Christopher Newport University

Audited Financial Statements
For the Year Ended June 30, 2008

CHRISTOPHER NEWPORT UNIVERSITY

Newport News, Virginia

FINANCIAL STATEMENTS

For the Year Ended June 30, 2008

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(unaudited)

The following Management's Discussions and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective analysis of the University's financial activities based on currently known facts, decisions, and conditions. The discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2008, with comparative numbers for the year ended June 30, 2007. This presentation includes highly summarized data, and should be read in conjunction with the accompanying financial statements and notes to financial statements. University management is responsible for all of the financial information presented, including the discussion and analysis.

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

The basic financial statements for Christopher Newport University are the Statement of Net 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.

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 the financial position of the University at June 30, 2008. The data presented indicates the assets available to continue the University's operations as well as show the amounts the institution owes to vendors and creditors.

Statement of Net Assets

	June 30, 2008	June 30, 2007	Variance	Percent
Assets:				
Current assets	$ 16,062,262	$ 14,679,350	$ 1,382,912	9%
Capital assets, net	246,127,938	244,245,913	1,882,025	1%
Other noncurrent assets	26,814,278	26,082,907	731,371	3%
Total assets	289,004,478	285,008,170	3,996,308	1%
Liabilities:				
Current liabilities	18,283,924	18,339,793	(55,869)	<1%
Noncurrent liabilities	109,466,760	106,806,068	2,660,692	2%
Total liabilities	127,750,684	125,145,861	2,604,823	2%
Net assets:				
Invested in capital assets, net of related debt	137,834,270	132,343,123	5,491,147	4%
Restricted, nonexpendable	48,282	3,484,662	(3,436,380)	(99%)
Restricted, expendable	16,278,496	19,134,947	(2,856,451)	(15%)
Unrestricted	7,092,746	4,899,577	2,193,169	45%
Total net assets	$ 161,253,794	$ 159,862,309	$ 1,391,485	1%

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

The University's total assets increased by $4.0 million while total liabilities increased by $2.6 million. Specifically,

- Current assets increased by $1.4 million primarily due the increase in cash and cash equivalents from increased University Housing revenues and an increase in deferred revenue due to payments for tuition installments received by the University in June for the Fall semester.
- Capital and noncurrent assets increased by $2.6 million primarily due to an increase in other investments from the $7.4 million bond issue for expansion of the Freeman Center offset by subsequent draws from prior year's investment of bond proceeds for completion of the David Student Union, the transfer of $3.2 million of University Endowments/Scholarships to the CNU Foundation upon resolution from the Board of Visitors, plus an increase in net capital assets due to the completion of the Trible Library and David Student Union offset by the disposal of the old Student Union.
- Noncurrent liabilities increased by $2.7 million due to the 2007A Bond issue of $7.4 million for the expansion of the Freeman Center, a bond anticipation note of $250 thousand incurred for expense associated with the expansion of the Athletic Facilities which bonds were issued for in January 2009, the 2007B Refunding issue net of defeased debt of $670 thousand and offset by long-term debt principle payments of $5.6 million.

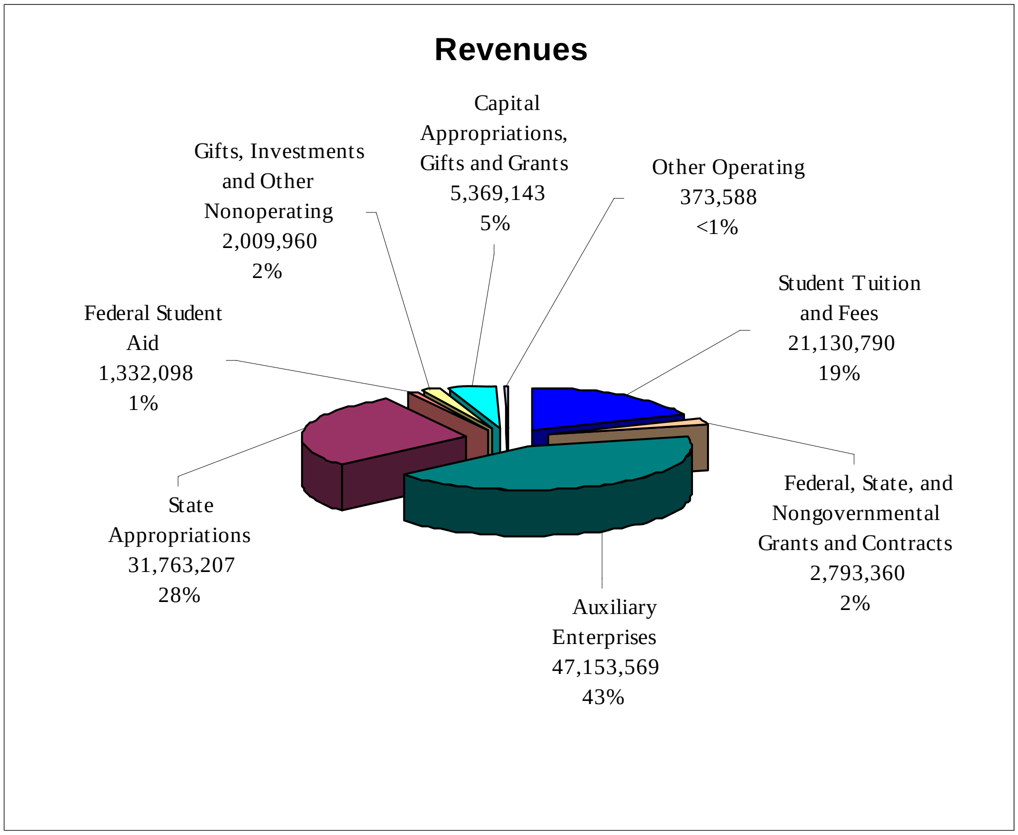
The combination of increase in total assets and increase in total liabilities resulted in an increase in net assets at June 30, 2008 of $1.4 million.

Statement of Revenues, Expenses and Change 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 non-operating, and expenses paid by the University, operating and non-operating, and any other revenues, expenses, gains or losses. This statement measures the success of the University's operations and can be used to determine how the University's fiscal condition has changed during the year.

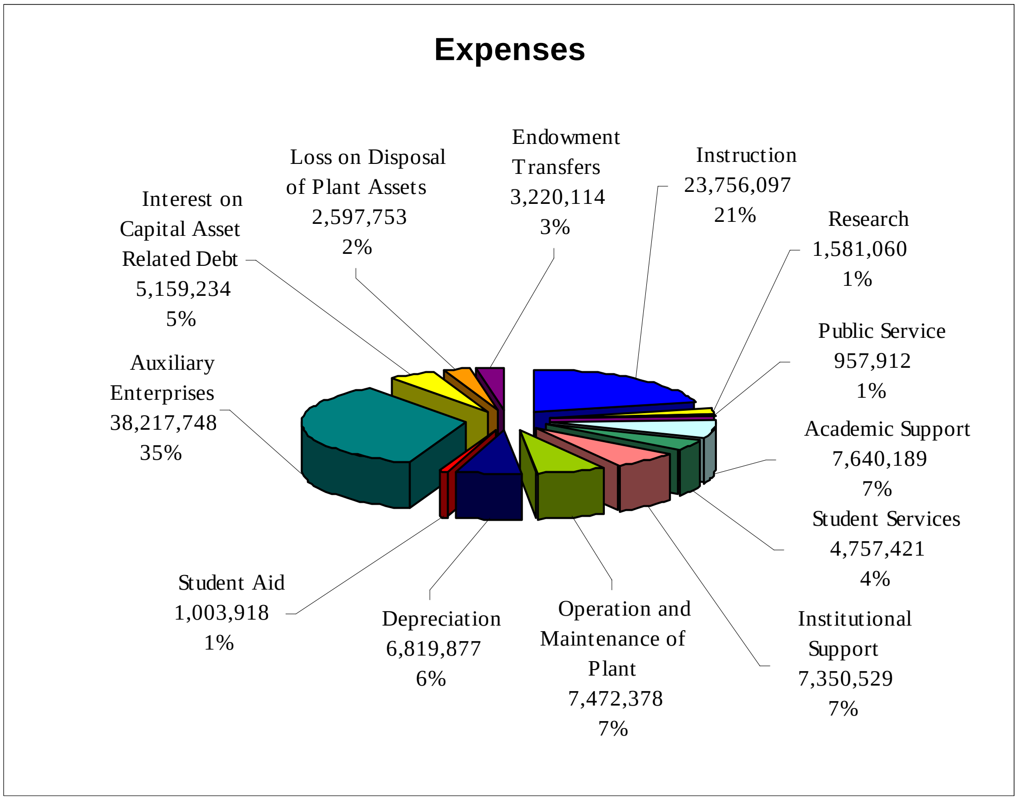
Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2008	June 30, 2007	Variance	Percent
Operating revenues	$ 71,451,307	$ 66,606,634	$ 4,844,673	7%
Operating expenses	99,557,129	93,712,004	5,845,125	6%
Operating loss	(28,105,822)	(27,105,370)	(1,000,452)	4%
Non-operating revenues, net	27,348,278	26,045,407	1,302,871	5%
Net other revenues (expenses)	2,149,029	28,618,261	(26,469,232)	(92%)
Increase in net assets	1,391,485	27,558,298	(26,166,813)	(95%)
Net assets beginning of year	159,862,309	132,304,011	27,558,298	21%
Net assets end of year	$ 161,253,794	$ 159,862,309	$ 1,391,485	1%



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

Operating revenues include tuition and fees and auxiliary enterprises revenues. Tuition and fee revenues increased by $2.0 million. In-State and Out-of-State tuition increased by $228 or 6.0% and $256 or 2.3%, respectively for fiscal year 2008. Auxiliary revenues increased due to an increase in comprehensive fees of $362 or 13.7%, and an increase in room and board of $400 or 4.9%.



Operating expenses increased by \$5.8 million from the previous year. This increase was due to an average increase in salaries and wages of 4.0%, an increase in depreciation expense due to the capitalization of the Trible Library and David Student Union, and an increase in prepaid expenses. The graph above is based on the Statement of Revenues, Expenses, and Change in Net Assets for all operating, non-operating and other expense items.

Non-operating revenues, net of expenses include items such as state appropriation, financial aid, gifts, interest on capital related debt and gains or losses on disposal of plant assets. FY08 saw an increase of \$1.3 million due to a \$2.0 million increase in state appropriations, \$1.3 million of federal student financial aid classified as non-operating revenues, a \$400 thousand decrease in interest on capital asset related debt and a \$2.4 million increase in the loss on disposal of plant assets due to the demolition of the old Student Union.

Net other revenues (expenses) primarily encompass capital appropriations and capital gifts and grants. FY08 decreased by \$26.5 million from prior year due in part to the following. The University received \$24.9 million of appropriation for capital projects in FY07 compared to \$8.6 million received in FY08. The state conducted a reversion of appropriation from the University to the general fund of \$3.6 million that will be replaced by bond proceeds. There was a transfer of \$3.2 million of University Endowments/Professorships to the CNU Educational Foundation approved by the Board of Visitors. As well as a decrease in Capital Gifts and Grants of \$3.4 million due to the gifting of the Yoder Barn valued at \$3.7 million in FY07 compared to the gifting of the Christopher Newport statue in FY08 with a value of \$335 thousand and donated books to the Trible Library of \$35 thousand.

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 institution. Significant sources of cash include student tuition and fees $21.3 million, auxiliary enterprises receipts $46.6 million and grants and contracts of $2.7 million. Major uses of cash include payments for salaries, wages, and fringe benefits $52.2 million, payments for supplies and services $35.7 million, utilities $3.2 million and plant improvements and equipment $1.0 million. The increase in operating activities cash outflows of $3.4 million is primarily due to increased cash flows from Tuition and Fees and Auxiliary enterprises offset by the increase in payments to employees, services and supplies.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs plus financial aid totaling approximately $33.3 million, which saw an increase from the prior year due to an increase in state appropriation and federal financial aid of approximately $3.5 million.

The third section reflects cash flows from capital financing activities used for the acquisition and construction of capital related items. The primary source of cash was proceeds from state appropriation for capital projects and the 2007A bond issue to fund the expansion of the Freeman Center. In FY07 the University received $24.9 million in capital appropriation compared to $8.6 million received in FY08 for various projects.

The fourth section reflects cash flows from investing activities and includes interest on investments, purchase of investments, and sales of investments. Investment activity increased by $1.3 million due to the transfer of $3.2 in Endowments/Professorships to the CNU Educational Foundation approved by the Board of Visitors and a decrease in investments held by trustees for capital projects due to their various phases of completion.

The last section of this statement (not shown below) 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

	June 30, 2008	June 30, 2007	Variance	Percent
Cash flows from operating activities	$ (21,332,500)	$ (17,887,824)	$ (3,444,676)	19%
Cash flows from noncapital financing activities	34,418,959	30,438,250	3,980,709	13%
Cash flows from capital financing activities	(8,360,808)	3,905,341	(12,266,149)	(314%)
Cash flows from investing activities	3,886,596	2,588,177	1,298,419	50%
Net change in cash	$ 8,612,247	$ 19,043,944	$ (10,431,697)	(55%)

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 2008 capital projects include the Trible Library Information Technology Center, Gosnold Hall renovations and expansion of the Freeman Center. The Library and Gosnold Hall are funded through state appropriations. The remainder of the projects was funded through the issuance of 9(d) revenue bonds.

The University's long-term debt increased by $2.4 million as of June 30, 2008 due to the issuance of the 2007A Bond Issue to fund the expansion of the Freeman Center net of principal payments on existing debt. Further information relating to capital assets, construction and capital debt is included in the Notes to the Financial Statements.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial support from state government. In fiscal year 2009 the original state appropriations for education and general increased by $635 thousand. However, in October 2008 the Governor issued a 5.0% budget reduction in order to offset the decrease in revenue projections for fiscal year 2009. The total reduction for the University is approximately $1.6 million. In addition, the University's governing board increased tuition by 4.0%, comprehensive fees by 11.3% and room and board by 4.7% for fiscal year 2009.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

ASSETS

	University	Component Unit Foundations
Current Assets:		
Cash and cash equivalents (Note 2)	$ 793,897	$ 5,154,301
Cash and cash equivalents Treasurer of Virginia (Note 2)	11,098,370	-
Cash and cash equivalents - securities lending (Note 2)	609,815	-
Accounts receivable, net of allowance (Note 3)	389,263	417,630
Contributions receivable, net of allowance (Note 3)	-	4,059,480
Due From Commonwealth (Note 3)	494,053	-
Prepaid expenses	1,633,685	5,391
Inventory	1,043,179	-
Total current assets	16,062,262	9,636,802
Noncurrent Assets:		
Restricted cash and cash equivalents (Note 2)	7,321,160	265,314
Restricted investments (Note 2)	151,449	11,782,023
Other investments (Note 2)	2,297,177	-
Appropriations available/due from	17,044,492	-
Contributions receivable, net of allowance (Note 3)	-	6,327,129
Other assets	-	1,561,528
Other restricted assets	-	494,254
Non-depreciable capital assets (Note 4)	16,209,750	16,895,589
Capital assets, net (Note 4)	229,918,188	48,324,835
Total noncurrent assets	272,942,216	85,650,672
Total assets	289,004,478	95,287,474

LIABILITIES

	University	Component Unit Foundations
Current Liabilities:		
Accounts payable and accrued expenses (Note 5)	6,150,000	686,965
Deferred revenue	1,384,860	-
Short-term Debt (Note 7)	-	770,000
Obligations under securities lending	2,906,992	-
Deposits held in custody for others	953,285	151,448
Long-term liabilities - current portion (Note 6)	6,888,787	924,428
Total current liabilities	18,283,924	2,532,841
Noncurrent liabilities (Notes 6 and 7)	109,466,760	66,496,581
Total liabilities	127,750,684	69,029,422

NET ASSETS

	University	Component Unit Foundations
Invested in capital assets, net of related debt	137,834,270	1,403,677
Restricted for:		
Nonexpendable - scholarships and fellowships	48,282	13,203,456
Expendable:		
Scholarships and fellowships	74,915	2,416,695
Academic support	-	841,153
Capital projects	16,086,552	4,350,583
Other	117,029	436,300
Unrestricted	7,092,746	3,606,188
Total net assets	$ 161,253,794	$ 26,258,052

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, 2008

	June 30, 2008	
	University	Component Unit Foundations
Operating revenues:		
Student tuition and fees, Net of scholarship allowance of $696,627	$ 21,130,790	$ -
Federal grants and contracts	1,306,567	-
State grants and contracts	667,065	-
Nongovernmental grants and contracts	819,728	-
Gifts and contributions	-	6,577,474
Auxiliary enterprises, Net of scholarship allowance of $4,188,860	47,153,569	-
Lease and rental revenue	-	6,687,741
Other operating revenue	373,588	729,877
Total operating revenues	71,451,307	13,995,092
Operating expenses (Note 8):		
Instruction	23,756,097	-
Research	1,581,060	-
Public service	957,912	-
Academic support	7,640,189	-
Student services	4,757,421	-
Institutional support	7,350,529	2,778,849
Operation and maintenance of plant	7,472,378	3,237,654
Depreciation	6,819,877	1,690,979
Student aid	1,003,918	516,965
Auxiliary enterprises	38,217,748	
Total operating expenses	99,557,129	8,224,447
Operating gain/(loss)	(28,105,822)	5,770,645
Non-operating revenues/(expenses):		
State appropriations (Note 9)	31,763,207	-
Federal student financial aid	1,332,098	-
Gifts	1,101,906	-
Investment income, net of investment expenses of $13,975	790,368	(3,133,300)
Interest on capital asset related debt	(5,159,234)	(2,710,791)
Other non-operating revenues (expenses)	117,686	-
Gain (Loss) on disposal of plant assets	(2,597,753)	-
Net nonoperating revenues	27,348,278	(5,844,091)
Income before other revenues/(expenses)/gains/(losses)	(757,544)	(73,446)
Capital appropriations	8,649,672	-
Capital appropriation reversions	(3,648,169)	
Capital gifts and grants	367,640	17,760
Endowment transfers	(3,220,114)	3,220,114
Additions to permanent endowments	-	937,052
Net other revenues	2,149,029	4,174,926
Increase in net assets	1,391,485	4,101,480
Net assets Beginning of year	159,862,309	22,156,572
Net assets End of year	$ 161,253,794	$ 26,258,052

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, 2008

Cash flows from operating activities:	
Student tuition and fees	$ 21,284,113
Grants and contracts	2,710,762
Auxiliary enterprises	46,585,008
Other receipts	366,872
Payments to employees	(52,197,369)
Payments for services and supplies	(35,708,995)
Payments for utilities	(3,211,191)
Payments for scholarships and fellowships	(133,783)
Payments for plant improvements and equipment	(1,014,984)
Loans issued to students and employees	(447,981)
Collection of loans from students and employees	435,048
Net cash used by operating activities	(21,332,500)
Cash flows from noncapital financing activities:	
State appropriations	31,975,509
Gifts and grants for other than capital purposes	1,101,906
Federal student financial aid	1,332,098
Stafford loan receipts	10,791,641
Stafford loan disbursements	(10,791,641)
PLUS loan receipts	4,100,656
PLUS loan disbursements	(4,100,656)
Agency receipts	993,495
Agency payments	(984,049)
Net cash provided by noncapital financing activities	34,418,959
Cash flows from capital financing activities:	
Capital appropriations	9,903,304
Capital appropriation reversion	(3,648,169)
Proceeds from sale of revenue bonds	8,058,100
Purchase of capital assets	(11,722,558)
Principal paid on capital debt, leases, and installments	(5,679,101)
Interest paid on capital debt, leases, and installments	(5,272,384)
Net cash used by capital financing activities	(8,360,808)
Cash flows from investing activities:	
Interest on investments	553,383
Purchase of investments	(1,058,917)
Sales of investments	7,612,244
Transfer of endowments	(3,220,114)
Net cash provided by investing activities	3,886,596
Net Increase in cash	8,612,247
Cash and cash equivalents - beginning of the year, restated	10,601,180
Cash and cash equivalents - end of the year	$ 19,213,427

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

Reconciliation of Net Operating Loss to Net Cash Used by Operating Activities:		
Operating loss	$	(28,105,822)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		6,819,877
Changes in assets and liabilities:		
Receivables, net		(75,389)
Prepaid expenses		(629,651)
Inventory		143,943
Accounts payable and accrued expenses		(219,820)
Deferred revenue		427,103
Deposits held in custody		95,241
Accrued compensated absences		212,018
Net cash used by operating activities	$	(21,332,500)
Non Cash investing, non capital financing, and capital and related financing transactions:		
Capitalization of interest expense	$	115,505
Gift of capital assets	$	367,640
Amortization of bond premium	$	33,021
Amortization of deferred loss on defeased bonds	$	(82,904)
Change in fair value of investments recognized as a component of interest income	$	17,738

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

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NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the University are as follows:

A. Reporting Entity

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

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

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

During the year ended June 30, 2008 the Foundations distributed $721,038 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundations can be obtained by writing the Chief Financial Officer, CNU Foundations, 1 University Place, Newport News, Virginia 23606.

B. Basis of Presentation

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

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

C. Basis of Accounting

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

D. Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses and Change in Net 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. Donated capital assets are recorded at fair market value at the date of the donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. The cost of normal maintenance and repairs that do not add to the asset's value or materially extend its useful life are not capitalized. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

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

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

F. Prepaid Expenses

As of June 30, 2008, the University's prepaid expenses included items such as insurance premiums, membership dues, conference registrations and software maintenance for fiscal year 2009 that were paid in advance, and publication subscriptions which include initial and renewal annual subscriptions for technical and professional publications.

G. Inventories

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

H. Noncurrent Cash and Investments

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

I. 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, 2008.

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, 2008. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

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

L. Net 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. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to evaluate these expenditures and apply resources on a case by case basis.

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net 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 AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for periods beginning after June 15, 2004. This statement amends GASB Statement 3, *Deposits with Financial Institutions*, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this Statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2008. The following risk disclosures are required by GASB.

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

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

Interest Rate Risk – The risk that changes in interest rates will adversely affect the fair value of an investment. This Statement requires disclosure of the terms of the investments with fair values that are highly sensitive to changes in interest rates. The University does not have investments or deposits that are sensitive to change in interest rates as of the close of business on June 30, 2008.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had no foreign investments or deposits for 2008.

A. Cash and Cash Equivalents

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

B. Investments

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

	Market Value
Cash and cash equivalents:	
Deposits with financial institutions	$ 282,276
Money market and mutual funds	511,621
Treasurer of Virginia	11,708,185
State non-arbitrage program (SNAP)	7,321,160
Total cash and cash equivalents	19,823,242
Investments:	
Collateral held for securities lending	2,297,177
Mutual funds and Money Market	151,449
Total investments	2,448,626
Total cash, cash equivalents and investments	$22,271,868

During 2008, the Board of Visitors transferred endowed funds of approximately $3.2 million in to the Christopher Newport University Educational Foundation. It is reported as endowment transfers in the statement of revenues, expenses and change in net assets.

Christopher Newport University Educational and Real Estate Foundations Cash and Investments

The following information is provided with respect to the credit risk associated with the Foundations' cash and cash equivalents and investments at June 30, 2008.

Financial instruments that potentially subject the Foundations to concentrations of credit risk consist of cash balances and overnight investments. The Foundations maintain operating accounts in excess of the $100,000 limit of federal insurance with one financial institution. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC.

Investments are carried at their market value determined at the date of the statement of financial position. Income from investments, including the unrealized gains and losses, is accounted for as an increase in unrestricted, temporarily restricted, or permanently restricted net assets, depending upon the nature of donor restrictions.

Summarized below are investments recorded at market value:

Money Market and Mutual Funds	$11,895,889
Managed Investments	151,448
Total investments	$12,047,337

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

Unrestricted	$ 265,314
Funds invested for related	151,448
Temporarily restricted	1,622,210
Permanently restricted	10,008,365
Total investments	$12,047,337

C. Securities Lending Transactions

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

3. ACCOUNTS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2008:

Student tuition and fees	$ 33,444
Auxiliary enterprises	123,355
Federal, state, private grants and contracts	240,193
Other activities	16,358
Gross receivables	413,350
Less: Allowance for doubtful accounts	(24,087)
Net accounts receivable	$ 389,263

B. Due from the Commonwealth of Virginia consisted of the following at June 30, 2008:

Interest/rebate Allocation	$ 382,979
eVA Rebates	50,592
Virginia College Building Authority 21st Century Bonds	17,236
General Obligation Bonds	43,246
Total Due from Commonwealth of Virginia	$ 494,053

Christopher Newport University Educational and Real Estate Foundations - Contributions Receivable

The Foundations have on-going fundraising campaigns to benefit the University. The pledges receivable are unconditional. At June 30, 2008, pledges receivable are as follows:

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$ 823,742	$ 2,729,508	$ 1,228,561	$ 4,781,811
Receivable in one to five years	2,163,368	3,921,870	923,035	7,008,273
Receivable in more than five years	-	378,566	30,000	408,566
Total unconditional pledges	2,987,110	7,029,944	2,181,596	12,198,650
Less discount to net present value	(266,766)	(626,575)	(94,350)	(987,691)
Less allowance for uncollectible pledges receivable	(5,021)	(509,491)	(309,838)	(824,350)
Net unconditional pledges Receivable	$ 2,715,323	$ 5,893,878	$ 1,777,408	$10,386,609

4. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2008 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 11,155,435	$ -	$ -	$ 11,155,435
Construction in progress	56,051,182	8,963,082	59,959,949	5,054,315
Total non-depreciable capital assets	67,206,617	8,963,082	59,959,949	16,209,750
Depreciable capital assets:				
Buildings	184,738,438	57,635,846	4,278,273	238,096,011
Infrastructure	3,975,590	710,600	-	4,686,190
Equipment	8,673,711	2,217,339	359,861	10,531,189
Other improvements	15,778,003	1,282,693	-	17,060,696
Library materials	9,033,007	450,044	304,993	9,178,058
Total depreciable capital assets	222,198,749	62,296,522	4,943,127	279,552,144
Less accumulated depreciation:				
Buildings	26,295,727	4,842,057	1,711,309	29,426,475
Infrastructure	448,111	342,432	-	790,543
Equipment	6,163,591	634,581	329,073	6,469,099
Other improvements	4,283,526	710,813	-	4,994,339
Library materials	7,968,498	289,994	304,992	7,953,500
Total accumulated depreciation	45,159,453	6,819,877	2,345,374	49,633,956
Depreciable capital assets, net	177,039,296	55,476,645	2,597,753	229,918,188
Total capital assets, net	$244,245,913	$64,439,727	$62,557,702	$246,127,938

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

Land, buildings, furniture, and equipment are summarized as follows:

Property held for investment	$69,166,577
Property held for sale	33,590
Furniture and equipment	2,565,989
Construction in progress	1,062,583
Collections	302,070
	73,130,809
Less accumulated depreciation	(7,910,385)
Total capital assets, net	$65,220,424

Depreciation charged to expense, including depreciation on buildings, furniture and equipment and property held for investment, totaled $1,587,322 in 2008.

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES:

Accounts payable and accrued expenses consisted of the following at June 30, 2008:

Employee salaries, wages and fringe benefits payable	$ 3,403,431
Vendors and suppliers accounts payable	2,697,335
Retainage payable	49,234
Total accounts payable and accrued liabilities	$ 6,150,000

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, 2008 is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$ 78,740,143	$29,138,932	$24,500,118	$ 83,378,957	$3,464,799
General obligation bonds	32,800,611	-	2,083,784	30,716,827	2,163,933
Installment purchases	891,436	251,826	423,221	720,041	448,456
Total long-term debt	112,432,190	29,390,758	27,007,123	114,815,825	6,077,188
Accrued compensated absences	1,327,704	1,632,469	1,420,451	1,539,722	811,599
Total long-term liabilities	$113,759,894	$31,023,227	$28,427,574	$116,355,547	$6,888,787

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. 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.

In October 2007, the University issued $7,350,000 of revenue bonds, Series 2007A, to expand the Freeman Center gymnasium and $21,965,000 of revenue refunding bonds, Series 2007B, to refund portions of the 1998A, 2001A and 2002A bond issues to affect debt service savings. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program. The Series 2007A bonds were issued with interest rates varying from 4.5% to 5.0% and will mature in 2038. The Series 2007B bonds were issued with interest rates varying from 4.0% to 4.5% and will mature in 2019 and 2020. The University also had outstanding at June 30, 2008 a bond anticipation note for $250,000 that has been classified as long-term, since it was requested to provide cash for the payment of obligations incurred prior to the sale of 9(c) revenue bonds to expand the University's athletic facilities on campus. These bonds will be issued in October 2008 with varying interest rates and will mature in 2029.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2008
General obligation bonds:			
Dormitory and dining hall:			
Series 1998R	3.5-4.7	2015	$ 2,048,548
Series 1999	4.8-5.3	2019	625,000
Series 2001	2.1-4.9	2021	4,985,000
Series 2003R	2.5-5.5	2011	510,628
Series 2004R	4.0-5.0	2019	8,240,372
Series 2004R	4.0-5.0	2020	12,582,279
Series 2006R	3.87-5.0	2021	1,725,000
Total general obligation bonds			$30,716,827

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2008
Revenue bonds:			
Athletics, Series 1998A	4.53	2019	$2,045,000
Series 2002A	3.0-5.25	2023	2,855,000
Series 2002A	3.0-5.25	2023	645,000
Series 2003A	2.0-5.0	2024	1,100,000
Series 2004R	3.0-5.0	2014	1,130,000
Series 2007A	4.5-5.0	2038	7,350,000
Series 2007B	4.0-4.5	2019	3,435,000
Series 2007B	4.0-4.5	2020	2,167,265
Series 2007B	4.0-4.5	2020	488,543
BAN	3.24-3.54	2009	250,000
Student Center, Series 2001A	3.0-4.87	2021	670,000
Series 2002A	3.0-5.25	2023	165,000
Series 2007B	4.0-4.5	2020	220,000
Series 2007B	4.0-4.5	2020	119,538
New Student Center, Series 2002A	4.0-5.25	2023	4,385,000
Series 2004A	3.0-5.0	2026	20,805,000
Series 2006A	3.0-5.0	2027	2,365,000
Series 2007B	4.0-4.5	2020	3,321,058
Parking Deck I, Series 2002A	4.0-5.25	2023	4,160,000
Series 2007B	4.0-4.5	2020	3,170,338
Parking Deck II, Series 2005A	3.5-5.0	2026	1,895,000
Residence Hall IV, Series 2002A	4.0-5.25	2023	11,900,000
Series 2007B	4.0-4.5	2020	9,043,259
Total revenue bonds			83,685,001
Total bonds payable			114,401,828
Deferred loss on advance refundings			(907,943)
Unamortized premiums			601,899
Total Deferred Loss and Unamortized Premiums			(306,044)
Installment purchases			720,041
Total long-term debt			$114,815,825

Long-term debt matures as follows:

	Principal	Interest
2009	$ 6,327,189	$ 5,290,534
2010	6,148,428	4,997,518
2011	6,417,982	4,711,983
2012	6,505,316	4,410,365
2013	6,728,682	4,085,561
2014-2018	37,295,706	15,273,315
2019-2023	34,324,331	6,587,524
2024-2028	7,341,272	1,414,309
2029-2033	1,659,684	653,963
2034-2038	2,067,235	239,738
Total	$114,815,825	$47,664,810

Defeasance of Debt – Current Year

In October 2007, the VCBA (Virginia College Building Authority) issued $100,765,000 of Educational Facilities Revenue Refunding Bonds, Series 2007B with interest rates ranging from 4.0% to 4.5%. The sale of these bonds enabled the University to advance refund $21,295,000 of the $48,120,000 debt outstanding on the VCBA Bonds, Series 1998A, 2001A and 2002A, with interest rates ranging from 4.625% to 5.25%. This represents a 44.25% defeasance of the outstanding debt. The bond issues were previously utilized to construct the Student Center, Track Complex, Athletic Expansion, Residence Hall IV and Parking Deck I. The reacquisition price of the refunding debt was $22,285,848.

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

The advance refunding resulted in the recognition of an accounting loss of $990,848 that is being amortized over the next twelve years. The aggregate debt service payments, principle and interest, will be decreased by $1,299,418 over this same time period. This amount results in a net present value savings of $1,049,083 based on a rate of 4.2%.

Defeasance of Debt – Prior Years

During fiscal years 1998, 2003, 2004, 2005 and 2006 certain 1992C, 1993B, 1996, 1998, 1999 and 2001 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, 2008 $29,549,879 of the bonds considered defeased remained outstanding.

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

Notes Payable

Notes payable at June 30, 2008 consists of the following:

Bank of America, secured, due quarterly, principal (as required by the agreement) and interest at the Eurodollar Rate plus 0.95%, matures August 2010	$ 402,275
Towne Bank, secured, interest due monthly at WSJ prime rate less .5%, maximum rate of 6%. Six $25,000 annual principal payments, beginning December 2005, balance due December 2011	1,267,000
Old Point National Bank, secured, interest at 5.375%. Principal and interest payments of $19,186 due monthly. Principal due August 2014	2,623,689
	$4,292,964

Bonds Payable

In March 2001, the Foundations entered into an agreement with the Industrial Development Authority of the County of James City, Virginia, under which the Authority issued $8.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2008, the balance outstanding on the bonds was $3,368,350. The bonds are payable interest only until July 2006 at which time principal curtailments began. The bonds mature June 2011.

In November 2001, the Foundations entered into an agreement with the Industrial Development Authority of the County of James City, Virginia, under which the Authority issued $10.0 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2008, the balance outstanding on the bonds was $8,929,549. The bonds were payable interest only until October 2003 at which time principal curtailments began. The bonds mature September 2013.

In July 2002, the Foundations entered into an agreement with the Industrial Development Authority of the County of James City, Virginia, under which the Authority issued $5.5 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2008, the balance outstanding on the bonds was $4,970,882. The bonds were payable interest only until October 2003 at which time principal curtailments began. The bonds mature September 2013.

In July 2004, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued $26.9 million of variable rate bank-qualified tax-exempt bonds. The Foundations used the proceeds from the bonds to finance the acquisition of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2008, the balance outstanding on the bonds was $25,595,000. The bonds were payable interest only until November 2005 at which time principal curtailments began. The bonds mature November 2028.

In August 2006, the Foundations entered into an agreement with the Industrial Development Authority of the City of Newport News, under which the Authority issued $17.5 million of tax-exempt adjustable mode educational facilities revenue bonds. The Foundations used the proceeds from the bonds to refinance indebtedness of the Foundations in connection with the expansion and improvement of various properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion. At June 30, 2008, the balance outstanding on the bonds was $15,890,000. Scheduled principal curtailments began in August 2007. The bonds mature August 2036.

The Bond Commitment documents contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2008, the Foundations were in compliance with all financial covenants.

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

Year	Amount
2009	$ 924,428
2010	1,013,640
2011	4,675,090
2012	2,327,941
2013	1,646,330
Thereafter	52,459,316
	$63,046,745

Fair Value of Financial Instruments

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

The carrying values of the Foundations' investments have been adjusted to their market value.

The carrying amounts of the pledges and pledges receivable approximate fair value because they have been discounted to their net present value. The discount rate employed by the Foundations is 6%.

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

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

The fair value of the interest rate swaps at June 30, 2008 is as follows:

Hedging Instrument	Variable Rate	Fixed Rate	Expiration	Fair Value
$8 million interest rate swap	65% of LIBOR + 0.82%	5.23%	09/01/13	$ (168,452)
$5.5 million interest rate swap	65% of LIBOR + 0.88%	5.14%	09/01/13	(391,530)
$10 million interest rate swap	65% of LIBOR + 0.88%	5.22%	06/01/11	(662,391)
$26.9 million interest rate swap	67% of LIBOR	3.73%	05/01/19	(1,495,246)
$6.275 million interest rate swap	70% of LIBOR	3.94%	06/01/36	(471,992)
				$ (3,189,611)

Lines of Credit

During the year ended June 30, 2008, the Foundations had available a $15,000,000 line of credit facility with Wachovia. The line of credit matures on April 29, 2009 with a one year optional extension. The line is unsecured. Borrowings under this facility accrue interest at the one month London Interbank Offered Rate plus 0.80%. In addition, there is a 0.05% charge on any unused portion of the line. The purpose of the credit facility is to provide temporary funds for the acquisition of certain properties in the immediate vicinity of the University deemed essential for its enhancement and future expansion and to provide bridge financing for various projects deemed beneficial to the University and for working capital. At June 30, 2008, the outstanding balance under this line of credit facility totaled $770,000.

8. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Change in Net 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	Scholarship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$16,297,999	$5,349,873	$1,902,084	$ 7,350	$ 498	$ 198,293	$ -	$23,756,097
Research	831,888	165,194	510,982	-	-	72,996	-	1,581,060
Public Service	651,453	117,758	176,882	-	-	11,819	-	957,912
Academic Support	3,717,719	1,438,462	2,478,200	5,808	-	-	-	7,640,189
Student Services	2,463,622	787,174	1,468,140	4,410	15	34,060	-	4,757,421
Institutional Support	3,479,032	1,628,908	1,396,074	70,020	105	776,390	-	7,350,529
Operation Plant	2,215,358	1,387,565	1,456,213	-	1,284,649	1,128,593	-	7,472,378
Depreciation	-	-	-	-	-	-	6,819,877	6,819,877
Scholarships	-	-	-	1,003,918	-	-	-	1,003,918
Auxiliary Activities	8,975,844	2,895,994	24,419,986	-	1,925,924	-	-	38,217,748
Total	$38,632,915	$13,770,928	$33,808,561	$1,091,506	$3,211,191	$2,222,151	$ 6,819,877	$99,557,129

9. STATE APPROPRIATIONS

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

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

Original legislative appropriations Per Chapter 847:	
Educational and general programs	$27,827,961
Student financial assistance	3,612,576
Educational & general financial assistance	250,000
Supplemental adjustments:	
Salary and fringe benefit adjustments	1,271,165
Approved FY 2008 budget Reduction Strategies	(1,369,720)
Miscellaneous	171,225
Adjusted Appropriation	$31,763,207

10. COMMITMENTS

At June 30, 2008 the University was committed to construction contracts totaling approximately $62,884,953 of which $3,965,690 was unexpended.

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

On August 1, 2002 the University entered into a lease with the Christopher Newport University Educational Foundation, Inc. for the lease of residential facilities for student housing. That agreement terminates at the end of fiscal year 2012.

Rental expense for the fiscal year ended June 30, 2008 was $6,241,608. The University has, as of June 30, 2008 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2009	$ 6,132,403
2010	6,142,841
2011	7,040,827
2012	5,968,777
2013	136,470
2014-18	659,607
Total	$26,080,925

11. DONOR-RESTRICTED ENDOWMENTS

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

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

During 2008, the Board of Visitors transferred endowed funds of approximately $3.2 million to the Christopher Newport University Educational Foundation. It is reported as endowment transfers in the statement of revenues, expenses and change in net assets.

12. RETIREMENT PLANS

Virginia Retirement System (VRS)

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

The VRS does not measure assets and pension benefit obligations for individual State institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2008 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $2,292,836 for the year ended June 30, 2008. These contributions included the employee contribution assumed by the employer, at a rate of 11.15% and 20.86% for University police. Contributions to the VRS were calculated using the base salary amount of approximately $21 million for the fiscal year ended June 30, 2008. The University's total payroll, before recoveries, was approximately $43.5 million for the year ended June 30, 2008.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in two Optional Retirement Plans. University employees currently participate in both of these plans to include: Fidelity Investments Institutional Service and Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4%, 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, $1,752,639 for the year ended June 30, 2008. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $17 million. The University's total payroll, before recoveries, in fiscal year 2008 was approximately $43.5 million.

Deferred Compensation

University employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The matched dollar amount can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under section 401(a) of the Internal Revenue Code. The University expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was $216,648 for fiscal year 2008.

13. POST-EMPLOYMENT BENEFITS

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

14. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect chargesde pursuant to such agreements. As of June 30, 2008, the University estimates that no material liabilities will result from such audits or questions.

15. EXTRAORDINARY ITEMS

Christopher Newport University Educational and Real Estate Foundations

In August 2006, lightening struck a student apartment building that the Foundations owned causing a fire. There was a near total loss of the building due mainly to water, mold and fire damage. The building was fully insured for the replacement value of the building. Management decided, in conjunction with the insurance carrier, that the building should be demolished and rebuilt. At the time of the fire the net book value of this property and improvements was approximately $2.8 million. Total cost of reconstructing and furnishing the building was $5.0 million; and insurance proceeds received to reconstruct the building and furnish it totaled approximately $5.0 million. The Foundations also received approximately $335 thousand of business interruption proceeds. The Foundations recognized extraordinary income of $2.5 million during the year ended June 30, 2007, representing the excess of the insurance proceeds over the net book value of the property and improvements. The replacement student apartment building was completed and placed into service on August 17, 2007.

16. 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 $349,383 for the fiscal year ended June 30, 2008. Information relating to the Commonwealth's insurance plans is available at the statewide level in the *Commonwealth’s Comprehensive Annual Financial Report*.

17. SUBSEQUENT EVENTS

In September 2008 Wachovia Bank, N.A. as trustee for the CommonFund short-term fund gave 60 day notice that they were resigning as trustee. Effective immediately a limit on participant withdrawals was established equal to 10 percent of the value of collected participant balances. The remaining 90 percent was placed in another account, the proceeds of which will become available to investors over a period of time. The University has withdrawn the funds as they have become available. As of February 28, 2009 the value of the assets still frozen was $91,699.

In fiscal year 2009, the University issued three Series 2009 Pooled 9(d) revenue bonds: $3,000,000 to expand the University's athletic facilities on campus, $2,000,000 to construct a 12,000 square foot addition to Ratcliffe Hall and renovation of 10,000 square feet of athletic facilities housed within the building, and $9,400,000 for land acquisition. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program. The Series 2009 bonds were issued with varying interest rates and will mature in 2029. In November 2008 the University issued approximately $2 million of Series 2008B 9(c) bonds to provide debt service savings by refunding the Series 1998 Refunding Bonds. The bonds were issued through the Commonwealth of Virginia Treasury Board.

In March of 2009 the University purchased 38 properties from the Christopher Newport University Real Estate Foundation for approximately $9.190 million. The above referenced bond issue for land acquisition was used to finance this procurement. Due to the purchase, Footnote 10 on commitments amount for future operating leases will decrease.

Subsequent to June 30, 2008, the global financial and credit markets experienced some of the greatest turbulence in their history, resulting in significant reductions in equity values and available credit. University management estimates the effect of these market-related declines on the Christopher Newport University Education Foundation investment portfolio, including its endowment, to be a decrease of approximately 30.2% or $3.791 million from June 30, 2008 through March 16, 2009. The market value of the Foundation's investments (included in the component unit column of the Statement of Net Assets) was $11.782 million and the University's investments were $151 thousand at June 30, 2008. The market value of the Foundation's and the University's investments, net of unrealized losses, contributions, distributions, and other changes, were $8.850 million and $105 thousand, respectively on March 16, 2009.

The market value of the Foundation's long-term investment pool held at SEI Private Trust Company is estimated at the end of each trading day, except for the hedge fund, which is valued at the end of each calendar month (with a 3-4 week lag). Capital Advisory Group (CapGroup), the Foundation's Investment Consultant, utilizes a Policy Portfolio benchmark to represent the global investment opportunity set (currently comprised of 37% Russell 1000 Index, 8% Russell 2000 Index, 20% MSCI ACWI ex US Index, 27% Barclays Capital Aggregate Bond Index and 8% HFRI FoF Index). Historically, the Foundation's investment portfolio has outperformed this benchmark and continues to do so in the period referenced above. From July 1, 2008 to March 16, 2009, the Policy Portfolio benchmark decreased 31.8%.

18. RESTATEMENT OF BEGINNING CASH AND CASH EQUIVALENTS

Due to a change in reporting guidelines for general fund appropriation available, cash and cash equivalents-beginning of the year as reported on the Statement of Cash Flows has been restated to properly reflect this change. In addition, it was determined that monies in the State Non-Arbitrage Program (SNAP) fund should have been classified as cash equivalents.

Cash and cash equivalents as previously reported on June 30, 2007	$ 30,141,593
Reclass Appropriation Available	(20,102,956)
Reclass SNAP funds	562,543
Cash and cash equivalents as previously reported on July 1, 2007	$ 10,601,180

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 06, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Christopher Newport University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Christopher Newport University as of June 30 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages one through six is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. 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.

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2009 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

MCR/clj

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia