LONGWOOD COLLEGE

FARMVILLE, VIRGINIA

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2002

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Longwood College for the year ended June 30, 2002, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance that are required to be reported under Government Auditing Standards; and
- adequate corrective action of prior audit findings.

- T A B L E   O F   C O N T E N T S -

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

March 25, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Longwood College

We have audited the accounts and records of **Longwood College,** as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Longwood College, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Longwood College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the College has implemented a new finanical reporting model, as required by the provisions of Government Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of June 30, 2002.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

In planning and performing our audit of the financial statements of Longwood College as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Status of Prior Findings

The College has taken adequate corrective action with respect to the audit finding reported in the prior year entitled "Improve Controls Over Small Purchase Charge Card Program."

The "Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on May 16, 2003.

AUDITOR OF PUBLIC ACCOUNTS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued *Statement 34, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued *Statement 35, Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions will implement GASB Statement 35 at the same time the state government implements GASB Statement 34.

The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the College's activities. Since this is a transition year for the new reporting format, only one year of information is presented in the audited financial statements. For this discussion and analysis, the College restated previously reported financial information in order to provide a comparison.

Statement of Net Assets

The Statement of Net Assets presents the College's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2002. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the College's operations. They are also able to determine how much the College owes vendors and creditors.

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

Statement of Net Assets

	June 30, 2002	June 30, 2001
Assets:		
Current assets	$11,856,844	$ 9,965,915
Capital assets, Net	62,852,221	60,464,059
Other noncurrent assets	9,118,343	9,866,658
Total assets	83,827,408	80,296,632
Liabilities:		
Current liabilities	8,171,910	9,810,145
Noncurrent liabilities	16,927,373	17,551,375
Total liabilities	25,099,283	27,361,520
Net assets:		
Invested in capital assets, Net of related debt	46,191,365	42,489,969
Restricted – Expendable	9,045,699	10,248,907
Unrestricted	3,491,061	196,236
Total net assets	$58,728,125	$52,935,112

The College's total assets increased by $3,530,776 between fiscal years, primarily due to the increase in auxiliary cash with the Treasurer of Virginia. Total liabilities decreased by $2,262,237. The primary cause was a reduction in long-term debt represented by principal payments made on long-term debt combined with no new debt issuances.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the College's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the College's mission. Nonoperating revenues are revenues received for which goods and services are not provided. For example, the College's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets

	For the Year Ended June 30, 2002	June 30, 2001
Operating revenues	$38,390,736	$34,584,172
Operating expenses	53,902,726	54,602,277
Operating loss	(15,511,990)	(20,018,105)
Nonoperating revenues and expenses	20,355,486	20,560,150
Income before other revenues, expenses, gains, or losses	4,843,496	542,045
Other revenues, expenses, gains, or losses	949,517	-
Increase in net assets	5,793,013	542,045
Net assets - Beginning of year	52,935,112	52,393,067
Net assets - End of year	$58,728,125	$52,935,112

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue increased due to increased enrollment. Auxiliary revenues increased due to the increase in the auxiliary fees charged to the students. Other operating expense decreased due to the budget reductions implemented by the state. Nonoperating revenue increases are attributable to the increased insurance funds received to continue the cleanup from the fire of April 2001. Other revenues and gains include capital appropriations in 2002 for maintenance reserve for repairs to Educational and General Buildings. The majority of the increase in net assets represents an increase in auxiliary reserves in accordance with the College's Strategic Plan and Master Plan, and a decrease in the accrued compensated absences accrual due to a change in the College policy affecting administrative and professional staff.

Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the College. Significant sources of cash include student tuition and fees ($9,811,841), auxiliary enterprise's receipts ($23,031,570), and grants and contracts ($4,700,135). Major uses of cash include payments for salaries, wages, and fringe benefits ($31,397,689), and payments for services and supplies ($14,326,218).

The next section reflects the cash flows from non-capital financing activities and includes state appropriations for the College's educational and general programs and financial aid of $21,246,553. The cash flows from the capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash include insurance funds received ($4,972,971), the conversion of non-cash assets (appropriations available and investments with the State Treasurer) into cash ($808,332), and capital appropriations of $220,395. Significant cash outflows include the purchase of capital assets ($4,895,750), fire recovery expenses ($5,355,326) and the repayment of principal and interest on capital related debt. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

Overall, invested in capital asset increases reflect the beginning of substantial campus construction. Significant fiscal year 2002 capital projects include the beginning of Brock Commons, which turns the College's central street (Pine Street) into a landscaped pedestrian mall and is funded by private donations and the planning for a parking garage beneath a portion of Brock Commons, which will be funded by bonds. The College decreased its total long-term debt from $18,073,224 in fiscal year 2001 to $16,277,076 in fiscal year 2002 and incurred no new bond indebtedness during the year.

Economic Outlook

The College's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. Due to a continued lag in state revenue collections, all state agencies, including higher education institutions suffered cuts in General Fund appropriations for fiscal year 2002. The College's portion of these cuts was $605,163. In establishing the 2003-2004 biennial budget, the Virginia General Assembly applied further budget cuts to all state colleges and universities. Cuts were moderated for institutions that have been under-funded in the past. The College's scheduled budget cuts were $3,257,642 and an additional $1,014,097 for 2003 and 2004, respectively. Since 2002, the College's original appropriation has decreased by 24.1 percent.

Another significant factor in the College's economic position relates to its ability to recruit and retain high quality students. Longwood began the 2001-2002 academic year with a total enrollment of 4,028 students – marking the highest enrollment in the history of the college. Over the past five years, the grade-point average of admitted freshmen has risen from 2.8 to 3.2 and the SAT average jumped from 1035 to 1073. The state legislature authorized colleges and universities to increase tuition for the first time since 1996 in fiscal year 2003. The College's governing board has authorized an increase in tuition for fiscal year 2003 that amounted to only a small portion of the reductions required by the state.

LONGWOOD COLLEGE
STATEMENT OF NET ASSETS
As of June 30, 2002

ASSETS	
Current assets:	
Cash (Note 3)	$10,154,567
Cash equivalents (Note 3)	187,446
Short-term investments (Note 3)	491,609
Accounts receivable, Net of allowance for doubtful accounts of $6,356 (Note 4)	456,926
Due from the Commonwealth (Note 8)	299,117
Prepaid expenses	267,179
Total current assets	11,856,844
Noncurrent assets:	
Restricted cash and cash equivalents (Note 3)	35,000
Appropriations available	7,849,790
Notes receivable, Net of allowance for doubtful accounts of $ 70,317	1,233,553
Capital assets, Net (Note 5)	62,852,221
Total noncurrent assets	71,970,564
Total assets	$83,827,408
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses (Note 6)	3,153,666
Deferred revenue (Note 1)	1,575,841
Obligations under securities lending	540,230
Deposits held in custody for others	559,357
Long-term liabilities - current portion (Note 7)	2,307,816
Advance from the Treasurer of Virginia	35,000
Total current liabilities	8,171,910
Noncurrent liabilities (Note 7)	16,927,373
Total liabilities	$25,099,283
NET ASSETS	
Invested in capital assets, Net of related debt	46,191,365
Restricted for:	
Expendable:	
Capital projects	8,226,073
Loans	124,591
Other	695,035
Unrestricted	3,491,061
Total net assets	$58,728,125

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

LONGWOOD COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

Operating revenues:	
Student tuition and fees, Net of scholarship allowances of $921,952	$ 9,232,200
Federal grants and contracts	3,419,969
State grants and contracts	667,294
Nongovernmental grants and contracts	2,056,649
Auxiliary enterprises, Net of scholarship allowances of $1,849,273	22,666,801
Other operating revenues	347,823
Total operating revenues	38,390,736
Operating expenses: (Note 13)	
Instruction	14,464,910
Research	24,355
Public service	1,759,064
Academic support	4,235,951
Student services	1,918,344
Institutional support	4,365,155
Operation and maintenance - Plant	2,990,830
Depreciation	2,762,996
Student aid	5,006,614
Auxiliary activities	16,369,795
Other expenditures	4,712
Total operating expenses	53,902,726
Operating loss	(15,511,990)
Nonoperating revenues (expenses):	
State appropriations (Note 12)	21,246,553
Insurance proceeds	4,972,971
Fire-related expenses	(5,020,349)
Interest on capital asset related debt	(726,317)
Loss on disposal of plant assets	(222,297)
Investment income	4,754
Other	100,171
Net nonoperating revenues (expenses)	20,355,486
Income before other revenues, expenses, gains or losses	4,843,496
Capital appropriations	220,395
Capital grants and gifts	729,122
Total other revenues	949,517
Increase in net assets	5,793,013
Net assets - Beginning of year as restated (Note 1)	52,935,112
Net assets - End of year	$58,728,125

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

LONGWOOD COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

Cash flows from operating activities:	
Student tuition and fees	$ 9,811,841
Grants and contracts	4,700,135
Auxiliary enterprises	23,031,570
Other receipts	203,013
Payments to employees	(25,189,640)
Payments for fringe benefits	(6,208,049)
Payments for services and supplies	(14,326,218)
Payments for utilities	(1,240,297)
Payments for scholarships and fellowships	(4,882,266)
Loans issued to students	(289,990)
Collections of loans from students	237,052
Net cash used by operating activities	(14,152,849)
Cash flows from noncapital financing activities:	
State appropriations	21,246,553
Other non-operating	100,171
Agency receipts	11,841,195
Agency payments	(11,896,698)
Net cash provided by noncapital financing activities	21,291,221
Cash flows from capital financing activities:	
Proceeds from capital appropriations available and investments	808,332
Capital appropriations	220,395
Capital grants	729,122
Insurance proceeds	4,972,971
Purchase of capital assets	(4,895,750)
Fire recovery expenses	(5,355,326)
Principal paid on capital debt, leases, and installments	(1,759,102)
Interest paid on capital debt, leases, and installments	(784,361)
Net cash used by capital financing activities	(6,063,719)
Net increase in cash	1,074,653
Cash - Beginning of the year	9,079,914
Cash - End of the year	$10,154,567

LONGWOOD COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	$ (15,511,990)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	2,762,996
Changes in assets and liabilities:	
Receivables, net	(61,299)
Due from the Commonwealth	(294,866)
Prepaid expenses	(267,179)
Notes receivable, net	(163,322)
Accounts payable and accrued expenses	15,692
Federal loan programs contributions refundable	45,579
Deferred revenue	(258,080)
Accrued compensated absences	(420,380)
Net cash provided (used) by operating activities	$ (14,152,849)

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

LONGWOOD COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Longwood College (the "College") is a state-assisted, coeducational, comprehensive college offering programs leading to the bachelor's and master's degrees. The College offers courses both on the main campus and at educational sites in other locations and 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 College is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The College has no component units, as defined by the Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*; however, the College does have a related party corporation whose financial condition is stated in Note 2. This organization is a separate legal entity from Longwood College and the College exercises no control over them. For these reasons, the College's related party is not included in these financial statements.

B. Basis of Presentation

The College's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements that conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*. These new statements are effective for the Commonwealth and all of its component units for the fiscal year ending June 30, 2002. The College now follows Statement 34 requirements for "reporting by special-purpose governments engaged only in business-type activities." The change in financial statement presentation provides a comprehensive entity-wide look at the College's financial activities and replaces the fund-group perspective previously required.

C. Basis of Accounting

The College'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.

D. Investments

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

E. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the College as assets with an initial cost of $2,000 or more and an estimated useful life in excess of two years. Library materials are valued using actual cost for acquisitions and published average prices for disposals. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

Buildings	50 years
Other improvements and infrastructure	20 years
Equipment	5-15 years
Library materials	10 years

F. Noncurrent 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 noncurrent assets are classified as noncurrent assets in the Statement of Net Assets.

G. 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 related to the period after June 30, 2002.

H. 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 Assets. 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 sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

I. Federal Financial Assistance Programs

The College participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. 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.

J. Net Assets

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

Resources restricted by outside sources are distinguished from unrestricted resources allocated for specific purposes by action of the Board of Visitors. Externally restricted resources may be utilized only in accordance with the purposes established by the source of such resources and are in contrast with unrestricted resources, of which the governing board retains full control to use in achieving the institutional purpose.

The College's restricted net assets are expendable. Expendable restricted net assets are resources, which the University is legally or contractually obligated to spend in accordance with the restrictions imposed by external parties.

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, 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.

In connection with the implementation of GASB Statements 34 and 35, the following adjustment was made to reflect the cumulative effect of this accounting change:

Fund balances reported at June 30, 2001	$105,968,770
Accumulated depreciation on capital assets at June 30, 2001, not previously recorded	(52,012,862)
Reclassification of the Perkins Federal Capital Contribution	(1,020,796)
Net asset balance at July 1, 2001	$ 52,935,112

K. Revenue and Expense Classifications

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

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

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

L. Scholarship Discounts and Allowances

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

2. AFFILIATED ORGANIZATION

The financial statements do not include the assets, liabilities, and net assets of the Longwood College Foundation, Inc. The Foundation was organized for fund-raising activities that benefit the College or specific departments. The Foundation is a separately incorporated entity and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors at and for the year ended June 30, 2002:

Assets	$35,674,589
Liabilities and net assets:	
Liabilities	$ 1,024,505
Net assets	34,650,084
Total liabilities and net assets	$35,674,589

The revenues and expenditures of the Foundation for fiscal year 2002 were $2,688,048 and $2,496,007, respectively.

The Longwood College Foundation, Inc., receives gifts and expends funds for the benefit of Longwood College. The revenues and expenditures of the College include funds expended by the Foundation and paid directly to the College of approximately $1,509,312 for the year ended June 30, 2002.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the College's cash and cash equivalents and investments at June 30, 2002.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia (1950) as amended, all state funds of the College are held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash deposits held by the College are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 of the Code of Virginia. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

At June 30, 2002, the carrying amount of cash with the Treasurer was $8,775,881. At June 30, 2002, the carrying amount of cash with local banks was $722,853, and the bank balance of cash was $798,091. The College also maintained $20,000 in American Express Travelers Cheques and $35,000 in petty cash. The College's cash and cash equivalents include $635,833 in overnight Repurchase Agreements that are fully backed by the U.S. Government and Agency Securities and classified as a Category 1 credit risk.

The College invests 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, 2002, the carrying amount of the cash equivalent was $138,825 with the SNAP program and also included $48,621 for securities lending transactions.

B. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions reported on the financial statements represent the College's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's *Comprehensive Annual Financial Report*.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Student tuition and fees	$282,468
Library	15,971
Auxiliary enterprises	14,556
Federal, state, and nongovernmental grants and contracts	150,287
Total	463,282
Less: Allowance for doubtful accounts	6,356
Net accounts receivable	$456,926

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2002, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable capital assets:				
Land	$ 4,378,526	$ -	$ -	$ 4,378,526
Construction in progress	4,374,170	2,211,916	-	6,586,086
Total nondepreciable capital assets	8,752,696	2,211,916	-	10,964,612

Depreciable capital assets:				
Buildings	75,859,647	566,444	7,976	76,418,115
Equipment	15,170,317	2,001,432	3,066,440	14,105,309
Other improvements	1,550,062	-	-	1,550,062
Library materials	11,144,199	593,663	77,119	11,660,743
Total depreciable capital assets	103,724,225	3,161,539	3,151,535	103,734,229
Less accumulated depreciation for:				
Buildings	33,069,597	7,976	122,955	33,184,576
Equipment	10,636,167	2,844,143	2,032,046	9,824,070
Other improvements	489,158	-	51,318	540,476
Library materials	7,817,940	77,119	556,677	8,297,498
Total accumulated depreciation	52,012,862	2,929,238	2,762,996	51,846,620
Depreciable capital assets, Net	51,711,363	6,090,777	5,914,531	51,887,609
Total capital assets, Net	$ 60,464,059	$8,302,693	$5,914,531	$ 62,852,221

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

Employee salaries, wages, and fringe benefits payable	$1,721,995
Vendors and suppliers accounts payable	1,376,173
Interest payable	55,498
Total accounts payable and accrued liabilities	$3,153,666

7. NONCURRENT LIABILITIES

The College's noncurrent liabilities consist of long-term debt (further described in Note 8), and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2002, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds	$14,865,193	$ 57,337	$1,126,757	$13,795,773	$1,060,854
Notes payable	1,028,938	-	-	1,028,938	-
Installment purchases	1,985,379	-	593,633	1,391,746	464,594
Capital leases	193,714	-	133,095	60,619	60,619
Total long-term debt	18,073,224	57,337	1,853,485	16,277,076	1,586,067

Accrued compensated absences	1,824,301	606,099	1,066,421	1,363,979	534,174
Federal loan program contribution	1,201,628	45,579	-	1,247,207	-
Accrued interest payable	477,964	57,337	188,374	346,927	187,575
Total long-term liabilities	$21,577,117	$766,352	$3,108,280	$19,235,189	$2,307,816

8. LONG-TERM INDEBTEDNESS

Bonds Payable

Longwood College bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All bonds of the College 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.

Bonds payable at June 30, 2002, consist of the following:

	Interest Rates	Maturity	Amount
General obligation revenue bonds:			
Dormitory:			
Cunningham, Series 1993-A	4.70 – 4.90%	2004	$ 70,241
Cunningham, Series 1993-B	4.25 – 4.50%	2003	60,748
Air conditioning repairs, Series 1989-A	6.67%	2004	24,567
Housing repairs, Series 1989-A	6.67%	2004	72,718
Bathroom repairs, Series 1993-B	4.30 – 5.00%	2010	250,223
New student housing, Series 1992	5.40 – 5.50%	2003	230,000
Student housing, Series 1998-R	3.90 – 5.00%	2012	2,861,281
Student housing, Series 1999	4.15 – 5.58%	2019	2,510,000
Dining hall:			
Series 1996	4.55 – 5.65%	2016	4,520,000
Series 1999	4.15 – 5.58%	2019	2,685,000
Telecommunications:			
Series 1989-A	6.67%	2004	294,805
Parking facility	6.67%	2004	216,190
Total bonds payable			$13,795,773

A summary of future principal requirements of bonds payable as of June 30, 2002, follows:

Year ending June 30,	Total
2003	$ 1,099,828
2004	1,138,800
2005	767,771
2006	809,809
2007	849,722
2008-2012	4,868,053
2013-2017	3,450,000
2018-2019	870,000

Total principal requirements	13,853,983
Less discount	(58,210)
Total	$13,795,773

Capital Leases Payable

The College is committed under various capital lease agreements. Book value of equipment capitalized under lease agreements from the Higher Education Equipment Trust Fund totals $3,841,962. A summary of future obligations under lease agreements as of June 30, 2002, follows:

Year ending June 30,	Equipment Trust Fund Obligations	Installment Purchase Agreements
2003	$63,499	$ 528,523
2004	-	510,270
2005	-	323,553
2006	-	140,459
2007	-	23,516
Total obligations and gross minimum lease payments	63,499	1,526,321
Less:		
Amount of interest	(2,880)	(134,575)
Present value of minimum lease payments	$60,619	$1,391,746

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the College and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the College. For fiscal years 1999 and following, financing agreements for ETF were changed so that the College now owns the equipment from the date of purchase.

The Statement of Net Assets line “Due from the Commonwealth of Virginia” totaling $299,117 at June 30, 2002, represents equipment purchased by the College that was not reimbursed by the VCBA at year-end.

Note Payable

The College received an interest free treasury loan to cover construction expenses for the College’s housing sprinkler project in the amount of $1,028,938. The total principal is to be repaid by June 30, 2006, as a lump-sum payment.

9. COMMITMENTS

At June 30, 2002, the College was committed to construction contracts totaling approximately $15,194,515 of which $5,772,941 had been incurred.

The College is committed under various operating lease agreements for buildings, equipment, etc. In general, the agreements are for a period of one year, and typically have renewal options. In most cases, the College 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, 2002, was $1,205,288. The College has, as of June 30, 2002, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2003	$900,573
2004	110,166
2005	5,859
2006	1,200
Total	$1,017,098

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ended June 30, 2002. Additionally, the College used auxiliary revenues to pay debt service, capital improvements, and scholarships of $1,799,750, $1,549,061, and $973,237, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, Net of scholarship allowance of $717,233	$ 7,759,931
Food service contracts, Net of scholarship allowance of $478,012	5,094,521
Athletic fee, Net of Scholarship allowance of $241,288	2,602,200
Other student fees and sales and services, Net of scholarship allowance of $412,740	7,210,149
Total auxiliary enterprises revenues	$22,666,801
Expenses:	
Residential facilities	$ 5,353,776
Dining operations	4,226,270
Athletics	1,817,260
Other auxiliary services	4,972,489
Total auxiliary enterprises expenses	$16,369,795

11. PRIOR YEAR DEFEASANCE OF DEBT

During fiscal year 1998, the Commonwealth defeased certain 1992 Series Higher Education Institution Bonds with 1998 Refunding Bonds. At June 30, 2002, $2,785,000 of the defeased bonds are outstanding.

During fiscal year 1994, the Commonwealth defeased certain 1989 Series and 1990 Series Higher Education Institution Bonds with 1993B Series, Article X, Section 9(c) Refunding Bonds. At June 30, 2002, $306,477 of the defeased bonds are outstanding.

The net proceeds from the sales of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the College's financial statements.

12. STATE APPROPRIATIONS

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

During the year ended June 30, 2002, the following changes were made to the College's original appropriation, including supplemental appropriations received in accordance with the 2000 Virginia Acts of Assembly, Chapter 1073.

Original appropriation:	
Educational and general programs	$20,209,982
Student financial assistance	1,794,226
Higher education equipment trust fund program	91,957
Supplemental adjustments:	
Central Fund appropriation transfers:	
Salary increases and regrades	165,115
Health insurance premium	176,156
Deferred compensation match	107,891
Retirement plans, faculty salaries, auto liability premium, and other miscellaneous reversions to the Central Fund	(737,828)
Reversion to the General Fund	(20)
Reappropriations	70,305
Appropriation reductions	(663,793)
Additional student financial assistance	9,450
Higher education equipment trust fund payment	(49,981)
State Grants and VIVA funds	73,093
Adjusted appropriation	$21,246,553

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 Assets 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	Depreciation	Total
Instruction	$10,843,328	$2,560,310	$ 1,059,166	$ -	$ 2,106	$ -	$14,464,910
Research	7,840	470	16,045	-	-	-	24,355
Public service	914,748	177,887	665,585	-	844	-	1,759,064
Academic support	2,382,205	567,374	1,251,814	-	34,558	-	4,235,951
Student services	1,137,577	274,750	505,842	-	175	-	1,918,344
Institutional support	2,566,384	1,078,825	719,946	-	-	-	4,365,155
Operation and maintenance of plant	1,020,517	461,903	996,038	-	512,372	-	2,990,830
Depreciation	-	-	-	-	-	2,762,996	2,762,996
Scholarship and related expenses	-	-	-	5,006,614	-	-	5,006,614
Auxiliary activities	5,980,240	1,043,741	8,652,622	-	693,192	-	16,369,795
Other expenses	-	-	4,712	-	-	-	4,712
Total	$24,852,839	$6,165,260	$13,871,770	$5,006,614	$1,243,247	$2,762,996	$53,902,726

14. RETIREMENT PLANS

Virginia Retirement System

Employees of the College are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the College 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 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 ay June 30, 2002, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The College's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $976,400 for the year ended June 30, 2002. These contributions included the employee contribution assumed by the employer. The rate from July 1 through January 24 was 9.24 percent. This rate was reduced effective January 25, 2002, to five percent. Contributions to the VRS were calculated using a base salary amount of approximately $13,065,123 for the fiscal year ended

June 30, 2002. The College's total payroll was approximately $24,967,496 for the year ended June 30, 2002.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in six optional retirement plans. College employees currently participate in five of these plans, which include: Fidelity Investments Institutional Services, Great West Life Assurance, Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF), T. Rowe Price and Associates, and Variable Annuity Life Insurance (VALIC). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4 percent, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the College and the participant's contributions. Total pension costs under these plans were approximately $876,071 for the year ended June 30, 2002. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $8,423,760. The College's total payroll in fiscal year 2002 was approximately $24,967,496.

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 and terminated 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 and participate in the state's health plan. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. CONTINGENCIES

The College 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 the College. As of June 30, 2002, management estimates that no material liabilities will result from such audits.

17. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The College 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 College 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.

LONGWOOD COLLEGE
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002

	Food Services	Bookstore	Residential Services	Parking and Transportation
Revenues:				
Student fees	$ 5,051,432	$ -	$ 7,579,422	$ 495,328
Sales and service	43,089	226,517	180,509	181,715
Income from security lending transactions (Note 1)	-	-	-	-
Other	-	-	-	-
Total operating revenues	5,094,521	226,517	7,759,931	677,043
Expenditures:				
Personal services	304,441	-	2,634,131	103,593
Contractual services	3,751,656	725	1,332,089	83,946
Other expenses	170,173	274	1,387,556	57,168
Security lending expenditures (Note 1)	-	-	-	-
Total operating expenditures	4,226,270	999	5,353,776	244,707
Excess of revenues over expenditures before transfers	868,251	225,518	2,406,155	432,336
Nonoperating revenues (expenses)				
Debt service/Zero coupon bonds	(656,533)	-	(921,339)	(71,868)
Capitalized expenses	(6,607)	-	(557,429)	(983)
Scholarship funding	-	-	(283,784)	(573)
Net increase (decrease) for the year	$ 205,111	$225,518	$ 643,603	$ 358,912
Net Assets at beginning of year				
Net Assets at end of year				

Note 1 - Longwood College maintains cash with the Treasurer in the State Treasurer's General Treasurer's General Account participated in security lending transactions during fiscal year 2002 culminating the reporting of the gross revenue and gross expenditures relating to these transactions being reported in the College's financial statements. See Note 3 (Cash and Cash Equivalents) of the College's financial statements for more information regarding the State Treasurer's General Account security lending transactions.

Telecom-munications	Student Health	Student Union	Recreation and Intramurals	Inter-collegiate Athletics	Other Auxiliary	Total
$ 677,710	$362,956	$342,856	$ 137,309	$ 2,549,832	$ 3,128,972	$ 20,325,817
542,374	5,680	-	-	-	585,683	1,765,567
-	-	-	-	-	19,864	19,864
-	-	-	-	52,368	503,185	555,553
1,220,084	368,636	342,856	137,309	2,602,200	4,237,704	22,666,801
519,582	329,032	264,419	84,256	1,123,293	1,650,845	7,013,592
418,955	14,181	30,033	7,074	444,149	1,166,393	7,249,201
5,651	10,292	45,723	11,516	249,818	148,967	2,087,138
-	-	-	-	-	19,864	19,864
944,188	353,505	340,175	102,846	1,817,260	2,986,069	16,369,795
275,896	15,131	2,681	34,463	784,940	1,251,635	6,297,006
(69,011)	-	-	-	-	(80,999)	(1,799,750)
(7,002)	(4,541)	(6,488)	-	(13,560)	(952,451)	(1,549,061)
(2,442)	(132)	(810)	-	(506,363)	(179,133)	(973,237)
$ 197,441	$ 10,458	$ (4,617)	$ 34,463	$ 265,017	$ 39,052	1,974,958
						3,043,935
						$ 5,018,893

LONGWOOD COLLEGE
Farmville, Virginia

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