LONGWOOD UNIVERSITY

FINANCIAL STATEMENTS

For Year Ended June 30, 2013

LONGWOOD UNIVERSITY
ANNUAL FINANCIAL REPORT 2012 – 2013

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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 4,800 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.

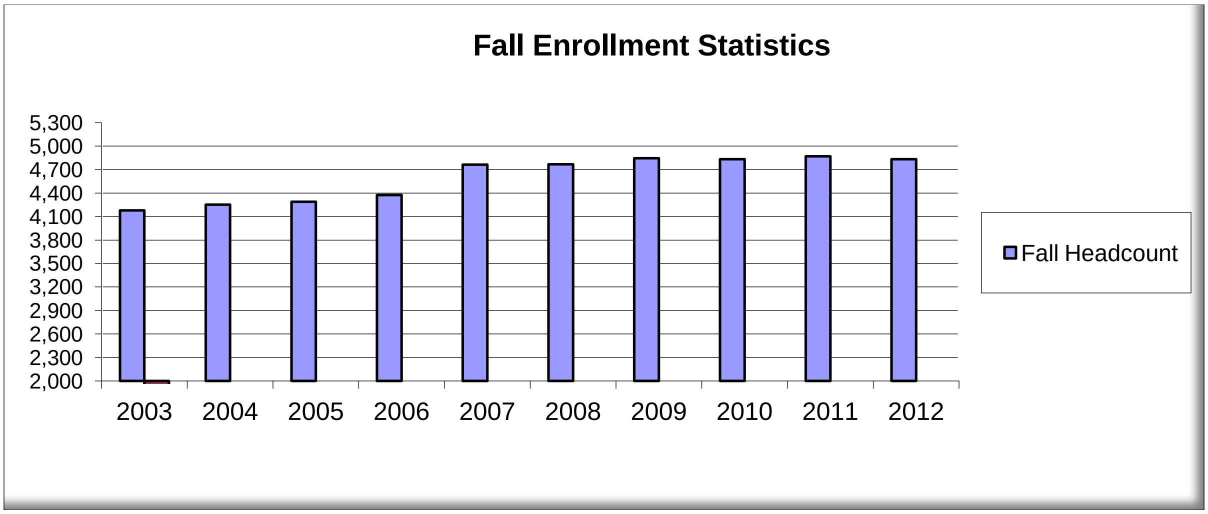
Building upon its strong foundation in the liberal arts and sciences, the University provides an environment in which exceptional teaching fosters student learning, scholarship and achievement. Longwood is dedicated to the development of citizen leaders who are prepared to make positive contributions 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 15th straight year ranked among the best colleges in the annual *U.S. News & World Report* survey. This year's "Best Colleges" report ranks Longwood No. 11 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. 33. Additionally, *The Princeton Review*, an education services company, selected Longwood as one of 135 institutions it recommends in its "Best in the Southeast" section of its *2013 Best Colleges: Region by Region* survey. *The Princeton Review* also selected Longwood one of 75 public institutions to be featured in its book, *The Best Value Colleges: 2012 Edition*. For the third consecutive year, Longwood was included as one of the best colleges in the United States in the annual survey published by *Forbes* magazine.

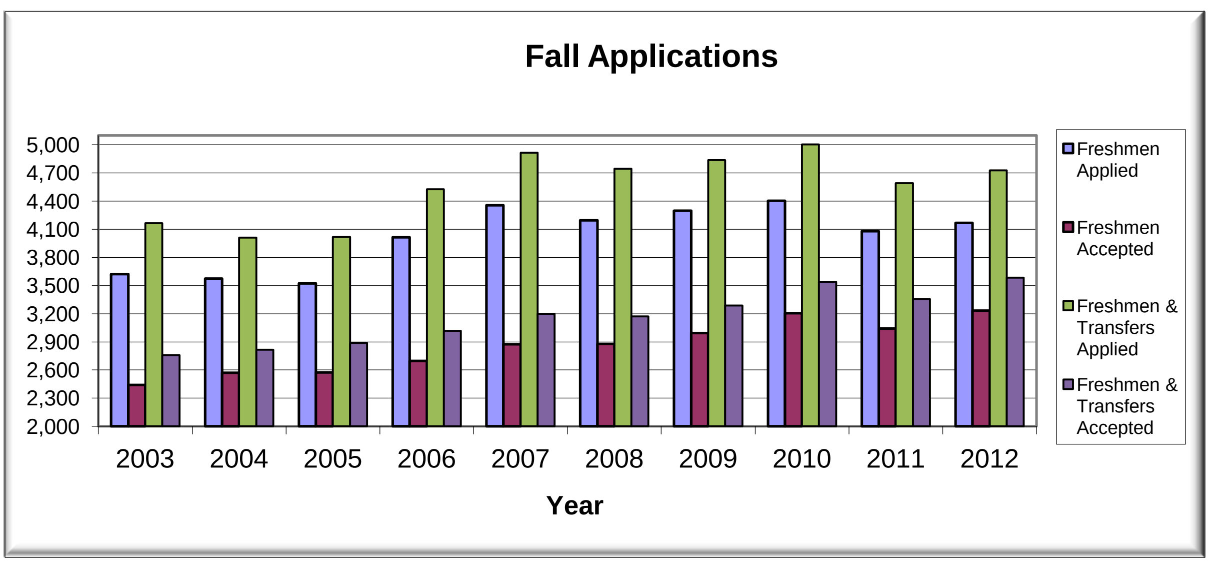
Longwood is an agency of the Commonwealth of Virginia and is, therefore, included as a component unit in the State's Comprehensive Annual Financial Report (CAFR). The thirteen members of Longwood's Board of Visitors govern University operations. Members of the Board are appointed by the Governor of Virginia.

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 4,178 in fall 2003 to 4,834 in fall 2012.



The fall 2012 entering freshmen class remained academically competitive with a grade-point average of 3.45, an average SAT score of 970 - 1120, and an average ACT score of 20 - 24. Total freshman applications increased from 4,080 in fall 2011 to 4,167 in fall 2012.



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, 2013, with comparative information presented for the fiscal year ended June 30, 2012, 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 No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. The University has two foundations whose financial information is presented in the statements under the columns titled "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				
	Year Ended June 30,		Increase/(Decrease)	
	2013	2012	Amount	Percent
Total operating revenues	$ 78,530,590	$ 78,104,952	$ 425,638	0.54%
Total operating expenses	112,245,629	111,172,561	1,073,068	0.97%
Operating (loss)	(33,715,039)	(33,067,609)	(647,430)	-1.96%
Net nonoperating revenues	30,579,614	30,346,817	232,797	0.77%
Other revenue	12,406,407	9,007,951	3,398,456	37.73%
Total increase	$ 9,270,982	$ 6,287,159	$ 2,983,823	47.46%

On a summary basis, operating revenues increased by $0.4 million or 0.5% from fiscal year 2012 to fiscal year 2013. Operating expenses increased $1.1 million or approximately 1.0% from fiscal year 2012 to fiscal year 2013.

The operating loss was offset by $30.6 million in net non-operating revenues and expenses and $12.4 million in other revenues. Net non-operating revenues and expenses consisted of $28.1 million state appropriations, $4.2 million in Pell revenue, $47,389 in insurance, and $1.2 in investment revenue offset by interest on capital asset related debt of $2.7 million and losses on disposal of capital assets of $184,842.

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, 2013. 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)	
	2013	2012	Amount	Percent
Assets:				
Current assets	$ 58,269,509	$ 50,019,966	$ 8,249,543	16.49%
Noncurrent assets:				
Restricted cash and cash equivalents	6,770,479	8,306,080	(1,535,601)	-18.49%
State appropriations	335,184	1	335,183	100.00%
Capital assets, net	211,307,763	207,849,140	3,458,623	1.66%
Other	964,879	960,802	4,077	0.42%
Total noncurrent assets	219,378,305	217,116,023	2,262,282	1.04%
Total assets	277,647,814	267,135,989	10,511,825	3.94%
Liabilities:				
Current liabilities	19,896,541	14,866,643	5,029,898	33.83%
Noncurrent liabilities	54,264,214	58,053,269	(3,789,055)	-6.53%
Total liabilities	74,160,755	72,919,912	1,240,843	1.70%
Net position:				
Net investment in capital assets	157,213,346	151,917,172	5,296,174	3.49%
Restricted expendable	1,362,214	1,769,748	(407,534)	-23.03%
Unrestricted	44,911,499	40,529,157	4,382,342	10.81%
Total net position	$ 203,487,059	$ 194,216,077	$ 9,270,982	4.77%

Evaluation of Statement of Net Position for Fiscal Years 2012 and 2013

The University's total assets increased by $10.5 million between fiscal years 2012 and 2013. Current assets increased $8.2 million primarily due to an increase in cash and cash equivalents of $3.5 million, an increase in securities lending cash and cash equivalents of approximately $4.0 million, and an increase in prepaid expenses of approximately $0.6 million. Noncurrent assets increased by $2.3 million primarily due to an increase in capital assets of $3.5 million and an increase in appropriations available of approximately $0.3 million offset by a decrease in restricted cash and cash equivalents of $1.5 million due to bond reimbursements from SNAP accounts. Construction in progress decreased by $20.5 million, primarily due to the capitalization of the Bedford Addition/Renovation project expenses in fiscal year 2013 of $23.7 million. Depreciable capital assets increased $25.1 million due primarily to the Bedford Addition/Renovation project completion of $23.7 million. Current liabilities increased $5.0 million primarily due to a $4.2 increase in securities lending obligations. Noncurrent liabilities decreased by $3.8 million due to debt service payments made during the fiscal year.

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)	
	2013	2012	Amount	Percent
Operating revenues	$ 78,530,590	$ 78,104,952	$ 425,638	0.54%
Operating expenses	112,245,629	111,172,561	1,073,068	0.97%
Operating (loss)	(33,715,039)	(33,067,609)	(647,430)	-1.96%
Nonoperating revenues/(expenses)				
State appropriations	28,117,798	25,930,048	2,187,750	8.44%
Higher education stabilization revenue	-	3,051,624	(3,051,624)	-100.00%
Pell grant revenue	4,152,728	3,749,447	403,281	10.76%
Other nonoperating revenues and expenses	(1,690,912)	(2,384,302)	693,390	29.08%
Net nonoperating revenues and expenses	30,579,614	30,346,817	232,797	0.77%
Income/(loss) before other revenues and reductions	(3,135,425)	(2,720,792)	(414,633)	-15.24%
Capital appropriations	12,359,093	8,971,890	3,387,203	37.75%
Other gifts	47,314	36,061	11,253	31.21%
Total other revenues	12,406,407	9,007,951	3,398,456	37.73%
Total increase in net position	9,270,982	6,287,159	2,983,823	47.46%
Net position, beginning of year	194,216,077	187,928,918	6,287,159	3.35%
Net position, end of year	$ 203,487,059	$ 194,216,077	$ 9,270,982	4.77%

Evaluation of Statement of Revenues, Expenses, and Changes in Net Position for Fiscal Years 2012 and 2013

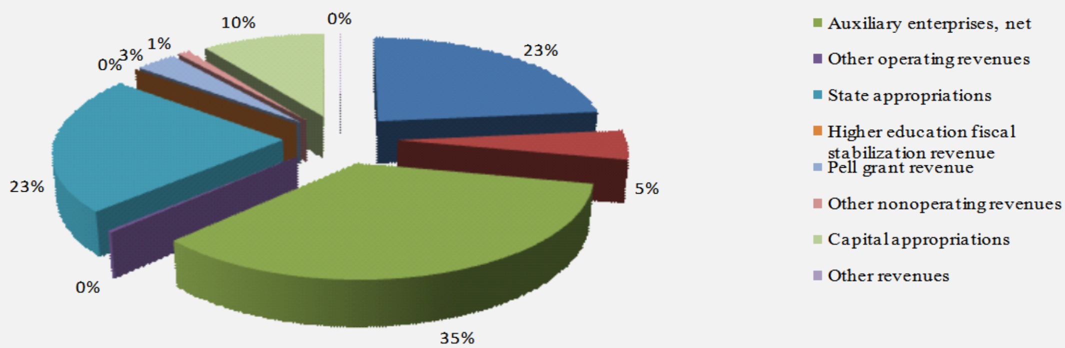
Summary of Revenues

Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of 0.5% totaling $0.4 million from fiscal year 2012 to fiscal year 2013 due to an increase in student tuition and fee charges. Enrollment between fiscal year 2012 and fiscal year 2013 remains relatively flat, as is evidenced in the previous **Enrollment and Admissions** section.

Net non-operating revenues increased approximately $0.2 million. Higher education fiscal stabilization revenue decreased $3.1 million partially offset by an increase in state operating appropriation revenue of $2.2 million and an increase in Pell of $0.4 million. Other revenues increased by $3.4 million primarily due to an increase in state capital appropriations.

Summary of Revenues

For the year ended June 30, 2013



Summary of Revenues
For the years ended June 30, 2013 and 2012

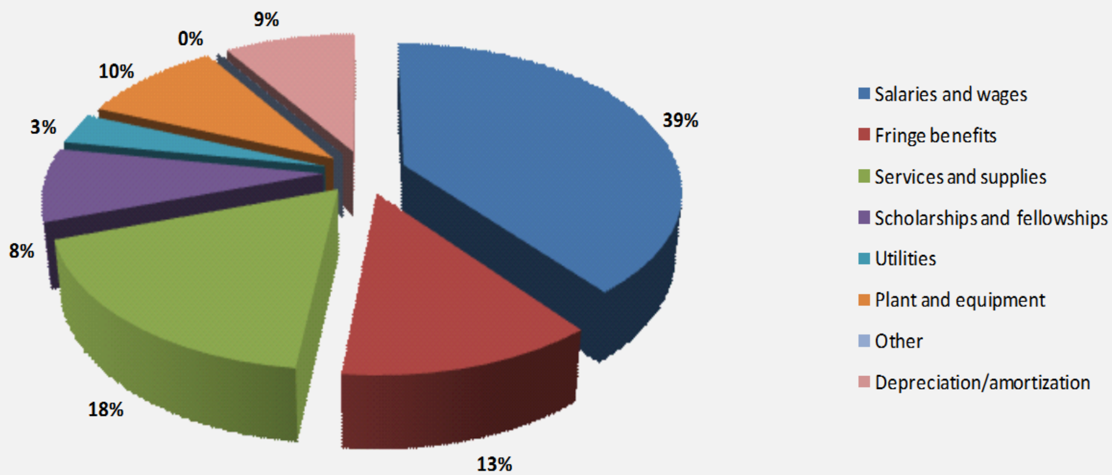
			Increase/(Decrease)	
	2013	**2012**	**Amount**	**Percent**
Operating revenues:				
Student tuition and fees, net	$ 29,082,884	$ 28,764,659	$ 318,225	1.11%
Grants and contracts	5,954,952	6,062,518	(107,566)	-1.77%
Auxiliary enterprises, net	43,110,498	42,843,903	266,595	0.62%
Other operating revenues	382,256	433,872	(51,616)	-11.90%
Total operating revenues	78,530,590	78,104,952	425,638	0.54%
Nonoperating revenues:				
State appropriations	28,117,798	25,930,048	2,187,750	8.44%
Higher education fiscal stabilization revenue	-	3,051,624	(3,051,624)	-100.00%
Pell grant revenue	4,152,728	3,749,447	403,281	10.76%
Other nonoperating revenues	1,220,235	867,204	353,031	40.71%
Total nonoperating revenues	33,490,761	33,598,323	(107,562)	-0.32%
Other revenues				
Capital appropriations	12,359,093	8,971,890	3,387,203	37.75%
Other revenues	47,314	36,061	11,253	31.21%
Total other revenues	12,406,407	9,007,951	3,398,456	37.73%
Total revenues	$ 124,427,758	$ 120,711,226	$ 3,716,532	3.08%

Summary of Expenses

A summary of the University's operating expenses for the years ended June 30, 2013 and 2012 is shown below. Overall, total operating expenses increased approximately $1.1 million in fiscal year 2013 compared to the previous fiscal year. This represents a 1.0% increase.

Summary of Operating Expenses by Natural Classification

For the year ended June 30, 2013

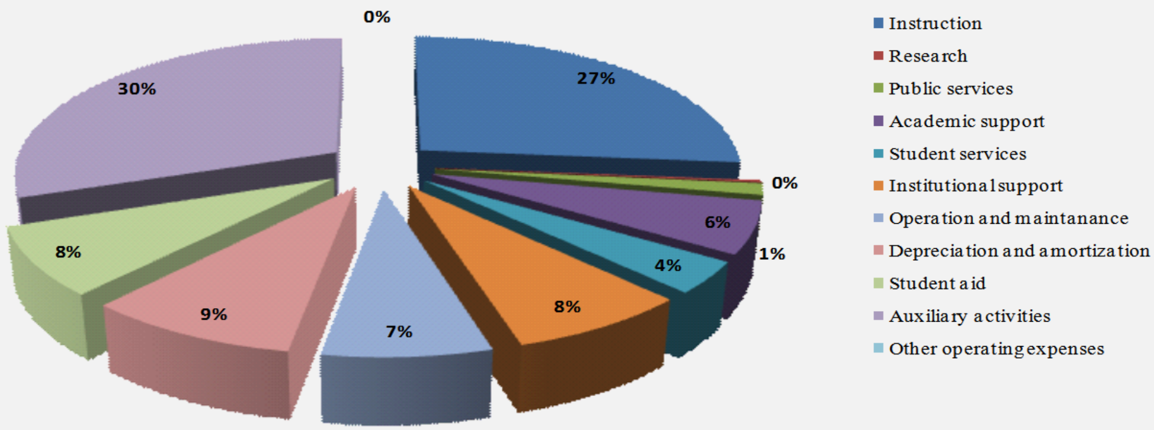


Operating Expenses by Natural Classification
For the years ended June 30, 2013 and 2012

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Salaries and wages	$ 44,152,252	$ 41,719,353	$ 2,432,899	5.8%
Fringe benefits	13,939,265	12,339,775	1,599,490	13.0%
Services and supplies	20,273,889	23,400,146	(3,126,257)	-13.4%
Scholarships and fellowships	8,948,873	8,943,771	5,102	0.1%
Utilities	3,796,992	3,662,367	134,625	3.7%
Plant and equipment	10,930,256	11,419,144	(488,888)	-4.3%
Other	18,273	25,539	(7,266)	-28.5%
Depreciation/amortization	10,185,829	9,662,466	523,363	5.4%
Total operating expenses	$ 112,245,629	$ 111,172,561	$ 1,073,068	1.0%

Summary of Operating Expenses by Function

For the year ended June 30, 2013



Operating Expenses by Function
For the years ended June 30, 2013 and 2012

	2013	2012	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating expenses:				
Instruction	$ 29,677,596	$ 27,953,727	$ 1,723,869	6.2%
Research	244,567	126,607	117,960	93.2%
Public services	1,492,107	1,558,399	(66,292)	-4.3%
Academic support	6,796,136	6,995,297	(199,161)	-2.8%
Student services	4,143,338	3,593,739	549,599	15.3%
Institutional support	8,706,400	9,217,876	(511,476)	-5.5%
Operation and maintanance	8,003,087	8,467,439	(464,352)	-5.5%
Depreciation and amortization	10,185,829	9,662,466	523,363	5.4%
Student aid	8,948,873	8,943,771	5,102	0.1%
Auxiliary activities	34,029,423	34,627,701	(598,278)	-1.7%
Other operating expenses	18,273	25,539	(7,266)	-28.5%
Total operating expenses	$ 112,245,629	$ 111,172,561	$ 1,073,068	1.0%

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

	2013	2012	Increase/ (Decrease)
Cash Provided (used) by:			
Operating activities	$ (24,014,773)	$ (21,966,158)	$ (2,048,615)
Noncapital financing activities	32,498,877	32,832,155	(333,278)
Capital financing activities	(6,730,277)	(9,854,922)	3,124,645
Investing activities	578,429	26,098	552,331
Net increase/(decrease) in cash	2,332,256	1,037,173	1,295,083
Cash - Beginning of year	52,332,975	51,295,802	1,037,173
Cash - End of year	$ 54,665,231	$ 52,332,975	$ 2,332,256

Evaluation of Statement of Cash Flows for Fiscal Years 2012 and 2013

For fiscal year 2013, significant sources of operating cash include student tuition and fees of $29.2 million, auxiliary enterprise receipts of $43.1 million, and grants and contracts of $5.9 million. Major operating uses of cash include payments for salaries, wages, and fringe benefits of $57.9 million and payments to suppliers and utilities of $24.8 million. Longwood received state appropriations for the University's educational and general programs and financial aid of $28.3 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 6 of the **Notes to Financial Statements** describes the University's significant investment in capital assets. During fiscal year 2013 total capital assets increased by $3,458,623 due to various ongoing capital projects such as the Bedford Addition/Renovation and the Technology Center.

Long-term debt decreased from $59,193,650 in 2012, to $55,807,909 in 2013 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 6.2 percent at the end of fiscal year 2012 and 5.5 percent at the end of fiscal year 2013. Per Board-approved policy, the University will maintain a debt burden ratio of 9 percent or less.

ECONOMIC OUTLOOK

As one of Virginia's comprehensive 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.

Major legislation affecting higher education established the *Virginia Higher Education Opportunity Act* of 2011. This legislation evidences the importance of State goals specific to accessibility and increased enrollments, as well as restructuring initiatives. The 2013 legislative session continued investments in higher education. The fiscal year 2014 budget provided an additional $11 million in base operations funding for public higher education. The University 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.

After facing years of little or negative growth, Virginia's economy is improving. For the fourth straight year, the Commonwealth posted a budget surplus. However, the State's budget situation and the broader national economy is still a cause for apprehension. Support for higher education is not likely to return to levels observed prior to the series of reductions in State general fund support that occurred between fiscal year 2008 and fiscal year 2012. Continued pressure on State general fund support is anticipated given existing demands on the State budget and constrained State revenues.

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. The

University's enrollment has been steady, and nongeneral fund revenues have increased as a result of tuition and fee rate increases. 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. During fiscal year 2013, the University piloted a new planning and budgeting process.

Management believes that Longwood has and will maintain a solid financial foundation. Increases in the University's net position 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, 2013

ASSETS	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood University Real Estate Foundation
Current assets:			
Cash and cash equivalents (Note 3)	$ 47,559,568	$ 9,191,173	$ 130,957
Securities lending - cash and cash equivalents (Note 3)	4,283,539	-	-
Short-term investments (Note 3)	230,958	-	-
Accounts receivable, net of allowance $131,476 (Note 4)	1,342,794	-	253,525
Notes receivable (Note 4)	160,068	-	294,374
Contributions receivable, net (Note 19)	-	354,140	-
Due from the Commonwealth (Note 5)	1,850,511	-	-
Inventory	414,347	-	-
Prepaid expenses	2,427,724	11,384	24,591
Total current assets	58,269,509	9,556,697	703,447
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	6,770,479	183,818	-
Restricted appropriations available/due from the Commonwealth	335,184	-	-
Unrestricted investments	-	16,082,889	-
Restricted investments	-	32,242,055	3,479,811
Other non-current assets	-	102,091	260,347
Notes receivable, net of allowance of $99,690 (Note 4)	964,879	-	-
Contributions receivable, net (Note 19)	-	4,546,542	-
Non-depreciable capital assets, net (Note 6)	21,192,322	5,361,506	33,509,815
Depreciable capital assets, net (Note 6)	190,115,441	1,226,655	35,869,408
Total noncurrent assets	219,378,305	59,745,556	73,119,381
Total assets	$ 277,647,814	$ 69,302,253	$ 73,822,828
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 7)	$ 8,399,367	$ 223,788	$ 3,222,832
Line of credit	-	-	4,920,212
Deferred revenue (Note 1)	1,838,176	-	-
Obligations under securities lending	4,514,497	-	-
Deposits held in custody for others	579,059	-	-
Long-term liabilities - current portion net of deferred loss of $248,549 (Note 8)	4,565,442	19,495	827,802
Total current liabilities	19,896,541	243,283	8,970,846
Noncurrent liabilities - net of deferred loss of $2,338,317 (Note 8)	54,264,214	1,175,974	80,598,292
Total liabilities	$ 74,160,755	$ 1,419,257	$ 89,569,138
NET POSITION			
Net investment in capital assets	$ 157,213,346	$ 6,568,666	$ (1,937,235)
Restricted:			
Nonexpendable:			
Permanently restricted	-	32,493,768	-
Expendable:			
Loans	395,290	-	-
Temporarily restricted	-	21,552,760	-
Other	966,924	-	-
Unrestricted	44,911,499	7,267,802	(13,809,075)
Total net position	$ 203,487,059	$ 67,882,996	$ (15,746,310)

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, 2013

	Longwood University	Component Unit Longwood University Foundation	Component Unit Longwood University Real Estate Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $2,914,591	$ 29,082,884	$ -	$ -
Gifts and contributions	-	6,068,662	-
Federal grants and contracts	2,615,279	-	-
State grants and contracts	493,039	133,863	-
Nongovernmental grants and contracts	2,846,634	-	-
Auxiliary enterprises, net of scholarship allowances of $3,905,416	43,110,498	-	-
Other operating revenues	382,256	417,114	6,051,580
Total operating revenues	78,530,590	6,619,639	6,051,580
Operating expenses (Note 13)			
Instruction	29,677,596	-	-
Research	244,567	-	-
Public service	1,492,107	-	-
Academic support	6,796,136	-	-
Student services	4,143,338	-	-
Institutional support	8,706,400	1,820,767	775,251
Operation and maintenance - plant	8,003,087	-	2,387,592
Depreciation	9,288,764	-	1,875,773
Amortization	897,065	-	1,177,922
Student aid	8,948,873	1,239,046	-
Auxiliary activities	34,029,423	-	-
Administrative and fundraising	-	799,917	-
Other expenditures	18,273	-	22,576
Total operating expenses	112,245,629	3,859,730	6,239,114
Operating gain (loss)	(33,715,039)	2,759,909	(187,534)
Nonoperating revenues (expenses):			
State appropriations (Note 12)	28,117,798	-	-
Pell grant revenue	4,152,728	-	-
Insurance revenue	47,389	-	-
Investment revenue	1,172,846	845,607	18,205
Interest on capital asset-related debt	(2,726,305)	-	(2,291,427)
Unrealized gain on swap	-	-	381,994
Decrease in split interest agreements	-	(124,169)	-
Realized gain on investments	-	1,334,450	-
Unrealized gain on investments	-	2,899,406	-
Loss on disposal/sale of plant assets	(184,842)	-	(5,055)
Net nonoperating revenues	30,579,614	4,955,294	(1,896,283)
Income (loss) before other revenues, expenses, gains or losses	(3,135,425)	7,715,203	(2,083,817)
Contributions to permanent endowments	-	692,040	-
Contributions to term endowments	-	1,494,300	-
Capital appropriations (Note 5)	12,359,093	-	-
Other gifts	47,314	-	-
Net other revenues	12,406,407	2,186,340	-
Increase (decrease) in net position	9,270,982	9,901,543	(2,083,817)
Net position - Beginning of year	194,216,077	57,981,453	(13,662,493)
Net position - End of year	$ 203,487,059	$ 67,882,996	$ (15,746,310)

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, 2013

Cash flows from operating activities:	
Student tuition and fees	$ 29,239,167
Grants and contracts	5,863,772
Auxiliary enterprises	43,082,284
Payments to employees	(57,929,372)
Payments to suppliers and utilities	(24,785,093)
Payments for operation and maintenance of facilities	(10,910,446)
Payments for scholarships and fellowships	(8,948,873)
Collection of loans to students	8,070
Other operating receipts	385,297
Payments for other expenses	(19,579)
Net cash provided (used) by operating activities	(24,014,773)
Cash flows from noncapital financing activities:	
State appropriations	28,293,707
Other non-operating	4,152,728
Change in agency balances	52,442
Net cash provided (used) by noncapital financing activities	32,498,877
Cash flows from capital and related financing activities:	
Capital appropriations	12,379,665
Acquisition and construction of capital assets	(13,484,916)
Proceeds from capital debt	244,077
Principal paid on capital-related debt, leases, and installments	(3,366,437)
Interest paid on capital-related debt, leases, and installments	(2,550,055)
Insurance payments	47,389
Net cash provided (used) by capital and related financing activities	(6,730,277)
Cash flows from investing activities:	
Investment/interest revenue	578,429
Net cash provided (used) by investing activities	578,429
Net increase in cash	2,332,256
Cash and cash equivalents - Beginning of the year	52,332,975
Cash and cash equivalents - End of the year	$ 54,665,231

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, 2013

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

Operating (loss)	$ (33,715,039)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation and amortization expense	10,185,829
Changes in assets and liabilities:	
Receivables, net	(85,221)
Inventory	79,588
Prepaid expenses	(559,073)
Notes receivable, net	8,070
Accounts payable and accrued expenses	(202,551)
Deferred revenue	160,898
Deposits payable	52,442
Accrued compensated absences	60,284
Net cash provided (used) by operating activities	$ (24,014,773)

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, 2013

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 two 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 19.

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 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, 2013.

	2013
Student tuition and related fees	$1,765,774
Auxiliary enterprise fees	72,402
Total	$1,838,176

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, as well as issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported including unamortized bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The amortization of bond premiums and issuance costs 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 8). The Statement of Revenues, Expenses, and Changes in Net Position shows the interest expense which is recognized as a non-operating expense when paid.

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, 2013, the carrying amount of cash with the Treasurer of Virginia was $46,988,757. The carrying amount of cash not held by the Treasurer of Virginia is $2,116,564. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2013, in the amount of $2,220,487 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, 2013, the amount of appropriations available was $335,184.

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 2013, 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, 2013, 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, 2013, the carrying amount of the cash equivalents held in the SNAP program with the Bank of New York was $3,454,815 and with the Treasurer of Virginia was $1,769,911.

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, 2013:

Unrestricted cash equivalents	$ 4,283,539
Short term investment	230,958
Total Securities Lending	$ 4,514,497

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2013:

Student tuition and fees	$ 985,717
Library	1,435
Auxiliary enterprises	217,495
Federal, state, and nongovernmental grants and contracts	269,623
Total	$ 1,474,270
Less: Allowance for doubtful accounts	(131,476)
Net accounts receivable	$ 1,342,794

Notes Receivable consisted of the following at June 30, 2013:

Current portion:	
Federal student loans	$ 160,068
Non-current portion:	
Federal student loans	1,064,569
Less allowance for doubtful accounts	(99,690)
Net non-current notes receivable	$ 964,879

5. 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 2013, funding has been provided to the University from three programs: State Central Capital Planning Fund (0965), 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, 2013, in the "Capital Appropriations" line item for equipment and facilities obtained with funding under these two programs.

Capital Appropriations

VCBA 21st Century Program	$ 11,625,683
VCBA ETF Program	1,198,526
0965 Capital Reimbursement to the Central Capital Planning Fund	(800,000)
0965 Appropriation Revenue	334,884
Total Capital Appropriations	$ 12,359,093

The line item, "Due from the Commonwealth," on the *Statement of Net Position* for the year ended June 30, 2013, represents pending reimbursements from the follow programs:

Small Purchase Charge Card Rebate	$ 48,947
Interest Earnings on Tuition & Fees	91,998
21st Century Bonds	1,709,566
Total Due from Commonwealth of Virginia	$ 1,850,511

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2013, is presented as follows:

	Beginning Balance 6/30/2012	Additions	Reductions	Ending Balance 6/30/2013
Non-Depreciable Capital Assets				
Land	$ 4,940,885	$ 131,916	$ -	$ 5,072,801
CIP	36,589,736	10,402,225	(30,872,440)	16,119,521
Total Non-Depreciable Capital Assets	41,530,621	10,534,141	(30,872,440)	21,192,322
Depreciable Capital Assets				
Buildings	200,358,564	30,844,324	(2,202,438)	229,000,450
Equipment	16,317,721	2,647,309	(1,023,556)	17,941,474
Infrastructure	43,364,227	208,087	(847)	43,571,467
Library Materials	13,266,527	419,637	(269,518)	13,416,646
Software	6,104,581	126,249	-	6,230,830
Total Depreciable Capital Assets, Cost	279,411,620	34,245,606	(3,496,359)	310,160,867
Accumulated Depreciation				
Buildings	62,852,036	5,613,295	(2,104,788)	66,360,543
Equipment	9,847,432	1,524,270	(898,811)	10,472,891
Infrastructure	24,731,060	1,700,755	(34)	26,431,781
Library Materials	10,623,491	490,091	(269,518)	10,844,064
Software	5,039,082	897,065	-	5,936,147
Total Accumulated Depreciation	113,093,101	10,225,476	(3,273,151)	120,045,426
Depreciable Capital Assets, Net	166,318,519	24,020,130	(223,208)	190,115,441
All Capital Assets, Net	$207,849,140	$34,554,271	($31,095,648)	$211,307,763

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2013:

Employee salaries, wages, and fringe benefits payable	$ 3,467,649
Vendors and suppliers accounts payable	3,799,494
Retainage payable	526,564
Interest payable	605,660
Total accounts payable and accrued liabilities	$ 8,399,367

8. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 9), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2013, is presented as follows:

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long Term Debt:					
9 (c)General Obligation Bonds	$ 20,664,594	$4,784,149	$6,261,437	$ 19,187,306	$ 1,605,166
Deferred Loss - Bond Refinance	(464,195)	(616,583)	(43,853)	(1,036,925)	(94,061)
Gain on Refunding	29,000	-	7,250	21,750	7,250
Unamortized Premium	1,284,279	933,225	293,723	1,923,781	198,665
	21,513,678	$5,100,791	6,518,557	20,095,912	1,717,020
VCBA Pooled Bonds/Notes Payable	35,990,000	-	2,050,000	33,940,000	2,130,000
Deferred loss	(1,704,429)	-	(154,488)	(1,549,941)	(154,488)
Unamortized Premium	3,340,401	-	293,649	3,046,752	293,653
	37,625,972	-	2,189,161	35,436,811	2,269,165
Installment Purchases	54,000	221,186	-	275,186	45,098
	54,000	221,186	-	275,186	45,098
Total Long Term Debt	59,193,650	5,321,977	8,707,718	55,807,909	4,031,283
Accrued Compensated Absences	1,577,519	923,826	863,542	1,637,803	534,159
Federal Loan Program Contribution	1,383,944	-	-	1,383,944	-
Total Long Term Liabilities	$ 62,155,113	$6,245,803	$9,571,260	$ 58,829,656	$ 4,565,442

9. 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, 2013, consist of the following:

	Interest Rates	Maturity	Amount
Residence halls:			
Residence hall improvements, 2004-B 1	2.50 - 5.50%	2019	$ 1,125,721
Renovate housing facilities, 2005-A 1	3.50 - 5.00%	2025	350,000
Renovate housing facilities, 2006-B 1	4.00 - 5.00%	2026	775,000
Renovate housing facilities, 2007-B 1	4.00 - 5.00%	2027	2,280,000
Renovate housing facilities, 2008-B 1	4.00 - 5.00%	2028	3,845,000
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, B1	3.00 - 5.00%	2025	471,682
2013 Housing Facilities Ren - 2006A Ref Portion, 2013, B2	4.00 - 5.00%	2026	1,851,882
2013 Ren Cox Hall - 2007B Ref Portion, 2013, B3	4.00 - 5.00%	2025	2,460,584
Dining hall:			
Dining hall, series 2004-B 2	4.00 - 5.00%	2019	1,194,977
Dining hall, series 2012-A 1	4.00 - 5.00%	2016	1,292,656
Total general obligations bonds payable			$19,187,306

A summary of future principal requirements of long-term debt for General Obligation bonds payable as of June 30, 2013, follows:

Year ending June 30	Principal	Interest
2014	$ 1,605,166	$ 894,984
2015	1,684,361	820,455
2016	1,756,888	743,450
2017	1,367,947	656,286
2018	1,439,097	587,888
2019-2023	6,299,221	1,990,708
2024-2028	5,034,626	568,214
2029-2032	-	-
Total	$ 19,187,306	$ 6,261,985
Less: Deferred Loss	(1,036,925)	
Add: Unamortized Premium	1,923,781	
Add: Gain on Refunding	21,750	
Total	$ 20,095,912	

VCBA Pooled Bonds Payable

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

	Interest Rates	Maturity	Amount
Fitness center 2003-A	2.00 - 5.00%	9/2023	$ 225,000
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 - 5.00%	9/2024	500,000
Soccer fields, Lancer gym, and Blackwell, Fitness center 2005-A	3.00 - 5.00%	9/2025	3,095,000
Fitness center, Blackwell, and heating plant III, Baseball/softball 2006-A	3.00 - 5.00%	9/2027	5,735,000
Lacrosse/field hockey complex, baseball/ softball, heating plant phase II & III 2007-A	3.00 - 5.00%	9/2027	5,975,000
Fitness center and parking garage 2007-B	3.00 - 5.00%	9/2019	1,855,000
Athletic offices, heating plant phase III Student union 2009-A	3.00 - 5.00%	9/2028	3,500,000
Fitness Center and parking garage 2010-B	3.00 - 5.00%	9/2023	2,520,000
Fitness Center, Lacrosse/field hockey, Soccer fields, Lancer gym, Blackwell and Heating Plant II 2012-A	3.00 - 5.00%	9/2024	10,535,000
Total VCBA pooled bonds payable			$ 33,940,000

A summary of future principal requirements of VCBA Pooled Bonds Payable as of June 30, 2013, follows:

Year ending June 30	Principal	Interest
2014	$ 2,130,000	$ 1,540,810
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
2019-2023	13,295,000	3,610,081
2024-2028	8,875,000	760,163
2029-2032	170,000	4,206
	33,940,000	11,004,823
Less: Deferred Loss	(1,549,941)	
Add: Unamortized Premium	3,046,752	
Total:	$ 35,436,811	

10. COMMITMENTS

Construction Contracts

As of June 30, 2013, outstanding commitments for capital outlay projects totaled approximately $13,530,789.

Operating Leases

The University is committed under various operating lease agreements primarily for buildings and equipment. In general, the agreements are for a period of one year, and typically have renewal options. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2013, was $605,005. The University has, as of June 30, 2013, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2014	$ 995,020
2015	765,331
2016	611,608
2017	602,656
2018	393,636
2019 - 2023	98,409
Total	$ 3,466,660

Installment Purchase Agreements

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

Fiscal Year	Installment Purchase
2014	$ 45,098
2015	45,098
2016	45,098
2017	45,098
2018	31,598
2019 - 2023	63,196
Total	$ 275,186

Other Contractual Agreements

The University was committed to pay Longwood University Real Estate Foundation $8,205,524 pursuant to a support agreement related to student housing (Lancer Park, Longwood Landings, and Longwood Village). The University was also contractually committed to payments totaling $193,996 relative to an energy performance contract, $104,229 relative to a marketing contract, and $59,000 for a CampusEAI software agreement. The University has, as of June 30, 2013, the following total future payments due under the above agreements:

Fiscal Year	Contractual Agreements
2014	$ 8,205,524
2015	1,269,079
2016	49,103
2017	13,528
2018	13,948
2019	14,380
2020	14,827
2021 - 2027	99,121
Total due:	$ 9,679,510

11. LONG-TERM DEBT DEFEASANCE

On March 6, 2013 the Commonwealth, on behalf of the University, issued $4,784,147 in General Obligation bonds, Series 2013-B with a true interest cost (TIC) of 2.0961% to advance refund $480,000 of an outstanding Series 2005-A, $1,915,000 of an outstanding Series 2006-B, and $2,550,000 of an outstanding Series 2007-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 $616,583 for the University. The defeasance will reduce the University's total debt service payments for these bonds by $329,382 over the next thirteen years.

In addition to the 2005-A, 2006-B, and 2007-B, 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 2012-A 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, 2013 $24,992,306 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2013, 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	$ 23,038,180
Student financial assistance	3,955,935
Supplemental adjustments:	
Central Fund appropriation transfers	1,005,878
Carryforward	2,012
Line of Duty	559
VIVA	8,179
Military Survivors	17,000
SVRTC	58,905
2 - Year Transfer Grant	62,353
CSAP	142,264
HEETF Lease Payment	(54,746)
Capital Out-of-State Fee	(118,701)
FY 2013 Reversion	(20)
Adjusted appropriations	$ 28,117,798

13. 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	$ 19,672,555	$ 5,631,144	$ 2,708,582	$ -	$ 4,596	$ 1,660,719	$ -	$ -	$ 29,677,596
Research	49,361	2,377	183,301	-	86	9,442	-	-	244,567
Public service	988,690	280,721	191,535	-	2,890	28,271	-	-	1,492,107
Academic support	3,878,864	1,301,987	937,599	-	230	677,456	-	-	6,796,136
Student services	2,478,197	903,954	678,676	-	6,423	76,088	-	-	4,143,338
Student aid	-	-	-	8,948,873	-	-	-	-	8,948,873
Institutional Support	4,531,390	2,260,051	1,142,768	-	102,898	669,293	-	-	8,706,400
Operation & Maintenance of Plant	2,560,079	1,288,908	1,343,232	-	1,989,971	820,897	-	-	8,003,087
Depreciation		-	-	-	-	-	-	9,288,764	9,288,764
Amortization	-	-	-	-	-	-	-	897,065	897,065
Auxiliary activities	9,993,116	2,270,123	13,088,196	-	1,689,898	6,988,090	-	-	34,029,423
Other Expenses	-	-	-	-	-	-	18,273	-	18,273
Total	$ 44,152,252	$ 13,939,265	$ 20,273,889	$ 8,948,873	$ 3,796,992	$ 10,930,256	$ 18,273	$ 10,185,829	$ 112,245,629

14. 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 $2,089,262 for the year ended June 30, 2013. These contributions included the employee contribution assumed by the employer. For fiscal year 2013 the rate was 8.76 percent. Contributions to the VRS were calculated using a base salary amount of approximately $23,495,717 for the fiscal year ended June 30, 2013. The

University's total payroll was approximately $44,152,252 for the year ended June 30, 2013.

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 $1,474,386 for the year ended June 30, 2013. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $14,723,353.

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 $195,468 for the fiscal year ended June 30, 2013.

15. 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.

16. 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, 2013, Longwood University estimates that no material liabilities will result from such audits.

17. 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.

18. PENDING LITIGATION

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

19. 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 two 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. As a result, the University includes Longwood University Foundation, Inc. and Longwood Real Estate Foundation in the body of the financial statements as component units.

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, & Holland, 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 Dixon Hughes Goodman. Complete financial statements can be obtained from the Longwood University Real Estate Foundation at 315 Main Street, Farmville, VA 23909.

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments of the Longwood Foundation

Investments and the beneficial interest in the perpetual trust portfolio are composed of the following at June 30, 2013:

	2013	
	Cost	Market Value
Cash and cash equivalents	$ 9,374,991	$ 9,374,991
Investments:		
Government and corporate obligations	159,880	158,154
Corporate stocks	642,061	808,590
Hedge Funds	40,447,146	45,144,772
Total investments	41,249,087	46,111,516
Beneficial interest in perpetual trust:		
Cash and cash equivalents	70,815	70,815
Government bonds and corporate obligations	709,413	708,111
Corporate stocks	1,049,471	1,184,163
Real estate funds	259,445	250,339
Total beneficial interest in perpetual trust	2,089,144	2,213,428
Total	$ 52,713,222	$ 57,699,935

The 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 Foundation believes that the stated value of the investment in the Fund is a reasonable estimate of fair value as of June 30, 2013.

Investment fees netted against investment income for the year ended June 30, 2013 was $550,451.

In April 2010, the 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 Foundation’s initial investment in the Fund is subject to an initial five-year lockup period and certain withdrawal restrictions.

At June 30, 2013, the Fund consisted of 24 partners and the Foundation’s interest in the Fund represents 3.54% of the total partnership capital. The Fund is audited on a semi-annual basis on June 30 and December 31.

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 (Nance Trust) held by Wells Fargo. The assets of the Nance Trust are not in the possession or under control of the Foundation. At June 30, 2013, the Nance Trust had market value of $2,213,428, which is recorded in the consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2013, were $99,883 and $87,483.

B. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Longwood University Foundation contributions receivable consisted of the following at June 30, 2013:

	2013
Cash pledges expected to be collected in:	
Less than one year	$ 426,079
One year to five years	1,118,922
Over five years	5,899,209
	7,444,210
Less:	
Discount to net present value at 5%	(2,543,528)
Net Contributions Receivable	$ 4,900,682

The ownership of contributions receivable for each class of net position as of June 30, 2013 is as follows:

Temporarily Restricted	$ 3,150,920
Permanently Restricted	1,749,762
Total	$ 4,900,682

At June 30, 2013, the Foundation had received bequests and other intentions to give of approximately $7,001,415. 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 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	4,132,321
Buildings	1,441,071
Property and Equipment	34,763
Vehicles	166,760
Total cost of capital assets	7,004,100
Less: accumulated depreciation	(415,939)
Total capital assets, net	$ 6,588,161

Longwood University Real Estate Foundation

Land	$ 7,334,501
Land Improvements	10,755,144
Buildings	31,944,021
Furniture and Equipment	2,715,282
Leasehold Improvements	603,369
Construction in Progress	26,175,314
Total cost of capital assets	79,527,631
Less: accumulated depreciation	(10,148,408)
Total capital assets, net	$ 69,379,223

D. LONG-TERM INDEBTEDNESS

Longwood University Real Estate Foundation

Long-term debt is as follows at December 31, 2012:

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 8/31/17. The interest rate is equal to 1.50% plus 70% of LIBOR (1.65% at December 31, 2012).	$ 40,400,000
Fixed Rate Educational Facilities Revenue Bonds, Series 2012A, five (5) year term, maturing on 8/31/17, with a rate of 2.94%	26,235,285
Promissory note, 3.50%, due in monthly payments of principal and interest of $11,651, maturing 12/30/2016	1,936,288
Deed of trust note payable, 7.09%, due in monthly payments of principal and interest of $1,687, maturing 6/5/2014	28,771
Deed of trust note payable, 7.0 percent, due in monthly payments of principal and interest of $1,742, maturing 2/14/2013	306
Deed of trust note payable, 7.09 percent, due in monthly payments of principal and interest of $5,074, maturing 2/7/2032	610,971
	69,211,621
Less - current portion	(827,802)
	$ 68,383,819

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, 2012, the total amount advanced under the Series 2012A bond was $26,235,285. The Longwood University Real Estate Foundation may continue to make principal advances under the agreement until December 31, 2013. 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%.

Prior to refinance, the 2007 bonds had a weekly variable interest rate as determined by the remarketing agent. For as long as the bonds bore interest at a weekly rate, the Longwood University Real Estate Foundation paid the remarketing agent an ongoing remarketing fee.

In addition, the Real Estate Foundation has a Standby Bond Purchase Agreement (SBPA) with the Liquidity Facility Provider (Bank). Under the SBPA, the Bank agrees to purchase eligible Series 2007 bonds that had not been remarketed. The bonds contained a demand feature that allows the bondholders to put the bonds either weekly or daily back to the remarketing agent based on the bondholders' interest rate election on the bonds held. If the bonds tendered were not remarketed by the remarketing agent the Bank agreed to purchase eligible bonds, which may then be remarketed at a later time. This agreement was set to expire on December 7, 2012, but the agreement was terminated upon refinancing of the Series 2007 bonds.

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, 2012, management believes the Real Estate Foundation has met the required ratios.

Maturities under long-term debt are as follows:

2013	$ 827,802
2014	1,237,534
2015	1,376,667
2016	3,218,192
2017	62,156,289
Thereafter	395,137
Total	69,211,621
Less - current portion	(827,802)
	$ 68,383,819

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 $(12,214,473) at December 31, 2012. 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, 2012). Interest only payments are due monthly and principal is due upon expiration of the line on September 28, 2013. The outstanding balance on this line was $3,380,640 as of December 31, 2012. The Foundation is required to meet certain debt coverage ratios under this line. As of December 31, 2012, the Foundation has met the required ratios.

In January 2012, the above line of credit was used to pay off an existing $500,000 uncollateralized commercial revolving line of credit.

The 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. The term of the loan is 12 months and has been renewed through March 29, 2013. Interest is charged at a variable rate of 30-day LIBOR plus 2.00% (2.21% at December 31, 2012). Interest only payments are due monthly and principal is due upon maturity. The outstanding balance on this line was $1,539,572 as of December 31, 2012.

The Foundation had a promissory note agreement dated December 16, 2011 for a revolving line of credit with a bank in the amount of $8,000,000. Advances shall be for the purpose of financing the acquisition, planning, design, construction and development of the North Campus Student Housing Project. The loan is collateralized by a pledge of gross receipts, as defined in the loan agreement. Interest only payments were due monthly and principal was due upon maturity. The outstanding balance on this line was $2,307,325 as of December 31, 2011. The loan matured on August 31, 2012, at which time it was converted to a fixed rate bond.

Restricted Deposits and Funded Reserves

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

Debt service reserve account	$2,000,000
Repair and replacement account	1,049,023
General fund	430,788
	$3,479,811

E. COMMITMENTS

Longwood University Foundation

In November 1998, the Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Foundation leased the real estate to Longwood University for the same lease term. At June 30, 2004, an option to purchase the property for $555,000 was exercised by the Foundation. The Foundation continues to lease the property to Longwood University on a month-to-month basis, with $20,000 of rental income recognized in the year ended June 30, 2013.

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, 2013.

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. 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 $38,028 were paid to the Association during 2012.

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 has been paying this lease commitment directly to the Association.

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 $80,949 during 2012.

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 ten years with two ten year renewal option terms.

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

2013	$ 267,326
2014	272,673
2015	278,126
2016	283,688
2017	108,981
Total	$ 1,210,794

The Real Estate Foundation leases office space, storage and parking lots to tenants under non-cancelable operating leases with terms of one to ten years. The following is a schedule by year of future minimum rental payments to be received under the leases at December 31, 2012:

2013	$ 375,216
2014	303,636
2015	272,216
2016	261,796
2017	130,661
Total	$ 1,343,525

Included in the future payments above are multiple lease agreements between the University and the Real Estate Foundation. There are approximately $1,313,000 in future minimum rental payments to be received from the University, as well as approximately $30,000 in future minimum rental payments to be received from the Longwood University Foundation, Inc. at December 31, 2012.

The Foundation entered into a contract dated December 24, 2012, to purchase the ground floor of a mixed use building located at 315 W. Third Street in Farmville. The ground floor space will be home to the Foundation as well as anticipated sublease space for the University. Total costs of the property under the contract are $3,671,269. The Foundation anticipates closing on the property by September 2013.

In May 2013, the Foundation entered into a contract to purchase property just east of Longwood Landings at a price of $1,700,000. The purchase is scheduled to close on June 21, 2013.

F. RISK MANAGEMENT

Longwood University Foundation

The Foundation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The risks are managed through the purchase of commercial insurance and self retention of certain risks. The Foundation's affairs are conducted in part by the employees of Longwood University and exposure to loss resulting from this arrangement are managed by the University through a combination of methods, including participation in various risk pools administered by the State of Virginia, purchase of commercial insurance and self retention of certain risks. Additional details on the University's risk management program are disclosed in the financial report of the University.

G. RELATED PARTY

Longwood University Foundation

The Foundation received contribution revenue from Board members in the amount of $217,653 for the year ending June 30, 2013. The amount of contributions receivable due from the Board members amounted to $676,025 at June 30, 2013.

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 leased to the University is $2,356,638 at June 30, 2013, including land on the consolidated statement of financial position.

On March 1, 2004, the Foundation entered into a capital lease agreement with Longwood University to lease a parking lot. The Foundation was given the parking lot as a contribution, which at the time was recorded as its appraised value of $51,000. The lease expired February 28, 2013, at which time the University exercised its option under the lease agreement to purchase the parking lot for $1. No amounts were owed to the Foundation by the University as of June 30, 2013.

Longwood University Real Estate Foundation

The Foundation receives rent from the University for use of various buildings and parking facilities. The total amount earned for 2012 from these rental arrangements was $5,896,427. Outstanding receivables at December 31, 2012 were $158,910.

The 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 2012 were $399,965. In addition, the Foundation reimburses the University for operational costs paid directly by the University related to the housing projects. At December 31, 2012, the Foundation had a payable to the University of $208,090, which is included in accounts payable and accrued expenses on the consolidated statement of financial position.

The 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 Foundation receives no fees for its services. The Foundation had an outstanding receivable at December 31, 2012 of $36,939 for expenses not yet reimbursed and renovation costs.

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, 2012.

During 2012, the Real Estate Foundation sold two pieces of property to the University at a total purchase price of $310,197, resulting in a loss of $5,055.

Subsequent to year-end, the 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.

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Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 13, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
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, 2013, 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 consolidated 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 consolidated 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 19. 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, 2013, 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

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 December 13, 2013, 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.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

LONGWOOD UNIVERSITY

Farmville, Virginia

BOARD OF VISITORS

OFFICIALS