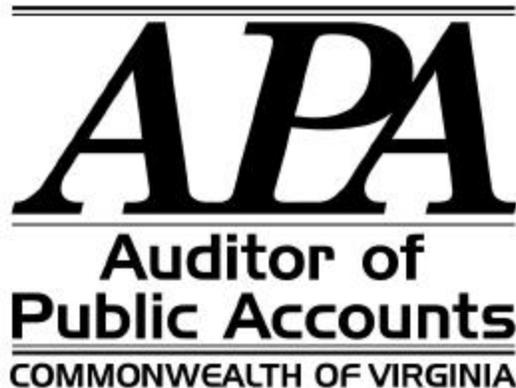


**CHRISTOPHER NEWPORT UNIVERSITY
NEWPORT NEWS, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2000, found:

- the accompanying financial statements are presented fairly, in all material respects;
- an internal control matter, entitled “Revise Administrative Systems Implementation Plan” which is summarized below and further discussed in the report section entitled “Internal Control Findings and Recommendations;” and
- no instances of noncompliance with applicable laws and regulations that are required to be reported.

Administrative Systems Implementation Plan

In July 1997, the University purchased an integrated administrative system from PeopleSoft, Incorporated to ensure the University’s systems were Y2K compliant. The implementation process fell behind and Executive Management decided to abandon PeopleSoft as the Y2K solution. Instead, Management reallocated resources to modify the current administrative system for Y2K readiness.

In October 1998, the University hired a new project manager and set a timeline for completing the PeopleSoft implementation by December 2002. To date, no part of the project has moved into production. Although the University has expended significant effort on the project, there is a lack of coordination among all parties involved.

We noted the following issues and problems that have caused the delay in implementing the project:

- Executive Management has not provided adequate oversight for the implementation project.
- The Project Manager does not manage at the appropriate level.
- Core Team members do not communicate with each other or the Project Manager.
- Project planning did not include firm target dates for the implementation phases and did not clearly define roles and responsibilities of individuals on various project teams.
- A detailed project budget for future implementation costs does not exist.

Executive Management must assume responsibility for the project and become directly involved in the decision making process. Executive Management should set accountability measures for the project team members and schedule periodic meetings with the Project Manager to assess project performance. The University must also develop a comprehensive project management plan that establishes measurable goals, realistic timelines, and comprehensive budgets.

We will continue to monitor the progress of the University's systems implementation through regular contact with the Project Manager. We will review control features in the new system before and shortly after the University moves the system into production.

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UNIVERSITY OFFICIALS

July 3, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors
Christopher Newport University

We have audited the accounts and records of **Christopher Newport University** as of and for the year ended June 30, 2000, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Christopher Newport University as of June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christopher Newport University as of June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

In planning and performing our audit of the financial statements of Christopher Newport University as of and for the year ended June 30, 2000, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled Internal Control and Compliance Findings and Recommendations.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that non of the reportable conditions described above is a material weakness.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, audit committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on September 19, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Revise Administrative Systems Implementation Plan

In July 1997, the University purchased an integrated administrative system from PeopleSoft, Incorporated to replace its Financial, Student, and Financial Aid systems. The University appointed an internal project manager and planned to implement the first modules in 1998, and have all systems in production by December 1999, to meet its Y2K needs. The implementation process fell behind schedule and, in June 1998, Executive Management decided to abandon PeopleSoft as the Y2K solution. Instead, Management reallocated resources to modify the current administrative systems for Y2K readiness.

In October 1998, the University hired a new project manager and set a timeline for completing the implementation by December 2002. To date, no part of the project has moved into production. Although the University expended a significant effort on the project, there is a lack of coordination among all parties.

We noted the following issues and problems that have caused the delay in implementing the project:

- Executive Management has not provided adequate oversight for the implementation project. Management does not meet regularly with the Project Manager to assess the project's progress and determine that the Core Teams have met their project roles and responsibilities.
- The Project Manager is unable to monitor the project's daily activities due to time constraints. In addition, since the project's beginning, the University has assigned three different Project Managers. The current manager, who is also the Registrar, cannot dedicate sufficient time from her other daily operational responsibilities to oversee the project.
- Core Team members, both technical and functional, do not communicate with each other or the Project Manager resulting in a lack of consistent information and focused activity.
- Project planning did not include firm target dates for the implementation, and did not clearly define roles and responsibilities of individuals on various project teams. As a result, there is no enforcement or accountability for timely performance of tasks.
- A detailed project budget for future implementation costs does not exist. As of June 2001, the University has spent \$2.2 million for software, hardware, consulting services, employee training, and personnel costs for the project.

Executive Management must assume responsibility for the project and become directly involved in the decision making process. Executive Management should set accountability measures for the project team members and schedule periodic meetings with Project Managers to assess project performance. A successful implementation cannot occur without this important oversight function.

The University must develop a comprehensive project management plan that establishes measurable goals, realistic timelines, and comprehensive budgets. Setting measurable goals gives management a basis to evaluate the progress and success of the project. The plan must identify roles and responsibilities of individuals on the various project teams to improve communication, accountability, and timely performance of tasks. The overall plan should also review re-engineering goals and mediate any differences between user needs and preferences. A well-developed plan will help ensure that management and project teams share the same vision and priorities.

We will continue to monitor the progress of the University's systems implementation through regular contact with the Project Manager. We will review control features in the new system before and shortly after the University moves the system into production.

CHRISTOPHER NEWPORT UNIVERSITY
BALANCE SHEET
As of June 30, 2000

	Current Funds		Loan Funds	Endowment and Similar Funds
	Unrestricted	Restricted		
ASSETS				
Cash (Note3)	\$ 3,984,792	\$ 533,642	\$ 503,127	\$ 1,678
Investments (Note 4)	1,253,555	-	-	2,551,441
Investments with Treasurer of Virginia (Note 4)	-	-	-	-
Accounts receivable (Net of allowance for doubtful accounts of \$15,060)	396,218	38,183	13,749	-
Notes receivable (Net of allowance for doubtful accounts of \$244,481)	-	-	634,457	-
Inventories	433,944	-	-	-
Prepaid expenses	358,571	-	-	-
Land	-	-	-	-
Buildings	-	-	-	-
Equipment	-	-	-	-
Library books	-	-	-	-
Construction in progress	-	-	-	-
Total assets	<u>\$ 6,427,080</u>	<u>\$ 571,825</u>	<u>\$ 1,151,333</u>	<u>\$ 2,553,119</u>
LIABILITIES AND FUND BALANCES				
Accounts payable and accrued liabilities	\$ 583,208	\$ 52,418	\$ 146	\$ -
Accrued wages	1,666,626	108,868	-	-
Accrued leave (Note 1D)	806,871	619	-	-
Deferred revenue (Note 1H)	548,623	-	-	-
Retainage payable	-	-	-	-
Notes payable (Note 5)	-	-	-	-
Bonds payable (Note 5)	-	-	-	-
Leases payable (Note 5)	-	-	-	-
Funds held in custody for others	-	-	-	-
Obligations under security lending	-	-	-	-
Fund balances:				
Unrestricted current funds	2,821,752	-	-	-
Restricted current funds	-	409,920	-	-
Loan funds, U.S. Government grants	-	-	962,059	-
Loan funds, University - Restricted	-	-	189,128	-
Endowment funds	-	-	-	2,509,837
Quasi-endowment	-	-	-	43,282
Unexpended plant funds	-	-	-	-
Renewals and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
Net investment in plant	-	-	-	-
Total liabilities and fund balances	<u>\$ 6,427,080</u>	<u>\$ 571,825</u>	<u>\$ 1,151,333</u>	<u>\$ 2,553,119</u>

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

Unexpended	Plant Funds			Agency Funds	Total (Memorandum Only)
	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant		
\$ 3,005,459	\$ 7,767,562	\$ 1,220,616	\$ -	\$ 513,433	\$ 17,530,309
-	-	-	-	-	3,804,996
3,076,368	608,279	-	-	-	3,684,647
-	-	-	-	-	448,150
-	-	-	-	-	634,457
-	-	-	-	-	433,944
-	-	-	-	-	358,571
-	-	-	6,880,624	-	6,880,624
-	-	-	41,326,731	-	41,326,731
-	-	-	6,804,024	-	6,804,024
-	-	-	6,608,177	-	6,608,177
-	-	-	30,978,197	-	30,978,197
<u>\$ 6,081,827</u>	<u>\$ 8,375,841</u>	<u>\$ 1,220,616</u>	<u>\$ 92,597,753</u>	<u>\$ 513,433</u>	<u>\$ 119,492,827</u>
\$ 1,364,376	\$ 77,119	\$ -	\$ -	\$ 34,108	\$ 2,111,375
1,647	10,182	-	-	-	1,787,323
-	5,515	-	-	-	813,005
-	-	-	-	-	548,623
1,003,701	9,395	-	-	-	1,013,096
-	-	-	10,531	-	10,531
1,581,135	-	-	32,033,025	-	33,614,160
-	-	-	674,245	-	674,245
-	-	-	-	479,325	479,325
-	608,279	-	-	-	608,279
-	-	-	-	-	2,821,752
-	-	-	-	-	409,920
-	-	-	-	-	962,059
-	-	-	-	-	189,128
-	-	-	-	-	2,509,837
-	-	-	-	-	43,282
2,130,968	-	-	-	-	2,130,968
-	7,665,351	-	-	-	7,665,351
-	-	1,220,616	-	-	1,220,616
-	-	-	59,879,952	-	59,879,952
<u>\$ 6,081,827</u>	<u>\$ 8,375,841</u>	<u>\$ 1,220,616</u>	<u>\$ 92,597,753</u>	<u>\$ 513,433</u>	<u>\$ 119,492,827</u>

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2000

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenues and other additions:			
Unrestricted current funds revenues	\$ 40,883,498	\$ -	\$ -
State appropriation - Restricted	-	1,978,049	-
Student tuition and fees - Restricted	-	-	-
Federal grants and contracts - Restricted	-	3,878,199	-
State grants and contracts - Restricted	-	162,750	-
Local grants and contracts - Restricted	-	64,100	-
Private gifts, grants and contracts - Restricted	-	491,679	250
Investment income - Restricted	-	71,245	-
Security lending proceeds	-	-	-
Interest on loans receivable	-	-	32,716
Expended for plant facilities (Including \$1,071,327 charged to current funds)	-	-	-
Retirement of indebtedness	-	-	-
Other sources	-	2,710	19,977
Total revenues and other additions	40,883,498	6,648,732	52,943
Expenditures and other deductions:			
Educational and general expenditures	32,003,798	6,547,040	-
Auxiliary enterprises expenditures	8,599,488	-	-
Indirect cost recovered	-	147,391	-
Loan cancellations, assignments and write-offs	-	-	99,797
Administrative and collection costs	-	-	71,027
Expended for plant facilities (Including \$381,096 not capitalized)	-	-	-
Security lending payments	-	-	-
Unrealized loss on investments	-	-	-
Retirement of indebtedness	-	-	-
Interest on indebtedness	-	-	-
Disposal of plant assets	-	-	-
Refunded to grantors	-	56,872	-
Reversion to the general fund of the Commonwealth	-	-	-
Transfer to the General Fund of the Commonwealth	17,025	-	-
Total expenditures and other deductions	40,620,311	6,751,303	170,824
Transfers among funds - Additions/(Deductions):			
Mandatory:			
Debt service	(78,077)	-	-
Allocation of work-study program	68,044	(68,044)	-
Unexpended restricted income to endowment	-	(1,429)	-
Capital contribution from Virginia State Student Loan Fund	-	54,924	(54,924)
Nonmandatory - (To)/from other funds	4,271	195,729	-
Total transfers among funds	(5,762)	181,180	(54,924)
Net increase (decrease) for the year	257,425	78,609	(172,805)
Fund balances at beginning of year	2,564,327	331,311	1,323,992
Fund balances at end of year	<u>\$ 2,821,752</u>	<u>\$ 409,920</u>	<u>\$ 1,151,187</u>

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

Endowment and Similar Funds	Plant Funds			
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -	\$ -	\$ -
-	2,050,000	3,241,626	246,485	-
-	-	1,475,155	1,510,992	-
-	-	-	-	-
-	-	-	-	-
-	1,499,041	-	-	-
107,407	35,000	-	-	-
28,154	665,470	303,742	50,764	-
-	-	17,582	-	-
-	-	-	-	-
-	-	-	-	6,741,579
-	-	-	-	1,090,174
-	-	197,138	-	-
135,561	4,249,511	5,235,243	1,808,241	7,831,753
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	4,973,263	1,078,085	-	-
-	-	16,739	-	-
132,327	-	-	-	-
-	-	-	1,090,174	-
-	-	-	806,770	-
-	-	-	-	436,006
-	-	-	-	-
-	150,000	-	-	-
-	-	-	-	-
132,327	5,123,263	1,094,824	1,896,944	436,006
-	-	-	78,077	-
-	-	-	-	-
1,429	-	-	-	-
-	-	-	-	-
(200,000)	639,415	(639,415)	-	-
(198,571)	639,415	(639,415)	78,077	-
(195,337)	(234,337)	3,501,004	(10,626)	7,395,747
2,748,456	2,365,305	4,164,347	1,231,242	52,484,205
\$ 2,553,119	\$ 2,130,968	\$ 7,665,351	\$ 1,220,616	\$ 59,879,952

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2000

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	\$ 9,999,277	\$ -	\$ 9,999,277
State appropriations (Note 8)	21,243,536	1,884,188	23,127,724
Federal grants and contracts	-	3,720,004	3,720,004
State grants and contracts	-	162,750	162,750
Local grants and contracts	-	60,945	60,945
Private gifts, grants, and contracts	-	452,545	452,545
Investment income	-	84,621	84,621
Sales and services of educational departments	30,455	-	30,455
Sales and services of auxiliary enterprises	8,882,385	-	8,882,385
Other sources	727,845	196,536	924,381
Total current revenues	40,883,498	6,561,589	47,445,087
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	16,189,431	87,516	16,276,947
Research	-	1,541,567	1,541,567
Public service	416,650	83,393	500,043
Academic support	4,384,425	50,642	4,435,067
Student services	2,905,747	54,716	2,960,463
Institutional support	4,355,841	-	4,355,841
Operation and maintenance of plant	3,582,041	810	3,582,851
Scholarships and fellowships	169,663	4,728,396	4,898,059
Educational and general expenditures	32,003,798	6,547,040	38,550,838
Mandatory transfers:			
Debt service	78,077	-	78,077
Allocation of work-study	(60,710)	68,044	7,334
Unexpended restricted income to endowment	-	1,429	1,429
Virginia State Student Loan Fund capital contribution	-	(54,924)	(54,924)
Total educational and general	32,021,165	6,561,589	38,582,754
Auxiliary enterprises:			
Operating expenditures	8,599,488	-	8,599,488
Transfer to the General Fund of the Commonwealth	17,025	-	17,025
Mandatory transfers:			
Allocation of work-study	(7,334)	-	(7,334)
Total auxiliary enterprises	8,609,179	-	8,609,179
Total expenditures and mandatory transfers	40,630,344	6,561,589	47,191,933
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	(60,248)	(60,248)
Refunded to grantors	-	(56,872)	(56,872)
Nonmandatory transfers	4,271	195,729	200,000
Net increase (decrease) in fund balances	\$ 257,425	\$ 78,609	\$ 336,034

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

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Basis of Accounting

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

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

C. Fund Accounting

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

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

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

A summary of fund group definitions is as follows:

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

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

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

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

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

D. Accrued Leave

Accrued leave represents the amount of annual, sick, and compensatory leave earned, but not taken as of June 30, 2000. The amount represents all earned annual, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook for all Administrators holding faculty appointments upon employment termination. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

E. Investments

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

F. Inventory

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

G. Investment in Plant

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

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

H. Deferred Revenue

Deferred revenue represents monies received but not earned as of June 30, 2000. This is primarily composed of student tuition and fees received in advance of the academic term.

I. Total Columns

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

2. AFFILIATED ORGANIZATIONS

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

The following is a condensed summary of the financial position, which the Foundations have submitted to the University at June 30, 2000:

	<u>Educational Foundation</u>	<u>Real Estate Foundation</u>
Assets	<u>\$9,413,994</u>	<u>\$2,106,094</u>
Liabilities	\$ 56,112	\$2,171,510
Fund balances	<u>9,357,882</u>	<u>(65,416)</u>
Total liabilities and fund balances	<u>\$9,413,994</u>	<u>\$2,106,094</u>
Revenues	<u>\$2,497,869</u>	<u>\$ 604,361</u>
Expenditures	<u>\$ 666,616</u>	<u>\$ 510,075</u>

3. CASH

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

4. INVESTMENTS

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

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2000. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. The University had no investments in categories 2 and 3.

	Category 1	Market Value
U.S. Government Securities	\$1,088,007	\$1,088,007
Corporate Bonds	939,201	939,201
Corporate Stocks	<u>959,365</u>	<u>959,365</u>
Total Long Term Investments	<u>\$2,986,573</u>	\$2,986,573
Mutual Money Market Funds		<u>818,423</u>
Total Investments		<u>\$3,804,996</u>

Collateral held for securities lending totaling \$608,279 represents the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. The remaining "Investments with the Treasurer of Virginia" totaling \$3,076,368 represents unexpended revenue bond proceeds for the new dormitory. 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.

5. LONG-TERM DEBT

A summary of changes in long-term indebtedness follows:

	Balance July 1, <u>1999</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>2000</u>
Bonds payable	\$21,442,437	\$12,980,000	\$ 808,277	\$33,614,160
Notes payable	15,167	-	4,636	10,531
Leases payable	<u>951,507</u>	<u>-</u>	<u>277,262</u>	<u>674,245</u>
Total	<u>\$22,409,111</u>	<u>\$12,980,000</u>	<u>\$1,090,175</u>	<u>\$34,298,936</u>

Long-term debt of the University at June 30, 2000, consists of the following:

	<u>Balance at June 30, 2000</u>
<u>Bonds Payable</u>	
Dormitory Revenue Bonds, Series 1992 issued \$7,970,000 (reduced to \$1,175,000 due to refinancing in March 1998); balance payable in annual installments of \$165,000 to \$195,000 with interest of 5.5% to 5.8% payable semiannually, final installment due in 2004	\$ 720,000
Campus Center Phase II Revenue Bonds, Refunding Series June 1993, issued \$463,037; balance payable in annual installments varying from \$388 to \$225,388 with interest of 4.6% to 4.9% payable semiannually, final installment due in 2004	226,552
Track Revenue Bonds, Refunding Series June 1993, issued \$79,865; balance payable in annual installments varying from \$60 to \$35,060 with interest of 4.6% to 4.9% payable semiannually, final installment due in 2004	35,241

Track Revenue Bonds, Refunding Series December 1993, issued \$185,483; balance payable in annual installments varying from \$29,479 to \$32,710 with interest of 4.25% to 4.5% payable semiannually, final installment due in 2003	\$ 94,148
Campus Center Phase II Revenue Bond, Refunding Series December 1993, issued \$1,117,349; balance payable in annual installments varying from \$182,042 to \$186,916 with interest of 4.25% to 4.5% payable semiannually, final installment due in 2003	554,814
Dormitory Revenue Bond, Refunding Series December 1993, issued \$3,570,000; balance payable in annual installments varying from \$10,000 to \$555,000 with interest of 4.25% to 5.125% payable semiannually, final installment due in 2022	3,525,000
Dormitory Revenue Bond, Series December 1994, issued \$2,435,000 (reduced to \$755,000 in January 1996 and subsequently to \$520,000 in March 1998 due to refinancing); balance payable in annual installments varying from \$55,000 to \$70,000 with interest of 6.0% to 6.1% payable semiannually, final installment due in 2006	375,000
Dormitory Revenue Bond, Refunding Series 1996, issued \$1,891,844; balance payable in annual installments varying from \$9,363 to \$175,000 with interest of 4.75% to 5.125% payable semiannually, final installment due in 2021	1,844,164
Dormitory Revenue Bond, Refunding Series 1998, issued \$3,260,396; balance payable in annual installments varying from \$25,550 to \$338,903 with interest of 3.8% to 5.0% payable semiannually, final installment due in 2015	3,183,692
Dormitory Revenue Bond, Refunding Series 1998, issued \$170,067; balance payable in annual installments varying from \$1,506 to \$80,000 with interest of 3.8% to 5.0% payable semiannually, final installment due in 2008	165,549
Sports and Wellness Center Revenue Bond, Series 1998A, issued \$10,255,000; balance payable in annual installments varying from \$365,000 to \$760,000 with interest of 4.532% payable semiannually, final installment due in 2019	9,910,000
Dormitory II Revenue Bond, Series 1999, issued \$12,980,000; balance payable in annual installments varying from \$430,000 to \$1,030,000 with interest of 4.75% to 5.25% payable semiannually, final installment due in 2019	<u>12,980,000</u>
Total Bonds Payable	<u>33,614,160</u>

Notes Payable

Pitney Bowes postage mailing system; issued \$23,050, payable in quarterly installments of \$1,611 including interest of 13.42%, final installment due in 2002

\$ 10,531

Total Notes Payable

10,531

Leases Payable

The University has entered into a capital lease agreement with the Virginia College Building Authority (VCBA). Under the terms of the lease, the University is authorized to purchase instructional equipment from an approved list of equipment items in an amount not to exceed the principal amount of the lease. Payments for such purchases are to be reimbursed to the University by the VCBA from bond proceeds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund of the Commonwealth, an amount sufficient to repay principal and interest, for the general fund portion of the lease payment, and the University is required to pay the non-general fund portion of the lease payment. The agreement is payable over a five-year period with interest of 3.50 % to 5.35 % payable semiannually.

614,177

On September 1, 1998, the University entered into a capital lease with Software Productivity Strategist, Inc. for the lease of a Hewlett Packard 3000, Series 939. The lease is payable over a three year period at a lease rate of 3.178%.

60,068

Total Leases Payable

674,245

Total Long-Term Indebtedness

\$34,298,936

A summary of future principal and interest obligations under long-term debt as of June 30, 2000, follows:

Year Ending <u>June 30,</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Capital Leases</u>
2001	\$ 2,872,914	\$ 6,444	\$ 337,448
2002	2,859,381	4,833	262,580
2003	2,858,141	-	127,830
2004	2,891,966	-	-
2005	2,621,287	-	-
Later years	<u>38,574,965</u>	<u>-</u>	<u>-</u>
Total	\$52,678,654	\$11,277	\$ 727,858
Less: Interest	<u>19,064,494</u>	<u>746</u>	<u>53,613</u>
Net	<u>\$33,614,160</u>	<u>\$10,531</u>	<u>\$ 674,245</u>

6. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal years 1994, 1996, and 1998, certain 1992C and 1994 General Obligation Bonds were defeased by the University. The net proceeds from the sale of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2000, the following amount of defeased bonds were outstanding:

	<u>Balance at June 30, 2000</u>
Series 1992C	\$6,405,000
Series 1994	<u>1,820,000</u>
Total	<u>\$8,225,000</u>

7. COMMITMENTS

At June 30, 2000, the University was committed to construction contracts totaling approximately \$30,332,049 of which \$25,567,036 had been recorded as construction in progress.

The University is a party to several operating lease agreements for a period of one year, which generally have renewal options. Rental expense under operating leases was \$527,316 for the year ended June 30, 2000. Commitments for subsequent fiscal years are as follows:

Year Ending <u>June 30,</u>	
2001	\$ 641,616
2002	653,236
2003	664,855
2004	<u>672,034</u>
Total	<u>\$2,631,741</u>

8. STATE APPROPRIATIONS-CURRENT FUNDS-UNRESTRICTED

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

During the year ended June 30, 2000, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the Appropriation Act of 1999, Chapter 935, Acts of Assembly:

Appropriation	\$21,318,666
Supplemental appropriations:	
Salary regrades	304,700
Health care premiums	142,094
VIVA libraries	4,365
Mandatory budget reductions:	
Employee benefits	(325,892)
VCBA debt obligation	<u>(200,397)</u>
Adjusted Appropriations	<u>\$21,243,536</u>

9. STUDENT LOAN FUNDS

Virginia State Student Loan Fund

The University discontinued making loans from the Commonwealth of Virginia State Student Loan Program in 1986. The sole activity in this account has been repayment of outstanding student loans. During fiscal year 2000, all outstanding loans were repaid, leaving a cash balance of \$54,924. In April 2000, the University received the approval from the State Council of Higher Education to expend these funds for Commonwealth Awards and the Virginia Guaranteed Assistance Program during the fiscal year 2001. These funds have been transferred from the Loan Funds to Current Restricted Funds in the accompanying financial statements.

Perkins Federal Loan Program

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

10. RETIREMENT AND PENSION PLANS

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

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed contribution programs where the retirement benefits received are based upon the employer contributions of 5.4 percent and employee contributions of 5 percent (also paid by the employer) plus interest and dividends. Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employees' contributions. Total pension costs under this plan were approximately \$833,969 for the year ended June 30, 2000. Contributions to other retirement plans were calculated using the base salary amount of approximately \$8,018,933.

11. POST-EMPLOYMENT BENEFITS

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

12. CONTINGENCIES

The University receives assistance from grantor agencies in the form of grants and contracts for specific purposes that are subject to review and audit by the grantor agencies. Claims against those resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations. Any disallowance resulting from final settlement may become a liability of the University. As of June 30, 2000, the University estimates that no material liabilities will result from such settlements.

13. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of General Services, Division of Risk Management. Risk management insurance includes worker's compensation, property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

CHRISTOPHER NEWPORT UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES -
REVENUES AND EXPENDITURES
For the Year Ended June 30, 2000

	Auxiliary Support	Intercollegiate Athletics	Bookstore	Residential Life
Revenues:				
Student fees	\$ 1,175,677	\$ 1,424,490	\$ -	\$ 1,105,904
Sales and services	239,515	46,783	2,731,234	138,462
Other income	9,707	775	52,998	10,523
Total revenues	1,424,899	1,472,048	2,784,232	1,254,889
Cost of sales	-	-	1,970,752	-
Net revenues	1,424,899	1,472,048	813,480	1,254,889
Expenses of operation:				
Personal services	888,977	905,862	287,404	169,331
Contractual services	168,733	303,373	65,612	256,581
Supplies and materials	56,696	101,565	11,599	54,019
Continuous charges and obligations	154,611	212,775	65,925	475,637
Equipment	38,191	56,518	8,187	158,853
Total expenses of operation	1,307,208	1,580,093	438,727	1,114,421
Excess (deficiency) of revenues over (under) expenses of operation before transfers	117,691	(108,045)	374,753	140,468
Transfers:				
Mandatory:				
Allocation of work-study program	-	3,515	-	540
Transfer to the General Fund of the Commonwealth	(17,025)	-	-	-
Nonmandatory:				
(To)/from other funds	-	-	(194,025)	-
Net increase (decrease) in fund balances	100,666	(104,530)	180,728	141,008
Fund balances at beginning of year	680,033	38,061	1,691,630	503,229
Fund balances at end of year	\$ 780,699	\$ (66,469)	\$ 1,872,358	\$ 644,237

Dining Services	Total
\$ 932,155	\$ 4,638,226
1,014,162	4,170,156
-	74,003
1,946,317	8,882,385
776,251	2,747,003
1,170,066	6,135,382
876,333	3,127,907
127,640	921,939
67,852	291,731
226,996	1,135,944
113,215	374,964
1,412,036	5,852,485
(241,970)	282,897
3,279	7,334
-	(17,025)
-	(194,025)
(238,691)	79,181
246,170	3,159,123
\$ 7,479	\$ 3,238,304

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia

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