LONGWOOD UNIVERSITY

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2005 AND 2004

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Longwood University for the years ended June 30, 2005 and 2004 found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses; and
- instances of noncompliance that are required to be reported.

We recommend that the University:

- continue to develop documented policies and procedures for all areas of operation at the University, including reconciliations completed by various departments;
- develop firewall policies and procedures;
- establish a security awareness training policy and program;
- maintain an accurate database of parking receivables; and
- implement proper controls to monitor wage employee hours.

Additionally, we have provided a status report on the University's implementation of the Banner System, referred to as the BLISS project.

-TABLE OF CONTENTS-

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Follow-Up to Interim Report on 2004 Financial Statement Audit

For the fiscal year ending June 30, 2004, we encountered problems in conducting our audit of the year end financial statements. Instead of completing the audit, we issued an interim report dated July 15, 2005, so that management could address the issues identified. The first issue to address was ensuring that daily operational functions such as revenue collection, payroll, vendor payments, and student billing were completed and properly recorded. We noted the lack of adequately documented policies and procedures for all departments, positions, and transactions.

Our interim report recognized that the Longwood University (University), like all Virginia's higher education institutions, had experienced budget cuts and reduced administrative positions to address these cuts. In addition, the University experienced staff turnover and spent excessive time finding new staff and managers. Due to the loss of key personnel and the lack of adequate procedures, the Finance department was unable to perform complete timely and accurate reconciliations of the University's accounting system to other internal University systems, all bank accounts, and the state accounting system.

In the Payroll Division, we found a lack of formal internal policies and procedures, inconsistent receipt of support for payroll changes, and a lack of support for overtime pay. We also found no formal reconciliation between the University system, the Commonwealth Integrated Personnel and Payroll System (CIPPS), and leave balances, and no reconciliation between CIPPS and the Virginia Retirement System for contributions made on behalf of the University and its employees.

Our interim report noted that the University did not maintain an accurate asset listing in the Fixed Assets Accounting and Control System. The University did not resolve discrepancies between its physical inventory and its asset listing in a timely manner. Additionally, departments did not follow inventory instructions provided by the University's Materials Management Division.

We recommended that management develop reconciliation procedures that require timely reconciliations, correction of reconciling items, and proper supervision and review of the reconciliations. We also recommended that management determine the best approach for allocating resources to documenting policies and procedures in conjunction with the implementation of the new general ledger system. Further, we recognized that management needed to consider their role in University operations, and determine what necessitates their oversight, at what level, and the intensity. Management needed to assess and monitor staff levels relative to workloads, cross-training for critical processes, and developing a monitoring mechanism for key processes. Increased oversight by management would assist the University in identifying and resolving potential operational problems before they affect the financial statement process.

In completing our audit for the years ended June 30, 2004 and 2005, we found that University management had addressed the specific findings in our interim report. The University continues to develop policies and procedures and address staffing levels and workloads in response to our recommendations. As the University implements the new financial system (BLISS project) and they find the need to change policies and procedures, management should ensure that departments properly update and document the new policies and procedures.

Develop Firewall Policies and Procedures

The University's firewall policies and procedures, and standard configuration are not complete. Currently, there is a standard configuration in place that addresses the level of access permitted through the firewall for the different user groups; however, it does not include the general ports and services allowed through the firewall. There are no policies that require periodic monitoring and review of the firewall rules. Furthermore, the policy does not give the firewall administrator the authority to revoke or deny any requests for access to the firewall.

We recommend the University develop a complete firewall policy and procedure to include the purpose of and procedures for monitoring and review of access to the firewall. The policy should give the firewall administrator the authority to deny or revoke any access requested which he deems to be a security vulnerability. The University's standard configuration should include general rules of acceptable services and ports access. Management should approve the policy and procedure and standard configuration and ensure compliance.

Establish a Security Awareness Training Policy and Program

The University does not have an approved Security Awareness Training policy and has not provided employees with adequate annual refresher courses. In addition, no documentation exists stating that long-term employees have completed any security awareness training. This is not in compliance with the Commonwealth's Security Standard.

We recommend the University develop and implement a security awareness plan which includes an annual refresher course for its employees. Management should approve and ensure compliance with the security awareness policy.

Maintain an Accurate Database of Parking Receivables

The University does not report receivables from parking tickets as part of total accounts receivable. As a result, the financial statements do not properly present all of the University's accounts receivable balances. The parking system records and reports parking tickets, but does not produce an accurate or verifiable listing of all outstanding receivables at year-end. This creates an inadequacy in the financial reporting of the University, which could have a material effect on the financial statements, as well as increases the risk for loss.

We recommend the University maintain an accurate database of all parking tickets issued and outstanding. Staff should reconcile the parking system to the accounting system for both the billing and collection cycles to ensure the parking system is accurately capturing all information. Management should provide appropriate oversight of this process, and ensure financial reporting receives the needed reports for inclusion of parking receivables in the financial statements.

Implement Proper Controls to Monitor Wage Employee Hours

The University is not properly monitoring the accumulated hours of its wage employees to ensure compliance with the 1,500 hour limitation within a 365-day period as stated in the Department of Human Resource Management Policies and Procedures Manual, Policy No. 2.20. As a result of turnover in the payroll and human resource departments, we found that for a period of several months, no one was examining the number of hours worked by wage employees to ensure that these employees did not surpass the limitation.

The University should implement the proper controls to monitor and track the accumulated hours of its wage employees each pay period to ensure compliance with Policy No. 2.20. The University needs to ensure these controls are functioning at all times, even during periods of turnover.

STATUS OF BLISS IMPLEMENTATION

On July 5, 2006, the BLISS project has scheduled its first major milestone, the go-live implementation of the finance module. We have identified the implementation concerns addressed below while monitoring the finance module development. The BLISS project team has addressed these concerns, but should continue to be aware of these and other challenges throughout the remainder of the project's life cycle.

The University is currently addressing the staffing concerns discussed in our September 2005 report. There has been a full time interim Controller since December 2005; however, financial reporting duties remain divided over several units. In April 2006, the University hired a financial reporting analyst who assumed several financial reporting duties. As of June 1, 2006, the interim Controller assumed the position of the Longwood Controller, and efforts to hire a Financial Reporting Manager have begun. As we have indicated in the past, staffing problems increase the risk of delayed project implementation and management should continue its staffing efforts.

The BLISS project manager has continued to report the project status to VITA in a timely manner; however implementation of a fully documented monitoring process did not occur until April 2006. Best practices recommend developing a project schedule early in the project, updating it on a regular basis, and managing the project to the schedule. A well-developed, current project schedule is necessary for the Project Manager to effectively monitor resources, plan resources needs, or evaluate the impact of delays on the project end date. We expressed our concerns to the Project Manager, who began updating task logs weekly in late April 2006.

Based on vendor recommendations and management analysis, in early 2006, the scope of the July implementation changed to include implementation of the Banner Finance Self Service module at the same time as the Finance module. The University had originally chosen to wait and implement the Self Service module in the fall of 2007. In order to incorporate the workload of this additional module, the University reevaluated the Finance module and split it into two phases, implementing only the critical aspects in the initial July 5 go-live and postponing non-critical finance aspects until a later date. The University should evaluate the postponed finance tasks and assess how these tasks will impact the remainder of the project.

Other Commonwealth universities implementing the Banner system have encountered challenges such as ensuring the system can perform accurate reconciliations, has the capabilities to prepare timely financial reports, and can interface with other modules and systems. The University needs to consider and plan for these possible obstacles in their remaining implementation.

For a successful implementation, the University should test the system interfaces continuously as they implement additional functionalities and management should provide quality training to all end users. The University should continuously monitor and address these risks in the BLISS risk management plan.

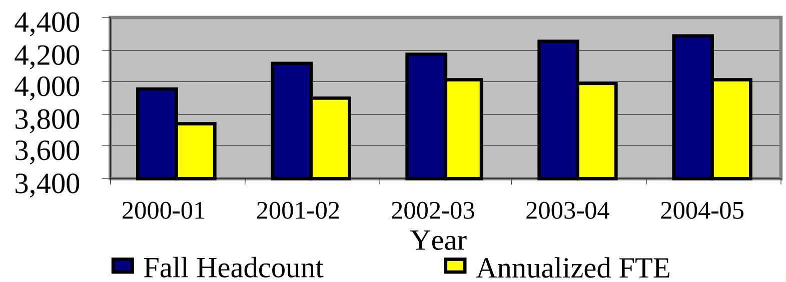
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal years ended June 30, 2005 and 2004, with comparative information presented for the fiscal year ended June 30, 2003. While maintaining its 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 implementation 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 4,289 in fall 2005. The University is projecting growth to over 5000 headcount by fall 2007.

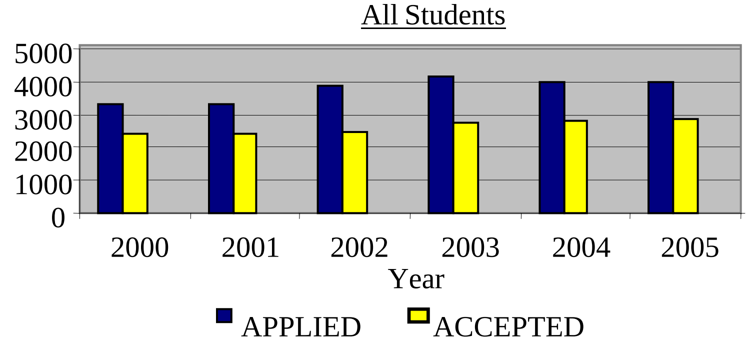
Enrollment Statistics



The strategic plan states that the student body will be of high quality. The fall 2005 entering freshman class remained competitive with a grade-point average of 3.27 and an average SAT of 1078. This is up from the 3.15 grade-point and SAT score of 1065 in fall 2000.

Total applications have increased since 2000, with more students choosing the University as their first choice to attend.

All Students



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 the University as a whole and present a long-term view of the University's finances.

Statement of Net Assets

The Statement of Net Assets (SNA) 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 fiscal snapshots at June 30, 2005 and 2004. 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 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 are available to the University for any lawful purpose of the University.

Statement of Net Assets, as of June 30, 2005 and 2004

Statement of Net Assets	As of June 30, 2005	As of June 30, 2004	Value of Change	Percentage of Change
Assets:				
Current assets	$ 25,385,505	$ 13,116,962	$12,268,543	94%
Non-depreciable capital assets, net	21,309,082	31,550,789	(10,241,707)	(32)%
Depreciable capital assets, net	96,175,911	75,477,835	20,698,076	27%
Other non-current assets	29,347,101	23,267,982	6,079,119	26%
Total assets	172,217,599	143,413,568	28,804,031	20%
Liabilities:				
Current liabilities	15,933,724	12,123,709	3,810,015	31%
Non-current liabilities	26,707,581	23,933,550	2,774,031	12%
Total liabilities	42,641,305	36,057,259	6,584,046	18%
Net assets:				
Invested in capital assets, net	90,603,628	84,476,670	6,126,958	7%
Restricted - expendable	24,066,471	18,529,595	5,536,876	30%
Unrestricted	14,906,195	4,350,044	10,556,151	243%
Total net assets	$129,576,294	$107,356,309	$22,219,985	21%

Evaluation of Fiscal Years 2005 to 2004 Statement of Net Assets

The University's assets increased by $28,804,031 between fiscal years 2004 and 2005. Current cash and cash equivalents increased in 2005 by approximately $12 million due to a $5,000,000 fire insurance reimbursement, a $4 million securities lending cash equivalent, and a planned $4 million savings in auxiliary cash reserves. Non-current cash and cash equivalents increased by $5.5 million in new cash equivalent bond issuances and a $462,000 increase in capital appropriation cash equivalents. In net, capital assets increased by $10.4 million dollars due to new equipment purchases for the newly completed Ruffner complex, the Ruffner complex itself, and miscellaneous infrastructure additions such as handicap accessibility.

Total liabilities increased by $6,584,046. There was a net addition of $4 million in long-term debt related to the issuance of new bond debt for the Steam Plant and the Lacrosse/Field Hockey Complex capital projects. Obligations under securities lending increased by $3.2 million in 2005, this is our share of the state's securities lending debt. Accounts payable decreased by $1.2 million due to the completion of a major construction project during the fiscal year. Deferred revenue and deposits held in custody increased a total of $500,000. This increase is due to our increased tuition and fee rates. Deferred revenue are funds we have received but not earned as of the end of the fiscal year; deposits held in custody are accounts for which we serve as a bank, i.e. student organization accounts.

As a result of the increases and decreases in assets and liabilities described above, total net assets increased by $22,219,985 between fiscal years 2004 and 2005.

Statement of Net Assets, as of June 30, 2004 and 2003

Statement of Net Assets	As of June 30, 2004	As of June 30, 2003	Value of Change	Percentage of Change
Assets:				
Current assets	$ 13,116,962	$ 18,251,361	$(5,134,399)	(28)%
Non depreciable capital assets, net	31,550,789	19,595,986	11,954,803	61%
Depreciable capital assets, net	75,477,835	66,952,303	8,525,532	13%
Other non-current assets	23,267,982	10,039,712	13,228,270	132%
Total assets	143,413,568	114,839,362	28,574,206	25%
Liabilities				
Current liabilities	12,123,709	10,151,351	1,972,358	19%
Non current liabilities	23,933,550	20,316,706	3,616,844	18%
Total liabilities	36,057,259	30,468,057	5,589,202	18%
Net assets:				
Invested in capital assets, net	84,476,670	66,727,885	17,748,785	27%
Restricted - expendable	18,529,595	11,457,851	7,071,744	62%
Unrestricted	4,350,044	6,185,569	(1,835,525)	(30)%
Total net assets	$107,356,309	$ 84,371,305	$22,985,004	27%

Evaluation of Fiscal Years 2004 to 2003 Statement of Net Assets

The University's total assets increased by $28,574,206 between fiscal years due primarily to the increase in construction-in-progress capital assets and the bond related cash equivalents. Construction-in-progress increased $11,725,339; the increases in capitalized construction costs were a result of the numerous capital construction projects that were underway during fiscal year 2004, to include the Parking Garage, Brock Commons, the New Science Building, the Steam Plant Upgrade, and Ruffner Reconstruction. Net building additions of $11,506,360, and net equipment decreases of $1,394,722 comprise the majority of the depreciable capital asset change. Cash decreased between fiscal years as a result of fire recovery expenditures paid out of auxiliary enterprises. Restricted cash equivalents, part of non-current assets, increased by $13,267,847, with $8,627,023 of the increase representing funding for future capital projects. Of this value, $1,506,754, represents bond funds associated with the construction of the Parking Garage and Fitness Center, which are held by the Bank of New York, and invested in the State Non-Arbitrage Program, and $7,120,319 of the increase represents restricted cash and cash equivalents increased as a result of additional appropriations for construction activity funded through the 21st Century and GOB bond programs. The remaining $4,633,492 represents a reclassification of capital cash equivalents from current assets in 2003 to non-current assets in 2004.

Total liabilities increased by $5,589,202. The majority of this value is due to an increase to notes payable in the amount of $4,770,000 for the Parking Garage and Fitness Center capital projects. Long-term liability debt was decreased by payments in the amount of $1,934,702. Accounts payable increased $1,845,912 due to the accrual of contractor payments associated with capital construction activity. The University's share of the state's securities lending obligation increased by $921,451.

Statement of Revenues, Expenses, and Changes in Net Assets

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

In general, operating revenues are created by providing goods and services to students and other constituents 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, state appropriations, insurance proceeds, etc. 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 state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets, for the Years Ended June 30, 2005 and 2004

	2005	2004	Value of Change	Percentage of Change
Operating revenues:				
Student tuition and fees	$ 15,163,233	$ 13,903,798	$ 1,259,435	9%
Grants and contracts	6,141,240	6,066,186	75,054	1%
Auxiliary enterprises	25,430,031	23,924,125	1,505,906	6%
Other operating revenues	319,883	191,203	128,680	67%
Total operating revenues	47,054,387	44,085,312	2,969,075	7%
Operating expenses:				
Instruction	17,646,320	15,524,297	2,122,023	14%
Research	38,941	21,708	17,233	79%
Public service	1,402,657	1,380,472	22,185	2%
Academic support	4,835,044	4,269,979	565,065	13%
Student services	2,316,673	2,109,079	207,594	10%
Institutional support	7,656,184	5,515,595	2,140,589	39%
Operation and maintenance	4,909,185	4,178,233	730,952	17%
Depreciation	5,022,137	3,988,715	1,033,422	26%
Student aid	3,181,645	3,103,054	78,591	3%
Auxiliary activities	17,599,478	17,433,395	166,083	1%
Other operating expenses	37,395	37,543	(148)	-%
Total operating expenses	64,645,659	57,562,070	7,083,589	12%
Operating loss	(17,591,272)	(13,476,758)	(4,114,694)	(30)%
Non-operating revenues and expenses	25,436,107	17,697,118	7,738,989	44%
Income before other revenues, expenses, gains, or losses	7,844,835	4,220,360	3,624,475	86%
Other revenues, expenses, gains, or losses	14,375,150	18,764,644	(4,389,494)	(23)%
Increase in net assets	22,219,985	22,985,004	(765,019)	(3)%
Net assets, beginning of year	107,356,309	84,371,305	22,985,004	27%
Net assets, end of year	$129,576,294	$107,356,309	$22,219,985	21%

Evaluation of Fiscal Years 2005 to 2004 Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue increased $1,259,435 due to increased student enrollment and tuition and fee rates. Auxiliary enterprise revenue increased $1,505,906 due also to the increase in student enrollment and charges. Operating expenses increased $7,083,589. The increases are primarily attributable to increased instruction costs, salary and wage increases, and increased depreciation expense based on new buildings and infrastructure values. The non-operating revenues and expenses increased by $7,738,989 is mainly due to a $5,000,000 insurance payment for the Ruffner Hall fire damage and a $2,592,499 increase in state appropriations. The decrease in other revenues and expenses of $4,389,494 is attributable to a $2,855,763 drop in capital appropriation levels as a major construction project was completed. Additionally, the decrease can be attributed to a capital grant that was received in fiscal year 2004, but not repeated in 2005. Net Asset increases for 2005 also include increased cash reserves as the University reimburses its auxiliary reserves used to cover fire expenses up front, and to fund capital assets including new buildings, infrastructure, and equipment.

Statement of Revenues, Expenses, and Changes in Net Assets, for the Years Ended June 30, 2004 and 2003

	2004	2003	Value of Change	% Change
Operating revenues:				
Student tuition and fees	$ 13,903,798	$10,932,700	$ 2,971,098	27%
Grants and contracts	6,066,186	6,370,373	(304,187)	(5)%
Auxiliary enterprises	23,924,125	22,579,508	1,344,617	6%
Other operating revenues	191,203	284,486	(93,283)	(33)%
Total operating revenues	44,085,312	40,167,067	3,918,245	10%
Operating expenses:				
Instruction	15,524,297	14,965,170	559,127	4%
Research	21,708	20,575	1,133	6%
Public service	1,380,472	1,600,678	(220,206)	(14)%
Academic support	4,269,979	4,159,883	110,096	3%
Student services	2,109,079	1,797,542	311,537	17%
Institutional support	5,515,595	4,766,712	748,883	16%
Operation and maintenance	4,178,233	3,366,354	811,879	24%
Depreciation	3,988,715	4,242,481	(253,766)	(6)%
Student aid	3,103,054	3,261,995	(158,941)	(5)%
Auxiliary activities	17,433,395	16,890,445	542,950	3%
Other operating expenses	37,543	37,824	(281)	(1)%
Total operating expenses	57,562,070	55,109,659	2,452,411	4%
Operating loss	(13,476,758)	(14,942,592)	1,465,834	10%
Non-operating revenues and expenses	17,697,118	23,548,739	(5,851,621)	(25)%
Income before other revenues, expenses, gains, or losses	4,220,360	8,606,147	(4,385,787)	(51)%
Other revenues, expenses, gains, or losses	18,764,644	2,437,080	16,327,564	670%
Increase in net assets	22,985,004	11,043,227	11,941,777	108%
Net assets, beginning of year	84,371,305	73,328,078	11,043,227	15%
Net assets, end of year	$107,356,309	$84,371,305	$22,985,004	27%

Evaluation of Fiscal Years 2004 to 2003 Statement of Revenues, Expenses, and Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue increased $2,971,098 due to increased student enrollment and charges. Auxiliary Enterprise revenue increased $1,344,617 due also to the increase in student enrollment. Operating expenses increased $2,452,411 primarily due to increased instruction costs, salary and wage increases, and non-capital maintenance costs. The non-operating revenue decrease of $5,851,621 is attributable to the insurance funds received in fiscal year 2003; no insurance reimbursements were received in fiscal year 2004. The increase in other revenues and gains of $16,327,564 include an increase of $15,784,151 in capital appropriations in fiscal year 2004 for repairs to educational and general buildings, 21st Century and GOB bond proceeds, and an increase of $1,078,626 in capital grants and gifts, which include funds received from the Longwood Foundation, Inc., for the construction of Brock Commons, as well as capital projects funded by auxiliary reserve funds. The majority of the increase in net assets represents an increase in capital construction and capital appropriations.

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. Operating cash flows show the net cash used by the operating activities of the University. The next 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 cash flows from the capital financing activities section deals with cash used for the acquisition and construction of capital and related items. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Comparative Condensed Statements of Cash Flows

	2005	2004	2003
Cash provide/(used):			
Operating activities	$(11,893,713)	$(9,713,773)	$(10,963,193)
Non-capital financing activities	21,531,278	18,883,279	19,427,852
Capital financing activities	5,142,187	(2,436,410)	(2,195,755)
Investing activities	229,579	83,846	39,989
Net increase in cash and cash equivalents	15,009,331	6,816,942	6,308,893
Cash and cash equivalents at the beginning of year	31,352,638	24,535,696	18,226,803
Cash and cash equivalents at the end of year	$46,361,969	$31,352,638	$24,535,696

Evaluation of Statement of Cash Flows for Fiscal Years 2005 to 2004 and 2004 to 2003

For fiscal year 2005, significant sources of operating cash include student tuition and fees of $15,373,783, auxiliary enterprise's receipts of $25,178,101, and grants and contracts of $4,705,652. Major operating uses of cash include payments for salaries, wages, and fringe benefits of $35,346,770, and payments for services and supplies of $13,582,254. Noteworthy non-capital financing sources for fiscal year 2005 were state appropriations for the University's educational and general programs, and financial aid of $21,366,581. In relation to 2005's capital financing activities, primary sources of cash included capital appropriations of

$14,189,878, proceeds from capital debt of $5,725,433, and an insurance reimbursement of $5,000,000. Significant cash outflows included the purchase of capital assets of $17,762,975, and the repayment of principal and interest on capital related debt of $2,195,421.

During fiscal year 2004, important operating sources of cash included student tuition and fees of $14,574,500, auxiliary enterprise's receipts of $25,829,694, and grants and contracts of $5,014,969. Significant operating uses of cash include payments for salaries, wages, and fringe benefits of $32,287,705, and payments for services and supplies of $13,836,282. In relation to 2004's cash flows from non-capital financing activities, major inflows included state appropriations for the University's educational and general programs and financial aid of $18,774,082. Finally, in looking at capital financing activities, primary sources of cash included capital appropriations of $17,045,641, and capital grants of $1,719,003. Significant capital cash outflows included the purchase of capital assets of $23,140,067, fire recovery expenses of $116,588 and the repayment of principal and interest on capital related debt.

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 with total depreciable capital asset additions of $21,062,740, net of depreciation, during fiscal year 2005, and in fiscal year 2004 total depreciable capital asset additions were $10,514,274, net of depreciation. Significant fiscal year 2005 capital projects include the completion of the Ruffner reconstruction, which was funded by insurance funds, and state appropriations; the construction of the New Science Building, which was funded by state appropriations; the upgrade to the Steam Plant (Phase I), which was funded by state appropriations; and the planning for a Fitness and Wellness Center. Significant fiscal year 2004 capital projects include the completion of Grainger reconstruction, which is funded by insurance funds and state appropriations; the construction of Brock Commons, which turned the University's central street (Pine Street) into a landscaped pedestrian mall, and was funded by private donations; and the construction of a Parking Garage beneath a portion of Brock Commons, which was funded by bonds.

Fiscal year 2005 depreciation expense totaled $5,022,137, and 2004 depreciation expense totaled $3,988,715. Overall, total net capital assets increased by $10,456,369, a 10 percent increase over fiscal year 2004. During 2004, total net total capital assets increased by $20,479,335, a 24 percent increase over fiscal year 2003. Total depreciable capital assets increased by $20,698,076 in fiscal year 2005, which is due largely to the Ruffner facility and additions to infrastructure.

Long term debt increased from $22,551,953 in 2004, to $26,881,365 in 2005 as a result of bond funding for the fitness and wellness center. The University has maintained a debt service to unrestricted expenditures and mandatory transfer ratio of less that seven percent as calculated under the State Council of Higher Education for Virginia's (SCHEV) formula. This ratio was 4.9 percent at the end of fiscal year 2004 and 3.56 percent at the end of fiscal year 2005.

As a result of the completion of the construction projects listed above, construction in progress decreased from $26,937,700 in 2004, to $16,574,409 at June 30, 2005. Additional information concerning capital assets and non-current liabilities is included in Notes 5 and 7 to the Financial Statements.

Economic Outlook

As one of the Commonwealth's comprehensive higher education institutions, the University 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. After an unprecedented delay, and a four-month long session, the General Assembly reached a budget agreement that included an increase in state sales taxes beginning in 2005. The tax increase was enacted to generate additional revenue for critical state programs and included $278 million for higher education for the 2004-2006 biennium. As a result of the actions taken by the General Assembly, the University's total educational and general (E&G) operating budget increased for fiscal year 2005. As a State institution, there is a direct relationship between the amount received in General Fund appropriations, and the tuition and fee rates set by the Board of Visitors. The operating funds for the E&G budgets are largely generated from these two sources.

For fiscal year 2005, the University received an additional $1.8 million in General Fund support with an additional $1.7 million approved for fiscal year 2006. These increases restore approximately 73 percent of the budget reductions since fiscal year 2002.

The financial position of the University remains strong and is improving. Net assets are increasing and management continues to monitor reserves and other resources to ensure that the University has the ability to react to unknown events and issues.

FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2005 and 2004

	2005		2004	
		Component Unit		Component Unit
	Longwood University	Longwood University Foundation, Inc.	Longwood University	Longwood University Foundation, Inc.
ASSETS				
Current assets:				
Cash and cash equivalents (Note 3)	$ 18,218,046	$ 44,593	$ 9,357,516	$ 49,154
Securities lending - Cash and cash equivalents (Note 3)	4,010,496	-	-	-
Short-term investments (Note 3)	852,205	5,892,356	1,597,417	5,528,546
Accounts receivable, net of allowance for doubtful accounts of $6,310 and $5,346 for 2005 and 2004, respectively (Note 4)	1,023,678	-	784,647	-
Notes receivable	158,678	-	126,559	-
Contributions receivable, net of allowance for doubtful accounts of $13,331 and $18,476 for 2005 and 2004, respectively (Note 4)	-	431,039	-	597,384
Due from the Commonwealth (Note 8)	430,708	-	422,721	-
Inventory	528,444	-	528,444	-
Prepaid expenses	163,250	-	299,658	-
Total current assets	25,385,505	6,367,988	13,116,962	6,175,084
Non-current assets:				
Restricted cash and cash equivalents (Note 3)	28,143,923	234,113	21,995,122	258,057
Restricted investments	-	30,934,872	-	26,905,583
Other restricted assets	-	346,081	-	2,348,102
Notes receivable, net of allowance for doubtful accounts of $117,512 and $29,383 for 2005 and 2004, respectively	1,203,178	-	1,272,860	-
Contributions receivable, net of allowance for doubtful accounts of $81,189 and $115,932 for 2005 and 2004, respectively (Note 4)	-	179,211	-	447,961
Non-depreciable capital assets, net (Note 5)	21,309,082	2,943,578	31,550,789	2,980,733
Depreciable capital assets, net (Note 5)	96,175,911	1,488,555	75,477,835	187,166
Total non-current assets	146,832,094	36,126,410	130,296,606	33,127,602
Total assets	172,217,599	42,494,398	143,413,568	39,302,686
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses (Note 6)	5,436,274	4,607	6,680,695	5,293
Deferred revenue	1,764,334	-	1,471,720	-
Obligations under securities lending	4,862,701	-	1,597,417	-
Deposits held in custody for others	955,288	-	724,764	-
Long-term liabilities - current portion net of deferred loss of $29,776 and $17,809 for 2005 and 2004, respectively (Note 7)	2,880,127	103,182	1,614,113	20,621
Advance from the Treasurer of Virginia	35,000	-	35,000	-
Total current liabilities	15,933,724	107,789	12,123,709	25,914
Non-current liabilities - net of deferred loss of account of $68,468 and $50,377 for 2005 and 2004, respectively (Note 7)	26,707,581	1,409,496	23,933,550	1,198,282
Total liabilities	42,641,305	1,517,285	36,057,259	1,224,196

NET ASSETS				
Invested in capital assets, net of related debt	90,603,628	4,053,903	84,476,670	95,168
Restricted:				
Non-expendable:				
University support	-	22,302,723	-	21,130,308
Expendable:				
Loans	108,892	-	103,420	-
	22,437,542	-	17,810,216	-
University support	-	11,207,641	-	10,608,887
Other	1,520,037	-	615,959	-
Unrestricted	14,906,195	3,412,846	4,350,044	6,244,127
Total net assets	$ 129,576,294	$ 40,977,113	$ 107,356,309	$ 38,078,490

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 Years Ended June 30, 2005 and 2004

	2005		2004	
		Component Unit		Component Unit
	Longwood University	Longwood University Foundation, Inc.	Longwood University	Longwood University Foundation, Inc.
Operating revenues:				
Student tuition and fees, net of scholarship allowances of $1,444,827and $1,351,525 for 2005 and 2004, respectively	$ 15,163,233	$ -	$ 13,903,798	$ -
Gifts and contributions	-	1,197,237	-	1,170,333
Federal grants and contracts	2,654,451	-	3,413,531	-
State grants and contracts	1,379,844	-	1,137,235	-
Non-governmental grants and contracts	2,106,945	-	1,515,420	-
Auxiliary enterprises, net of scholarship allowances of $2,012,515 and $2,033,060 for 2005 and 2004, respectively (Note 10)	25,430,031	-	23,924,125	-
Other operating revenues	319,883	-	191,203	-
Total operating revenues	47,054,387	1,197,237	44,085,312	1,170,333
Operating expenses (Note 13)				
Instruction	17,646,320	-	15,524,297	-
Research	38,941	-	21,708	-
Public service	1,402,657	-	1,380,472	-
Academic support	4,835,044	-	4,269,979	-
Student services	2,316,673	-	2,109,079	-
Institutional support	7,656,184	1,608,205	5,515,595	2,759,199
Operation and maintenance of plant	4,909,185	-	4,178,233	-
Depreciation	5,022,137	59,658	3,988,715	15,617
Student aid	3,181,645	858,528	3,103,054	711,986
Auxiliary activities (Note 10)	17,599,478	-	17,433,395	-
Administrative and fundraising	-	367,906	-	359,398
Other operating expenses	37,395	17,779	37,543	30,570
Total operating expenses	64,645,659	2,912,076	57,562,070	3,876,770
Operating loss	(17,591,272)	(1,714,839)	(13,476,758)	(2,706,437)
Non-operating revenues/(expenses)				
State appropriations (Note 12)	21,366,581	-	18,774,082	-
Contributions to permanent endowments	-	803,154	-	127,970
Contributions to term endowments	-	619,233	-	183,305
Other	-	191,304	211,168	(36,784)
Investment revenue	500,011	2,999,771	83,846	4,101,570
Insurance revenue	5,000,000	-		
Fire related expenses	-	-	(116,588)	-
Debt service interest	(1,065,821)	-	(1,002,698)	-
Loss on disposal of plant assets	(364,664)	-	(252,692)	-
Net non-operating revenues	25,436,107	4,613,462	17,697,118	4,376,061
Income before other revenues, expenses, gains, or losses	7,844,835	2,898,623	4,220,360	1,669,624
Capital appropriations	14,189,878	-	17,045,641	-
Capital grants and gifts	185,272	-	1,719,003	303,397
Net other revenues	14,375,150	-	18,764,644	303,397
Increase in net assets	22,219,985	2,898,623	22,985,004	1,973,021
Net assets - beginning of year, as restated (Note 14)	107,356,309	38,078,490	84,371,305	36,105,469
Net assets - end of year	$ 129,576,294	$ 40,977,113	$ 107,356,309	$ 38,078,490

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004

	2005	2004
Cash flows from operating activities:		
Student tuition and fees	$ 15,373,783	$ 14,574,500
Grants and contracts	4,705,652	5,014,969
Auxiliary enterprises	25,178,101	25,829,694
Other receipts	317,600	206,315
Payments to employees	(27,222,851)	(25,389,722)
Payments for fringe benefits	(8,123,919)	(6,897,983)
Payments for services and supplies	(13,582,254)	(13,836,282)
Payments for utilities	(1,352,827)	(1,314,660)
Payments for scholarships and fellowships	(2,942,061)	(6,263,018)
Payments for noncapitalized plant improvements and equipment	(4,194,371)	(1,543,890)
Other payments	-	(37,543)
Loans issued to students	(319,689)	(306,146)
Collections of loans from students	269,123	249,993
Net cash used by operating activities	(11,893,713)	(9,713,773)
Cash flows from noncapital financing activities:		
State appropriations	21,366,581	18,774,082
Direct loan receipts	14,371,290	14,294,932
Direct loan disbursements	(14,245,462)	(14,299,722)
Agency receipts	2,021,345	1,565,410
Agency payments	(1,982,476)	(1,458,825)
Other receipts	-	7,402
Net cash provided by noncapital financing activities	21,531,278	18,883,279
Cash flows from capital financing activities:		
Capital appropriations	14,189,878	17,045,641
Capital grants	185,272	1,719,003
Proceeds from capital debt	5,725,433	4,973,766
Acquisition and construction of capital assets	(17,762,975)	(23,140,067)
Insurance payments	5,000,000	-
Fire recovery expenses	-	(116,588)
Principal paid on capital debt, leases, and installments	(1,150,379)	(1,952,231)
Interest paid on capital debt, leases, and installments	(1,045,042)	(965,934)
Net cash used by capital financing activities	5,142,187	(2,436,410)
Cash flows from investing activities:		
Interest on investments	229,579	83,846
Net cash provided by investing activities	229,579	83,846
Net increase in cash	15,009,331	6,816,942
Cash and cash equivalents - beginning of the year	31,352,638	24,535,696
Cash and cash equivalents - end of the year	$ 46,361,969	$ 31,352,638

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2005 and 2004

	2005	2004
Reconciliation of net operating loss to net cash used by operating activies:		
Operating gain/(loss)	$ (17,591,272)	$ (13,476,758)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense	5,022,137	3,988,715
Changes in assets and liabilities:		
Receivables, net	(239,031)	(498,233)
Due from the Commonwealth	(7,987)	
Prepaid expenses	136,408	229,737
Notes receivable, net	37,563	(86,982)
Accounts payable and accrued expenses	342,247	286,156
Deferred revenue	292,614	(180,883)
Deposits payable	65,827	(41,092)
Accrued compensated absences	2,202	19,988
Federal loan programs contributions refundable	45,579	45,579
Net cash used by operating activities	$ (11,893,713)	$ (9,713,773)

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

NOTES TO FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

A separate report is prepared for the Commonwealth, 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 and is included in the basic financial statements of the Commonwealth.

The University has one component unit as defined by the Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement 14, *The Financial Reporting Entity*. This organization is 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 Procedure issued on or before November 30, 1989, unless those pronouncements that conflict with or contradict GASB pronouncements. The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities.* The standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizens, legislative and oversight bodies, and investors and creditors. The University is required under this guidance to include Management's Discussion and Analysis, and basic financial statements, including notes, in its financial statement presentation.

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 Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity 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 cost for acquisitions and published average prices for disposals. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction-in-progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset’s value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

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

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

J. Accrued Compensated Absences

Accrued compensated absences is the amount of leave earned, but not taken by classified salaried employees, and 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'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 above.

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

The University's restricted net assets can be expendable or non-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. Non-expendable restricted net assets consist of endowment and similar type funds where donors or other outside sources have stipulated, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, to be expended or added to principal. The University has only expendable restricted net assets; however, the University's component unit has both expendable and non-expendable restricted net assets.

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 Statements 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 governmental 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.

2. COMPONENT UNIT

In May 2002, GASB issued Statement 39, *Determining Whether Certain Organizations Are Component Units.* This statement became effective for the fiscal year ending June 30, 2004. The Statement provides additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of the University. As a result, where in the past the University presented summary financial information of its foundation in the notes to the financial statements, the University is now required under Statement No. 39 to include the Longwood University Foundation, Inc. in the body of its financial statements as a component unit.

The Longwood University Foundation, Inc. (Foundation) is a legally separate, 501 (c)(3) nonprofit component of the University. The 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 resources or income from the resources that the Foundation holds and invests is 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 benefit of the University, the Foundation is considered a component unit and is discretely presented in the University's financial statements.

During the years ended June 30, 2005 and 2004, the Foundation distributed $1,469,853 and $2,881,673, respectively, to the University for both restricted and unrestricted purposes. The Foundation's financial statements are audited by Brown, Edwards and Company, LLP. Complete financial statements can be obtained from the Longwood University Foundation at 201 High Street, Farmville, VA 23909.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents at June 30, 2004

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

At June 30, 2004, the carrying amount of cash with the Treasurer was $23,751,853, which includes appropriations available of $15,812,595. At June 30, 2004, the carrying amount of cash with local banks was $1,364,808. The University also maintained $18,450 in American Express Travelers Cheques and $35,000 in petty cash.

In accordance with GASB Statement 3, deposits and investments are classified into three categories of custodial credit risk:

- Category 1 - Insured or registered securities or securities held by the college or its agent in the college's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the college's name.
- Category 3 - Uninsured and unregistered, with securities held by the broker or dealer, or by its trust department or safekeeping agent but not in the college's name.

The University has no deposits or investments as of June 30, 2004 that fall into any of these classifications.

The University invested 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, 2004, the carrying amount of the cash equivalent was $6,182,527, which was held in the SNAP program.

B. Cash and Cash Equivalents at June 30, 2005

GASB Statement Number 40, Deposit and Investment Risk Disclosures, effective for fiscal periods beginning after June 15, 2004, amends GASB Statement 3 *Deposits with Financial Institutions*. This new disclosure requires more extensive disclosures for risks relating to investments and deposits. GASB No. 40 requires specific disclosures for risks such as credit, concentration, custodial, interest rate and foreign currency. For custodial risk, the new statement only requires disclosure of those amounts held as investment or deposits that are uncollateralized and held by the counter party or the counter party’s trust department and not in the name of the agency.

At June 30, 2005, the carrying amount of cash with the Treasurer was $33,569,980, which includes appropriations available of $17,019,930. Cash held by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody and investment of State funds, is maintained pursuant to Section 2.2-1800, et. seq., Code of Virginia (1950), as amended. The carrying amount of cash not held by the Treasurer of Virginia is $1,668,086. The carrying amount consists of bank balances reported at June 30, 2005, in the amount of $1,627,421. Cash deposits held by the University are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Securities for Public Deposits Act, Section 2.2-400 et. seq. of the Code of Virginia (1950). The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Investments

As stated in the Interest Rate Risk Section below, the University does not invest in funds outside of the those monies which are held by the Treasurer of Virginia and thus does not have an investment policy in addition to this.

Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represent five 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, 2005, the University did not have investments other than money market funds held by the Treasurer of Virginia; therefore, the University does not have 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

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), which have an AAAm quality rating. 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, 2005, the carrying amount of the cash equivalent was $11,123,992, which was held in the SNAP program.

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. The University does not have investments in foreign currency.

C. Securities Lending Transactions

Collateral held for securities lending and the securities lending transactions in the amounts of $4,862,701 and $1,597,417, as of June 30, 2005 and 2004, respectively, reported on the financial statements represent the University'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's *Comprehensive Annual Financial Report*.

D. Investments with the Longwood Foundation

The Longwood Foundation had short-term investments of $5,892,356 and $5,528,546, as of June 30, 2005 and 2004, respectively, consisting primarily of beneficial interests in a perpetual trust, life insurance policies, and cash and cash equivalents.

Restricted investments with the Longwood Foundation are composed of the following at June 30:

	2005		2004	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	$ 1,714,715	$ 1,714,715	$ 2,013,596	$ 2,013,596
Investment in real estate limited partnership	25,000	25,000	25,000	25,000
Investment in real estate investment trusts	1,175,396	1,800,953	2,075,889	2,786,925
Government and corporate obligations	10,020,082	9,925,141	9,317,209	9,172,840
Corporate stocks	16,390,908	18,234,937	14,753,503	15,623,952
Hedge funds	2,774,585	2,906,946	2,767,736	2,811,816
Total	$32,100,686	$34,607,692	$30,952,933	$32,434,129

Investment fees netted against investment income for the years ended June 30, 2005 and 2004 were $211,480 and $208,043, respectively.

The Foundation has diversified its investment portfolio in order to moderate volatility by investing in certain hedge funds. Various financial instruments such as puts, calls, options, and futures contracts may be included in these alternative investment funds. 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 a net unrealized gain of approximately $88,000 and $45,000 recognized for the years ended June 30, 2005 and 2004, respectively.

The Foundation is the beneficiary of the annual income earned from the Nellie Ward Nance Trust (Nance Trust) held by Wachovia Bank, N.A. The assets of the Nance Trust are not in the possession or under the control of the Foundation. At June 30, 2005 and 2004, the Nance Trust had market values of $2,219,536 and $2,119,286, respectively. Income and unrealized gains on the Nance Trust for the year ended June 30, 2005 were $59,033 and $100,250; and $54,197 and $156,713 for June 30, 2004.

4. ACCOUNTS, NOTES AND CONTRIBUTIONS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees	$ 622,628	$534,633
Library	7,318	5,035
Auxiliary enterprises	159,287	21,667
Federal, state, and non-governmental grants and contracts	240,755	228,658
Total	1,029,988	789,993
Less: allowance for doubtful accounts	(6,310)	(5,346)
Net accounts receivable	$1,023,678	$784,647

B. Notes receivable consisted of the following at June 30, 2005 and 2004:

	2005	2004
Current Portion:		
Federal student loans	$ 157,728	$ 126,559
Employee loans	950	-
Total	158,678	126,559
Non-current portion:		
Federal student loans	1,314,722	1,292,768
Employee loans	5,968	9,475
Total	1,320,690	1,302,243
Less: allowance for doubtful accounts	(117,512)	(29,383)
Net non-current notes receivable	$1,203,178	$1,272,860

C. Longwood University Foundation contributions receivable consisted of the following at June 30:

	2005	2004
Cash pledges expected to be collected in:		
Less than one year	$444,370	$ 615,860
One year to five years	260,400	563,893
Total	704,770	1,179,753
Less: discount to net present value at 3-6 percent	(94,520)	(134,408)
Net contributions receivable	$610,250	$1,045,345

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

Temporarily restricted	$293,963	$ 417,166
Permanently restricted	316,287	628,179
Total	$610,250	$1,045,345

At June 30, 2005 and 2004, the Foundation had received bequests and other intentions to give of approximately $9,173,000 and $6,190,400, 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.

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ended June 30, 2005 and 2004 is presented as follows:

	2005			
Non-depreciable capital assets:	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 4,613,089	$ 195,106	$(73,522)	$ 4,734,673
Construction-in-progress	26,937,700	14,857,368	(25,220,659)	16,574,409
Total non-depreciable capital assets	31,550,789	15,052,474	(25,294,181)	21,309,082
Depreciable capital assets:				
Buildings	92,748,937	20,237,813	(92,427)	112,894,323
Equipment	12,991,762	1,860,034	(684,482)	14,167,314
Infrastructure	25,662,517	3,464,228	(601,250)	28,525,495
Library materials	11,227,580	522,802	(174,762)	11,625,620
Total depreciable capital assets	142,680,796	26,084,877	(1,552,921)	167,212,752
Less accumulated depreciation:				
Buildings	37,398,801	2,378,717	(70,414)	39,707,104
Equipment	9,899,503	678,566	(649,719)	9,988,927
Infrastructure	11,884,224	1,359,518	(293,362)	12,950,381
Library materials	8,020,433	605,336	(174,762)	8,451,007
Total accumulated depreciation	67,202,966	5,022,137	(1,188,257)	71,036,841
Depreciable capital assets, net	75,477,835	21,062,740	(364,664)	96,175,911
Total capital assets, net	$107,028,624	$36,115,193	$(25,658,845)	$117,484,993

2004						
	Beginning Balance	Beginning Balance Adjustment	Adjusted Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable capital assets:						
Land	$ 4,378,526	$ 5,100	$ 4,383,626	$ 229,463	$ -	$ 4,613,089
Construction-in-progress	15,212,360	-	15,212,360	23,272,434	(11,547,094)	26,937,700
Total non-depreciable capital assets	19,590,886	5,100	19,595,986	23,501,897	(11,547,094)	31,550,789
Depreciable capital assets:						
Buildings	79,626,244	1,339,403	80,965,647	12,172,529	(389,239)	92,748,937
Equipment	14,743,761	2,970,314	17,714,075	748,133	(5,470,445)	12,991,763
Infrastructure	1,884,016	22,697,205	24,581,221	1,081,295	-	25,662,516
Library materials	12,152,039	-	12,152,039	501,032	(1,375,491)	11,277,580
Total depreciable capital assets	108,406,060	27,006,922	135,412,982	14,502,989	(7,235,175)	142,680,796
Less accumulated depreciation:						
Buildings	35,782,468	5,453	35,787,921	1,865,766	(254,886)	37,398,801
Equipment	10,256,779	3,239,915	13,496,694	18,865	(3,616,056)	9,899,503
Infrastructure	722,673	9,641,032	10,363,705	1,520,519	-	11,884,224
Library materials	8,812,359	-	8,812,359	583,565	(1,375,491)	8,020,433
Total accumulated depreciation	55,574,279	12,886,400	68,460,679	3,988,715	(5,246,433)	67,202,961
Depreciable capital assets, net	52,831,781	14,120,522	66,952,303	10,514,274	(1,988,742)	75,477,835
Total capital assets, net	$ 72,422,667	$14,125,622	$ 86,548,289	$34,016,171	$(13,535,836)	$107,028,624

The Foundation had $1,488,555 and $187,166 in depreciable assets, net accumulated depreciation of $111,336, and $62,143 at June 30, 2005 and 2004, respectively. The depreciable assets consisted of two building, three vehicles, and several computers.

At June 30, 2005 and 2004, the Foundation also had $2,943,578 and $2,821,733 in non-depreciable capital assets. These amounts include $1,714,393 and $1,592,548, for 2005 and 2004 respectively, in an art collection, with the remaining portions related to land owned by the Foundation.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2005 and 2004:

	2005	2004
Employee salaries, wages, and fringe benefits payable	$2,071,385	$1,886,506
Vendors and suppliers accounts payable	2,153,214	4,115,013
Retainage payable	1,167,920	631,409
Interest payable	43,755	47,767
Total accounts payable and accrued liabilities	$5,436,274	$6,680,695

7. NON-CURRENT 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 years ending June 30, 2005 and 2004 is presented as follows:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds	$11,702,051	$3,614,848	$4,402,150	$10,914,749	$ 808,596
Deferred Loss – bonds	(68,186)	(54,848)	(24,790)	(98,244)	(29,776)
Notes Payable	9,840,000	5,455,000	290,000	15,005,000	495,000
Loans Payable	1,028,938	-	-	1,028,938	1,028,938
Installment purchases	49,150	-	18,228	30,922	19,225
Total long-term debt	22,551,953	9,015,000	4,685,588	26,881,365	2,321,983
Accrued compensated absences	1,320,198	627,925	625,724	1,322,399	558,144
Federal loan program contribution	1,338,365	45,579	-	1,383,944	-
Retainage payable	337,147	-	337,147	-	-
Total long-term liabilities	$25,547,663	$9,688,504	$5,648,459	$29,587,708	$2,880,127

2004					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds	$12,820,635	$ 19,234	$1,137,818	$11,702,051	$ 767,770
Deferred loss – bonds	(85,716)	-	(17,530)	(68,186)	(17,809)
Notes payable	5,205,000	4,770,000	135,000	9,840,000	290,000
Loans payable	1,028,938	-	-	1,028,938	-
Installment purchases	728,564	-	679,414	49,150	18,229
Total long-term debt	19,697,421	4,789,234	1,934,702	22,551,953	1,058,190
Accrued compensated absences	1,300,210	595,798	575,810	1,320,198	555,923
Federal loan program contribution	1,292,786	45,579	-	1,338,365	-
Retainage payable	121,305	215,842	-	337,147	-
Total long-term liabilities	$22,411,722	$5,646,453	$2,510,512	$25,547,663	$1,614,113

The Foundation had $1,512,678 and $1,198,282 in non-current liabilities outstanding at June 30, 2005 and 2004, respectively. This debt consisted of a note payable, whose maturity is due in 2007. The non-current obligations also consisted of annuities payable and amounts payable to third party beneficiaries.

8. LONG-TERM INDEBTEDNESS

University bonds are issued pursuant to Section 9 of Article X of the Constitution of Virginia. All 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, 2005 and 2004, consist of the following:

	Interest Rates	Maturity	2005 Amount	2004 Amount
General Obligation Revenue Bonds:				
Residence Hall:				
Student Housing, Series 1998-R	4.50 – 5.00%	2012	$ 2,313,115	$ 2,584,314
Student Housing, Series 1999	4.75 – 4.88%	2019	485,000	2,310,000
Student Housing, Series 1999-R	2.00 – 5.00%	2019	1,710,016	-
Housing Repairs 2003-R	2.50 – 5.50%	2010	160,742	186,065
Dining Hall:				
Series 1996	4.75 – 5.65%	2016	830,000	1,080,000
Series 1999	4.75 – 4.88%	2019	515,000	2,470,000
Series 1999-R	2.00 – 5.00%	2019	1,829,204	-
Series 2002-R	4.00 – 5.00%	2016	3,071,672	3,071,672
Total bonds payable			$10,914,749	$11,702,051

A summary of future principal requirements of long-term debt as of June 30, 2005 follows:

Year Ending June 30,	Total
2006	$ 808,596
2007	861,260
2008	905,552
2009	959,623
2010	990,214
2011-2015	4,321,909
2016-2020	2,067,595
Total principal requirements	10,914,749
Less: deferred loss	(98,244)
Total	$10,816,505

Installment Purchase Agreements

The University is committed under various installment purchase agreements. Book value of equipment capitalized under lease agreements from the Higher Education Equipment Trust Fund totals $749,040 and $981,242 as of June 30, 2005 and 2004, respectively. 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. The equipment serves as collateral for the VCBA bonds. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed so that the University now owns the equipment from the date of purchase.

A summary of future obligations under installment purchase agreements as of June 30, 2005 follows:

Year Ending June 30,	Installment Purchase Agreements
2006	$20,409
2007	11,906
Total obligations and gross minimum lease payments	32,315
Less: Amount of Interest	(1,393)
Present value of minimum lease payments	$30,922

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling $430,708 and $422,721 at June 30, 2005 and 2004, respectively, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

Notes and Loans Payable

The University received an interest free treasury loan to cover construction expenses for the University's housing sprinkler project in the amount of $1,028,938. The total principal is to be repaid by June 30, 2006 as a lump-sum payment. The University received a VCBA loan to cover construction expenses for the University Fitness Center and the University Parking Garage in the amount of $5,205,000. Interest rates range from 3.00 – 5.25 percent with a maturity date of September 1, 2022. The University received a VCBA loan to cover additional construction expenses for the Fitness Center in the amount of $4,770,000. Interest rates range from 2.00 – 5.00 percent with a maturity date of September 1, 2023. The University received a VCBA loan to cover construction expenses for its Lacrosse/Field Hockey Complex and Phase II of Heating Plant Renovations in the amount of $5,455,000. Interest rates range from 3.00 – 5.00 percent with a maturity date of September 1, 2024.

A summary of future principal requirements of notes and loans payable as of June 30, 2005 follows:

Year ending June 30,	Total
2006	$ 1,523,938
2007	535,000
2008	555,000
2009	580,000
2010	600,000
2011-2015	3,460,000
2016-2020	4,415,000
2021-2025	4,365,000
Total principal requirements	$16,033,938

9. COMMITMENTS

At June 30, 2005, the University was committed to construction contracts totaling approximately $39,419,325 of which $23,752,046 had been incurred. At June 30, 2004, construction contract commitments totaled $22,049,343 of which $8,875,417 had been incurred.

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 expenses for the fiscal years ended June 30, 2005 and 2004 were $302,234 and $1,053,939, respectively. The University has, as of June 30, 2005, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2006	$87,970
2007	1,722
Total	$89,692

As of June 30, 2004, the Foundation was committed to purchase certain real estate for a total of $555,000 in conjunction with the exercise of a purchase option in an operating lease that ended in 2004. At June 30, 2004, the option to purchase the property for $555,000 was exercised by the Foundation, and a deposit of $100,000 was included in other assets at June 30, 2004. The purchase transaction closed during the year ended June 30, 2005, with the issuance of a four-year non-interest bearing note for the balance of the purchase price. Also, in support of constructing a resort facility near the University campus, the Foundation has committed to rent 2,500 room nights per year, for a five-year period when the facility begins operations. This option expired and will not be renewed by the Foundation.

In conjunction with the Foundation's mission to support the activities and operations of the University, the Foundation has entered into various lease arrangements for nominal amounts with the University. The total net book value of assets leased to the University is $2,741,631 at June 30, 2005.

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expense are distributed as shown in the following table for the years ended June 30, 2005 and 2004. Additionally, the University used auxiliary revenues to pay debt service, capital improvements, and scholarships of $2,195,422, $178,688, and $1,355,073, respectively, in 2005, and to pay debt service, capital improvements, and scholarships of $2,395,563, $348,634, and $1,069,202, respectively, in 2004. Those amounts are not included in the auxiliary operating expenses below.

	2005	2004
Revenues:		
Room contracts, net of scholarship allowances of $658,645 and $722,529	$ 6,920,867	$ 7,247,301
Food service contracts, net of scholarship allowances of $491,192 and $483,137	5,275,349	4,913,036
Athletic fee, net of scholarship allowances of $307,763 and $289,724	3,439,695	2,884,971
Other student fees and sales and service, net of scholarship allowances of $554,915 and $537,670	9,794,120	8,878,817
Total auxiliary enterprise revenues	$25,430,031	$23,924,125
Expenses:		
Residential facilities	$ 4,189,285	$5,068,422
Dining operations	4,532,078	4,331,790
Athletics	2,879,583	2,415,860
Other auxiliary services	5,998,532	5,617,323
Total auxiliary enterprise expenses	$17,599,478	$17,433,395

11. PRIOR YEAR DEFEASANCE OF DEBT

In November 2004, the Commonwealth, on behalf of the University, issued $3,614,848 in General Obligation Refunding Bonds with a true interest cost (TIC) of 3.53 percent to advance refund $3,560,000 of outstanding 2004B Higher Education Bonds with interest rates of 4.75 to 5.25 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 $54,848. The defeasance will reduce total debt service payments by $217,048 over the next 14 years, resulting in an economic gain of $165,900, discounted at the TIC of 3.53 percent. As a result, these bonds refunded are considered defeased and are not reflected in the accompanying financial statements. At June 30, 2005, $3,560,000 of the defeased bonds are outstanding.

In June 2003, the Commonwealth, on behalf of the University, issued $282,117 in General Obligation Refunding Bonds with a TIC of 2.705 percent to advance refund $293,072 of outstanding 1993 Higher Education Bonds with interest rates of 4.90 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 gain of $10,956. The defeasance will reduce total debt service payments by $14,603 over the next six years, resulting in an economic gain of $13,200, discounted at the TIC of 2.705 percent. As a result, these bonds refunded are considered defeased and are not reflected in the accompanying financial statements. At June 30, 2005, $167,475 of the defeased bonds are outstanding.

In October 2002, the Commonwealth, on behalf of the University, issued $3,071,672 in General Obligation Refunding Bonds with a TIC of 3.30 percent to advance refund $2,975,000 of outstanding 1996 Higher Education Bonds with interest rates of 5.375 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 $96,672. The defeasance will reduce total debt service payments by $116,649 over the next 12 years, resulting in an economic gain of $111,386, discounted at the TIC of 3.30 percent. As a result, these bonds refunded are considered defeased and are not reflected in the accompanying financial statements. At June 30, 2005, $2,975,000 of the defeased bonds are outstanding.

During fiscal year 1998, the Commonwealth defeased certain 1992 Series Higher Education Institution Bonds with 1998 Refunding Bonds. At June 30, 2005, $2,290,000 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, 2005, $92,274 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the years ended June 30, 2005 and 2004, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the 2005 Virginia Acts of Assembly, Chapter 951 and the 2003 Virginia Acts of Assembly, Chapter 1042, respectively.

	2005	2004
Original appropriation:		
Educational and general programs	$18,928,470	$16,418,341
Student financial assistance	2,354,110	2,100,908
Supplemental adjustments:		
Central Fund appropriation transfers:		
Health insurance premium	169,491	333,344
Salary increases	61,973	154,064
VSDP rate increase	51,705	7,274
Property insurance increase	-	7,377
Group life premium holiday	(126,836)	(126,282)
VRS rate reduction	(19,647)	(65,042)
Health credit rate reduction	(27,630)	(30,131)
Other miscellaneous reversions to Central Fund	-	(24,094)
Reversion to the General Fund	(20,310)	(27,293)
Carry forward	27,293	50,022
Transfer from VITA	225	-
Military tuition waiver	3,255	-
Adult education	-	16,148
Financial aid carry-forward from 2004	654	-
Higher education equipment trust fund payment	(49,981)	(49,981)
Out-of-state capital fee	(9,130)	(9,130)
Eminent Scholars	8,295	8,298
VIVA funds	14,644	10,259
Adjusted appropriation	$21,366,581	$18,774,082

13. EXPENSES BY NATURAL CLASSIFICATIONS

The following tables show 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 as of June 30, 2005 and 2004, respectively.

2005	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$12,211,745	$3,428,808	$ 1,290,926	$ -	$ -	$ 714,841	$ -	$17,646,320
Research	20,698	1,357	16,886	-	-	-	-	38,941
Public service	716,538	187,307	463,831	-	988	33,993	-	1,402,657
Academic support	2,530,968	737,551	693,437	-	66,166	806,922	-	4,835,044
Student services	1,373,714	407,449	527,647	-	-	7,863	-	2,316,673
Institutional support	3,763,262	1,383,218	2,122,757	-	-	386,947	-	7,656,184
Operation and maintenance of plant	1,224,562	576,568	1,920,111	-	528,386	659,558	-	4,909,185
Depreciation	-	-	-	-	-	-	5,022,137	5,022,137
Scholarship and related expenses	-	-	-	3,181,645	-	-	-	3,181,645
Auxiliary activities	5,506,570	1,463,536	8,287,839	-	757,287	1,584,246	-	17,599,478
Other expenses	-	-	37,395	-	-	-	-	37,395
Total	$27,348,057	$8,185,794	$15,360,829	$3,181,645	$1,352,827	$4,194,370	$5,022,137	$64,645,659

	2004							
	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Depreciation	Total
Instruction	$11,382,497	$2,956,025	$1,042,618	$ -	$ 11,871	$ 131,286	$ -	$15,524,297
Research	9,380	128	12,001	-	-	199	-	21,708
Public service	751,650	169,631	410,567	-	1,604	47,020	-	1,380,472
Academic support	2,529,731	671,812	829,091	-	53,172	186,173	-	4,269,979
Student services	1,218,765	333,246	478,736	-	-	78,332	-	2,109,079
Institutional support	2,486,597	1,148,832	1,662,365	-	-	217,801	-	5,515,595
Operation and maintenance of plant	921,746	487,905	1,549,294	-	518,296	700,992	-	4,178,233
Depreciation	-	-	-	-	-	-	3,988,715	3,988,715
Scholarship and related expenses	-	-	-	3,103,054	-	-	-	3,103,054
Auxiliary activities	6,275,323	1,249,966	8,996,303	-	729,717	182,086	-	17,433,395
Other expenses	-	-	37,543	-	-	-	-	37,543
Total	$25,575,689	$7,017,545	$15,018,518	$3,103,054	$1,314,660	$1,543,889	$3,988,715	$57,562,070

14. RESTATEMENT OF PRIOR YEAR NET ASSETS – AS OF JULY 1, 2003

Due to several issues detailed in the Auditor of Public Accounts 2004 Interim Report for the University, the University was unable to issue its 2004 financial statements in a timely manner. Over the past year, the University has successfully addressed the majority of these issues and was successful in creating a viable set of 2004 financial statements. During preparation, the University became aware of items that would impact the values reflected in the 2003 audited financial statements. The largest and most critical item came to our attention when analyzing the fixed asset database for 2004 values. The University discovered that its infrastructure capital valuation was significantly understated and a building value from a previous fiscal year had been significantly understated. In net, the 2003 infrastructure capital asset value increased approximately $13.1 million dollars and the 2003 building capital asset value increased $1.3 million. Another item, which was less significant in materiality, created an overstated cash value for 2003 by approximately $155,958. The reasons for this error were related to inconsistent accounting for zero coupon bond defeasance over the last several years and an incomplete understanding of cash equivalent calculations for bond issuances. Other adjustments included recording inventory of $528,444 and an adjustment to the Due for the Commonwealth by $101,845 for amounts actually received. All of these issues have been fixed and adequately documented to ensure future financial statements will be accurately stated.

Net assets as of June 30, 2003, as previously reported	$69,771,352
Adjustments:	
Capital assets (Note 5)	14,125,622
Inventory	528,444
Due from the Commonwealth	101,845
Cash differences	(155,958)
Beginning net assets, as adjusted	$84,371,305

14. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the University are employees of the Commonwealth. 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 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 30, 2005 and 2004, 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 $1,211,249 and $1,111,987 for the years ended June 30, 2005 and 2004, respectively. These contributions included the employee contribution assumed by the employer. For fiscal year 2005 the rate was 8.91 percent, and for fiscal year 2004 the rate was 8.77 percent. Contributions to the VRS were calculated using a base salary amount of approximately $13,594,265 and $12,679,443 for the fiscal years ended June 30, 2005 and 2004, respectively. The University's total payroll was approximately $27,348,057 and $25,579,689 for the years ended June 30, 2005 and 2004, respectively.

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 $1,055,600 and $991,857 for the years ended June 30, 2005 and 2004, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $10,150,000 and $9,537,083 for the years ended June 30, 2005 and 2004, respectively.

15. POST-EMPLOYMENT BENEFITS

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

16. CONTINGENCIES

The 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 the University. As of June 30, 2005 and 2004, the 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. 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's Comprehensive Annual Financial Report.

18. SUBSEQUENT EVENTS

In November of 2005, the University intends to issue 2005A, 9(d) revenue bonds through the VCBA Public Higher Education Financing Pooled Bonds Program in the amount of $12,580,851. Proceeds from the bonds will be used to construct a new fitness center, build soccer fields, and renovate Lancer Gym, Willet Hall, Blackwell, and the bookstore. The bonds are anticipated to be issued with interest rates of three percent and will mature in 20 years.

SUPPLEMENTARY INFORMATION

LONGWOOD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2005

	Food Services	Bookstore	Residential Services	Parking and Transportation
Revenues:				
Student fees	$ 5,114,521	$ -	$ 6,858,028	$ 584,528
Sales and service	160,828	282,454	62,839	398,012
Income from security lending transactions (Note 1)	-	-	-	-
Other	-	-	-	-
Total operating revenues	5,275,349	282,454	6,920,867	982,540
Expenditures:				
Personal services	203,377	-	1,633,511	123,748
Contractual services	4,164,095	5,135	1,452,810	79,720
Other Expenses	164,606	185,205	1,102,964	60,022
Security lending expenditures (Note 1)	-	-	-	-
Total operating expenditures	4,532,078	190,340	4,189,285	263,490
Excess/(deficiency) of revenues over/(under) expenditures before transfers	743,271	92,114	2,731,582	719,050
Non-operating revenues/(expenses)				
Debt service	(691,459)	-	(641,510)	(344,591)
Capitalized expenses	(103,302)	-	-	-
Scholarship funding	-	-	(310,066)	-
Net increase/(decrease) for the year	$ (51,490)	$ 92,114	$ 1,780,006	$ 374,459
Net assets at beginning of year				
Net assets at end of year				

Note 1 - Longwood University 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 2005 culminating the reporting of the gross revenue and gross expenditures relating to these transactions being reported in the University's financial statements. See Note 3 (Cash and Cash Equivalents) of the University's financial statements for more information regarding the State Treasurer's General Account security lending transactions.

Telecom-munications	Student Health	Student Union	Recreation and Intramurals	Athletics	Other Auxiliary	Total
$ 924,414	$ 412,905	$ 378,750	$ 137,587	$ 3,270,001	$ 4,869,275	$ 22,550,009
305,693	16,668	4,087	5,015	6,673	1,254,322	2,496,591
-	-	-	-	163,021	145,279	308,300
-	-	-	-	-	75,131	75,131
1,230,107	429,573	382,837	142,602	3,439,695	6,344,007	25,430,031
572,942	376,452	274,347	94,097	1,774,346	1,895,892	6,948,712
395,403	42,906	67,694	9,443	583,230	867,782	7,668,218
28,330	16,609	40,545	7,594	522,007	779,535	2,907,417
-	-	-	-	-	75,131	75,131
996,675	435,967	382,586	111,134	2,879,583	3,618,340	17,599,478
233,432	(6,394)	251	31,468	560,112	2,725,667	7,830,553
-	-	-	-	-	(517,862)	(2,195,422)
-	-	-	-	-	(75,386)	(178,688)
(1,686)	-	-	-	(983,547)	(59,744)	(1,355,043)
$ 231,746	$ (6,394)	$ 251	$ 31,468	$ (423,435)	$ 2,072,675	4,101,400
						9,557,314
						$ 13,658,714

LONGWOOD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENSES
For the Year Ended June 30, 2004

	Food Services	Bookstore	Residential Services	Parking and Transportation
Revenues:				
Student fees	$ 4,770,018	$ -	$ 7,144,998	$ 368,057
Sales and service	143,018	301,142	102,303	308,645
Income from security lending transactions (Note 1)	-	-	-	-
Other	-	-	-	-
Total operating revenues	4,913,036	301,142	7,247,301	676,702
Expenses:				
Personal services	313,966	-	2,425,805	114,014
Contractual services	3,844,733	550	1,245,574	66,033
Other expenses	173,091		1,397,043	49,835
Security lending expenses (Note 1)	-	-	-	-
Total operating expenses	4,331,790	550	5,068,422	229,882
Excess of revenues over expenses before transfers	581,246	300,592	2,178,879	446,820
Non-operating revenues/(expenses)				
Debt service	(698,071)	-	(850,656)	(442,396)
Capitalized expenses	(19,317)	-	(44,174)	-
Scholarship funding	-	-	(315,266)	-
Net increase/(decrease) for the year	$ (136,142)	$ 300,592	$ 968,783	$ 4,424
Net Assets at beginning of year				
Net Assets at end of year				

Note 1 - Longwood University 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 2005 culminating the reporting of the gross revenue and gross expenditures relating to these transactions being reported in the University's financial statements. See Note 3 (Cash and Cash Equivalents) of the University's financial statements for more information regarding the State Treasurer's General Account security lending transactions.

Telecom-munications	Student Health	Student Union	Recreation and Intramurals	Athletics	Other Auxiliary	Total
$ 710,362	$ 368,023	$ 392,100	$ 126,188	$ 2,859,954	$ 4,497,356	$ 21,237,056
301,891	13,892	5,960	9,228	7,645	1,184,560	2,378,284
-	-	-	-	-	7,447	7,447
-	-	-	-	17,372	283,966	301,338
1,012,253	381,915	398,060	135,416	2,884,971	5,973,329	23,924,125
555,818	350,809	287,886	108,887	1,462,291	1,890,462	7,509,938
306,034	15,394	26,965	8,150	433,033	1,341,302	7,287,768
56,268	15,377	72,570	17,498	520,536	326,024	2,628,242
-	-	-	-	-	7,447	7,447
918,120	381,580	387,421	134,535	2,415,860	3,565,235	17,433,395
94,133	335	10,639	881	469,111	2,408,094	6,490,730
(80,754)	-	-	-	-	(323,686)	(2,395,563)
(11,946)	(361)	(11,456)	(873)	(6,223)	(254,284)	(348,634)
(2,286)	-	-	-	(710,657)	(40,993)	(1,069,202)
$ (853)	$ (26)	$ (817)	$ 8	$ (247,769)	$ 1,789,131	2,677,331
						6,879,983
						$ 9,557,314

Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

June 1, 2006

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Longwood University, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component unit as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the component unit of the University, which is discussed in Note 2. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates the amounts included for the component unit of the University is based on the report 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 unit of the University that were audited by other auditors upon whose report 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 report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and of its discretely presented component unit as of June 30, 2005 and 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the financial statements, effective for the year ended June 30, 2004, the University has implemented the provisions of Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units,* which addresses the conditions under which institutions should include associated foundations as component units and how such component units should be displayed in the financial statements.

The Management's Discussion and Analysis on pages 4 through 12 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.

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions, entitled "Develop Firewall Policies and Procedures", "Establish a Security Awareness Training Policy and Program", "Maintain an Accurate Database of Parking Receivables", and "Implement Proper Controls to Monitor Wage Employee Hours" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud 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. 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. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters, entitled "Establish a Security Awareness Training Policy and Program" and "Implement Proper Controls to Monitor Wage Employee Hours" are described in the section titled "Internal Control and Compliance Findings and Recommendations."

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

REPORT DISTRIBUTION AND EXIT CONFERENCE

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

We discussed this report with management at an exit conference held on June 22, 2006.

AUDITOR OF PUBLIC ACCOUNTS

WHC:sks
sks: 46

LONGWOOD
UNIVERSITY

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June 22, 2006

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

We have reviewed the internal control findings and recommendations included in our Management Letter and discussed during the exit conference held June 22, 2006.

Longwood University acknowledges and concurs with the internal control findings as presented in its Management Letter covering the FY 2004 and 2005 audits. The following is Longwood University's corrective action plan to address the concerns and issues brought forward:

Develop Firewall Policies and Procedures

A firewall policy will be drafted this summer and will go to the Board of Visitors for approval during the Fall 2006 semester.

Establish a Security Awareness Training Policy and Program

Longwood University is currently in discussion with Virginia Interactive, managers of the Virginia.gov web portal. Virginia Interactive signed a contract with Awareity for a web-based security training program. Longwood will purchase this program off of state contract and will implement the programming in the Fall of 2006.

Maintain an Accurate Database of Parking Receivables

The prior reporting problems with parking receivables data are now resolved. The following summarizes the issues and resolution of reporting on this data:

During Fall 2005, Longwood University evaluated parking citation receivables data as we were unable to obtain a satisfactory reconciliation of parking data. Longwood evaluated existing reports to ensure there were no errors in report design. The vendor, Cardinal Tracking, was also consulted to further review this issue and ensure there was a proper understanding of the citations data structure. These tests and consultation confirmed that the reports were working correctly, but data inconsistencies from older records were causing issues with creating a valid reconciliation. Test reporting on subsets of more recent data appear to be working properly.

The correct receivable balances were reported on the March 31, 2006 Commonwealth of Virginia Receivables Summary Report by Type to DOA. Receivables will be sent to Collections and tax to further clean the data. The Parking Office will continue to provide receivable reports to the Director of Cashiering and Student Accounts each quarter.

Implement Proper Controls to Monitor Wage Employee Hours

Controls to monitor wage employee hours have been implemented. The University is monitoring the 1500 hour wage employees in Payroll. Payroll is sending the information to Human Resources for the appropriate reporting.

During the period when the monitoring was not completed in an accurate manner, management coached the employee and worked with the employee on the appropriate procedures. When it was determined that performance was not improving, the employee was terminated.

After the employee left the University, all of the data concerning 1500 wage personnel was reviewed and corrections were made to bring the records current with actual worked hours.

Written procedures are in place for monitoring hours worked for 1500 hour employees in both Payroll and Human Resources. Additional personnel have been trained to ensure that the hours are monitored in a timely manner.

Thank you for your recommendations for the benefit of Longwood University.

Sincerely,

Kathy S. Worster, MBA, MAcc, CPA
Vice President for Administration/Finance