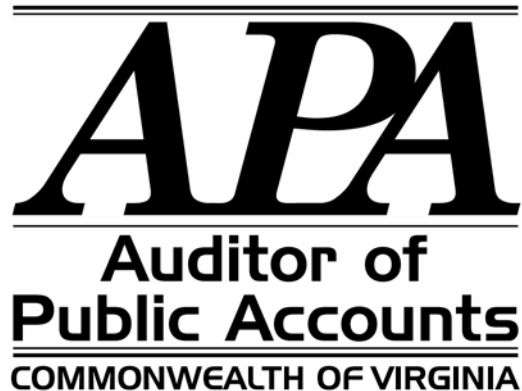


**CHRISTOPHER NEWPORT UNIVERSITY  
NEWPORT NEWS, VIRGINIA**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2003**



## **AUDIT SUMMARY**

Our audit of Christopher Newport University for the year ended June 30, 2003, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a reportable condition; however, we do not consider it to be a material weakness;
- no instances of noncompliance that are required to be reported; and
- the University has taken adequate corrective action with respect to audit findings reported in the prior year except that corrective action has not been completed for the findings entitled “Complete Risk Assessment, Business Impact Analysis, and Business Continuity Plan” and “Develop Policies and Procedures for Maintaining Security Controls on the Checkpoint Firewall.” In this report, we recommend that the University complete its corrective action related to these findings in our internal control finding entitled “Develop and Implement an Information Security Program.”

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UNIVERSITY RESPONSE TO INTERNAL CONTROL  
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UNIVERSITY OFFICIALS



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 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 stated 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, 2003, 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the section titled "Internal Control Finding and Recommendation."

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 the reportable condition described above is not a material weakness.

### Status of Prior Findings

The University has not completed adequate corrective action for the previously reported findings entitled “Complete Risk Assessment, Business Impact Analysis, and Business Continuity Plan” and “Develop Policies and Procedures for Maintaining Security Controls on the Checkpoint Firewall.” Accordingly, in the section of this report entitled “Internal Control and Compliance Finding and Recommendation,” we recommend that the University complete its corrective action related to these findings in our finding entitled “Develop and Implement an Information Security Program.” The University has taken corrective action with respect to other audit findings reported in the prior year.

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 August 11, 2004.

AUDITOR OF PUBLIC ACCOUNTS

JHS/kva  
kva:

## **INTERNAL CONTROL FINDING AND RECOMMENDATION**

### Develop and Implement an Information Security Program

The University has not developed a formal information security program for their information technology environment. A sound information security program should provide for security controls in accordance with the Commonwealth of Virginia Information Technology Resource Management (COV ITRM) Standard SEC2001-01.1. This program should include policies and procedures that provide direction and guidance for maintaining security controls. More importantly, it should contain management's views and directives toward security.

The complete Information Security Program should include an updated business impact analysis, a risk assessment, and contingency plans. The University has not updated its business impact analysis nor documented their contingency plans. The business impact analysis and risk assessments should identify information resources critical to the University and evaluate potential security threats and risks to those resources.

The contingency plan should encompass all critical information technology systems and provide for the continuation of critical business functions in the event of disruptions. The University may avert many potential contingencies and disasters or reduce the damage they may cause if management has documented a plan to take the appropriate steps early to control the event.

There are no policies and procedures for maintaining security controls on the Checkpoint firewall or the Cisco Internet router to prevent unauthorized access to critical systems and data. The University's main router does not have security configuration that "best practices" guidelines would recommend to prevent unauthorized access to the router and possible access to critical information. The current configuration could also result in attacks placed on the router that would prevent it from functioning in its normal capacity or that would prevent the router from functioning entirely.

We recommend the University develop an Information Security Program for securing all their critical systems as soon as possible. Continuing to have inadequate policies and procedures could place the University at risk for inappropriate access to critical systems or fraud.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
(unaudited)

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

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of this statement is to present a fiscal snapshot at June 30, 2003. The data presented indicates the assets available to continue the University's operations, as well as shows the amounts the University owes to vendors and creditors.

Statement of Net Assets

	<u>As of June 30, 2003</u>	<u>As of June 30, 2002</u>
Assets:		
Current assets	\$ 14,878,196	\$ 11,468,323
Capital assets, Net	125,323,379	105,738,497
Other noncurrent assets	<u>52,678,709</u>	<u>9,377,749</u>
Total assets	<u>192,880,284</u>	<u>126,584,569</u>
Liabilities:		
Current liabilities	12,502,214	10,032,616
Noncurrent liabilities	<u>96,916,731</u>	<u>54,547,984</u>
Total liabilities	<u>109,418,945</u>	<u>64,580,600</u>
Net assets:		
Invested in capital assets, Net of related debt	66,048,123	52,537,411
Restricted, Nonexpendable	2,248,362	2,218,604
Restricted, Expendable	5,598,465	1,673,368
Unrestricted	<u>9,566,389</u>	<u>5,574,586</u>
Total net assets	<u>\$ 83,461,339</u>	<u>\$ 62,003,969</u>

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net related of debt," provides the University's equity in property, plant and equipment owned by the University. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the 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. The corpus of nonexpendable restricted resources is available only for investment purposes. Unrestricted net assets are available to the University for any lawful purpose of the University.

The University's total assets increased \$66,295,715; however, the University's total liabilities also increased by \$44,838,345. In October 2002, the University issued \$48,730,000 in 9(d) revenue bonds to fund the construction of various Auxiliary Enterprise capital projects, as described below. At June 30, 2003, \$44,718,859 in bond proceeds were still on hand and will be expended for the construction of these facilities during the coming years. In addition, the University expended \$13,502,625 in Virginia College Building Authority bond proceeds and general obligation bond proceeds on the Performing Arts Center during fiscal year 2003, which has been added to Construction in Progress. Of the increase in total liabilities, \$44,838,345 was due to the issuance of bonds to construct the new facilities. The combination of the increases in total assets and in total liabilities resulted in an increase in net assets at June 30, 2003, of \$21,457,370.

## Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present revenues received by the University, both operating and nonoperating, and expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the University.

### Statement of Revenues, Expenses, and Changes in Net Assets

	<u>Year Ended June 30, 2003</u>	<u>Year Ended June 30, 2002</u>
Operating revenues:		
Student tuition and fees	\$ 10,772,370	\$ 8,810,904
Federal grants and contracts	4,589,204	4,489,295
Nongovernmental grants and contracts	705,743	666,028
Auxiliary enterprises	22,603,844	17,367,853
Other operating revenue	<u>403,339</u>	<u>552,295</u>
Total operating revenues	<u>39,074,500</u>	<u>31,886,375</u>
Operating expenses:		
Instruction	16,806,286	16,593,458
Research	2,706,677	2,372,571
Public service	284,507	474,015
Academic support	4,503,756	4,508,589
Student services	2,897,498	3,094,262
Institutional support	4,133,821	4,796,606
Operation and maintenance of plant	3,218,756	3,575,121
Depreciation	3,493,219	3,265,274
Student aid	1,219,773	1,335,493
Auxiliary enterprises	<u>18,535,372</u>	<u>14,297,799</u>
Total operating expenses	<u>57,799,665</u>	<u>54,313,188</u>
Operating loss	<u>(18,725,165)</u>	<u>(22,426,813)</u>
Nonoperating revenues:		
State appropriations	22,342,802	24,078,685
State grants and contracts	81,706	126,493
Gifts	250,019	376,872
Return of federal capital contribution	-	(19,472)
Investment income	3,658,243	945,052
Interest on capital asset related debt	(2,163,636)	(1,591,567)
Loss on disposal of capital assets	<u>(4,304,922)</u>	<u>(1,193,596)</u>
Net nonoperating revenues	<u>19,864,212</u>	<u>22,722,467</u>
Income before other revenues	1,139,047	295,654
Net other revenues	<u>20,318,323</u>	<u>3,001,425</u>
Increase in net assets	21,457,370	3,297,079
Net assets – beginning of year	<u>62,003,969</u>	<u>58,706,890</u>
Net assets – end of year	<u>\$ 83,461,339</u>	<u>\$62,003,969</u>

Generally, operating revenues are received for 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 received for which goods and services are not provided. The University's state appropriation is a non-operating revenue because it is provided by the state legislature without the legislature directly receiving commensurate goods and services for these revenues.

Operating revenues include tuition and fees and auxiliary enterprises revenues. Tuition and fee revenues increased by \$1,961,466. For fiscal year 2003, the state lifted the tuition freeze that has been in effect for several years and tuition was increased by nine percent for the 2002 fall semester and an additional tuition increase took place for the 2003 spring semester resulting in a 22 percent tuition increase for the fiscal year. Auxiliary revenues increased due to a 20 percent increase in comprehensive fees, a ten percent increase in room and board, and the room fees collected from additional residential facilities. Operating expenses increased primarily in the auxiliaries with the lease of additional residential facilities.

The non-operating revenue decrease is attributable to a mandatory budget reduction of \$1,502,679. There was an increase in investment income due to the sale of revenue bonds in October 2002 for the construction of numerous new facilities. The proceeds from the bonds totaling \$48,730,000 were invested by the Bank of New York until the funds were needed for construction expenditures. At June 30, 2003, \$44,718,859 was still held and invested by the Bank of New York. 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 is divided into 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 (\$11,973,016), auxiliary enterprises receipts (\$24,521,422), and grants and contracts (\$5,306,720). Major uses of cash include payments for salaries, wages, and fringe benefits (\$33,601,919); payments for supplies, services, and utilities (\$17,221,305); and payments for scholarships and fellowships (\$4,825,165). The net operating loss decreased from the prior year due to the 22 percent increase in tuition and fees (\$1,961,466), the opening of York River Residence Hall and the CNU Apartments, and the increase in student comprehensive fees and room and board fees, which increased the auxiliary revenue by \$3,493,031.

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 (\$22,214,972), which is a decrease from the prior year of \$1,619,977 and represents the mandatory budget reductions.

The cash flows from capital financing activities reflect cash used for the acquisition and construction of capital related items. The primary source of cash was the issuance of 9(d) revenue bonds for the construction of the University's fourth residential facility, parking deck, new student center, the athletic expansion for facilities and fields, and the renovation of the existing student center. In addition, the construction continued on the Performing Arts Center with an excess of \$15,785,374 in state funds, federal funds, and local government funds being expended. 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

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Cash flows from operating activities	\$(14,615,533)	\$(19,461,659)
Cash flows from noncapital financing activities	22,555,618	24,119,379
Cash flows from capital financing activities	2,906,238	(7,196,218)
Cash flows from investing activities	<u>212,536</u>	<u>226,562</u>
Net change in cash	<u>\$ 11,058,859</u>	<u>\$ (2,311,936)</u>

### Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction taking place at the University. Significant fiscal year 2003 capital projects include the Performing Arts Center, Football Stadium Phase II, completion of the Residence Hall III, and beginning of Residence Hall IV. The Performing Arts Center is funded through state appropriations, grants from the federal and local governments, and private gifts. The remainder of the projects was funded through the issuance of 9(c) and 9(d) revenue bonds.

The University increased its total long-term debt from \$56,896,468 at June 30, 2002 to \$99,512,775 at June 30, 2003. The increase is due to the issuance of 9(d) revenue bonds in October 2002 for the University's fourth residential facility, Parking Deck I, New Student Center, Athletic Expansion for facilities and fields, and renovation of the existing student center in the amount of \$48,730,000. As calculated under the State Council of Higher Education for Virginia's formula, the University's 2003 debt service to expenditure ratio was 10.5 percent.

Overall, unpaid construction commitments increased \$27,864,011 from \$19,990,931 to \$47,854,942 in 2003 (139 percent). Unpaid commitments at June 30, 2003, primarily reflect the Performing Arts Center, Residence Hall IV, Football Stadium Phase II, Parking Deck I, Student Center, and various other athletic facilities. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements.

### 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 reduction in General Fund appropriations for fiscal year 2003. The University's mandatory budget reduction for fiscal year 2003 was \$1,734,172; however, \$231,493 was prepaid in fiscal year 2002, leaving an actual reduction in fiscal year 2003 of \$1,502,679. This reduction represented a 13.7 percent reduction from the original fiscal year 2002 budget or a 10.3 percent reduction from the final fiscal year 2002 budget. 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 by 22 percent for 2003. The tuition increase will help offset the budget reductions; however, the University also closed several academic programs including the Nursing Department; Education Department; and the Sports, Recreation, and Wellness Department; which resulted in the layoff of a significant number of faculty and staff in order to meet these reductions.

CHRISTOPHER NEWPORT UNIVERSITY  
STATEMENT OF NET ASSETS  
As of June 30, 2003

ASSETS

Current assets:

Cash and cash equivalents (Note 2)	\$ 1,825,031
Cash and cash equivalents with Treasurer of Virginia (Note 2)	11,926,484
Accounts receivable, net of allowance for doubtful accounts (Note 3)	272,337
Prepaid expenses	327,812
Inventory	<u>526,532</u>

Total current assets	<u>14,878,196</u>
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Noncurrent assets:

Cash and cash equivalents with Treasurer of Virginia (Note 2)	3,708,267
Restricted investments (Note 2)	2,248,362
Other long-term investments (Note 2)	46,722,080
Non-depreciable capital assets (Note 4)	38,302,721
Capital assets, net of accumulated depreciation (Note 4)	<u>87,020,658</u>

Total noncurrent assets	<u>174,293,821</u>
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Total assets	<u>189,172,017</u>
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LIABILITIES

Current liabilities:

Accounts payable and accrued expenses (Note 5)	6,504,007
Deferred revenue	613,655
Obligations under securities lending	882,216
Deposits held in custody for others	1,015,648
Long-term liabilities - current portion (Note 6)	<u>3,486,688</u>

Total current liabilities	12,502,214
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Noncurrent liabilities (Note 6)	<u>96,916,731</u>
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Total liabilities	<u>109,418,945</u>
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NET ASSETS

Invested in capital assets, net of related debt	70,529,463
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Restricted for:

Nonexpendable - scholarships and fellowships	2,248,362
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Expendable:

Scholarships and fellowships	160,731
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Capital projects	5,406,397
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Other	31,337
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Unrestricted	<u>5,085,049</u>
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Total net assets	<u>\$ 83,461,339</u>
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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, 2003

Operating revenues:	
Student tuition and fees, net of scholarship allowances of \$1,790,053	\$ 10,772,370
Federal grants and contracts	4,589,204
Nongovernmental grants and contracts	705,743
Auxiliary enterprises, net of scholarship allowances of \$2,163,736 (Note 8)	22,603,844
Other operating revenue	403,339
	<hr/>
Total operating revenues	39,074,500
	<hr/>
Operating expenses (Note 9):	
Instruction	16,806,286
Research	2,706,677
Public service	284,507
Academic support	4,503,756
Student services	2,897,498
Institutional support	4,133,821
Operation and maintenance of plant	3,218,756
Depreciation	3,493,219
Student aid	1,219,773
Auxiliary enterprises (Note 8)	18,535,372
	<hr/>
Total operating expenses	57,799,665
	<hr/>
Operating loss	(18,725,165)
	<hr/>
Nonoperating revenues/(expenses):	
State appropriations (Note 10)	22,342,802
State grants and contracts	81,706
Gifts	250,019
Investment income, net of investment expenses of \$14,853	3,658,243
Interest on capital asset related debt	(2,163,636)
Loss on disposal of capital assets	(4,304,922)
	<hr/>
Net nonoperating revenues	19,864,212
	<hr/>
Income before other revenues, expenses, gains, or losses	1,139,047
	<hr/>
Capital appropriations	14,342,869
Capital gifts and grants	1,270,119
Gain from sale of property	2,422,823
Gain on early extinguishment of debt	2,282,512
	<hr/>
Total other revenues	20,318,323
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Increase in net assets	21,457,370
	<hr/>
Net assets, beginning of year	62,003,969
	<hr/>
Net assets, end of year	\$ 83,461,339
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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, 2003

Cash flows from operating activities:	
Student tuition and fees	\$ 11,973,016
Grants and contracts	5,306,720
Auxiliary enterprises	24,521,422
Other receipts	403,591
Payments to employees for salaries and fringe benefits	(33,601,919)
Payments for services and supplies	(15,297,591)
Payments for utilities	(1,923,714)
Payments for scholarships and fellowships	(4,825,165)
Payments for plant improvements and equipment	(1,170,987)
Loans issued to students and employees	(194,371)
Collection of loans from students and employees	<u>193,465</u>
Net cash used by operating activities	<u>(14,615,533)</u>
Cash flows from noncapital financing activities:	
State appropriations	22,214,972
State grants and contracts	64,481
Gifts and grants for other than capital purposes	251,049
Stafford loan receipts	10,409,493
Stafford loan disbursements	(10,409,493)
PLUS loan receipts	1,705,037
PLUS loan disbursements	(1,705,037)
Agency receipts	9,251,171
Agency payments	<u>(9,226,055)</u>
Net cash provided by noncapital financing activities	<u>22,555,618</u>
Cash flows from capital financing activities:	
Proceeds from capital appropriations available and investments	4,454,066
Capital appropriations	12,019,969
Capital gifts and grants	2,275,948
Proceeds from sale of revenue bonds	13,175,971
Proceeds from sale of capital assets	2,422,823
Purchase of capital assets	(25,447,722)
Principal paid on capital debt, leases, and installments	(3,831,181)
Interest paid on capital debt, leases, and installments	<u>(2,163,636)</u>
Net cash used by capital financing activities	<u>2,906,238</u>
Cash flows from investing activities:	
Interest on investments	312,548
Transfer to investments	<u>(100,012)</u>
Net cash provided by investing activities	<u>212,536</u>
Net increase in cash	11,058,859
Cash and cash equivalents beginning of the year	<u>6,400,923</u>
Cash and cash equivalents end of the year	<u>\$ 17,459,782</u>

CHRISTOPHER NEWPORT UNIVERSITY  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2003

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RECONCILIATION OF NET OPERATING LOSS TO NET CASH  
USED BY OPERATING ACTIVITIES:

Operating loss	\$ (18,725,165)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,493,219
Changes in assets and liabilities:	
Receivables, net	35,941
Prepaid expenses	481,644
Inventory	(15,992)
Accounts payable and accrued expenses	(24,557)
Deferred revenue	135,353
Accrued compensated absences	4,024
	<hr/>
Net cash used by operating activities	\$ (14,615,533)

Noncash investing, noncapital financing, and  
capital and related financing transactions:

Principal and interest on capital lease paid by state agency on behalf of the University	\$ 113,785
Capitalization of interest expense	\$ 1,290,531
Change in fair value of investments recognized as a component of interest income	\$ (1,070)

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

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 14, *The Financial Reporting Entity*; however, the University does have related party corporations whose combined financial conditions are stated in Note 11. 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 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

C. Basis of Accounting

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

D. Investments

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as sidewalks. Capital assets are defined by the University as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Library materials are valued using published average prices for library acquisitions. Donated capital assets are recorded at fair market value at the date of the donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. 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. Capital assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

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

Buildings	40 – 50 years
Other improvements and infrastructure	15 years
Equipment	5 – 20 years
Library materials	5 years

F. Inventories

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

G. Noncurrent Cash and Investments

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

H. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and grants and contracts prior to the end of the fiscal year, but related to the period after June 30, 2003.

I. Accrued Compensated Absences

Accrued leave reflected in the accompanying financial statements represents the amount of annual, sick and compensatory leave earned, but not taken as of June 30, 2003. The amount represents all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook for all administrators holding faculty appointments, upon employment termination. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

J. Federal Financial Assistance Programs

The University participates in 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.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets. Net assets are classified as Invested in capital assets, net of related debt; Restricted; and Unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation, and is reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as "Restricted" when constraints on the net asset use are either externally-imposed by creditors, grantors, or contributors or imposed by law. "Unrestricted" net assets consist of net assets that do not meet the definitions above.

L. Revenue and Expense Classifications

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

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

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

M. Scholarship Discounts and Allowances

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

2. CASH AND CASH EQUIVALENTS, INVESTMENTS AND SECURITIES LENDING

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, 2003.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. In accordance with the GASB Statement 9's 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. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument at maturity. The University's investments at June 30, 2003, are held in money market funds and therefore, are not categorized by credit risk.

	<u>Market Value</u>
Cash and cash equivalents:	
Deposits with financial institutions	\$ 930,706
Money market funds	894,325
Cash with Treasurer of Virginia	<u>15,634,751</u>
Total	<u>\$17,459,782</u>
Investments:	
State Non-Arbitrage Program (SNAP)	\$44,718,859
Collateral held for securities lending	882,216
Money market funds	2,820,942
Governmental bonds	<u>548,425</u>
Total	<u>\$48,970,442</u>

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.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2003:

Student tuition and fees	\$ 75,802
Auxiliary enterprises	190,851
Federal, state, and private grants and contracts	46,586
Other activities	<u>5,293</u>
Total	318,532
Less: Allowance for doubtful accounts	<u>(46,195)</u>
Net accounts receivable	<u>\$272,337</u>

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2003, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Nondepreciable capital assets:				
Land	\$ 5,315,724	\$ 2,048,132	\$ 1,323,635	\$ 6,040,221
Construction in progress	<u>32,281,874</u>	<u>26,364,478</u>	<u>26,383,852</u>	<u>32,262,500</u>
Total nondepreciable capital assets	<u>37,597,598</u>	<u>28,412,610</u>	<u>27,707,487</u>	<u>38,302,721</u>
Depreciable capital assets:				
Buildings	74,060,543	23,806,978	3,481,642	94,385,879
Infrastructure	-	83,864	-	83,864
Equipment	7,447,674	1,129,116	898,468	7,678,322
Other improvements	5,405,258	284,011	121,622	5,567,647
Library materials	<u>7,595,123</u>	<u>378,423</u>	<u>10,033</u>	<u>7,963,513</u>
Total depreciable capital assets	<u>94,508,598</u>	<u>25,682,392</u>	<u>4,511,765</u>	<u>115,679,225</u>

Less accumulated depreciation:				
Buildings	13,692,390	1,841,124	560,510	14,973,004
Infrastructure	-	1,262	-	1,262
Equipment	4,085,726	892,802	576,282	4,402,246
Other improvements	2,462,730	263,500	65,559	2,660,671
Library materials	<u>6,126,853</u>	<u>494,531</u>	<u>-</u>	<u>6,621,384</u>
Total accumulated depreciation	<u>26,367,699</u>	<u>3,493,219</u>	<u>1,202,351</u>	<u>28,658,567</u>
Depreciable capital assets, net	<u>68,140,899</u>	<u>22,189,173</u>	<u>3,309,414</u>	<u>87,020,658</u>
Total capital assets, net	<u>\$105,738,497</u>	<u>\$50,601,783</u>	<u>\$31,016,901</u>	<u>\$125,323,379</u>

#### 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2003:

Current liabilities:	
Employee salaries, wages, and fringe benefits payable	\$1,769,293
Vendors and suppliers accounts payable	3,674,124
Retainage payable	<u>1,080,590</u>
Total accounts payable and accrued expenses	<u>\$6,504,007</u>

#### 6. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 7) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2003, is presented below:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long-term debt:					
Revenue bonds	\$10,315,000	\$48,730,000	\$ 410,000	\$ 58,635,000	\$ 630,000
General obligation bonds	44,899,660	-	4,074,179	40,825,482	2,032,608
Capital leases	<u>1,681,808</u>	<u>-</u>	<u>1,629,516</u>	<u>52,293</u>	<u>17,662</u>
Total long-term debt	<u>56,896,468</u>	<u>48,730,000</u>	<u>6,113,695</u>	<u>99,512,775</u>	<u>2,680,270</u>
Accrued compensated absences	<u>891,497</u>	<u>929,849</u>	<u>930,700</u>	<u>890,644</u>	<u>806,418</u>
Total long-term liabilities	<u>\$57,787,965</u>	<u>\$49,659,849</u>	<u>\$7,044,395</u>	<u>\$100,403,419</u>	<u>\$3,486,688</u>

#### 7. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(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. 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. Pledged revenues include revenues of the University not required by law to be used for another purpose.

	Interest Rates (%)	Maturity	Outstanding Balance at June 30, 2003
Revenue bonds:			
Athletics, Series 1998A	4.53	2019	\$ 8,810,000
Series 2002A	3.0 – 5.25	2023	5,895,000
Series 2002A	3.0 – 5.25	2023	1,335,000
Student Center, Series 2001A	3.0 – 4.87	2021	1,095,000
Series 2002A	3.0 – 5.25	2023	330,000
New Student Center, Series 2002A	4.0 – 5.25	2023	8,815,000
Parking Deck I, Series 2002A	4.0 – 5.25	2023	8,385,000
Residence Hall IV, Series 2002A	4.0 – 5.25	2023	<u>23,970,000</u>
Total revenue bonds			<u>58,635,000</u>
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 1997	4.7 – 5.1	2021	1,813,566
Series 1998	3.5 – 4.7	2015	3,103,476
Series 1998	3.5 – 4.3	2008	161,030
Series 1999	4.8 – 5.3	2019	11,630,000
Series 2001	2.1 – 4.9	2021	22,240,000
Series 2002R	4.0	2004	198,293
Series 2003R	2.5 – 5.5	2011	1,208,525
Series 2003R	2.5 – 4.0	2006	211,181
Student Center:			
Series 2003R	2.5	2004	224,490
Athletics:			
Series 2003R	2.5	2004	<u>34,921</u>
Total general obligation bonds			<u>40,825,482</u>
Total bonds payable			<u>99,460,482</u>
Capital leases:			
Other capital leases	Various	2007	<u>52,293</u>
Total			<u>\$99,512,775</u>

Long-term debt matures as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,680,270	\$ 4,861,579
2005	3,918,192	4,730,445
2006	4,056,632	4,562,263
2007	4,235,676	4,379,888
2008	4,422,950	4,181,041
2009-2013	25,104,312	17,574,944
2014-2019	29,839,743	10,781,627
2020-2023	<u>25,255,000</u>	<u>3,065,956</u>
Total	<u>\$99,512,775</u>	<u>\$54,137,743</u>

#### Defeasance of Debt

On October 9, 2002, the Commonwealth of Virginia issued \$223,730,000 in Higher Educational Institutions Refunding Bonds, Series 2002, with interest rates ranging from 2.5 percent to 4.0 percent. The sale of these bonds enabled the University to advance refund \$585,000 of General Obligation Revenue Bonds, Series 1992C and 1994, with interest rates ranging from 5.7 percent to 6.1 percent to finance the construction of Residence Hall I.

On June 4, 2003, the Commonwealth of Virginia issued \$178,155,000 in Higher Educational Institutions Revenue Bonds, Series 2003, with interest rates ranging from 2.5 percent to 5.5 percent. The sale of these bonds enabled the University to advance refund \$3,755,448 of General Obligation Bonds, Series 1993A Refunding and 1993B Refunding, with interest rates ranging from 4.6 percent to 5.2 percent to finance Residence Hall I, the Student Center, and the track.

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

The advance refunding of October 9, 2002, resulted in the recognition of an accounting loss of \$5,000, however, the aggregate debt service payments will be decreased by \$26,845 over the next three years and an economic gain of \$27,816 (assuming a discount rate of 3.19 percent) will be obtained.

The advance refunding of June 4, 2003, resulted in the recognition of an accounting gain of \$2,287,512, the aggregate debt service payments will be decreased by \$4,816,132 over the next eight years, and an economic gain of \$3,261,041 (assuming a discount rate of 2.65 percent) will be obtained.

#### 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, 2003, \$12,380,448 of the bonds considered

deceased 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. The last payments by the University for equipment leased prior to 1999 were made in fiscal year 2003.

### 8. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2003. Additionally, the University used auxiliary revenues to pay debt service and capital improvements of \$4,297,314 and \$270,114, respectively. Those amounts are not included in the auxiliary operating expenses below.

#### Revenues:

Room contracts, Net of scholarship allowance of \$1,320,679	\$ 7,533,309
Food service contracts, Net of scholarship allowance of \$216,062	2,699,148
Comprehensive fee, Net of scholarship allowance of \$539,416	6,038,228
Other student fees and sales and services, Net of scholarship allowance of \$87,579	<u>6,333,159</u>
 Total auxiliary activities revenues	 <u>\$22,603,844</u>

#### Expenses:

Residential facilities	\$ 5,828,530
Dining operations	4,649,614
Athletics	3,747,050
Bookstore	2,681,020
Other auxiliary services	<u>1,629,158</u>
 Total auxiliary activities expenses	 <u>\$18,535,372</u>

### 9. 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.

	<u>Salaries and Wages</u>	<u>Fringe Benefits</u>	<u>Services and Supplies</u>	<u>Scholarships</u>	<u>Utilities</u>	<u>Plant and Equipment</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$12,098,231	\$3,369,338	\$ 1,145,014	\$ -	\$ -	\$ 193,703	\$ -	\$16,806,286
Research	1,636,974	336,093	629,399	-	-	104,211	-	2,706,677
Public Service	209,625	64,685	5,719	-	-	4,478	-	284,507
Academic Support	1,855,120	809,881	1,649,348	-	-	189,407	-	4,503,756
Student Services	1,551,884	458,010	877,739	-	-	9,865	-	2,897,498
Institutional Support	2,439,643	835,414	802,522	24,792	-	31,450	-	4,133,821
Operation of Plant	1,125,718	551,982	743,121	-	722,313	75,622	-	3,218,756
Depreciation	-	-	-	-	-	-	3,493,219	3,493,219
Scholarships	-	-	-	1,219,773	-	-	-	1,219,773
Auxiliary Activities	<u>4,968,830</u>	<u>1,252,411</u>	<u>10,559,005</u>	<u>-</u>	<u>1,228,558</u>	<u>526,568</u>	<u>-</u>	<u>18,535,372</u>
Total	<u>\$25,886,025</u>	<u>\$7,677,814</u>	<u>\$16,411,867</u>	<u>\$1,244,565</u>	<u>\$1,950,871</u>	<u>\$1,135,304</u>	<u>\$3,493,219</u>	<u>\$57,799,665</u>

#### 10. 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 1042:	
Educational and general programs	\$21,667,361
Student financial assistance	1,959,926
Higher education equipment trust fund program	113,785
Supplemental adjustments:	
Salary bonus funding	522,385
Fringe benefit rate changes	(366,542)
Miscellaneous reductions for eVA, IHRIS, airline tickets, e-procurement	(58,630)
Mandatory budget reduction	(1,502,679)
Other	<u>7,196</u>
Adjusted appropriations	<u>\$22,342,802</u>

#### 11. 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, 2003.

<u>CNU Educational and Real Estate Foundations</u>	
Assets	<u>\$45,879,936</u>
Liabilities	\$35,469,858
Net assets	<u>10,410,078</u>
 Total liabilities and net assets	 <u>\$45,879,936</u>
 Revenues	 <u>\$ 6,324,528</u>
 Expenditures	 <u>\$ 6,145,986</u>

The University received \$253,524 from the foundations during the fiscal year ended June 30, 2003, which represented the transfer of restricted and unrestricted gifts. The University disbursed \$3,005,577 to the foundations, primarily for land and building leases during the fiscal year ended June 30, 2003.

## 12. COMMITMENTS

At June 30, 2003, the University was committed to construction contracts totaling approximately \$96,137,201 of which \$48,282,259 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.

On August 1, 2002, the University entered into a lease with the Christopher Newport University Educational Foundation, Inc., for a term of 15 years totaling \$38,643,690, for the lease of residential facilities for student housing.

Rental expense for the fiscal year ended June 30, 2003 was \$2,178,248. The University has, as of June 30, 2003, the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 3,036,286
2005	3,083,856
2006	3,144,264
2007	3,205,609
2008	3,207,811
2009-2013	9,802,430
2014-2018	<u>8,490,542</u>
 Total	 <u>\$33,970,798</u>

### 13. 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 the long- and short-term needs of the University, present and anticipated financial requirements, expected total return on investment, price level trends, and general economic conditions.

At June 30, 2003, there was no net appreciation available to be spent as a result of an unrealized loss of \$275,368.

### 14. 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 \$707,122 for the year ended June 30, 2003. These contributions included the employee contribution assumed by the employer, at a rate of 5 percent. Contributions to the VRS were calculated using the base salary amount of approximately \$14,142,443 for the fiscal year ended June 30, 2003.

#### Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in six optional retirement plans. University employees currently participate in five of these plans to 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 \$1,085,865 for the year ended June 30, 2003. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$10,441,010.

The University's total payroll in fiscal year 2003 was approximately \$29,195,402.

#### 15. 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).

#### 16. CONTINGENCIES

##### Grants and Contracts

The 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, 2003, 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.

#### 17. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

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

automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage, which totaled \$183,916 for the fiscal year ended June 30, 2003. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report.

18. PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations Are Component Units*, issued in May 2002, will be effective for the fiscal year ending June 30, 2004. This Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past the University presented summary financial information of certain of its foundations in the notes to the financial statements, the University will be required under GASB Statement 39 to include selected foundations in the body of its financial statements. The University is in the process of assessing which of the foundations should be included as component units.

CHRISTOPHER NEWPORT UNIVERSITY  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES  
For the Year Ended June 30, 2003

	Auxiliary Support	Dining Services	Housing Operations
Revenues:			
Sales and services	\$ 593,327	\$ 1,765,620	\$ 185,791
Student fees	1,645,480	2,915,210	8,853,988
Miscellaneous income	-	-	-
Total revenues	2,238,807	4,680,830	9,039,779
Cost of sales	-	1,982,701	-
Net revenues	2,238,807	2,698,129	9,039,779
Expenses of operation:			
Personal services	929,391	1,621,651	1,282,528
Contractual services	311,731	287,618	729,271
Supplies and materials	80,749	101,595	216,782
Transfer payments	2,533	12,200	338,108
Continuous charges	183,379	587,999	3,005,047
Equipment	121,375	55,850	256,794
Total expenses of operations	1,629,158	2,666,913	5,828,530
Excess of revenues over/under expenses of operations before transfers	609,649	31,216	3,211,249
Mandatory transfers: Additions/(deductions)			
Allocation of Work Study Program	3,238	-	6,553
Debt service	(242,741)	(181,829)	(3,075,327)
Nonmandatory transfers: From/(to)	293,500	-	-
Total transfers	53,997	(181,829)	(3,068,774)
Net increase/(decrease) for the year	663,646	(150,613)	142,475
Fund balance (deficit) at beginning of year	222,381	159,585	454,992
Fund balance (deficit) at end of year	\$ 886,027	\$ 8,972	\$ 597,467

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

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.

Intercollegiate Athletics	University Bookstore	Total
\$ 220,103	\$ 3,125,359	\$ 5,890,200
4,154,106	-	17,568,784
4,372	59,115	63,487
4,378,581	3,184,474	23,522,471
-	2,173,634	4,156,335
4,378,581	1,010,840	19,366,136
2,086,277	303,307	6,223,154
622,644	84,118	2,035,382
278,085	15,483	692,694
30,626	1,434	384,901
644,732	100,580	4,521,737
84,686	7,883	526,588
3,747,050	512,805	14,384,456
631,531	498,035	4,981,680
5,498	-	15,289
(797,417)	-	(4,297,314)
-	(209,937)	83,563
(791,919)	(209,937)	(4,198,462)
(160,388)	288,098	783,218
(143,626)	2,456,113	3,149,445
\$ (304,014)	\$ 2,744,211	\$ 3,932,663



August 12, 2004

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

Dear Mr. Kucharski,

The Auditor of Public Accounts presented its audit finding in the area of information security to the University for the year ended June 30, 2003. We have vigorously addressed this finding and the results of our efforts are noted below:

1. A formal information security program has been fully documented. It covers business analysis and risk assessment, security awareness, technical training, technical communications, authentication and encryption, data security, systems interoperability security, physical security, personnel security, threat detection, security tool kit, incident handling, and monitoring and controlling system activities. This program is in accordance with COV ITRM Standard SEC2001-01.1. In addition, we have completed a business impact and risk analysis in collaboration with our consultants, Dataline, Inc.


The University has also completed a COOP plan (Continuity of Operations Plan) that contains best practices policies, contact information and priorities for contacts, alternative operating locations for each business unit in the event that CNU should suffer a catastrophic disruption of service, a plan for an alternate location for the computer center, a backup plan for all servers and a testing protocol. We are currently compiling lists of equipment and software required to provide for the continuous operation of each of our business units.

2. Policies and procedures for configuration management of both the Checkpoint firewall and Cisco router have been completed. The University has resolved the router security issues by restricting telnet access to only two computers located in the Information Technology Services Office and blocking all other network access to the router itself. Restriction of access to other campus systems by port or protocol is done by design at the firewall, not at the router. Access to higher-numbered ports was already blocked at the firewall to all servers and administrative systems. Residential students may initiate communications at high-numbered ports in order to utilize a wide variety of paid Internet services.

As a result of these efforts, the University has a formal information security program in place that is well documented and has been fully implemented. I believe that the University has fully complied with and completed the steps necessary to fulfill the requirements of this finding and we are now in full compliance with the Commonwealth's Standards for Information Security.

As you know, the Information Technology Services Department had experienced significant turnover in the last 18 months. I am pleased to report that we are fully staffed and have recently completed a significant campus-wide up-grade of critical systems and components. In addition, we are live on many of our SCT/Banner initiatives. Thank you to you and staff for all of your efforts.

Sincerely,

  
William L. Brauer  
Executive Vice President

*Office of the Executive Vice President*

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Newport News, Virginia

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