

## **AUDIT SUMMARY**

Our audit of Longwood College for the year ended June 30, 1998, found the following:

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

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COLLEGE OFFICIALS

May 20, 1999

The Honorable James S. Gilmore, III  
Governor of Virginia

The Honorable Richard J. Holland  
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, 1998, and submit herewith our complete reports on financial statements and compliance and internal controls.

#### INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Longwood College as of June 30, 1998, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. 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 generally accepted auditing standards 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, 1998, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Auxiliary Enterprises - Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements 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, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards. We also determined the status of audit findings contained in our prior year report.

### 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 that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable 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 within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

The College has taken adequate corrective action with respect to the previously reported audit findings.

This report is for the information of the Governor and General Assembly, Board of Visitors, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on August 23, 1999.

AUDITOR OF PUBLIC ACCOUNTS

JEG:whb  
whb:48

## **FINANCIAL STATEMENTS**

LONGWOOD COLLEGE  
BALANCE SHEET  
As of June 30, 1998

As of June 30, 1998

	Current Funds		Loan Funds	Plant Funds			Agency Funds	Total (Memorandum Only)
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant		
Assets								
Cash and cash equivalents (Note 3)	\$ 3,024,694	\$ 343,554	\$ 124,742	\$ (477,908)	\$ -	\$ -	\$ 362,851	\$ 3,377,933
Investments (Note 3)	-	-	-	5,223,126	-	-	-	5,223,126
Student's accounts receivable (net of allowance for doubtful accounts of \$9,428)	209,190	51,962	-	-	-	-	-	261,152
Notes receivable (net of allowance for doubtful notes of \$294,457)	-	-	780,259	-	-	-	-	780,259
Collateral held for security lending (Note 3)	93,906	-	-	-	-	-	-	93,906
Due from other funds	132,445	-	-	-	754,794	-	-	887,239
Due from federal government	-	76,974	-	-	-	-	-	76,974
Appropriations available	81,930	9,450	-	205,779	-	-	-	297,159
Land	-	-	-	-	-	3,987,636	-	3,987,636
Buildings	-	-	-	-	-	63,269,935	-	63,269,935
Equipment	-	-	-	-	-	11,457,534	-	11,457,534
Library books	-	-	-	-	-	9,692,331	-	9,692,331
Construction in progress	-	-	-	-	-	7,632,869	-	7,632,869
Improvements	-	-	-	-	-	1,550,062	-	1,550,062
Equity in Equipment Trust Fund	-	-	-	-	-	60,377	-	60,377
Total assets	\$ 3,542,165	\$ 481,940	\$ 905,001	\$ 4,950,997	\$ 754,794	\$ 97,650,744	\$ 362,851	\$ 108,648,492
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued expenses	\$ 2,103,931	\$ 85,394	\$ -	\$ 560,870	\$ -	\$ -	\$ -	\$ 2,750,195
Deferred revenue	1,659,300	-	-	-	-	-	-	1,659,300
Payable for collateral held for security lending	93,906	-	-	-	-	-	-	93,906
Deposits pending distribution	208,265	-	-	-	-	-	362,851	571,116
Retainage payable (Note 4)	-	-	-	273,659	-	-	-	273,659
Due to the Commonwealth of Virginia - petty cash advance	35,000	-	-	-	-	-	-	35,000
Due to other funds	734,113	100,100	6,737	23,784	-	22,505	-	887,239
Notes payable (Note 5)	-	-	-	329,123	-	840,269	-	1,169,392
Accrued interest payable (Note 6)	-	-	-	-	754,794	-	-	754,794
Accrued compensated absences	1,364,056	27,992	-	-	-	-	-	1,392,048
Bonds payable (Note 7)	-	-	-	3,213,942	-	8,806,558	-	12,020,500
Lease obligations (Note 9)	-	-	-	-	-	905,860	-	905,860
Total liabilities	6,198,571	213,486	6,737	4,401,378	754,794	10,575,192	362,851	22,513,009
Fund balances:								
Current Funds - Unrestricted	(2,656,406)	-	-	-	-	-	-	(2,656,406)
Current Funds - Restricted	-	268,454	-	-	-	-	-	268,454
Loan Funds - U.S. Government grants refundable	-	-	805,061	-	-	-	-	805,061
Loan Funds - college funds - Restricted	-	-	93,203	-	-	-	-	93,203
Unexpended Plant Funds	-	-	-	549,619	-	-	-	549,619
Net investment in plant	-	-	-	-	-	87,075,552	-	87,075,552
Total fund balances (deficits)	(2,656,406)	268,454	898,264	549,619	-	87,075,552	-	86,135,483
Total liabilities and fund balances	\$ 3,542,165	\$ 481,940	\$ 905,001	\$ 4,950,997	\$ 754,794	\$ 97,650,744	\$ 362,851	\$ 108,648,492

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

LONGWOOD COLLEGE  
STATEMENT OF CHANGES IN FUND BALANCES  
For the Year Ended June 30, 1998

	Current Funds		Loan Funds	Plant Funds		
	Unrestricted	Restricted		Unexpended	Retirement of Indebtedness	Investment in Plant
Revenues and other additions:						
Unrestricted current funds revenues	\$ 39,783,966	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants and contracts - Restricted	-	1,912,838	12,574	-	-	-
State appropriations - Restricted	-	1,707,550	-	3,569,267	-	-
State grants and contracts - Restricted	-	600,156	-	-	-	-
Local gifts, grants, and contracts - Restricted	-	97,912	-	-	-	-
Private gifts, grants, and contracts - Restricted	-	932,530	-	-	-	-
Investment income	-	-	-	285,869	-	-
Interest on loans receivable	-	-	20,701	-	-	-
Expended for plant facilities (including \$2,589,959 expended from current funds)	-	-	-	-	-	6,385,003
Retirement of indebtedness	-	-	-	-	-	1,749,072
Other revenues	-	26,229	4,015	-	-	5,126
Total revenues and other additions	39,783,966	5,277,215	37,290	3,855,136	-	8,139,201
Expenditures and other deductions:						
Educational and general expenditures	22,625,258	5,089,203	-	-	-	-
Auxiliary enterprise expenditures	14,445,542	259,516	-	-	-	-
Reversion to the General Fund of the Commonwealth	-	-	-	361	-	-
Refunded to grantors	-	44	-	-	-	-
Loan write-offs	-	-	12,461	-	-	-
Administration and collection costs	-	-	29,585	-	-	-
Expended for plant facilities (including noncapitalized expenditures of \$329,482)	-	-	-	4,124,526	-	-
Retirement of indebtedness	-	-	-	-	1,749,072	-
Interest on indebtedness	-	-	-	-	581,965	-
Asset valuation reduction	-	-	-	-	-	107,888
Total expenditures and other deductions	37,070,800	5,348,763	42,046	4,124,887	2,331,037	107,888
Transfers among funds - additions (deductions):						
Mandatory:						
Debt service	(2,096,537)	-	-	(234,500)	2,331,037	-
Plant funds	(1,014,497)	-	-	1,014,497	-	-
Nonmandatory	(162,585)	162,585	-	-	-	-
Total transfers among funds	(3,273,619)	162,585	-	779,997	2,331,037	-
Net increase (decrease) for the year before extraordinary item	(560,453)	91,037	(4,756)	510,246	-	8,031,313
Extraordinary item:						
Loss on early extinguishment of debt (Note 8)	-	-	-	-	-	(163,904)
Net increase (decrease) for the year	(560,453)	91,037	(4,756)	510,246	-	7,867,409
Fund balances (deficit) at beginning of year	(2,095,953)	177,417	903,020	39,373	-	79,208,143
Fund balances (deficit) at end of year (Note 10)	\$ (2,656,406)	\$ 268,454	\$ 898,264	\$ 549,619	\$ -	\$ 87,075,552

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

LONGWOOD COLLEGE  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES  
For the Year Ended June 30, 1998

	Unrestricted	Restricted	Total (Memorandum Only)
Revenues:			
Student tuition and fees	\$ 10,039,852	\$ -	\$ 10,039,852
Federal grants and contracts	-	2,063,903	2,063,903
State appropriations (Note 11)	12,833,102	1,698,100	14,531,202
State grants and contracts	-	598,929	598,929
Local grants and contracts	-	34,235	34,235
Private gifts, grants and contracts	-	941,712	941,712
Sales and services of educational activities	13,503	-	13,503
Sales and services of auxiliary enterprises	16,333,601	-	16,333,601
Other sources	563,908	11,840	575,748
Total revenues	39,783,966	5,348,719	45,132,685
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	12,173,334	215,814	12,389,148
Research	-	49,752	49,752
Public service	218,687	680,977	899,664
Academic support	3,544,072	203,712	3,747,784
Student services	1,610,766	27,863	1,638,629
Institutional support	3,071,016	281,885	3,352,901
Operation and maintenance of plant	1,921,788	2,173	1,923,961
Scholarships and fellowships	85,595	3,627,027	3,712,622
Total educational and general expenditures	22,625,258	5,089,203	27,714,461
Mandatory transfers:			
Debt service	918,131	-	918,131
Total educational and general	23,543,389	5,089,203	28,632,592
Auxiliary enterprises:			
Operating expenditures	14,445,542	259,516	14,705,058
Mandatory transfers:			
Debt service	1,178,406	-	1,178,406
Renewals and replacements	1,014,497	-	1,014,497
Total auxiliary enterprises	16,638,445	259,516	16,897,961
Total expenditures and mandatory transfers	40,181,834	5,348,719	45,530,553
Other transfers and additions (deductions):			
Deficiency of restricted receipts under transfers to revenue	-	(71,504)	(71,504)
Refunded to grantors	-	(44)	(44)
Nonmandatory transfers	(162,585)	162,585	-
Net increase (decrease) in fund balances	\$ (560,453)	\$ 91,037	\$ (469,416)

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

## **NOTES TO FINANCIAL STATEMENTS**

LONGWOOD COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Longwood College have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the College are as follows:

A. Reporting Entity

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

A separate report is prepared for the Commonwealth of Virginia that 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 general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The financial statements of Longwood College have been prepared on the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants Audit Guide, Audits of Colleges and Universities, except for depreciation expenses relating to capitalized fixed assets which are not recorded.

The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds which may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group. Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by

action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Current Restricted Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

1. Current Funds - Current fund balances are separated into those that are restricted by donors and those that are unrestricted. Restricted funds may only be expended for the purposes indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the College.
2. Loan Funds - Loan funds represent funds that are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.
3. Plant Funds - Plant funds are divided into three groups: Unexpended, Retirement of Indebtedness, and Net Investment in Plant. Unexpended plant funds represent funds that were specified by external sources or designated by the Board of Visitors, for the acquisition, construction, renovation, and replacement of physical properties. The Retirement of Indebtedness fund includes resources held for the retirement of both principal and interest on debt and sinking funds established under bond indentures. Net Investment in Plant represents the capitalized value of physical property owned by the College, less associated long-term debt.
4. Agency Funds - Agency funds represent funds held in trust by the College as custodian or fiscal agent for others.

D. Net Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in net investment in plant. Expenditures for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements included no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for

debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a nonmandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the College.

E. Investments

Investments are recorded at fair market value. Short-term investments with original maturities of three months or less are classified as cash equivalents in the financial statements. Investments with original maturities greater than three months are classified as investments on the financial statements.

F. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30, 1998. This is primarily composed of revenue for student tuition received in advance of the semester. If a program is conducted over a fiscal year end, deferred revenue is recorded for all revenue related to programs predominately conducted in the next fiscal year.

G. Compensated Absences

Compensated absences reflected in the accompanying financial statements represent the amount of vacation, sick, and compensatory leave earned but not taken by the College's employees as of June 30, 1998. The amount represents all earned vacation, compensatory and sick leave, and related payroll taxes expected to be paid under the Commonwealth of Virginia's leave pay-out policy upon employment termination.

H. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. **AFFILIATED ORGANIZATION**

The financial statements do not include the assets, liabilities, and fund balances of the Longwood College Foundation, Inc. The Foundation was organized for fund-raising activities that benefit the College or specific departments. The following is a condensed summary of the financial position of the Foundation at June 30, 1998:

Assets	<u>\$ 22,864,593</u>
Liabilities and net assets:	
Liabilities	\$ 1,069,247
Net assets	<u>21,795,346</u>
Total liabilities and net assets	<u>\$ 22,864,593</u>

The revenues and expenditures of the Foundation were \$6,693,309 and \$1,317,866 respectively.

### 3. CASH AND CASH EQUIVALENTS

All State Funds of the College are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody, and investment of state funds. At June 30, 1998, the carrying amount of cash with the Treasurer was \$2,224,927. The College also had bond proceeds invested in the State Non-Arbitrage Program (SNAP). Proceeds held in SNAP are invested in money market funds, and do not need to be categorized as to risk, in accordance with GASB 3. At June 30, 1998, the carrying amount of the investment held by the Treasurer of Virginia was \$5,223,126.

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 2.1-359 of the Code of Virginia. At June 30, 1998, the carrying amount of cash with local banks was \$95,692, and the bank balance of cash was \$187,211. The College also maintained \$20,000 in American Express Travelers Cheques and \$35,000 in petty cash. The College's temporary investments consist of \$1,002,314 in overnight repurchase agreements fully backed by the U.S. Government and Agency Securities and classified as a Category 1 credit risk. Risk Category 1 includes investments which are insured or registered for which the securities are held by the College or its safekeeping Agent in the College's name. Cash and cash equivalents represent cash with the Treasurer, cash on hand, and cash deposits including certificates of deposit and temporary investments with original maturities of three months or less.

Collateral for investments held by the Treasurer of Virginia 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. RETAINAGE ON CONTRACTS

At June 30, 1998, the College held \$273,659 as retainage on various construction contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of construction projects.

5. NOTES PAYABLE

Balance as of  
June 30, 1998

The College entered into a financing agreement with IBM Credit Corporation to purchase \$1,886,537 of computing hardware. Payments of interest and principal are due once a year for six years beginning July 1, 1993. The interest rate is 4.86 percent. The loan is to be repaid by July 1, 1998. IBM Credit Corporation holds a purchase money security interest in the equipment financed.

\$ 140,454

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

1,028,938

Total Notes Payable

\$ 1,169,392

6. ACCRUED INTEREST PAYABLE

Accrued interest payable at June 30, 1998, in the amount of \$754,794 includes \$711,006 in amortized discount on the 1989 issue of zero coupon bonds. The total unamortized bond discount at June 30, 1998, was \$386,453 and annual payments began in June 1995. The remaining \$43,788 represents the accrued interest on the General Obligation Bonds for the month of June 1998.

7. LONG-TERM INDEBTEDNESS

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, 1998, consist of the following:

	<u>Interest Rates</u>	<u>Maturity</u>	<u>Amount</u>
General Obligation Revenue Bonds:			
Dormitory:			
French, Series 1992	5.00 - 5.60%	2002	\$ 235,763
Cunningham, Series 1993-A	4.30 - 4.90%	2004	70,724
Cunningham, Series 1993-B	4.00 - 4.50%	2003	298,060

Air Condition Repairs, Series 1989-A	6.67%	2004	65,159
Housing Repairs, Series 1989-A	6.67%	2004	192,872
Bathroom Repairs, Series 1990-B	6.40%	1999	20,000
Bathroom Repairs, Series 1993-B	4.00 - 5.00%	2010	285,256
New Student Housing, Series 1992	4.80 - 5.50%	2003	1,030,000
Housing Repairs, Series 1996	4.75%	2001	41,176
Student Housing, Series 1998-R	3.50 - 5.00%	2012	2,925,834
Dining Hall:			
Series 1996	4.30 - 5.65%	2016	5,310,000
Lancer Physical Education Building:			
Series 1993-B	4.00 - 4.25%	2001	190,343
Telecommunications:			
Series 1989-A	6.67%	2004	781,911
Parking Facility:			
Series 1989-A	6.67%	2004	<u>573,402</u>
Total Bonds Payable			<u>\$12,020,500</u>

A summary of future principal requirements of bonds payable as of June 30, 1998, follows:

Year Ending June 30	Total
1999	\$ 908,991
2000	945,394
2001	961,824
2002	931,756
2003	894,828
Later Years	<u>7,764,160</u>
Total principal payments	12,406,953
Less discount	<u>(386,453)</u>
Total	<u>\$ 12,020,500</u>

#### 8. DEFEASANCE OF DEBT

In February 1998, the Commonwealth of Virginia, on behalf of Longwood College, issued \$2,948,904 in General Obligation Refunding Bonds with a true interest cost (TIC) of 4.499 percent to advance refund \$2,785,000 of outstanding 1992 Higher Education Bonds with interest rates of 5.75 percent. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. The debt defeasance resulted in an accounting loss of \$163,904. The defeasance will reduce total debt service payments by \$207,315 over the next 15 years, resulting in an economic gain of \$155,573, discounted at the TIC of 4.499 percent. As a result,

these bonds refunded are considered defeased and are not reflected in the accompanying financial statements. At June 30, 1998, \$2,785,000 of the defeased bonds are outstanding.

During fiscal year 1997, the Commonwealth defeased certain 1990 Series B General Obligation Bonds with 1996 Series Refunding Bonds. At June 30, 1998, \$40,000 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, 1998, \$743,643 of the defeased bonds are outstanding.

## 9. LEASE COMMITMENTS

The College is committed under various capital and operating lease agreements. Book value of equipment capitalized under lease agreements from the Higher Education Equipment Trust Fund totals \$2,962,602. Rent expense under operating lease agreements amounted to \$229,631. A summary of future obligations under lease agreements as of June 30, 1998, follows:

Year Ending <u>June 30</u>	Operating Lease <u>Obligations</u>	Equipment Trust <u>Fund Obligations</u>	Other Capital Lease <u>Obligations</u>
1999	\$ 135,590	\$ 173,726	\$ 81,667
2000	64,955	161,672	87,112
2001	20,611	170,668	63,532
2002	-	141,938	53,858
2003	-		<u>63,499</u>
<u>12,121</u>			
Total obligations and gross minimum lease payments	<u>\$ 221,156</u>	\$ 711,503	\$ 298,290
Less: amount of interest		<u>(74,191)</u>	<u>(29,742)</u>
Present value of minimum lease payments		<u>\$ 637,312</u>	<u>\$ 268,548</u>

## 10. DEFICIT FUND BALANCES

The Current Unrestricted Fund ended fiscal year 1998 with a deficit fund balance of \$2,656,406, which is attributable to accounts payable and accrued compensated absences.

## 11. STATE APPROPRIATIONS - CURRENT UNRESTRICTED FUNDS

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, therefore, no longer available to Longwood College for disbursements.

During the year ended June 30, 1998, the following changes were made to the College's original appropriation, including supplemental appropriations received in accordance with Section 1-101 of the Appropriation Act, Chapter 924, Acts of Assembly.

Original appropriation	\$12,546,680
Adjustments:	
Equipment trust lease payment	78,195
Regrade, VRS rate change, lag pay	194,386
Personnel and telecommunications savings	(24,386)
Health insurance premium adjustment	61,514
DIT cost	(3,884)
Reduction due to group life savings	(2,976)
Reduction for IHRIS development cost	<u>(16,427)</u>
Adjusted appropriation	<u>\$12,833,102</u>

## 12. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Employees of the College are employees of the Commonwealth. The employees participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not Longwood College, has overall responsibility for contributions to these plans.

Full-time faculty and certain administrative staff participate in Optional Retirement Plans. These defined contribution plans are through TIAA/CREF, VALIC, Fidelity Investment Insurance, Great West Life, and T. Rowe Price. These are fixed-contribution programs where the retirement benefits received are based upon the employer's 10.4 percent contribution (all of which are paid by the College), plus interest and dividends.

Individual contracts issued under the plans provide for full and immediate vesting of all contributions. Contributions to these programs were calculated using a base salary amount of approximately \$5,194,630. Total pension costs under these plans were approximately \$540,241 for the year ended June 30, 1998.

## 13. YEAR 2000 READINESS

Longwood College recognizes the significance of the Century Date Change and the impact Year 2000 may have on its information technology and business infrastructure. The College has established a Year 2000 committee made up of staff from the Office of Information and Instructional Technology Services to work in conjunction with the Commonwealth's legislatively authorized Virginia Century Date Change Office to help address the Year 2000 issue. The College is in the process of

replacing current administrative computer systems and reengineering related business processes to address Year 2000 readiness.

The College has identified its administrative computing, communications, and facilities systems as mission critical and is subjecting those systems and equipment to the following stages of work to address the Year 2000 issues:

- Awareness stage – Establishing a budget and project plan for dealing with the year 2000 issue.
- Assessment stage – Identifying the systems and components for which year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment.
- Validation/Testing stage – Validating and testing the changes that were made during the remediation stage.

As of April 1999, the College has completed the Awareness and Assessment stages for all components of their mission-critical systems. They have completed a majority of the Remediation and Validation/Testing stages for their administrative applications, hardware, network, communications, and facilities systems. Cost estimates for all the College's Year 2000 readiness projects are \$1,432,204. Actual expenditures as of March 1999 were approximately \$1,405,000.

The College's Year 2000 Committee is also addressing general Year 2000 issues not associated with the administrative systems. The Committee has identified non mission-critical systems, non-traditional computing systems, systems that depend on embedded microchips, data exchange requirements, and the College's relationships with outside agencies and vendors. Replacement products for non mission-critical systems are currently being reviewed.

The College's contingency plan is for each functional area to develop a manual contingency plan that must be in place by the time that the administrative replacement systems go live for their areas.

The State Comptroller maintains the Commonwealth's Accounting and Reporting System, which the College uses to reconcile their financial accounting system. Information relating to the Year 2000 readiness for the Commonwealth's systems is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

#### 14. CONTINGENCIES

Longwood 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 Longwood College. As of June 30, 1998, Longwood College estimates that no material liabilities will result from such audits.

15. SURETY BOND

The employees of the College were covered under a Faithful Performance Duty Bond administered by the Commonwealth of Virginia's Department of General Services, Division of Risk Management with liability limits of \$500,000 for each occurrence. Information relating to the Commonwealth's self-insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

## **SUPPLEMENTARY INFORMATION**

LONGWOOD COLLEGE  
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES  
For the Year Ended June 30, 1998

	Food Services	Bookstore	Residential Services	Parking and Transportation	Telecom- munications	Student Health	Student Union	Recreation and Internurals	Inter- collegiate Athletics	Other Auxiliary	Total
Revenues:											
Student fees	\$	\$	-	\$	\$	\$	\$	\$	\$	\$	\$
Sales and service	49,999	161,369	5,548,671	\$250,321	295,424	\$344,087	261,059	\$123,390	1,818,648	\$1,690,994	14,232,992
Income from security lending transactions (Note 4)	-	-	187,685	127,790	751,699	16,051	-	-	-	10,172	10,172
Other	-	-	-	-	-	7,120	-	-	53,728	274,285	335,133
Total revenues	3,950,397	161,369	5,736,356	378,111	1,047,123	367,258	261,059	123,390	1,872,376	2,436,162	16,333,601
Expenditures:											
	250,937										
Contractual services	2,688,491	334	233,820	65,191	533,096	16,544	25,930	322	246,282	705,610	4,515,620
Supplies and materials	89,773	1,153	526,361	7,614	16,555	12,686	7,112	7,275	163,242	46,314	878,085
Transfer payments	913	-	257,483	55	1,909	650	777	1,225	2,516	171,024	436,552
Continuous charges	-	-	728,203	21,378	6,159	2,016	29,119	4,889	130,442	113,762	1,124,188
Equipment	13,798	-	369,332	8,484	23,170	2,617	20,711	5,029	23,750	279,875	746,766
Scholarships	-	-	-	-	-	-	-	-	-	-	322,444
Security lending expenditures (Note 4)	-	-	-	-	-	-	-	-	-	10,172	10,172
Total expenditures	3,132,132	1,487	4,690,649	231,889	899,315	342,458	274,068	118,820	1,908,601	2,846,123	14,445,542
Excess (deficiency) of revenues over (under)	818,265	159,882	1,045,707	146,222	147,808	24,800	(13,009)	4,570	(36,225)	(409,961)	1,888,059
Mandatory transfers:											
Debt service	(245,360)	-	-	-	-	-	-	-	(64,391)	-	-
Plant funds (Note 1)	-	-	-	-	-	-	-	-	-	-	-
Nonmandatory transfers (Note 2)	(64,599)	-	-	-	-	-	-	-	-	-	-
Net increase (decrease) for the year	\$ 508,306	\$ 159,882	\$ 309,896	\$ 34,778	\$ 68,245	\$ 24,243	\$ (14,641)	\$ 3,367	\$ (102,151)	\$ (1,641,448)	\$ (649,523)
										(Note 3)	
Fund balance at beginning of year											335,105
Fund balance at end of year											<u>\$ (314,418)</u>

Note 1 - The transfers to plant funds were for the following projects:

Hiner renovation	\$ 2,709
Playing fields acquisition	651,895
Property acquisition	359,893
Total	<u>\$ 1,014,497</u>

Note 2 - The nonmandatory transfer represents the College's contribution to the Federal Workstudy Program and reclassification of certain local auxiliary expenditures.

Note 3 - The \$1,641,448 reduction in Other Auxiliary fund balance resulted from renewals and replacements expenditures. The Board of Visitors approved the funding of the renewals and replacements from prior year auxiliary reserves. This category includes local auxiliary which also had an increased expenditure activity.

Note 4 - Longwood College maintains cash with the Treasurer in the State Treasurer's General Account. The State Treasurer's General Account participated in security lending transactions during fiscal year 1998 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.

LONGWOOD COLLEGE  
Farmville, Virginia

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