LONGWOOD
U N I V E R S I T Y

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2009

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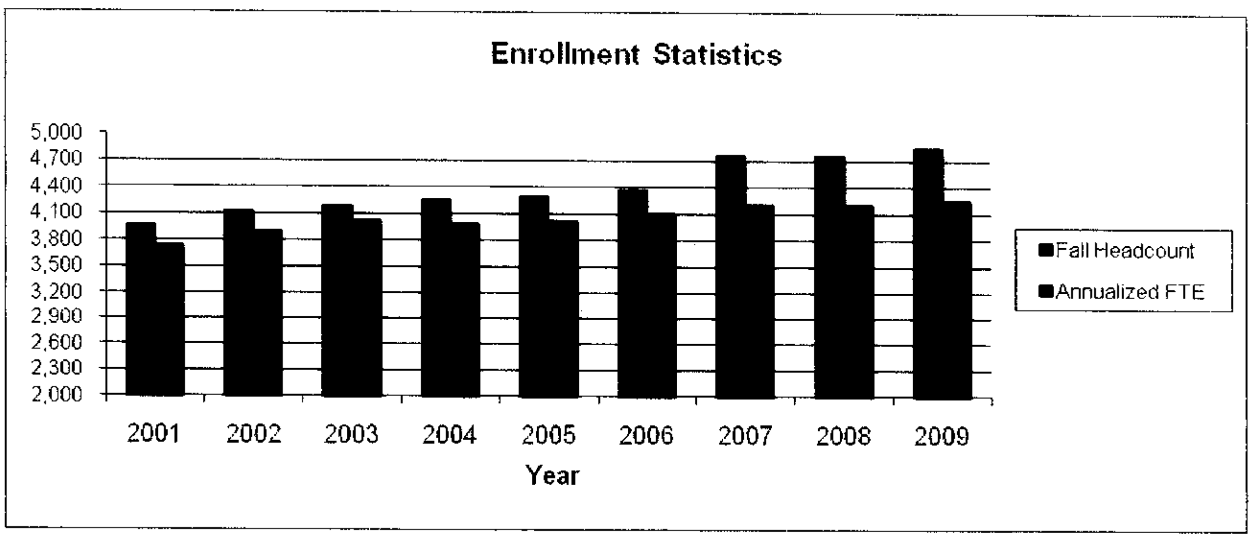
Longwood University
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Accounting Standards

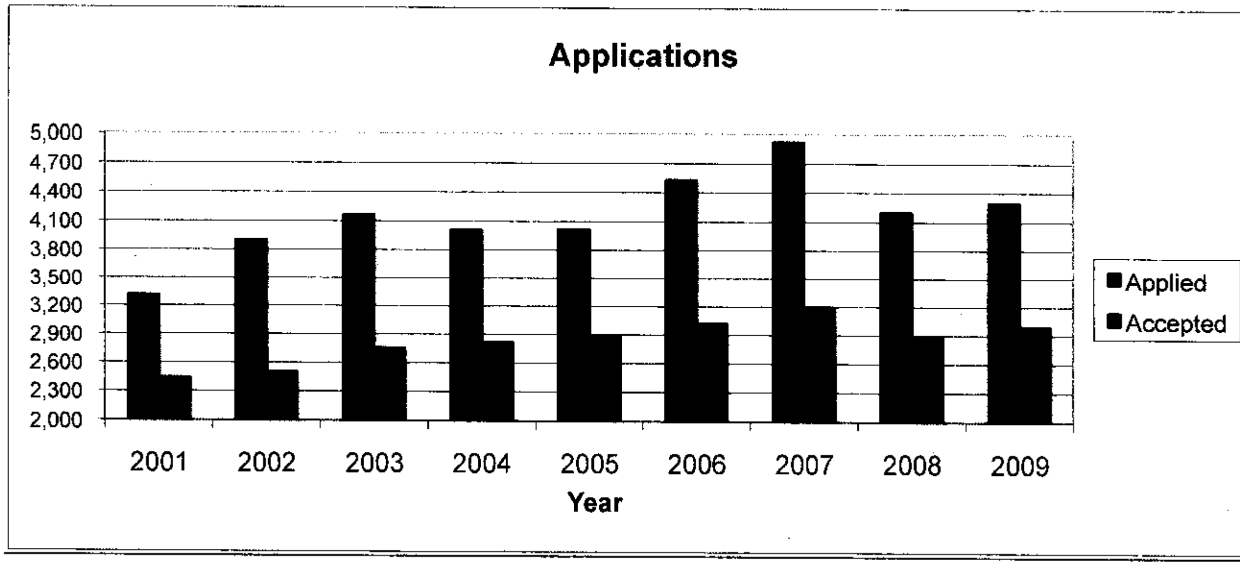
The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2009, with comparative information presented for the fiscal year ended June 30, 2008. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education and public service. Net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementations of new programs. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of management. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

Enrollment and Admissions Information

A significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Headcount enrollment increased from 3,961 in Fall 2001 to 4,844 in Fall 2009. The University is projecting a headcount of 4,822 for Fall 2010.



The strategic plan states that the student body will be of high quality. The Fall 2009 entering freshman class remained competitive with a grade-point average of 3.38, an average SAT score of 1072, and an average ACT score of 22.7. This is up from the 3.15 grade-point average and a SAT score of 1065 for freshmen entering Longwood in Fall 2000. Total applications have increased from 4,200 in fall 2008 to 4,298 in fall 2009.



Using the Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Longwood as a whole and present a long-term view of the University's finances.

Statement of Net Assets

The Statement of Net Assets presents the financial position at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities is net assets, which is an indicator of the current financial condition of the University. The purpose of this statement is to present to the financial statement readers a fiscal snapshot as of June 30, 2009. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

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

Statement of Net Assets, as of June 30, 2009 and 2008

Statement of Net Assets	As of June 30, 2009	As of June 30, 2008	Value of Change	Percentage Change
Assets:				
Current assets	$ 48,112,497	$ 40,357,171	$ 7,755,326	19.2%
Non-depreciable capital assets,	25,536,166	34,385,529	(8,849,363)	(25.7%)
Depreciable capital assets,	155,666,730	128,336,910	27,329,820	21.3%
Other noncurrent assets	16,693,247	40,016,351	(23,323,104)	(58.3%)
Total assets	246,008,640	243,095,961	2,912,679	1.2%
Liabilities:				
Current liabilities	26,674,894	21,019,648	5,655,246	26.9%
Noncurrent liabilities	69,572,404	63,902,052	5,670,352	8.9%
Total liabilities	96,247,298	84,921,700	11,325,598	13.3%
Net assets:				
Invested in capital assets, net	118,863,568	109,501,569	9,361,999	8.5%
Restricted - expendable	1,505,014	24,646,254	(23,141,240)	(93.9%)
Unrestricted	29,392,760	24,026,438	5,366,322	22.3%
Total net assets	$149,761,342	$158,174,261	($ 8,412,919)	(5.3%)

Evaluation of Fiscal Years 2008 and 2009 Statement of Net Assets

The University's total assets increased by $2,912,679 between fiscal years 2008 and 2009 due to an increase in capital projects offset by a decrease in appropriations available. Buildings increased by $25,541,314 due to the new buildings and projects put into service during fiscal year 2009 (Bedford Wygal Connector and Renovation of Cox). In addition, infrastructure also increased $8,660,570 due to the completion of projects including the Lacrosse/Field Hockey Fields and Baseball/Softball Fields. Non depreciable capital assets decreased due to a reduction in construction in progress due to projects being put into service during fiscal year 2009.

Non current liabilities increased by $5,670,352 primarily due to the additional sales of bonds and notes in fiscal year 2009 of $6,026,879 and $4,685,000 respectively, partially offset by debt service payments of $3,100,248. Current liabilities increased $5,655,246 due to an increase in the University's securities lending obligation of $3,988,887, accounts payable of $933,123, and additional bonds in fiscal year 2009.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) represent the operating results as well as the non-operating revenues and expenses of the University. State

Appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

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

Statement of Revenues, Expenses, and Changes in Net Assets, for the Years Ended June 30, 2009 and 2008

	2009	2008	Value of Change	Percentage Change
Operating revenues:				
Student tuition and fees	$ 21,614,508	$ 18,839,561	$ 2,774,947	14.7%
Grants and contracts	6,934,993	7,177,176	(242,183)	(3.4%)
Auxiliary enterprises	37,088,482	32,446,637	4,641,845	14.3%
Other	379,473	369,667	9,806	2.7%
Total operating revenues	66,017,456	58,833,041	7,184,415	12.2%
Operating expenses:				
Instruction	23,826,353	22,451,478	1,374,874	6.1%
Research	18,440	86,841	(68,401)	(78.8%)
Public service	1,912,894	2,079,217	(166,323)	(8%)
Academic support	6,312,792	6,075,238	237,554	3.9%
Student services	3,650,173	3,094,952	555,221	17.9%
Institutional support	11,032,978	11,048,235	(15,257)	(0.1%)
Operation and maintenance	8,868,223	5,955,437	2,912,786	48.9%
Depreciation	9,698,779	8,082,598	1,616,181	20%
Student aid	7,030,278	6,373,037	657,241	10.3%
Auxiliary activities	27,994,418	30,507,447	(2,513,029)	(8.2%)
Other operating expenses	25,314	15,757	9,557	60.7%
Total operating expenses	100,370,642	95,439,364	4,931,278	5%
Operating loss	(34,353,186)	(36,606,323)	(2,253,137)	(6.2%)
Net non-operating revenues	31,843,921	32,377,500	(533,579)	1.6%
Income before other revenues/ expenses,	(2,509,265)	(4,228,823)	1,719,558	40.7%
Other revenues/(expenses) and gains/	(7,471,309)	8,150,282	(15,621,591)	(191.7%)
(Decrease)/Increase in net assets	(9,980,574)	3,921,459	(13,902,033)	(354.5%)
Net assets, beginning of year	159,741,916	154,583,675	5,158,241	3.3%
Net assets, end of year	$149,761,342	$158,174,261	($8,412,919)	(5.3%)

Evaluation of Fiscal Years 2009 to 2008 Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of $7,184,415 from fiscal year 2008 to fiscal year 2009 due in part to an increase of $2,774,947 in Tuition and Fees revenue and $4,641,845 in Auxiliary enterprise revenue. This was due in part to a 4.9% increase in student tuition charges, an increase of $2,146,440 in housing, and an increase in comprehensive fees designated for athletics of $2,512,305.

Operating expenses increased $4,931,278. This is due primarily to depreciation expense increasing $1,616,181, student aid increasing $657,241, and operation and maintenance increasing $2,912,786 due to the additional buildings in service during fiscal year 2009 which caused utilities to increase.

Net non operating revenues decreased $533,579. This decrease is primarily due to the decrease in interest earnings because the cash balances were lower in fiscal year 2009 and did not earn as much interest. This decrease is offset by an increase in state appropriations of $566,757 and Pell grant revenue of $263,586.

Other revenues decreased by $15,621,591 due to a decrease in capital appropriation revenue of $20,294,375. This decrease is due to Department of Accounts (DOA) reverting the general fund appropriation and supplanting it with VCBA 21st Century funds.

A restatement of fiscal year 2008 ending net assets from $158,174,261 to $159,741,916 was made in fiscal year 2009. This restatement was due to making adjustments for $263,771 that increased total cash held with Treasurer in the Banner accounting system for items that were not previously included. Other adjustments totaling $1,303,884 were made to increase total capital assets. These adjustments were made due to additional analysis of the fixed asset system and are shown in Note 5: Capital Assets. Library increased $1,426,181 due to over depreciation in prior years. Land decreased by $186,961 for buildings that were incorrectly included in land. Buildings increased by $75,057 for those buildings that were misclassified in land offset by depreciation. Infrastructure decreased by $10,393 for an asset that was double counted.

Land decreased by $186,961 for buildings that were incorrectly included in land. Buildings increased by $186,961 for buildings that were incorrectly classified as land and decreased by $83,418 for items that should not have been included in buildings. Accumulated depreciation for buildings increased by $62,545 for the buildings that had previously been classified as land and decreased by $34,060 for depreciation taken on those items that should not have been included in buildings. Infrastructure decreased by $13,855 and accumulated depreciation for infrastructure decreased by $3,462 for an asset that was included twice.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the University's cash activity during the year. The Statement of Revenues, Expenses and Changes in Net Assets is prepared on the accrual basis and includes non cash items such as depreciation expense, while the Statement of Cash

Flows strictly represents cash inflows and outflows. The Statement of Cash Flows enables readers to assess the ability of the institution to generate future cash flows necessary to meet obligations and to evaluate the need for additional financing.

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

Condensed Statement of Cash Flows

	2009	2008
Cash provided (used) by:		
Operating activities	$ (24,876,041)	$ (29,041,261)
Noncapital financing activities	33,531,292	32,344,757
Capital financing activities	(7,089,883)	(9,305,914)
Investing activities	339,775	1,907,567
Net increase in cash	1,905,143	(4,094,851)
Cash - beginning of year	44,861,089	48,692,170
Cash - end of year	$ 46,766,232	$ 44,597,319

**Note: Fiscal year 2008 ending cash was restated from $44,597,319 to $44,861,089 on this year's cash flow statement to adjust for items that were not previously included in cash.*

Evaluation of Statement of Cash Flows for Fiscal Years 2008 to 2009

For fiscal year 2009, significant sources of operating cash include student tuition and fees of $21.7 million, auxiliary enterprise's receipts of $37 million, and grants and contracts of $4.9 million. Major operating uses of cash include payments for salaries, wages, and fringe benefits of $49.9 million and payments to suppliers and utilities of $20.2 million. Longwood received state appropriations for the University's educational and general programs and financial aid of $31.5 million.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements, describes the University's significant investment in capital assets. During fiscal year 2009 total capital assets increased by $18,480,457. This is due to expenses for various ongoing capital projects such as the Bedford Wygal Connector, Renovation of Cox, Bedford Addition/Renovation, and Steam Plant Phases II and III.

Long term debt increased from $64,803,511 in 2008, to $71,054,019 in 2009 as a result of the significant capital projects mentioned in the beginning of this section. The University has maintained a debt service to unrestricted expenditures and mandatory transfer ratio of less than seven percent as calculated under the State Council of Higher Education for Virginia's (SCHEV) formula. This ratio was 6.13 percent at the end of fiscal year 2008 and 6.74 percent at the end of fiscal year 2009.

Economic Outlook

As one of Virginia's comprehensive higher education institutions, Longwood is dependent upon ongoing financial and political support from State government. Thus, the University's economic outlook is closely tied to that of the Commonwealth.

In fiscal year 2008, revenue for the Commonwealth fell far short of projections. As a result, all agencies were given budget reduction targets to compensate for the low revenue and to reduce base spending. Longwood's reduction was 6 percent or $1,669,640.

As a reflection of the National economy, revenues for fiscal year 2009 also fell short of projected levels and Longwood was once again asked to reduce base spending levels by an additional 5 percent or $1,365,876. Base reductions over this two year period were accomplished through the reduction of discretionary expenditures including equipment and travel. Additionally, reductions were made to library expenditures and new initiatives. Funds that were dedicated to the BANNER implementation and equity increases were also eliminated from the budget.

Declining revenue projections continued into the 2010 fiscal year. The initial budget reduction was 10 percent or $2,713,753. As of October, 2009, the Governor has requested an additional 15 percent reduction of $3,525,640 bringing Longwood's total reductions to 36 percent or $9,274,909.

The General Assembly's appropriated 2010 budget included American Recovery and Reinvestment Act (ARRA) funds which are one-time funds made available as part of President Obama's stimulus package. Longwood's ARRA allocation is $3,169,668 in both 2010 and 2011. These funds will allow the University to continue operations without the need to make permanent reductions to the operating budget until 2012 when the stimulus funding will end. This enables the University to create a plan to restructure activities to permanently reduce the institution's budget.

In addition to the funds appropriated by the General Assembly, the Governor is making an application to the Federal Government to use additional ARRA funding for Higher Education. If this application is approved, Longwood will receive an additional $1,640,236 in fiscal year

2010 to use for operating costs. The additional funding will be used, in part, to increase efficiencies in operations that will decrease costs in the future. The funds will also be used to mitigate tuition increases during fiscal years 2010 and 2011.

Virginia's economy is tied to the economy of the Nation. Current projections indicate that a noticeable recovery will not occur until 2013. Until that time Longwood will enhance efficiencies and make every effort to preserve jobs and continue high quality education for our students.

FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2009

ASSETS	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood University Real Estate Foundation
Current assets:			
Cash and cash equivalents (Note 3)	$ 31,372,407	$ 1,407,094	$ 14,200
Securities Lending - Cash and cash equivalents (Note 3)	5,428,964	-	-
Short-term investments (Note 3)	6,513,563	-	-
Accounts receivable, net of allowance for doubtful accounts of $416,925 (Note 4)	1,248,609	-	190,854
Notes receivable, net	156,998	24,832	-
Contributions receivable, net (Note 4)	-	4,620,208	-
Due from the Commonwealth (Note 4)	1,516,006	-	-
Inventory	657,416	-	-
Prepaid expenses	1,218,534	-	11,112
Total current assets	$ 48,112,497	$ 6,052,134	$ 216,166
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	15,393,825	2,961,548	-
Restricted Appropriations Available/Due From Commonwealth	52,328	-	-
Restricted Investments	-	30,603,386	-
Restricted Deposits	-	-	6,636,466
Contributions receivable - Long term	-	-	-
Other non-current assets	-	231,228	1,390,302
Notes receivable, net of allowance for doubtful accounts of $88,880	1,247,094	-	-
Non-depreciable capital assets, net (Note 5)	25,536,166	3,848,766	13,435,637
Depreciable capital assets, net (Note 5)	155,666,730	1,254,326	28,842,824
Total noncurrent assets	197,896,143	38,899,254	50,305,229
Total assets	$ 246,008,640	$ 44,951,388	$ 50,521,395
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 6)	8,421,835	47,210	1,308,340
Line of Credit	-	-	5,827,629
Deferred revenue	1,246,960	-	-
Obligations under securities lending	11,942,527	-	-
Deposits held in custody for others	562,914	-	-
Long-term liabilities - current portion net of deferred loss of $17,217 (Note 7)	4,465,658	1,170,528	400,080
Advance from the Treasurer of Virginia	35,000	-	-
Total current liabilities	26,674,894	1,217,738	7,536,049
Noncurrent liabilities - net of deferred loss of $89,236 (Note 7)	69,572,404	-	54,036,242
Total liabilities	$ 96,247,298	$ 1,217,738	$ 61,572,291
NET ASSETS			
Invested in capital assets, net of related debt	118,863,568	5,103,092	-
Restricted:			
Nonexpendable:			
Permanently restricted	-	26,635,600	-
Expendable:	-	-	-
Loans	114,667	-	-
Temporarily restricted	-	7,066,893	-
Other	1,390,347	-	-
Unrestricted	29,392,760	4,928,065	(11,050,896)
Total net assets	$ 149,761,342	$ 43,733,650	$ (11,050,896)

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

LONGWOOD UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009

	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood University Real Estate Foundation
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of $1,696,296	21,614,508	-	-
Gifts and contributions	-	521,435	55
Federal grants and contracts	2,111,618	-	-
State grants and contracts	777,283	-	-
Nongovernmental grants and contracts	4,046,092	-	-
Auxiliary enterprises, net of scholarship allowances of $2,556,977 (Note 10)	37,088,482	-	-
Other operating revenues	379,473	-	8,559,602
Total operating revenues	66,017,456	521,435	8,559,657
Operating expenses (Note 13)			
Instruction	23,826,353	-	-
Research	18,440	-	-
Public service	1,912,894	-	-
Academic support	6,312,792	-	-
Student services	3,650,173	-	-
Institutional support	11,032,978	1,886,448	2,510,082
Operation and maintenance - Plant	8,868,223	-	-
Depreciation	9,698,779	-	1,260,395
Student aid	7,030,278	1,089,458	-
Auxiliary activities	27,994,418	-	-
Administrative and fundraising	-	443,806	33,562
Other expenditures	25,314	18,701	4,073
Total operating expenses	100,370,642	3,438,413	3,808,112
Operating gain (loss)	(34,353,186)	(2,916,978)	4,751,545
Nonoperating revenues (expenses):			
State appropriations (Note 12)	31,495,060	-	-
Pell Grant Revenue	2,028,576	-	-
Other	-	397,117	-
Insurance Revenue	4,551	-	-
Investment revenue (loss)	1,394,196	(8,616,502)	67,004
Interest on Capital Asset-Related Debt	(3,218,009)	-	(1,962,620)
Unrealized loss on swap	-	-	(8,669,927)
Donation of capital assets/Foundation	144,375		
Loss on disposal/sale of plant assets	(4,828)	-	(411)
Net nonoperating revenues	31,843,921	(8,219,385)	(10,565,954)
Income before other revenues, expenses, gains or losses	(2,509,265)	(11,136,363)	(5,814,409)
Contributions to permanent endowments	-	989,201	-
Contributions to term endowments	-	1,078,374	-
Capital appropriations	(7,535,402)	-	-
Other Gifts	64,093	-	-
Net other revenues	(7,471,309)	2,067,575	-
Increase (decrease) in net assets	(9,980,574)	(9,068,788)	(5,814,409)
Net assets - Beginning of year (Note 18)	159,741,916	52,802,438	(5,236,487)
Net assets - End of year	$ 149,761,342	$ 43,733,650	$ (11,050,896)

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

Cash flows from operating activities:	
Student tuition and fees	$ 21,652,660
Grants and contracts	4,911,073
Auxiliary enterprises	36,962,244
Payments to employees	(49,900,383)
Payments to suppliers and utilities	(20,264,224)
Payments for scholarships and fellowships	(8,244,733)
Payments for noncapitalized plant improvements and equipment	(10,328,932)
Change in loans to students	(23,897)
Other operating receipts	380,001
Payments for other expenses	(19,850)
Net cash provided (used) by operating activities	(24,876,041)
Cash flows from noncapital financing activities:	
State appropriations	31,495,060
Other non-operating	2,038,576
Change in Agency balances	(2,344)
Net cash provided (used) by noncapital financing activities	33,531,292
Cash flows from capital financing activities:	
Capital appropriations	14,355,370
Proceeds from capital debt	9,784,493
Acquisition and construction of capital assets	(24,670,882)
Principal paid on capital debt, leases, and installments	(3,463,568)
Interest paid on capital debt, leases, and installments	(3,099,847)
Insurance Payments	4,551
Net cash provided (used) by capital financing activities	(7,089,883)
Cash flows from investing activities:	
Interest on investments	339,775
Net cash provided (used) by investing activities	339,775
Net increase (decrease) in cash	1,905,143
Cash and cash equivalents - Beginning of the year	44,861,089
Cash and cash equivalents - End of the year	$ 46,766,232

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2009

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

Operating gain (loss)	$ (34,353,186)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	9,698,779
Changes in assets and liabilities:	
Receivables, net	(349,502)
Inventory	31,723
Prepaid expenses	(199,048)
Notes receivable, net	(23,897)
Accounts payable and accrued expenses	(114,091)
Deferred revenue	159,814
Deposits Payable	(29,532)
Accrued compensated absences	22,800
Other	280,099
Net cash provided (used) by operating activities	$ (24,876,041)

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

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NOTES TO FINANCIAL STATEMENTS

Longwood University
Financial Statement Footnotes
For the Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The University has two component units as defined by the Governmental Accounting Standards Boards (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment to Statement 14, *The Financial Reporting Entity*. These organizations are described in Note 2.

B. Basis of Presentation

The University's accounting policies conform with generally accepted accounting principles as prescribed by GASB, including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities* and GASB Statement 39, *Determining Whether Certain Organizations Are Component Units.*

C. Basis of Accounting

The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

D. Cash and Cash Equivalents

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

E. 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 non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

F. Inventories

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

G. 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 University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using actual costs 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. 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

H. Non-current Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amount 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, 2009.

	2009
Student tuition and related fees	$1,244,860
Auxiliary enterprise fees	2,100
Total	$1,246,960

J. 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.

K. Federal Financial Assistance Programs

The University 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.

L. 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 of restricted or invested in capital assets.

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 purpose 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 University'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 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.

M. Revenue and Expense Classifications

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

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

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

N. 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 University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain government grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

O. Long-term Liabilities

Bond premiums, as well as, issuance costs, are deferred and amortized over the life of the bond. Bonds payable are reported including unamortized bond premium. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The amortization of bond premiums and issuance costs are reported as debt service expenditures. The debt as shown in the Statement of Net Assets is divided between the current and non-current liabilities (see Note 7). The Statement of Revenues, Expenses, and Changes in Net Assets show the interest expense. It is recognized as a non-operating expense when paid.

2. COMPONENT UNITS

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

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

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

The Longwood University Foundation's financial statements are audited by Cherry, Bekaert, & Holland, LLP. Complete financial statements can be obtained from the Longwood University Foundation at 201 High Street, Farmville, Virginia 23909.

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

The Longwood University Real Estate Foundation's financial statements are audited by Goodman and Company, LLP. Complete financial statements can be obtained from the Longwood University Real Estate Foundation at 515 Main Street, Farmville, VA 23909.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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

At June 30, 2009, the carrying amount of cash with Treasurer of Virginia was $31,354,692. The carrying amount of cash not held by the Treasurer of Virginia is $1,392,597. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2009, in the amount of $1,580,110 adjusted for reconciling items, petty cash items, and change funds. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Appropriations Available

Appropriations available are no longer included in our cash amounts. We have listed them separately on the line item "Restricted Appropriations Available/Due from Commonwealth". At June 30, 2009 the amount of appropriations available was $52,328. Appropriations available decreased significantly in FY 2009. This significant decrease is due to

Department of Accounts (DOA) reverting $20,294,375 of Longwood's general fund appropriation and supplanting it with VCBA 21st Century Program funds.

Investments

The University does not invest in funds outside of those funds held by the Treasurer of Virginia and thus does not have a separate investment policy.

Concentration of Credit Risk

Concentration of credit risk requires the disclosures by amount and issuer of any investments in any one issuer that represent 5 percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2009, the University did not have any investments other than money market funds held by the Treasurer of Virginia, therefore, the University does not have a concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not invest in funds outside of investing bond proceeds in the State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP). These proceeds held by the Treasurer of Virginia are invested in money market funds and do not need to be categorized as to risk. At June 30, 2009, the carrying amount of the cash equivalents held in the SNAP program with the Bank of New York was $11,232,301 and with the Treasurer of Virginia was $2,786,642.

Foreign Currency Risk

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

Securities Lending Transactions

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

Securities Lending Balances as of June 30, 2009:

Unrestricted cash equivalents	$ 5,428,964
Short term investment	6,513,563
Total Securities Lending	$11,942,527

Investments of the Longwood Foundation

Investments and the beneficial interest in the perpetual trust portfolio are composed of the following at June 30, 2009:

	Cost	Market Value
Cash and cash equivalents	$2,259,926	$2,259,926
Investments in real estate:		
Investment trusts	2,223,010	1,459,160
Government and corporate obligations	9,687,824	9,123,112
Corporate stocks	28,813,611	19,403,888
Hedge funds	1,235,701	896,068
Total	$44,220,072	$33,142,154

Investment fees netted against investment income for the years ended June 30, 2009, and 2008 were $198,797 and $276,888 respectively.

The Foundation has invested in "hedge funds," which include various financial instruments such as puts, calls, options, and futures contracts. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the statement of activities, with net unrealized gains of approximately ($339,633) and $131,395 recognized for the years ended June 30, 2009 and 2008 respectively.

Longwood University Foundation Beneficial Interest in Perpetual Trust

The Longwood University Foundation is the beneficiary of the annual income earned from the Nelly Ward Nance Trust (Nance Trust) held by Wachovia Bank, N.A. The assets of the Nance Trust are not in the possession or under control of the Foundation. At June 30, 2009 and 2008 the Nance Trust had market value of $1,829,874 and $2,302,351, respectively, which is recorded in the consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2009 were $140,321 and ($472,478); and $110,771 and ($246,964) for the year ended June 30, 2008.

Investments of the Longwood Real Estate Foundation

Investments in real estate include the following properties.

	Acquisition Cost	Holding Cost	Total
Woodland Pond Condominiums	$1,603,396	$ -	$1,603,396
Watson house	522,476	117,927	640,403
	$ 2,125,872	$ 117,927	$ 2,243,799

The Woodland Pond Condominiums were purchased on December 31, 2008. This property consists of 8 units which are held as available for sale to the faculty of the University, and 10 acres of land which can be developed in the future. Subsequent to year-end, an additional condominium unit was purchased.

The University plans to purchase the Watson house from the Real Estate Foundation at some unspecified future date. The property is recorded at cost. All cost associated with holding the property are being accumulated during the holding period. The intent of the University is to reimburse the Foundation for all associated costs.

4. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2009:

Student tuition and fees	$ 1,167,660
Library	5,252
Auxiliary enterprises	227,921
Federal, state, and nongovernmental grants and contracts	254,747
Due from Foundations	9,954
Total	$ 1,665,534
Less: Allowance for doubtful accounts	(416,925)
Net accounts receivable	$ 1,248,609

B. Notes Receivable consisted of the following at June 30, 2009:

Current Portion:	
Federal student loans	$156,998
Non-current portion:	
Federal student loans	$ 1,335,974
Less allowance for doubtful accounts	(88,880)
Net non-current notes receivable	$ 1,247,094

C. Due from the Commonwealth of Virginia consisted of the following at June 30, 2009:

Small Purchase Charge Card Rebate	$ 44,697
Interest Earnings on Tuition & Fees	332,821
21st Century Bonds	1,138,272
General Obligation Bonds	216
Total Due from Commonwealth of Virginia	$ 1,516,006

D. Longwood University Foundation contributions receivable consisted of the following at June 30, 2009:

Cash pledges expected to be collected in:	
Less than one year	$ 312,559
One year to five years	1,341,060
Thereafter	6,236,890
Total	7,890,509
Less: Discount to net present value at 6 percent	(3,270,301)
Net Contributions Receivable	$ 4,620,208

The ownership of contributions receivable for each class of net assets as of June 30 is as follows:

Temporarily restricted	$ 3,589,264
Permanently restricted	1,030,944
Total	$ 4,620,208

At June 30, 2009 and 2008, the Foundation had received bequests and other intentions to give of approximately $7,762,422 and $7,204,913 respectively. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors. The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful account is required. If amounts become uncollectible, they will be charges to operation when that determination is made.

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2009, is presented as follows:

	Beginning Balance	Beginning Balance Adjustments	Additions	Reductions	Ending Balance
Nondepreciable capital assets:					
Land	$ 4,741,698	$ (186,961)	$ 340,045	$ -	$ 4,894,782
Construction in progress	29,643,831		27,935,707	(36,938,153)	20,641,385
Total nondepreciable capital assets	34,385,529	(186,961)	28,275,752	(36,938,153)	25,536,167
Depreciable capital assets:					
Buildings	151,766,558	103,543	25,678,178	(136,864)	177,411,415
Equipment	13,979,976		920,561	(2,689,134)	12,211,403
Infrastructure	28,977,145	(13,855)	8,660,570	-	37,623,860
Library materials	13,092,621	(406,627)	410,966	(835,256)	12,261,704
Software Projects	5,089,904		-	-	5,089,904
Total depreciable capital assets	212,906,204	(316,939)	35,670,275	(3,661,254)	244,598,286
Less accumulated depreciation for:					
Buildings	46,774,717	28,486	4,420,321	(9,171)	51,214,353
Equipment	8,585,487		1,590,212	(2,684,306)	7,491,393
Infrastructure	17,209,104	(3,462)	2,125,768	-	19,331,410
Library materials	11,745,491	(1,832,808)	544,497	(835,256)	9,621,924
Software Projects	254,495		1,017,981	-	1,272,476
Total accumulated depreciation	84,569,294	(1,807,784)	9,698,779	(3,528,733)	88,931,556
Depreciable capital assets ,net	128,336,910	1,490,845	25,971,496	(132,521)	155,666,730
Total capital assets, net	$162,722,439	$ 1,303,884	$ 54,247,248	$ (37,070,674)	$181,202,897

Longwood University Foundation

Land – Ames Hull Spring Farm	$ 1,229,185
Longwood Center for Visual Arts Collection	2,619,581
Buildings	1,356,071
Property and Equipment	36,498
Vehicles	116,225
Total cost of capital assets	5,357,560
Less: accumulated depreciation	(254,468)
Total capital assets, net	$ 5,103,092

Depreciation expense was $59,115 for the year ended June 30, 2009.

Longwood University Real Estate Foundation:

Land	$ 6,998,050
Land Improvements	290,701
Buildings	29,230,862
Furniture and Equipment	2,100,383
Leasehold Improvements	448,999
Construction in Progress	6,437,587
Total cost of capital assets	45,506,582
Less: accumulated depreciation	(3,228,121)
Total capital assets, net	$42,278,461

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2009:

Employee salaries, wages, and fringe benefits payable	$3,064,410
Vendors and suppliers accounts payable	4,240,387
Retainage payable	1,018,699
Interest payable	98,339
Total accounts payable and accrued liabilities	$ 8,421,835

7. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2009, is presented as follows:

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds 9C	$23,144,341	$6,026,879	$3,076,002	$26,095,218	$1,684,207
Deferred loss - bond refinance	(32,587)	-	(17,942)	(14,645)	(9,025)
Unamortized premium	1,763,097	549,360	127,543	2,184,914	152,698
Notes payable SNAP	38,860,000	4,685,000	1,440,000	42,105,000	1,800,000
Deferred loss	(70,000)	(30,000)	(8,192)	(91,808)	(8,192)
Installment purchases	1,072,586	-	329,030	743,556	341,433
Installment purchase interest payable	66,074	-	34,290	31,784	21,886
Total long-term debt	64,803,511	11,231,239	4,980,731	71,054,019	3,983,007
Accrued compensated absences	1,577,300	847,861	825,061	1,600,100	482,651
Federal loan program contribution	1,383,944	-	-	1,383,944	-
Total long-term liabilities	$67,764,755	$12,079,100	$5,805,792	$74,038,063	$4,465,658

8. LONG-TERM INDEBTEDNESS

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

Bonds payable at June 30, 2009 consist of the following:

	Interest Rates	Maturity	Amount
General obligation revenue bonds:			
Residence hall:			
Housing repairs, 2003-R 2	2.00 – 5.00%	2010	36,182
Residence hall improvements, 2004-B 1	2.50 – 5.50%	2019	1,706,261
Renovate housing facilities, 2005-A 1	3.50 – 5.00%	2025	3,320,000
Renovate housing facilities, 2006-B 1	4.00 – 5.00%	2026	5,225,000
Renovate housing facilities, 2007-B 1	4.00 – 5.00%	2027	5,730,000
Renovate housing facilities, 2008-B 1	4.00 – 5.00%	2028	4,480,000
1998 Refunded Portion 92A, 2008, B 2	4.00 – 5.00%	2012	1,046,667
Dining hall:			
Dining hall, series 2002-R 1	4.00 – 5.00%	2016	2,725,918
Dining hall, series 2004-B 2	4.00 – 5.00%	2019	1,825,190
Total bonds payable			$26,095,218

A summary of future principal requirements of long-term debt as of June 30, 2009 follows:

Year ending June 30,	Principal	Interest
2010	1,684,207	1,247,618
2011	1,727,244	1,173,901
2012	1,820,102	1,082,963
2013	1,520,763	992,171
2014	1,598,139	916,133
2015-2019	7,774,763	3,390,879
2020-2024	6,225,000	1,767,419
2025-2029	3,745,000	353,863
Total	$26,095,218	$10,924,947
Less: Deferred Loss	(14,645)	-
Total	$26,080,573	$10,924,947

Longwood University Real Estate Foundation

Long-term debt is as follows at December 31, 2008:

Variable Rate Educational Facilities Revenue Bonds Series 2007, thirty (30) year term. Interest is subject to a fixed-to-floating interest rate swap agreement which requires fixed rate payments of 4.065 percent on an initial notional amount of $40,745,000. The swap arrangement expires September 1, 2036, covering the life of the bonds.	$41,580,000
Mark-to-market estimate of bank swap transactions related to above revenue bonds.	12,043,821
Deed of trust note payable, 7.0 percent, due in monthly payments of principal and interest of $1,742, maturing 2/14/2016	117,514
Deed of trust note payable, 7.09 percent, due in monthly payments of principal and interest of $5,074, maturing 2/7/2032	694,987
	54,436,322
Less – current portion	(400,080)
	$54,036,242

During 2007, the Longwood University Real Estate Foundation received financing through the issuance of Educational Facilities Variable Rate Revenue Bonds (Longwood Student Housing Projects) Series 7 through the Industrial Development Authority of the town of Farmville. The 2007 bonds were issued in the amount of $41,855,000 to refund $7,840,000 in Educational Facilities Variable Rate Demand Revenue Bonds, Series 2006A and $23,580,000 in Educational Facilities Variable Rate Demand Revenue Bonds, Series 2006B and to finance the acquisition, construction, and equipping of student housing and a pedestrian bridge between student housing and the University campus. The loan agreement is collateralized by a deed of trust which grants the credit institution a first priority lien on and a security interest in each of the property and equipment collateralized.

The bond agreements also require the establishment and maintenance of several reserve accounts for the collecting, holding and disbursement of funds related to the issuance of the bonds, payments of project costs, collection of project revenue, and repayment of principal and interest.

Under the bond agreement the University will rent units in the projects only to students, faculty, and other persons under the same rental program it uses for its own student housing facilities.

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

The University will be charged with maintaining a Project Revenue account. Such funds are to be held by the University solely on behalf of the Foundation and are not to be commingled with general University funds. These funds are to be used to pay the expenses of the University related to the projects as well as any principal or interest payments on the bonds as directed by the Foundation.

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

Maturities under long-term debt are as follows:

2009	$400,080
2010	476,590
2011	543,215
2012	659,962
2013	721,842
Thereafter	51,634,633
Total	54,436,322
Less – current portion	(400,080)
	$54,036,242

Restricted Deposits and Funded Reserves

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

Construction fund	$2,279,030
Debt service reserve account	1,366,848
General account	402,786
Repair and replacement account	216,968
Series 2007 Bond Fund	127,035
	$4,392,667

Notes Payable

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

	Interest Rates	Maturity	Amount
Virginia College Building Authority:			
Notes payable:			
Fitness center and parking garage 2002A	3.00 – 5.25%	9/2022	$2,320,000
Fitness center 2003A	2.00 – 5.00%	9/2023	3,965,000
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 – 5.00%	9/2024	4,720,000
Fitness center 2005A	3.00 – 5.00%	9/2025	6,355,000
Soccer fields, Lancer gym, and Blackwell 2005A	3.00 – 5.00%	9/2025	4,435,000
Fitness center, Blackwell, and heating plant III 2006A	3.00 – 5.00%	9/2026	6,770,000
Lacrosse/field hockey complex, baseball/ Softball, heating plant phase II & III 2007A	3.00 – 5.00%	9/2027	6,960,000
Fitness center and parking garage 2007B	3.00 – 5.00%	9/2019	1,895,000
Athletic offices, heating plant phase III Student union 2009	3.00 – 5.00%	9/2028	4,685,000
Total notes payable			$42,105,000

A summary of future principal requirements of notes and loans payable as of June 30, 2009 follows:

Year ending June 30,	Principal	Interest
2010	$1,800,000	$ 1,947,595
2011	1,850,000	1,867,939
2012	1,930,000	1,778,876
2013	2,050,000	1,680,576
2014	2,130,000	1,578,023
2015-2019	12,285,000	6,240,194
2020-2024	13,510,000	3,104,878
2025-2029	6,550,000	455,550
	42,105,000	$18,653,631
Less: Deferred Loss	(91,808)	
Total:	$42,013,192	

Installment Purchase Agreements

The University is committed under various installment purchase agreements. 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 University and other institutions of higher education for equipment purchased.

A summary of future obligations under installment purchase agreements as of June 30, 2009 follows:

Year ending June 30,	Principal	Interest
2010	$ 341,433	$ 21,886
2011	318,608	9,276
2012	83,516	621
Total	$743,557	$31,783

Longwood University Foundation

Notes payable consisted of the following at June 30, 2009:

	Final Maturity	2009
Notes payable of $455,000, deed of trust, private individual, no stated interest, imputed at 6 percent, payable $100,000 annually, including interest, callable as of January 1, 2007, collateralized by building with a net book value of $1,186,561	2009	$51,877

Total interest expense for the years ended June 30, 2009 and 2008 was $3,113 and $9,915 respectively.

Longwood University Real Estate Foundation Line of Credit

The Longwood University Real Estate Foundation has a $3,000,000 commercial revolving line of credit with a bank. The line is to be used to purchase and improve real estate and is securitized by a first deed of trust on the property and improvements acquired. The line requires monthly interest only payments on any outstanding balance, with principal reductions made at the Foundation's discretion or when specific collateral is released. Principal may be repaid monthly by a separate term note on improved properties up to 20 years and on unimproved properties up to ten years. Interest on the line is charged at a variable rate of the

30 day LIBOR plus 2.5 percent (2.94% at December 31, 2008). The outstanding balance on this line was $2,843,661 at December 31, 2008. There is no expiration period in the agreement.

The Longwood University Real Estate Foundation entered into a credit line promissory note agreement dated December 30, 2008 with a bank in the amount of $2,000,000. This line was used to finance the acquisition of the Woodland Ponds Condominium units and land, and is collateralized by the deed of trust on the property and improvements. The term of the loan is 36 months and matures on December 30, 2011. Interest is fixed at 4.74%. The outstanding balance on this line was $1,598,396.

The Longwood University Real Estate Foundation entered into a loan agreement dated May 22, 2008 for a commercial revolving line of credit with a bank in the amount of $5,300,000. The line is to be used to make improvements to property leased from the Longwood University Foundation, Inc. The line is collateralized by the deed of trust on the property and improvements. Interest on the line is charged at a variable rate of the 30-day LIBOR plus 1.75% (2.19% at December 31, 2008). The outstanding balance on this line was $1,385,572 at December 31, 2008. This line is set to convert to a term loan on June 30, 2009. At that time, the interest rate increases to LIBOR plus 2.25%.

9. COMMITMENTS

At June 30, 2009, the University was committed to construction contracts totaling approximately $76,123,013 of which $65,043,666 had been incurred. The University was committed to pay Longwood University Real Estate Foundation $5,251,402 pursuant to a support agreement related to student housing (Lancer Park, Longwood Landings, and Longwood Village).

The University is committed under various operating lease agreements primarily for buildings and equipment. In general, the agreements are for a period of one year, and typically have renewal options. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2009, was $366,012. The University has, as of June 30, 2009, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2010	$427,165
2011	255,304
2012	168,381
2013	122,201
2014	59,618
2015 - 2019	119,236
Total	$1,151,905

Longwood University Foundation

In November 1998, the Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Foundation leased the real estate to Longwood University for the same lease term. At June 30, 2004, an option to purchase the property for $555,000 was exercised by the Foundation, and the purchase transaction closed during the year ended June 30, 2005 with the issuance for a four-year non-interest bearing note for the balance of the purchase price (See Note 8 – Notes Payable). The Foundation continues to lease the property to Longwood University on a month-to-month basis, with $40,000 of rental income recognized in each of the years ended June 30, 2009 and 2008.

Longwood University Real Estate Foundation - Longwood Landings

The Longwood University Real Estate Foundation owns property known as Longwood Landings at Mid-Town Square. The property combines student housing and commercial space in a series of four buildings together with associated parking and improvements. The Real Estate Foundation owns the student housing on the property together with the associated parking and improvements. The first floor commercial space is owned by the developer of the property. The ownership of the property is in the form of a commercial condominium, whereby the Real Estate Foundation owns the top three floors of each building while the developer retains ownership of the first floor of each building. The Real Estate Foundation is a member in the Midtown Square Condominium Association, Inc. As a unit holder in the Association, the Real Estate Foundation pays association dues that are used to pay common costs of the property. There were no dues paid to the Association during 2008.

The Real Estate Foundation leases commercial space from the Association which is then subleased to the University for use as the University bookstore. The lease requires minimum guaranteed rental payments of $132,750 annually, payable in equal monthly installments. The minimum guaranteed rental shall be increased on the fourth anniversary of the commencement date and every year thereafter. The lease also requires additional rent defined as the tenant's proportionate share of operating costs, insurance, taxes, and other charges. The initial term of the lease is for ten years, with two ten year optional renewal periods. The commencement date of the lease is 30 days after the build out is complete and the premises are ready for occupancy. The University has been paying this lease commitment directly to the Association. No amounts have been paid from the Foundation during 2008.

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

The Real Estate Foundation leases parking space from an unrelated entity for the Longwood Landings property. The lease requires monthly payments of $5,000 during the initial term ending May 21, 2008. The lease can be extended for one year renewal with a 5 percent increase in rent per year.

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

2009	$ 281,937
2010	223,315
2011	227,782
2012	232,337
2013	236,984
Thereafter	739,771
Total	$1,942,126

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expense are distributed as shown in the following table for the year ended June 30, 2009.

Revenues:	
Room contracts, net of scholarship allowance of $987,954	$12,837,036
Food service contracts, net of scholarship allowance of $519,767	6,683,965
Athletic fee, net of scholarship allowance of $516,667	8,379,356
Other student fees and sales & service, net of scholarship allowance $532,589	9,188,125
Total auxiliary enterprise revenues	$37,088,482
Expenses:	
Residential facilities	$11,290,831
Dining operations	5,855,398
Athletics	4,593,032
Other auxiliary services	6,255,157
Total auxiliary enterprise expenses	$27,994,418

11. PRIOR YEAR DEFEASANCE OF DEBT

In November 2008, the Commonwealth, on behalf of the University, issued $1,396,879 in General Obligation bonds, Series 2008B with a true interest cost (TIC) of 4.3974% to advance refund $1,415,754 of an outstanding Series 1998 (1992A Higher Education Bonds). The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bond. The debt defeasance resulted in an accounting loss of $30,000. The defeasance will reduce total debt service payments by $39,094 over the next 12 years.

In previous years, certain 2006A, 2004B, 1998, 1996, 1993, and 1992 Higher Education Bonds were defeased by the University. As with the 2008B Higher Education Bonds noted above, the net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. As of June 30, 2009 $11,440,370 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2009, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the 2008 Virginia Acts of Assembly, Chapter 879.

Original appropriation:	
Educational and general programs	$28,136,529
Student financial assistance	3,515,533
Supplemental adjustments:	
FY 08 Budget Reduction	(1,576,714)
Central Fund appropriation transfers	4,158
VIVA	7,861
Tuition Incentive	1,394,621
Carryforward	2,008
SVRTC	95,000
Real Estate Surcharge	3,465
HEETF Payment	(54,746)
Capital O/S Fee	(21,646)
FY 2009 Reversion	(11,009)
Adjusted appropriations	$31,495,060

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	Plant and Equipment	Other	Depreciation	Total
Instruction	$16,405,538	$4,812,575	$1,709,662	$ -	$3,195	$895,383	$ -	$ -	$23,826,353
Research	29,012	17,174	(34,735)	1,000	-	5,989	-	-	18,440
Public service	1,098,273	337,931	396,994	13,358	3,863	62,475	-	-	1,912,894
Academic support	3,067,561	978,208	1,234,901	493,801	32	538,289	-	-	6,312,792
Student services	2,172,671	751,099	621,915	37,995	3,840	62,653	-	-	3,650,173
Institutional support	5,415,441	2,808,473	1,783,171	845,775	76,195	103,923	-	-	11,032,978
Operation and Maintenance of plant	1,467,562	843,086	2,038,432	266,878	1,451,318	2,800,947	-	-	8,868,223
Depreciation	-	-	-	-	-	-	-	9,698,779	9,698,779
Scholarship and related expense	-	-	-	7,030,278	-	-	-	-	7,030,278
Auxiliary activities	7,866,851	2,008,656	9,636,560	1,573,677	1,303,936	5,604,738	-	-	27,994,418
Other expenses	-	-	-	-	-	-	25,314	-	25,314
Total	$37,522,909	$12,557,202	$17,386,900	$10,262,762	$2,842,379	$10,074,397	$25,314	$9,698,779	$100,370,642

14. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The CAFR discloses the unfunded pension benefit obligation at June 30th, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $2,214,987 for the year ended June 30, 2009. These contributions included the employee contribution assumed by the employer. For fiscal year 2009 the rate was 11.23 percent. Contributions to the VRS were calculated using a base salary amount of approximately $19,723,836 for the fiscal year ended June 30, 2009. The University's total payroll was approximately $37,371,880 for the year ended June 30, 2009.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in six optional retirement plans. University 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 contribution, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these plans were approximately $1,444,676 for the year ended June 30, 2009. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $13,891,117.

Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $169,913 for the fiscal year ended June 30, 2009.

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

Longwood University receives assistance from non-State grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements, including the expenditure of resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of Longwood University. As of June 30, 2009, Longwood University estimates that no material liabilities will result from such audits.

17. RISK MANAGEMENT

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

Longwood University Foundation

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

18. BEGINNING NET ASSET RESTATEMENT

Beginning net assets have been restated from the prior year's ending net asset balance of $158,174,261 to $159,741,916. Adjustments totaling $263,771 were made to increase total cash held with Treasurer for items not included in the Banner accounting software cash balances. Other adjustments netting $1,303,884 were made that increased total capital assets. These adjustments were made due to additional analysis of the fixed asset system and are shown in Note 5: Capital Assets. Library increased $1,426,181 due to over depreciation in the prior years. Land decreased by $186,961 for buildings that were incorrectly included in land. Buildings increased by $75,057 for those buildings that were misclassified in land offset by depreciation. Infrastructure decreased by $10,393 for an asset that was double counted.

Longwood University Foundation

Several gift agreements contain a clause which allows the Foundation to use accumulated funds for other than their restricted purpose if the funds do not accumulate to a certain level by a certain date. The funds are classified as temporarily restricted until the endowment terms are met. Net assets of $21,089 and $546,689 were reclassified to permanently restricted net assets under these agreements during the years ended June 30, 2009 and 2008 respectively.

During the fiscal year ended June 30, 2009, management determined, during analysis needed to implement changes required to comply with the Uniform Prudent Management of Institutional Fund Act and implement FSP 117-1, that net assets of $825,870 needed reclassification from unrestricted to temporarily restricted net assets. In addition, $327,534 previously classified as permanently restricted should be classified as $41,907 unrestricted and $285,627 temporarily restricted net assets. The reclassification is separately listed on the consolidated statement of activities, and had no effect on the statement of cash flows for the fiscal year ended June 20, 2009.

19. RELATED PARTY

Longwood University Foundation

The Foundation received contribution revenue from Board members in the amount of $133,725 for the year ending June 30, 2009. The amount of contributions receivable due from the Board members amounted to $368,093 at June 30, 2009.

In conjunction with its mission to support the activities and operations of Longwood University, the Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets leased to the University is $2,415,746 and $2,449,969 at June 30, 2009 and June 30, 2008 respectively, including land on the consolidated statement of financial position.

On March 1, 2004, the Foundation entered into a capital lease agreement with Longwood University to lease a parking lot. The Foundation was given the parking lot as a contribution, which at the time was recorded as its appraised value of $51,000. The lease expires February 28, 2013. The University has the option to purchase the parking lot for $1 at the end of the lease term. The lease provides for annual rent payments of $6,516 and interest of 2 percent. At June 30, 2009 and 2008, Longwood University owed the Foundation $24,832 and $30,867 respectively.

Longwood University Real Estate Foundation

The Foundation receives rent from the University for use of various buildings and parking facilities. The total amount earned for the six months ended December 31, 2008 from these rental arrangements was $4,559,602 including $129,119 in outstanding receivables at December 31, 2008.

The Foundation pays the University fees under management agreements related to facilities covered by tax-exempt bond issuances. These fees are based on costs to manage the specific properties. Total fees paid for the six months ended December 31, 2008 were $347,964. In addition the Foundation reimburses the University for operational costs paid directly by the University related to the housing projects. At December 31, 2008 the Foundation had a payable to the University of $184,342, which is included in accounts payable and accrued expenses on the consolidated statement of financial position.

The Foundation has an agreement with the University to manage the Alumni House. The University is billed for all expenses and the Foundation receives no fees for its services. The Foundation had an outstanding receivable at December 31, 2008 of $61,735 for expenses not yet reimbursed.

During 2008, the Foundation sold three properties to the University that had been held as investments. The total proceeds from these sales were $331,847, and resulted in a loss of $47,225, which is classified as contributions to Longwood University on the statement of activities. Also included in that account are fees of $9,000 paid to rent storage space on behalf of the University.

20. Subsequent Events

Subsequent to June 30, 2009, the endowments held by the Longwood University Foundation experienced a 35% increase in value due to the recovery of the market. This caused the investment value to increase $9,629,052 from $27,494,134 at June 30, 2009 to $37,123,186 at March 31, 2010.

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Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 26, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of Longwood University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2009, which collectively comprise Longwood University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Longwood University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of Longwood University, which are discussed in Note 2. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of Longwood University is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component units of Longwood University that were audited by other auditors upon whose reports we are relying were audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of Longwood University as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 26, 2010 on our consideration of Longwood University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS