LONGWOOD UNIVERSITY

REPORT ON AUDIT

FOR THE YEAR ENDED

JUNE 30, 2007

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Longwood University for the year ended June 30, 2007, found the following:

- the financial statements are presented fairly, in accordance with generally accepted accounting principles;

- internal control matters that we consider to be significant deficiencies; however, we do not consider these to be material weaknesses; and

- one instance of noncompliance required to be reported under Government Auditing Standards.

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INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve System Access Controls

University policies and procedures require IT system access removal within three business days of an employee's termination. Of the sixteen employees which we reviewed, 12 or 75 percent did not have their IT system access removed within three business days.

The current manual paper process makes it difficult to comply with the University's access removal policy. By not removing IT system access for terminated employees in a timely manner, the University increases the risk of having their data confidentiality, integrity, and availability compromised. We recommend that the University improve the manual paper system for logical access removal and educate its managers on the important role they have in protecting critical data.

Improve Database Security

The University does not adequately train its system and database administrators on the University's information security policies and procedures. The University has established policies, procedures, and standards for access to information and technology resources, password management, security monitoring, and logging. However, our audit revealed that the system and database administration staff does not follow the University's established policies and procedures while implementing new systems.

For disaster recovery, system and database administrators do not have a procedure for testing the reliability of the backup media. Testing the reliability of the University's mission critical backup media is an industry best practice.

We recommend that the University provide appropriate information security training on established policies to new and existing employees based on their system or database administration responsibilities. It is important that administrators have adequate training in their responsibilities so that they can ensure that during the installation of new systems, they minimize the vulnerabilities to these types of systems.

Properly Complete Employment Eligibility Verification Forms

University employees and supervisors are not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security. The guidance requires the employee to complete, sign, and date the form on the first day of employment. Additionally, the employer or designated representative must complete, sign, and date the form within three business days of employment.

In our sample of 14 of these forms completed in fiscal year 2007, we found one or more errors on five of the forms as follows.

- One form did not list the first day of employment in Section 2;
- Three forms did not provide sufficient information from the verification documents, such as document number, expiration date, or issuing authority;
- Three employees did not sign and/or date the form on the first day of employment;
- The employer did not verify documentation for three employees within three business days of the employment start date; and

- Two employees were required to provide more than the minimum amount of documentation.

We recommend that the Human Resources Division review the process to complete the I-9 forms, train human resources staff on the requirements of completing these forms, and develop procedures to continuously review all or a sample of forms for compliance with federal regulations. In addition, we recommend that the University be cautious regarding the number of documents requested from each employee because employers requesting more than the minimum required documentation from employees could be subject to fines and penalties, as the U.S. Department of Homeland Security considers this a form of harassment. The federal government has increased its enforcement efforts requiring employers to ensure all new employees are legally entitled to work in the United States. Their increased enforcement makes having a good process in place to complete I-9 forms even more important.

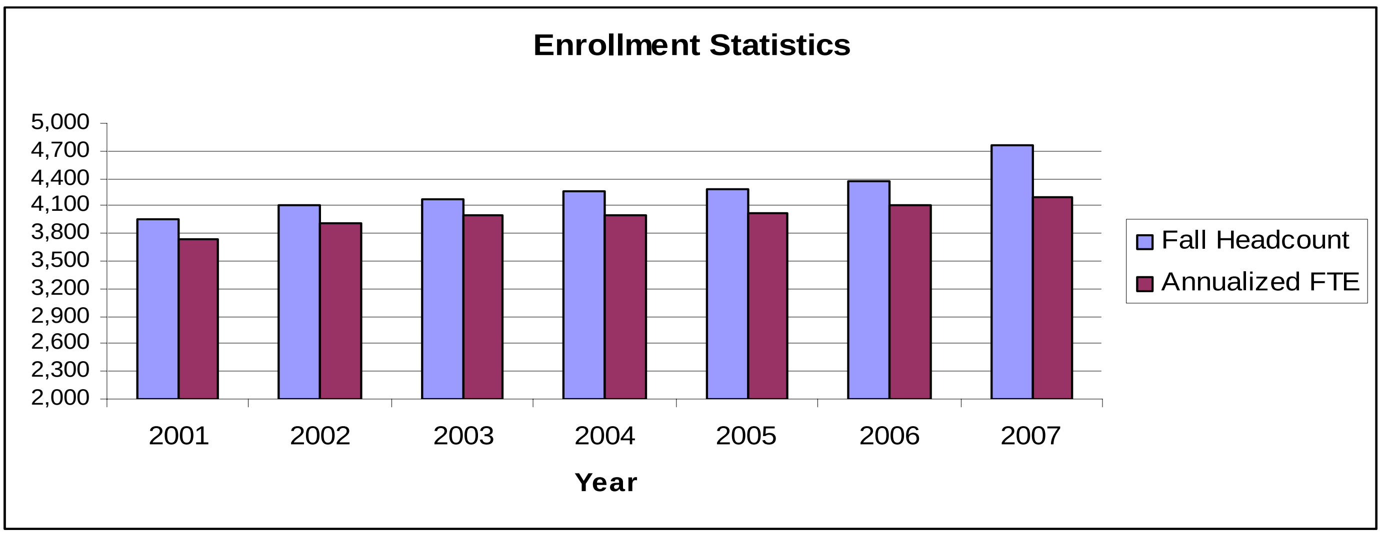
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Accounting Standards

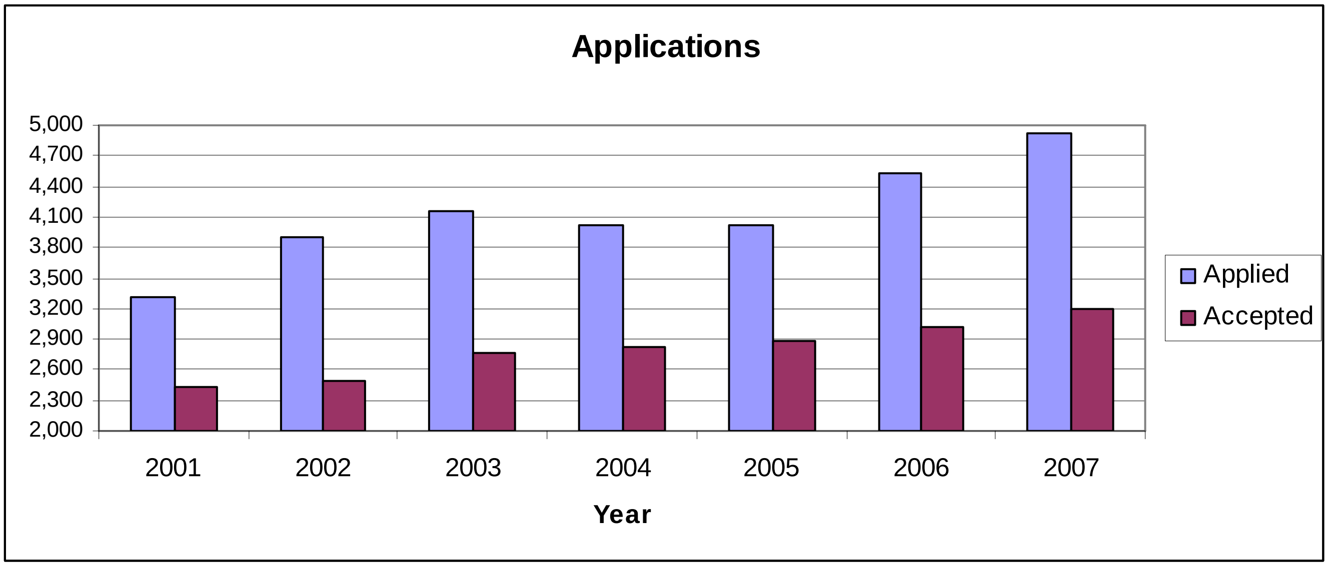
The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2007, with comparative information presented for the fiscal year ended June 30, 2006. While maintaining financial health is crucial to the long-term viability 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 4,761 in Fall 2007. The University is projecting a headcount of 4,961 for Fall 2008.



The strategic plan states that the student body will be of high quality. The Fall 2007 entering freshman class remained competitive with a grade-point average of 3.34 and an average SAT score of 1076. 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, 2007. 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, 2007 and 2006

	As of June 30, 2007	As of June 30, 2006	Value of Change	Percentage of Change
Assets:				
Current assets	$ 40,925,472	$ 39,933,053	$ 992,419	2%
Non-depreciable capital assets	44,697,529	19,267,291	25,430,238	>100%
Depreciable capital assets	101,332,687	106,889,599	(5,556,912)	(5%)
Other noncurrent assets	43,712,081	26,179,039	17,533,042	67%
Total assets	230,667,769	192,268,982	38,398,787	20%
Liabilities:				
Current liabilities	22,619,072	19,769,773	2,849,299	14%
Noncurrent liabilities	53,787,379	40,793,341	12,994,038	32%
Total liabilities	76,406,451	60,563,114	15,843,337	26%
Net assets:				
Invested in capital assets, net	105,928,088	105,550,458	377,630	.4%
Restricted - expendable	25,679,879	2,711,272	22,968,607	>100%
Unrestricted	22,653,351	23,444,139	(790,788)	(3%)
Total net assets	$154,261,318	$131,705,869	$22,555,449	17%

Evaluation of Fiscal Years 2007 to 2006 Statement of Net Assets

The University’s total assets increased by $38,398,787 between fiscal years 2006 and 2007 due to a $25.4 million increase in construction in progress and an increase in capital appropriations to fund the ongoing construction. Major capital construction projects that were underway during fiscal year 2007 were the Jarman Project, Bedford Wygal Connector, Steam Plant Phase II, Bedford Addition/Renovation, Steam Plant Phase III, Abestos Abatement, and ADA Accessibility. The cash equivalents represent notes payable associated with the construction of Heating Plant, Blackwell, Fitness Center, Lacrosse/Field Hockey Fields, Soccer Fields, Lancer Gym, Baseball/Softball Fields, and Parking Garage projects which are held by the Bank of New York and invested in the State Non-Arbitrage Program. A $7,220,000 million increase in notes payable is related to the Fitness Center, Baseball/Softball Fields, Blackwell Hall Renovation, and Heating Plant Phase III projects.

Total liabilities increased by $15,843,337. The primary cause was the addition to bonds and notes payable in the amount of $13.1 million for increased construction projects at Longwood University and an addition to installment purchases of $1.3 million for Banner software leases.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA) represents 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, 2007 and 2006

	2007	2006	Value of Change	Percentage of Change
Operating revenues:				
Student tuition and fees	$ 18,376,742	$ 16,892,295	$ 1,484,447	9%
Grants and contracts	6,455,971	6,372,650	83,321	1%
Auxiliary enterprises	30,262,970	28,349,530	1,913,440	7%
Other	257,604	329,791	(72,187)	(22%)
Total operating revenues	55,353,287	51,944,266	3,409,021	7%
Operating expenses:				
Instruction	21,279,181	19,272,552	2,006,629	10%
Research	22,805	51,451	(28,646)	(56%)
Public service	1,684,581	1,725,016	(40,435)	(2%)
Academic support	4,866,176	3,343,585	1,522,591	46%
Student services	2,765,099	2,766,356	(1,257)	0%
Institutional support	11,803,801	8,620,893	3,182,908	37%
Operation and maintenance	5,202,436	5,114,836	87,600	2%
Depreciation	6,845,883	6,721,529	124,354	2%
Student aid	4,564,678	3,664,106	900,572	25%
Auxiliary activities	24,422,508	20,091,402	4,331,106	22%
Other operating expenses	19,637	18,369	1,268	7%
Total operating expenses	83,476,785	71,390,095	12,086,690	17%
Operating loss	(28,123,498)	(19,445,829)	(8,677,669)	45%
Net non-operating revenues	28,452,072	27,478,660	973,412	4%
Income before other revenues, and gains	328,574	8,032,831	(7,704,257)	(96%)
Other revenues and gains	23,085,854	1,608,000	21,477,854	>100%
Increase in net assets	23,414,428	9,640,831	13,773,597	143%
Net assets, beginning of year	130,846,890	122,065,038	8,781,852	7%
Net assets, end of year	$154,261,318	$131,705,869	$22,555,449	17%

Evaluation of Fiscal Years 2007 to 2006 Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of $3,409,021 from fiscal year 2006 to fiscal year 2007 due in part to an increase of $1,484,447 in Tuition and Fees revenue. This was due to the increase in enrollment of 387 students and a 7.5 percent increase in charges. Auxiliary Enterprise revenue also increased $1,913,440 due to Longwood receiving more in scholarship money, our move to Division I athletics, and the increase in charges to students that was mentioned above. Operating expenses increased $12,086,690 primarily due to increases in instruction, academic support, institutional support, and auxiliary activities. Instruction increased due in large part to the additional students enrolled in 2006-2007 and an increase in Educational and General Program funding from the Commonwealth of over $4 million which was used to pay educational program expenses. The increase in academic support and institutional support is primarily due to this increase in funding which allowed for more expenditures in these programs. The increase in Auxiliary Activities expenses is primarily due to the same reasons for the revenue increase which includes the increase in student enrollment, our move to NCAA Division I athletics, and increased facility expenses. Other revenues and gains include capital appropriations in 2007 for capital projects appropriated for in fiscal year 2007, such as: Jarman Project, Bedford Wygal Connector, Steam Plant Phase II, Bedford Addition/Renovation, Steam Plant Phase III, Abestos Abatement, and ADA Accessibility. Therefore the majority of the increase in net assets represents an increase in capital construction and capital appropriations.

A restatement of fiscal year 2006 ending net assets from $131,705,869 to $130,846,890 was made in fiscal year 2007. This change is due to the new reporting guidelines for the Virginia Department of Treasury's Reimbursement Programs.

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

	2007	2006
Cash provided (used) by:		
Operating activities	$(19,332,786)	$(13,668,244)
Noncapital financing activities	29,009,306	25,822,800
Capital financing activities	5,118,524	2,050,246
Investing activities	2,737,746	920,920
Net increase in cash	17,532,790	15,125,722
Cash - beginning of year	53,976,435	38,850,713
Cash - end of year	$ 71,509,225	$ 53,976,435

Evaluation of Statement of Cash Flows for Fiscal Years 2007 to 2006

For fiscal year 2007, significant sources of operating cash include student tuition and fees of $18.4 million, auxiliary enterprise's receipts of $29.5 million, and grants and contracts of $5.1 million. Major operating uses of cash include payments for salaries, wages and fringe benefits of $41.8 million, and payments to suppliers and utilities of $17.6 million. Longwood received state appropriations for the University's educational and general programs and financial aid of $28.9 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 with total capital asset additions of $22,599,579 during fiscal year 2007. Significant fiscal year 2007 capital project expenditures primarily include construction on the Fitness Center, Soccer Field, Baseball/Softball Fields, Lacrosse/Field Hockey Fields, and Wheeler Renovation. Fiscal year 2007 depreciation expense totaled $6,845,883. Overall, total net assets increased by $22,555,449, a 17 percent increase over fiscal year 2006. Total capital assets increased by $19,873,324 in fiscal year 2007, which is due largely to the construction mentioned at the beginning of this section.

Long term debt increased from $41,344,038 in 2006, to $54,041,933 in 2007 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 5.89 percent at the end of fiscal year 2006 and 5.61 percent at the end of fiscal year 2007.

As a result of the increase of the construction projects listed above, construction in progress increased from $14,532,619 in 2006 to $39,955,831 at June 30, 2007. 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 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.

As a result of the actions taken by the General Assembly, Longwood's total E&G Operating Budget increased for fiscal year 2007. 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.

The General Assembly encouraged limiting tuition increases for operating expenditures to 6 percent for fiscal year 2008. Subsequent to the beginning of the year, the Educational and General appropriation from the Commonwealth was reduced by 6.25 percent or $1,669,511 due to Virginia's revenue shortfall. Future funding from the General Assembly and the ability to raise tuition will depend on the Commonwealth's actual revenue in fiscal year 2008 and revenue projections for the next biennium. Despite the limitations placed on revenue, 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.

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FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2007

	Longwood University	Component Unit Longwood University Foundation	Component Unit Longwood University Real Estate Foundation
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	$ 28,929,419	$ 1,222,059	$ 344,210
Securities lending - cash and cash equivalents (Note 3)	1,733,915	-	-
Short-term investments (Note 3)	6,830,878	-	-
Accounts receivable (Net of allowance for doubtful accounts of $6,982) (Note 4)	1,372,175	35,996	863,681
Notes receivable (Note 4)	130,879	-	-
Contributions receivable, net (Note 4)	-	47,209	-
Due from the Commonwealth (Note 4)	525,421	-	-
Inventory	668,047	-	-
Prepaid expenses	734,738	-	48,196
Total current assets	40,925,472	1,305,264	1,256,087
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	42,579,806	1,492,582	2,490,605
Restricted investments	-	44,779,074	1,374,923
Other restricted assets	-	203,386	-
Contributions receivable - Long term	-	2,742,774	-
Other non-current assets	-	-	727,684
Notes receivable (Net of allowance for doubtful accounts of $97,247) (Note 4)	1,132,275	-	-
Non-depreciable capital assets (Note 5)	44,697,529	3,541,599	6,307,689
Depreciable capital assets (Note 5)	101,332,687	1,430,214	29,859,756
Total noncurrent assets	189,742,297	54,189,629	40,760,657
Total assets	230,667,769	55,494,893	42,016,744
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 6)	8,594,170	2,052	527,315
Deferred revenue	1,375,277	-	2,684
Obligations under securities lending	8,564,793	-	-
Deposits held in custody for others	838,491	-	-
Long-term liabilities - current portion net of deferred loss of $33,822 (Note 7)	3,211,341	166,423	9,698,379
Advance from the Treasurer of Virginia	35,000	-	-
Total current liabilities	22,619,072	168,475	10,228,378
Noncurrent liabilities - net of deferred loss of $42,737 (Note 7)	53,787,379	1,282,709	32,504,761
Total liabilities	76,406,451	1,451,184	42,733,139
NET ASSETS			
Invested in capital assets, net of related debt	105,928,088	4,806,109	-
Restricted:			
Nonexpendable:			
Permanently restricted	-	25,210,217	-
Expendable:			
Loans	212,433	-	-
Capital projects	24,066,477	-	-
Temporarily restricted	-	19,034,181	-
Other	1,400,969	-	-
Unrestricted	22,653,351	4,993,202	(716,395)
Total net assets	$ 154,261,318	$ 54,043,709	$ (716,395)

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, 2007

	Longwood University	Component Unit Longwood University Foundation	Component Unit Longwood University Real Estate Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $1,538,227	$ 18,376,742	$ -	$ -
Gifts and contributions	-	572,721	-
Federal grants and contracts	3,239,354	-	-
State grants and contracts	949,572	-	-
Nongovernmental grants and contracts	2,267,045	-	-
Auxiliary enterprises, net of scholarship allowances of $2,149,570 (Note 10)	30,262,970	-	-
Other	257,604	-	3,918,550
Total operating revenues	55,353,287	572,721	3,918,550
Operating expenses: (Note 13)			
Instruction	21,279,181	-	-
Research	22,805	-	-
Public service	1,684,581	-	-
Academic support	4,866,176	-	-
Student services	2,765,099	-	-
Institutional support	11,803,801	1,420,199	1,829,466
Operation and maintenance of plant	5,202,436	-	-
Depreciation	6,845,883	-	1,188,738
Student aid	4,564,678	927,345	-
Auxiliary activities (Note 10)	24,422,508	-	-
Administrative and fundraising	-	433,170	128,371
Other	19,637	12,872	32,613
Total operating expenses	83,476,785	2,793,586	3,179,188
Operating gain/(loss)	(28,123,498)	(2,220,865)	739,362
Nonoperating revenue/(expenses)			
State appropriations (Note 12)	28,992,949	-	-
Contributions to permanent endowments	-	557,878	-
Contributions to term endowments	-	4,113,902	-
Other	-	400,338	-
Investment revenue	3,039,147	5,817,576	51,512
Interest on capital asset-related debt	(2,188,209)	-	(2,342,904)
Loss on disposal of plant assets	(1,392,911)	-	-
Insurance Recoveries	1,096	-	-
Net nonoperating revenues	28,452,072	10,889,694	(2,291,392)
Income before other revenues/(expenses) and gains/(losses)	328,574	8,668,829	(1,552,030)
Capital appropriations	23,064,814	-	-
Other Gifts	21,040	-	-
Net other revenues	23,085,854	-	-
Increase (decrease) in net assets	23,414,428	8,668,829	(1,552,030)
Net assets - beginning of year, restated (Note 18)	130,846,890	45,374,880	835,635
Net assets - end of year	$ 154,261,318	$ 54,043,709	$ (716,395)

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

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Cash flows from operating activities:	
Student tuition and fees	$ 18,364,744
Grants and contracts	5,124,158
Auxiliary enterprises	29,535,248
Payments to employees	(41,827,036)
Payments to suppliers and utilities	(17,606,693)
Payments for scholarships and fellowships	(8,655,188)
Payments for noncapitalized plant improvements and equipment	(4,557,121)
Change in loans to students	51,407
Other operating receipts	257,604
Payments for other expenses	(19,909)
Net cash used by operating activities	(19,332,786)
Cash flows from noncapital financing activities:	
State appropriations	28,992,949
Change in Agency balances	16,357
Net cash provided by noncapital financing activities	29,009,306
Cash flows from capital financing activities:	
Capital appropriations	21,787,533
Proceeds from capital debt	15,106,597
Acquisition and construction of capital assets	(27,144,401)
Principal paid on capital debt, leases, and installments	(2,421,664)
Interest paid on capital debt, leases, and installments	(2,210,637)
Insurance payments	1,096
Net cash provided by capital financing activities	5,118,524
Cash flows from investing activities:	
Interest on investments	2,737,746
Net increase in cash	17,532,790
Cash and cash equivalents - Beginning of the year	53,976,435
Cash and cash equivalents - End of the year	$ 71,509,225

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

Reconciliation of net operating loss to net cash used by operating activities:	
Operating loss	$ (28,123,498)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	6,845,883
Changes in assets and liabilities:	
Receivables, net	(476,195)
Inventory	(38,518)
Prepaid expenses	(411,017)
Notes receivable, net	51,408
Accounts payable and accrued expenses	2,126,951
Deferred revenue	(205,399)
Deposits Payable	(12,301)
Accrued compensated absences	137,391
Other	772,509
Net cash provided/(used) by operating activities	$ (19,332,786)

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

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NOTES TO FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2007

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 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 the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Fund and Government 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 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, 2007.

	2007
Student tuition and related fees	$1,143,130
Auxiliary enterprise fees	232,147
Total	$1,375,277

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 the 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, Inc. 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 University 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.

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, 2007, the carrying amount of cash with the Treasurer of Virginia was $49,652,701, which includes appropriations available of $22,817,055. The carrying amount of cash not held by the Treasurer of Virginia is $1,637,647. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2007, in the amount of $2,022,461 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.

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, 2007, 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

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, 2007, the carrying amount of the cash equivalent was $12,753,169, 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.

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.

Investments of the Longwood University Foundation

Investments and the beneficial interest in the perpetual trust portfolio are composed of the following at June 30, 2007:

	Cost	Market Value
Cash and cash equivalents	$ 2,559,495	$ 2,559,495
Investments in real estate:		
Investment trusts	1,153,960	1,631,381
Government and corporate obligations	10,850,593	9,452,360
Corporate stocks	21,920,570	24,558,544
Hedge funds	3,430,336	4,027,979
Total	$39,914,954	$42,229,759

Investment fees netted against investment income for the year ended June 30, 2007, are $276,888.

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 $2,661,266 recognized for the year ended June 30, 2007.

Investments representing 10 percent or more of the Foundation's investment and beneficial interest in perpetual trust portfolios at June 30, 2007 consisted of the following:

	Units	Fair Value
Russell Invt Co Equity I C1 Y	361,576	$12,911,892
Russell Invt Co Fixed Income I Fd	497,575	10,230,136
Russell Invt Co Intl Fd	160,220	8,405,148
Total		$31,547,176

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, 2007 the Nance Trust had market value of $2,549,315 which is recorded in the consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2007 were $114,177 and $250,333.

Investments of the Longwood University Real Estate Foundation

Investments of the Longwood University 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
Lee Theatre	$ 161,213	$ 290	$ 161,503
Watson House	522,476	86,733	609,209
Baker House	218,163	19,676	237,839
Gilbert Wood	132,640	6,174	138,814
Race Street	143,257	7,621	150,878
Griffin Boulevard	75,185	1,495	76,680
Total	$1,252,934	$ 121,989	$1,374,923

4. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2007:

Student tuition and fees	$ 698,022
Library	5,276
Auxiliary enterprises	54,129
Federal, state, and nongovernmental grants and contracts	556,041
Longwood University Real Estate Foundation	65,689
Total	1,379,157
Less: Allowance for doubtful accounts	(6,982)
Net accounts receivable	$1,372,175

B. Notes receivable consisted of the following at June 30, 2007:

Current portion:	
Federal student loans	$ 130,879
Non-current portion:	
Federal student loans	$1,229,522
Less allowance for doubtful accounts	(97,247)
Net non-current notes receivable	$1,132,275

C. Due from the Commonwealth of Virginia consisted of the following at June 30, 2007:

Small Purchase Charge Card rebate	$234,643
Virginia College Building Authority 21st Century Bonds	127,226
General Obligation Bonds	163,552
Total due from Commonwealth of Virginia	$525,421

D. Longwood University Foundation contributions receivable consisted of the following at June 30, 2007:

Cash pledges expected to be collected in:	
Less than one year	$ 116,602
One year to five years	4,284,225
Total	4,400,827
Less:	
Discount to net present value at 5 percent	(1,610,844)
Net contributions receivable	$2,789,983

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

Temporarily restricted	$ 47,209
Permanently restricted	2,742,774
Total	$2,789,983

At June 30, 2007, the Foundation had received bequests and other intentions to give of approximately $8,655,801. 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, 2007, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 4,734,673	$ 12,125	$ (5,100)	$ 4,741,698
Construction in progress	14,532,618	26,756,557	(1,333,344)	39,955,831
Total non-depreciable capital assets	19,267,291	26,768,682	(1,338,444)	44,697,529
Depreciable capital assets:				
Buildings	127,185,589	391,546	(2,413,987)	125,163,148
Equipment	14,124,903	1,926,566	(507,982)	15,543,487
Infrastructure	28,525,495	-	-	28,525,495
Library materials	12,961,414	358,668	(480,325)	12,839,757
Total depreciable capital assets	182,797,401	2,676,780	(3,402,294)	182,071,887
Less accumulated depreciation for:				
Buildings	41,170,183	3,002,616	(1,123,963)	43,048,836
Equipment	10,686,285	1,097,544	(410,197)	11,373,632
Infrastructure	14,364,095	1,413,715	-	15,777,810
Library materials	9,687,239	1,332,008	(480,325)	10,538,922
Total accumulated depreciation	75,907,802	6,845,883	(2,014,485)	80,739,200
Depreciable capital assets, net	106,889,599	(4,169,103)	(1,387,809)	101,332,687
Total capital assets, net	$126,156,890	$22,599,579	$(2,726,253)	$146,030,216

Longwood University Foundation

Land – Ames Hull Spring Farm	$1,229,185
Longwood Center for Visual Arts Collection	2,312,414
Buildings	1,554,071
Property and Equipment	33,371
Vehicles	34,062
Total cost of capital assets	1,621,504
Less: accumulated depreciation	(191,290)
Total capital assets, net	$4,971,813

Depreciation expense was $45,781 for the year ended June 30, 2007.

Longwood University Real Estate Foundation

Land	$ 5,935,204
Land Improvements	270,334
Buildings	29,113,921
Furniture and Equipment	1,396,008
Leasehold Improvements	434,285
Construction in Progress	372,485
Total cost of capital assets	37,522,237
Less: accumulated depreciation	(1,354,792)
Total capital assets, net	$36,167,445

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2007:

Employee salaries, wages, and fringe benefits payable	$2,737,639
Vendors and suppliers accounts payable	3,873,394
Retainage payable	1,083,177
Interest payable	67,582
Longwood University Real Estate Foundation payable	832,378
Total accounts payable and accrued liabilities	$8,594,170

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, 2007, is presented as follows:

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds 9C	$13,825,711	$5,900,000	$1,285,818	$18,439,893	$1,220,552
Deferred loss on bond refinancing	(76,927)	-	(34,190)	(42,737)	(33,822)
Unamortized premium	866,330	563,224	66,757	1,362,797	67,711
Notes payable SNAP	26,410,000	7,220,000	850,000	32,780,000	1,165,000
Installment purchases	294,486	1,335,595	240,418	1,389,663	317,077
Installment purchase interest payable	24,438	133,307	45,428	112,317	46,243
Total long-term debt	41,344,038	15,152,126	2,454,231	54,041,933	2,782,761
Accrued compensated absences	1,435,452	772,035	634,644	1,572,843	428,580
Federal loan program contribution	1,383,944	-	-	1,383,944	-
Total long-term liabilities	$44,163,434	$15,924,161	$3,088,875	$56,998,720	$3,211,341

8. LONG-TERM INDEBTEDNESS

The 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, 2007 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	$1,730,057
Student housing, series 1999-A 1	4.75 – 4.88%	2019	255,000
Housing repairs, 2003-R 2	2.00 – 5.00%	2010	101,813
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	3,585,000
Renovate housing facilities, 2006-B 1	4.00 – 5.00%	2026	5,605,000
Dining hall:			
Dining hall, series 1999-A 2	2.00 – 5.00%	2019	270,000
Dining hall, series 2002-R 1	4.00 – 5.00%	2016	3,058,803
Dining hall, series 2004-B 2	4.00 – 5.00%	2019	1,829,204
Dining hall, series 2006-A 1	4.00 – 4.125%	2008	295,000
Total bonds payable			$18,439,893

A summary of future principal requirements of long-term debt as of June 30, 2007 follows:

Year ending June 30	Principal	Interest
2008	$ 1,220,552	$ 886,586
2009	1,289,623	820,495
2010	1,335,214	762,962
2011	1,369,099	698,626
2012	1,441,740	631,973
2013-2017	5,674,274	1,901,099
2018-2022	3,639,391	1,213,922
2023-2026	2,470,000	395,177
Total	18,439,893	7,310,840
Less: Deferred loss	(42,737)	-
Total	$18,397,156	$7,310,840

Longwood University Real Estate Foundation

Long-term debt is as follows at June 30, 2007:

Variable Rate Educational Facilities Revenue Bonds Series 2006A, thirty (30) year term. Interest is subject to a fixed-to-floating interest rate swap agreement which requires fixed rate payments of 4.113 percent on an initial notional amount of $6,612,000. The swap arrangement expires September 1, 2036, covering the life of the bonds.	$ 7,807,326
Mark-to-market estimate of bank swap transactions related to above revenue bonds.	127,173
Variable Rate Educational Facilities Revenue Bonds series 2006B, thirty (30) year term. Interest is subject to a fixed-to-floating interest rate swap agreement which requires fixed rate payments of 4.113 percent on an initial notional amount of $17,728,000. The swap arrangement expires September 1, 2036, covering the life of the bonds.	23,482,429
Mark-to-market estimate of bank swap transactions related to above revenue bonds.	340,866
Deed of trust note payable, 7.0 percent, due in monthly payments of principal and interest of $1,742, maturing 2/14/2016	136,456
Deed of trust note payable, 7.09 percent, due in monthly payments of principal and interest of $5,074, maturing 2/7/2032	704,508
Total	32,598,758
Less – current portion	(93,997)
Total	$32,504,761

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 2006A and 2006B through the Industrial Development Authority of the town of Farmville. The 2006A bonds were issued in the amount of $7,840,000 to finance or refinance the acquisition, renovation and equipping of the student housing facility known as Lancer Village. These bonds were issued at a purchase price of $7,806,857 which represents the par amount of the 2006A bond, less an underwriter's discount of $33,142. The 2006B bonds were issued in the amount of $23,482,429 for the purpose of financing or refinancing all or a portion of the acquisition, renovation and equipping of student housing known as Longwood Landings. These bonds were issued at a purchase price of $23,479,100 which represents the par amount of the 2006B bond, less an underwriter's discount of $99,682. 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 give the projects preferential treatment in assigning student housing. Specifically, the University covenants that it will assign students in need of housing to the projects until at least 95 percent of the beds are occupied.

Each bond series is subject to a separate management agreement between the University and the Foundation. The agreements appoint the University as manager of each 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 Revenues account for each project. 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 take effect at the close of the bonds and terminate five years from the effective date. Thereafter, they can be renewed for successive five year terms, unless terminated by either party.

Maturities under long-term debt are as follows:

2007	$ 93,997
2008	148,997
2009	209,365
2010	275,822
2011	332,388
Thereafter	31,538,189
Total	32,598,758
Less – current portion	(93,997)
Total	$32,504,761

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	$ 3,087
Debt service reserve account	1,093,871
Bond proceeds account	1,093,871
Revenue sub-account	455
General account	618
Taxes and insurance account	49,458
Operating account	1,136
Repair and replacement account	5,298
Working capital account	379
Total	$2,248,173

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	$ 4,545,000
Fitness center 2003A	2.00 – 5.00%	9/2023	4,315,000
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 – 5.00%	9/2024	5,115,000
Fitness center 2005A	3.00 – 5.00%	9/2025	6,825,000
Soccer fields, Lancer gym, and Blackwell 2005A	3.00 – 5.00%	9/2025	4,760,000
Fitness center, Blackwell, and heating plant III 2006A	3.00 – 5.00%	9/2026	7,220,000
Total notes payable			$32,780,000

A summary of future principal requirements of notes and loans payable as of June 30, 2007 follows:

Year ending June 30	Principal	Interest
2008	$ 1,165,000	$ 1,542,469
2009	1,215,000	1,493,019
2010	1,265,000	1,440,050
2011	1,315,000	1,381,244
2012	1,380,000	1,315,706
2013-2017	8,035,000	5,436,363
2018-2022	10,245,000	3,168,597
2023-2027	8,160,000	684,206
Total	$32,780,000	$16,461,654

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, 2007 follows:

Year ending June 30	Principal	Interest
2008	$ 317,077	$ 46,243
2009	329,030	34,290
2010	341,434	21,886
2011	318,607	9,277
2012	83,515	621
Total	$1,389,663	$112,317

Longwood University Foundation

Notes payable consisted of the following at June 30, 2007:

	Final Maturity	Balance
Uncollateralized note payable of $230,086, private foundation 5.88 percent payable $25,794 annually, including interest	2007	$ 22,414
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	143,290
		$165,704

Principal payments on notes payable are scheduled as follows: 2008 - $113,817; 2009 - $51,887.

Total interest expense for the year ended June 30, 2007 was $16,448.

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. The outstanding balance on this line was $2,477,477 at June 30, 2007. There is no expiration period in the agreement.

The Longwood University Real Estate Foundation has a $7,500,000 credit line deed of trust and assignment of rents agreement on the Longwood Village project. The line has been used for the purchase of the real estate, furniture, and fixtures. Interest on the line is charged at LIBOR plus 1.75 percent (7.09 percent at June 30, 2007). The outstanding balance on the line was $7,126,905 at June 30, 2007. The line extends through the earlier of September 30, 2007 or the effective date of the master lease agreement between the Foundation and the University ("conversion date"). Following the conversion date, the unpaid principal balance will be repaid in equal installments of principal and interest over a five year period.

9. COMMITMENTS

At June 30, 2007, the University was committed to construction contracts totaling approximately $44,687,173 of which $38,828,662 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 expense for the fiscal year ended June 30, 2007, was $423,096. The University has, as of June 30, 2007, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2008	$1,611,297
2009	1,510,318
2010	1,479,561
2011	1,296,992
2012	70,923
2013 - 2017	258,345
Total	$6,227,436

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, 2007.

Longwood University Real Estate Foundation

The Foundation has a contract in place to purchase furniture for Longwood Village. At June 30, 2007, $119,942 had been paid toward the contract and is shown as deposits on the statement of financial position.

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 FY 2007 were $79,090.

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 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 a renewal option for an additional two ten year 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:

Fiscal Year	Operating Leases
2008	$ 109,124
2009	235,350
2010	237,181
2011	241,924
2012	246,763
Thereafter	1,309,846
Total	$2,380,188

Longwood University Real Estate Foundation Management Agreement – Longwood Village

The Real Estate Foundation has an agreement with an outside management company for management of the Longwood Village Property. Under the agreement the outside agent receives a monthly fee of $7,293 or 7 percent of the effective gross income on the property, whichever is greater. The agreement expires on September 30, 2007 and there is no plan for a renewal of the contract.

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expense are distributed as shown in the following table for the year ended June 30, 2007.

Revenues:	
Room contracts, net of scholarship allowance of $782,431	$ 9,680,441
Food service contracts, net of scholarship allowance of $462,607	5,333,190
Athletic fee, net of scholarship allowance of $637,284	4,834,197
Other student fees and sales and service, net of scholarship allowance of $267,247	10,415,142
Total auxiliary enterprise revenues	$30,262,970
Expenses:	
Residential facilities	$ 7,672,240
Dining operations	4,025,093
Athletics	3,667,837
Other auxiliary services	9,057,338
Total auxiliary enterprise expenses	$24,422,508

11. PRIOR YEAR DEFEASANCE OF DEBT

In previous years, certain 2006A, 2004B, 1996, 1993, and 1992 Higher Education Bonds were defeased by the University. As with the 2006A 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, 2007 $8,724,893 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2007, 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.

Original appropriation:	
Educational and general programs	$26,018,876
Student financial assistance	2,784,837
Supplemental adjustments:	
Central Fund appropriation transfers	957,262
Additional appropriation for New College Institute	93,500
June 2006 payroll	(815,347)
Eminent scholars	8,295
Other adjustments and transfers	(54,474)
Adjusted appropriations	$28,992,949

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	$14,609,478	$ 4,538,291	$ 1,328,959	$ 64,978	$ 1,114	$ 736,361	-	-	$21,279,181
Research	18,109	4,402	(3,334)	-	-	3,628	-	-	22,805
Public service	892,611	290,787	470,502	21,242	2,713	6,726	-	-	1,684,581
Academic support	2,359,429	812,531	671,887	412,362	511	609,456	-	-	4,866,176
Student services	1,544,991	550,631	568,423	65,258	-	35,796	-	-	2,765,099
Institutional support	4,967,650	2,735,090	1,671,091	725,916	56,283	1,647,771	-	-	11,803,801
Operation and maintenance of plant	1,260,622	768,450	1,753,713	117,329	573,549	728,773	-	-	5,202,436
Depreciation	-	-	-	-	-	-	-	6,845,883	6,845,883
Scholarship and related expense	-	-	-	4,564,678	-	-	-	-	4,564,678
Auxiliary activities	6,576,055	1,735,101	10,354,613	255,359	828,021	4,673,359	-	-	24,422,508
Other expenses	-	-	-	-	-	-	19,637	-	19,637
Total	$32,228,945	$11,435,283	$16,815,854	$6,227,122	$1,462,191	$8,441,870	$19,637	$6,845,883	$83,476,785

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 $1,886,991 for the year ended June 30, 2007. These contributions included the employee contribution assumed by the employer. For fiscal year 2007 the rate was 10.74 percent. Contributions to the VRS were calculated using a base salary amount of approximately $17,569,746 for the fiscal year ended June 30, 2007. The University's total payroll was approximately $33,267,492 for the year ended June 30, 2007.

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 $1,284,350 for the year ended June 30, 2007. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $12,349,517.

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 $163,630 for the fiscal year ended June 30, 2007.

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, 2007, 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 of Virginia. The state employee health care and workers' compensation plans are administered by the administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

Longwood University Foundation

The Foundation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. The risks are managed through the purchase of commercial insurance and self retention of certain risks. The Foundation's affairs are conducted in part by the employees of the 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 $131,705,869 to $130,846,890. An adjustment for $905,385 was due to the reporting guideline changes for Treasury's Reimbursement Programs as instructed by the Department of Accounts and the remaining $46,406 was due to an increase in assets that were from a prior year.

19. RELATED PARTY

Longwood University Foundation

In conjunction with its mission to support the activities and operations of the 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 $2,483,551 at June 30, 2007, including land on the consolidated statement of financial position.

During the year ended June 30, 2005, a separate real estate foundation was established by the University to handle residence hall renovations and various construction projects. At June 30, 2007, the real estate foundation did not owe Longwood University Foundation for renovations or projects.

On March 1, 2004, the Foundation entered into a capital lease agreement with the 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, 2007, the University owed the Foundation $35,996.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 1, 2008

The Honorable Timothy M. Kaine
Governor of Virginia

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

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and discretely presented component units of **Longwood University**, a component unit of the Commonwealth of Virginia, and its aggregate discretely presented component units as of and for the year ended June 30, 2007, 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 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 Longwood University as of June 30, 2007, 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 3 through 9 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

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies entitled," "Improve System Access Controls," "Improve Database Security," and "Properly Complete Employment Eligibility Verification Forms," which are described in the section titled "Internal Control and Compliance Findings and Recommendations," to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies 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. An instance of noncompliance, entitled "Properly Complete Employment Eligibility Verification Forms" is described in the section titled "Internal Control and Compliance Findings and Recommendations."

The University's response to the findings identified in our audit is included in the section titled "University Response." We did not audit the University's response and, accordingly, we express no opinion on it.

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 March 25, 2008.

AUDITOR OF PUBLIC ACCOUNTS

HV:clj
clj:45

LONGWOOD
UNIVERSITY

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Office of the Vice President for Administration and Finance

March 25, 2008

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

Dear Mr. Kucharski:

The following are the responses to the three management points issued during your audit of Longwood University for fiscal year 2007.

Improve System Access Controls:

One of the management points in the 2008 audit for Longwood University pertains to logical access control and the removal of access to University systems when an employee severs their relationship with Longwood. The University policy and procedures will be modified to indicate that access must be removed on or before the effective date for terminated employees and the manual paper process will be modified such that HR will be able to directly notify the IITS system administrators via an email distribution list. These changes will be implemented no later than 06/30/08.

Improve Database Security:

One of the management points in the 2008 audit for Longwood University pertains to baseline security configurations for the oracle database in the Banner administrative computing system. A Minimum Baseline Security Configuration document for Oracle will be formalized and approved by IITS management with an expected completion date of 06/30/08. Longwood will also be sending the functional Oracle DBA to SANS Institute Oracle Security Training with an expected completion date of 06/30/08.

Additionally, Longwood University will develop a separate restoration environment and procedure for regularly testing all backup media for reliability with an expected completion date of 09/01/08.

Properly Complete Employment Eligibility Verification Forms:

Longwood University received a management point for not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security.

Management at the University understands the importance of complying with federal guidelines regarding employment eligibility. The University, therefore, does concur with this finding.

Upon receiving notification of this management point, the Longwood University Office of Human Resources conducted I-9 compliance training of all HR personnel within the Human Resources Office (training conducted 2/7/08), and will conduct annual training for HR personnel from this point forward. Arrangements are being made to provide training sessions for all department HR partners who may have contact with new hires or who may be involved in the employment eligibility process. This training is expected to commence on or before July 2008 and will be conducted at least semi-annually. In addition, employment eligibility information has been made available on-line as of 2/12/08 via the Human Resources website. New procedures are currently being developed to provide for a continuous review of a sample of I-9 forms.

Sincerely,

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

Frank X. Moore III, Ph.D.
Vice President of Information and Instructional Technology Services and
Chief Information Officer

LONGWOOD UNIVERSITY

Farmville, Virginia

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