CHRISTOPHER NEWPORT UNIVERSITY

NEWPORT NEWS, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses; and
- no instances of noncompliance that are required to be reported.

- T A B L E O F C O N T E N T S -

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

March 13, 2003

The Honorable Mark R. Warner
Governor of Virginia

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

The Board of Visitors
Christopher Newport University

We have audited the accounts and records of **Christopher Newport University,** as of and for the year ended June 30, 2002, 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 accompanying basic financial statements of Christopher Newport University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. 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 the University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the University has implemented a new finanical reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of June 30, 2002.

The Management's Discussion and Analysis on pages 8 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Christopher Newport University. The Schedule of Auxiliary Enterprises Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Auxiliary Enterprises Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVERFINANCIAL REPORTING

In planning and performing our audit of the financial statements of Christopher Newport University as of and for the year ended June 30, 2002, 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 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 none 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, 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 April 9, 2003.

AUDITOR OF PUBLIC ACCOUNTS

WJK/kva
kva: 67

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

STATUS OF NEW SYSTEM IMPLEMENTATION

Monitor the Schedule

In December 2001, the University finalized a contract with SCT to purchase Banner software and SCT's Surefire Implementation consulting package. The University planned for a 24-month project duration, ending December 2003, to implement the following modules of the Banner information system: Student, Financial Aid, Finance, and Campus Pipeline. Throughout fiscal year 2002 and into fiscal year 2003, the University has experienced relatively high turnover within the project team, which has resulted in project delays.

The current project schedule shows that the University will complete some tasks up to six months behind schedule. Through January 2003, the University completed implementation of most of the Financial Aid modules and multiple portions of the Student module, although they finished many of the tasks approximately two months late. The University is working on General Ledger, Accounts Payable, and Purchasing that are part of the Finance module; however, they have also completed many of these tasks one to two months late. Currently, the project schedule shows that the University will move all portions of Finance into production on time, except for Budgeting, which the University will not implement until March 2004, three months later than initially planned.

Based on these delays, we are concerned that the University will not complete the critical portions of Finance by June 2003 as planned. In order to achieve a smooth conversion from their current financial system, the University plans to change systems at the beginning of a new fiscal year. We are concerned that the Finance module's delays could force the University to setback implementation until July 2004 or incur unplanned additional expenses associated with converting partial year data and extending consulting services beyond the contract service period.

The Project Manager should continue to closely monitor the project status and evaluate the accuracy of currently scheduled task and implementation dates. If, at any point, the project schedule indicates the University will require consulting services beyond the contract period, the University should immediately begin negotiations to extend the duration of the services or develop an alternative plan. This is particularly critical for Finance where implementation other than at July 1 could require additional conversion costs.

Monitor the Resources and Contractor

Multiple factors have contributed to the University's delays. First, the University has experienced significant staffing loss since the project's inception. As of January 2002, the University had four systems-related positions become vacant and they delegated these responsibilities among current employees already working on the project development team. Additionally, since January 2002, three key personnel resigned and one was on maternity leave for approximately five months.

Early in the project, the University recognized staff retention and availability as one of its highest risks. Within its planning documents, the University responded to this threat by stating that the University would use temporary personnel to manage staffing needs. Through January 2003, the University had not filled any of the vacant positions and only hired temporary personnel for data entry after some functional areas experienced severe backlogs. The University is recruiting and realigning staff to add stability to the project team and to fill vacant project positions.

Complete Risk Assessment, Business Impact Analysis, and Business Continuity Plan

Although the University has not completed a Risk Assessment, Business Impact Analysis, or Business Continuity Plan (the Continuity Plan) because of the new systems development efforts discussed previously, the University does need to consider the critical nature of this plan to its overall operations. The University should consider addressing the plan in two parts: the systems and operations not part of the new system and those related only to the new system.

For those systems and operations not part of the new system, the University should develop and begin completing the Continuity Plan. Many of the considerations found in the Continuity Plan are integral parts of any system development and implementation effort. Therefore, as part of the development and implementation effort, the University should document and convert this information into the Continuity Plan.

High dependence on fully-automated systems makes it important that the University comply with the Commonwealth of Virginia Information Technology Resource Management (COV ITRM) Standard for the Continuity Plan. We believe the integrated approach above should allow the University to address other systems while continuing to use its limited resources to develop and implement the new system. Also, the suggested approach will allow the University to use the new system efforts to also address the Continuity Plan.

Complete Change Control Policies and Procedures

The University does not have written change control policies and procedures. Change control policies and procedures establish the framework under which the University manages its systems and adopts them for user needs and system upgrades. These policies and procedures provide guidance on how technology staff will develop, implement, and monitor requests for system changes and upgrades. The Standard (SEC 2001-01.1) recognizes the importance of these policies and procedures and establishes minimum criteria for these policies and procedures.

The University should complete written control policies and procedures. Written procedures provide a more uniform process to complete system changes, as well as assign responsibility for the change. Adequate procedures should also include the segregation of duties to eliminate the chance of an unapproved change being implemented, testing to eliminate errors, and rollback plans in case a change must be aborted.

Develop Policies and Procedures for Maintaining Security Controls on the Checkpoint Firewall

There are no written policies and procedures for maintaining security controls on the checkpoint firewall. The policies and procedures would allow the University to continue to function in the same manner in the event of employee transfer or termination. Policies and procedures provide needed direction on what controls management deems necessary and, therefore, what restrictions to impose for the system. Failure to implement proper policies and procedures could lead to improper controls placed on the system and allow for unauthorized access, placing the integrity and completeness of the data stored on the system at risk.

The University is working on a master plan to implement policies and procedures for all computer security controls, including the firewall. We recommend that the University develop policies and procedures for security of the Checkpoint firewall as soon as possible.

FINANCIAL MANAGEMENT ISSUES

Strengthen Financial Reporting

The key to the preparation of financial statements is the commitment of sufficient resources to complete the financial statements in such a manner as to provide complete documentation of not only this year's financial statements, but those in the future. Currently, the Comptroller prepares the financial statements in addition to performing all of her other duties. As a result, the Comptroller has not had the time to document the statement preparation process, so that someone else can prepare the statements.

Further complicating the financial statement preparation process is that the Comptroller must manually compile and gather the information to prepare the basic cash or budgetary-based statements. While it is understandable that the University does not want to incur the cost of having the old system generate the information, one of the University's new system development objectives should be the enhanced use of the automated financial statement reporting application in the new system.

Financial statement preparation should be an integral part of the University's on-going reporting of its operations to the Board. With the new accounting standards, the statements provide Board members with a business background with financial information that is similar to what they would normally receive in their business.

Finally, the limitation of financial reporting by one person without documented accounting and reporting policies and procedures, sources of information, or methods to extract data, and with limited automated support and little or no cross-training places the University at risk. The loss of one or two key individuals would hinder or prevent the preparation of any financial reports, including the annual financial statements.

Recognizing that the University has diminished resources makes addressing this problem extremely difficult. However, we believe that the University needs to recognize this risk and begin to address this issue. The opportunity with the new system could allow for the increased use of the report writer and other programs to provide and extract basic financial information in an automated format. Documenting and organizing the process is a starting point to providing cross-training. This type of approach should allow the University to begin addressing this issue and as future resources become available to expand on these initial steps.

Establish Accounting Policies

The University needs to document its accounting policies for recording certain classes of transactions. During this audit, we found the need to document the recording of land, buildings, depreciation, and prepaid items. As noted previously, the University, as part of strengthening its financial reporting, needs to develop and follow accounting policies in these areas.

Strengthen Contract Management

The University purchased library acquisitions from expired contracts. These contracts had been expired for one to two years because the department had staffing limitations. Without the benefit of a current contract, the vendor is no longer obligated to perform or deliver according to the terms of the prior agreement.

The planning and proactive management of contracts are crucial to effective contract administration. Management should implement effective oversight procedures to ensure the University follows proper procurement regulations and only purchases from valid contracts, thereby not placing University funds at risk and complying with all applicable state laws.

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,*" which established a new reporting format for the annual financial statements. In November 1999, GASB released Statement No. 35, "*Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,*" which applies the new reporting standard to public colleges and universities. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the University, results of operations, and cash flows of the University as a whole.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The following analysis discusses elements from each of these three statements, as well as an overview of the University's activities. Since this is a transition year for the new reporting format, the University is presenting only one year of information.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of this statement is to present to the financial statement reader a fiscal snapshot at June 30, 2002. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations and how much the University owes vendors and creditors.

Statement of Net Assets

Assets:	
Current assets	$ 11,468,323
Capital assets, Net	105,738,497
Other noncurrent assets	9,377,749
Total assets	126,584,569
Liabilities:	
Current liabilities	10,032,616
Noncurrent liabilities	54,547,984
Total liabilities	64,580,600
Net assets:	
Invested in capital assets, Net of related debt	52,537,411
Restricted, Nonexpendable	2,218,604
Restricted, Expendable	1,673,368
Unrestricted	5,574,586
Total net assets	$ 62,003,969

Note: Since the University implemented GASB Statement No. 34 during fiscal year 2002, prior year information is not available.

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

The University's total assets increased. However, a review of the Statement of Net Assets will reveal that the increase was primarily due to capital construction to include new residential and dining facilities. Total liabilities increased due to the issuance of bonds to construct the new residential and dining facilities.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets reflect the summary of activity presented on the Statement of Revenues, Expenses, and Changes in Net Assets. This statement presents revenues received and expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains, or losses received or spent by the University.

Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues:	
Student tuition and fees, Net of scholarship allowances of $1,713,692	$ 8,810,904
Federal grants and contracts	4,489,295
Nongovernmental grants and contracts	666,028
Auxiliary enterprises, Net of scholarship allowances of $2,079,679	17,367,853
Other operating revenue	552,295
Total operating revenues	31,886,375
Operating expenses:	
Instruction	16,593,458
Research	2,372,571
Public service	474,015
Academic support	4,508,589
Student services	3,094,262
Institutional support	4,796,606
Operation and maintenance of plant	3,575,121
Depreciation	3,265,274
Student aid	1,335,493
Auxiliary enterprises	14,297,799
Total operating expenses	54,313,188

Operating loss	(22,426,813)
Nonoperating revenues and expenses	22,722,467
Income before other revenues, expenses, gains, or losses	295,654
Other revenues, expenses, gains, or losses	3,001,425
Increase in net assets	3,297,079
Net assets – beginning of year	58,706,890
Net assets – end of year	$ 62,003,969

Note: Since the University implemented GASB Statement No. 34 during fiscal year 2002, prior year information is not available.

Generally, operating revenues come from providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues not received from providing goods and services. The University's state appropriation is a nonoperating revenue because the state legislature does not directly receive commensurate goods and services for these revenues.

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees remained relatively stable given the state's continued freeze on tuition increases. Auxiliary revenues increased due to an increase in comprehensive fees of five percent, an increase in room and board of 7.5 percent, and the room fees collected from additional residential facilities. Operating expenses increased primarily in the auxiliaries with the lease of additional residential facilities and the beginning of new athletic programs.

The nonoperating revenue decrease occurred primarily in the state appropriation due to a mandatory three percent budget reduction of $686,893 and a voluntary budget reduction of $210,000, which will be credited against the University's 6.9 percent budget reduction for fiscal year 2003. There was an increase in investment income from the sale of revenue bonds in October 2001 for the construction of the University's third residence hall. The proceeds from the bonds totaling $23,050,000 were invested by the Treasurer of Virginia until the funds were needed for construction expenditures. The University maintained a relatively stable financial position over the course of the year. The majority of the increase in net assets represents additions to capital projects as discussed below.

Statement of Cash Flows

The Statement of Cash Flows presents the detailed information pertaining to the cash activity of the University during the year. The statement has five parts. The first part deals with operating cash flows and shows the net cash used by operating activities of the University. Significant sources of cash include student tuition and fees ($10,407,825), grants and contracts ($5,529,554), and auxiliary enterprises ($19,252,490). Major uses of cash include payments for salaries, wages and fringe benefits ($33,499,521), payments for services and supplies ($13,920,984) and payments for scholarships and fellowships ($4,996,729).

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs and financial aid of $23,834,949. In addition, the University closed the Perkins Federal Loan Program during the fiscal year and returned the federal capital contribution of $505,005 to the federal government.

The cash flows from capital financing activities reflects cash used for the acquisition and construction of capital-related items. The primary source of cash was the issuance of 9(c) revenue bonds for the construction of the University's third residential facility ($18,246,302) and the related construction costs of $25,837,567. The last section of this statement reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flows

Cash flows from operating activities	$(19,461,659)
Cash flows from noncapital financing activities	24,119,379
Cash flows from capital financing activities	(7,196,218)
Cash flows from investing activities	226,562
Net change in cash	$ (2,311,936)

Capital Asset and Debt Administration

Overall, the increase in "Invested in capital assets" reflects the continued substantial campus construction. Significant fiscal year 2002 capital projects include the Performing Arts Center, renovation of Ratcliffe Hall for educational purposes, football stadium, Ratcliffe Hall football addition, and the University's second and third residence halls. The Performing Arts Center is funded through state appropriations, grants from local government, and private gifts. The renovation of Ratcliffe Hall for educational purposes was funded through a state appropriation. The football stadium was funded through private gifts and the Ratcliffe Hall Football Addition will be funded from capital debt. The residence halls are funded through capital debt.

The University increased its total long-term debt from $32,787,070 at June 30, 2001, to $56,896,468 at June 30, 2002. The increase is due to the issuance of 9(c) revenue bonds in October 2001 for the University's third residence facility in the amount of $23,050,000; the issuance of 9(d) revenue bonds in October 2001 for renovation of a dining facility in the amount of $1,125,000; and a five-year capital lease the University entered into in May 2002 in the amount of $1,490,573 to replace the administrative computing systems. This represents the phase one financing of a three phase project. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2002 debt service to expenditure ratio was six percent.

Overall, unpaid construction commitments decreased $59,378 from $20,050,309 to $19,990,931 in 2002. Unpaid commitments at June 30, 2002, primarily reflect the Performing Arts Center and the University's third residential facility. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 6 and 9.

Economic Outlook

The University's economic outlook is closely related to its role as one the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from the state government. Due to a continued lag in state revenue collections, all state agencies, including higher education institutions, had a mandatory three percent reduction in General Fund appropriations for fiscal year 2002. In establishing the 2003-2004 biennial budget, the Virginia General Assembly applied further budget reductions to all state colleges and universities. The University's scheduled budget reductions were

$1,511,694 or 6.7 percent in 2003 and $2,057,471 or 9.0 percent in 2004. In October 2002, the University was notified that further reduction would be made totaling $1,502,679 or 8.3 percent in 2003 and $2,072,879 or 10 percent in 2004. In 2003, the state legislature authorized colleges and universities to increase tuition for the first time since 1996. The University's governing board increased tuition and fees for 2003 by 13 percent. The tuition increase will help offset the budget reductions; however, the University must close several academic programs in 2004 in order to meet these reductions. Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Applications continue to increase significantly each year.

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents (Note 3)	$ 6,400,923
Short-term investments (Note 3)	3,201,521
Accounts receivable, Net of allowance of $47,933 (Note 5)	306,857
Prepaid expenses	1,048,482
Inventory	510,540
Total current assets	11,468,323
Noncurrent assets:	
Restricted investments (Note 3)	3,840,510
Endowment investments (Note 3)	2,218,604
Other long-term investments (Note 3)	1,071,956
Appropriation available	2,246,679
Capital assets, Net (Note 6)	105,738,497
Total noncurrent assets	115,116,246
Total assets	126,584,569
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 7)	3,708,994
Deferred revenue	749,008
Obligations under securities lending	323,736
Deposits held in custody for others	932,951
Long-term liabilities - Current portion (Note 8)	4,317,927
Total current liabilities	10,032,616
Noncurrent liabilities (Note 8)	54,547,984
Total liabilities	64,580,600
NET ASSETS	
Invested in capital assets, Net of related debt	52,537,411
Restricted for:	
Nonexpendable - Scholarships and fellowships	2,218,604
Expendable:	
Scholarships and fellowships	143,053
Capital projects	1,433,868
Other	96,447
Unrestricted	5,574,586
Total net assets	$ 62,003,969

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenues:	
Student tuition and fees, Net of scholarship allowance of $1,713,692	$ 8,810,904
Federal grants and contracts	4,489,295
Nongovernmental grants and contracts	666,028
Auxiliary enterprises, Net of scholarship allowance of $2,079,679 (Note 10)	17,367,853
Other operating revenue	552,295
Total operating revenues	31,886,375
Operating expenses (Note 11):	
Instruction	16,593,458
Research	2,372,571
Public service	474,015
Academic support	4,508,589
Student services	3,094,262
Institutional support	4,796,606
Operation and maintenance of plant	3,575,121
Depreciation	3,265,274
Student aid	1,335,493
Auxiliary enterprises (Note 10)	14,297,799
Total operating expenses	54,313,188
Operating loss	(22,426,813)
Nonoperating revenues (expenses):	
State appropriations (Note 12)	24,078,685
State grants and contracts	126,493
Gifts	376,872
Return of federal capital contribution	(19,472)
Investment income, Net of investment expenses of $14,594	945,052
Interest on capital asset related debt	(1,591,567)
Loss on disposal of plant assets	(1,193,596)
Net nonoperating revenues	22,722,467
Income before other revenues, expenses, gains, or losses	295,654
Capital appropriations	1,958,036
Capital gifts and grants	1,043,389
Net other revenues	3,001,425
Increase in net assets	3,297,079
Net assets, Beginning of year as restated (Note 2)	58,706,890
Net assets, End of year	$ 62,003,969

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, 2002

Cash flows from operating activities:	
Student tuition and fees	$ 10,407,825
Grants and contracts	5,529,554
Auxiliary enterprises	19,252,490
Other receipts	551,420
Payments to employees	(26,858,315)
Payments for fringe benefits	(6,641,206)
Loans issued to students and employees	(75,774)
Collection of loans from students and employees	74,505
Payments for services and supplies	(13,920,984)
Payments for utilities	(1,399,684)
Payments for scholarships and fellowships	(4,996,729)
Payments for noncapitalized plant improvements and equipment	(1,384,761)
Net cash used by operating activities	(19,461,659)
Cash flows from noncapital financing activities:	
State appropriations	23,834,949
State grants and contracts	143,718
Stafford loan receipts	10,480,406
Stafford loan disbursements	(10,480,406)
PLUS loan receipts	1,019,493
PLUS loan disbursements	(1,019,493)
Gifts and grants for other than capital purposes	376,872
Return of federal capital contributions for Perkins Loan Fund	(505,005)
Agency receipts	8,057,434
Agency payments	(7,788,589)
Net cash provided by noncapital financing activities	24,119,379
Cash flows from capital financing activities:	
Proceeds from capital appropriations available and investments	3,635,509
Capital appropriations	780,554
Capital gifts	1,644,012
Proceeds from sale of revenue bonds	18,246,302
Purchase of capital assets	(25,837,567)
Repayment of bond anticipation notes	(2,500,000)
Principal paid on capital debt, leases, and installments	(1,573,461)
Interest paid on capital debt, leases, and installments	(1,591,567)
Net cash used by capital financing activities	(7,196,218)
Cash flows from investing activities:	
Interest on investments	226,562
Net cash provided by investing activities	226,562
Net increase in cash	(2,311,936)
Cash and cash equivalents, Beginning of the year	8,712,859
Cash and cash equivalents, End of the year	$ 6,400,923

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS, continued
For the Year Ended June 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$	(22,426,813)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		3,265,274
Changes in assets and liabilities:		
Receivables, Net		20,951
Prepaid expenses		(571,473)
Inventory		(12,411)
Due from the Commonwealth		58,468
Accounts payable and accrued expenses		(148,842)
Deferred revenue		338,903
Accrued compensated absences		14,284
Net cash used by operating activities	$	(19,461,659)
Noncash investing, noncapital financing, and capital and related financing transactions:		
Principal and interest on capital lease paid by State agency on behalf of theUniversity	$	243,736
Capitalization of interest expense	$	757,949
Change in fair value of investments recognized as a component of interest income	$	(242,935)

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

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

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 has no component units, as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*; however, the University does have related party corporations whose combined financial conditions are stated in Note 13. These organizations are separate legal entities from Christopher Newport University and the University exercises no control over them. For these reasons, the University's related parties are not included in the financial statements.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. The University now follows Statement No. 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide presentation of the University's financial activities and replaces the fund group perspective previously required.

C. Basis of Accounting

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

D. Cash and Cash Equivalents

In accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

E. Investments

In accordance with GASB Statement No. 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 nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets. 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. Library acquisitions are valued at actual cost. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. 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	20 – 40 years
Other improvements and infrastructure	15 years
Equipment	5 – 15 years
Library materials	5 years

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 such as bookstore items, departmental supply inventory, and food and food service supply inventory. The costs 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 Statements of Net Assets.

I. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees prior to the end of the fiscal year, but related to the period after June 30, 2002, and amounts received from grant and contract sponsors that have not yet been earned.

J. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick, and compensatory leave earned, but not taken as of June 30, 2002. The amount represents all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook for all administrators holding faculty appointments upon employment termination. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

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

L. Net Assets

GASB Statement No. 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. Net assets are classified as Invested in capital assets, net of related debt; Restricted; and Unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "Restricted" when constraints on the net asset use are either externally-imposed by creditors, grantors, or contributors or imposed by law. "Unrestricted" net assets consists of net assets that do not meet the definitions above.

M. <u>Revenue and Expense Classifications</u>

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.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement No. 34, such as state appropriations and investment and interest income.

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

N. <u>Scholarship Discounts and Allowances</u>

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating 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. The scholarship discount and allowance is the actual amount applied to charges owed to the University from the various federal and state programs.

2. ACCOUNTING CHANGES AND RESTATEMENT OF NET ASSETS

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Colleges and Universities.* The financial statement presentation required by these statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes, in order to comply with the new requirements, include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or non-operating, and classifying assets and liabilities as current or non-current.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures.* Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt.

Net Asset Restatement

Fund balance reported at June 30, 2001	$ 83,463,296
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(24,492,007)
Accounts Receivable, Summer Term 4, not previously recognized	14,437
Deferred Revenue, Summer Term 4, not previously recognized	192,925
Accounts Payable, Summer Term 4, not previously recognized	(70,616)
Federal loan program contributions previously recorded as fund balance in loan funds, now recorded as a liability	(485,533)
Library materials	84,388
Net asset balance at July 1, 2001	$ 58,706,890

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2002.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement No. 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 the University's investment policy. The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2002. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments, which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent, but not in the University's name. The University had no investments in categories 2 and 3. Since they do not represent specific securities investments, mutual and money market funds are not categorized as to risk.

	Category 1	Market Value
Cash and cash equivalents:		
Deposits with financial institutions	$ -	$ 1,706,617
Money market funds	-	507,071
Cash with Treasurer of Virginia	-	4,187,235
Total	-	6,400,923
Investments:		
U.S. Government securities	673,594	673,594
Corporate bonds	100,813	100,813
State non-arbitrage program (SNAP)	-	6,560,726
Collateral held for securities lending	-	294,599
Investments with Trustee	-	172,908
Mutual funds	-	2,529,951
Total investments	$774,407	$10,332,591

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

4. DONOR-RESTRICTED ENDOWMENTS

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

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

At June 30, 2002, there was no net appreciation available to be spent as a result of an unrealized loss of $269,502.

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Student tuition and fees	$ 27,484
Auxiliary enterprises	231,433
Federal, state, and private grants and contracts	91,436
Other activities	4,437
Total	354,790
Less: Allowance for doubtful accounts	(47,933)
Net accounts receivable	$306,857

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2002, is as follows:

	Adjusted Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 5,217,640	$ 98,084	$ -	$ 5,315,724
Construction in progress	28,433,065	25,167,679	21,318,870	32,281,874
Total nondepreciable capital assets	33,650,705	25,265,763	21,318,870	37,597,598
Depreciable capital assets:				
Buildings	54,512,566	19,641,310	93,333	74,060,543
Equipment	7,256,268	1,942,060	1,750,654	7,447,674
Other improvements	4,721,862	683,396	-	5,405,258
Library materials	7,157,306	455,628	17,811	7,595,123
Total depreciable capital assets	73,648,002	22,722,394	1,861,798	94,508,598
Less accumulated depreciation:				
Buildings	12,289,256	1,489,856	86,722	13,692,390
Equipment	4,392,151	996,435	1,302,860	4,085,726
Other improvements	2,246,033	216,697	-	2,462,730
Library materials	5,564,567	562,286	-	6,126,853
Total accumulated depreciation	24,492,007	3,265,274	1,389,582	26,367,699
Depreciable capital assets, Net	49,155,995	19,457,120	472,216	68,140,899
Total capital assets, Net	$82,806,700	$44,722,883	$21,791,086	$105,738,497

* Adjusted for reclassification

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Current liabilities:	
Employee salaries, wages and fringe benefits payable	$1,841,512
Vendors and suppliers accounts payable	1,867,482
Total current liabilities – Accounts payable and accrued expenses	$3,708,994

8. LONG-TERM LIABILITIES

The University's long-term liabilities consist of long-term debt, and other long-term liabilities. A summary of changes in long-term liabilities for the year ending June 30, 2002, is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 9,555,000	$ 1,125,000	$ 365,000	$10,315,000	$ 410,000
General obligation bonds	22,793,263	23,050,000	943,603	44,899,660	1,796,139
Capital leases	433,565	1,507,859	259,616	1,681,808	413,635
Installment purchases	5,242	-	5,242	-	-
Total long-term debt	32,787,070	25,682,859	1,573,461	56,896,468	2,619,774
Other liabilities:					
Retainage payable	425,325	1,597,751	945,130	1,077,946	880,019
Accrued compensated absences	880,650	946,046	935,199	891,497	818,134
Federal loan program	485,533	19,472	505,005	-	-
Total other liabilities	1,791,508	2,563,269	2,385,334	1,969,443	1,698,153
Total long-term liabilities	$34,578,578	$28,246,128	$3,958,795	$58,865,911	$4,317,927

9. LONG-TERM DEBT

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

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

	Interest Rates (%)	Maturity	Outstanding Balance at June 30, 2002
Revenue bonds:			
Athletics, Series 1998A	4.53	2019	$ 9,190,000
Student Center, Series 2001A	3.0-4.87	2021	1,125,000
Total revenue bonds			10,315,000
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 1992	5.0 – 6.0	2004	380,000
Series 1993B	3.5 – 5.1	2022	3,505,000
Series 1994A	6.0 – 6.0	2006	265,000
Series 1997	4.7 – 5.1	2021	1,825,408
Series 1998	3.5 – 4.7	2015	3,131,193
Series 1998	3.5 – 4.3	2008	162,536
Series 1999	4.8 – 5.3	2019	12,100,000
Series 2001	2.1 – 4.9	2021	23,050,000
Student Center:			
Series 1993	3.7 – 4.9	2004	225,776
Series 1993B	3.5 – 4.5	2003	186,916
Athletics:			
Series 1993	3.7 – 4.9	2004	35,121
Series 1993B	3.5 – 4.5	2003	32,710
Total general obligation bonds			44,899,660
Total bonds payable			55,214,660
Capital leases:			
Higher education equipment trust	Various	2003	122,033
Other capital leases	Various	2007	1,559,775
Total capital leases			1,681,808
Total			$56,896,468

Long-term debt matures as follows:

Year Ending June 30,	Principal	Interest
2003	$ 2,619,774	$ 2,671,253
2004	2,645,848	2,554,897
2005	2,491,309	2,438,956
2006	2,582,538	2,333,331
2007	2,687,790	2,223,891
2008-2012	13,453,322	9,449,415
2013-2017	16,735,886	5,949,182
2018-2022	13,680,001	1,605,955
Total	$56,896,468	$29,226,880

Defeasance of Debt – Prior Years

During fiscal years 1994, 1997, and 1998, certain 1992C and 1994 general obligation bonds were defeased by the University. The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 2002, $8,225,000 of the bonds considered defeased remained outstanding.

Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed so that the University now owns the equipment from the date of purchase.

Subsequent Event

In October 2002, the University issued Series 2002A, 9(d) bonds through the VCBA's Public Higher Education Financing Pooled Bond Program in the amount of $48,730,000. Proceeds from the bonds will be used to construct the following: Residence Hall IV, parking deck, athletics expansion, track complex, new student center, and renovations to the existing student center. The bonds were issued with interest rates varying from 3.0 percent to 5.25 percent and mature in 2023.

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2002. Additionally, the University used auxiliary revenues to pay debt service and capital improvements of $2,897,115 and $2,012,700, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, Net of scholarship allowance of $845,645	$ 4,515,312
Food service contracts, Net of scholarship allowance of $370,839	1,903,480
Comprehensive fee, Net of scholarship allowance of $721,967	4,777,164
Other student fees and sales and services, Net of scholarship allowance of $141,228	6,171,897
Total auxiliary enterprises revenues	$17,367,853
Expenses:	
Residential facilities	$ 3,167,329
Dining operations	3,579,577
Athletics	3,442,989
Bookstore	2,700,542
Other auxiliary services	1,407,362
Total auxiliary enterprises expenses	$14,297,799

11. EXPENSES BY NATURAL CLASSIFICATION

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$12,411,213	$2,876,620	$ 1,180,196	$ -	$ -	$ 125,429	$ -	$16,593,45
Research	1,520,202	253,868	507,681	3,212	-	87,608	-	2,372,57
Public service	298,346	72,648	57,256	7,942	-	37,823	-	474,01
Academic support	2,062,082	690,811	1,134,115	1,134	-	620,447	-	4,508,58
Student services	1,802,653	429,908	826,972	-	-	34,729	-	3,094,26
Institutional support	3,057,065	837,821	855,159	-	-	46,561	-	4,796,60
Operation and maintenance of plant	1,461,402	504,053	810,060	-	695,713	103,893	-	3,575,12
Depreciation	-	-	-	-	-	-	3,265,274	3,265,27
Scholarships	-	-	-	1,335,493	-	-	-	1,335,49
Auxiliary activities	4,359,266	936,189	8,038,668	-	711,812	251,864	-	14,297,79
Total	$26,972,229	$6,601,918	$13,410,107	$1,347,781	$1,407,525	$1,308,354	$3,265,274	$54,313,18

12. 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 1073:	
Educational and general programs	$22,923,575
Student financial assistance	1,888,697
Higher education equipment trust fund program	243,736
Supplemental adjustments:	
Salary increases and regrades	157,354
Health insurance premium	203,159
Deferred compensation match	87,932
Applied Research Center allocation	26,250
VIVA libraries allocation	3,389
Eminent Scholars program	4,352
Mandatory three percent budget reduction	(686,893)
VRS rate reduction	(359,619)
Retiree health credit	(67,152)
Miscellaneous reductions for utility savings, auto liability insurance Premiums, group life premium suspension, etc.	(136,095)
Voluntary budget reduction to be credited to FY03 budget reduction	(210,000)
Adjusted appropriation	$24,078,685

13. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities, and fund balances of the Christopher Newport University Educational Foundation, Inc. and the Christopher Newport University Real Estate Foundation, Inc. Below is a summary of the audited financial position of the foundations at June 30, 2001.

CNU Educational and Real Estate Foundations

Assets	$25,800,438
Liabilities	$15,359,816
Net assets	10,440,622
Total liabilities and net assets	$25,800,438
Revenues	$ 4,396,224
Expenditures	$ 2,543,440

The University received $420,000 from the foundations during the year ended June 30, 2001. The University disbursed $491,653 to the foundations for land and building leases during the year ended June 30, 2001.

14. COMMITMENTS

At June 30, 2002, the University was committed to construction contracts totaling approximately $46,863,548 of which $26,872,617 had been incurred.

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.

Rental expense for the fiscal year ended June 30, 2002, was $1,702,121. The University has, as of June 30, 2002, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2003	$ 951,783
2004	722,978
2005	711,059
2006	711,078
2007	650,956
Total	$3,747,854

Subsequent Event

On August 1, 2002, the University entered into a lease with the Christopher Newport University Educational Foundation, Inc. for a term of 15 years for the lease of residential facilities for student housing. The lease will create additional future minimum rental lease payments as follows:

Fiscal Year	Operating Leases
2003	$ 1,508,221
2004	2,305,465
2005	2,351,574
2006	2,398,607
2007	2,446,578
2008 - 2012	12,986,730
2013 - 2017	14,257,368
Total	$38,254,543

15. RETIREMENT PLANS

Virginia Retirement System

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 CAFR discloses the unfunded pension benefit obligation at June 30, 2002, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,044,679 for the year ended June 30, 2002. These contributions included the employee contribution assumed by the employer. The rate from July 1 through January 24 was 9.24 percent. This rate was reduced effective January 25, 2002, to five percent. Contributions to the VRS were calculated using the base salary amount of approximately $13,810,551 for the fiscal year ended June 30, 2002. The University's total payroll was approximately $28,943,789 for the year ended June 30, 2002.

<u>Optional Retirement Plans</u>

Full-time faculty and certain administrative staff may participate in six optional retirement plans. University employees currently participate in five of these plans, which include: Fidelity Investments Institutional Services, Great-West Life Assurance, Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF), T. Rowe Price and Associates, and Variable Annuity Life Insurance (VALIC). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4 percent, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under this plan were approximately, $1,096,007 for the year ended June 30, 2002. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $10,538,529. The University's total payroll in fiscal year 2002 was approximately $28,943,789.

16. 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).

17. PERKINS STUDENT LOAN FUND

On May 24, 2000, the University notified the U.S. Department of Education that the University would liquidate the Perkins Federal Loan Program. At June 30, 2002, all outstanding loans had been assigned to the U.S. Department of Education and the federal capital contribution had been returned to the U.S. Department of Education in the amount of $505,005.

18. 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, 2002, the University estimates that no material liabilities will result from such audits or questions.

Litigation

The University has been named as a defendant in a number of lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

19. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

CHRISTOPHER NEWPORT UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002
(with comparitive figures for June 30, 2001)

	Auxiliary Support	Dining Services	Housing Operations
Operating revenues:			
Sales and services	$ 609,042	$ 1,678,816	$ 122,079
Student fees	1,279,926	2,274,319	5,360,957
Miscellaneous income	-	-	-
Total revenues	1,888,968	3,953,135	5,483,036
Cost of sales	-	(1,574,210)	-
Net revenues	1,888,968	2,378,925	5,483,036
Operating expenditures:			
Personal services	797,996	1,385,955	785,707
Contractual services	286,592	118,037	441,028
Supplies and materials	63,766	68,977	86,059
Transfer payments	287	7,891	176,126
Continuous charges	233,385	411,620	1,611,327
Equipment	25,336	12,887	67,082
Total expenditures of operation	1,407,362	2,005,367	3,167,329
Excess of revenues over operating expenditures before transfers	481,606	373,558	2,315,707
Mandatory transfers: Additions/(Deductions)			
Allocation of work-study program	6,220	3,106	5,075
Debt service	(247,731)	(114,183)	(1,753,791)
Nonmandatory transfers: From/(To)	(293,500)	-	(358,125)
Total transfers	(535,011)	(111,077)	(2,106,841)
Net increase/(decrease) for the year	(53,405)	262,481	208,866
Fund balance/(deficit) at beginning of year	275,786	(102,896)	246,126
Fund balance/(deficit) at end of year	$ 222,381	$ 159,585	$ 454,992

Note: This schedule accounts for purchases of capital assets as expenses and does not include depreciation. Additionally, all revenues are recorded as charged including student charges and internal activities. Management uses this method of accounting to monitor individual enterprises and set rates.

This schedule is prepared using the modified accrual basis of accounting.

Intercollegiate Athletics	University Bookstore	Total	Prior Year Total
$ 227,978	$ 3,133,975	$ 5,771,890	$ 5,026,204
3,931,040	-	12,846,242	9,847,824
50,000	97,009	147,009	112,152
4,209,018	3,230,984	18,765,141	14,986,180
-	(2,209,656)	(3,783,866)	(3,373,300)
4,209,018	1,021,328	14,981,275	11,612,880
1,839,580	309,524	5,118,762	4,274,833
585,556	84,166	1,515,379	1,275,073
262,387	15,480	496,669	615,440
23,327	3,602	211,233	-
596,072	67,623	2,920,027	1,621,040
136,067	10,491	251,863	310,295
3,442,989	490,886	10,513,933	8,096,681
766,029	530,442	4,467,342	3,516,199
16,554	-	30,955	21,359
(774,939)	-	(2,890,644)	(2,827,163)
-	(202,431)	(854,056)	(1,552,851)
(758,385)	(202,431)	(3,713,745)	(4,358,655)
7,644	328,011	753,597	(842,456)
(151,270)	2,128,102	2,395,848	3,238,304
$ (143,626)	$ 2,456,113	$ 3,149,445	$ 2,395,848

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia