LONGWOOD

UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2008

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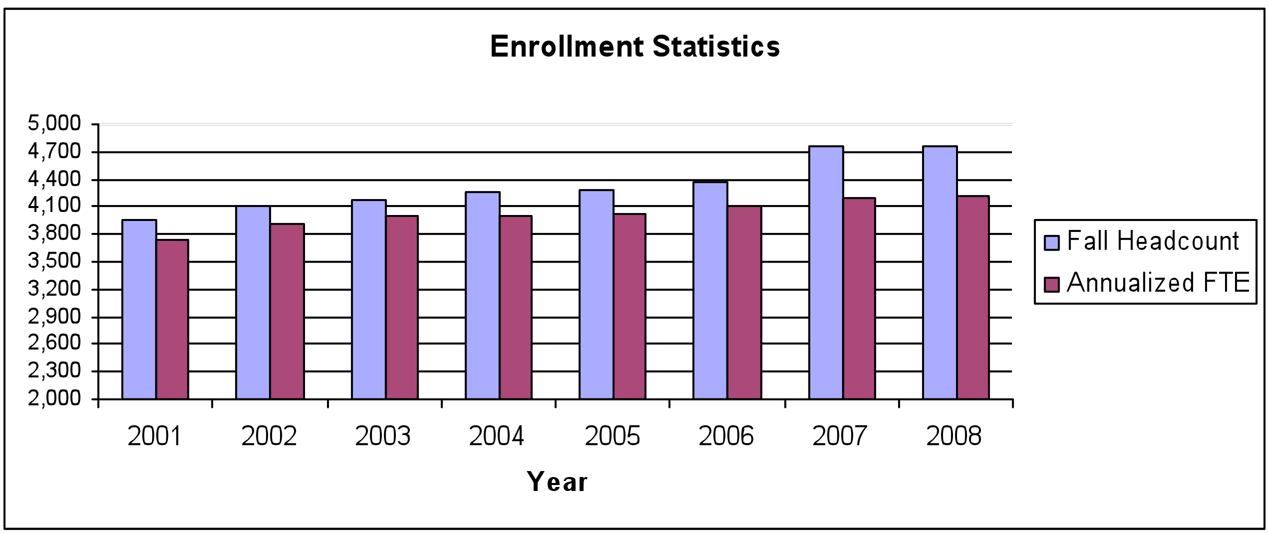
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Accounting Standards

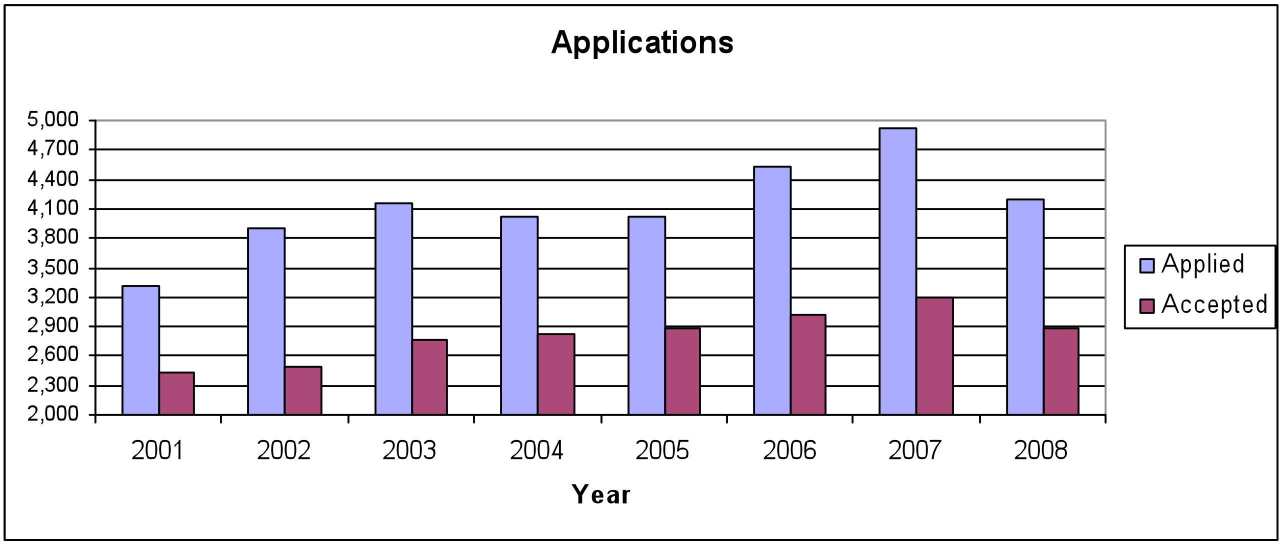
The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2008, with comparative information presented for the fiscal year ended June 30, 2007. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education and public service. Net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementations of new programs. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of management. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

Enrollment and Admissions Information

A significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Headcount enrollment increased from 3,961 in Fall 2001 to 4,767 in Fall 2008. The University is projecting a headcount of 5,202 for Fall 2009.



The strategic plan states that the student body will be of high quality. The Fall 2008 entering freshman class remained competitive with a grade-point average of 3.35 and an average SAT score of 1079. This is up from the 3.15 grade-point average and a SAT score of 1065 for freshmen entering Longwood in Fall 2000. Total applications have increased since 2001, with more students choosing Longwood as their first choice to attend.



Using the Annual Report

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

Statement of Net Assets

The Statement of Net Assets presents the financial position at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities is net assets, which is an indicator of the current financial condition of the University. The purpose of this statement is to present to the financial statement readers a fiscal snapshot as of June 30, 2008. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

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

Statement of Net Assets, as of June 30, 2008 and 2007

Statement of Net Assets	As of June 30, 2008	As of June 30, 2007	Value of Change	Percentage of Change
Assets:				
Current assets	$ 40,357,171	$ 40,925,472	$ (568,301)	(1%)
Non-depreciable capital assets,	34,385,529	44,697,529	(10,312,000)	(23%)
Depreciable capital assets,	128,336,910	101,332,687	27,004,223	27%
Other noncurrent assets	40,016,351	43,712,081	(3,695,730)	(8%)
Total assets	243,095,961	230,667,769	12,428,192	5%
Liabilities:				
Current liabilities	21,019,648	22,619,072	(1,599,424)	(7%)
Noncurrent liabilities	63,902,052	53,787,379	10,114,673	19%
Total liabilities	84,921,700	76,406,451	8,515,249	11%
Net assets:				
Invested in capital assets, net	109,501,569	105,928,088	3,573,481	3%
Restricted - expendable	24,646,254	25,679,879	(1,033,625)	(4%)
Unrestricted	24,026,438	22,653,351	1,373,087	6%
Total net assets	$158,174,261	$154,261,318	$ 3,912,943	3%

Evaluation of Fiscal Years 2008 to 2007 Statement of Net Assets

The University's total assets increased by $12,428,192 between fiscal years 2007 and 2008 due to an increase in capital projects. Buildings increased by $22,877,529 due to the new buildings and projects put into service during FY 2008 (Willett Hall Addition, Ruffner Renovation, Steam Plant, Renovate Housing – Wheeler, and Fitness Center). In addition, depreciable capital assets also increased $4,835,409 due to capitalizing the Banner software implementation project. Non depreciable capital assets decreased due to a reduction in construction in progress due to projects being put into service during fiscal year 2008.

Non current liabilities increased by $10,114,673 primarily due to the additional sales of bonds and notes in FY 2008 of $7,175,000 and $6,250,000 respectively, partially offset by debt service payments of $2,710,552. Current liabilities decreased $1,599,424 due to a decrease in the University's securities lending obligation of $611,153 and accounts payable of $1,191,635.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

Statement of Revenues, Expenses, and Changes in Net Assets, for the Years Ended June 30, 2008 and 2007

	2008	2007	Value of Change	Percentage of Change
Operating revenues:				
Student tuition and fees	$ 18,839,561	$ 18,376,742	$ 462,819	3%
Grants and contracts	7,177,176	6,455,971	721,205	11%
Auxiliary enterprises	32,446,637	30,262,970	2,183,667	7%
Other	369,667	257,604	112,063	44%
Total operating revenues	58,833,041	55,353,287	3,479,754	6%
Operating expenses:				
Instruction	22,451,478	21,279,181	1,172,297	6%
Research	86,841	22,805	64,036	281%
Public service	2,079,217	1,684,581	394,636	23%
Academic support	6,075,238	4,866,176	1,209,062	25%
Student services	3,094,952	2,765,099	329,853	12%
Institutional support	11,048,235	11,803,801	(755,566)	(6%)
Operation and maintenance	5,955,437	5,202,436	753,001	14%
Depreciation	8,082,598	6,845,883	1,236,715	18%
Student aid	6,373,037	4,564,678	1,808,359	40%
Auxiliary activities	30,507,447	24,422,508	6,084,939	25%
Other operating expenses	15,757	19,637	(3,880)	(20%)
Total operating expenses	95,770,237	83,476,785	12,293,452	15%
Operating loss	(36,937,196)	(28,123,498)	(8,813,698)	31%
Net non-operating revenues	32,377,500	28,452,072	3,925,428	14%
Income before other revenues/ expenses, and	(4,559,696)	328,574	(4,888,270)	(1,488%)
Other revenues/(expenses) and gains/ (losses)	8,150,282	23,085,854	(14,935,572)	(65%)
Increase in net assets	3,590,586	23,414,428	(19,823,842)	(85%)
Net assets, beginning of year	154,583,675	130,846,890	23,736,785	18%
Net assets, end of year	$158,174,261	$154,261,318	$ 3,912,943	3%

Evaluation of Fiscal Years 2008 to 2007 Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of $3,479,754 from fiscal year 2007 to fiscal year 2008 due in part to an increase of $462,819 in Tuition and Fees revenue and $2,183,667 in Auxiliary enterprise revenue. This was due in part to a 4% increase in student tuition charges, an increase of $1,010,155 in housing, and an increase in comprehensive fees designated for athletics of $1,099,535. Grants and contracts revenue also increased $721,205 due to an increase in Foundation contributions.

Operating expenses increased $12,293,452. This is due primarily to depreciation expense increasing $1,236,715, student aid increasing $1,808,359, and a fiscal year 2008 payment to the Longwood University Real Estate Foundation of $4,000,000.

Net non operating revenues increased $3,925,428. This increase is due to federal Pell grant revenue of $1,764,990 being reclassified from operating revenue due to a change in the reporting requirements for Pell grant revenue. There was also an increase in non operating revenue due to the decrease in the loss on sale/disposal of capital assets of $1,282,526.

Other revenues decreased by $14,935,572 due to a decrease in capital appropriation of $14,934,627. This decrease is due to Longwood receiving a majority of the funding for current capital projects in fiscal year 2007.

A restatement of fiscal year 2007 ending net assets from $154,261,318 to $154,322,209 was made in fiscal year 2008. This restatement was due to making an adjustment for $310,793 to decrease deposits held in custody for others for deposits that were deemed no longer due to students. Another adjustment of $249,902 was made to decrease construction in progress in order to reverse training costs from prior years that were capitalized in construction in progress for the Banner software Project. It was decided that these costs were no longer allowed to be capitalized per SOP 98.1. The net effect of these adjustments on net assets was an increase of $60,891.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the University's cash activity during the year. The Statement of Revenues, Expenses and Changes in Net Assets is prepared on the accrual basis and includes non cash items such as depreciation expense, while the Statement of Cash Flows strictly represents cash inflows and outflows. The Statement of Cash Flows enables readers to assess the ability of the institution to generate future cash flows necessary to meet obligations and to evaluate the need for additional financing.

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

Condensed Statement of Cash Flows

	2008	2007
Cash provided (used) by:		
Operating activities	$ (29,041,261)	$ (19,332,786)
Noncapital financing activities	32,344,757	29,009,306
Capital financing activities	(9,305,914)	5,118,524
Investing activities	1,907,567	2,737,746
Net increase in cash	(4,094,851)	17,532,790
Cash - beginning of year	48,692,170	53,976,435
Cash - end of year	$ 44,597,319	$ 71,509,225

**Note:* *FY 2007 ending cash was restated from $71,509,225 to $48,692,170 on this year's cash flow statement to remove the amount of appropriations available per the new requirement.*

Evaluation of Statement of Cash Flows for Fiscal Years 2008 to 2007

For fiscal year 2008, significant sources of operating cash include student tuition and fess of $19.4 million, auxiliary enterprise's receipts of $32 million, and grants and contracts of $5.2 million. Major operating uses of cash include payments for salaries, wages, and fringe benefits of $48.2 million and payments to suppliers and utilities of $24 million. Longwood received state appropriations for the University's educational and general programs and financial aid of $30.9 million.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets. During fiscal year 2008 total capital assets increased by $16,692,226. This is due to construction in progress expenses for various ongoing capital projects such as the Bedford Wygal Connector, Steam Plant Phase III, Fitness Center, and Renovate Housing Facilities Wheeler and Cox.

Long term debt increased from $41,344,038 in 2007, to $54,041,933 in 2008 as a result of the significant capital projects mentioned in the beginning of this section. The University has maintained a debt service to unrestricted expenditures and mandatory transfer ratio of less than seven percent as calculated under the State Council of Higher Education for Virginia's (SCHEV) formula. This ratio was 5.61 percent at the end of fiscal year 2007 and 6.13 percent at the end of fiscal year 2008.

Economic Outlook

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

On August 20, 2007, the Governor addressed a joint meeting of the Senate Finance, House Finance and House Appropriations Committees. He stated at that time that a revised revenue forecast revealed that the State would have a revenue shortfall of $641 million. Slow economic growth was also projected for the first year of the biennium. Agencies were given budget reduction targets to compensate for the shortfall and to reduce base spending.

Longwood's reduction was 6 percent or $1,669,460. This reduction was accomplished by reducing expenditures for equipment, library books and new initiatives. Funds that had been dedicated to the BANNER implementation in the prior year and projected equity increases were eliminated from the budget.

As of October 9, 2008, the projected revenue shortfall for the biennium was $2.5 billion. Longwood was given a new target reduction of an additional five percent or $1,365,876. Further reductions are predicted for fiscal year 2010. These reductions will be larger than those for 2009.

The Governor has asked all State agencies to work to develop "a range of possible spending reductions." These reductions will concentrate on efficiency and reducing governmental programs where possible. Longwood will work with the Governor to reduce costs while making every effort to preserve jobs and continue high quality education for our students.

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FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2008

	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood UniversityReal Estate Foundation
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	$ 28,104,340	$ 753,527	$ 6,009
Securities Lending - Cash and cash equivalents (Note 3)	1,668,475	-	-
Short-term investments (Note 3)	6,285,165	184,670	-
Accounts receivable, net of allowance for doubtful accounts of $333,158 (Note 4)	1,160,563	14,056	166,835
Notes receivable, net	142,569	-	-
Contributions receivable, net (Note 4)	-	702,473	-
Due from the Commonwealth (Note 4)	1,287,434	-	-
Inventory	689,139	-	-
Prepaid expenses	1,019,486	-	24,704
Total current assets	$ 40,357,171	$ 1,654,726	$ 197,548
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	16,492,979	1,436,055	-
Restricted Appropriations Available/Due From Commonwealth	22,285,746		
Restricted Investments	-	41,555,172	-
Restricted Deposits	-	-	5,691,126
Contributions receivable - Long term	-	4,260,076	-
Other non-current assets	-	219,479	1,342,955
Notes receivable, net of allowance for doubtful accounts of $105,630	1,237,626	-	
Non-depreciable capital assets, net (Note 5)	34,385,529	3,603,538	7,397,147
Depreciable capital assets, net (Note 5)	128,336,910	1,457,816	30,017,059
Total noncurrent assets	202,738,790	52,532,136	44,448,287
Total assets	$ 243,095,961	$ 54,186,862	$ 44,645,835
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 6)	$ 7,488,712	$ 71,994	$ 1,069,877
Line of Credit	-	-	2,752,373
Deferred revenue	1,087,146	-	-
Obligations under securities lending	7,953,640	-	-
Deposits held in custody for others	592,447	-	-
Long-term liabilities - current portion net of deferred loss of $21,684 (Note 7)	3,862,703	121,078	293,676
Advance from the Treasurer of Virginia	35,000	-	-
Total current liabilities	21,019,648	193,072	4,115,926
Noncurrent liabilities - net of deferred loss of $80,903 (Note 7)	63,902,052	1,191,352	45,766,396
Total liabilities	$ 84,921,700	$ 1,384,424	$ 49,882,322
NET ASSETS			
Invested in capital assets, net of related debt	109,501,569	5,009,466	(412,811)
Restricted:	-	-	-
Nonexpendable:	-	-	-
Permanently restricted	-	24,846,990	-
Expendable:	-	-	-
Loans	118,003	-	-
Capital projects	23,249,600	-	-
Temporarily restricted	-	14,806,020	-
Other	1,278,651	-	-
Unrestricted	24,026,438	8,139,962	(4,823,676)
Total net assets	$ 158,174,261	$ 52,802,438	$ (5,236,487)

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

LONGWOOD UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood UniversityReal Estate Foundation
Operating revenues:			
Student tuition and fees, Net of scholarship allowances of $1,571,107	$ 18,839,561	$ -	$ -
Gifts and contributions	-	794,502	22,336
Federal grants and contracts	2,026,684	-	-
State grants and contracts	909,262	-	-
Nongovernmental grants and contracts	4,241,230	-	-
Auxiliary enterprises, net of scholarship allowances of $2,267,496 (Note 10)	32,446,637	-	-
Other operating revenues	369,667	5,845	2,043,110
Total operating revenues	58,833,041	800,347	2,065,446
Operating expenses (Note 13)			
Instruction	22,451,478	-	-
Research	86,841	-	-
Public service	2,079,217	-	-
Academic support	6,075,238	-	-
Student services	3,094,952	-	-
Institutional support	11,048,235	1,812,494	1,214,957
Operation and maintenance - Plant	5,955,437	-	-
Depreciation	8,082,598	-	617,101
Student aid	6,373,037	1,030,989	-
Auxiliary activities	30,507,447	-	-
Administrative and fundraising	-	619,224	102,983
Other expenditures	15,757	6,285	75,503
Total operating expenses	95,770,237	3,468,992	2,010,544
Operating gain (loss)	(36,937,196)	(2,668,645)	54,902
Nonoperating revenues (expenses):			
State appropriations (Note 12)	30,928,303	-	-
Pell Grant Revenue	1,764,990	-	-
Other	-	257,860	-
Insurance Revenue	25,251	-	-
Investment revenue (loss)	2,554,138	(2,910,397)	43,279
Interest on Capital Asset-Related Debt	(2,784,797)	-	(1,307,550)
Unrealized loss on swap	-	-	(3,373,894)
Loss on disposal of plant assets	(110,385)	-	-
Net nonoperating revenues	32,377,500	(2,652,537)	(4,638,165)
Income before other revenues, expenses, gains or losses	(4,559,696)	(5,321,182)	(4,583,263)
Contributions to permanent endowments	-	456,059	-
Contributions to term endowments	-	3,623,852	-
Capital appropriations	8,130,187	-	-
Other Gifts	20,095	-	-
Net other revenues	8,150,282	4,079,911.00	-
Increase (decrease) in net assets	3,590,586	(1,241,271)	(4,583,263)
Net assets - Beginning of year (Note 18)	154,583,675	54,043,709	(653,224)
Net assets - End of year	$ 158,174,261	$ 52,802,438	$ (5,236,487)

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

Cash flows from operating activities:		
Student tuition and fees	$	19,714,755
Grants and contracts		5,225,983
Auxiliary enterprises		32,038,019
Payments to employees		(48,203,263)
Payments to suppliers and utilities		(24,324,277)
Payments for scholarships and fellowships		(7,625,971)
Payments for noncapitalized plant improvements and equipment		(6,103,868)
Change in loans to students		(117,041)
Other operating receipts		369,163
Payments for other expenses		(14,761)
Net cash provided (used) by operating activities		(29,041,261)
Cash flows from noncapital financing activities:		
State appropriations		30,928,303
Other non-operating		1,454,650
Change in Agency balances		(38,196)
Net cash provided (used) by noncapital financing activities		32,344,757
Cash flows from capital financing activities:		
Capital appropriations		7,926,255
Proceeds from capital debt		13,857,168
Acquisition and construction of capital assets		(25,375,359)
Principal paid on capital debt, leases, and installments		(3,073,872)
Interest paid on capital debt, leases, and installments		(2,665,357)
Insurance Payments		25,251
Net cash provided (used) by capital financing activities		(9,305,914)
Cash flows from investing activities:		
Interest on investments		1,907,567
Net cash provided (used) by investing activities		1,907,567
Net increase in cash		(4,094,851)
Cash and cash equivalents - Beginning of the year (restated to remove appropriations available)		48,692,170
Cash and cash equivalents - End of the year	$	44,597,319

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

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

Operating gain (loss)	$	(36,937,196)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		8,082,598
Changes in assets and liabilities:		
Receivables, net		998,489
Inventory		(21,092)
Prepaid expenses		(284,748)
Notes receivable, net		(117,041)
Accounts payable and accrued expenses		(883,804)
Deferred revenue		(288,131)
Deposits Payable		(246,045)
Accrued compensated absences		4,457
Other		651,252
Net cash provided (used) by operating activities	$	(29,041,261)

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

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NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

C. Basis of Accounting

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

D. Cash and Cash Equivalents

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

E. Investments

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

F. Inventories

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

G. Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using actual 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, 2008.

	2008
Student tuition and related fees	$1,081,586
Auxiliary enterprise fees	5,560
Total	$1,087,146

J. Accrued Compensated Absences

The amount of leave earned, but not taken by classified salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused vacation leave, overtime leave, compensatory leave, and the amount payable upon termination under the Commonwealth of Virginia's sick leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

K. Federal Financial Assistance Programs

The University participates in federally-funded Pell Grants, Supplemental Educational Opportunity Grants, Federal Work-Study, and Perkins Loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and Compliance Supplement.

L. Net Assets

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

Unrestricted net assets are resources derived primarily from state appropriations, sales and services of educational departments, student tuition and fees, and auxiliary enterprises. Auxiliary enterprises are self-supporting activities that provide services for students, faculty, and staff. These unrestricted resources are used for transactions relating to the educational and general operations of the University and at the discretion of the governing board to meet current expenses.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is first to apply the expense toward restricted resources, and then toward unrestricted. Restricted funds remain classified as such until restrictions have been satisfied.

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

Student tuition and fees revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the 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.

O. Long-term Liabilities

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

2. COMPONENT UNITS

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

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

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

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

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

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

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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

At June 30, 2008, the carrying amount of cash with the Treasurer of Virginia was $28,066,691. The carrying amount of cash not held by the Treasurer of Virginia is $1,404,346. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2008, the amount of $1,630,019 adjusted for reconciling items, petty cash items, and change funds. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Appropriations Available

Appropriations available are no longer included in our cash amounts. We have listed them separately on the line item "Restricted Appropriations Available/Due from Commonwealth". At June 30, 2008, the amount of appropriations available was $22,285,746.

Investments

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

Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represent 5 percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2008, the University did not have investments other than money market funds held by the Treasurer of Virginia, therefore, the University does not have a concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not invest in funds outside of investing bond proceeds in the State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP). These proceeds held by the Treasurer of Virginia are invested in money market funds and do not need to be categorized as to risk. At June 30, 2008, the carrying amount of the cash equivalent held in the SNAP program with the Bank of New York was $12,704,806 and with the Treasurer of Virginia was $2,421,476.

Foreign Currency Risk

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

Securities Lending Transactions

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

Securities Lending Balances as of June 30, 2008:

Unrestricted cash equivalent	$1,668,475
Short term investment	6,285,165
Total Securities Lending	$7,953,640

Investments of the Longwood Foundation

Investments and the beneficial interest in the perpetual trust portfolio are composed of the following at June 30, 2008:

	Cost	Market Value
Cash and cash equivalents	$ 2,373,912	$ 2,374,252
Investments in real estate:		
Investment trusts	1,501,925	1,519,403
Government and corporate obligations	11,433,286	10,861,308
Corporate stocks	27,377,988	25,605,235
Hedge funds	3,437,831	3,569,226
Total	$ 46,124,942	$ 43,929,424

Investment fees netted against investment income for the years ended June 30, 2008 and 2007 were $276,888 and $276,888 respectively.

The Foundation has invested in "hedge funds," which include various financial instruments such as puts, calls, options, and futures contracts. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the statement of activities, with net unrealized gains of approximately $131,395 and $2,661,266 recognized for the years ended June 30, 2008 and 2007 respectively.

Longwood University Foundation Beneficial Interest in Perpetual Trust

The Longwood University Foundation is the beneficiary of the annual income earned from the Nelly Ward Nance Trust (Nance Trust) held by Wachovia Bank, N.A. The assets of the Nance Trust are not in the possession or under the control of the Foundation. At June 30, 2008 and 2007 the Nance Trust had market value of $2,302,351 and $2,549,315, respectively, which is recorded in the consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2008 were $110,771 and ($246,964); and $114,177 and $250,333 for the year ended June 30, 2007.

Investments of the Longwood Real Estate Foundation

Investments of the Longwood Real Estate Foundation include the following properties that are held on behalf of the University. The University plans to purchase this real estate from the Real Estate Foundation at some unspecified future date. The property is recorded at cost. All costs associated with holding the property are being accumulated during the holding period. The intent of the University is to reimburse the Foundation for all associated costs.

	Acquisition Cost	Holding Cost	Total
Watson House	522,476	117,927	640,403
Gilbert Wood	132,640	10,601	143,241
Race Street	143,257	12,076	155,333
Griffin Boulevard	75,185	5,313	80,498
Total	$ 873,558	$ 145,917	$ 1,019,475

Two properties held as investments in the previous year ($399,342) are no longer held as assets to be purchased by the University. The buildings on these properties were demolished in 2007 and the land was converted to a courtyard area and reclassified to property and equipment.

4. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2008:

Student tuition and fees	$ 1,012,060
Library	5,780
Auxiliary enterprises	227,025
Federal, state, and nongovernmental grants and contracts	248,856
Total	$ 1,493,721
Less: Allowance for doubtful accounts	(333,158)
Net accounts receivable	$ 1,160,563

B. Notes Receivable consisted of the following at June 30, 2008:

Current Portion:	
Federal student loans	$ 142,569
Non-current portion:	
Federal student loans	$ 1,343,256
Less allowance for doubtful accounts	(105,630)
Net non-current notes receivable	$ 1,237,626

C. Due from the Commonwealth of Virginia consisted of the following at June 30, 2008:

Small Purchase Charge Card Rebate	$ 44,609
Interest Earnings on Tuition & Fees	446,379
eVA Rebate	61,205
General Obligation Bonds	735,241
Total Due from Commonwealth of Virginia	$ 1,287,434

D. Longwood University Foundation contributions receivable consisted of the following at June 30, 2008:

Cash pledges expected to be collected in:	
Less than one year	$ 67,252
One year to five years	8,262,481
Total	8,329,733
Less:	
Discount to net present value at 6 percent	(3,367,184)
Net Contributions Receivable	$ 4,962,549

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

Temporarily restricted	$ 2,409,314
Permanently restricted	2,553,235
Total	$ 4,962,549

At June 30, 2008 and 2007, the Foundation had received bequests and other intentions to give of approximately $7,204,913 and $8,655,801 respectively. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors. The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful account is required. If amounts become uncollectible, they will be charges to operation when that determination is made.

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2008, is presented as follows:

	Beginning Balance	Beginning Balance Adjustment	Additions	Reductions	Ending Balance
Nondepreciable capital assets:					
Land	$ 4,741,698	$ -	$ -	$ -	$ 4,741,698
Construction in progress	39,955,831		23,351,503	(33,663,503)	29,643,831
Total nondepreciable capital assets	44,697,529	-	23,351,503	(33,663,503)	34,385,529
Depreciable capital assets:					
Buildings	125,163,148		26,629,159	(25,750)	151,766,557
Equipment	15,543,487	(3,363,252)	2,659,527	(859,783)	13,979,979
Infrastructure	28,525,495		451,648	-	28,977,143
Library materials	12,839,757		366,968	(114,104)	13,092,621
Software Projects	-		5,089,904	-	5,089,904
Total depreciable capital assets	182,071,887	(3,363,252)	35,197,206	(999,637)	212,906,204
Less accumulated depreciation for:					
Buildings	43,048,836		3,750,138	(24,257)	46,774,717
Equipment	11,373,632	(3,363,252)	1,326,000	(750,891)	8,585,489
Infrastructure	15,777,810		1,431,292	-	17,209,102
Library materials	10,538,922		1,320,673	(114,104)	11,745,491
Software Projects	-		254,495	-	254,495
Total accumulated depreciation	80,739,200	(3,363,252)	8,082,598	(889,252)	84,569,294
Depreciable capital assets, net	101,332,687	0	27,114,608	(110,385)	128,336,910
Total capital assets, net	$ 146,030,216	0	$ 50,466,111	$ (33,773,888)	$162,722,439

Longwood University Foundation:

Land – Ames Hull Spring Farm	$ 1,229,185
Longwood Center for Visual Arts Collection	2,374,353
Buildings	1,554,071
Property and Equipment	36,498
Vehicles	116,225
Total cost of capital assets	5,310,332
Less: accumulated depreciation	(248,978)
Total capital assets, net	$ 5,061,354

Depreciation expense was $67,200 for the year ended June 30, 2008.

Longwood University Real Estate Foundation:

Land	$ 6,618,013
Land Improvements	273,201
Buildings	29,172,311
Furniture and Equipment	2,090,598
Leasehold Improvements	448,999
Construction in Progress	779,134
Total cost of capital assets	39,382,256
Less: accumulated depreciation	(1,968,050)
Total capital assets, net	$37,414,206

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2008:

Employee salaries, wages, and fringe benefits payable	$ 2,906,419
Vendors and suppliers accounts payable	3,665,572
Retainage payable	830,544
Interest payable	86,177
Total accounts payable and accrued liabilities	$ 7,488,712

7. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2008, is presented as follows:

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds 9C	$18,439,893	$6,250,000	$1,545,552	$23,144,341	$1,489,623
Deferred loss - bond refinance	(42,737)	(27,774)	(37,924)	(32,587)	(21,684)
Unamortized premium	1,362,797	493,564	93,264	1,763,097	101,990
Notes payable SNAP	32,780,000	9,080,000	3,000,000	38,860,000	1,450,000
Deferred loss		(70,000)		(70,000)	
Installment purchases	1,389,663	-	317,077	1,072,586	329,030
Installment purchase interest payable	112,317	-	46,243	66,074	34,290
Total long-term debt	54,041,933	15,725,790	4,964,212	64,803,511	3,383,249
Accrued compensated absences	1,572,843	820,089	815,632	1,577,300	479,454
Federal loan program contribution	1,383,944	-	-	1,383,944	-
Total long-term liabilities	$56,998,720	$16,545,879	$5,779,844	$67,764,755	$3,862,703

8. LONG-TERM INDEBTEDNESS

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

Bonds payable at June 30, 2008 consist of the following:

	Interest Rates	Maturity	Amount
General obligation revenue bonds:			
Residence hall:			
Student housing, series 1998-R 1	4.50 – 5.00%	2012	$1,415,754
Student housing, series 1999-A 1	4.75 – 4.88%	2019	130,000
Housing repairs, 2003-R 2	2.00 – 5.00%	2010	68,431
Residence hall improvements, 2004-B 1	2.50 – 5.50%	2019	1,710,016
Renovate housing facilities, 2005-A 1	3.50 – 5.00%	2025	3,455,000
Renovate housing facilities, 2006-B 1	4.00 – 5.00%	2026	5,420,000
Renovate housing facilities, 2007-B 1	4.00 – 5.00%	2027	5,930,000
Dining hall:			
Dining hall, series 1999-A 2	2.00 – 5.00%	2019	140,000
Dining hall, series 2002-R 1	4.00 – 5.00%	2016	3,045,935
Dining hall, series 2004-B 2	4.00 – 5.00%	2019	1,829,205
Total bonds payable			$23,144,341

A summary of future principal requirements of long-term debt as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest
2009	$ 1,489,623	$ 1,093,507
2010	1,545,214	1,025,974
2011	1,589,099	951,138
2012	1,671,740	873,486
2013	1,350,762	791,421
2014-2018	6,882,608	2,904,575
2019-2023	5,110,295	1,469,844
2024-2027	3,505,000	341,375
Total	$23,144,341	$9,451,320
Less: Deferred Loss	(32,587)	-
Total	$23,111,754	$9,451,320

Longwood University Real Estate Foundation

Long-term debt is as follows at June 30, 2008:

Variable Rate Educational Facilities Revenue Bonds Series 2007, thirty (30) year term. Interest is subject to a fixed-to-floating interest rate swap agreement which requires fixed rate payments of 4.065 percent on an initial notional amount of $40,745,000. The swap arrangement expires September 1, 2036, covering the life of the bonds.	$41,855,000
Mark-to-market estimate of bank swap transactions related to above revenue bonds.	3,373,894
Deed of trust note payable, 7.0 percent, due in monthly payments of principal and interest of $1,742, maturing 2/14/2016	129,720
Deed of trust note payable, 7.09 percent, due in monthly payments of principal and interest of $5,074, maturing 2/7/2032	701,458
	46,060,072
Less – current portion	(293,676)
	$45,766,396

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

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

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

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

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

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

Maturities under long-term debt are as follows:

2008	$293,676
2009	400,080
2010	476,590
2011	543,215
2012	659,962
Thereafter	43,686,549
Total	46,060,072
Less – current portion	(293,676)
	$45,766,396

Restricted Deposits and Funded Reserves

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

Interest payment account	$ 47,995
Debt service reserve account	1,370,080
Construction fund	2,485,385
Cost of issuance fund	149,801
General account	352,977
Taxes and insurance account	195,748
Repair and replacement account	69,665
	$4,671,651

Notes Payable

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

	Interest Rates	Maturity	Amount
Virginia College Building Authority:			
Notes payable:			
Fitness center and parking garage 2002A	3.00 – 5.25%	9/2022	$ 2,520,000
Fitness center 2003A	2.00 – 5.00%	9/2023	4,145,000
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 – 5.00%	9/2024	4,920,000
Fitness center 2005A	3.00 – 5.00%	9/2025	6,595,000
Soccer fields, Lancer gym, and Blackwell 2005A	3.00 – 5.00%	9/2025	4,600,000
Fitness center, Blackwell, and heating plant III 2006A	3.00 – 5.00%	9/2026	7,000,000
Lacrosse/field hockey complex, baseball/ Softball, heating plant phase II & III 2007A	3.00 – 5.00%	9/2027	7,175,000
Fitness center and parking garage 2007B	5.25%	9/2019	1,905,000
Total notes payable			$38,860,000

A summary of future principal requirements of notes and loans payable as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest
2009	$ 1,440,000	$ 1,819,731
2010	1,505,000	1,755,238
2011	1,565,000	1,684,281
2012	1,640,000	1,606,094
2013	1,735,000	1,521,819
2014-2018	9,980,000	6,213,438
2019-2023	12,710,000	3,467,097
2024-2028	8,285,000	663,956
	38,860,000	$18,731,654
Less: Deferred Loss	(70,000)	
Total:	$ 38,790,000	

Installment Purchase Agreements

The University is committed under various installment purchase agreements. The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased.

A summary of future obligations under installment purchase agreements as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest
2009	$ 329,030	$ 34,290
2010	341,434	21,886
2011	318,607	9,277
2012	83,515	621
Total	$1,072,586	$66,074

Longwood University Foundation

Notes payable consisted of the following at June 30, 2008:

	Final Maturity	2008
Notes payable of $455,000, deed of trust, private individual, no stated interest, imputed at 6 percent, payable $100,000 annually, including interest, callable as of January 1, 2007, collateralized by building with a net book value of $1,288,267	2009	$51,887

Principal payments on notes payable are scheduled as follows: 2009 - $51,887. Total interest expense for the years ended June 30, 2008 and 2007 was $9,915 and $16,448 respectively.

Longwood University Real Estate Foundation Line of Credit

The Longwood University Real Estate Foundation has a $3,000,000 commercial revolving line of credit with a bank. The line is to be used to purchase and improve real estate and is securitized by a first deed of trust on the property and improvements acquired. The line requires monthly interest only payments on any outstanding balance, with principal reductions made at the Foundation's discretion or when specific collateral is released. Principal may be repaid monthly by a separate term note on improved properties up to 20 years and on unimproved properties up to ten years. Interest on the line is charged at a variable rate of the 30 day LIBOR plus 2.5 percent (7.74% at December 31, 2007). The outstanding balance on this line was $2,752,373 at December 31, 2007. There is no expiration period in the agreement.

9. COMMITMENTS

At June 30, 2008, the University was committed to construction contracts totaling approximately $69,934,941 of which $45,529,193 had been incurred. The University was committed to pay Longwood University Real Estate Foundation $5,126,714 pursuant to a support agreement related to student housing (Lancer Park, Longwood Landings, and Longwood Village).

The University is committed under various operating lease agreements primarily for buildings and equipment. In general, the agreements are for a period of one year, and typically have renewal options. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2008, was $530,391.

The University has, as of June 30, 2008, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2009	$347,797
2010	207,170
2011	193,320
2012	66,923
2013	59,620
2014 - 2018	178,856
Total	$1,053,686

Longwood University Foundation

In November 1998, the Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Foundation leased the real estate to Longwood University for the same lease term. At June 30, 2004, an option to purchase the property for $555,000 was exercised by the Foundation, and the purchase transaction closed during the year ended June 30, 2005 with the issuance for a four-year non-interest bearing note for the balance of the purchase price (See Note 8 – Notes Payable). The Foundation continues to lease the property to Longwood University on a month-to-month basis, with $40,000 of rental income recognized in each of the years ended June 30, 2008 and 2007.

Longwood University Real Estate Foundation - Longwood Landings

The Longwood University Real Estate Foundation owns property known as Longwood Landings at Mid-Town Square. The property combines student housing and commercial space in a series of four buildings together with associated parking and improvements. The Real Estate Foundation owns the student housing on the property together with the associated parking and improvements. The first floor commercial space is owned by the developer of the property. The ownership of the property is in the form of a commercial condominium, whereby the Real Estate Foundation owns the top three floors of each building while the developer retains ownership of the first floor of each building. The Real Estate Foundation is a member in the Midtown Square Condominium Association, Inc. As a unit holder in the Association, the Real Estate Foundation pays association dues that are used to pay common costs of the property. Total dues paid to the Association during the six months ended December 31, 2007 were $39,025.

The Real Estate Foundation leases commercial space from the Association which is then subleased to the University for use as the University bookstore. The lease requires minimum guaranteed rental payments of $132,750 annually, payable in equal monthly installments. The minimum guaranteed rental shall be increased on the fourth anniversary of the commencement date and every year thereafter. The lease also requires additional rent defined as the tenant's proportionate share of operating costs, insurance, taxes, and other charges. The initial term of the lease is for ten years, with two ten year optional renewal periods. The commencement date of the lease is 30 days after the build out is complete and the premises are ready for occupancy. The University has been paying this lease commitment directly to the Association. No amounts have been paid from the Foundation during the six months ended December 31, 2007.

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

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

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

2008	$ 222,247
2009	223,937
2010	223,315
2011	227,782
2012	232,337
Thereafter	976,755
Total	$2,106,373

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expense are distributed as shown in the following table for the year ended June 30, 2008.

Revenues:	
Room contracts, net of scholarship allowance of $848,194	$10,690,596
Food service contracts, net of scholarship allowance of $451,361	5,758,772
Athletic fee, net of scholarship allowance of $465,226	6,175,354
Other student fees and sales and service, net of scholarship allowance of $502,715	9,821,915
Total auxiliary enterprise revenues	$32,446,637
Expenses:	
Residential facilities	$10,842,127
Dining operations	4,050,536
Athletics	4,497,482
Other auxiliary services	11,117,302
Total auxiliary enterprise expenses	$30,507,447

11. DEFEASANCE OF DEBT

In November 2007, the Commonwealth, on behalf of the University, issued $1,905,000 in a Virginia College Building Authority Refunding bond 2007B for Fitness Center and Parking Garage with a true interest cost (TIC) of 4.017696% to advance refund $1,835,000 of an outstanding 2002A Higher Education Bond with an interest rate of 4 – 5%. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bond. The debt defeasance resulted in an accounting loss of $97,774. The defeasance will reduce total debt service payments by $94,932 over the next 12 years. At June 30, 2008, $1,905,000 of the defeased bond is outstanding.

In previous years, certain 2006A, 2004B, 1996, 1993, and 1992 Higher Education Bonds were defeased by the University. As with the 2002A Higher Education Bonds noted above, the net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. As of June 30, 2008 $8,069,341 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2008, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the 2008 Virginia Acts of Assembly, Chapter 847.

Original appropriation:	
Educational and general programs	$ 27,711,167
Student financial assistance	3,208,828
Supplemental adjustments:	
FY 08 Budget Reduction	(1,669,511)
Central Fund appropriation transfers	1,491,018
VIVA	10,509
Tuition Incentive	72,597
Carryforward	20,407
SVRTC	95,000
SPCC Rebate and Interest Earnings	301,331
Prior Year Accrual for SPCC Rebate & Interest	(234,643)
HEETF Payment	(54,746)
Capital O/S Fee	(21,646)
FY 2008 Reversion	(2,008)
Adjusted appropriations	$ 30,928,303

13. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification which is the basis for amounts shown in the Statement of Cash Flows.

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Other	Depreciation	Total
Instruction	$15,685,114	$ 4,809,381	$ 1,380,067	$ -	$ 3,046	$ 573,870	-	-	$22,451,478
Research	8,088	12,191	61,612	-	-	4,950	-	-	86,841
Public service	1,132,200	365,563	453,166	54,566	3,699	70,023	-	-	2,079,217
Academic support	3,145,171	1,092,594	921,334	536,548	237	379,354	-	-	6,075,238
Student services	1,861,223	641,135	535,168	30,996	3,866	22,564	-	-	3,094,952
Institutional support	5,670,084	2,841,858	2,343,252	1,033,806	82,284	(923,049)	-	-	11,048,235
Operation and Maintenance of plant	1,359,470	877,170	1,205,794	144,989	1,156,661	1,211,353	-	-	5,955,437
Depreciation								8,082,598	8,082,598
Scholarship and related expense	-	-	-	6,373,037	-	-	-	-	6,373,037
Auxiliary activities	7,374,053	1,766,183	14,014,281	1,505,739	1,077,156	4,770,035	-	-	30,507,447
Other expenses	-	-	-	-	-	-	15,757	-	15,757
Total	$36,235,403	$12,406,075	$20,914,674	$9,679,681	$2,326,949	$6,109,100	$15,757	$8,082,598	$95,770,237

14. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

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

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

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $2,268,802 for the year ended June 30, 2008. These contributions included the employee contribution assumed by the employer. For fiscal year 2008 the rate was 11.15 percent. Contributions to the VRS were calculated using a base salary amount of approximately $20,347,998 for the fiscal year ended June 30, 2008. The University's total payroll was approximately $37,669,573 for the year ended June 30, 2008.

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 $1,421,032 for the year ended June 30, 2008. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $13,663,765.

Deferred Compensation

Employees of the University are employees of the Commonwealth of Virginia. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. Employer contributions under the Deferred Compensation Plan were approximately $173,050 for the fiscal year ended June 30, 2008.

15. POST-EMPLOYMENT BENEFITS

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

16. CONTINGENCIES

Longwood University receives assistance from non-State grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements, including the expenditure of resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of Longwood University. As of June 30, 2008, Longwood University estimates that no material liabilities will result from such audits.

17. RISK MANAGEMENT

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

<u>Longwood University Foundation</u>

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

18. BEGINNING NET ASSET RESTATEMENT

Beginning net assets have been restated from the prior year's ending net asset balance of $154,261,318 to $154,583,675. An adjustment of $310,803 was made to decrease deposits held in custody for others for deposits that were deemed no longer due to students. An adjustment of $261,456 was made to increase accounts receivable for prior year receivables and related revenues that had not previously been recorded. Another adjustment of ($249,902) was made in order to reverse training costs from prior years that were capitalized in CIP for the Banner software Project. It was decided that these costs were no longer allowed to be capitalized per SOP 98.1.

In fiscal year 2008, when reviewing the fixed asset system, there was $3,363,252 of fully depreciated equipment that was no longer in use from prior years. Therefore, we removed the equipment from the equipment account along with the accumulated depreciation of $3,363,252.

19. RELATED PARTY

Longwood University Foundation

The Foundation received contribution revenue from Board members in the amount of $51,731 for the year ending June 30, 2008. The amount of contributions receivable due from the Board members amounted to $129,576 at June 30, 2008.

In conjunction with its mission to support the activities and operations of Longwood University, the Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets leased to the University is $2,449,969 and $2,483,551 at June 30, 2008 and June 30, 2007 respectively, including land on the consolidated statement of financial position.

On March 1, 2004, the Foundation entered into a capital lease agreement with Longwood University to lease a parking lot. The Foundation was given the parking lot as a contribution, which at the time was recorded as its appraised value of $51,000. The lease expires February 28, 2013. The University has the option to purchase the parking lot for $1 at the end of the lease term. The lease provides for annual rent payments of $5,105 and interest of 2 percent. At June 30, 2008 and 2007, Longwood University owed the Foundation $14,056 and $35,996 respectively.

Longwood University Real Estate Foundation

The Foundation receives rent from the University for use of various buildings and parking facilities. The total amount earned for the six months ended December 31, 2007 from these rental arrangements was $2,043,110 including $127,600 in outstanding receivables at December 31, 2007.

The Foundation pays the University fees under management agreements related to facilities covered by tax-exempt bond issuances. These fees are based on costs to manage the specific properties. Total fees paid for the six months ended December 31, 2007 were $200,319. In addition the Foundation reimburses the University for operational costs paid directly by the University related to the housing projects. At December 31, 2007 the Foundation had a payable to the University of $363,246, which is included in accounts payable and accrued expenses on the consolidated statement of financial position.

The Foundation has an agreement with the University to manage the Alumni House. The University is billed for all expenses and the Foundation receives no fees for its services. The Foundation had an outstanding receivable at December 31, 2007 of $39,235 for expenses not yet reimbursed.

20. CHANGE IN LONGWOOD UNIVERSITY REAL ESTATE FOUNDATION YEAR END

The Longwood University Real Estate Foundation changed their year end from June 30th to December 31st as of December 31, 2007. Therefore, the combined financial statements for FY 2008 only includes half the year's activity for the Longwood University Real Estate Foundation.

21. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the endowments held by the Longwood University Foundation experienced a 34% decline in value due to the large decline in the market. This caused the investment values to drop $14,061,038 from $41,555,172 at June 30, 2008 to $27,494,134 at February 28, 2009.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

May 26, 2009

The Honorable Timothy M. Kaine
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of **Longwood University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2008, which collectively comprise the University's basic financial statements 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 audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 2. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component units of the University as of June 30 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 26 2009 on our consideration of Longwood University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

HV/clj

LONGWOOD UNIVERSITY

Farmville, Virginia