CHRISTOPHER NEWPORT UNIVERSITY
Audited Financial Statements

For the year ended June 30, 2014




CHRISTOPHER NEWPORT
UNIVERSITY

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The youngest comprehensive university in the Commonwealth, Christopher Newport University was founded in 1960 as Christopher Newport College, a two-year branch of the College of William & Mary in Williamsburg, Virginia. Located in historic Hampton Roads, the institution was named for the 17th-century English mariner who helped establish the Jamestown Colony. The University became independent in 1977 and gained university status in 1992.

Today, CNU is a four-year, undergraduate liberal arts university, enrolling 5,000 students in rigorous academic programs through the College of Arts and Humanities, the College of Natural and Behavioral Sciences, and the College of Social Sciences including the Luter School of Business. CNU combines traditional liberal arts and sciences curriculum with contemporary teaching ideologies and an emphasis on growing leaders of the future.

OVERVIEW

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, 2014, with comparative numbers for the year ended June 30, 2013. 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 Change 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.

The *Statement of Net Position* (SNP) presents the assets, liabilities, and net position of the University as of the end of the fiscal year. The purpose of the statement is to present a snapshot of the University's financial position to the readers of the financial statements.

The data presented aids readers in determining the assets available to continue operations of the University. It also allows readers to determine how much the University owes to vendors, investors, and lending institutions. Finally, the SNP provides a picture of net position and their availability for expenditure by the University. Sustained increases in net position over time are one indicator of the financial health of the organization.

The University's net position is classified as follows:

- **Net investment in capital assets –** Net investment in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt.
- **Restricted net position, expendable –** Expendable restricted net position includes resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties.
- **Restricted net position, nonexpendable –** Nonexpendable restricted net position consists of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to principal.
- **Unrestricted net position –** Unrestricted net position represents resources used for transactions relating to academic departments and general operations of the University, and may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of the University's primary missions. These resources are derived from student tuition and fees, state appropriations, and sales and services of auxiliary enterprises and educational departments. The auxiliary enterprises are self-supporting entities that provide services for students, faculty, and staff. Some examples of the University's auxiliaries are student residential and dining programs.

The University's assets and deferred outflows increased by $11.1 million, or 2.2%, during fiscal year 2014, bringing the total assets and deferred outflows to $524.8 million at year-end. Growth in Capital assets and other noncurrent assets accounted for the majority of the increase. The increase in capital assets, net ($13.7 million) reflects the ongoing construction at the University and will be discussed in detail in the following section Capital Asset and Debt Administration. The decrease in other noncurrent assets ($1.4 million) is primarily due to the decrease in the University's bond issued construction funds for Ratcliff Hall and the Parking deck. New this year is a reclassification of deferred losses from debt defeasance. GASB 65 no longer nets deferral on debt defeasance with the applicable long-term liability. These amounts are now reported as deferred outflows of resources for losses, an asset account, or deferred inflows of resources for gains, a liability account. The increase in deferred outflows of resources ($1.2 million) was due to the 2014B refunding of 2004B Treasury bonds.

Summary of Assets, Liabilities and Net Position
For the years ended June 30, 2014 and 2013
(All dollars in millions)

	2014	(As restated) 2013	Change Amount	Change Percent
Assets:				
Current assets	$ 33.7	$ 36.1	$ (2.4)	(6.6) %
Capital assets, net	484.7	471.0	13.7	2.9 %
Other noncurrent assets	1.3	2.7	(1.4)	(51.9) %
Deferred outflows of resources	5.1	3.9	1.2	30.8 %
Total assets & deferred outflows	524.8	513.7	11.1	2.2 %
Liabilities:				
Current liabilities	30.8	29.7	1.1	3.7 %
Noncurrent liabilities	158.7	167.7	(9.0)	(5.4) %
Total liabilities	189.5	197.4	(7.9)	(4.0) %
Net position:				
Net investment in capital assets	322.4	299.0	23.4	7.8 %
Unrestricted	12.9	17.4	(4.5)	(25.9) %
Total net position	$ 335.3	$ 316.4	$ 18.9	6.0 %

The University's total liabilities decreased by $7.9 million, or 4.0%, during fiscal year 2014. The decrease is primarily due to the decrease in noncurrent liabilities ($9.0 million). This decrease represents the net additions to long-term debt in fiscal year 2013 over fiscal year 2014.

The increase in total assets combined with the decrease in total liabilities resulted in a total increase to the University's net position by $18.9 million, or 6.0% for fiscal year 2014. This reflects the University's continued investment in facilities and equipment in support of the University's mission as well as prudent management of the University's fiscal resources.

CAPITAL ASSET AND DEBT ADMINISTRATION

One of the critical factors in ensuring the quality of the University's academic and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current structures, as well as pursue opportunities for additional facilities. Investment in new structures and the upgrade of current structures serve to enrich the University's high-quality instructional programs and residential lifestyles.

Note 4 of the *Notes to Financial Statements* describe the University's significant investment in depreciable capital assets with gross additions of $21.1 million.

Capital Project Completions
For the year ended June 30, 2014
(All dollars in millions)

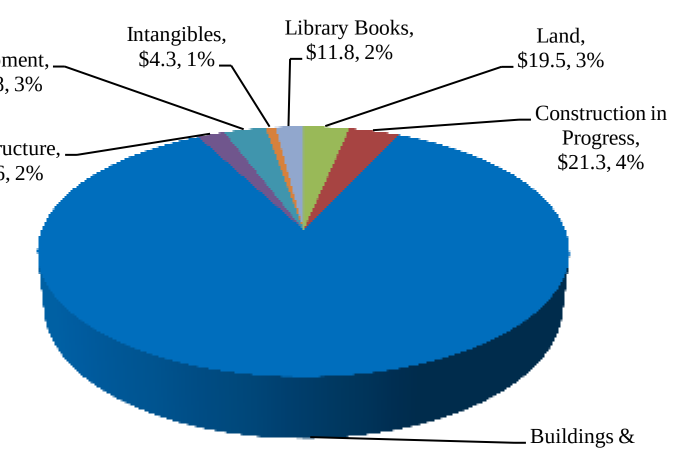
	Project Amount
Luter School of Business - additional completion costs	$ 2.3
University Entrance & Interior Road	2.0
Parking Lots	1.6
Bell Tower	1.6
Grounds Facility	1.0
Forbes Science Hall - additional completion costs	0.9
Ratcliffe Hall – additional completion costs	0.1
Other capital projects completed	0.1
Total capital project completions	$ 9.6

The table indicates capital projects completed during 2014 of $9.6 million.

Ongoing investments in instructional, research, and computer equipment ($3.0 million), library books ($0.5 million), intangibles ($1.5 million) and infrastructure ($0.7 million) were capitalized during the fiscal year. Depreciation expense was $14.9 million with net retirements of $1.1 million to include the demolition of the Administration building in order to lay ground for the new Student Success Center. This created an overall net decrease in net depreciable capital assets of $0.7 million.

The net increase in non-depreciable capital assets of $14.5 million resulted from construction in progress. The table below indicates the construction in progress balances at June 30, 2014.

Ending balances of capital assets at June 30, 2014 are presented in the graph below. Buildings continue to account for the majority of capital assets of the University. The costs currently in construction in progress will eventually become part of buildings and improvements once the projects are completed.



Capital Assets
As of June 30, 2014
(All dollars in millions)

Construction in Progress
For the year ended June 30, 2014
(All dollars in millions)

	Project Amount
Student Success Center	$ 16.4
Specialty Housing	1.7
Trible Library Phase II	1.5
Great Lawn	0.6
Residence Hall VII	0.5
Regattas' Dining Expansion	0.4
Fine Arts and Rehearsal	0.1
Alumni House	0.1
Total construction in progress	$ 21.3

Notes 6 and 7 of the *Notes to Financial Statements* contain information relating to the long-term debt of the University. 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. This refunding resulted in a premium of $1.7 million which will be amortized over the life of the bond and a loss on debt defeasance of $1.6 million. The loss on debt defeasance is now classified as a deferred outflow of resources under the asset portion of the statement of net position and is no longer included with the long term liabilities under GASB 65. Installment purchases in the amount of $1.0 million for intangible software were made during the fiscal year to enhance the University's instructional, academic and institutional programs. Total long-term debt at the end of fiscal year 2014 is $170.1 million.

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Operating and non-operating activities creating changes in the University's total net position is presented in the *Statement of Revenues, Expenses, and Change in Net Position*. The purpose of this statement is to present all revenues received and accrued, all expenses paid and accrued, gains or losses from investments and capital assets.

Operating revenues are generally received through providing goods and services to the various customers and constituencies of the University. Operating expenses are expenditures made to acquire or procure 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 expenses. Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations included in this category, provide substantial support for paying operating expenses of the University. Therefore, the University, like most public institutions, will expect to show an operating loss.

Revenues from all sources (operating, non-operating and other) for fiscal year 2014 totaled $157.9 million decreasing by $5.3 million, or 3.2% from the prior year. Total expenses from all sources (operating, non-operating and other) for fiscal year 2014 totaled $139.0 million increasing by $9.4 million, or 7.3%. Total revenues less total expenses resulted in an increase to net position of $18.9 million.

Summary of the Statement of Revenues, Expenses, and Change in Net Position
For the years ended June 30, 2014 and 2013
(All dollars in millions)

	2014	2013	Change Amount	Change Percent
Operating revenues	$ 101.3	$ 94.2	$ 7.1	7.5 %
Operating expenses	132.3	122.9	9.4	7.6 %
Operating loss	(31.0)	(28.7)	(2.3)	8.0 %
Non-operating revenues, net	29.6	28.1	1.5	5.3 %
Net other revenues (expenses)	20.3	34.2	(13.9)	(40.6) %
Increase in net position	18.9	33.6	(14.7)	(43.8) %
Net position beginning of the year	316.4	282.8	33.6	11.9 %
Net position end of year	$ 335.3	$ 316.4	$ 18.9	6.0 %

Summary of Revenues For the years ended June 30, 2014 and 2013 (All dollars in millions)					
	2014	2013	Change Amount	Change Percent	
Operating revenues					
Student tuition and fees, net	$ 36.2	$ 33.8	$ 2.4	7.1	%
Grants and contracts	1.8	1.8	0.0	0.0	%
Auxiliary enterprises, net	61.4	56.4	5.0	8.9	%
Other operating revenue	1.9	2.2	(0.3)	(13.6)	%
Total operating revenue	101.3	94.2	7.1	7.5	%
Non-operating revenues					
State appropriations	30.4	28.0	2.4	8.6	%
Federal financial aid	3.4	3.4	0.0	0.0	%
Other non-operating revenue*	2.5	3.5	(1.0)	(28.6)	%
Total non-operating revenue	36.3	34.9	1.4	4.0	%
Other revenues					
Capital appropriations	17.9	31.3	(13.4)	(42.8)	%
Capital gifts and grants	2.4	2.9	(0.5)	(17.2)	%
Total other revenues	20.3	34.2	(13.9)	(40.6)	%
Total revenues	$ 157.9	$ 163.3	$ (5.4)	(3.3)	%

* Includes gifts, Build America Bond subsidy, investment income, and other non-operating revenue.

OPERATING REVENUES

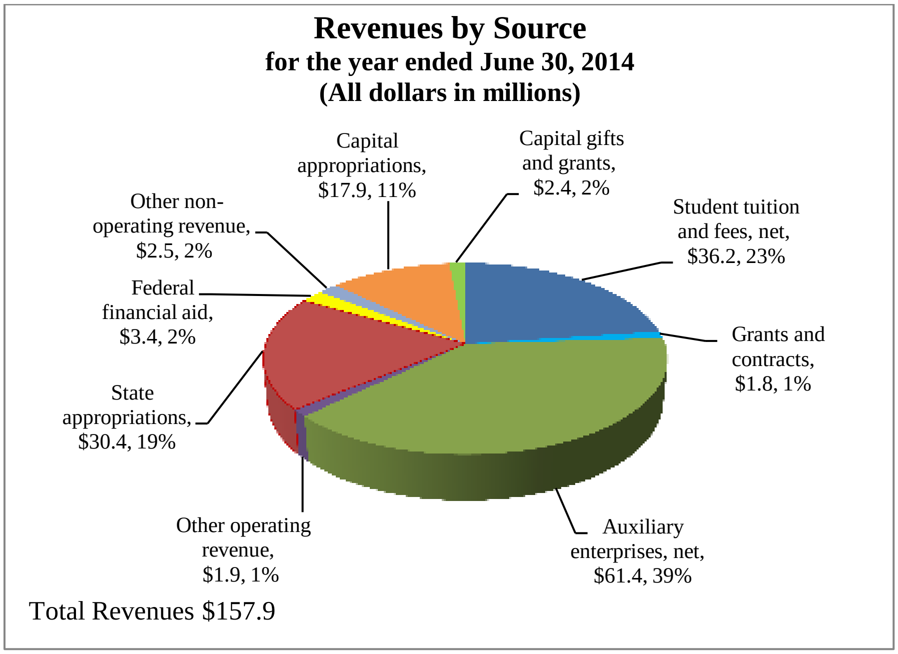
Total operating revenues increased $7.1 million, or 7.5%, from the prior fiscal year. Increases in both student tuition and fees ($2.4 million) and auxiliary revenue ($5.0 million) were due to increased tuition and auxiliary fee rates approved by the Board of Visitors.

NON-OPERATING REVENUES

Total non-operating revenues increased by $1.4 million, or 4.0%, from prior fiscal year primarily due to the increase in State appropriations.

OTHER REVENUES

Other revenues decreased by $13.9 million, or 40.6%, from prior fiscal year due to the decrease in capital appropriations. The decrease in capital appropriations is due to the Luter School of Business, the second phase of the Forbes Science Building, Residence Hall V and the Common's expansion being placed into service during the fiscal year. The graph below reflects the fiscal year revenues by source.



TOTAL EXPENSES

The expenses of the University are also separated into operating and non-operating expenses and can be categorized by either *natural classification* or by *function*. Note 8 of the *Notes to Financial Statements* gives the correlation between the two different methods of categorization.

Summary of Expenses by Function
For the years ended June 30, 2014 and 2013
(All dollars in millions)

	2014	2013	Change Amount	Change Percent
Operating expenses				
Instruction	$ 30.7	$ 31.5	$ (0.8)	(2.5) %
Research	1.9	1.4	0.5	35.7 %
Academic support	8.2	7.4	0.8	10.8 %
Student services	5.9	5.8	0.1	1.7 %
Institutional support	8.0	8.3	(0.3)	(3.6) %
Operation & maintenance of plant	8.0	7.8	0.2	2.6 %
Depreciation	14.9	13.5	1.4	10.4 %
Student aid	2.3	2.4	(0.1)	(4.2) %
Auxiliary enterprises	52.4	44.7	7.7	17.2 %
Total operating expenses	$ 132.3	$ 122.8	$ 9.5	7.7 %

OPERATING EXPENSES

Total operating expenses for the fiscal year totaled $132.2 million, up $9.4 million from fiscal year 2013. The net change resulted primarily from Auxiliary enterprises due to the opening of Rappahannock Residence Hall in fiscal year 2014 and the increased dining services for the new residential students.

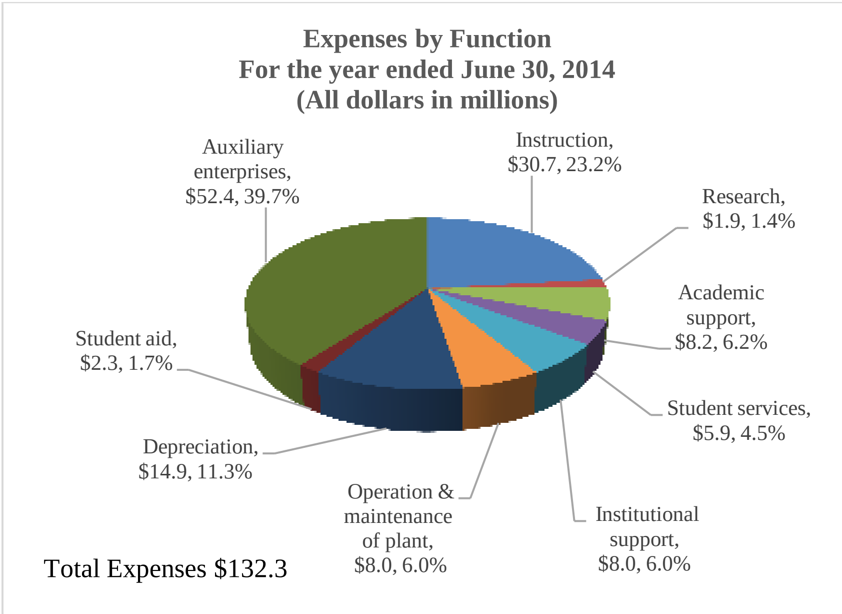
Instruction expenses were higher in fiscal year 2013 over fiscal year 2014 by $0.8 million, due primarily to the furniture and equipment costs ($3.0 million) for the Luter School of Business and Phase II of Forbes Science Hall that did not meet the capitalization threshold in fiscal year 2013. This decrease was offset by an increase fiscal year 2014 in salaries, wages, fringe benefits, services and supplies ($2.2 million), thus supporting the University’s commitment to recruiting and sustaining outstanding faculty and staff.

Research increased by $0.5 million due to the increase in federal grants procured by our dedicated research faculty.

Academic support increased by $0.8 million due to an increase in services and supplies procured by the Trible Library and Information Technology department for maintenance and licensing support of the University’s hardware and software systems.

Depreciation expense increased by $1.4 million due to the increase in depreciable assets such as: the Luter School of Business, Warwick River Hall, Phase II of the Forbes Science building, Pope Chapel, Ratcliffe Hall addition and the Hiden-Hussey Commons expansion.

Below is a chart expressing expenses by function. When looking at the expenses by function, the largest expenses are Instruction and Auxiliary enterprises. These functions represent the core of any University signifying the students' education, housing and dining costs.



When looking at expenses by natural classification, the largest expenses are salaries and wages for faculty, staff, and students to carry out the mission of the University; and services and supplies to support the faculty and staff.

Summary of Expenses by Natural Classification
the years ended June 30, 2014 and 2013
(All dollars in millions)

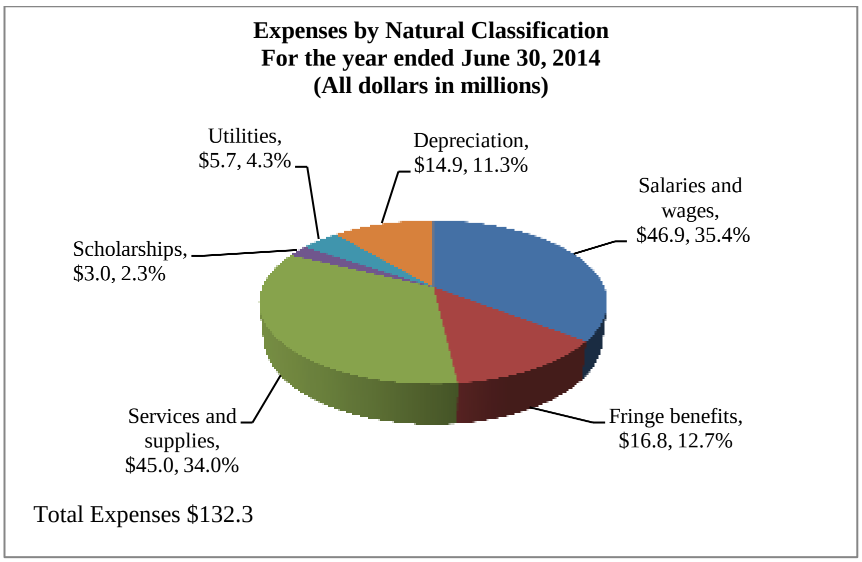
	2014	2013	Change Amount	Change Percent
Operating expenses				
Salaries and wages	$ 46.9	$ 43.4	$ 3.5	8.1 %
Fringe benefits	16.8	16.3	0.5	3.1 %
Services and supplies	45.0	35.5	9.5	26.8 %
Scholarships	3.0	3.1	(0.1)	(3.2) %
Utilities	5.7	4.7	1.0	21.3 %
Plant and equipment	-	6.4	(6.4)	(100.0) %
Depreciation	14.9	13.5	1.4	10.4 %
Total operating expenses	$ 132.3	$ 122.9	$ 9.4	7.6 %

The natural expense category of salaries and wages comprised $46.9 million, or 35.4% of the University's total operating expenses. This category increased by $3.5 million (8.1%) over the previous year. Changes to expenses in this category are due to increases or decreases in faculty and staff, salary increases or changes to the costs of fringe benefits. No general fund salary increases were funded by the Commonwealth in fiscal year 2014. However, in an effort to make University salaries more competitive and to improve recruitment and retention of employees, the Rector and Board of Visitors approved a comprehensive salary study to compare our positions with similar positions and a implement a multi-phase plan to increase salaries to the mid-point of their range. In fiscal year 2014 the first salary increase was approved and funded.

Services and supplies increased by $9.5 million, or 26.8%, primarily due to the opening of the new Rappahannock Residence Hall housing 465 students, the increase in dining costs and skilled services for the additional students residing on campus, as well as, the increase in maintenance contracts for the University.

Utilities increased due to the larger, expanded facilities on campus, such as the new Luter School of Business and Rappahannock Hall.

Plant and equipment saw a decrease of $6.4 million over prior fiscal year due to the furniture and equipment for the Luter School of Business, Warwick River Hall, Phase II of the Forbes Science building, Pope Chapel, Ratcliffe Hall addition and the Hiden-Hussey Commons expansion which did not meet the threshold for capitalization.



NON-OPERATING EXPENSES

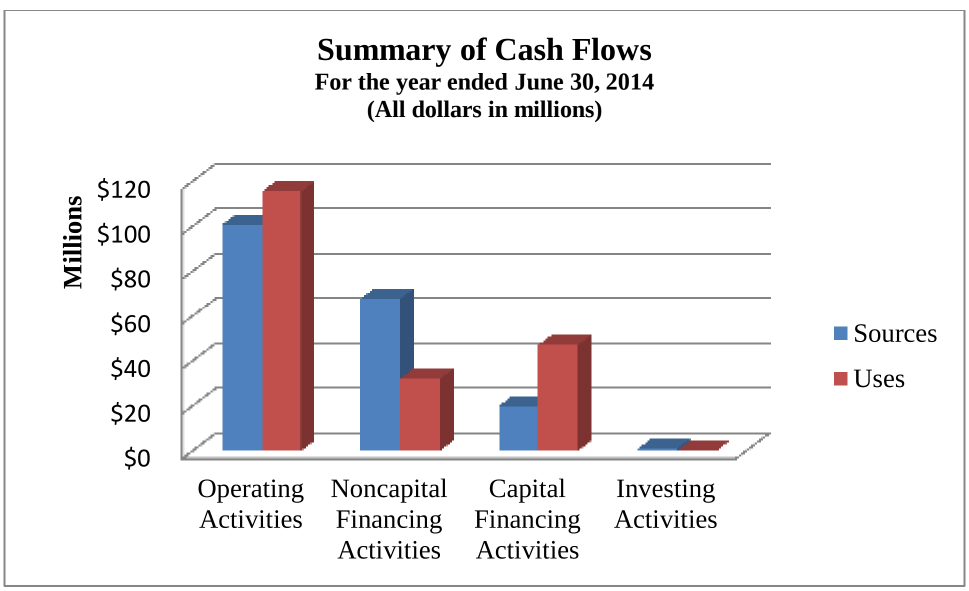
Non-operating expenses consist of losses on disposal of capital assets and interest paid on capital related debt.

STATEMENT OF CASH FLOWS

The *Statement of Cash Flows* presents detailed information about the cash activity of the University during the year. Cash flows from operating activities will always be different from the operating loss on the *Statement of Revenues, Expenses, and Change in Net Position* (SRECNP). This difference occurs because the SRECNP is prepared on the accrual basis of accounting and includes noncash items, such as depreciation expenses, whereas the *Statement of Cash Flows* presents cash inflows and outflows without regard to accrual items. The *Statement of Cash Flows* should help readers assess the ability of an institution to generate sufficient cash flows necessary to meet its obligations.

The statement is divided into five sections:

- *Cash flows from operating activities*, deals with operating cash flows and shows net cash used by the operating activities of the University.
- *Cash flows from noncapital financing activities* section reflects cash received and disbursed for purposes other than operating, investing, and capital financing. GASB requires that general appropriations from the Commonwealth be shown as cash flows from noncapital financing activities. Since state appropriations are used to cover the operating expenses of the University, net cash should always be used by operating activities and provided by noncapital financing activities.
- *Cash flows from capital financing activities* presents cash used for the acquisition and construction of capital and related items. Plant funds and related long-term debt activities (except depreciation and amortization), as well as capital appropriations are included in cash flows from capital financing activities.
- *Cash flows from investing activities* reflects the cash flows generated from investments, including purchases, proceeds, and interest.
- The last section reconciles the operating loss reflected on the *Statement of Revenues, Expenses, and Change in Net Position* to the net cash used by operating activities.



Net cash used by operating activities decreased by $0.6 million, or 3.9%, due to the increase in tuition, fees, grants and auxiliary enterprises which was larger than the increase in payments to employees, services, supplies, scholarships utilities, and plant and equipment.

Net cash provided by noncapital activities increased by $2.8 million due primarily to the increase in State appropriations in fiscal year 2014.

Net cash used by capital related financing activities had a $0.5 million decrease from prior year due to the capitalization of the Luter School of Business and Phase II of the Forbes Science Hall. The net decrease is due to the decrease in capital appropriations offset by a decrease in purchase of capital assets and an increase in principal and interest payments on capital debt.

Net cash provided by investing activities decreased due the interest earning on investments.

Summary of Cash Flows

For the years ended June 30, 2014 and 2013

(All dollars in millions)

	2014	2013	Change Amount	Change Percent
Net cash used by operating activities	$ (14.6)	$ (15.2)	$ 0.6	(3.9) %
Net cash provided by noncapital activities	35.9	33.1	2.8	8.5 %
Net cash used by capital and related financing activities	(27.2)	(27.7)	0.5	(1.8) %
Net cash provided by investing activities	0.8	1.2	(0.5)	(33.3) %
Net increase (decrease) in cash and cash equivalents	(5.1)	(8.6)	3.4	(40.7) %
Cash and cash equivalents - beginning of year	29.5	38.1	(8.6)	(22.6) %
Cash and cash equivalents - end of year	$ 24.4	$ 29.5	$ (5.1)	(17.3) %

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. Per the Governor's communications the University's funding will be cut by 5.0% in fiscal year 2015 and 7.0% in fiscal year 2016. The University's governing board increased in-state tuition by $407; out-of-state tuition by $836; comprehensive fees by $146 and room and board by $356 for fiscal year 2015. Christopher Newport University is a young institution, but our formidable reputation is growing fast thanks to our commitment to the principles of liberal learning and our dedication to the ideals of scholarship, leadership and service. That dedication has earned CNU a spot in *U.S. News & World Report*'s Best Colleges guide as the No. 6 Up-and-Coming School in the South.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET POSITION
As of June 30, 2014

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	$ 2,811,037	$ 5,304,878
Cash and cash equivalents Treasurer of Virginia (Note 2)	20,538,085	-
Cash and cash equivalents - securities lending (Note 2)	1,764,607	-
Accounts receivable, net of allowance (Note 3)	725,733	249,606
Contributions receivable, net of allowance (Note 3)	-	5,375,949
Due From Commonwealth (Note 3)	4,768,910	-
Prepaid expenses	2,903,014	9,242
Inventory	163,152	-
Total current assets	33,674,538	10,939,675
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	848,282	664,362
Restricted cash and cash equivalents Treasurer of Virginia (Note 2)	212,610	-
Restricted investments (Note 2)	194,523	22,206,610
Other investments (Note 2)	57,132	-
Appropriations available/due from	5,445	-
Contributions receivable, net of allowance (Note 3)	-	12,719,725
Other assets	-	1,978,918
Other restricted assets	-	1,101,052
Non-depreciable capital assets (Note 4)	40,824,376	19,204,678
Capital assets, net (Note 4)	443,920,443	90,965,952
Total noncurrent assets	486,062,811	148,841,297
Deferred outflows of resources	5,105,722	-
Total assets and deferred outflows of resources	524,843,071	159,780,972

LIABILITIES

	University	Component Unit Foundations
Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	12,358,112	624,321
Unearned revenue	1,396,415	29,677
Obligations under securities lending	1,821,739	-
Accrued Interest Payable	1,827,613	176,936
Deposits held in custody for others	2,064,291	194,523
Long-term liabilities - current portion (Note 6)	11,328,745	5,726,045
Total current liabilities	30,796,915	6,751,502
Noncurrent liabilities (Notes 6 and 7)	158,726,925	107,486,592
Deferred inflows of resources	-	-
Total liabilities and deferred inflows of resources	189,523,840	114,238,094

NET POSITION

	University	Component Unit Foundations
Net invested in capital assets	322,378,001	2,916,752
Restricted for:		
Nonexpendable - scholarships and fellowships	-	18,929,153
Expendable:		
Scholarships and fellowships	-	2,678,712
Academic support	-	5,276,204
Capital projects	-	2,306,279
Other	-	9,380,474
Unrestricted	12,941,230	4,055,304
Total net position	$ 335,319,231	$ 45,542,878

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, 2014

	June 30, 2014	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of $948,315	$ 36,190,417	$ -
Federal grants and contracts	1,435,130	-
State grants and contracts	144,849	-
Nongovernmental grants and contracts	266,949	-
Gifts and contributions	-	9,644,953
Auxiliary enterprises, Net of scholarship allowance of $8,359,510	61,407,378	-
Lease and rental revenue	-	9,827,430
Other operating revenue	1,901,751	36,821
Total operating revenues	101,346,474	19,509,204
Operating expenses (Note 8):		
Instruction	30,722,427	-
Research	1,890,243	-
Academic support	8,243,611	-
Student services	5,937,584	-
Institutional support	7,977,573	5,510,724
Operation and maintenance of plant	7,944,166	2,519,768
Depreciation	14,853,696	3,098,482
Student aid	2,282,639	1,226,858
Auxiliary enterprises	52,420,211	-
Total operating expenses	132,272,150	12,355,832
Operating gain/(loss)	(30,925,676)	7,153,372
Non-operating revenues/(expenses):		
State appropriations (Note 9)	30,401,269	-
Federal student financial aid	3,378,265	-
Gifts	1,734,715	-
Investment income, net of investment expenses of $7,138	206,904	3,744,058
Interest on capital asset related debt	(5,910,511)	(2,700,352)
Build America Bonds subsidy	551,502	-
Other non-operating revenues (expenses)	-	-
Gain (Loss) on disposal of plant assets	(789,405)	-
Net nonoperating revenues/(expenses)	29,572,739	1,043,706
Income before other revenues/(expenses)/gains/(losses)	(1,352,937)	8,197,078
Capital appropriations	17,881,801	364,711
Capital gifts and grants	2,417,859	-
Additions to permanent endowments	-	1,455,647
Net other revenues	20,299,660	1,820,358
Increase/(decrease) in net position	18,946,723	10,017,436
Net position Beginning of year	316,372,508	35,525,442
Net position End of year	$ 335,319,231	$ 45,542,878

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, 2014

Cash flows from operating activities:	
Student tuition and fees	$ 35,697,010
Grants and contracts	2,085,201
Auxiliary enterprises	60,583,799
Other receipts	1,912,238
Payments to employees	(62,984,456)
Payments for services and supplies	(44,764,028)
Payments for utilities	(5,667,236)
Payments for scholarships and fellowships	(1,523,340)
Payments for plant improvements and equipment	61,477
Loans issued to students and employees	(602,379)
Collection of loans from students and employees	569,432
Net cash used by operating activities	(14,632,282)
Cash flows from noncapital financing activities:	
State appropriations	30,605,627
Gifts and grants for other than capital purposes	1,734,715
Federal student financial aid	3,378,265
Federal direct lending program receipts	24,263,533
Federal direct lending program disbursements	(24,263,533)
PLUS loan receipts	6,078,864
PLUS loan disbursements	(6,078,864)
Agency receipts	1,769,949
Agency payments	(1,615,808)
Net cash provided by noncapital financing activities	35,872,748
Cash flows from capital financing activities:	
Capital appropriations	15,998,065
Capital grants and contributions	2,417,859
Proceeds from sale of revenue bonds	1,550,277
Purchase of capital assets	(28,397,505)
Principal paid on capital debt, leases, and installments	(10,474,138)
Interest paid on capital debt, leases, and installments	(8,260,907)
Net cash used by capital financing activities	(27,166,349)
Cash flows from investing activities:	
Interest on investments	846,427
Purchase of investments	(29,421)
Sales of investments	6,262
Net cash provided by investing activities	823,268
Net Increase in cash	(5,102,615)
Cash and cash equivalents - beginning of the year	29,512,629
Cash and cash equivalents - end of the year	$ 24,410,014

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$	(30,925,676)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		14,853,696
Changes in assets and liabilities:		
Receivables, net		482,220
Prepaid expenses		(166,641)
Inventory		34,082
Accounts payable and accrued expenses		927,648
Unearned revenue		(87,278)
Deposits held in custody		(6,685)
Accrued compensated absences		256,352
Net cash used by operating activities	$	(14,632,282)
Non Cash investing, non capital financing, and capital and related financing transactions:		
Capitalization of interest expense	$	421,441
Amortization of bond premium	$	870,957
Amortization of deferred net loss on defeased bonds	$	(365,804)
Change in fair value of investments recognized as a component of interest income	$	40,243

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

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NOTES TO FINANCIAL STATEMENTS

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, 2014, the Foundations distributed $4,155,854 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. 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 University's financial statements 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, 2014, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2015 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, 2014.

J. Long-term Debt and Debt Issue Costs

Long-term debt on the Statement of Net Position is reported net of related discounts and premiums, which are amortized over the life of the debt. Debt issuance costs are expensed as Non-operating expenses.

K. 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, 2014. 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.

L. 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.

M. Deferred Inflows and Outflows of Resources

In March 2012, GASB Statement 65, Items Previously Reported as Assets and Liabilities, effective for the University's fiscal year beginning July 1, 2013, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities.

N. Net Position

GASB Statement 34 requires that the Statement of Net Position report the difference between assets and liabilities as net position. 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.

O. 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.

P. 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 2014 to disclose. The CNU Education Foundation handles all investments for CNU. The following risk disclosures are required by GASB.

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

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

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2014.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for 2014.

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.

	Market Value
Cash and cash equivalents:	
Deposits with financial institutions	$ 2,811,037
Treasurer of Virginia	22,515,302
State non-arbitrage program (SNAP)	848,282
Total cash and cash equivalents	26,174,621
Investments:	
Collateral held for securities lending	57,132
Mutual funds and Money Market	194,523
Total investments	251,655
Total cash, cash equivalents and investments	$26,426,276

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, 2014.

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	$22,012,087
Managed Investments	194,523
Total investments	$22,206,610

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

Unrestricted	$ 12,500
Funds invested for the University	194,523
Temporarily restricted	5,973,812
Permanently restricted	16,025,775
Total investments	$22,206,610

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, 2014:

Student tuition and fees	$ 60,409
Auxiliary enterprises	144,360
Federal, state, private grants and contracts	430,492
Other activities	131,425
Gross receivables	766,686
Less: Allowance for doubtful accounts	(40,953)
Net accounts receivable	$725,733

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2014:

Virginia College Building Authority 21st Century Bonds	$4,768,910
Total Due from Commonwealth of Virginia	$4,768,910

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, 2014, pledges receivable are as follows:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$ 1,442,911	$ 3,841,034	$ 637,943	$ 5,921,888
Receivable in one to five years	1,782,786	5,766,976	718,893	8,268,655
Receivable in more than five years	191,099	7,617,900	1,405,664	9,214,663
Total unconditional pledges	3,416,796	17,225,910	2,762,500	23,405,206
Less discount to net present value	(144,084)	(3,285,439)	(412,456)	(3,841,979)
Less allowances for uncollectible pledges receivable	(33,804)	(1,354,523)	(79,226)	(1,467,553)
Net unconditional pledges receivable	$ 3,238,908	$ 12,585,948	$ 2,270,818	$ 18,095,674

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2014 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 19,478,866	$ -	$ -	$ 19,478,866
Construction in progress	6,890,728	20,694,793	(6,240,011)	21,345,510
Total nondepreciable capital assets	26,369,594	20,694,793	(6,240,011)	40,824,376
Depreciable capital assets:				
Buildings	474,822,782	4,338,920	(3,068,708)	476,092,994
Infrastructure	10,909,683	722,584	-	11,632,267
Equipment	15,429,925	2,954,488	(606,463)	17,777,950
Intangibles	2,778,678	1,514,888	(15,000)	4,278,566
Other improvements	23,319,871	5,246,007	-	28,565,878
Library materials	11,577,726	470,413	(291,789)	11,756,350
Total depreciable capital assets	538,838,665	15,247,300	(3,981,960)	550,104,005
Less accumulated depreciation:				
Buildings	61,322,140	10,638,353	(2,300,766)	69,659,727
Infrastructure	4,049,827	905,972	-	4,955,799
Equipment	6,806,757	1,486,053	(581,350)	7,711,460
Intangibles	2,296,801	303,680	-	2,600,481
Other improvements	9,641,891	1,051,370	-	10,693,261
Library materials	10,094,566	468,268	-	10,562,834
Total accumulated depreciation	94,211,982	14,853,696	(2,882,116)	106,183,562
Depreciable capital assets, net	444,626,683	393,604	(1,099,844)	443,920,443
Total capital assets, net	$ 470,996,277	$ 21,088,397	$ (7,339,855)	$ 484,744,819

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

Land, buildings, furniture, equipment and collections for 2014 are summarized as follows:

Property held for investment	$122,771,917
Furniture and equipment	5,003,985
Property held for sale	51,190
Collections	618,334
	128,445,426
Less accumulated depreciation	(18,274,796)
Total capital assets, net	$110,170,630

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled $2,982,018 in 2014.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2014:

Employee salaries, wages and fringe benefits payable	$ 4,006,468
Vendors and suppliers accounts payable	7,711,675
Retainage payable	639,969
Total accounts payable and accrued liabilities	$12,358,112

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, 2014 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 121,097,425	$ -	$ 7,447,087	$ 113,650,338	$ 7,055,000
Treasury-general obligation bonds	56,534,001	14,017,089	16,937,133	53,613,957	2,762,630
Installment purchases	358,731	1,002,957	418,103	943,585	426,872
Total long-term debt	177,990,157	15,020,046	24,802,323	168,207,880	10,244,502
Accrued compensated absences	1,591,438	1,715,857	1,459,505	1,847,790	1,084,243
Total long-term liabilities	$ 179,581,595	$ 16,735,903	$ 26,261,828	$ 170,055,670	$ 11,328,745

Beginning balances exclude the deferred losses on debt defeasance, presented in our financials as deferred outflows of resources, which were netted with FY13 ending balances, pursuant to the implementation of GASB 65.

7. LONG TERM DEBT

On behalf of The University, the Commonwealth 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 April 2014, on behalf of the University, the Commonwealth issued $12,356,757 of General Obligation Refunding Bonds, Series 2014B, to refinance Series 2004B bonds. They were issued at a true interest cost (TIC) of 2.60% and will mature in 2020.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2014
General obligation bonds:			
Residence Halls:			
Series 2004B	4.0-5.0	2019	$ -
Series 2004B	4.0-5.0	2020	-
Series 2006	3.87-5.0	2021	1,090,000
Series 2008B	3.0-5.0	2014	-
Series 2009C	3.0-4.0	2021	1,877,837
Series 2010A-1 & 2010A-2	2.1-5.0	2040	32,805,000
Series 2011A	2.0-3.0	2021	3,200,000
Series 2014B	2.0-5.0	2020	4,210,171
Series 2014B	2.0-5.0	2020	8,146,585
Total general obligation bonds			$ 51,329,593
Revenue bonds:			
Athletics:			
Series 2003A	5.0	2013	$ -
Series 2004B	3.0-5.0	2014	-
Series 2007A	4.5-5.0	2038	6,690,000
Series 2007B	4.0-4.5	2019	3,430,000
Series 2007B	4.0-4.5	2020	2,101,571
Series 2007B	4.0-4.5	2020	473,735
Series 2009A	2.1-5.0	2029	2,375,000
Series 2009B	3.0-5.0	2040	18,600,000
Series 2010B	2.0-5.0	2022	290,000
Series 2010B	2.0-5.0	2020	290,000
Series 2010B	2.0-5.0	2022	1,300,000
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	115,914
Series 2010B	2.0-5.0	2021	330,000
Series 2010B	2.0-5.0	2022	60,000
Series 2011A	5.0	2021	3,460,000
Student Union:			
Series 2004A	5.0	2014	995,000
Series 2006A	3.0-5.0	2027	1,835,000
Series 2007B	4.0-4.5	2020	3,220,393
Series 2010B	2.0-5.0	2022	1,995,000
Series 2012A	2.75-5.0	2025	14,085,000
Parking Decks/Surface:			
Series 2005A	5.0	2026	440,000
Series 2007B	4.0-4.5	2020	3,074,239
Series 2010B	2.0-5.0	2022	1,895,000
Series 2011A	3.0-5.0	2021	2,435,000
Series 2012A	3.0-5.0	2024	965,000
Series 2012B	3.0-5.0	2022	860,000

Series 2007B	4.0-4.5	2020	8,769,148
Series 2010B	2.0-5.0	2022	5,415,000
Residence Hall Roof:			
Series 2010A-1	2.0-5.0	2017	820,000
Ratcliffe Hall:			
Series 2009A	2.1-5.0	2029	1,570,000
Series 2009B	3.0-5.0	2030	805,000
Series 2011A	5.0	2021	2,535,000
Land Acquisition:			
Series 2009A	2.1-5.0	2029	7,380,000
Series 2009B	2.0-5.0	2030	2,790,000
Series 2010A-1	2.0-5.6	2040	4,460,000
Total revenue bonds			$ 106,500,000
Total bonds payable			$ 157,829,593
Unamortized premiums - GOB bonds			$ 2,284,364
Unamortized premiums - VCBA bonds			7,150,338
Total unamortized premiums			$ 9,434,702
Installment purchases			$ 943,585
Total long-term debt			$ 168,207,880

Long-term debt matures as follows:

	Principal	Interest
2015	$11,345,760	$7,099,625
2016	12,593,017	6,612,155
2017	12,740,414	6,141,647
2018	13,137,255	5,550,528
2019	13,397,763	4,999,406
2020-2024	48,808,499	17,611,689
2025-2029	22,037,442	10,227,144
2030-2034	14,304,162	6,409,730
2035-2039	16,345,480	2,921,980
2040-2044	3,498,088	138,755
	$168,207,880	$67,712,659

Defeasance of Debt – Current Year

In April 2014, the Commonwealth of Virginia issued $64,830,000 of General Obligation Refunding Bonds, Series 2014B, with an interest rate ranging from 2.0% to 5.0%. The sale of these bonds enabled the University to advance refund $13,457,000 of debt outstanding on the Series 2004B GOB bond issues, which had interest rates ranging from 4.0% to 5.0%. This refunding represents a partial defeasance of the outstanding debt on the Series 2004B bond issues. The original bonds were paid in full June 2014. The reacquisition price of the refunded debt was $13,981,000.

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

The advance refunding resulted in the recognition of a deferred loss of $1,603,700 that is being amortized over the next six years. The aggregate debt service payments, principle and interest, will be decreased by $1,181,017 over the next six years which represents the maturity time of the old debt. This amount results in a net present value savings of $1,154,390 based on a present value of 2.45%.

Defeasance of Debt – Prior Years

During fiscal year 2012, certain 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, 2014, $29,162,000 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, 2014 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.	$ 2,013,990
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.	2,230,480
Towne Bank, secured by deed of trust on leasehold interest and assignment of rents and leases on Hidenwood Shopping Center located at 2 Hidenwood Boulevard, 12423, 12435, and 12437 Warwick Boulevard, interest due monthly at the WSJ prime rate plus 0.5%. Interest only payments of beginning November 2013, note payable is due November 2015.	7,625,000
CGA Mortgage Capital, secured by a deed of trust on leasehold interest and assignment of rents and leases on Riverside Medical Center located at 12422 Warwick Boulevard and 4 and 8 Glendale Road, interest due monthly at 4.738%. Principal and interest payments of $75,417 beginning December 2013, balance due December 2033.	11,422,088
Total	$23,291,558

In June 2014, the Foundations have available a $3,000,000 line of credit facility with Monarch Bank. The line of credit matures on January 10, 2015. The line is unsecured. Borrowings under this facility accrue interest at Wall Street Journal Prime Rate less 0.25%. This amount was 3.00% at June 30, 2014. The credit facility may be used to finance any lawful activity of the Foundations. At June 30, 2014, the outstanding balance under this line of credit facility totaled $672,752.

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. The bonds were payable interest only until July 2006 at an interest rate of 65% of LIBOR plus 0.82%, at which time principal curtailments began. The bonds originally matured in June 2011 and were extended until August 2011. The bonds were refinanced in August 2011 at 65% of LIBOR plus 0.82%. At June 30, 2014, the balance outstanding on the bonds was $2,774,119. The bonds mature in 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. The bonds were payable interest only until October 2003 at 65% of LIBOR plus 0.88%, at which time principal curtailments began. The bonds originally matured in September 2013 and were extended until December 2013. In December 2013, the bonds were refinanced through the Industrial Development Authority of Poquoson City at a fixed interest rate of 1.69%. At June 30, 2014, the balance outstanding on the bonds was $7,256,575. The bonds mature in December 2018.

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. The bonds were payable interest only until October 2003 at 65% of LIBOR plus 0.88%, at which time principal curtailments began. The bonds originally matured in September 2013 and were extended until December 2013. In December 2013, the bonds were refinanced with the Industrial Authority of Richmond County at a fixed interest rate of 1.69%. At June 30, 2014, the balance outstanding on the bonds was $4,135,054. The bonds mature in December 2018.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, Virginia, 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. The bonds were payable interest only until November 2005 at 67% of LIBOR, at which time principal curtailments began. At June 30, 2014, the balance outstanding on the bonds was $22,930,000. 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, Virginia, 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. Scheduled principal curtailments began in August 2007. The interest rate on the bonds is 70% of LIBOR. At June 30, 2014, the balance outstanding on the bonds was $7,050,000. The bonds mature August 2036.

In November 2013, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport news, Virginia, under which the Authority issued $41.29 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 Rappahannock Residence Hall. As of June 30, 2013, $32,221,462 of debt was related to the Hall and $9 million additional was borrowed before the Hall's construction loan was refinanced with this bond issuance. The interest rate on the bonds is 65% of LIBOR plus 1.6%. At June 30, 2014, the balance outstanding on the bonds was $40,300,336. Scheduled principal curtailments began in December 2013. The bonds mature in November 2043.

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.

Notes and maturities for the succeeding fiscal years ending June 30, 2014 are as follows:

Year	Amount
2015	$5,053,293
2016	13,441,726
2017	3,273,761
2018	12,488,945
2019	3,049,416
Thereafter	70,430,501
	$107,737,642

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 for the pledges made during the fiscal year ended June 30, 2014 was 3.25%. Pledges made in previous years were discounted at 6%.

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

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

The fair value of the interest rate swaps at June 30, 2014 is as follows:

Hedging Instrument	Variable Rate	Fixed Rate	Expiration	Fair Value
$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	$(2,853,344)
$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	(1,254,635)
				$(4,107,979)

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/Wages & Fringe Benefits	Services and Supplies	Scholarship	Depreciation, Utilities, Plant & Equipment	Total
Instruction	$ 27,329,350	$ 3,377,701	$ 12,891	$ 2,485	$ 30,722,427
Research	697,078	1,192,974	-	191	1,890,243
Academic Support	4,928,653	3,314,194	-	764	8,243,611
Student Services	4,346,759	1,582,231	4,149	4,445	5,937,584
Institutional Support	6,241,900	1,629,192	88,427	18,054	7,977,573
Operation Plant	4,157,397	1,381,612	-	2,405,157	7,944,166
Depreciation	-	-	-	14,853,696	14,853,696
Scholarships	-	3,615	2,279,024	-	2,282,639
Auxiliary Activities	15,982,028	32,556,174	605,840	3,276,169	52,420,211
Total	$ 63,683,165	$ 45,037,693	$ 2,990,331	$ 20,560,961	$ 132,272,150

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	$24,479,716
Student financial assistance	4,581,107
Supplemental adjustments:	
Central appropriations & other adjustments	1,410,235
Financial aid adjustments	(69,789)
Adjusted Appropriation	$30,401,269

10. COMMITMENTS

At June 30, 2014, the University was committed to construction contracts totaling approximately $48,304,910 of which $27,474,832 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, 2014 was $8,107,510. The University has, as of June 30, 2014 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2015	$ 8,432,848
2016	8,607,869
2017	8,694,409
2018	805,081
Total	$26,540,207

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 Prudent Management of Institutional Funds Act, Code of Virginia, Title 55, Sections 268.11, 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. The net appreciation on the investments on donor-restricted endowments was an overall gain of $1,773,561.

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, 2014 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 $2,214,178 for the year ended June 30, 2014. This expense is based on the retirement plan that each employee is enrolled in. For both Plan 1 participants (individuals hired prior to July 1, 2010) and Plan 2 participants, (individuals hired on or after July 1, 2010), the employer contribution rate was 8.76% (14.80% for University police), with a 5% employee contribution. For the Hybrid Plan, effective for all employees hired on or after January 1, 2014, the employer contribution equals the defined benefit mandatory contributions plus employer matching up to 2.5%.

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 $1,926,998 for the year ended June 30, 2014. Contributions were calculated using the base salary amount of approximately $19.7 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 $223,054 for 2014.

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, 2014, 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, 2014 totaled $599,632. 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, 2014 cash used by the program totaled $24,263,533.

17. SUBSEQUENT EVENTS

In fiscal year 2015, the Commonwealth of Virginia issued two series 2015A 9(c) general obligation bonds: $18,860,000 to construct residential housing and $8,960,000 to expand dining hall. 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.

Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 5, 2015

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, 2014, 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 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 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, 2014, 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 1 through 11 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 August 5, 2015, 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.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

SAH/clj

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