CHRISTOPHER NEWPORT UNIVERSITY

REPORT ON AUDIT FOR

YEAR ENDED JUNE 30, 2006

APA

Auditor of Public Accounts

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 2006, 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 this matter to be a material weakness;
- an instance of non-compliance or other matter required to be reported; and
- the University has taken adequate corrective action with respect to the audit finding reported in the prior year.

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STATUS OF PRIOR YEAR FINDING

Continue to Improve Financial Statement Preparation Process

In our last audit, we recommended that the University improve their financial statement preparation process. As the University prepared its financial statements for the year ended June 30, 2006, we noted several improvements in the financial statement preparation process. The University dedicated additional resources to financial reporting by hiring a new Manager of Financial Reporting, documented the financial statement preparation process so that the steps necessary to prepare the financial statements can be reviewed by supervisors and other staff, and developed procedures to streamline and automate the reporting process using the Banner financial system's GASB Module.

We commend the University accounting and financial reporting staff for the actions taken and their plans to continue to work to improve the financial statement preparation process by continually looking to automate manual procedures and finding ways to better use the Banner financial system to streamline the financial statement preparation process. University financial reporting staff also plans to continue to work with the financial system vendor, along with other state universities using the Banner financial system, to continually improve how the GASB module supports financial statement preparation.

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Password Management Policies

The University's current password policies are not adequate to provide sufficient security over access to university systems and data. The Commonwealth's data security standards require each agency to have a formal password policy that includes the criteria for password aging, history, length, and composition. Without sufficiently secure passwords, the University's systems and data are unnecessarily subject to exposure from hacking and other unauthorized access.

We recommend that the University adopt and implement revised password management policies that comply with Commonwealth data security standards and industry best practices as to password aging, history, length, and composition. Improving password controls will decrease the risk of unauthorized data access.

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, 2006, with comparative numbers for the year ended June 30, 2005. This presentation includes highly summarized data, and should be read in conjunction with the accompanying financial statements, note to financial statements and other supplementary information. 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 Foundation's 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 a fiscal snapshot at June 30, 2006. 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, 2006	June 30, 2005	Variance	Percent
Assets:				
Current assets	$ 11,766,748	$ 20,564,704	$ (8,797,956)	(43%)
Capital assets, net	236,534,231	213,358,460	23,175,771	11%
Other non current assets	15,167,888	32,162,111	(16,994,223)	(53%)
Total assets	263,468,867	266,085,275	(2,616,408)	(1%)
Liabilities:				
Current liabilities	15,517,257	21,226,017	(5,708,761)	(27%)
Noncurrent liabilities	109,802,480	113,380,792	(3,578,311)	(3%)
Total liabilities	125,319,737	134,606,809	(9,287,072)	(7%)
Net assets:				
Invested in capital assets, net of related debt	121,384,140	105,718,904	15,665,236	15%
Restricted, nonexpendable	3,100,218	2,924,153	176,065	6%
Restricted, expendable	8,185,127	10,534,473	(2,349,346)	(22%)
Unrestricted	5,479,645	12,300,936	(6,821,291)	(55%)
Total net assets	$138,149,130	$131,478,466	$ 6,670,664	5%

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 decreased $2,616,408, while, the University’s total liabilities decreased by $9,287,072. The University saw the completion of several capital projects during FY06. The University expended $2,230,000 in private gifts and $5,003,559 in University funds on the Ferguson Center for the Arts, and $7,019,846 in general obligation bond and VCBA bond proceeds on the Library Information Technology Center, and $14,653,526 in revenue bond proceeds for various Auxiliary facilities to include the Student Union, for which revenue bonds of $22,275,000 were issued in October 2004, Potomac River Residence Hall, Parking Deck I and II, during fiscal year 2006, which was capitalized or added to Construction in Progress. In addition, due to the lack of a state budget, the Governor moved the July 1, 2006 payroll from July 1, 2006 to June 30, 2006. This resulted in a decrease in Current Assets and a corresponding decrease in Current Liabilities. In addition to the payment on debt service in FY06, the payment of the final construction bills on these facilities as well as the release of the retainage and the payment of the July 1, 2006 payroll on June 30, 2006 accounted for the decrease in the liabilities. The combination of the decrease in total assets and the decrease in total liabilities resulted in a 5% increase in net assets at June 30, 2006 of $6,670,664.

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 institution, both operating and nonoperating, and expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the institution.

Statement of Revenues, Expenses, and Changes in Net Assets

	June 30, 2006	June 30, 2005	Variance	Percentage
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $460,856 and $713,458	$16,793,004	$14,722,381	$ 2,070,623	14%
Federal grants and contracts	2,378,413	3,637,617	(1,259,204)	(35%)
State grants and contracts	537,271	-	537,271	100%
Nongovernmental grants and contracts	930,250	1,173,502	(243,252)	(21%)
Auxiliary enterprises, net of scholarship allowances of $2,786,534 and $2,615,562	34,593,937	30,737,149	3,856,788	13%
Other	4,220,718	656,715	3,564,003	543%
Total operating revenues	59,453,593	50,927,364	8,526,229	17%

Operating expenses:				
Instruction	20,599,180	18,251,208	2,347,972	13%
Research	815,352	2,063,372	(1,248,020)	(60%)
Public service	6,209,186	1,303,046	4,906,140	377%
Academic support	6,535,000	6,109,882	425,118	7%
Student services	3,858,964	3,482,275	376,689	11%
Institutional support	6,280,175	5,751,357	528,818	9%
Operation and maintenance of plant	7,332,096	5,033,247	2,298,849	46%
Depreciation	4,500,460	4,102,027	398,433	10%
Student aid	1,812,241	1,785,253	26,988	2%
Auxiliary enterprises	27,657,061	22,719,095	4,937,966	22%
Total operating expenses	85,599,715	70,600,762	14,998,953	21%
Operating loss	(26,146,122)	(19,673,398)	6,472,724	33%
Nonoperating revenues, net	25,306,274	23,949,282	1,356,992	6%
Income before other revenues	(839,848)	4,275,884	(5,115,732)	(20%)
Other revenues	7,510,512	24,985,911	(17,475,399)	(70%)
Increase in net assets	6,670,664	29,261,795	(22,591,131)	(77%)
Net assets beginning of year	131,478,466	102,216,671	29,261,795	29%
Net assets end of year	$138,149,130	$131,478,466	$ 6,670,664	5%

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of the institution. 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 institution. 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 $2,070,623. Tuition was increased by 14% for fiscal year 2006. Auxiliary revenues increased due to an increase in comprehensive fees of 9.4% and an increase in room and board of 4% and the opening of CNU Village Residence Hall resulting in increased revenue of $3,856,788. Also, the opening of the Ferguson Concert Hall generated $3,682,345 in revenue in its first full year of operations.

The operating expenses also increased by $14,998,953 from the previous year. This increase was due to the hiring of 25 new faculty positions in FY06, the salary increase for faculty and staff, the fringe benefit rate increase for faculty and staff, the opening of the Ferguson Concert Hall operating and building costs, and the opening of CNU Village Residence Hall.

The nonoperating revenue saw an increase in the state appropriations of $3,623,643 as the result of an adjustment to the base budget for base adequacy and technical adjustments for salary and fringe benefit increases. However, with the 2004 bond issuances the interest on capital asset related debt increased $2,023,333 in FY06 as the facilities were completed and debt service payments began on the facilities. A loss on disposal of fixed assets increased by $407,386 with the demolition of a part of the old Ferguson High School in order to complete the Ferguson Center for the Arts, and a part of the Library, in anticipation of the new addition of the Library Info Tech Center and the transfer of the Tea House to the City of Newport News. The primary component 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 institution 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 $17,035,185, auxiliary enterprises receipts $36,424,297 and grants and contracts $3,932,685. Major uses of cash include payments for salaries, wages and fringe benefits $45,701,222, payments for supplies and services $27,402,381 and payments for scholarships $4,859,167. The net operating loss increased from the prior year by $6,472,724. In FY06, the University hired 25 new faculty positions; the average faculty salary increase was 4%; and fringe benefit rates increased for most benefits.

The second section reflects cash flows from noncapital financing activities and includes the state appropriations for the University's educational and general programs and financial aid of $28,631,659, which is an increase from the prior year of $3,623,643.

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 proceeds from the issuance of revenue bonds for new Student Union, and the completion of Potomac River Residence Hall, Parking Deck I and II. In addition, the construction concluded on the Ferguson Center for the Arts with in excess of $7,323,554 local government and private gift funds being expended. In addition, in excess of $8,025,062 was expended from general obligation and VCBA bond proceeds and federal grants for the Library Information Technology Center. The fourth section reflects cash flows from investing activities, and includes interest on investments, purchase of investments, and sale of investments. 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

	June 30, 2006	June 30, 2005	Variance	Percent
Cash flows from operating activities	$(22,698,806)	$(14,445,820)	$ (8,252,986)	57%
Cash flows from noncapital financing activities	29,210,702	25,035,268	4,175,434	17%
Cash flows from capital financing activities	(31,474,887)	(2,214,639)	(29,260,248)	1,321%
Cash flows from investing activities	13,140,387	(2,081,093)	15,221,480	(731%)
Net change in cash	$(11,822,604)	$ 6,293,716	$(18,116,320)	(288%)

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction taking place at the institution. Significant fiscal year 2006 capital projects include the Ferguson Center for the Arts, Library Information Technology Center, Student Union and the completion of Potomac River Residence Hall, Parking Deck I and II. The Center for the Arts is funded through state appropriations, grants from federal and local government and private gifts and the Library is funded through state appropriations. The remainder of the projects were funded through the issuance of 9 (d) revenue bonds.

The University's long-term debt increased by $2,010,000 at June 30, 2006. In fiscal year 2006, a revenue bond series was defeased resulting in an accounting loss of $27,582.

Overall unpaid construction commitments decreased from $24,182,434 in 2005 to $5,529,034 in 2006 due to the completion of the Ferguson Center for the Arts, Potomac River Residence Hall, Parking Deck I and II and substantial completion of the Student Union, which opened in August 2006. Unpaid commitments at June 30, 2006, primarily reflect the retainage on the Student Union and the Library Information Technology Center. Further information relating to capital assets, construction and capital debt is included in the Notes to Financial Statements in Notes 4 and 7.

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 state government. In fiscal year 2006 the University's state appropriations increased by $3,623,643 or 14.49%. The University's governing board increased tuition by 10% for 2006, comprehensive fees by 9.4% and room and board by 4%. In addition, the opening of the Ferguson Concert Hall saw revenue of $3,682,345. The tuition increase permitted the University to hire new faculty members as well as provide salary increases and cover the increased costs of employee fringe benefits.

FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	Component Unit CNU Educational and Real Estate Foundations
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 1,348,808	$ 5,148,612
Cash and cash equivalents with the Treasurer of Virginia (Note 2)	7,553,278	-
Cash and cash equivalents - securities lending (Note 2)	1,124,613	-
Accounts receivable, net of allowance (Note 3)	348,124	3,569,247
Contributions receivable, net of allowance (Note 3)	-	1,959,051
Prepaid expenses	7,856	(2,265)
Inventory	1,384,069	-
Total current assets	11,766,748	10,674,645
Non-current assets:		
Restricted cash and cash equivalents (Note 2)	8,040,682	-
Restricted investments (Note 2)	3,100,218	7,697,870
Other investments (Note 2)	4,026,988	403,126
Contributions receivable, net of allowance (Note 3)	-	6,087,838
Other assets	-	1,814,025
Non-depreciable capital assets (Note 4)	57,405,550	10,003,453
Depreciable capital assets, net of accumulated depreciation (Note 4)	179,128,681	53,045,336
Total non-current assets	251,702,119	79,051,648
Total assets	263,468,867	89,726,293
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses (Note 5)	5,437,959	936,571
Deferred revenue	677,972	-
Obligations under securities lending	2,237,547	-
Deposits held in custody for others	406,771	3,000,995
Advance from Treasurer of Virginia	200,000	-
Long-term liabilities - current portion (Note 6)	6,557,007	16,162,411
Total current liabilities	15,517,256	20,099,977
Non-current liabilities (Note 6)	109,802,481	52,123,104
Total liabilities	125,319,737	72,223,081

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	University	Component Unit CNU Educational and Real Estate Foundations
NET ASSETS		
Invested in capital assets, net of related debt	121,384,140	(1,405,959)
Restricted for:		
Nonexpendable -Scholarships and fellowships	3,100,218	4,713,321
Expendable:		
Scholarships and fellowships	131,463	381,521
Academic support	-	694,265
Capital projects	7,978,954	7,677,705
Other	74,710	3,945,128
Unrestricted	5,479,645	1,497,231
Total net assets	$ 138,149,130	$ 17,503,212

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

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2006

	University	Component Unit CNU Educational and Real Estate Foundations
Operating revenues:		
Student tuition and fees, net of scholarship allowance of $460,856	$ 16,793,004	$ -
Federal grants and contracts	2,378,413	-
State grants and contracts	537,271	-
Non-governmental grants and contracts	930,250	-
Gifts and contributions	-	9,032,425
Auxiliary enterprises, net of scholarship allowance of of $2,786,534 (Note 8)	34,593,937	-
Lease and rental revenue	-	5,307,172
Other	4,220,718	125,936
Total operating revenues	59,453,593	14,465,533
Operating expenses (Note 9):		
Instruction	20,599,180	-
Research	815,352	-
Public service	6,209,186	-
Academic support	6,535,000	-
Student services	3,858,964	-
Institutional support	6,280,175	4,444,110
Operation and maintenance of plant	7,332,096	2,545,155
Depreciation	4,500,460	1,698,857
Student aid	1,812,241	200,018
Auxiliary enterprises (Note 8)	27,657,061	455,229
Total operating expenses	85,599,715	9,343,369
Operating loss	(26,146,122)	5,122,164
Nonoperating revenues (expenses):		
State appropriations (Note 10)	28,631,659	-
Gifts	777,984	-
Investment income, net of investment expenses	1,476,580	4,033,896
Interest on capital asset related debt	(5,118,185)	(2,713,465)
Loss on early extinguishment of debt	(27,582)	-
Gain (loss) on disposal of plant assets	(434,182)	18,286
Net nonoperating revenues	25,306,274	1,338,717
Income before other revenues	(839,848)	6,460,881
Capital appropriations	3,738,327	-
Capital gifts and grants	3,757,203	41,950
Additions to permanent endowments	14,982	1,317,222
Total other revenues	7,510,512	1,359,172
Increase in net assets	6,670,664	7,820,053
Net assets beginning of year (Note 18)	131,478,466	9,683,159
Net assets end of year	$ 138,149,130	$ 17,503,212

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

Cash flows from operating activities:	
Student tuition and fees	$ 17,035,185
Grants and contracts	3,932,685
Auxiliary enterprises	36,424,297
Other receipts	4,218,257
Payments to employees	(34,562,607)
Payments for fringe benefits	(11,138,615)
Payments for services and supplies	(27,402,381)
Payments for utilities	(3,038,990)
Payments for scholarships and fellowships	(4,859,167)
Payments for plant improvements and equipment	(3,506,660)
Loans issued to students and employees	(222,597)
Collection of loans from students and employees	221,787
Loan from Treasurer of Virginia	200,000
Net cash used by operating activities	(22,698,806)
Cash flows from noncapital financing activities	
State appropriations	28,631,659
Gifts and grants for other than capital purposes	574,077
Stafford loan receipts	9,212,817
Stafford loan disbursements	(9,212,817)
PLUS loan receipts	4,099,492
PLUS loan disbursements	(4,099,492)
Agency receipts	4,892,057
Agency payments	(4,887,091)
Net cash provided by noncapital financing activities	29,210,702
Cash flows from capital financing activities:	
Capital appropriations	3,738,327
Capital gifts and grants	3,477,323
Proceeds from sale of revenue bonds	2,010,000
Purchase of capital assets	(31,118,080)
Principal paid on capital debt, leases, and installments	(4,461,222)
Interest paid on capital debt, leases, and installments	(5,121,235)
Net cash used by capital financing activities	(31,474,887)
Cash flows from investing activities:	
Interest on investments	486,899
Purchase of investments	(1,985,281)
Sales of investments	14,638,769
Net cash provided by investing activities	13,140,387
Net increase/(decrease) in cash	(11,822,604)
Cash and cash equivalents beginning of the year	28,765,372
Cash and cash equivalents end of the year	$ 16,942,768

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

Reconciliation of net operating loss to net cash used by operating activities		
Operating loss	$	(26,146,122)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		4,500,460
Changes in assets and liabilities:		
Receivables, net		117,863
Prepaid expenses		541,899
Inventory		(543,168)
Accounts payable and accrued expenses		(1,368,448)
Deferred revenue		93,500
Deposits held in custody		(195,707)
Notes payable		200,000
Accrued compensated absences		100,917
Net cash used by operating activities	$	(22,698,806)
Non cash investing, non capital financing, and capital and related financing transactions:		
Capitalization of interest expense	$	511,419
Change in fair value of investments recognized as a component of interest income	$	151,872

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

NOTES TO FINANCIAL STATEMENTS

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

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 standards, 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. are legally separate, tax-exempt component units of the University. The Foundations 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 Foundation can only be used by, or for the benefit of, the University, the Foundations are considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2006, the Foundations distributed $2,769,061 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 now follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The financial statement presentation provides a comprehensive entity-wide presentation of the University's financial 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 nonoperating 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. 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 of $511,419 relating to construction is capitalized, net of interest income earned on resources set aside for this purpose for the year ended June 30, 2006. 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. 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.

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, 2006.

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, 2006. The amount represents all earned vacation, sick and compensatory leave payable under the Commonwealth of Virginia's leave payout 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 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.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts, and other revenue sources that are defined as nonoperating revenues by GASB Statement 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.

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

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 nonoperating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

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 2006. 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, 2006

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University has no foreign investments or deposits for 2006.

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	$ 283,843
Money market and mutual funds	1,064,965
Cash with the Treasurer of Virginia	16,718,573
Total cash and cash equivalents	$18,067,381
Investments:	
State non-arbitrage program (SNAP)	$ 2,914,054
Collateral held for securities lending	1,112,934
Money market and mutual funds	3,100,218
Total investments	$ 7,127,206

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 Foundation's cash and cash equivalents and investments at June 30, 2006.

The Foundations maintain several bank accounts. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At June 30, 2006, the Foundations had bank cash deposit balances of approximately $2,325,196, respectively, in excess of FDIC insured amounts. In addition, the Foundations maintain cash balances with brokers that are not insured by the FDIC. These balances totaled approximately $915,974 at June 30, 2006. The carrying amounts of cash and cash equivalents, accounts payable, other current liabilities and other liabilities (excluding derivative financial instruments) approximate fair value because of the short maturity of these instruments.

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	$5,100,001
Managed investments	3,000,995
Total investments	$8,100,996

Investments are recorded on the Statement of Net Assets as follows:

Unrestricted	$ 403,126
Funds invested for related entities	3,000,995
Temporarily restricted	1,938,524
Permanently restricted	2,758,351
Total investments	$8,100,996

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. 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, 2006:

Student tuition and fees	$ 66,853
Auxiliary enterprises	194,827
Federal, state, private grants and contracts	121,791
Other activities	2,685
Gross receivables	386,156
Less: Allowance for doubtful accounts	(38,032)
Net accounts receivable	$348,124

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. 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 percent.

At June 30, 2006, pledges receivable are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Receivable in less than one year	$ 69,226	$ 1,746,884	$ 525,132	$ 2,341,242
Receivable in one to five years	104,738	6,060,132	659,806	6,824,676
Receivable in more than five years	115,000	1,667,132	-	1,782,132
Total unconditional pledges	288,964	9,474,148	1,184,938	10,948,050
Less discount to net present value	(46,974)	(1,274,248)	(61,471)	(1,382,693)
Less allowance for uncollectible pledges receivable	(78,727)	(1,265,476)	(174,265)	(1,518,468)
Net unconditional pledges receivable	$163,263	$ 6,934,424	$ 949,202	$ 8,046,889

4. CAPITAL ASSETS

A summary of changes in the capital asset categories for the year ended June 30, 2006, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 8,394,105	$ 599,497	$ -	$ 8,993,602
Construction in progress	120,002,054	28,280,914	99,871,020	48,411,948
Total nondepreciable capital assets	128,396,159	28,880,411	99,871,020	57,405,550
Depreciable capital assets:				
Buildings	95,655,411	89,150,972	1,848,772	182,957,611
Infrastructure	108,051	3,701,706	-	3,809,757
Equipment	8,801,845	806,322	530,719	9,077,448
Other improvements	7,996,654	6,565,615	-	14,562,269
Library materials	8,785,708	355,282	202,682	8,938,308
Total depreciable capital assets	121,347,669	100,579,897	2,582,173	219,345,393
Less accumulated depreciation:				
Buildings	19,732,965	2,605,388	221,691	22,116,662
Infrastructure	13,032	156,083	-	169,115
Equipment	5,805,649	920,179	244,743	6,481,085
Other improvements	3,304,728	380,760	-	3,685,488
Library materials	7,528,994	438,050	202,682	7,764,362
Total accumulated depreciation	36,385,368	4,500,460	669,116	40,216,712
Depreciable capital assets, net	84,962,301	96,079,437	1,913,057	179,128,681
Total capital assets, net	$213,358,460	$124,959,848	$101,784,077	$236,534,231

Christopher Newport University Educational and Real Estate Foundations - Capital Assets

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

Property held for investment	$65,218,112
Property held for sale	127,000
Furniture and equipment	2,663,488
Collections	148,870
Total capital assets	68,157,470
Less accumulated depreciation	(5,108,681)
Total capital assets, net	$63,048,789

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

Employee salaries, wages and fringe benefits payable	$ 1,160,876
Vendors and suppliers accounts payable	2,109,575
Retainage payable	2,167,508
Total accounts payable and accrued liabilities	$ 5,437,959

6. NON-CURRENT 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, 2006, is presented below:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
Revenue bonds	$79,425,000	$2,010,000	$2,165,000	$ 79,270,000	$3,040,000
General obligation bonds	36,775,783	-	1,975,898	34,799,885	1,999,273
Capital leases	29,782	-	17,576	12,206	5,874
Installment purchases	1,424,000	-	356,000	1,068,000	356,000
Total long-term debt	117,654,565	2,010,000	4,514,474	115,150,091	5,401,147
Accrued compensated absences	1,108,479	1,361,119	1,260,201	1,209,397	1,155,860
Total long-term liabilities	$118,763,044	$3,371,119	$5,774,675	$116,359,488	$6,557,007

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 2005, the University issued Series 2005, 9(d) revenue bonds through the Virginia College Building Authority's (VCBA) Public Higher Education Financing Pooled Bond Program in the amount of $2,010,000. Proceeds from the bonds will be used to construct new Parking Facilities. The bonds were issued with interest rates varying from 3.5 percent to 5.0 percent and mature in 2026.

Description	Interest Rates	Maturity	Outstanding Balance at June 30, 2006
Revenue bonds:			
Athletics, Series 1998A	4.53	2019	$ 6,410,000
Series 2002A	3.0 – 5.25	2023	5,360,000
Series 2002A	3.0 – 5.25	2023	1,210,000
Series 2003A	2.0 – 5.00	2024	1,190,000
Series 2004R	3.0 – 5.00	2014	1,130,000
Student Center, Series 2001A	3.0 – 4.87	2021	975,000
Series 2002A	3.0 – 5.25	2023	300,000
New Student Center, Series 2002A	4.0 – 5.25	2023	8,225,000
Series 2004A	3.0 – 5.00	2026	22,275,000
Parking Deck I, Series 2002A	4.0 – 5.25	2023	7,825,000
Parking Deck II, Series 2005A	3.5 – 5.00	2026	2,010,000
Residence Hall IV, Series 2002A	4.0 – 5.25	2023	22,360,000
Total revenue bonds			79,270,000
General obligation revenue bonds:			
Dormitory and dining hall:			
Series 1998R	3.5 – 4.7	2015	2,582,547
Series 1998R	3.5 – 4.3	2008	156,510
Series 1999	4.8 – 5.3	2019	1,790,000
Series 2001	2.1 – 4.9	2021	6,915,000
Series 2003R	2.5 – 5.5	2011	808,177
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			34,799,885
Total bonds payable			114,069,885
Capital leases	Various	2007	12,206
Installment purchases	3.0	2009	1,068,000
Total			$115,150,091

Long-term debt matures as follows:

	Principal	Interest
2007	$ 5,401,147	$ 5,490,824
2008	5,623,553	5,274,436
2009	5,852,497	5,004,850
2010	5,805,788	4,725,368
2011	6,066,352	4,456,185
2012-2016	33,234,572	17,606,676
2017-2021	36,926,182	8,686,076
2022-2026	16,240,000	1,450,185
Total	$115,150,091	$52,694,600

Defeasance of Debt – Current Year

On March 15, 2006, the Commonwealth of Virginia issued $102,965,000 in General Obligation Refunding Bonds, Series 2006A, with interest rates ranging from 3.875 percent to 5.0 percent. The sale of these bonds enabled the University to advance refund $1,778,252 of General Obligation Revenue Bonds, Series 1996, with interest rates ranging from 4.75 percent to 5.125 percent to finance the construction of CNU Dormitory and Dining Hall.

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 March 15, 2006 resulted in the recognition of an accounting loss of $27,582, however, the aggregate debt service payments will be decreased by $197,808 over the next 15 years and an economic gain of $173,332 (assuming a discount rate of 3.708 percent).

Defeasance of Debt – Prior Years

During fiscal years 1994, 1997, 1998, 2004 and 2005 certain 1992C, 1994, 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, 2006, $30,193,252 of the bonds considered defeased remained outstanding.

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

Bonds and Notes 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 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, 2006, the balance outstanding on the bonds was $3,494,812. The Bonds are payable interest only until July 2006 at which time principal curtailments are scheduled to begin. 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 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, 2006, the balance outstanding on the bonds was $9,404,465. 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, 2006, the balance outstanding on the bonds was $5,205,902. 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, 2006, the balance outstanding on the bonds was $26,800,000. The Bonds were payable interest only until November 2005 at which time principal curtailments began. The Bonds mature May 2019.

The Bond Commitment documents contain certain financial covenants pertaining to debt service coverage and lease payment coverage. At June 30, 2006, the Foundations were in compliance with all financial covenants.

Notes payable at June 30, 2006 consists of the following:

Bank of America, secured, interest due quarterly at the Eurodollar Rate plus 0.95 percent. Principal due in August 2010	$2,250,000
Old Point National Bank, secured, interest at 5.375 percent. Principal and interest payments of $19,186 due monthly, Principal due in August 2014	2,793,355
Towne Bank, secured, interest due monthly at WSJ prime rate less five percent, maximum rate of 6 percent, six $25,000 annual principal payments, Principal due in December 2011	1,309,311
Towne Bank, unsecured, interest only payments at 6.8 percent. Principal due in February 2007	1,500,000
Towne Bank, unsecured, interest at WSJ prime less .25 percent due monthly. Principal due February 2007	1,742,053
Total notes payable	$9,594,719

Long-term debt and bond maturities for the succeeding fiscal years ending June 30, are as follows:

Year	Amount
2007	$ 3,957,561
2008	769,439
2009	859,428
2010	958,640
2011	6,468,338
Thereafter	41,486,492
Total	$54,499,898

Fair Value of Financial Instruments

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, 2006 is as follows:

Hedging Instrument	Variable Rate	Fixed Rate %	Expiration	Fair Value
$7,500,000 interest rate swap	65 percent of LIBOR + 0.82 percent	5.22	June 2011	$(107,504)
$5,500,000 interest rate swap	65 percent of LIBOR + 0.88 percent	5.23	September 2013	(224,012)
$10,000,000 interest rate swap	65 percent of LIBOR + 0.88 percent	5.14	September 2013	(353,377)
$26,900,000 interest rate swap	Flexible Rate	3.73	May 2019	67,512
Total				$(617,381)

Lines of Credit

During the year ended June 30, 2006, the Foundations had available a $15,000,000 line of credit facility with Wachovia. The line of credit matures on August 25, 2007. Borrowings under this facility pay interest at the one month London Interbank Offered Rate plus 1 percent. 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. At June 30, 2006, the outstanding balance under this line of credit facility totaled $12,204,850.

During 2006, the Foundations had available a $7,500,000 line of credit facility with Bank of America. The balance of this line of credit was repaid with proceeds from the Wachovia line of credit in August 2005. Borrowings under this facility paid interest at the one month London Interbank Offered Rate plus 1.45 percent. 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.

8. AUXILIARY ENTERPRISE ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2006. Additionally, the University used auxiliary revenues to pay debt service and capital improvements of $9,393,299 and $241,258 respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room Contracts, net of scholarship allowance of $1,506,853	$13,634,251
Food service contracts, net of scholarship allowance of $609,581	4,415,484
Comprehensive fee, net of scholarship allowance of $670,100	9,208,263
Other student fees and sales and services	7,335,939
Total auxiliary enterprises revenues	$34,593,937
Expenses:	
Residential facilities	$10,106,748
Dining operations	6,266,305
Athletics	5,182,197
Bookstore	2,682,816
Parking services	281,280
Other auxiliary services	3,137,715
Total auxiliary activities expenses	$27,657,061

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.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarship	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$14,432,849	$ 4,402,969	$ 1,528,032	$ -	$ -	$ 235,330	$ -	$20,599,180
Research	362,751	68,432	225,284	2,403	-	156,482	-	815,352
Public service	1,032,168	209,883	4,930,212	-	-	36,923	-	6,209,186
Academic support	2,909,688	1,214,369	2,410,943	-	-	-	-	6,535,000
Student services	2,008,389	614,653	1,176,436	-	-	59,486	-	3,858,964
Institutional support	3,320,255	1,257,607	1,288,113	78,115	-	336,085	-	6,280,175
Operation of plant	1,883,616	1,068,424	1,496,249	-	1,140,965	1,742,842	-	7,332,096
Depreciation	-	-	-	-	-	-	4,500,460	4,500,460
Scholarships	-	-	-	1,812,241	-	-	-	1,812,241
Auxiliary activities	7,382,986	2,335,158	14,895,031	-	1,928,048	1,115,838	-	27,657,061
Total	$33,332,702	$11,171,495	$27,950,300	$1,892,759	$3,069,013	$3,682,986	$4,500,460	$85,599,715

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 951:	
Educational and general programs	$24,153,234
Student financial assistance	3,042,752
Supplemental adjustments:	
Salary and fringe benefit adjustments	420,700
Additional appropriation for change in June 24, 2006 payroll timing	995,684
Miscellaneous	19,289
Adjusted appropriation	$28,631,659

11. COMMITMENTS

At June 30, 2006, the University, was committed to construction contracts totaling approximately $52,190,586 of which $46,661,552, had been incurred and is recorded as construction in progress.

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 for the lease of residential facilities for student housing.

Rental expense for the fiscal year ended June 30, 2006 was $5,191,183. The University has, as of June 30, 2006 the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2007	$ 5,311,308
2008	5,416,145
2009	5,519,576
2010	5,627,399
2011	5,737,094
2012-2016	28,685,470
2017-2021	28,685,470
Total	$84,982,462

12. 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, Sections 268.1-268.10, et seq., 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.

13. 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 Commonwealth's Comprehensive Annual Financial Report discloses the unfunded pension benefit obligation at June 30, 2006 as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University’s expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,663,665 for the year ended June 30, 2006. These contributions included the employee contribution assumed by the employer, at a rate of 8.91 percent and 21.99 percent for University police. Contributions to the VRS were calculated using the base salary amount of approximately $18,671,890 for the fiscal year ended June 30, 2006. The University’s total payroll was approximately $38,481,553 for the year ended June 30, 2006.

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 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, $1,519,195 for the year ended June 30, 2006. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $14,607,641. The University’s total payroll in fiscal year 2006 was approximately $38,481,553.

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 $161,068 for fiscal year 2006.

14. 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).

15. CONTINGENCIES

Grants and Contracts

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

In addition, the University is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2006, 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 lawsuit. The final outcome of this lawsuit 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.

Christopher Newport University Educational and Real Estate Foundations - Litigation

During 2006, a lawsuit was filed by CNU Village Retail, LLC, a wholly-owned subsidiary of the Real Estate Foundation, claiming that DBP, LLC failed to perform under a lease agreement which required DBP, LLC to make certain improvements to the leased premises and is seeking possession of the premises. DBP, LLC has since filed a counter-claim for $104,433 stating CNU Village Retail, LLC breached the terms of the lease agreement and that DBP, LLC has no further obligations under the lease. No date has been set for mediation. No loss contingency has been recorded in the financial statements as of June 30, 2006 because (a) neither the outcome, nor the likelihood of settlement can be reasonably estimated until sufficient discovery has occurred, and (b) from the facts ascertained to date, the Foundations have substantial defenses to the claim.

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 $264,702 for the fiscal year ended June 30, 2006. 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 November 2006, the University issued $2,440,000 of revenue bonds, Series 2006A, to complete construction of the Student Union. The bonds were issued through the Virginia College Building Authority (VCBA) Public Higher Education Financing Pooled Bonds Program. The bonds were issued with interest rates varying from 3 to 5 percent and will mature in 2026.

Christopher Newport University Educational and Real Estate Foundations

Damage to Buildings, Furniture and Equipment

In August 2006, lightning struck a Foundation-owned student apartment building 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 its total value, estimated at $4,500,000. Management has decided, in conjunction with the insurance carrier, that the building will be demolished and rebuilt. No adjustment has been made to buildings, furniture and equipment at June 30, 2006.

Debt Refinancing

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 $17,500,000 million of Tax-Exempt Adjustable Mode Educational Facilities Revenue Bonds. The Foundations used the proceeds from the bonds to refinance approximately $17,100,000 of indebtedness incurred by the Foundations in connection with the expansion and improvement of the campus of Christopher Newport University for the benefit of the University. Payments begin on August 1, 2007 and the bonds mature in August 2021.

18. PRIOR PERIOD ADJUSTMENTS

Christopher Newport University Educational and Real Estate Foundations

In the year ended June 30, 2006, the Foundations made several adjustments to correct prior year transactions. These adjustments included recording local grant revenue from the City of Newport News, recording investment management fee revenue, and recording depreciation for properties previously classified as held for sale or investment.

Net assets, June 30, 2005, as previously reported	$8,866,461
Net effect of prior period adjustments	816,898
Net assets, July 1, 2005	$9,683,159

SUPPLEMENTARY INFORMATION

CHRISTOPHER NEWPORT UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2006

	Auxiliary Services	Dining Services	Housing Operations	Intercollegiate Athletics
Revenues:				
Sales and services	$ 569,252	$ 2,142,287	$ 191,822	$ 234,875
Student fees	3,419,384	5,025,065	15,141,104	6,387,269
Miscellaneous income	376,605	-	-	-
Total revenues	4,365,241	7,167,352	15,332,926	6,622,144
Cost of sales	-	2,286,060	-	-
Net revenues	4,365,241	4,881,292	15,332,926	6,622,144
Operating Expenditures				
Personal services	1,393,932	2,367,430	2,559,942	2,773,915
Contractual services	488,637	320,083	769,264	1,097,665
Supplies and materials	107,390	223,015	450,446	384,229
Transfer payments	11,295	180,819	406,129	30,793
Continuous charges	299,188	834,700	5,832,456	942,334
Equipment	23,353	78,920	683,581	171,466
Total operating expenditures	2,323,795	4,004,967	10,701,818	5,400,402
Excess of revenues over/expenses of operations before transfers	2,041,446	876,325	4,631,108	1,221,742
Mandatory transfers: additions/(deductions)				
Allocation of work study program	4,190	2,732	10,630	10,213
Debt service	(870,147)	(584,060)	(5,747,282)	(1,464,441)
Nonmandatory Transfers: From/(To)	(1,173,616)	-	-	203,606
Total transfers	(2,039,573)	(581,328)	(5,736,652)	(1,250,622)
Net Increase (Decrease) for the year	1,873	294,997	(1,105,544)	(28,880)
Fund balance at beginning of year	360,329	440,067	1,647,815	37,784
Fund balance at end of year	$ 362,202	$ 735,064	$ 542,271	$ 8,904

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.

Parking Services	University Bookstore	Total
$ 748,982	$ 3,067,968	$ 6,955,186
71,860	-	30,044,682
-	119,968	496,573
820,842	3,187,936	37,496,441
-	1,820,428	4,106,488
820,842	1,367,508	33,389,953
140,825	494,784	9,730,828
26,050	143,159	2,844,858
5,448	16,101	1,186,629
1,788	18,893	649,717
107,169	156,687	8,172,534
-	32,763	990,083
281,280	862,387	23,574,649
539,562	505,121	9,815,304
-	-	27,765
(727,369)	-	(9,393,299)
175,000	(368,414)	(1,163,424)
(552,369)	(368,414)	(10,528,958)
(12,807)	136,707	(713,654)
144,498	1,616,894	4,247,387
$ 131,691	$ 1,753,601	$ 3,533,733

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

March 9, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Christopher Newport University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Christopher Newport University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component unit as of and for the year ended June 30, 2006, 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 unit 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 the amounts included for the component unit of the University is based on the report 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 unit of the University that were audited by other auditors upon whose report 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of University and of its discretely presented component unit as of June 30. 2006, 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 two 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.

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

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

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 in the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a 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. A reportable condition, entitled "Improve Password Management Policies" is described in the section titled "Internal Control and Compliance 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 an instance of noncompliance that is required to be reported under Government Auditing Standards. The instance of noncompliance, entitled "Improve Password Management Policies" is described in the section titled "Internal Control and Compliance Finding and Recommendation." There were no other matters that are required to be reported.

Status of Prior Findings

The University has taken adequate corrective action with respect to the audit finding reported in the prior year.

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the 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 March 16, 2007.

AUDITOR OF PUBLIC ACCOUNTS

MSM:kva
kva:51

CHRISTOPHER NEWPORT
UNIVERSITY

March 19, 2007

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

Dear Mr. Kucharksi:

First, I appreciate your recognition of the progress the University has made in improving its financial statement preparation process. As you duly noted, we have committed additional resources to financial reporting, documented the reporting process, and are continuing to streamline and automate our procedures.

In response to the one reportable condition entitled "Improve Password Management Policies," we concur with this finding. The University Technology Committee will evaluate the risks associated with the various University systems and establish password policies relative to those risks as well as the Commonwealth's data security standards and industry best practices

I want to thank you and your staff for their good work and working so diligently to complete this audit in a timely manner.

Sincerely,

William L. Brauer
Executive Vice President

Office of the Executive Vice President
1 University Place Newport News, Virginia 23606-2998
Telephone (757) 594-7040 Fax (757) 594-7864 E-mail: wbrauer@cnu.edu

CHRISTOPHER NEWPORT UNIVERSITY