

LONGWOOD UNIVERSITY



FINANCIAL STATEMENTS

For Year Ended June 30, 2014

**LONGWOOD UNIVERSITY
ANNUAL FINANCIAL REPORT 2013 – 2014**

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LONGWOOD UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

INSTITUTIONAL PROFILE

Longwood, located in Farmville, was founded in 1839 and is one of the oldest colleges in Virginia. It was the first Virginia public institution of higher education for women. In 2002, it officially became Longwood University. As the only four-year public institution in south central Virginia, Longwood serves as a catalyst for regional prosperity and advancement.

Historically, Longwood has been a leader in the education of future teachers. It continues that leadership today while also offering strong programs in liberal arts and sciences, business and in professional and pre-professional programs. Longwood University is a coeducational, comprehensive institution offering more than 100 majors, minors and concentrations to over 4,900 students. Longwood University educates Virginians, with over 95 percent of the student body coming from the Commonwealth, and is a residential campus with over 70 percent of its undergraduate students living in University managed housing.

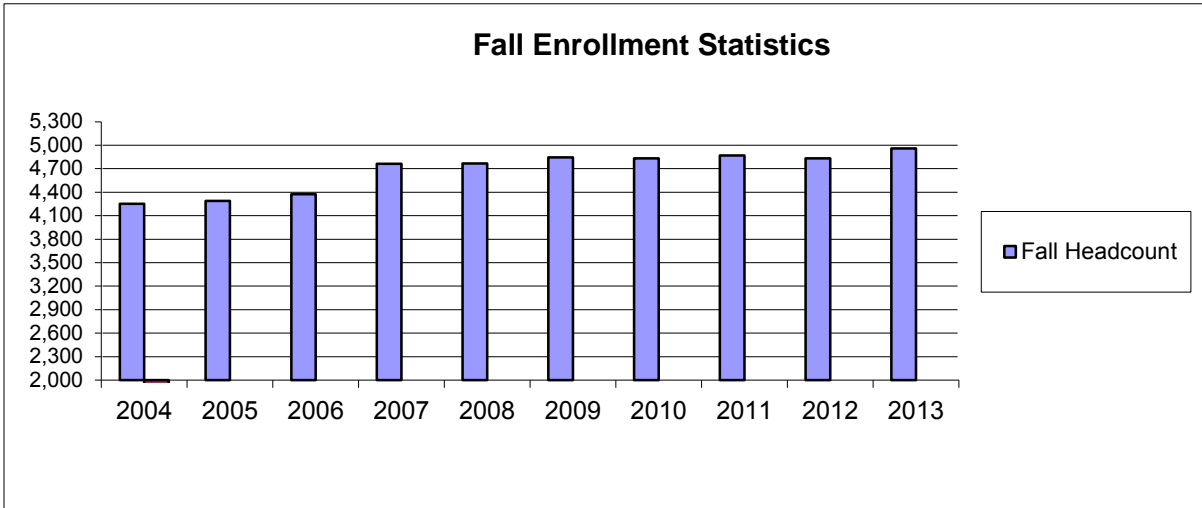
Building upon its strong foundation in the liberal arts and sciences, the University provides an environment in which exceptional teaching fosters student learning, scholarship and achievement. Longwood is dedicated to the development of citizen leaders who are prepared to make positive contributions to the common good of society. The University requires all students, in order to graduate, to participate in an internship related to their major or conduct a significant research project working with a faculty member on a major-related topic. The University prides itself on being a public institution with a "private" feel, its student/faculty ratio of 18 to 1, and the vast educational and social opportunities afforded its students.

Longwood University is for the 16th consecutive year ranked among the best colleges in the annual *U.S. News & World Report* survey. This year's "Best Colleges" report ranks Longwood No. 21 in the Top Public Schools category for Regional Universities in the South. Among all Regional Universities in the South, including private institutions, Longwood is ranked in the top tier at No. 31. Additionally, *The Princeton Review*, an education services company, selected Longwood as one of 75 public institutions it features in its book, *The Best Value Colleges: 2014 Edition*.

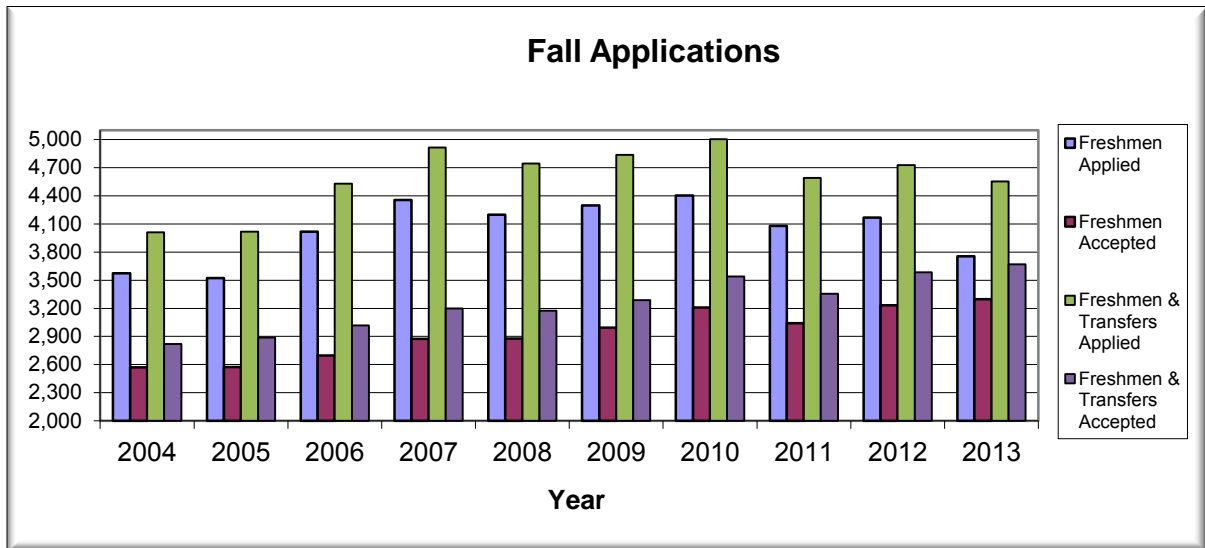
Longwood is an agency of the Commonwealth of Virginia and is, therefore, included as a component unit in the State's Comprehensive Annual Financial Report (CAFR). The thirteen members of Longwood's Board of Visitors govern University operations. Members of the Board are appointed by the Governor of Virginia.

ENROLLMENT AND ADMISSIONS

A significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Headcount enrollment has increased from 4,252 in fall 2004 to 4,960 in fall 2013.



The fall 2013 entering freshmen class remained academically competitive with a grade-point average of 3.37, an average SAT score of 920 - 1090, and an average ACT score of 19 - 23. Total freshman applications decreased from 4,167 in fall 2012 to 3,755 in fall 2013.



FINANCIAL OVERVIEW

Management's Discussion and Analysis (MD&A) is a supplement to the University's financial statement designed to assist readers in understanding the financial information presented. This MD&A provides an analysis of the institution's financial position and performance during the fiscal year ended June 30, 2014, with comparative information presented for the fiscal year ended June 30, 2013, where applicable. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education, research and public service. Net position accumulates only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the accompanying financial statements and notes that follow. The financial statements, notes and this discussion are the responsibility of management. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB). GASB principles establish standards for external reporting for public colleges and universities. The University's financial report is comprised of three basic financial statements and related notes. Those statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the MD&A.

The University's affiliated foundations are also included in these statements consistent with GASB Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, and GASB Statement 61 *The Financial Reporting Entity: Omnibus*, an amendment of GASB Statements 14 and 39. The University has two foundations whose financial information is presented in the statements under the columns titled "Component Unit" and one foundation that is designated as a blended component unit. While affiliated foundations are not under the direct control of the University's Board of Visitors, this presentation provides a more holistic view of resources available to support the University and its mission. The foundations are not part of this MD&A; however, additional detail regarding their financial activities can be found in the **Notes to Financial Statements**. Transactions between the University and these component units have not been eliminated in the financial statements.

Summary of the Change in Net Position

	<u>Year Ended June 30,</u>		<u>Increase/(Decrease)</u>	
	<u>2014</u>	<u>2013</u>	<u>Amount</u>	<u>Percent</u>
Total operating revenues	\$85,560,302	\$78,530,590	\$7,029,712	8.95%
Total operating expenses	118,326,714	112,245,629	6,081,085	5.42%
Operating (loss)	(32,766,412)	(33,715,039)	948,627	-2.81%
Net nonoperating revenues	32,006,808	30,579,614	1,427,194	4.67%
Other revenue	13,008,706	12,406,407	602,299	4.85%
Total increase	<u>\$12,249,102</u>	<u>\$9,270,982</u>	<u>\$2,978,120</u>	<u>32.12%</u>

On a summary basis, operating revenues increased by \$7.0 million or 9.0% from fiscal year 2013 to fiscal year 2014. Operating expenses increased \$6.1 million or approximately 5.4% from fiscal year 2013 to fiscal year 2014.

The operating loss was offset by \$32.0 million in net non-operating revenues and expenses and \$13.0 million in other revenues. Net non-operating revenues and expenses consisted of \$29.1 million state appropriations, \$4.6 million in Pell revenue, and \$0.3 million in investment revenue offset by interest on capital asset related debt of \$2.0 million and losses on disposal of capital assets of \$37,289.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the institution. The difference between total assets and total liabilities is net position, which is an indicator of the current financial condition of the University. The purpose of this statement is to present to the financial statement readers a fiscal snapshot as of June 30, 2014. From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the University’s operations. They are also able to determine how much the University owes vendors and creditors.

Net position is divided into three major categories. The first category, “Net investment in capital assets,” depicts the University’s equity in property, plant, and equipment, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The second “Restricted” category is divided into two sub-categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the University, but must be spent for purposes as determined by donors and/or other entities that have placed restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. The third, “Unrestricted” category represents resources available to the University for any lawful purpose of the institution.

Summary of the Statement of Net Position				
	Year Ended June 30,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Assets:				
Current assets	\$57,590,756	\$58,269,509	\$ (678,753)	-1.16%
Noncurrent assets:				
Restricted cash and cash equivalents	4,881,698	6,770,479	(1,888,781)	-27.90%
State appropriations	42,139	335,184	(293,045)	-87.43%
Capital assets, net	224,053,976	211,307,763	12,746,213	6.03%
Other	1,106,448	964,879	141,569	14.67%
Total noncurrent assets	230,084,261	219,378,305	10,705,956	4.88%
Total assets	287,675,017	277,647,814	10,027,203	3.61%
Deferral on debt defeasance - loss	2,396,878	2,586,866	(189,988)	-7.34%
Total deferred outflows of resources	2,396,878	2,586,866	(189,988)	-7.34%
Liabilities:				
Current liabilities	21,960,939	19,896,541	2,064,398	10.38%
Noncurrent liabilities	52,360,295	54,264,214	(1,903,919)	-3.51%
Total liabilities	74,321,234	74,160,755	160,479	0.22%
Deferral on debt defeasance - gain	14,500	21,750	(7,250)	-33.33%
Total deferred inflows of resources	14,500	21,750	(7,250)	-33.33%
Net position:				
Net investment in capital assets	173,056,475	157,213,346	15,843,129	10.08%
Restricted expendable	1,196,775	1,362,214	(165,439)	-12.14%
Unrestricted	41,482,911	44,911,499	(3,428,588)	-7.63%
Total net position	<u>\$215,736,161</u>	<u>\$203,487,059</u>	<u>\$12,249,102</u>	<u>6.02%</u>

Evaluation of Statement of Net Position for Fiscal Years 2013 and 2014

The University's total assets increased by \$10.7 million between fiscal years 2013 and 2014. Current assets decreased \$0.7 million primarily due to a decrease in cash and cash equivalents of \$0.4 million, and a decrease in due from Commonwealth of \$0.4 million. Noncurrent assets increased by \$10.7 million primarily due to an increase in capital assets of \$12.7 million offset by a decrease in restricted cash and cash equivalents of \$1.9 million due to bond reimbursements from SNAP accounts. Construction in progress increased by \$18.7 million, primarily due to the following capital projects: Stubbs Hall Renovation \$7.1 million, Construct Technology Center \$7 million, Replace Willett Hall HVAC \$1.1 million, and Blackwell/Bookstore \$0.7 million. Depreciable capital assets decreased \$6.0 million due primarily to depreciation offset by current year additions. Current liabilities increased \$2.0

million primarily due to a \$1.6 million increase in accounts payable and \$0.3 million increase in deposits payable. Noncurrent liabilities decreased approximately \$2.0 million primarily due to debt service payments made during the fiscal year of \$3.8 million partially offset by the reclassification of deferral on debt defeasance loss of \$2.5 million.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position (SRECNP) presents the operating results as well as the non-operating revenues and expenses of the University. State appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

In general, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are incurred in the acquisition or production of those goods and services. Non-operating revenues are comprised of items such as investment earnings and state appropriations. They do not require the production of goods or services. For example, the University's state appropriations are non-operating because they are provided by the General Assembly without the Commonwealth directly receiving commensurate goods and services for those revenues.

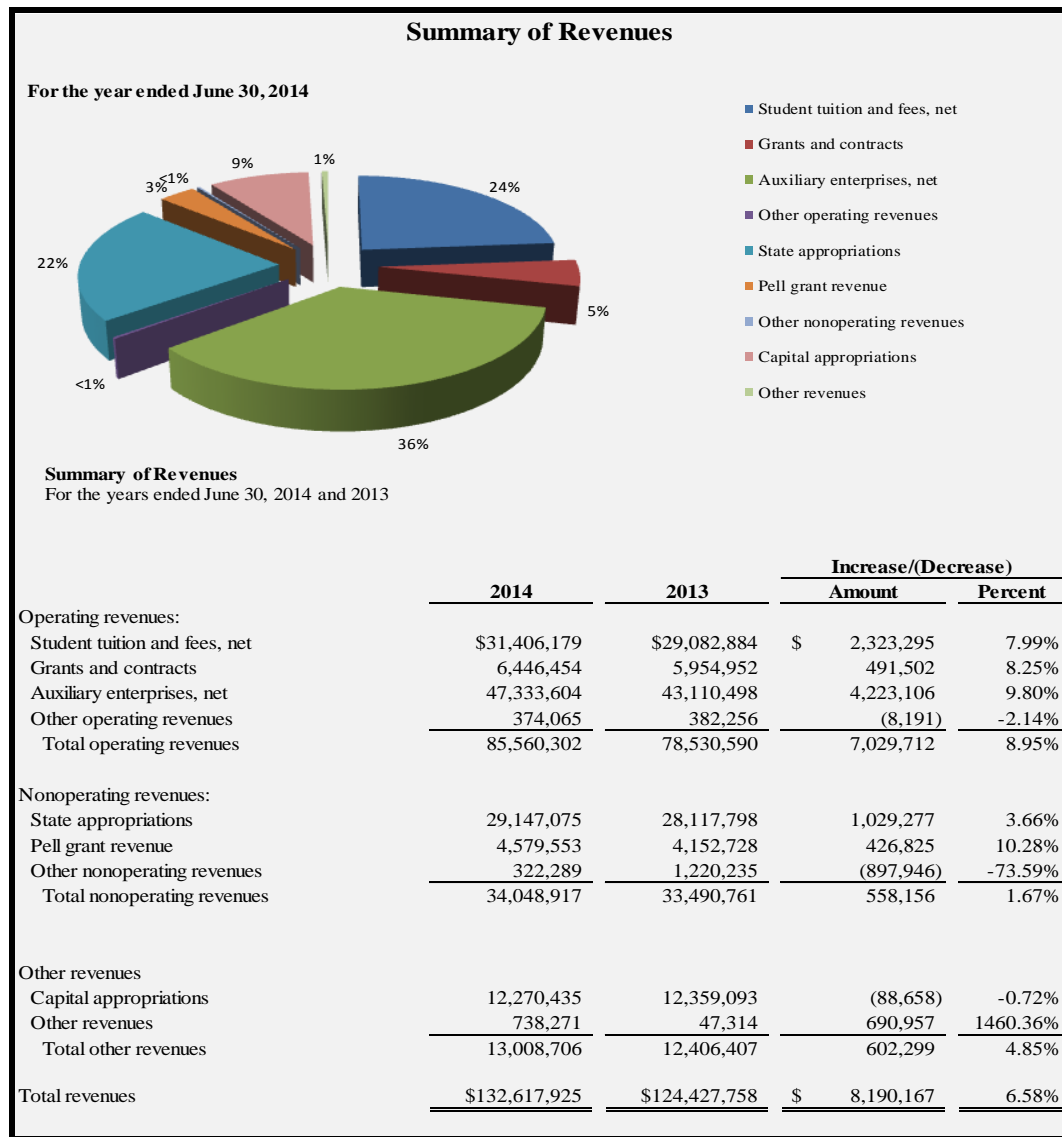
Summary of the Statement of Revenues, Expenses, and Changes in Net Position				
	Year Ended June 30,		Increase/(Decrease)	
	2014	2013	Amount	Percent
Operating revenues	\$ 85,560,302	\$ 78,530,590	\$ 7,029,712	8.95%
Operating expenses	118,326,714	112,245,629	6,081,085	5.42%
Operating (loss)	(32,766,412)	(33,715,039)	948,627	-2.81%
Nonoperating revenues/(expenses)				
State appropriations	29,147,075	28,117,798	1,029,277	3.66%
Pell grant revenue	4,579,553	4,152,728	426,825	10.28%
Other nonoperating revenues and expenses	(1,719,820)	(1,690,912)	(28,908)	1.71%
Net nonoperating revenues and expenses	32,006,808	30,579,614	1,427,194	4.67%
Income/(loss) before other revenues and reducti	(759,604)	(3,135,425)	2,375,821	-75.77%
Capital appropriations	12,270,435	12,359,093	(88,658)	-0.72%
Other gifts	738,271	47,314	690,957	1460.36%
Total other revenues	13,008,706	12,406,407	602,299	4.85%
Total increase in net position	12,249,102	9,270,982	2,978,120	32.12%
Net position, beginning of year	203,487,059	194,216,077	9,270,982	4.77%
Net position, end of year	<u>\$215,736,161</u>	<u>\$203,487,059</u>	<u>\$12,249,102</u>	<u>6.02%</u>

Evaluation of Statement of Revenues, Expenses, and Changes in Net Position for Fiscal Years 2013 and 2014

Summary of Revenues

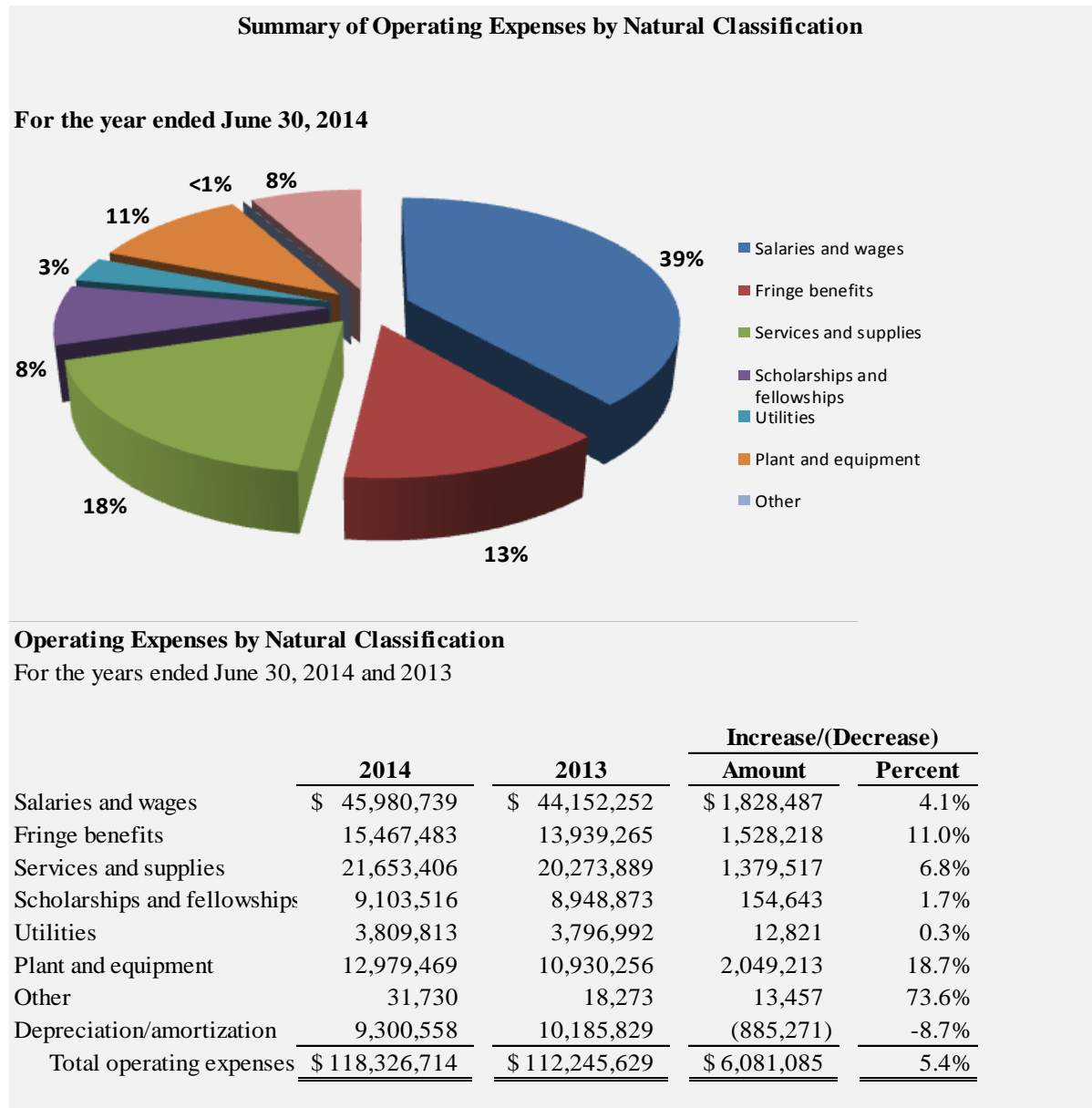
Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of 8.0% totaling \$2.3 million from fiscal year 2013 to fiscal year 2014 due to an increase in student tuition and fee charges and enrollment as is evidenced in the previous **Enrollment and Admissions** section.

Net non-operating revenues increased approximately \$0.6 million due to an increase in state appropriations of approximately \$1.0 million and an increase in Pell of \$0.4 million partially offset by a \$0.9 million decrease in interest revenue. Other revenues increased by \$0.6 million primarily due to an increase in other gifts.



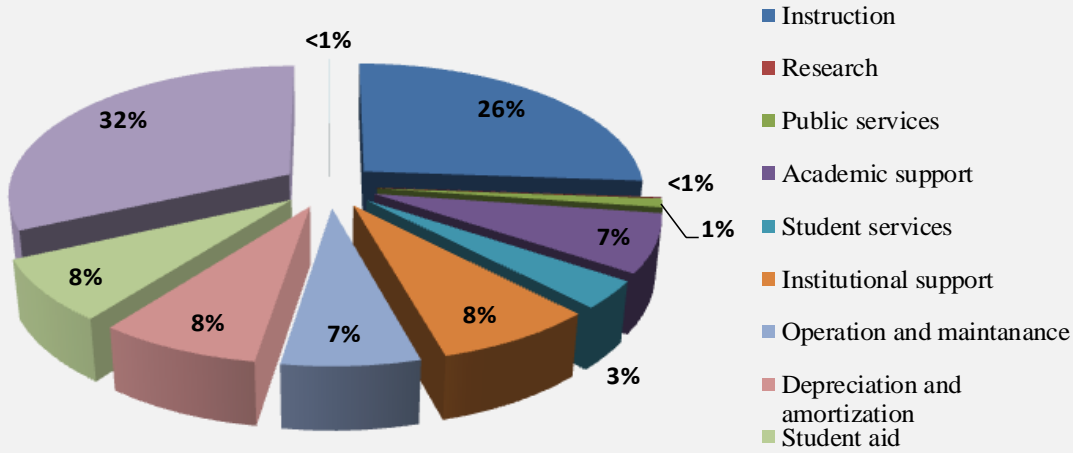
Summary of Expenses

A summary of the University's operating expenses for the years ended June 30, 2014 and 2013 is shown below. Overall, total operating expenses increased approximately \$6.1 million in fiscal year 2014 compared to the previous fiscal year. This represents a 5.4% increase.



Summary of Operating Expenses by Function

For the year ended June 30, 2014



Operating Expenses by Function

For the years ended June 30, 2014 and 2013

	2014	2013	Increase/(Decrease)	
			Amount	Percent
Operating expenses:				
Instruction	\$ 30,985,884	\$ 29,677,596	\$ 1,308,288	4.4%
Research	66,266	244,567	(178,301)	-72.9%
Public services	1,276,062	1,492,107	(216,045)	-14.5%
Academic support	8,506,420	6,796,136	1,710,284	25.2%
Student services	4,035,502	4,143,338	(107,836)	-2.6%
Institutional support	9,287,167	8,706,400	580,767	6.7%
Operation and maintenance	7,929,442	8,003,087	(73,645)	-0.9%
Depreciation and amortization	9,300,558	10,185,829	(885,271)	-8.7%
Student aid	9,103,516	8,948,873	154,643	1.7%
Auxiliary activities	37,804,167	34,029,423	3,774,744	11.1%
Other operating expenses	31,730	18,273	13,457	73.6%
Total operating expenses	\$ 118,326,714	\$ 112,245,629	\$ 6,081,085	5.4%

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the University's cash activity during the year. The Statement of Revenues, Expenses and Changes in Net Position is prepared on the accrual basis and includes non-cash items such as depreciation expense, while the Statement of Cash Flows strictly represents cash inflows and outflows. The Statement of Cash Flows enables readers to assess the ability of the institution to generate future cash flows necessary to meet obligations and to evaluate the need for additional financing.

The Statement of Cash Flows is divided into five sections. The first section, cash flows from operating activities, details the net cash used by operating activities. The second section reflects the cash flows from non-capital financing activities, and includes state appropriations and Pell grant revenues for the University's educational and general programs and financial aid. The third section, cash flows from capital financing activities, details the cash used for the acquisition and construction of capital and related items. The fourth section is cash flows from investing activities which includes interest earned on investments. The last section reconciles the net operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Position to the cash used by operating activities.

	Condensed Statement of Cash Flows		
	2014	2013	Increase/ (Decrease)
Cash Provided (used) by:			
Operating activities	\$ (23,305,542)	\$ (24,014,773)	\$709,231
Noncapital financing activities	33,859,465	32,498,877	1,360,588
Capital financing activities	(13,472,406)	(6,730,277)	(6,742,129)
Investing activities	322,289	578,429	(256,140)
Net increase/(decrease) in cash	(2,596,194)	2,332,256	(4,928,450)
Cash - Beginning of year	54,665,231	52,332,975	2,332,256
Cash - End of year	<u>\$52,069,037</u>	<u>\$54,665,231</u>	<u>(\$2,596,194)</u>

Evaluation of Statement of Cash Flows for Fiscal Years 2013 and 2014

For fiscal year 2014, significant sources of operating cash include student tuition and fees of \$31.5 million, auxiliary enterprise receipts of \$47.2 million, and grants and contracts of \$6.4 million. Major operating uses of cash include payments for salaries, wages, and

fringe benefits of \$61.0 million and payments to suppliers and utilities of \$25.5 million. Longwood received state appropriations for the University's educational and general programs and financial aid of \$29.3 million.

Capital and Debt Activities

Renewal and replacement of facilities on campus remains an integral part of the University's Strategic Plan. The University continues to implement strategies to support its commitment to creating state-of-the-art learning environments that contribute to the overall development of students. Additional investments are planned to improve student residential lifestyles and the quality of student life.

Note 7 of the **Notes to Financial Statements** describes the University's significant investment in capital assets. During fiscal year 2014, total capital assets increased by \$12,746,213 due to various ongoing capital projects such as the Stubbs Hall Renovation, Construct Technology Center, Replace Willett Hall HVAC, and Blackwell/Bookstore.

Long-term debt decreased from \$55,807,909 in 2013, to \$54,164,758 in 2014 as a result of debt payments made during the fiscal year. The University utilizes the SCHEV formula (debt service to unrestricted expenditures and mandatory transfers) to calculate its debt ratio. This ratio was 5.5 percent at the end of fiscal year 2013 and 5.4 percent at the end of fiscal year 2014. Per Board-approved policy, the University will maintain a debt burden ratio of 9 percent or less.

ECONOMIC OUTLOOK

Longwood University celebrated its 175th anniversary. It is one of the 100 oldest colleges and universities in the nation, and the third-oldest public university in Virginia, following the College of William & Mary and the University of Virginia. Founded in 1839, Longwood is dedicated to the development of citizen leaders who are prepared to make positive contributions to the common good of society.

As one of Virginia's public higher education institutions, Longwood is dependent upon ongoing financial and political support from the Commonwealth. The University's economic outlook is tied to various factors, including our ability to recruit and retain students, our State funding (in the form of both operating and capital construction appropriations), and our ability to raise revenue through tuition and fees, grants and contracts, and private funds. A review of the economic factors significant to the State of Virginia may be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

The *Virginia Higher Education Opportunity Act* passed in 2011 bears witness to Virginia's commitment to higher education. However, demands on the State budget and constrained revenues continue to put pressure on State general fund support. Consequently, the original FY 2015 budget provided level funding for public higher education. *Virginia Higher Education Opportunity Act* legislation evidences the importance of State goals specific to accessibility and increased enrollments, as well as

restructuring initiatives. Longwood will continue to examine the impacts of recommendations made by the Higher Education Advisory Committee. Programs and strategies specific to objectives outlined in the Act are documented within the University's Six-Year Plan.

In his address to the Joint Money Committees of the General Assembly on August 15, 2014, Governor McAuliffe announced a \$346 million budget shortfall in FY 2015. Virginia's FY 2014 general fund revenue collections were down from FY 2013, and fell behind the State's revenue forecast. This marks the first time that Virginia revenues have declined outside of a national recession. As a result, state agencies, including higher education institutions, were required to submit plans for cutting 5 percent in the first year of the budget and 7 percent in the second year of the budget. Fortunately for Longwood, our required reduction for FY 2015 was approximately 2.2 percent, which will be addressed with savings resulting from position vacancies. The University's required reduction for FY 2016 is not known at this time.

The need to recruit and retain quality students during this period of rising costs and difficult economic conditions is a concern. While the Commonwealth affords Boards of Visitors the authority to establish tuition and fee rates, significant emphasis has been placed on slowing the rate of tuition increases for Virginia undergraduate students. Longwood continues to be sensitive to the issue of affordability and accessibility. In-state undergraduate tuition and mandatory fees for the coming academic year were increased by just 2.1 percent. The University has placed significant focus on both increasing enrollment and student retention. Longwood's enrollment has been steady, and nongeneral fund revenues have increased as a result of tuition and fee rate increases, as well as our enrollment and retention efforts. Additionally, gifts and commitments made to the Longwood University Foundation continue to be strong, affording increases in student scholarship awards and support for various academic programming.

Longwood University is committed to delivering its students exceptional educational and social opportunities, and will continue to employ business process improvements and efficiencies in an effort to contain costs, to enhance or develop alternative revenue streams, to examine opportunities to reallocate funding, and to invest in strategic initiatives. Long-term planning is critical to ensuring that the University not only protects its core academic programs, but also invests strategically in the future. The new planning and budgeting process that was piloted in FY 2013 continues to be utilized by the University.

Management believes that Longwood has and will maintain a solid financial foundation. Increases in the University's net assets are indicative of the sound and prudent use of financial resources. The University is responsive to the rapidly changing higher education environment. It will continue to closely monitor its resources to ensure its ability to react to both internal and external factors that impact the institution's financial position, and to embrace innovation and flexibility in its pursuit of institutional goals.

FINANCIAL STATEMENTS

Longwood University
STATEMENT OF NET POSITION
As of June 30, 2014

Assets	Component Unit		Component Unit
	Longwood University	Longwood University Foundation, Inc.	Longwood University Real Estate Foundation
Current assets:			
Cash and cash equivalents (Note 3)	\$ 47,145,200	\$ 6,356,002	\$ 539,405
Securities lending - cash and cash equivalents (Note 3)	4,279,781	-	-
Short-term investments (Note 3)	138,565	23,637,083	-
Accounts receivable, net of allowance for doubtful accounts of \$14	1,595,870	1,018,862	343,494
Notes receivable	144,506	-	145,368
Contributions receivable, net (Note 22)	-	721,347	-
Due from Foundation	122,414	-	-
Due from the Commonwealth (Note 6)	1,456,794	-	-
Inventory	404,864	-	-
Prepaid expenses	2,302,762	-	41,312
Total current assets	<u>57,590,756</u>	<u>31,733,294</u>	<u>1,069,579</u>
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	4,881,698	213,482	-
Restricted appropriations available/due From Commonwealth	42,139	-	-
Restricted investments	-	35,564,106	4,504,611
Other non-current assets	-	108,184	945,852
Notes receivable, net of allowance for doubtful accounts of \$96,62	1,106,448	-	-
Contributions receivable, net (Note 22)	-	2,262,026	-
Non-depreciable capital assets, net (Note 7)	39,911,987	5,407,851	9,001,473
Depreciable capital assets, net (Note 7)	184,141,989	1,164,367	78,098,269
Total noncurrent assets	<u>230,084,261</u>	<u>44,720,016</u>	<u>92,550,205</u>
Total assets	<u>287,675,017</u>	<u>76,453,310</u>	<u>93,619,784</u>
Deferred Outflow of Resources			
Deferral on Debt Defeasance - loss	2,396,878	-	-
Total assets and deferred outflow of resources	<u>\$ 290,071,895</u>	<u>\$ 76,453,310</u>	<u>\$ 93,619,784</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses (Note 9)	9,963,180	224,423	819,728
Line of credit	-	-	3,230,679
Deferred revenue (Note 1)	1,808,591	-	-
Obligations under securities lending	4,418,346	-	-
Deposits held in custody for others	890,688	-	-
Long-term liabilities - current portion (Note 10)	4,880,134	53,051	1,639,743
Total current liabilities	<u>21,960,939</u>	<u>277,474</u>	<u>5,690,150</u>
Noncurrent liabilities (Note 10)	52,360,295	1,128,834	99,779,633
Total liabilities	<u>\$ 74,321,234</u>	<u>\$ 1,406,308</u>	<u>\$ 105,469,783</u>
Deferred Inflow of Resources			
Deferral on Debt Defeasance - gain (Note 12)	14,500	-	-
Total liabilities and deferred inflows of resources	<u>\$ 74,335,734</u>	<u>\$ 1,406,308</u>	<u>\$ 105,469,783</u>
Net Position			
Net Investment in capital assets, net of related debt	173,056,475	6,572,218	(6,728,733)
Restricted:	-	-	-
Nonexpendable:			
Permanently restricted	-	35,358,715	-
Expendable:			
Loans	258,305	-	-
Temporarily restricted	-	24,759,535	-
Other	938,470	-	-
Unrestricted	41,482,911	8,356,735	(5,121,266)
Total net position	<u>\$ 215,736,161</u>	<u>\$ 75,047,203</u>	<u>\$ (11,849,999)</u>

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

Longwood University
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2014

	Component Unit		Component Unit
	Longwood University	Longwood University Foundation	Longwood University Real Estate Foundation
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of \$3,262,675	\$ 31,406,179	\$ -	\$ -
Gifts and contributions	-	551,464	-
Federal grants and contracts	2,540,873	-	-
State grants and contracts	585,114	-	-
Nongovernmental grants and contracts	3,320,467	-	-
Auxiliary enterprises, net of scholarship allowances of \$4,440,193	47,333,604	-	-
Other operating revenues	374,065	1,328,591	7,751,911
Total operating revenues	<u>85,560,302</u>	<u>1,880,055</u>	<u>7,751,911</u>
Operating expenses (Note 16)			
Instruction	30,985,884	-	-
Research	66,266	-	-
Public service	1,276,062	30,109	-
Academic support	8,506,420	609,174	-
Student services	4,035,502	65,600	-
Institutional support	9,287,167	734,688	923,984
Operation and maintenance - Plant	7,929,442	740,101	2,147,524
Depreciation	9,162,108	-	2,427,954
Amortization	138,450	-	71,840
Student aid	9,103,516	1,358,071	-
Auxiliary activities	37,804,167	279,062	-
Administrative and fundraising	-	667,584	-
Other expenditures	31,730	-	63,827
Total operating expenses	<u>118,326,714</u>	<u>4,484,389</u>	<u>5,635,129</u>
Operating gain (loss)	<u>(32,766,412)</u>	<u>(2,604,334)</u>	<u>2,116,782</u>
Nonoperating revenues (expenses):			
State appropriations (Note 15)	29,147,075	-	-
Pell grant Revenue	4,579,553	-	-
Investment revenue (loss)	322,289	606,444	-
Interest on capital asset-related debt	(2,004,820)	-	(2,992,063)
Unrealized gain on swap	-	-	4,797,961
Increase in split interest agreements	-	81,499	-
Realized gain on investments	-	5,462,517	-
Unrealized loss on investments	-	1,418,745	-
Loss on disposal/sale of plant assets	(37,289)	-	(26,369)
Net nonoperating revenues	<u>32,006,808</u>	<u>7,569,205</u>	<u>1,779,529</u>
Income before other revenues, expenses, gains or losses	<u>(759,604)</u>	<u>4,964,871</u>	<u>3,896,311</u>
Contributions to permanent endowments			
Capital appropriations	12,270,435	2,199,336	-
Other gifts	738,271	-	-
Net other revenues	<u>13,008,706</u>	<u>2,199,336</u>	<u>-</u>
Increase (decrease) in net position	12,249,102	7,164,207	3,896,311
Net position - Beginning of year	<u>203,487,059</u>	<u>67,882,996</u>	<u>(15,746,310)</u>
Net position - End of year	<u>\$ 215,736,161</u>	<u>\$ 75,047,203</u>	<u>\$ (11,849,999)</u>

Longwood University
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

Other operating receipts	374,549
Payments for other expenses	<u>(31,730)</u>
Net cash provided (used) by operating activities	<u>(23,305,542)</u>
Cash flows from noncapital financing activities:	
State appropriations	29,288,020
Other non-operating	4,579,553
Change in agency balances	<u>(8,108)</u>
Net cash provided (used) by noncapital financing activities	<u>33,859,465</u>
Cash flows from capital and related financing activities:	
Capital appropriations	12,523,207
Acquisition and construction of capital assets	(20,377,857)
Capital grants and contracts	595,597
Principal paid on capital-related debt, leases, and installments	(3,772,290)
Interest paid on capital-related debt, leases, and installments	<u>(2,441,063)</u>
Net cash provided (used) by capital and related financing activities	<u>(13,472,406)</u>
Cash flows from investing activities:	
Investment/interest revenue	<u>322,289</u>
Net cash provided (used) by investing activities	<u>322,289</u>
Net decrease in cash	(2,596,194)
Cash and cash equivalents - Beginning of the year	<u>54,665,231</u>
Cash and cash equivalents - End of the year	<u>\$ 52,069,037</u>

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

Longwood University
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2014

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

Operating (loss)	\$ (32,766,412)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization expense	9,300,558
Changes in assets and liabilities:	
Receivables, net	(375,490)
Inventory	9,483
Prepaid expenses	170,240
Notes receivable, net	(126,007)
Accounts payable and accrued expenses	138,010
Deferred revenue	290,152
Accrued compensated absences	53,924
Net cash provided (used) by operating activities	\$ (23,305,542)

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

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NOTES TO FINANCIAL STATEMENTS

Longwood University
Financial Statement Footnotes
For the Year Ended June 30, 2014

1. REPORTING ENTITY

Longwood University is a state-assisted, coeducational, and comprehensive University offering programs leading to bachelor's and master's degrees. Longwood offers courses both on the main campus and at educational sites in other locations as well as online courses. The University is oriented to liberal arts and to professional and pre-professional programs.

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

The University has three component units as defined by the Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment to Statement 14, *The Financial Reporting Entity*. These organizations are described in Note 22.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB. 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*, GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities* GASB Statement 39, *Determining Whether Certain Organizations Are Component Units*.

Basis of Accounting

The University's financial statements 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.

Cash and Cash Equivalents

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Governmental Entities That Use Proprietary Fund Accounting*, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity date of three months or less.

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as modified by GASB Statement 59, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Position.

Prepaid Expenses

Prepaid expenses of the University include such items as insurance premiums, membership dues, and registrations for next fiscal year that were paid in advance, as well as publications, subscriptions, and contracts which include initial and renewal annual subscriptions that continue into the next fiscal year.

Inventories

Inventories are reported using the consumption method, and valued using the first-in, first out (FIFO) method.

Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure, and intangible assets are stated at cost or fair market value at date of donation. Library materials are valued at actual cost and average cost at time of donation. Construction in progress, equipment and intangibles in process are capitalized at actual cost as expenses are incurred. Equipment costing \$5,000 or more with a useful life greater than one year is capitalized. Software related intangibles costing \$25,000 or more and other intangibles costing \$100,000 or more are capitalized. Renovation costs are capitalized when expenses total greater than \$100,000. Normal repairs and maintenance are expensed in the year in which the expense is incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. The general range of estimated useful lives is 5 to 50 years for

buildings and fixtures and 3 to 20 years for equipment. The estimated useful life of Library materials is 10 years. The general range of estimated useful lives for infrastructure is 5 to 30 years. The estimated useful life of software is 5 years; all other intangibles vary based on type and expected useful life.

Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other non-current assets are classified as non-current assets in the Statement of Net Position.

Deferred Outflows and Inflows

Included in the balance of deferred outflows of resources are deferred losses on refunding of debt. Included in deferred inflows of resources are the deferred gains on refunding of debt.

Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but are related to the period after June 30, 2014.

	2014
Student tuition and related fees	\$ 2,052,309
Auxiliary enterprise fees	76,019
	<u> </u>
Total	<u><u>\$ 2,128,328</u></u>

Accrued Compensated Absences

The amount of leave earned but not taken by classified salaried employees is recorded as a liability on the Statement of Net Position. The amount reflects, as of June 30, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia’s leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

Federal Financial Assistance Programs

The University participates in federally-funded financial assistance programs including Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, Perkins Loans, and Direct Lending. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Compliance Supplement.

Under the Federal Direct Lending Program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loans and disburses these funds to eligible students. The Direct Lending programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Position*.

Net Position

The University's net position is classified as follows:

- **Net investment in capital assets** – Net investment in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- **Restricted net position, expendable** – Expendable restricted net position includes resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The University's restricted net position is expendable.
- **Restricted net position, nonexpendable** – Nonexpendable restricted net position is comprised of endowment and similar types where donors or other external sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal.
- **Unrestricted net position** – Unrestricted net position represents resources derived primarily from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources, and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

Income Taxes

The University, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

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 non-exchange 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 the disposal of capital assets. All other expenses are classified as operating expenses.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Position. 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 students' behalf. Certain government 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.

Long-Term Liabilities

Bond premiums are deferred and amortized over the life of the bond. Bonds payable are reported including unamortized bond premiums. The amortization of bond premiums are reported as debt service expenditures. The debt as shown in the Statement of Net Position is divided between current and non-current liabilities (see Note 10). The Statement of Revenues, Expenses, and Changes in Net Position reflects the interest expense which is recognized as a non-operating expense when paid.

Recently Adopted Accounting Pronouncements

The University and the Authority adopted GASB statement 65, Items Previously Reported as Assets and Liabilities (GASB 65) which clarified the appropriate reporting of deferred outflows and inflows of resources. The adoption of GASB 65 was applied retroactively. As a result of the adoption, \$2,586,866 of the University's deferred debt refunding losses, which were previously reported as a component of long-term debt in the 2013 financial statements, were reclassified to deferred outflows of resources. Additionally, the University's deferred debt refunding gain in the amount of \$21,750 was reclassified from a component of long-term debt to deferred inflows of resources in the Statement of Net Position.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of State funds. Certain deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia, or covered by depository insurance. Under this Act, banks holding public deposits in excess of amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury board. Savings institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits. In accordance with GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits, and temporary investments with original maturities of three months or less.

At June 30, 2014, the carrying amount of cash with the Treasurer of Virginia was \$46,381,098. The carrying amount of cash not held by the Treasurer of Virginia is \$2,268,629. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2014, in the amount of \$2,317,729 adjusted for reconciling items such as: outstanding checks and deposits in transit. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Appropriations Available

Appropriations available are no longer included in cash amounts. They are listed separately on the line item "Restricted Appropriations Available/Due from Commonwealth". At June 30, 2014, the amount of appropriations available was \$42,139.

Investments

The majority of University funds is held by the Treasurer of Virginia and, therefore, is not invested by the University. Local funds held by the University are available for investment, per the Board of Visitors approved investment policy. In fiscal year 2014, local funds were not invested. Rather, they were held in a governmental checking account.

Concentration of Credit Risk

Concentration of credit risk requires the disclosures by amount and issuer of any investments in any one issuer that represent 5 percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2014, the University did not have any investments other than money market funds held by the Treasurer of Virginia; therefore, the University does not have a concentration of credit risk.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the University will not be able to recover the value of its investment or collateral securities that are in the possession of the outside party. Due to the lack of investments outside of those held by the Treasurer of Virginia, this risk does not apply to the University.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not invest in funds outside of investing bond proceeds in the State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP). These proceeds held by the Treasurer of Virginia are invested in money market funds and do not need to be categorized as to risk. At June 30, 2014, the carrying amount of the cash equivalents held in the SNAP program with the Bank of New York was \$2,317,333 and with the Treasurer of Virginia was \$1,059,838.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Longwood University does not have investments in foreign currency.

Securities Lending Transactions

Securities lending transactions represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Position, are non-categorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's Annual Financial Report. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies.

Securities Lending Balances as of June 30, 2014:

Unrestricted cash equivalents	\$4,279,781
Short term investment	<u>138,565</u>
Total Securities Lending	<u>\$4,418,346</u>

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2014:

Student tuition and fees	\$ 1,151,653
Library	951
Auxiliary enterprises	360,509
Federal, state, and nongovernmental grants and contracts	<u>224,974</u>
Total	<u>\$ 1,738,087</u>
Less: Allowance for doubtful accounts	<u>(142,217)</u>
Net accounts receivable	<u>\$ 1,595,870</u>

Notes Receivable consisted of the following at June 30, 2014:

Current portion:	
Federal student loans	<u>\$ 144,506</u>
Non-current portion:	
Federal student loans	1,203,079
Less allowance for doubtful accounts	<u>(96,631)</u>
Net non-current notes receivable	<u>\$ 1,106,448</u>

5. DUE FROM FOUNDATIONS

Due from foundation consisted of the following at June 30, 2014:

Longwood University Foundation	\$ 22,414
Longwood University Trust	<u>100,000</u>
	<u>\$122,414</u>

6. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2014, funding has been provided to the University from two programs: 21st Century bond program and Equipment Trust Fund program (ETF). Both the 21st Century bond and Equipment Trust Fund programs are managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Position* includes amounts listed below for the year ended June 30, 2014, in the “Capital Appropriations” line item for equipment and facilities obtained with funding under these two programs.

Capital Appropriations

VCBA 21st Century Program	\$11,671,172
VCBA ETF Program	<u>599,263</u>
	<u>\$12,270,435</u>

The line item, “Due from the Commonwealth,” on the *Statement of Net Position* for the year ended June 30, 2014, represents pending reimbursements from the follow programs:

21st Century Bonds	\$1,456,794
Total Due from Commonwealth of Virginia	<u>\$1,456,794</u>

7. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2014, is presented as follows:

	Beginning			Ending
	Balance 6/30/2013	Additions	Reductions	Balance 6/30/2014
Non-Depreciable Capital Assets				
Land	\$ 5,072,801	\$ 52,763		\$ 5,125,564
CIP	16,119,521	21,652,664	(2,985,762)	34,786,423
Total Non-Depreciable Capital Assets	<u>21,192,322</u>	<u>21,705,427</u>	<u>(2,985,762)</u>	<u>39,911,987</u>
Depreciable Capital Assets				
Buildings	229,000,450	1,299,129	(241,216)	230,058,363
Equipment	17,941,474	1,318,031	(198,822)	19,060,683
Infrastructure	43,571,467	466,270	(31,014)	44,006,723
Library Materials	13,416,646	375,061	(2,775,967)	11,015,740
Software	6,230,830	209,017	-	6,439,847
Total Depreciable Capital Assets, Cost	<u>310,160,867</u>	<u>3,667,508</u>	<u>(3,247,019)</u>	<u>310,581,356</u>
Accumulated Depreciation				
Buildings	66,360,543	6,139,493	(241,216)	72,258,820
Equipment	10,472,891	1,630,986	(182,034)	11,921,843
Infrastructure	26,431,781	1,214,843	(6,668)	27,639,956
Library Materials	10,844,064	476,054	(2,775,967)	8,544,151
Software	5,936,147	138,450	-	6,074,597
Total Accumulated Depreciation	<u>120,045,426</u>	<u>9,599,826</u>	<u>(3,205,885)</u>	<u>126,439,367</u>
Depreciable Capital Assets, Net	<u>190,115,441</u>	<u>(5,932,318)</u>	<u>(41,134)</u>	<u>184,141,989</u>
All Capital Assets, Net	<u>\$ 211,307,763</u>	<u>\$ 15,773,109</u>	<u>\$ (3,026,896)</u>	<u>\$ 224,053,976</u>

8. DEFERRED OUTFLOWS OF RESOURCES

The composition of deferred outflows of resources as June 30, 2014, is summarized as follows:

Deferred loss - 9(c) General Obligation Bonds Refundings	\$ 1,001,425
Deferred loss - VCBA Pooled Bonds/Notes Payable Refundings	<u>1,395,453</u>
Total deferred outflows of resources:	<u>\$ 2,396,878</u>

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2014:

Employee salaries, wages, and fringe benefits payable	\$3,842,177
Vendors and suppliers accounts payable	4,530,420
Retainage payable	1,117,382
Interest payable	<u>473,201</u>
 Total accounts payable and accrued expenses	 <u>\$9,963,180</u>

10. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 11), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2014, is presented as follows:

Category	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Long Term Debt:					
9 (c) General Obligation Bonds	\$ 19,187,304	\$ 1,814,466	\$ 3,584,179	\$17,417,591	\$1,542,991
Unamortized Premium	<u>1,923,781</u>	<u>228,379</u>	<u>206,153</u>	<u>1,946,007</u>	<u>243,592</u>
	21,111,085	2,042,845	3,790,332	19,363,598	1,786,584
VCBA Pooled Bonds	33,940,000	-	2,130,000	31,810,000	2,220,000
Unamortized Premium	<u>3,046,751</u>	<u>-</u>	<u>293,653</u>	<u>2,753,098</u>	<u>293,650</u>
	36,986,751	-	2,423,653	34,563,098	2,513,650
Installment Purchases	275,186	-	37,124	238,062	45,098
 Total Long Term Debt	 <u>58,373,023</u>	 <u>2,042,845</u>	 <u>6,251,109</u>	 <u>54,164,758</u>	 <u>4,345,332</u>
Accrued Compensated Absences	1,637,803	946,855	892,931	1,691,727	534,802
Federal Loan Program Contribution	<u>1,383,944</u>			<u>1,383,944</u>	
Total Long Term Liabilities	<u>\$ 61,394,770</u>	<u>\$ 2,989,700</u>	<u>\$ 7,144,040</u>	<u>\$ 57,240,429</u>	<u>\$ 4,880,134</u>

11. LONG-TERM INDEBTEDNESS

9(c) General Obligation Bonds Payable

Longwood University bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. The following bonds of the University are Section 9(c) bonds. These bonds are backed by the full faith, credit, and taxing power of the Commonwealth, and are issued to finance capital projects which, when completed, will generate revenue to repay the debt.

General Obligation Bonds payable at June 30, 2014, consist of the following:

Residence hall:	Interest Rates	Maturity	Amount
Renovate housing facilities, 2005-A 1	3.50 - 5.00%	2025	\$ 180,000
Renovate housing facilities, 2006-B 1	4.00 - 5.00%	2026	530,000
Renovate housing facilities, 2007-B 1	4.00 - 5.00%	2027	2,025,000
Renovate housing facilities, 2008-B 1	4.00 - 5.00%	2028	3,665,000
2005 Refunded Portion Fac. Renovations, 2009, D 1	4.00 - 5.00%	2022	1,340,000
2006 Refunded Portion Fac. Renovations, 2009, D 2	4.00 - 5.00%	2022	1,655,000
2012 Housing Facilities Ren - 2005 Ref Portion, 2012, A 2	4.00 - 5.00%	2024	544,804
2013 Housing Facilities Ren - 2005A Ref Portion, 2013, B 1	3.00 - 5.00%	2025	471,682
2013 Housing Facilities Ren - 2006B Ref Portion, 2013, B 2	4.00 - 5.00%	2026	1,851,882
2013 Ren Cox Hall - 2007B Ref Portion, 2013, B 3	4.00 - 5.00%	2025	2,460,581
2014 B 1 99 Ref of Residence hall improvements, 2004-B R	4.00 - 5.00%	2019	880,094
Dining hall:			
Dining hall, series 2012-A 1	4.00 - 5.00%	2016	879,177
2014 B 2 99 Ref of Dining Hall - 2004B Ref Portion	4.00 - 5.00%	2019	934,371
Total bonds payable			<u>\$ 17,417,591</u>

A summary of future principal requirements of long-term debt for General Obligation bonds payable as of June 30, 2014, follows:

Year ending June 30	Principal	Interest
2015	\$ 1,542,991	\$ 820,323
2016	1,753,417	746,920
2017	1,360,515	663,694
2018	1,431,169	595,668
2019	1,490,567	527,161
2020-2024	6,143,168	1,691,222
2025-2029	3,695,764	344,576
Total	<u>\$ 17,417,591</u>	<u>\$ 5,389,564</u>
Add: Unamortized Premium	1,946,007	
Total	<u>\$ 19,363,598</u>	

VCBA Pooled Bonds Payable

The University received Virginia College Building Authority loans to cover construction expenses. These notes are due as shown below:

Virginia College Building Authority:

Notes payable:

	Interest Rates	Maturity	Amount
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 - 5.00%	9/2024	\$255,000
Soccer fields, Lancer gym, and Blackwell, Fitness center 2005-A	3.00 - 5.00%	9/2025	2,590,000
Fitness center, Blackwell, and heating plant III, Baseball/softball 2006-A	3.00 - 5.00%	9/2026	5,445,000
Lacrosse/field hockey complex, baseball/ softball, heating plant phase II & III 2007-A	3.00 - 5.00%	9/2027	5,700,000
Fitness center and parking garage 2007-B	3.00 - 5.00%	9/2022	1,845,000
Athletic offices, heating plant phase III Student union 2009-A	3.00 - 5.00%	9/2028	3,175,000
Fitness Center and parking garage 2010-B	3.00 - 5.00%	9/2022	2,265,000
Fitness Center, Lacrosse/field hockey, Soccer fields, Lancer gym, Blackwell and Heating Plant II 2012-A	3.00 - 5.00%	9/2025	10,535,000
			<u>\$31,810,000</u>

A summary of future principal requirements of VCBA Pooled Bonds Payable as of June 30, 2014, follows:

Year ending June 30	Principal	Interest
2015	\$2,220,000	\$1,437,825
2016	2,310,000	1,331,219
2017	2,420,000	1,218,856
2018	2,520,000	1,101,663
2019	2,645,000	977,413
2020-2024	13,200,000	2,954,550
2025-2029	6,495,000	442,488
Total	31,810,000	\$9,464,014
Add: Unamortized Premium	2,753,098	
Total	<u>\$34,563,098</u>	

12. DEFERRED INFLOWS OF RESOURCES

The composition of deferred inflows of resources at June 30, 2014, is summarized as follows:

Deferred gain - 9(c) General Obligation Bonds Refundings	\$ 14,500
Total deferred inflows of resources:	<u>\$ 14,500</u>

13. COMMITMENTS

Construction Contracts

As of June 30, 2014, outstanding commitments for capital outlay projects totaled approximately \$13,826,771.

Operating Leases

The University is committed under various operating lease agreements primarily for buildings and equipment. Rental expense for the fiscal year ended June 30, 2014, was \$1,040,062. The University has, as of June 30, 2014, the following total future minimum rental payments due under the above leases:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2015	\$1,096,216
2016	735,534
2017	633,857
2018	401,686
2019	106,759
2020 - 2024	<u>1,400</u>
Total	<u><u>\$2,975,452</u></u>

Installment Purchase Agreements

The University has entered into an installment purchase contract to finance the acquisition of software and equipment. The remaining length of the purchase agreement is one year. Payment on this commitment is as follows:

<u>Fiscal Year</u>	<u>Installment Purchase</u>
2015	\$ 45,096
2016	45,096
2017	45,096
2018	31,596
2019	31,596
2020 - 2024	<u>39,582</u>
Total	<u><u>\$ 238,062</u></u>

Other Contractual Agreements

The University was committed to pay Longwood University Real Estate Foundation \$9,869,231 pursuant to a support agreement related to student housing (Lancer Park, Longwood Landings, Longwood Village, and North Campus). The University was also contractually committed to payments totaling \$181,652 relative to an energy performance contract. The University has, as of June 30, 2014, the following total future payments due under the above agreements:

<u>Fiscal Year</u>	<u>Contractual Agreements</u>
2015	\$ 8,617,121
2016	1,277,958
2017	13,528
2018	13,948
2019	14,380
2020	14,827
2021	15,287
2022 - 2028	<u>83,834</u>
Total	<u>\$ 10,050,883</u>

14. LONG-TERM DEBT DEFEASANCE

On April 16, 2014 the Commonwealth, on behalf of the University, issued \$1,814,466 in General Obligation bonds, Series 2014-B with a true interest cost (TIC) of 2.600134% to advance refund \$1,979,013 of an outstanding Series 2004-B. The bonds were issued to provide funds to provide debt service savings for the Commonwealth. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The debt defeasance resulted in an accounting loss of \$58,562 for the University. The defeasance will reduce the University's total debt service payments for these bonds by \$187,263 over the next six years.

In addition to the 2004-B, 2005-A, 2006-B, 2007-B bond series, certain 2002-A, 2003A, 2004-A, 2004-B, 2005-A, 2006-A, 2008-B, and 2009-A Higher Education Bonds were defeased by the University in prior years. As with the 2014-B Higher Education Bonds noted above, the net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. As of June 30, 2014, \$23,817,594 of the defeased bonds are outstanding.

15. STATE APPROPRIATIONS

During the year ended June 30, 2014, the following changes were made to the University's original operating appropriation, including supplemental appropriations received in accordance with the Virginia Acts of Assembly, Chapter 806.

Original Appropriation:	
Educational and General Programs	\$23,618,254
Student Financial Assistance	4,182,842
Supplemental Adjustments:	
Central Fund Adjustments	1,359,997
Carryforward	20
VIVA	8,324
SVRTC	58,905
Military Survivors	22,275
2-Year Transfer Grant	62,500
HEETF Payment	(54,746)
Capital Out-of-State Fee	(111,276)
FY 2014 Reversion	<u>(20)</u>
Adjusted Appropriations	<u>\$ 29,147,075</u>

16. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Other	Depreciation/Amortization	Total
Instruction	\$ 21,031,774	\$ 6,425,838	\$ 2,476,865	\$ -	\$ 7,147	\$ 1,044,260	\$ -	\$ -	\$ 30,985,884
Research	7,552	10,042	45,072	-	-	3,600	-	-	66,266
Public service	913,932	257,128	93,881	-	2,591	8,530	-	-	1,276,062
Academic support	4,282,261	1,356,030	1,832,963	-	2,603	1,032,563	-	-	8,506,420
Student services	2,422,558	957,200	620,257	-	5,268	30,219	-	-	4,035,502
Student aid	-	-	-	9,103,516	-	-	-	-	9,103,516
Institutional Support	4,770,701	2,475,656	1,315,170	-	106,011	619,629	-	-	9,287,167
Operation & Maintenance of Plant	2,645,658	1,444,347	1,514,523	-	2,118,552	206,362	-	-	7,929,442
Depreciation	-	-	-	-	-	-	-	9,162,108	9,162,108
Amortization	-	-	-	-	-	-	-	138,450	138,450
Auxiliary activities	9,906,303	2,541,242	13,754,675	-	1,567,641	10,034,306	-	-	37,804,167
Other Expenses	-	-	-	-	-	-	31,730	-	31,730
Total	\$ 45,980,739	\$ 15,467,483	\$ 21,653,406	\$ 9,103,516	\$ 3,809,813	\$ 12,979,469	\$ 31,730	\$ 9,300,558	\$ 118,326,714

17. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

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 system (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 separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The CAFR discloses the unfunded pension benefit obligation at June 30th, 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 \$2,156,735 for the year ended June 30, 2014. These contributions included the employee contribution assumed by the employer. For fiscal year 2014, the rate was 8.76 percent. Contributions to the VRS were calculated using a base salary amount of approximately \$24,267,467 for the fiscal year ended June 30, 2014. The University's total payroll was approximately \$45,980,739 for the year ended June 30, 2014.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in two optional retirement plans, which include: Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) and Fidelity. These are defined contribution plans where retirement benefits received are based upon employer and employee contributions plus interest and dividends. Total contributions to employees who became members prior to July 1, 2010, were 10.4 percent (employer paid). Total contributions to employees who became members on or after July 1, 2010, were 13.5 percent (8.5 percent employer paid and 5 percent employee paid).

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 these plans were approximately \$1,609,908 for the year ended June 30, 2014. Contributions to the optional retirement plan were calculated using the base salary amount of approximately \$16,391,898.

Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State 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 dollar amount match 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. Employer contributions under the Deferred Compensation Plan were approximately \$205,435 for the fiscal year ended June 30, 2014.

18. POST-EMPLOYMENT BENEFITS

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

19. CONTINGENCIES

Longwood University receives assistance from non-State grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements, including the expenditure of resources for eligible purposes. Substantially all grants are subject

to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of Longwood University. As of June 30, 2014, Longwood University estimates that no material liabilities will result from such audits.

20. RISK MANAGEMENT

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

21. PENDING LITIGATION

The University is a party to various legal actions and other claims in the normal course of business. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial position.

22. COMPONENT UNITS

The Financial reporting entity is defined by GASB Statement 14, *The Financial Reporting Entity*, and GASB Statement 39, *Determining Whether Certain Organizations are Component Units*. The reporting entity consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion could cause the financial statements to be misleading or incomplete. These statements address the conditions under which institutions should include associated fund-raising foundations as component units in their basic financial statements and how such component units should be displayed in the basic financial statements.

The University has three component units as defined by GASB Statement 39. These organizations are separately incorporated tax-exempt entities and have been formed to promote the achievements and further the aims and purposes of the University. Two of the component units, Longwood University Foundation, Inc. and Longwood Real Estate Foundation are included in the body of the financial

statements as discrete component units and the Longwood University Trust, Inc. will be included as a blended component unit.

The Longwood University Foundation assists the University in raising, investing, and distributing funds to support various University operating and endowment programs. The thirty-two member board of the Foundation is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income from the resources, that the Foundation holds and invests 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 benefits of the University, the Foundation is considered a component unit and is discretely presented in the University's financial statements.

The Longwood University Foundation's financial statements include the accounts of the Foundation and its supporting organizations, the Duvahl Ridgeway Hull and Andrew W. Hull Charitable Foundation and the Hull Springs Farm Foundation. The Foundation receives 85% of the Hull Foundation's net income. The Hull Foundation includes two charitable remainder trusts and other investments. The Foundation's financial statements are audited by Cherry Bekaert, LLP. Complete financial statements can be obtained from the Longwood University Foundation at 201 High Street, Farmville, Virginia 23909.

The Longwood Real Estate Foundation is operated to receive, maintain, and administer assets in perpetuity exclusively for charitable and educational purposes and assists the University in real property acquisition, management, and maintenance. The Foundation's Board of Directors consists of nine members; six directors appointed by the Longwood University Board of Visitors and three ex-officio directors consisting of the University Vice President for Administration and Finance, the University's Real Property Manager, and the Vice President for Facilities Management. The University does not control the day-to-day activities of the Real Estate Foundation; however, the majority of Real Estate Foundation activity is for the benefit of the University.

The Longwood University Real Estate Foundation's financial statements include the accounts of the Real Estate Foundation and its wholly owned subsidiaries, Longwood Housing Foundation, LLC, Longwood Woodland Pond Housing Foundation, LLC, Longwood Woodland Pond Development Foundation, LLC, and Longwood North Campus Housing Foundation, LLC (collectively, the "Foundation"). The Real Estate Foundation's financial statements are audited by Elliott Davis, LLC. Complete financial statements can be obtained from the Longwood University Real Estate Foundation at 315 West Third Street, Farmville, VA 23901.

The Longwood University Trust, Inc. (the Trust) began operations during the year ended June 30, 2014. The Trust is also a legally separate organization, and its

purpose is to support the educational and charitable purposes of the University. The initial three member board of the Trust consists of the President of the University, Vice President for Administration and Finance of the University, and the Rector of the University's Board of Visitors. Because of the nature of its relationship with the University, under GASB Statement 39 standards, the Longwood University Trust, Inc. is considered part of the reporting entity and will be presented in the University's financial statements as a blended component unit. Due to the timing of its formation, the activity of the Longwood University Trust, Inc. was not included in the University's financial statements for fiscal year 2014. At June 30, 2014, there was an outstanding receivable for the Longwood University Trust in the amount of \$100,000 that was reported on the University's Statement of Net Position. This receivable was not eliminated due to the timing of the Trust's formation.

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments of the Longwood Foundation

Investments and the beneficial interest in the perpetual trust portfolio are comprised of the following at June 30, 2014:

	2014	
	Cost	Market Value
Cash and cash equivalents	\$ 7,141,135	\$ 7,141,135
Investments:		
Government bonds, corporate obligations, and fixed income securities	3,664,733	3,212,098
Corporate stocks and mutual funds	583,280	850,690
Limited partnership	42,443,571	52,169,645
Total investments	<u>46,691,584</u>	<u>56,232,433</u>
Beneficial interest in perpetual trust:	<u>2,094,352</u>	<u>2,397,105</u>
Total	<u>\$ 55,927,071</u>	<u>\$ 65,770,673</u>

Cash and cash equivalents includes operating cash of \$5,592,640 as of June 30, 2014.

Investment fees netted against the related investment income or net realized and unrealized gain (loss) on investments for the year ended June 30, 2014 was \$691,108.

In April 2010, the Longwood University Foundation became a partner in the Richmond Fund, LP, a Virginia limited partnership (the "Fund") managed by Spider Management Company, LLC, a Virginia limited liability company and wholly-owned subsidiary of the University of Richmond. The Fund is only available to tax-exempt organizations described in section 501(c) of the Internal Revenue Code to which contributions may be made that are deductible under

Code section 170 and are “accredited investors” within the meaning set forth in Rule 501 (a) of Regulation D under the Securities Act of 1933, as amended.

The Fund’s investment objective is to provide steady gains during market upswings through a diverse array of public/private and domestic/international investments, while preserving capital during market downturns. The Fund is invested as if it is part of the endowment of the University of Richmond, and the time weighted returns for the Fund and the University of Richmond are blended on a quarterly basis. The assets of the Fund, when combined with the University of Richmond’s endowment assets on a pro forma basis, will be invested in accordance with the University of Richmond’s Investment Policy Statement. The Longwood University Foundation’s initial investment in the Fund on July 1, 2010 is subject to an initial five-year lockup period and certain withdrawal restrictions.

At June 30, 2014, the Fund consisted of 24 partners and the Foundation’s interest in the Fund represents 3.49% of the total partnership capital. The Fund is audited on a semi-annual basis on June 30 and December 31.

The Longwood University Foundation has estimated the fair value of the investment in the Fund on the basis of the net asset value (“NAV”) per share of the Fund (or its equivalent), as a practical expedient, because a) the underlying investment manager’s calculation of the NAV is fair value based, and b) the NAV has been calculated as of the Foundation’s fiscal year end date. The Longwood University Foundation believes that the stated value of the investment in the Fund is a reasonable estimate of fair value as of June 30, 2014, however, due to the absence of quoted market prices and the significance of unobservable inputs in determining the value of its partnership capital account, this investment is classified as Level 3 within the fair value hierarchy.

Longwood University Foundation Beneficial Interest in Perpetual Trust

The Longwood University Foundation is the beneficiary of the annual income earned from the Nellie Ward Nance Trust (the “Nance Trust”) held by Wells Fargo Bank, N.A. The assets of the Nance Trust are neither in the possession nor under the control of the Foundation.

At June 30, 2014, the fair market value of the Nance Trust was \$2,397,105, which is recorded in the Longwood University Foundation’s consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2014, were \$104,267 and \$183,677, respectively.

Longwood University Real Estate Foundation Restricted Deposits and Funded Reserves

In accordance with bond agreements, the Longwood University Real Estate Foundation has the following restricted deposits and funded reserves which are held by a Trustee:

Debt service reserve fund	\$ 3,000,000
Repair and replacement account	962,735
General fund	<u>541,876</u>
	<u>\$ 4,504,611</u>

B. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Longwood University Foundation contributions receivable consisted of the following at June 30, 2014:

	<u>2014</u>
Cash pledges expected to be collected in:	
Less than one year	\$ 443,707
One year to five years	695,353
Over five years	<u>3,926,427</u>
	5,065,487
Less:	
Discount to present value at 5%	<u>(2,082,114)</u>
Total	<u>\$ 2,983,373</u>

The use of funds from contributions receivable have been restricted by donors for future use as follows:

Temporarily Restricted	\$ 2,532,214
Permanently Restricted	<u>451,159</u>
Total	<u>\$ 2,983,373</u>

At June 30, 2014, the Foundation had received bequests and other intentions to give of approximately \$7,120,406. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors.

The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

C. CAPITAL ASSETS

Longwood University Foundation

Land	\$ 1,229,185
Longwood Center for Visual Arts Collection	4,178,666
Buildings	1,441,071
Property and Equipment	34,762
Vehicles	<u>166,760</u>
Total cost of capital assets	7,050,444
Less: accumulated depreciation	<u>(478,226)</u>
Total capital assets, net	<u>\$ 6,572,218</u>

Longwood University Real Estate Foundation

Land	\$ 9,001,473
Land Improvements	10,761,821
Buildings	75,659,191
Furniture and Equipment	3,650,250
Leasehold Improvements	<u>603,369</u>
Total cost of capital assets	99,676,104
Less: accumulated depreciation	<u>(12,576,362)</u>
Total capital assets, net	<u>\$ 87,099,742</u>

Interest expense capitalized was \$697,033 for 2013.

D. LONG-TERM INDEBTEDNESS

Longwood University Real Estate Foundation

Long-term debt is as follows at December 31, 2013:

Variable Rate Educational Facilities Revenue Refunding Bonds, Series 2012B, total principal payments of \$2,650,000 over a 4-year term with a balloon payment for the remaining principal due at maturity on August 31, 2017. The interest rate is equal to 1.50% plus 70% of LIBOR (1.61% at December 31, 2013).	\$ 39,705,000
Fixed Rate Educational Facilities Revenue Bonds, Series 2012A, five (5) year term, maturing on August 31, 2017, with a rate of 2.94%.	45,000,000
Deed of trust promissory note, 3.50%, due in monthly payments of principal and interest of \$11,651, maturing December 30, 2016. Collateralized by the Woodland Ponds Condominium units and land.	1,864,013
Deed of trust note payable, 4.85%, due in monthly payments of principal and interest of \$13,311, maturing July 28, 2028. Collateralized by the property known as the Lumber Yard.	1,661,124
Deed of trust note payable, 4.24%, due in monthly payments of principal and interest of \$22,273, maturing July 28, 2033. Collateralized by the building at 315 West Third Street.	3,552,005
Deed of trust note payable, 4.24%, due in monthly payments of principal and interest of \$7,410, maturing August 1, 2018. Collateralized by equipment at 315 West Third Street,	375,022
Deed of trust note payable, 7.09%, due in monthly payments of principal and interest of \$1,687, maturing June 5, 2014. Collateralized by the property known as 113 West Third Street.	9,937
Deed of trust note payable, 7.09 %, due in monthly payments of principal and interest of \$5,074, maturing February 7, 2032. Collateralized by the property known as the Old Tobacco Warehouse.	571,139
Uncollateralized promissory note payable, 30-day LIBOR plus 2.00% (2.16% December 31, 2013), due in monthly principal payments of \$10,717, with a balloon payment for the remaining principal due at maturity on September 28, 2018.	<u>1,264,624</u>
	94,002,864
Less - current portion	<u>(1,639,743)</u>
	<u>\$ 92,363,121</u>

During 2012, the Longwood University Real Estate Foundation received financing through the issuance of Educational Facilities Variable and Fixed Rate Demand Revenue and Refunding Bonds Series 2012A and 2012B and through the Industrial Development Authority of the Town of Farmville. The Series 2012A bonds were issued in the amount of \$45,000,000 to finance the acquisition, construction, and equipping of student housing for the Longwood North Campus Student Housing Project. The Series 2012B bonds were issued in the amount of \$40,400,000 to refund \$41,855,000 in Educational Facilities Variable Rate Demand Revenue Bonds, Series 2007 and to finance the acquisition, construction,

and equipping of student housing and a pedestrian bridge between the student housing and the Longwood University campus. The loan agreement is collateralized by a deed of trust which grants the credit institution a first priority lien on and a security interest in the property and equipment collateralized. The Series 2012A and 2012B bonds mature on August 31, 2017.

The Series 2012A and 2012B bonds are cross-collateralized under the debt agreement, thereby constituting both bonds to default if either of the bond obligations is defaulted against. Upon default of either bond, the Purchaser (the Bank) may at its option declare the entire principal balances and all accrued interest to be due and payable on demand.

At December 31, 2013, the total amount advanced under the Series 2012A bond was \$45,000,000. The loan requires monthly, interest only payments until August 31, 2014, at which time principal payments of \$1,180,000 are due over a three-year term with a balloon payment for the remaining principal due at maturity. The bond has a fixed interest rate of 2.94%.

The bond agreements require the establishment and maintenance of several reserve accounts for the collecting, holding and disbursement of funds related to the issuance of the bonds, payment of project costs, collection of project revenue, and repayment of principal and interest. The Foundation is required to deposit into the repair and replacement reserve account an amount equal to \$150 per bed unit each year. By submitting a requisition to the Trustee, the Foundation may request withdrawals from this fund at any time, and there is no minimum balance requirement. These accounts are disclosed in Note 7 of the Longwood University Real Estate Foundation, LLC footnotes.

Under the bond agreement, the University will rent units in the projects only to students, faculty, and other persons under the same rental program it uses for its own student housing facilities. The agreement requires preferential treatments in that the University must assign all of its students in need of housing first to the Longwood Student Housing Projects, until 95% of the units in the Longwood Student Housing Projects have been filled.

The bond series is subject to a management agreement between the University and the Real Estate Foundation. The agreement appoints the University as manager of each housing project. As such, the University is charged with setting and collecting all rents (referred to as Project Revenue) and providing all personnel resident advisory and education staffing. The University will be responsible for all maintenance. The Real Estate Foundation will be required to furnish housekeeping, janitorial, utilities, and insurance.

The University will be charged with maintaining a Project Revenue account. Such funds are to be held by the University solely on behalf of the Real Estate Foundation and are not to be commingled with general University funds. These

funds are to be used to pay the expenses of the University related to the projects as well as any principal or interest payments on the bonds as directed by the Real Estate Foundation.

The management agreements are effective for a five year period beginning at the settlement date of the bonds. Thereafter, they can be renewed for successive five year terms, unless terminated by either party.

Under the bonds, the Real Estate Foundation is required to meet certain debt coverage ratios. As of December 31, 2013, the Real Estate Foundation's management was not aware of any violations of compliance with the requirements of the loan agreements.

Maturities under long-term debt are as follows:

2014	\$1,639,743
2015	1,791,218
2016	3,646,645
2017	82,112,149
2018	343,284
Thereafter	<u>4,469,825</u>
Total	<u>\$ 94,002,864</u>

The Real Estate Foundation executed a fixed-to-floating interest rate swap agreement in order to reduce its exposure to interest rate risk in connection with the variable rate bonds. The agreement requires fixed rate payments of 4.065% on a notional amount that approximates the outstanding principal of the bonds. The swap agreement expires September 1, 2036, covering the life of the bonds. The agreement is recorded at fair value which was unfavorable to the organization in the amount of \$7,416,512 at December 31, 2013. The swap is revalued each year and the change in value is reported in the consolidated statements of activities as a change in net position. The Foundation is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Foundation does not anticipate nonperformance by the counterparties.

Longwood University Real Estate Foundation Line of Credit

The Real Estate Foundation has an uncollateralized revolving line of credit with a bank in the amount of \$4,000,000. This line is used to acquire, develop, improve, and operate real estate assets located in and around the Town of Farmville, including real estate which has been identified by the University as land or land improvements that fall within its Master Plan. Interest is charged at the Wall Street Journal Prime Rate plus 0.50%, with a floor of 4.00% (4.00% at December 31, 2013). Interest only payments are due monthly and principal is due upon

expiration of the line on July 19, 2014. The outstanding balance on this line was \$3,230,679 as of December 31, 2013. The Real Estate Foundation is required to meet certain debt coverage ratios under this line. As of December 31, 2013, the Real Estate Foundation's management was not aware of any violations of compliance with the requirements of the loan agreement.

The Real Estate Foundation has an uncollateralized credit line promissory note agreement dated March 29, 2010 with a bank in the amount of \$2,000,000. Advances under the line are used for the purpose of financing various projects essential to the University, including, without limitation, the completion of a pedestrian bridge. In 2013, the note was converted to a promissory note with a maturity of September 28, 2018. The outstanding balance on this line was \$1,539,572 as of December 31, 2012.

E. COMMITMENTS

Longwood University Foundation Operating Lease

In November 1998, the Longwood University Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Longwood University Foundation leased the real estate to the University for the same lease term. At June 30, 2004, an option to purchase the property for \$555,000 was exercised by the Longwood University Foundation. The Longwood University Foundation continues to lease the property to the University on a month-to-month basis, with \$20,000 of rental income recognized in the year ended June 30, 2014.

The Foundation is leasing certain real estate under capital lease agreement for a term of five years. On October 1, 2009, the Foundation began subleasing the real estate to Longwood University under an operating sublease agreement, the terms of which provide for a current annual rental payment of \$12, payable monthly through June 30, 2014. Rental income recognized under this sublease agreement totaled \$12 in the year ended June 30, 2014.

Longwood University Foundation Capital Lease Obligation

On July 1, 2009, the Foundation entered into a capital lease agreement with Longwood University Real Estate Foundation (the "Real Estate Foundation") to lease a storage building. The lease expired June 30, 2014, at which time the Longwood University Foundation exercised its option to purchase the property for \$1. The lease provides for a current annual rental payment of \$17,000 plus interest of 7.10%.

The payment terms described above are consistent with the payment terms of a note payable between the Real Estate Foundation and a local bank. Prior to the execution of the capital lease agreement, the Board of Directors of the Longwood

University Foundation agreed to original payment terms which included interest at 4.75%. As a result of the change in the final interest rate, the Real Estate Foundation agreed to refund the Longwood University Foundation the difference in the annual rental payment between interest at 7.10% and 4.75%. The refund of \$1,112 each year is netted against administrative and general expenses in the Longwood University Foundation's consolidated statement of activities.

The total cost of depreciable property held under the capital lease obligation was \$85,000 at June 30, 2014. Accumulated depreciation on such property was \$10,625 at June 30, 2014.

Longwood University Foundation – Other Commitments

As of June 30, 2014, the Longwood University Foundation has a standby letter of credit agreement with a local bank in the amount of \$700,000. This letter of credit, which is set to expire on August 24, 2015, was issued in favor of the Virginia Department of Environmental Quality as required in connection with the Hull Springs Farm wetland mitigation bank program.

Longwood University Real Estate Foundation - Longwood Landings

The Longwood University Real Estate Foundation owns property known as Longwood Landings at Mid-Town Square (Longwood Landings). The property combines student housing and commercial space in a series of four buildings together with associated parking and improvements. The Real Estate Foundation owns the student housing on the property together with the associated parking and improvements. The first floor commercial space is owned by the developer of the property. The ownership of the property is in the form of a commercial condominium, whereby the Real Estate Foundation owns the top three floors of each building while the developer retains ownership of the first floor of each building. The Real Estate Foundation is a member in the Midtown Square Condominium Association, Inc. (Association). As a unit holder in the Association, the Real Estate Foundation pays association dues that are used to pay common costs of the property. Dues of \$34,860 were paid to the Association during 2013.

The Real Estate Foundation leases commercial space from the Association which is then subleased to the University for use as the University bookstore. The lease requires minimum guaranteed rental payments of \$169,212 annually, payable in equal monthly installments. The minimum guaranteed rental shall be increased on the fourth anniversary of the commencement date and every year thereafter. The lease also requires additional rent defined as the tenant's proportionate share of operating costs, insurance, taxes, and other charges. The initial term of the lease is for six years, with two ten year optional renewal periods. The commencement date of the lease was August 1, 2011. The University had been paying this lease commitment directly to the Association. No amounts were paid

from the Foundation during 2011. During 2012, the University began to pay the Real Estate Foundation and the Real Estate Foundation paid the Association. Total amount paid to the Real Estate Foundation for the University under the sublease was \$195,427 during 2013.

The Real Estate Foundation also leases commercial space from the Association for use as a student commons area. The lease requires minimum guaranteed rental payments of \$82,840 annually, payable in equal monthly installments. The minimum guaranteed rental shall be increased on the first anniversary of the commencement date and every year thereafter. The lease also requires additional rent defined as the tenant's proportionate share of operating costs, insurance, taxes, and other charges. The initial term of the lease is for 10 years, expiring August 2016, with two 10-year renewal option terms.

The future minimum rental payments required under these leases are as follows:

2014	\$272,673
2015	278,126
2016	283,688
2017	108,981
	<u>\$943,468</u>

Longwood University Real Estate Foundation – Leasing Activities

The Real Estate Foundation leases office space, storage, bed space, and parking lots to the University and the Longwood University Foundation under multiple non-cancelable operating leases with terms of one to ten years. These leases are separate from student housing project agreements. The following is a schedule by year of future minimum rental payments to be received under the leases at December 31, 2013:

2014	\$ 639,575
2015	606,234
2016	605,751
2017	524,297
2018	<u>328,030</u>
	<u>\$2,703,887</u>

Future rentals of \$2,693,765 are due from the University, with the remaining \$10,122 due from the Longwood University Foundation.

Longwood University Real Estate Foundation – Lancer Park Athletic Fields

On May 22, 2008, the Longwood University Real Estate Foundation entered a ground lease with Longwood University Foundation, Inc. for land that is adjacent

to the lancer park housing project for development and use as athletic fields, ancillary facilities, and recreation facilities for the University. The ground lease is for a term of 50 years, with options for five additional five year terms. No rent was due during the construction phase which ended July 1, 2009. Thereafter, rent is \$10 per year. All improvements to the property remain the property of the Longwood University Real Estate Foundation until termination of the lease, at which time all improvements shall become the property of Longwood University Foundation, Inc.

Under the lease, the Longwood University Real Estate Foundation agreed to develop the property and make the property available for the University pursuant to the terms of the management agreement that was executed on the same day. The management agreement between the Longwood University Real Estate Foundation and the University appoints the University as manager of the project. The term of the management agreement is 50 years, or termination of the ground lease.

Longwood University Real Estate Foundation – Woodland Pond Condominiums

The Longwood University Real Estate Foundation owns property known as Woodland Pond Condominiums which consists of units that are held as available for sale or lease to the faculty of the Longwood University and 10 acres of undeveloped land.

When units are sold to faculty, the sales agreements for these properties are structured as seller financed non-negotiable wrap-around purchase money notes. The notes bear interest at 6%, are amortized over a 30-year period, and are payable in monthly installments with a final balloon payment due at maturity three years after closing. At December 31, 2013, the Longwood University Real Estate Foundation held two of these notes and they are classified as notes receivable on the Longwood University Real Estate Foundation's consolidated statements of financial position. The notes are collateralized by a wrap-around purchase money second deed of trust. The seller financing, interest, and second deed of trust are subordinate to the first deed of trust, lien, and security interests under the \$2 million promissory note used to finance the Longwood University Real Estate Foundation's purchase of the property.

Under a special warranty deed, the Longwood University Real Estate Foundation has a first right of refusal to repurchase the units under bona fide arm's length terms and conditions. This deed also includes a reserved right to receive 50% of the net proceeds of any bona fide sale of the property to any third party for consideration in excess of the purchase price paid by the faculty member.

F. RELATED PARTY

Longwood University Real Estate Foundation

The Longwood University Real Estate Foundation receives rent from the University for the use of various buildings and parking facilities. The total amount earned for 2013 from these rental arrangements was \$8,031,222. Outstanding receivables for rent from the University at December 31, 2013 were \$248,358.

The Real Estate Foundation pays the University fees under management agreements related to facilities covered by tax-exempt bond issuances. These fees are based on costs to manage the specific properties. Total management fees paid for 2013 were \$460,097. In addition, the Real Estate Foundation reimburses the University for operational costs paid directly by the University related to the housing projects. At December 31, 2013, the Real Estate Foundation had a payable to the University of \$211,556, which is included in accounts payable and accrued expenses on the Real Estate Foundation's consolidated statement of financial position.

The Real Estate Foundation has an agreement with the University to manage the Longwood University Bed & Breakfast, also known as the University Inn (formerly known as the Alumni House). The University is billed for all expenses and the Real Estate Foundation receives no fees for its services. There were no outstanding receivables at December 31, 2013.

During 2009, the Foundation loaned \$57,676 to the Longwood University Foundation to purchase a piece of property in Westmoreland County known as the Yeatman property. This amount is included in receivables at December 31, 2013.

During 2013, the Real Estate Foundation sold the property known as 507 Pine Street to the University at a total purchase price of \$151,962. The date of settlement was February 8, 2013.

Longwood University Foundation

The Foundation received contribution revenue from Board members in the amount of \$299,585 for the year ending June 30, 2014. The amount of contributions receivable due from the Board members totaled \$520,575 at June 30, 2014.

In conjunction with its mission to support the activities and operations of Longwood University, the Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets (including property) leased to the University was \$2,320,611 for June 30, 2014 including land in the consolidated statements of financial position.

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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

May 6, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Longwood University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Longwood University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units of Longwood University, which are discussed in Note 22 – Component Units. 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 Longwood 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 Longwood 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinions.

Opinion

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 aggregate discretely presented component units of Longwood University as of June 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Summarized Comparative Information

We have previously audited Longwood University's 2013 financial statements, and we expressed an unmodified audit opinion on the respective financial statements in our report dated December 13, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2015 on our consideration of Longwood 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 in considering Longwood University's internal control over financial reporting and compliance.


AUDITOR OF PUBLIC ACCOUNTS

KKH/alh

LONGWOOD UNIVERSITY

Farmville, Virginia

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