12.1 million. The combination of increase in total assets and increase in total liabilities resulted in an increase in net position at June 30, 2013 of \$33.6 million.

- Current assets increased by \$4.4 million primarily due to the net income derived from Auxiliary operations.
- Capital assets, net (depreciable and non-depreciable) increased by \$28.1 million primarily due to the following:
 - Buildings and expansions acquired net of disposed totaled \$108.6 million and primarily consisted of:
 - Luter School of Business for \$45.1 million,
 - Warwick River Hall for \$33.1 million,
 - Phase II of the Science Building for \$16.4 million,
 - Pope Chapel for \$6.4 million,
 - Ratcliffe Hall addition for \$3.9 million, and
 - Hiden-Hussey Commons expansion for \$3.7 million.
 - An increase in infrastructure of \$1.5 million consists primarily of an upgrade to the Campus-wide Network and the Campus Alert System,
 - A net increase in furniture and equipment of \$2.7 million primarily due to new furnishings and equipment for the new lecture and residence halls,
 - Library book additions of \$498 thousand,
 - Intangibles and Other Improvements increased by \$96 thousand, and
 - Depreciation expense of \$13.5 million.
 - Construction in progress decreased by \$71.8 million due to capitalization of the Luter School of Business, Warwick River Hall, Phase II of the Science Building, Pope Chapel, Ratcliffe Hall addition, and Hiden-Hussey Commons expansion.
- Other noncurrent assets had a net decrease of \$11 million primarily as a result of the net decrease of \$10.5 million in the SNAP accounts, which is the investment account for the bond proceeds.
 - Proceeds, inclusive of premiums, were received for the construction of:
 - Parking Deck and Surface Parking of \$1.1 million,
 - Draws from the SNAP accounts to pay for construction and interest from new and existing proceeds were:
 - Warwick River Hall for \$7.4 million,
 - Hiden-Hussey Commons expansion for \$3 million,
 - Ratcliffe Hall addition \$730 thousand,
 - Parking Deck II and Surface Parking \$405 thousand, and
 - Parking expansion \$92 thousand.
- Current liabilities decreased by \$2.8 million primarily due to the decrease in accounts payable related to buildings that were completed during the fiscal year.
- Noncurrent liabilities decreased by \$9.4 million due to fewer bonds issued in fiscal year 2013 compared to the 2012.
 - Bond issues and increases to noncurrent liabilities included:
 - Parking Deck II and Surface Parking \$935 thousand,
 - Installment Purchases for grounds equipment \$225, and
 - Unamortized Premiums \$189 thousand.
 - Noncurrent liabilities were reduced by:
 - Principal payments \$9.5 million,
 - Net amortization of premiums, gains and losses of \$500 thousand, and
 - Increase in current portion of \$713 thousand.

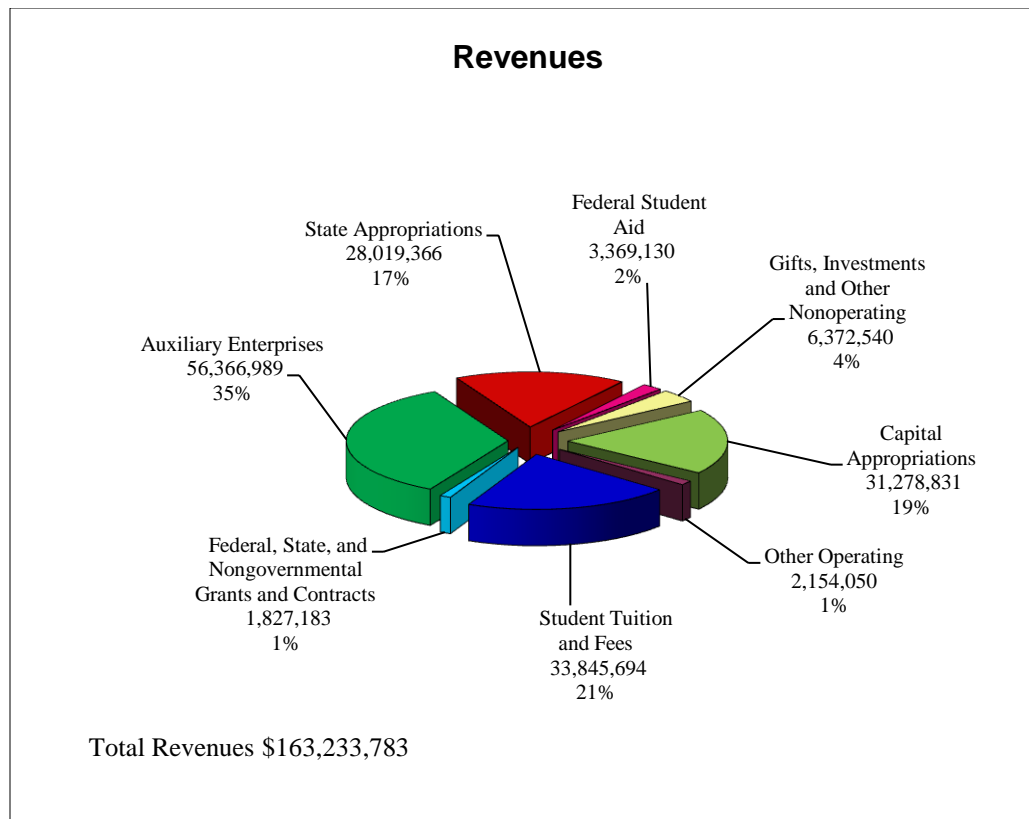
Statement of Revenues, Expenses and Change in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Change in Net Position. 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 Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Variance</u>	<u>Percent</u>
Operating revenues	\$ 94,193,916	\$ 85,327,101	\$ 8,866,815	10%
Operating expenses	<u>122,895,359</u>	<u>109,389,121</u>	<u>13,506,238</u>	12%
Operating loss	(28,701,443)	(24,062,020)	(4,639,423)	19%
Non-operating revenues, net	28,118,762	23,687,860	4,430,902	19%
Net other revenues (expenses)	<u>34,182,836</u>	<u>47,588,036</u>	<u>(13,405,200)</u>	(28%)
Increase in net position	33,600,155	47,213,876	(13,613,721)	(29%)
Net position beginning of year	<u>282,772,353</u>	<u>235,558,477</u>	<u>47,213,876</u>	20%
Net position end of year	<u>\$ 316,372,508</u>	<u>\$ 282,772,353</u>	<u>\$ 33,600,155</u>	12%

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



The graph above is based on the Statement of Revenues, Expenses, and Change in Net Position for all revenue items.

Operating revenues increased by \$8.9 million and include tuition and fees, auxiliary enterprises revenues and other operating revenues. Tuition and fee revenues increased by \$3.2 million due in part to the increase in the tuition rates. Annual In-State tuition rates increased by \$296 and Out-of-State tuition rates increased by \$588. Auxiliary enterprises increased by \$5.7 million due to the opening of the new Warwick River Hall and the increase in comprehensive fee plus room and board rates. The comprehensive fee, which is used to support non-instructional activities such as student health services, athletics, recreational activities, student and cultural activities, student union, facilities maintenance and capital debt service, increased by \$192. Annual room and board rates increased by \$200.

Net non-operating revenues (expenses) increased by \$4.5 million and include items such as state appropriation, financial aid, gifts, interest on capital related debt and gains or losses on disposal of plant assets.

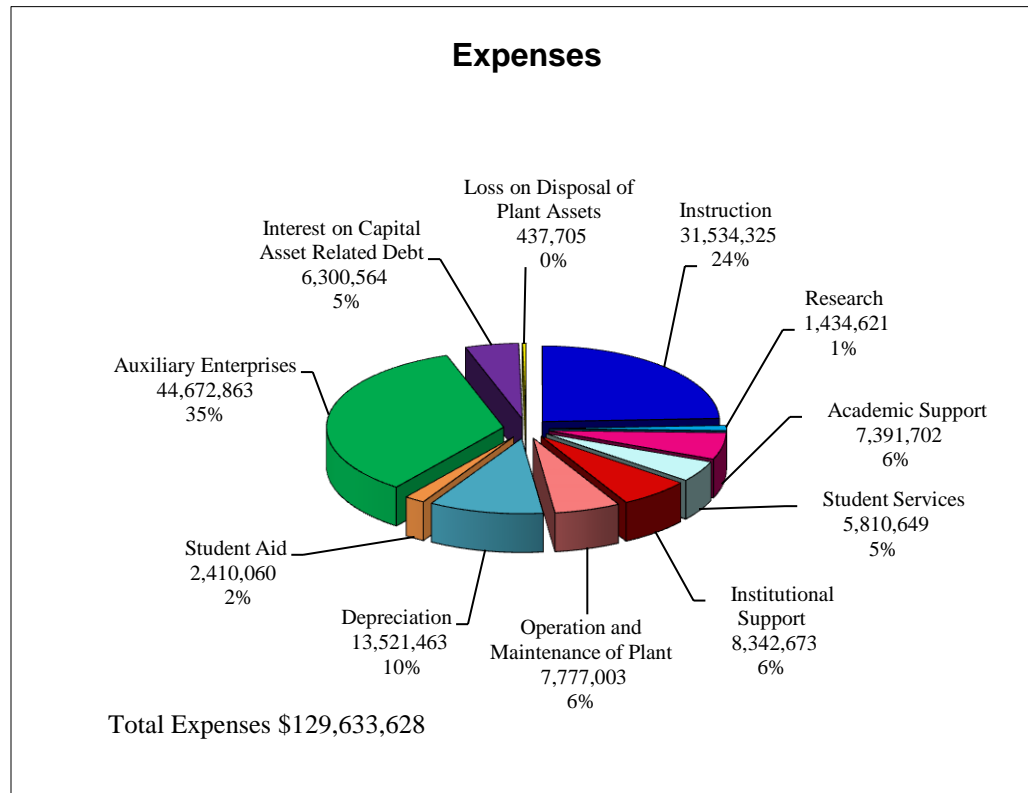
Increases include:

- State appropriation increased by \$1.5 million,
- The Loss on disposal of plant assets in fiscal year 2013 decreased by \$1.7 million due to the demolition of multiple properties for the expansion of the University's academic halls, residence halls and green space in fiscal year 2012,
- Interest expense on capital asset related debt decreased by \$1.4 million primarily due to the capitalized interest charged to construction in progress projects,
- Gifts increased by \$704 thousand due to an increase in private gifts from the foundation,
- Investment income increased by \$678 thousand primarily due to the interest earned on Auxiliary cash balances and an increase in the amortization of bond premiums, and
- Student financial aid increased by \$212 thousand.

Decreases include:

- Federal state fiscal stabilization funds were not received in fiscal year 2013 compared to the \$1.8 million that was recorded in fiscal year 2012.

Net other revenues (expenses) encompass capital appropriations and capital gifts and grants. Fiscal year 2013 decreased by \$13.5 million from prior year due to the decrease in capital appropriations of \$12.3 million and a \$1.1 million decrease in capital gifts and grants. Capital appropriations were reduced due to the Luter School of Business, Warwick River Hall, Phase II of the Science Building, Ratcliffe Hall addition, and Hiden-Hussey Commons expansion being placed in service during fiscal year 2013. Capital gifts and grants decreased due to the Pope Chapel being placed in service during the fiscal year.



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

Operating expenses increased by \$13.5 million from the previous year.

Increases include:

- Instructional expenses increased by \$5.2 million due to an increase in faculty and staff plus the furniture and equipment for the Luter School of Business and Phase II of the Science building that did not meet the threshold for capitalization,
- Operation and maintenance of plant increased by \$347 thousand primarily due to an increase in fringe benefits for employee retirements and medical hospitalization plus expenses for repairs and maintenance on University facilities,
- Depreciation expense increased by \$2.3 million due to the increase in capital assets,
- Student aid increased by \$141 thousand due to more students qualifying for aid this fiscal year, and
- Auxiliary enterprises increased by \$6.7 million primarily due to furniture and equipment for Warwick River Hall, Pope Chapel, Ratcliffe Hall addition and Hiden-Hussey Commons that did not meet the threshold for capitalization, as well as, additional skilled services and food and dietary supplies to support the new facilities and additional students residing on campus.

Decreases include:

- Academic support decreased by \$405 thousand primarily due to the capitalization of library books this fiscal year,
- Institutional support decreased by \$736 thousand primarily due to decrease in services and supplies for the 50th Anniversary Gala celebration in fiscal year 2012.

Statement of Cash Flows

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

The first section deals with operating cash flows and shows the net cash used by operating activities of the University. Cash flows from operating activities decreased by \$1.8 million.

Significant increases in cash from operating activities include:

- Student tuition and fees increased over prior year by \$2.7 million due to an increase in annual In-State tuition rates by \$296 and Out-of-State tuition rates by \$588,
- Auxiliary enterprises increased over prior year by \$6.1 million due the opening of the New Warwick River Hall and the increase in comprehensive fee of \$192 and room and board rates of \$200.

Significant decreases in cash from operating activities include:

- Payments to employees increased by \$2.9 million over prior year primarily due to the an increase in instructional faculty and staff,
- Payments for services and supplies increased by \$3.0 million over prior year due to additional skilled services and food and dietary supplies to support the new facilities and additional students residing on campus,
- Payments for plant improvements and equipment increased by \$3.9 million due to furniture and equipment for the Luter School of Business, Phase II of the Science building, Warwick River Hall, Pope Chapel, Ratcliffe Hall addition and Hiden-Hussey Commons that did not meet the threshold for capitalization,
- Grants and contracts decreased by \$460 thousand do to a decrease in grant activity,
- Other receipts decreased by \$328 thousand.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs, gifts and grants, plus financial aid. Cash flows from noncapital financing activities increased by \$585 thousand.

Significant increases in cash from noncapital financing activities include:

- State appropriation increased by \$1.5 million over prior year due to state budget increase for educational and general,
- Gifts increased by \$940 thousand primarily due to an increase in private gifts from the foundation, and
- Student financial aid increased by \$212 thousand.

Significant decreases in cash from noncapital financing activities include:

- Federal state fiscal stabilization funds were not received in fiscal year 2013 compared to the \$1.8 million that was recorded in fiscal year 2012, and
- Net agency receipts and payments decreased by approximately \$275 thousand.

The third section reflects cash flows from capital financing activities used for the acquisition and construction of capital related items. Cash flows from capital financing activities increased by \$11.4 million.

Significant increases in cash from capital financing activities include:

- Purchases of capital assets decreased by \$40.8 million from prior year purchases primarily due to the decrease in CIP for capitalization of the Luter School of Business, Warwick River Hall, Phase II of the Science Building, Pope Chapel, Ratcliffe Hall addition, and Hiden-Hussey Commons expansion, and
- Interest paid on capital debt, leases, and installments was \$895 thousand less then prior year primarily due to the capitalization of interest for construction in progress projects.

Significant decreases in cash from capital financing activities include:

- Capital appropriation decreased by \$13.0 million from prior year primarily due to the completion of construction for Warwick River Hall, Phase II of the Science Building, Ratcliffe Hall addition, and Hiden-Hussey Commons expansion,
- Capital gifts and grants decreased by \$1.1 million due to the completion of construction for the Pope Chapel,
- Proceeds from the sale of revenue bonds decreased by \$14.4 million from prior year due to the issuance of 2011A bond issue and 2012A refunding in fiscal year 2012 compared to the 2012B bond issue in fiscal year 2013, and
- Principal on capital debt increased by \$1.8 million due to additional debt issues.

The fourth section reflects cash flows from investing activities and includes interest on investments, purchase of investments, and sales of investments. Investing activities increased by \$962 thousand due to the increase in interest income on auxiliary revenues and the reclassification of subsidy revenue accrual.

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

Statement of Cash Flows

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Variance</u>	<u>Percent</u>
Cash flows from operating activities	\$ (15,236,943)	\$ (13,454,714)	\$ (1,782,229)	(13%)
Cash flows from noncapital financing activities	33,126,390	32,541,206	585,184	2%
Cash flows from capital financing activities	(27,743,467)	(39,116,013)	11,372,546	29%
Cash flows from investing Activities	<u>1,265,291</u>	<u>303,373</u>	<u>961,918</u>	317%
Net change in cash	<u>\$ (8,588,729)</u>	<u>\$ (19,726,148)</u>	<u>\$ 11,137,419</u>	56%

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction taking place at the University. Significant fiscal year 2013 capital projects include the new Luter School of Business, Warwick River Hall, Phase II of the Science Building, Pope Chapel, Ratcliffe Hall addition, and Hiden-Hussey Commons expansion. All academic capital projects are funded through state appropriations. The remaining projects are funded through the issuance of 9(d) revenue bonds or other funding as appropriate.

The University's long-term debt decreased by \$8.7 million as of June 30, 2013 due to the principal debt payments made in fiscal year 2013 reduced by the 2012B bond issue for Parking Deck II and Surface Parking. Further information relating to capital assets, construction and capital debt is included in the Notes to the Financial Statements.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. In fiscal year 2013 the state appropriation for education and general was \$28 million and per the Governor's communications appears to be stable for the upcoming biennium. In addition, the University's governing board increased in-state tuition by \$310; out-of-state tuition by \$660; comprehensive fees by \$210 and room and board by \$230 for fiscal year 2014. Per U.S. News and World Report, "CNU is now listed 18th among all regional universities in the South, 7th among public regional universities and named as one of the 2014 "up and comers" for making the most promising and innovative changes in the areas of academics, faculty, student life, campus or facilities."

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2013

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 2,457,829	\$ 3,034,027
Cash and cash equivalents Treasurer of Virginia (Note 2)	24,610,796	-
Cash and cash equivalents - securities lending (Note 2)	2,279,788	-
Accounts receivable, net of allowance (Note 3)	1,183,572	518,494
Contributions receivable, net of allowance (Note 3)	-	5,564,238
Due From Commonwealth (Note 3)	3,089,532	-
Prepaid expenses	2,327,554	11,040
Inventory	197,234	-
	<u>36,146,305</u>	<u>9,127,799</u>
Total current assets		
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	2,214,950	1,158,650
Restricted cash and cash equivalents Treasurer of Virginia (Note 2)	229,054	-
Restricted investments (Note 2)	171,364	19,295,992
Other investments (Note 2)	122,921	-
Appropriations available/due from	2,876	-
Contributions receivable, net of allowance (Note 3)	-	11,106,841
Other assets	-	770,448
Other restricted assets	-	968,121
Non-depreciable capital assets (Note 4)	26,369,594	47,834,078
Capital assets, net (Note 4)	444,626,683	38,159,053
	<u>473,737,442</u>	<u>119,293,183</u>
Total noncurrent assets		
Total assets	<u>509,883,747</u>	<u>128,420,982</u>

LIABILITIES

Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	10,052,120	4,965,403
Unearned revenue	1,483,692	10,398
Obligations under securities lending	2,402,709	-
Accrued Interest Payable	1,942,113	202,490
Deposits held in custody for others	1,916,835	171,364
Long-term liabilities - current portion (Note 6)	11,542,582	45,030,102
	<u>29,340,051</u>	<u>50,379,757</u>
Total current liabilities		
Noncurrent liabilities (Notes 6 and 7)	<u>164,171,188</u>	<u>42,515,783</u>
Total liabilities	<u>193,511,239</u>	<u>92,895,540</u>

NET POSITION

Net investment in capital assets	298,969,114	1,767,286
Restricted for:		
Nonexpendable - scholarships and fellowships	-	17,473,506
Expendable:		
Scholarships and fellowships	-	4,419,246
Academic support	-	4,681,331
Capital projects	-	2,503,189
Other	-	5,068,061
Unrestricted	17,403,394	(387,177)
Total net position	<u>\$ 316,372,508</u>	<u>\$ 35,525,442</u>

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
For the Year Ended June 30, 2013

	June 30, 2013	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of \$1,387,499	\$ 33,845,694	-
Federal grants and contracts	1,414,774	-
State grants and contracts	149,823	-
Nongovernmental grants and contracts	262,586	-
Gifts and contributions	-	10,596,508
Auxiliary enterprises, Net of scholarship allowance of \$7,086,922	56,366,989	-
Lease and rental revenue	-	6,775,079
Other operating revenue	2,154,050	102,970
Total operating revenues	<u>94,193,916</u>	<u>17,474,557</u>
Operating expenses (Note 8):		
Instruction	31,534,325	-
Research	1,434,621	-
Academic support	7,391,702	-
Student services	5,810,649	-
Institutional support	8,342,673	6,614,070
Operation and maintenance of plant	7,777,003	2,386,015
Depreciation	13,521,463	1,742,596
Student aid	2,410,060	1,274,879
Auxiliary enterprises	44,672,863	-
Total operating expenses	<u>122,895,359</u>	<u>12,017,560</u>
Operating gain/(loss)	<u>(28,701,443)</u>	<u>5,456,997</u>
Non-operating revenues/(expenses):		
State appropriations (Note 9)	28,019,366	-
Federal student financial aid	3,369,130	-
Gifts	1,937,913	-
Investment income, net of investment expenses of \$8,931	894,112	4,495,178
Interest on capital asset related debt	(6,300,564)	(2,040,248)
Build America Bonds subsidy	530,464	-
Other non-operating revenues (expenses)	106,046	-
Gain (Loss) on disposal of plant assets	(437,705)	(111,716)
Net nonoperating revenues/(expenses)	<u>28,118,762</u>	<u>2,343,214</u>
Income before other revenues/(expenses)/gains/(losses)	<u>(582,681)</u>	<u>7,800,211</u>
Capital appropriations	31,278,831	521,082
Capital gifts and grants	2,904,005	-
Additions to permanent endowments	-	1,064,140
Net other revenues	<u>34,182,836</u>	<u>1,585,222</u>
Increase/(decrease) in net position	33,600,155	9,385,433
Net position Beginning of year	<u>282,772,353</u>	<u>26,140,009</u>
Net position End of year	<u>\$ 316,372,508</u>	<u>\$ 35,525,442</u>

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, 2013

Cash flows from operating activities:	
Student tuition and fees	\$ 32,656,515
Grants and contracts	1,444,501
Auxiliary enterprises	56,159,569
Other receipts	2,153,391
Payments to employees	(59,708,011)
Payments for services and supplies	(35,282,602)
Payments for utilities	(4,688,414)
Payments for scholarships and fellowships	(1,714,431)
Payments for plant improvements and equipment	(6,236,381)
Loans issued to students and employees	(507,492)
Collection of loans from students and employees	486,412
	<hr/>
Net cash used by operating activities	(15,236,943)
Cash flows from noncapital financing activities:	
State appropriations	28,200,005
Gifts and grants for other than capital purposes	1,937,913
Federal student financial aid	3,369,130
Federal direct lending program receipts	24,333,819
Federal direct lending program disbursements	(24,333,819)
PLUS loan receipts	6,110,754
PLUS loan disbursements	(6,110,754)
Agency receipts	1,481,475
Agency payments	(1,862,133)
	<hr/>
Net cash provided by noncapital financing activities	33,126,390
Cash flows from capital financing activities:	
Capital appropriations	31,186,402
Capital grants and contributions	2,838,528
Proceeds from sale of revenue bonds	1,323,459
Purchase of capital assets	(46,654,881)
Principal paid on capital debt, leases, and installments	(9,559,885)
Interest paid on capital debt, leases, and installments	(6,877,090)
	<hr/>
Net cash used by capital financing activities	(27,743,467)
Cash flows from investing activities:	
Interest on investments	1,277,185
Purchase of investments	(475,545)
Sales of investments	463,651
	<hr/>
Net cash provided by investing activities	1,265,291
Net Increase in cash	(8,588,729)
Cash and cash equivalents - beginning of the year	<hr/> 38,101,358
Cash and cash equivalents - end of the year	<hr/> <hr/> \$ 29,512,629

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2013

Reconciliation of Net Operating Loss to Net Cash
Used by Operating Activities:

Operating loss	\$ (28,701,443)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	13,521,463
Changes in assets and liabilities:	
Receivables, net	(733,827)
Prepaid expenses	(116,623)
Inventory	(26,367)
Accounts payable and accrued expenses	538,033
Deferred revenue	189,515
Deposits held in custody	81,017
Accrued compensated absences	11,289
	<hr/>
Net cash used by operating activities	<u>\$ (15,236,943)</u>

Non Cash investing, non capital financing, and
capital and related financing transactions:

Capitalization of interest expense	\$ 1,513,072
Amortization of bond premium	\$ 815,569
Amortization of deferred net loss on defeased bonds	\$ (365,804)
Change in fair value of investments recognized as a component of interest income	\$ 23,551

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

NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

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

The University includes all entities over which the University exercises or has the ability to exercise oversight authority for financial reporting purposes. Under Governmental Accounting Standards Board (GASB) Statement 14, as amended by Statements 39 and 61, the Christopher Newport University Educational and Real Estate Foundations, Inc. are discretely presented as component units of the University. The Foundations are legally separate and tax-exempt organizations formed to promote the achievements and further the aims and purposes of the University.

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

During the year ended June 30, 2013, the Foundations distributed \$4,841,918 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 Avenue of the Arts, Newport News, Virginia 23606.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

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

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

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

F. Prepaid Expenses

As of June 30, 2013, the University’s prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2014 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

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

H. Noncurrent Cash and Investments

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

I. Unearned Revenue

Unearned revenue includes amounts received for tuition and fees and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2013.

J. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned but not taken as of June 30, 2013. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

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

L. Net Position

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. GASB Statement 63 changes that terminology from "net assets" to "net position". Net position consists of "Net Investment in Capital Assets; Restricted and Unrestricted. "Net Investment in Capital Assets" consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net position is reported as "Restricted" when constraints on the net position use are either externally imposed by creditors, grantors, or contributors or imposed by law. "Unrestricted" net position consists of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

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

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 2013 to disclose. The CNU Education Foundation handles all investments for CNU.

A. Cash and Cash Equivalents

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

B. Investments

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

	<u>Market Value</u>
Cash and cash equivalents:	
Deposits with financial institutions	\$ 2,457,829
Treasurer of Virginia	27,119,638
State non-arbitrage program (SNAP)	<u>2,214,950</u>
Total cash and cash equivalents	<u>31,792,417</u>
Investments:	
Collateral held for securities lending	122,921
Mutual funds and Money Market	<u>171,364</u>
Total investments	<u>294,285</u>
Total cash, cash equivalents and investments	<u>\$32,086,702</u>

Christopher Newport University Educational and Real Estate Foundations Cash and Investments

The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2013.

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

Investments are carried at their market value determined at the date of the consolidated 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	\$19,124,628
Managed Investments	<u>171,364</u>
Total investments	<u>\$19,295,992</u>

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

Unrestricted	\$ 10,000
Funds invested for the University	171,364
Temporarily restricted	3,762,224
Permanently restricted	<u>15,352,404</u>
Total investments	<u>\$19,295,992</u>

C. Securities Lending Transactions

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

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	\$ 284,702
Auxiliary enterprises	228,363
Federal, state, private grants and contracts	655,183
Other activities	<u>98,478</u>
Gross receivables	<u>1,266,726</u>
Less: Allowance for doubtful accounts	<u>(83,154)</u>
Net accounts receivable	<u>\$1,183,572</u>

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2013:

Interest/rebate Allocation	\$ 204,358
Virginia College Building Authority 21 st Century Bonds/ETF	<u>2,885,174</u>
Total Due from Commonwealth of Virginia	<u>\$3,089,532</u>

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, 2013, pledges receivable are as follows:

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Receivable in less than one year	\$ 1,477,501	\$5,081,714	\$408,829	\$6,968,044
Receivable in one to five years	2,428,428	2,749,236	142,000	5,319,664
Receivable in more than five years	250	8,167,500	1,506,503	9,674,253
Total unconditional pledges	3,906,179	15,998,450	2,057,332	21,961,961
Less discount to net present value	(191,349)	(3,271,273)	(337,440)	(3,800,062)
Less allowances for uncollectible pledges receivable	(28,514)	(1,417,305)	(45,001)	(1,490,820)
Net unconditional pledges receivable	<u>\$3,686,316</u>	<u>\$11,309,872</u>	<u>\$1,674,891</u>	<u>\$16,671,079</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2013 is as follows:

	Beginning <u>Balance</u>	- <u>Additions</u>	- <u>Reductions</u>	- Ending <u>Balance</u>
Nondepreciable capital assets:				
Land	\$ 19,478,866	\$ -	\$ -	\$ 19,478,866
Construction in progress	<u>78,685,272</u>	<u>44,177,653</u>	<u>(115,972,197)</u>	<u>6,890,728</u>
Total nondepreciable capital assets	<u>98,164,138</u>	<u>44,177,653</u>	<u>(115,972,197)</u>	<u>26,369,594</u>
Depreciable capital assets:				
Buildings	367,553,036	108,549,748	(1,280,002)	474,822,782
Infrastructure	9,445,544	1,464,139	-	10,909,683
Equipment	13,160,741	2,727,002	(457,818)	15,429,925
Intangibles	2,703,897	74,781	-	2,778,678
Other improvements	23,299,009	20,862	-	23,319,871
Library materials	<u>11,086,002</u>	<u>497,948</u>	<u>(6,224)</u>	<u>11,577,726</u>
Total depreciable capital assets	<u>427,248,229</u>	<u>113,334,480</u>	<u>(1,744,044)</u>	<u>538,838,665</u>
Less accumulated depreciation:				
Buildings	52,664,717	10,072,875	(1,415,452)	61,322,140
Infrastructure	3,362,382	687,445	-	4,049,827
Equipment	6,038,593	1,156,057	(387,893)	6,806,757
Intangibles	2,130,175	166,626	-	2,296,801
Other improvements	8,606,812	1,035,079	-	9,641,891
Library materials	<u>9,691,185</u>	<u>403,381</u>	<u>-</u>	<u>10,094,566</u>
Total accumulated depreciation	<u>82,493,864</u>	<u>13,521,463</u>	<u>(1,803,345)</u>	<u>94,211,982</u>
Depreciable capital assets, net	<u>344,754,365</u>	<u>99,813,017</u>	<u>59,301</u>	<u>444,626,683</u>
Total capital assets, net	<u>\$ 442,918,503</u>	<u>\$ 143,990,670</u>	<u>\$ (115,912,896)</u>	<u>\$ 470,996,277</u>

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

Land, buildings, furniture, equipment and collections for 2013 are summarized as follows:

Construction in progress	\$ 35,775,984
Property held for investment	62,133,176
Furniture and equipment	2,788,065
Collections	<u>588,684</u>
	101,285,909
Less accumulated depreciation	<u>(15,292,778)</u>
Total capital assets, net	<u>\$85,993,131</u>

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled \$1,676,839 in 2013.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2013:

Employee salaries, wages and fringe benefits payable	\$ 3,561,151
Vendors and suppliers accounts payable	5,266,144
Retainage payable	<u>1,224,825</u>
Total accounts payable and accrued liabilities	<u>\$10,052,120</u>

6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2013 is presented below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Revenue bonds	122,322,925	\$1,124,174	6,109,099	\$117,338,000	\$7,047,183
Treasury-general obligation bonds	60,215,186	-	3,789,585	56,425,601	3,465,665
Installment purchases	<u>245,110</u>	<u>224,587</u>	<u>110,966</u>	<u>358,731</u>	<u>112,875</u>
Total long-term debt	182,783,221	1,348,761	10,009,650	174,122,332	10,625,723
Accrued compensated absences	<u>1,580,149</u>	<u>1,512,412</u>	<u>1,501,123</u>	<u>1,591,438</u>	<u>916,859</u>
Total long-term liabilities	<u>\$184,363,370</u>	<u>\$2,861,173</u>	<u>\$11,510,773</u>	<u>\$175,713,770</u>	<u>\$11,542,582</u>

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

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

In November 2012, the University issued \$935,000 of revenue bonds, Series 2012B, to fund a parking deck and surface parking. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financial Pooled Bonds Program. These bonds were issued with interest rates varying from 3.0% to 5.0% and will mature in 2022.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2013
General obligation bonds:			
Residence hall:			
Series 2004B	4.0-5.0	2019	\$ 5,396,394
Series 2004B	4.0-5.0	2020	10,136,869
Series 2006	3.87-5.0	2021	1,225,000
Series 2008B	3.0-5.0	2014	5,000
Series 2009C	3.0-4.0	2021	1,877,837
Series 2010A-1 & 2010A-2	2.1-5.0	2040	33,660,000
Series 2011A	2.0-5.0	2021	<u>3,480,000</u>
Total general obligation bonds			<u>\$ 55,781,100</u>
Revenue bonds:			
Athletics:			
Series 2003A	5.0	2013	\$ 60,000
Series 2004B	3.0-5.0	2014	580,000
Series 2007A	4.5-5.0	2038	6,835,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,113,408
Series 2007B	4.0-4.5	2020	476,403
Series 2009A	2.1-5.0	2029	2,485,000
Series 2009B	3.0-5.0	2040	18,945,000
Series 2010B	2.0-5.0	2022	355,000
Series 2010B	2.0-5.0	2020	290,000
Series 2010B	2.0-5.0	2022	1,590,000
Series 2012A	5.0	2023	425,000
Dining Services:			
Series 2007B	4.0-4.5	2020	215,000
Series 2007B	4.0-4.5	2020	116,567
Series 2010B	2.0-5.0	2021	380,000
Series 2010B	2.0-5.0	2022	75,000
Series 2011A	5.0	2021	3,805,000
Student Union:			
Series 2004A	5.0	2014	1,940,000
Series 2006A	3.0-5.0	2027	1,935,000
Series 2007B	4.0-4.5	2020	3,238,531
Series 2010B	2.0-5.0	2022	2,440,000
Series 2012A	2.75-5.0	2025	14,085,000

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2013
Parking Decks/Surface:			
Series 2005A	5.0	2026	525,000
Series 2007B	4.0-4.5	2020	3,091,554
Series 2010B	2.0-5.0	2022	2,315,000
Series 2011A	3.0-5.0	2021	2,675,000
Series 2012A	3.0-5.0	2024	965,000
Series 2012B	3.0-5.0	2022	935,000
Residence Halls:			
Series 2007B	4.0-4.5	2020	8,818,537
Series 2010B	2.0-5.0	2022	6,620,000
Residence Hall Roof:			
Series 2010A-1	2.0-5.0	2017	1,000,000
Ratcliffe Hall, Series 2009A			
Series 2009A	2.1-5.0	2029	1,645,000
Series 2009B	3.0-5.0	2030	835,000
Series 2011A	5.0	2021	2,785,000
Land Acquisition:			
Series 2009A	2.1-5.0	2029	7,725,000
Series 2009B	2.0-5.0	2030	2,900,000
Series 2010A-1	2.0-5.6	2040	<u>4,555,000</u>
Total revenue bonds			<u>\$113,205,000</u>
Total bonds payable			<u>\$168,986,100</u>
Deferred loss - advance refundings – GOB bonds			(108,400)
Deferred loss - advance refundings – VCBA bonds			(3,759,425)
Unamortized premiums- GOB bonds			752,901
Unamortized premiums – VCBA bonds			<u>7,892,425</u>
Total Deferred Gain/Loss & Unamortized Premiums			\$ 4,777,501
Installment purchases			<u>358,731</u>
Total long-term debt			<u><u>\$174,122,332</u></u>

Long-term debt matures as follows:

	<u>Principal</u>	<u>Interest</u>
2014	\$10,625,723	\$7,503,944
2015	11,205,597	7,080,264
2016	11,584,446	6,579,173
2017	12,043,999	6,084,470
2018	12,487,965	5,490,478
2019-2023	55,002,966	19,832,681
2024-2028	23,160,609	11,260,869
2029-2033	15,165,287	7,077,041
2034-2038	16,198,417	3,666,733
2039-2043	<u>6,647,323</u>	<u>418,023</u>
	<u>\$174,122,332</u>	<u>\$74,993,676</u>

Defeasance of Debt – Prior Years

During fiscal years 2007, 2010, 2011 and 2012, certain 2001A, 2002A, 2003A, 2004A and 2005A revenue bonds were defeased by the University. The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements.

Defeasance of Debt – Year-to-Date Totals

At June 30, 2013, \$16,175,000 of the revenue bonds considered defeased remains outstanding.

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

Notes Payable

Notes payable at June 30, 2013 consists of the following:

Old Point National Bank, secured by deed of trust on leasehold & assignment of rents and leases, construction/permanent financing with interest at 5.375%. Principal and interest payments of \$19,186 due monthly, matures August 2014.	\$ 2,131,014
Towne Bank, secured by deed of trust on 12270 Warwick Boulevard, interest due monthly at the Wall Street Journal (WSJ) prime rate, with a maximum rate of 6.5%. Principal and interest payments of \$14,238 beginning August 2012, balance due July 2032.	2,314,778
Towne Bank, secured by deed of trust on 12401 Warwick Boulevard, interest due monthly at LIBOR plus 2.2%. Principal payments of \$53,000 beginning September 2013, balance due August 2015.	<u>32,221,462</u>
	<u>\$36,667,254</u>

In June 2011, the Foundations entered into a note payable with Towne Bank which allows for principal borrowing of up to \$1,302,000. The note is secured by CNU Chapel pledges receivable. The balance of pledges receivable for the CNU Chapel at June 30, 2013 was \$3,078,410. Interest is due monthly at the WSJ prime rate with a maximum rate of 5.75%. Principal payment is due in one lump sum in June 2016. There was no outstanding amount due at June 30, 2013.

Bonds Payable

In March 2001, the Foundations entered into an agreement with the Economic Development Authority of the County of James City, Virginia, under which the Authority issued \$8.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In March and April 2011, the Foundations sold assets to the University and retired \$164,200 of the outstanding debt. At June 30, 2013, the balance outstanding on the bonds was \$2,846,119. The bonds were payable interest only until July 2006, at which time principal curtailments began. The bonds originally matured in June 2011 but have been extended to June 2016.

In November 2001, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2013, the balance outstanding on the bonds was \$7,505,880. The bonds were payable interest only until October 2003, at which time principal curtailments began. The bonds originally matured September 2013 but have been extended to December 2013.

In July 2002, the Foundations entered into an agreement with the Economic Development Authority of New Kent County, Virginia, under which the Authority issued \$5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2013, the balance outstanding on the bonds was \$4,260,875. The bonds were payable interest only until October 2003, at which time principal curtailments began. The bonds originally matured September 2013 but have been extended to December 2013.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued \$26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2013, the balance outstanding on the bonds was \$23,580,000. The bonds were payable interest only until November 2005, at which time principal curtailments began. The bonds mature November 2028.

In August 2006, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued \$17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundations used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. In March and April 2011, the Foundations sold assets to the University and retired \$230,000 of the outstanding debt. At June 30, 2013, the balance outstanding on the bonds was \$7,170,000. Scheduled principal curtailments began in August 2007. The bonds mature August 2036.

The Foundations have entered into various letter of credit and credit line deeds of trust as additional security for each of the bond issuances. In addition, some of the note and bond payable agreements contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2013, the Foundations were in compliance with all financial covenants.

Notes and maturities for the succeeding fiscal years ending June 30, 2013 are as follows:

<u>Year</u>	<u>Amount</u>
2014	\$45,030,102
2015	3,038,587
2016	3,762,820
2017	1,179,429
2018	1,308,083
Thereafter	<u>27,711,107</u>
	<u>\$82,030,128</u>

Fair Value of Financial Instruments

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

The carrying amounts of the pledges and pledges receivable approximate fair value because they have been discounted to their net present value. The discount rate employed by the Foundations is 3.25%.

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, 2013 is as follows:

<u>Hedging Instrument</u>	<u>Variable Rate</u>	<u>Fixed Rate</u>	<u>Expiration</u>	<u>Fair Value</u>
\$5.5 million interest rate swap	65% of LIBOR + 0.88%	5.14%	09/01/13	(45,951)
\$10 million interest rate swap	65% of LIBOR + 0.88%	5.22%	09/01/13	(79,153)
\$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(3,338,448)
\$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	<u>(1,257,444)</u>
				<u>\$ (4,720,996)</u>

8. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	\$19,167,181	\$6,499,380	\$2,854,284	\$4,056	-	\$3,009,424	-	\$31,534,325
Research	604,367	68,748	573,063	-	-	188,443	-	1,434,621
Academic Support	3,208,525	1,533,068	2,465,114	-	-	184,995	-	7,391,702
Student Services	3,290,579	1,085,319	1,325,194	2,517	-	107,040	-	5,810,649
Institutional Support	4,063,601	2,098,806	1,407,929	91,491	-	680,846	-	8,342,673
Operation Plant	2,586,559	1,511,618	1,291,088	-	2,089,400	298,338	-	7,777,003
Depreciation	-	-	-	-	-	-	13,521,463	13,521,463
Scholarships	-	-	-	2,410,060	-	-	-	2,410,060
Auxiliary Activities	10,513,695	3,490,349	25,556,174	543,373	2,599,014	1,970,258	-	44,672,863
Total	<u>\$43,434,507</u>	<u>\$16,287,288</u>	<u>\$35,472,846</u>	<u>\$3,051,497</u>	<u>\$4,688,414</u>	<u>\$6,439,344</u>	<u>\$13,521,463</u>	<u>\$122,895,359</u>

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 890:

Educational and general programs	\$23,779,417
Student financial assistance	4,329,490

Supplemental adjustments:

Central appropriations adjustments	928,859
Financial aid adjustments	95,976
Clinical faculty competitive grant	25,624
Reversion of central capital planning funding	(1,140,000)
Adjusted Appropriation	<u>\$28,019,366</u>

10. COMMITMENTS

At June 30, 2013, the University was committed to construction contracts totaling approximately \$42,307,300 of which \$7,510,705 was unexpended.

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

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

Rental expense for the fiscal year ended June 30, 2013 was \$5,823,659. The University has, as of June 30, 2013 the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2014	\$ 8,785,843
2015	8,728,003
2016	8,899,458
2017	9,061,646
2019	<u>876,925</u>
Total	<u>\$36,351,875</u>

11. DONOR-RESTRICTED ENDOWMENTS

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

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

12. RETIREMENT PLANS

Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report (CAFR)*. The Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2013 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled \$2,116,572 for the year ended June 30, 2013. For both Plan 1 participants (individuals hired prior to July 1, 2010) and Plan 2 participants, (individuals hired on or after July 1, 2010), effective July 1, 2012, the employer contribution rate was increased to 8.76% (14.80% for University police), with the employee contribution remaining at 5%.

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). The employer contribution rates will be 10.4% for Plan 1 participants (hired prior to July 1, 2010) and 8.5% for Plan 2 participants (hired on or after July 1, 2010), with Plan 2 participants continuing to contribute 5%

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these Optional Retirement Plans were approximately \$1,801,818 for the year ended June 30, 2013. Contributions were calculated using the base salary amount of approximately \$18.2 million.

Deferred Compensation

University employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to \$20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was \$213,588 for 2013.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2013, the University estimates that no material liabilities will result from such audits or questions.

15. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, non-performance of duty; injuries to employees and athletes; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. For athletes, the University maintains insurance through a third party provider. The University's insurance premiums paid for the fiscal year ended June 30, 2013 totaled \$560,047. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth's Comprehensive Annual Financial Report*.

16. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student tuition and fee charges or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal government grants and contracts total on the Statement of Revenues, Expenses, and Changes in Net Position. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2013 cash used by the program totaled \$24,333,819.

17. SUBSEQUENT EVENTS

In fiscal year 2014, the Commonwealth of Virginia issued \$12.4 million in 9(c) general obligation refunding bonds, series 2014B, on behalf of the University. This issue refunded \$13.5 million of Series 2004B for University residence halls. 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.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 17, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Christopher Newport University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of Christopher Newport University as of June 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages one through seven be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2014, on our consideration of Christopher Newport University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the University's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

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Newport News, Virginia

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