LONGWOOD UNIVERSITY

FINANCIAL STATEMENTS

For Year Ended June 30, 2012

LONGWOOD UNIVERSITY
ANNUAL FINANCIAL REPORT 2011 – 2012

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LONGWOOD UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

INSTITUTIONAL PROFILE

Longwood, located in Farmville, was founded in 1839 and is one of the oldest colleges in Virginia. It was the first Virginia public institution of higher education for women. In 2002, it officially became Longwood University. As the only four-year public institution in south central Virginia, Longwood serves as a catalyst for regional prosperity and advancement.

Historically, Longwood has been a leader in the education of future teachers. It continues that leadership today while also offering strong programs in liberal arts and sciences, business and in professional and pre-professional programs. Longwood University is a coeducational, comprehensive institution offering more than 100 majors, minors and concentrations to over 4,800 students. Longwood University educates Virginians, with over 95 percent of the student body coming from the Commonwealth, and is a residential campus with over 70 percent of its undergraduate students living in University managed housing.

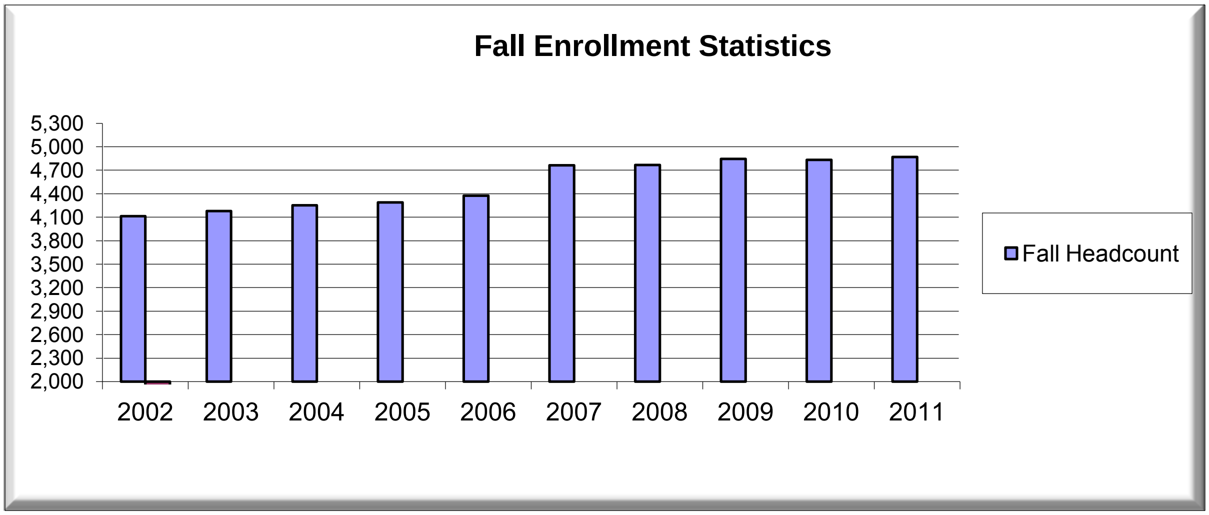
Building upon its strong foundation in the liberal arts and sciences, the University provides an environment in which exceptional teaching fosters student learning, scholarship and achievement. Longwood is dedicated to the development of citizen leaders who are prepared to make positive contributions to the common good of society. The University requires all students, in order to graduate, to participate in an internship related to their major or conduct a significant research project working with a faculty member on a major-related topic. The University prides itself on being a public institution with a "private" feel, its student/faculty ratio of 18 to 1, and the vast educational and social opportunities afforded its students.

Longwood University is for the 14th straight year ranked among the best colleges in the annual *U.S. News & World Report* survey. This year's "Best Colleges" report ranks Longwood No. 10 in the Top Public Schools category for Regional Universities in the South. Among all Regional Universities in the South, including private institutions, Longwood is ranked in the top tier at No. 29. Additionally, *The Princeton Review*, an education services company, selected Longwood as one of 135 institutions it recommends in its "Best in the Southeast" section of its *2012 Best Colleges: Region by Region* survey. *The Princeton Review* also selected Longwood one of 75 public institutions to be featured in its book, *The Best Value Colleges: 2011 Edition*. For the second consecutive year, Longwood was included as one of the best colleges in the United States in the annual survey published by *Forbes* magazine.

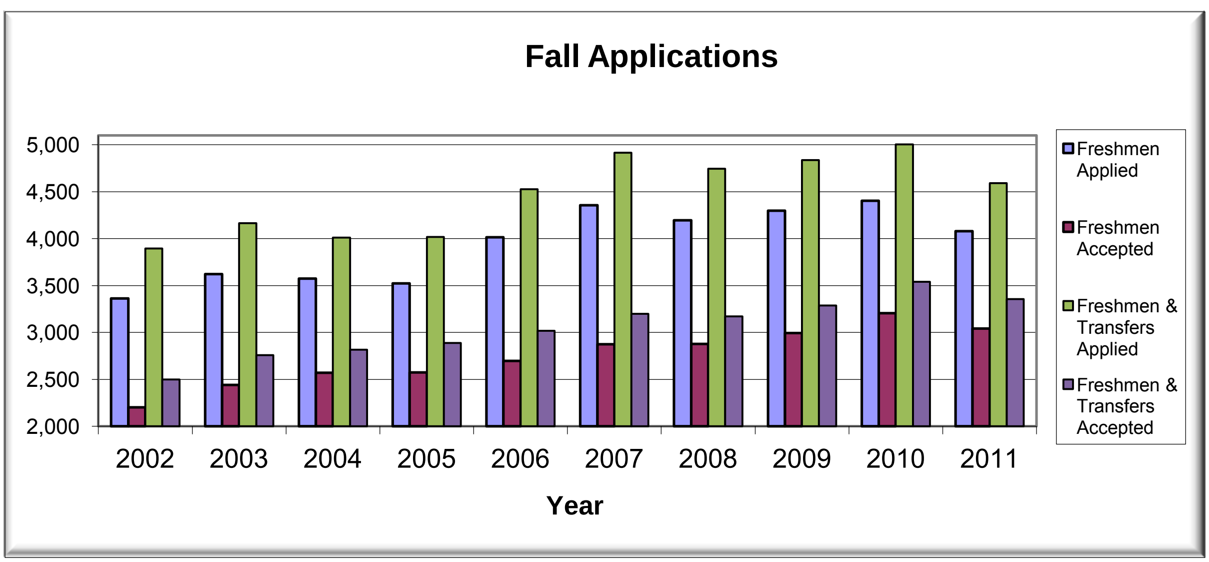
Longwood is an agency of the Commonwealth of Virginia and is, therefore, included as a component unit in the State's Comprehensive Annual Financial Report (CAFR). The thirteen members of Longwood's Board of Visitors govern University operations. Members of the Board are appointed by the Governor of Virginia.

ENROLLMENT AND ADMISSIONS

A significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Headcount enrollment has increased from 4,114 in fall 2002 to 4,869 in fall 2011. There was an increase of 38 from fall 2010 to fall 2011.



The fall 2011 entering freshmen class remained academically competitive with a grade-point average of 3.5, an average SAT score of 980 - 1120, and an average ACT score of 21 - 25. Although freshman applications decreased from 4,402 in fall 2010 to 4,080 in fall 2011, Longwood enrolled its largest class in history in the fall of 2011.



FINANCIAL OVERVIEW

Management's Discussion and Analysis (MD&A) is a supplement to the University's financial statement designed to assist readers in understanding the financial information presented. This MD&A provides an analysis of the institution's financial position and performance during the fiscal year ended June 30, 2012, with comparative information presented for the fiscal year ended June 30, 2011, where applicable. 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, research and public service. Net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs.

This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the accompanying financial statements and notes that follow. The financial statements, notes and this discussion are the responsibility of management. The financial statements were prepared in accordance with applicable pronouncements and statements of the Governmental Accounting Standards Board (GASB). GASB principles establish standards for external reporting for public colleges and universities. The University's financial report is comprised of three basic financial statements and related notes. Those statements include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The aforementioned statements are summarized and analyzed in the MD&A.

The University's affiliated foundations are also included in these statements consistent with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement No. 14. The University has two foundations whose financial information is presented in the statements under the columns titled "Component Unit". While affiliated foundations are not under the direct control of the University's Board of Visitors, this presentation provides a more holistic view of resources available to support the University and its mission. The foundations are not part of this MD&A; however, additional detail regarding their financial activities can be found in the **Notes to Financial Statements**. Transactions between the University and these component units have not been eliminated in the financial statements.

Summary of the Change in Net Assets

	Year Ended June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Total Operating Revenues	$ 78,104,952	$ 73,458,253	$ 4,646,699	6.33%
Total Operating Expenses	111,172,561	101,031,311	10,141,250	10.04%
Operating Loss	(33,067,609)	(27,573,058)	(5,494,551)	-19.93%
Net Nonoperating Revenues (Expenses)	30,346,817	29,235,703	1,111,114	3.80%
Other Revenue	9,007,951	19,268,563	(10,260,612)	-53.25%
Total Increase/(Decrease)	$ 6,287,159	$ 20,931,208	$ (14,644,049)	-69.96%

On a summary basis, operating revenues increased by $4.6 million or 6% from fiscal year 2011 to fiscal year 2012. Operating expenses increased $10.1 million or 10% from fiscal year 2011 to fiscal year 2012.

The operating loss was offset by $30.3 million in net non-operating revenues and expenses and $9 million in other revenues. Net non-operating revenues and expenses consisted of $25.9 million state appropriations, $3.1 million in higher education fiscal stabilization revenue, $3.7 million in Pell revenue, $375,000 in insurance, and $492,204 in investment revenue offset by interest on capital asset related debt of $2.9 million and losses on disposal of capital assets of $303,010.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the institution. 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, 2012. 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 related debt," depicts the University's equity in property, plant, and equipment, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The second 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 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 institution.

SUMMARY OF THE STATEMENT OF NET ASSETS

	Year Ended June 30,		Increase/(Decrease)	
	2012	**2011**	**Amount**	**Percent**
Assets:				
Current assets	$ 50,019,966	$ 47,810,651	$ 2,209,315	4.62%
Noncurrent assets:				
Restricted cash and cash equivalents	8,306,080	10,575,886	(2,269,806)	-21.46%
State Appropriations	1	1	-	0.00%
Capital Assets, net	207,849,140	205,413,652	2,435,488	1.19%
Other	960,802	943,748	17,054	1.81%
Total noncurrent assets	217,116,023	216,933,287	182,736	0.08%
Total assets	267,135,989	264,743,938	2,392,051	0.90%
Liabilities:				
Current liabilities	14,866,643	15,344,187	(477,544)	-3.11%
Noncurrent liabilities	58,053,269	61,470,833	(3,417,564)	-5.56%
Total liabilities	72,919,912	76,815,020	(3,895,108)	-5.07%
Net assets:				
Invested in capital assets, net of related debt	151,917,172	147,863,879	4,053,293	2.74%
Restricted Expendable	1,769,748	1,820,611	(50,863)	-2.79%
Unrestricted	40,529,157	38,244,428	2,284,729	5.97%
Total net assets	$ 194,216,077	$ 187,928,918	$ 6,287,159	3.35%

EVALUATION OF STATEMENT OF NET ASSETS FOR FISCAL YEARS 2011 AND 2012

The University's total assets increased by $2.4 million between fiscal years 2011 and 2012. Current assets increased $2.2 million primarily due to an increase in cash and cash equivalents of $3.3 million, offset by a decrease of $458,827 in prepaid expenses, a decrease of $134,110 in due from Commonwealth, and a decrease of $470,986 in accounts receivable. Noncurrent assets increased by $182,736 primarily due to an increase in capital assets of $2,435,488 offset by a decrease in restricted cash and cash equivalents of $2,269,806 due to bond reimbursements from SNAP accounts. Construction in progress increased by $4.9 million, primarily due to the following capital projects: Steam Plant Phase III ($1.9 million) and Bedford Addition/Renovation ($2.5 million). Depreciable capital assets decreased $2.4 million due to new building and equipment additions of approximately $5.9 million, partially offset by current year depreciation of $8.5 million. Noncurrent liabilities decreased by $3.4 million due to debt service payments made during the fiscal year.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

In general, operating revenues are 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 Commonwealth directly receiving commensurate goods and services for those revenues.

SUMMARY OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended June 30,		Increase/(Decrease)	
	2012	2011	Amount	Percent
Operating revenues	$ 78,104,952	$ 73,458,253	$ 4,646,699	6.33%
Operating expenses	111,172,561	101,031,311	10,141,250	10.04%
Operating loss	(33,067,609)	(27,573,058)	(5,494,551)	19.93%
Nonoperating revenues/(expenses)				
State appropriations	25,930,048	27,963,458	(2,033,410)	-7.27%
Higher education stabilization revenue	3,051,624	313,517	2,738,107	873.35%
Pell grant revenue	3,749,447	3,737,974	11,473	0.31%
Other operating and nonoperating revenues/expenses	(2,384,302)	(2,779,246)	394,944	-14.21%
Net nonoperating revenues and expenses	30,346,817	29,235,703	1,111,114	3.80%
Income/(loss) before other revenues and reductions	(2,720,792)	1,662,645	(4,383,437)	-263.64%
Capital appropriations	8,971,890	19,174,921	(10,203,031)	-53.21%
Other gifts	36,061	93,642	(57,581)	-61.49%
Total other revenues	9,007,951	19,268,563	(10,260,612)	-53.25%
Total increase/(decrease) in net assets	6,287,159	20,931,208	(14,644,049)	-69.96%
Net assets, beginning of year with restatement	187,928,918	166,997,710	20,931,208	12.53%
Net assets, end of year	$ 194,216,077	$ 187,928,918	$ 6,287,159	3.35%

EVALUATION OF STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR FISCAL YEARS 2011 AND 2012

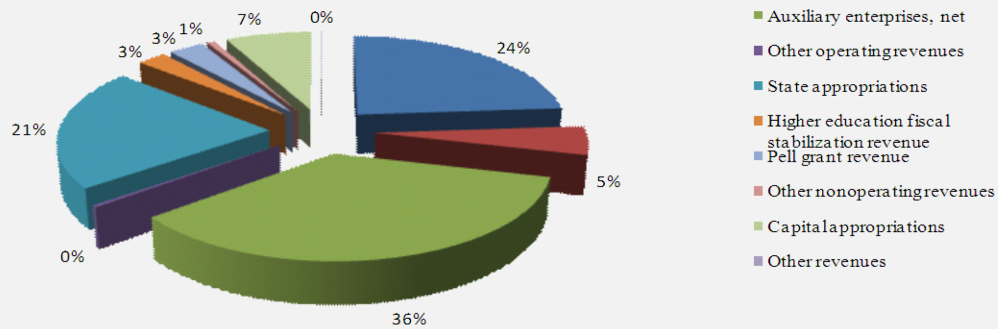
Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of 6.3% totaling $4.6 million from fiscal year 2011 to fiscal year 2012 due to an increase in student tuition and fee charges. Enrollment between fiscal year 2011 and fiscal year 2012 remains relatively flat, as is evidenced in the previous **Enrollment and Admissions** section.

Overall, total operating expenses increased approximately $10.1 million in fiscal year 2012 compared to the previous fiscal year representing a 9.9% increase.

Net non-operating revenues increased approximately $1.1 million. Higher education fiscal stabilization revenue increased $2.7 million and insurance revenues increased $0.4 million; partially offset by a decrease in state operating appropriation revenue of $2.0 million. Other revenues decreased by $10.3 million primarily due to a decrease in state capital appropriation revenue of $10.2 million

SUMMARY OF REVENUES

For the year ended June 30, 2012



Summary of Revenues
Increase (Decrease) in Revenues
For the years ended June 30, 2012 and 2011

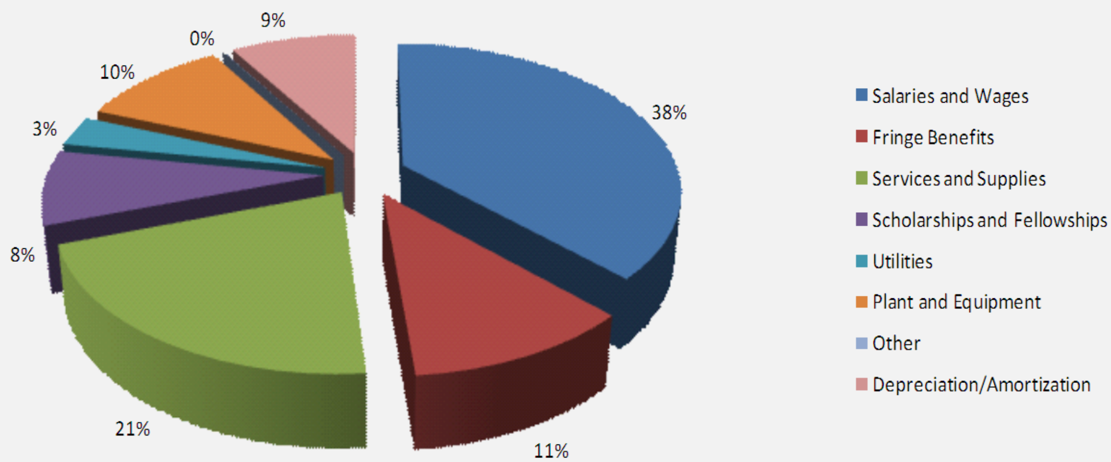
	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating revenues:				
Student tuition and fees, net	$ 28,764,659	$ 25,517,872	$ 3,246,787	12.72%
Grants and contracts	6,062,518	6,715,243	(652,725)	-9.72%
Auxiliary enterprises, net	42,843,903	40,897,859	1,946,044	4.76%
Other operating revenues	433,872	327,279	106,593	32.57%
Total operating revenues	78,104,952	73,458,253	4,646,699	6.33%
Nonoperating revenues:				
State appropriations	25,930,048	27,963,458	(2,033,410)	-7.27%
Higher education fiscal stabilization revenue	3,051,624	313,517	2,738,107	873.35%
Pell grant revenue	3,749,447	3,737,974	11,473	0.31%
Other nonoperating revenues	867,204	391,734	475,470	121.38%
Total nonoperating revenues	33,598,323	32,406,683	1,191,640	3.68%
Other revenues				
Capital appropriations	8,971,890	19,174,921	(10,203,031)	-53.21%
Other revenues	36,061	93,642	(57,581)	-61.49%
Total other revenues	9,007,951	19,268,563	(10,260,612)	-53.25%
Total revenues	$ 120,711,226	$ 125,133,499	$ (4,422,273)	-3.53%

SUMMARY OF EXPENSES

A summary of the University's operating expenses for the years ended June 30, 2012 and 2011 is shown below. Overall, total operating expenses increased approximately $10 million in fiscal year 2012 compared to the previous fiscal year. This represents a 9.9% increase.

SUMMARY OF OPERATING EXPENSES BY NATURAL CLASSIFICATION

For the year ended June 30, 2012

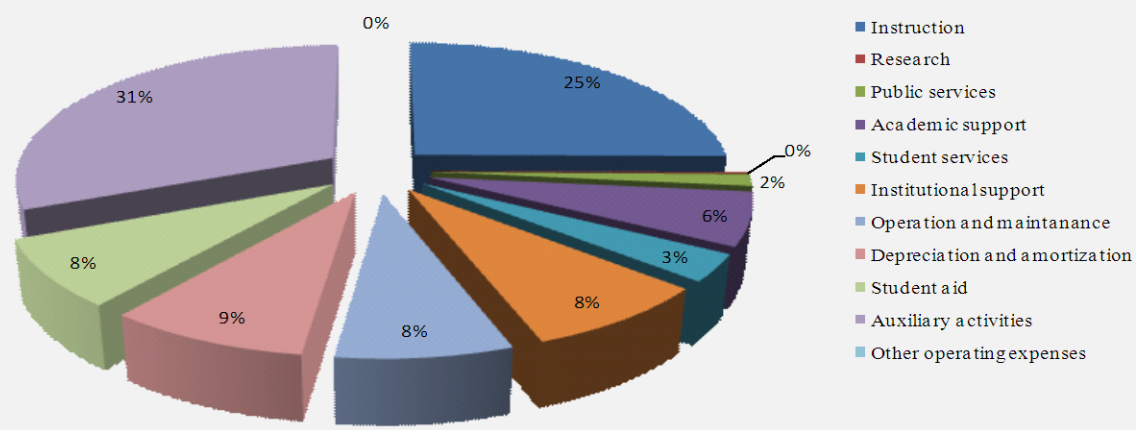


Operating Expenses by Natural Classification
For the years ended June 30, 2012 and 2011

			Increase/(Decrease)	
	2012	**2011**	**Amount**	**Percent**
Salaries and Wages	$ 41,719,353	$ 39,954,382	$ 1,764,971	4.4%
Fringe Benefits	12,339,775	12,710,332	(370,557)	-2.9%
Services and Supplies	23,400,146	18,610,122	4,790,024	25.7%
Scholarships and Fellowships	8,943,771	8,098,068	845,703	10.4%
Utilities	3,662,367	3,632,386	29,981	0.8%
Plant and Equipment	11,419,144	8,654,961	2,764,183	31.9%
Other	25,539	20,225	5,314	26.3%
Depreciation/Amortization	9,662,466	9,350,835	311,631	3.3%
Total Operating Expenses	$ 111,172,561	$ 101,031,311	$ 10,141,250	10.0%

SUMMARY OF OPERATING EXPENSES BY FUNCTION

For the year ended June 30, 2012



Operating Expenses by Function
For the years ended June 30, 2012 and 2011

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Operating expenses:				
Instruction	$ 27,953,727	$ 25,470,725	$ 2,483,002	9.7%
Research	126,607	39,484	87,123	220.7%
Public services	1,558,399	1,327,738	230,661	17.4%
Academic support	6,995,297	6,543,702	451,595	6.9%
Student services	3,593,739	3,552,154	41,585	1.2%
Institutional support	9,217,876	9,598,452	(380,576)	-4.0%
Operation and maintanance	8,467,439	6,991,011	1,476,428	21.1%
Depreciation and amortization	9,662,466	9,350,835	311,631	3.3%
Student aid	8,943,771	8,098,068	845,703	10.4%
Auxiliary activities	34,627,701	30,038,917	4,588,784	15.3%
Other operating expenses	25,539	20,225	5,314	26.3%
Total operating expenses	$ 111,172,561	$ 101,031,311	$ 10,141,250	10.0%

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, stimulus, and Pell grant revenues 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

	2012	2011	Increase/ (Decrease)
Cash Provided (used) by:			
Operating activities	$ (21,966,158)	$ (18,818,958)	$ (3,147,200)
Noncapital financing activities	32,832,155	32,374,025	458,130
Capital financing activities	(9,854,922)	(7,847,037)	(2,007,885)
Investing activities	26,098	29,138	(3,040)
Net increase/(decrease) in cash	1,037,173	5,737,168	(4,699,995)
Cash - Beginning of year	51,295,802	45,558,634	5,737,168
Cash - End of year	$ 52,332,975	$ 51,295,802	$ 1,037,173

EVALUATION OF STATEMENT OF CASH FLOWS FOR FISCAL YEARS 2011 AND 2012

For fiscal year 2012, significant sources of operating cash include student tuition and fees of $29.1 million, auxiliary enterprise receipts of $42.8 million, and grants and contracts of $6.1 million. Major operating uses of cash include payments for salaries, wages, and fringe benefits of $54.1 million and payments to suppliers and utilities of $26.2 million. Longwood received state appropriations for the University's educational and general programs and financial aid of $26.1 million.

CAPITAL AND DEBT ACTIVITIES

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 6 of the **Notes to Financial Statements** describes the University's significant investment in capital assets. During fiscal year 2012 total capital assets increased by $2,435,488 due to various ongoing capital projects such as the Bedford Addition/Renovation and Steam Plant Phase III.

Long-term debt decreased from $65,894,143 in 2011, to $62,155,113 in 2012 as a result of debt payments made during the fiscal year. The University utilizes the SCHEV formula (debt service to unrestricted expenditures and mandatory transfers) to calculate its debt ratio. This ratio was 7.2 percent at the end of fiscal year 2011 and 6.2 percent at the end of fiscal year 2012. Per Board-approved policy, the University will maintain a debt burden ratio of 9 percent or less.

ECONOMIC OUTLOOK

As one of Virginia's comprehensive higher education institutions, Longwood is dependent upon ongoing financial and political support from the Commonwealth. The University's economic outlook is tied to various factors, including our ability to recruit and retain students, our State funding (in the form of both operating and capital construction appropriations), and our ability to raise revenue through tuition and fees, grants and contracts, and private funds. A review of the economic factors significant to the State of Virginia may be found in the Commonwealth's Comprehensive Annual Financial Report.

The need to recruit and retain quality students during this period of rising costs and difficult economic conditions is a concern. Longwood continues to be sensitive to the issue of affordability and accessibility. The Commonwealth has begun to slowly emerge from a historic revenue downturn. For the third straight year, Virginia posted a budget surplus. However, the State's budget situation and the broader national economy is still a cause for apprehension. A negative outlook for federal spending poses a significant threat on revenue growth in the Commonwealth.

Longwood's most significant challenge has been managing the series of reductions in State general fund support that occurred between FY 2008 and FY 2012; support for higher education is not likely to return to prior levels. The State's contribution to the cost of education in 2012-2013 is 52 percent, leaving Virginia undergraduates to pay 48 percent of the cost of their education despite the State's cost-share goal of 67/33 percent.

The 2012-2014 biennial budget includes approximately $150 million total additional general fund support for public higher education. Additional general fund support mitigated FY 2013 tuition increases, and made it possible for Virginia undergraduate students to encounter the lowest tuition increases in a decade – total costs increased an average of 4.1 percent in 2012-2013 at Virginia public colleges and universities. The Governor has made higher education a top priority of his administration, and believes that investing in higher education is an investment in Virginia's economic future. Working with the General Assembly, he established the Virginia Higher Education Opportunity Act of 2011 that focuses on three areas of higher education restructuring: (1) increased enrollment and graduation, especially in STEM and healthcare; (2) a sustainable reform-based investment provision with a new funding model and the six-year plan to assist institutions and policymakers in implementing initiatives; (3) affordable access via the new funding model for stable and predictable state funding support and the establishment of a Revenue Stabilization Fund to help buffer higher education funding against future cuts that produce sudden and sharp tuition spikes during economic downturns. The University will continue to examine the impacts of recommendations made by the Higher Education Advisory Committee.

Longwood University is committed to delivering its students exceptional educational and social opportunities, and will continue to employ cost containment and income enhancement techniques, to examine opportunities to reallocate funding, and to invest in strategic initiatives. Long-term planning is critical to ensuring that the University not only protects its core academic programs, but also invests strategically in the future. Strategic priorities and initiatives include successful students, effective and satisfied faculty and staff, financial capacity, and value for our community. Management believes that Longwood has and will maintain a solid financial foundation. The University will continue to closely monitor its resources to ensure its ability to react to both internal and external factors that impact the institution's financial position.

FINANCIAL STATEMENTS

Longwood University
STATEMENT OF NET ASSETS
As of June 30, 2012

ASSETS	Longwood University	Component Unit: Longwood University Foundation, Inc.	Component Unit: Longwood University Real Estate Foundation
Current assets:			
Cash and cash equivalents (Note 3)	$ 44,026,895	$ 2,635,991	$ 14,369
Securities Lending - Cash and cash equivalents (Note 3)	315,369	-	-
Short-term investments (Note 3)	9,751	-	-
Accounts receivable, net of allowance $72,074 (Note 4)	1,257,572	5,338	-
Notes receivable (Note 4)	172,215	-	254,649
Contributions receivable, net (Note 18)	-	312,581	-
Due from the Commonwealth (Note 5)	1,906,047	-	-
Inventory	493,935	-	-
Prepaid expenses	1,838,182	5,622	25,019
Total current assets	$ 50,019,966	$ 2,959,532	$ 294,037
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	8,306,080	724,445	-
Restricted Appropriations Available/Due From Commonwealth	1	-	-
Unrestricted Investments	-	15,771,669	-
Restricted Investments	-	30,758,235	2,960,165
Other non-current assets	-	110,177	1,262,715
Notes receivable, net of allowance of $115,650	960,802	-	294,350
Contributions Receivable, net (Note 18)	-	2,989,184	-
Non-depreciable capital assets, net (Note 6)	41,530,621	4,795,714	10,595,838
Depreciable capital assets, net (Note 6)	166,318,519	1,181,765	36,958,923
Total noncurrent assets	217,116,023	56,331,189	52,071,991
Total assets	$ 267,135,989	$ 59,290,721	$ 52,366,028
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 7)	8,235,784	188,039	562,419
Line of Credit	-	-	7,732,106
Deferred revenue	1,677,278	-	-
Obligations under securities lending	325,120	-	-
Deposits held in custody for others	526,617	-	-
Long-term liabilities - current portion net of deferred loss of $198,340 (Note 8)	4,101,844	100,121	869,945
Total current liabilities	14,866,643	288,160	9,164,470
	-	-	-
Noncurrent liabilities - net of deferred loss of $1,970,284 (Note 8)	58,053,269	1,021,108	56,864,051
Total liabilities	$ 72,919,912	$ 1,309,268	$ 66,028,521
NET ASSETS			
Invested in capital assets, net of related debt	151,917,172	5,939,829	(1,840,441)
Restricted:			
Nonexpendable:			
Permanently restricted	-	31,586,367	-
Expendable:		-	
Loans	372,261	-	-
Temporarily restricted	-	14,492,576	-
Other	1,397,487	-	-
Unrestricted	40,529,157	5,962,681	(11,822,052)
Total net assets	$ 194,216,077	$ 57,981,453	$ (13,662,493)

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, 2012

	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 $2,642,901	$ 28,764,659	$ -	$ -
Gifts and contributions	-	352,317	-
Federal grants and contracts	2,326,351	-	-
State grants and contracts	644,652	40,300	-
Nongovernmental grants and contracts	3,091,515	-	-
Auxiliary enterprises, net of scholarship allowances of $3,812,496	42,843,903	-	-
Other operating revenues	433,872	294,111	6,007,582
Total operating revenues	78,104,952	686,728	6,007,582
Operating expenses (Note 13)			
Instruction	27,953,727	-	-
Research	126,607	-	-
Public service	1,558,399	-	-
Academic support	6,995,297	-	-
Student services	3,593,739	-	-
Institutional support	9,217,876	2,056,556	896,402
Operation and maintenance - Plant	8,467,439	-	1,662,293
Depreciation	8,515,014	-	1,851,135
Amortization	1,147,452	-	63,151
Student aid	8,943,771	1,228,247	-
Auxiliary activities	34,627,701	-	-
Administrative and fundraising	-	793,168	-
Other expenditures	25,539	-	20,514
Total operating expenses	111,172,561	4,077,971	4,493,495
Operating gain (loss)	(33,067,609)	(3,391,243)	1,514,087
Nonoperating revenues (expenses):			
State appropriations (Note 12)	25,930,048	-	-
Higher Education Stabilization Revenue	3,051,624	-	-
Pell Grant Revenue	3,749,447	-	-
Insurance Revenue	375,000	-	-
Investment revenue	492,204	888,266	20,108
Interest on Capital Asset-Related Debt	(2,948,496)	-	(2,214,768)
Unrealized loss on swap	-	-	(5,424,481)
Decrease in split interest agreements	-	(181,827)	-
Realized gain on investments	-	1,948,227	-
Unrealized loss of investments	-	(1,981,418)	-
Loss on disposal/sale of plant assets	(303,010)	-	-
Net nonoperating revenues	30,346,817	673,248	(7,619,141)
Income before other revenues, expenses, gains or losses	(2,720,792)	(2,717,995)	(6,105,054)
Contributions to permanent endowments	-	525,695	-
Contributions to term endowments	-	2,535,740	-
Capital appropriations (Note 5)	8,971,890	-	-
Other Gifts	36,061	-	-
Net other revenues	9,007,951	3,061,435	-
Increase (decrease) in net assets	6,287,159	343,440	(6,105,054)
Net assets - Beginning of year	187,928,918	57,638,013	(7,557,439)
Net assets - End of year	$ 194,216,077	$ 57,981,453	$ (13,662,493)

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

Longwood University
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Student tuition and fees	$ 29,133,765
Grants and contracts	6,126,472
Auxiliary enterprises	42,817,043
Payments to employees	(54,147,488)
Payments to suppliers and utilities	(26,216,242)
Payments for operation and maintenance of facilities	(11,132,091)
Payments for scholarships and fellowships	(8,943,771)
Collection of loans to students	(10,649)
Other operating receipts	432,750
Payments for other expenses	(25,947)
Net cash provided (used) by operating activities	(21,966,158)
Cash flows from noncapital financing activities:	
State appropriations	26,073,232
Other non-operating	6,801,071
Change in agency balances	(42,148)
Net cash provided (used) by noncapital financing activities	32,832,155
Cash flows from capital financing activities:	
Capital appropriations	9,138,725
Acquisition and construction of capital assets	(12,690,907)
Proceeds from capital debt	54,000
Principal paid on capital-related debt, leases, and installments	(3,785,602)
Interest paid on capital-related debt, leases, and installments	(2,946,138)
Insurance payments	375,000
Net cash provided (used) by capital financing activities	(9,854,922)
Cash flows from investing activities:	
Investment/interest revenue	26,098
Net cash provided (used) by investing activities	26,098
Net increase (decrease) in cash	1,037,173
Cash and cash equivalents - Beginning of the year	51,295,802
Cash and cash equivalents - End of the year	$ 52,332,975

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

Longwood University
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

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

Operating gain (loss)	$ (33,067,609)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	9,662,466
Changes in assets and liabilities:	
Receivables, net	470,986
Inventory	97,713
Prepaid expenses	428,358
Notes receivable, net	(10,649)
Accounts payable and accrued expenses	215,857
Deferred revenue	364,850
Deposits payable	(209,406)
Accrued compensated absences	81,276
Net cash provided (used) by operating activities	$ (21,966,158)

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

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NOTES TO FINANCIAL STATEMENTS

Longwood University
Financial Statement Footnotes
For the Year Ended June 30, 2012

1. REPORTING ENTITY

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

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

The University has two component units as defined by the Governmental Accounting Standards 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 18.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Financial Statement Presentation</u>

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

<u>Basis of Accounting</u>

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.

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as modified by GASB Statement 59, 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.

Prepaid Expenses

Prepaid expenses of the University include such items as insurance premiums, membership dues, and registrations for next fiscal year that were paid in advance, as well as publications, subscriptions, and contracts which include initial and renewal annual subscriptions that continue into the next fiscal year.

Inventories

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

Capital Assets

Capital assets consisting of land, buildings, equipment, infrastructure, and intangible assets are stated at cost or fair market value at date of donation. Library materials are valued at actual cost and average cost at time of donation. Construction in progress, equipment and intangibles in process are capitalized at actual cost as expenses are incurred. Equipment costing $5,000 or more with a useful life greater than one year is capitalized. Software related intangibles costing $25,000 or more and other intangibles costing $100,000 or more are capitalized. Renovation costs are capitalized when expenses total greater than $100,000. Normal repairs and maintenance are expensed in the year in which the expense is incurred.

Depreciation and amortization is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. The general range of estimated useful lives is 5 to 50 years for buildings and fixtures and 3 to 20 years for equipment. The estimated useful life of Library materials is 10 years. The general range of estimated useful lives for infrastructure is 5 to 30 years. The estimated useful life of software is 5 years; all other intangibles vary based on type and expected useful life.

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.

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 are related to the period after June 30, 2012.

	2012
Student tuition and related fees	$ 1,605,488
Auxiliary enterprise fees	71,790
Total	$ 1,677,278

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 leave pay-out policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

Federal Financial Assistance Programs

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

Under the Federal Direct Lending Program, the University receives funds from the U.S. Department of Education for Stafford and Parent PLUS Loans and disburses these funds to eligible students. The Direct Lending programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected in the federal grants and contracts total on the *Statement of Revenues, Expenses, and Changes in Net Assets.*

Net Assets

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

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

The University's restricted net assets are expendable. Expendable restricted net assets are resources that 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.

Income Taxes

The University, as a political subdivision of the Commonwealth of Virginia, is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, as amended.

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.

Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the Statement of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain government grants, such as Pell grants, and other federal, state, or nongovernmental programs are recorded as either operating or non-operating revenues in the University's financial statements. To the extent that such revenues are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

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 current and non-current liabilities (see Note 8). The Statement of Revenues, Expenses, and Changes in Net Assets shows the interest expense which is recognized as a non-operating expense when paid.

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, 2012, the carrying amount of cash with the Treasurer of Virginia was $43,711,852. The carrying amount of cash not held by the Treasurer of Virginia is $1,982,658. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2012, in the amount of $2,064,973 adjusted for reconciling items such as: outstanding checks and deposits in transit. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the University.

Appropriations Available

Appropriations available are no longer included in cash amounts. They are listed separately on the line item “Restricted Appropriations Available/Due from Commonwealth”. At June 30, 2012, the amount of appropriations available was $1.

Investments

The majority of University funds is held by the Treasurer of Virginia and, therefore, is not invested by the University. Local funds held by the University are available for investment, per the Board of Visitors approved investment policy. In FY 2012, local funds were not invested. Rather, they were held in a governmental checking account.

Concentration of Credit Risk

Concentration of credit risk requires the disclosures by amount and issuer of any investments in any one issuer that represent 5 percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2012, the University did not have any investments other than money market funds held by the Treasurer of Virginia; therefore, the University does not have a concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not invest in funds outside of investing bond proceeds in the State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP). These proceeds held by the Treasurer of Virginia are invested in money market funds and do not need to be categorized as to risk. At June 30, 2012, the carrying amount of the cash equivalents held in the SNAP program with the Bank of New York was $4,468,897 and with the Treasurer of Virginia was $2,169,568.

Foreign Currency Risk

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

Securities Lending Transactions

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

Securities Lending Balances as of June 30, 2012:

Unrestricted cash equivalents	$	315,369
Short term investment		9,751
Total Securities Lending	$	325,120

4. ACCOUNTS AND NOTES RECEIVABLE

Accounts receivable consisted of the following at June 30, 2012:

Student tuition and fees	$ 923,563
Library	4,476
Auxiliary enterprises	198,581
Federal, state, and nongovernmental grants and contracts	203,026
Total	$ 1,329,646
Less: Allowance for doubtful accounts	(72,074)
Net accounts receivable	$ 1,257,572

Notes Receivable consisted of the following at June 30, 2012:

Current portion:	
Federal student loans	$ 172,215
Non-current portion:	
Federal student loans	1,076,452
Less allowance for doubtful accounts	(115,650)
Net non-current notes receivable	$ 960,802

5. COMMONWEALTH EQUIPMENT AND CAPITAL PROJECT REIMBURSEMENT PROGRAMS

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2012, funding has been provided to the University from two programs: general obligation bonds [code section 9 (c)] and 21st Century program that is managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the university and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The *Statement of Revenues, Expenses, and Changes in Net Assets* includes amounts listed below for the year ended June 30, 2012, in the "Capital Appropriations" line item for facilities obtained with funding under these two programs.

Capital Appropriations	
General obligations bonds 9(c)	$ 61,591
VCBA 21st Century program	8,910,299
Total Capital Appropriations	$ 8,971,890

The line item, "Due from the Commonwealth," on the *Statement of Net Asset* for the year ended June 30, 2012, represents pending reimbursements from the follow programs:

Small Purchase Charge Card Rebate	$ 54,918
Interest Earnings on Tuition & Fees	120,991
21st Century Bonds	1,711,486
General Obligation Bonds	18,652
Total Due from Commonwealth of Virginia	$ 1,906,047

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2012, is presented as follows:

	Beginning Balance 6/30/2011	Additions	Reductions	Ending Balance 6/30/2012
Non-Depreciable Capital Assets				
Land	$ 4,919,493	$ 21,392	$ -	$ 4,940,885
CIP	31,695,200	10,617,068	(5,722,532)	36,589,736
Total Non-Depreciable Capital Assets	36,614,693	10,638,460	(5,722,532)	41,530,621
Depreciable Capital Assets				
Buildings	197,793,723	3,288,819	(723,978)	200,358,564
Equipment	14,092,844	2,624,625	(399,748)	16,317,721
Infrastructure	42,416,290	947,937	-	43,364,227
Library Materials	12,978,490	486,869	(198,832)	13,266,527
Software	5,866,355	238,226	-	6,104,581
Total Depreciable Capital Assets, Cost	273,147,702	7,586,476	(1,322,558)	279,411,620
Accumulated Depreciation				
Buildings	58,262,600	4,916,004	(326,568)	62,852,036
Equipment	8,965,223	1,274,916	(392,707)	9,847,432
Infrastructure	22,907,736	1,823,324	-	24,731,060
Library Materials	10,321,553	500,770	(198,832)	10,623,491
Software	3,891,631	1,147,451	-	5,039,082
Total Accumulated Depreciation	104,348,743	9,662,465	(918,107)	113,093,101
Depreciable Capital Assets, Net	168,798,959	(2,075,989)	(404,451)	166,318,519
All Capital Assets, Net	$205,413,652	$8,562,471	($6,126,983)	$207,849,140

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2012:

Employee salaries, wages, and fringe benefits payable	$ 3,367,597
Vendors and suppliers accounts payable	3,166,342
Retainage payable	1,081,344
Interest payable	620,501
Total accounts payable and accrued liabilities	$ 8,235,784

8. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 9), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2012, is presented as follows:

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long Term Debt:					
9 (c)General Obligation Bonds	$ 22,683,767	$ 2,016,739	$ 4,035,912	$ 20,664,594	$ 1,316,436
Deferred Loss - Bond Refinance	(348,714)	(154,000)	(38,519)	(464,195)	(43,852)
Gain on Refunding	-	29,000		29,000	7,250
Unamortized Premium	1,066,832	352,176	134,729	1,284,279	135,110
	23,401,885	$ 2,243,915	4,132,122	21,513,678	1,414,944
VCBA Pooled Bonds/Notes Payable	38,395,000	10,535,000	12,940,000	35,990,000	2,050,000
Deferred loss	(395,304)	(1,350,000)	(40,875)	(1,704,429)	(154,488)
Unamortized Premium	1,576,875	2,161,136	397,610	3,340,401	293,649
	39,576,571	11,346,136	13,296,735	37,625,972	2,189,161
Installment Purchases	35,500	54,000	35,500	54,000	13,500
	35,500	54,000	35,500	54,000	13,500
Total Long Term Debt	63,013,956	13,644,051	17,464,357	59,193,650	3,617,605
Accrued Compensated Absences	1,496,243	888,613	807,337	1,577,519	484,239
Federal Loan Program Contribution	1,383,944	-	-	1,383,944	-
Total Long Term Liabilities	$ 65,894,143	$ 14,532,664	$ 18,271,694	$ 62,155,113	$ 4,101,844

9. LONG-TERM INDEBTEDNESS

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

General Obligation Bonds payable at June 30, 2012, consist of the following:

	Interest Rates	Maturity	Amount
General obligation revenue bonds:			
Residence halls:			
Residence hall improvements, 2004-B 1	2.50 - 5.50%	2019	$ 1,281,828
Renovate housing facilities, 2005-A 1	3.50 - 5.00%	2025	995,000
Renovate housing facilities, 2006-B 1	4.00 - 5.00%	2026	2,925,000
Renovate housing facilities, 2007-B 1	4.00 - 5.00%	2027	5,070,000
Renovate housing facilities, 2008-B 1	4.00 - 5.00%	2028	4,015,000
2005 Refunded Portion Fac. Renovations, 2009,	4.00 - 5.00%	2022	1,340,000
2006 Refunded Portion Fac. Renovations, 2009,	4.00 - 5.00%	2022	1,655,000
2012 Housing Facilities Ren - 2005 Ref Portion,	4.00 - 5.00%	2024	544,804
Dining hall:			
Dining hall, series 2004-B 2	4.00 - 5.00%	2019	1,366,028
Dining hall, series 2012-A 1	4.00 - 5.00%	2016	1,471,935
Total bonds payable			$20,664,595

A summary of future principal requirements of long-term debt as of June 30, 2012 follows:

Year ending June 30	Principal	Interest
2013	$ 1,316,436	$ 983,402
2014	1,605,166	907,923
2015	1,684,361	833,394
2016	1,760,506	755,446
2017	1,378,931	668,102
2018-2022	6,504,391	2,368,057
2023-2027	6,059,804	868,119
2028-2031	355,000	17,750
Total	$ 20,664,595	$ 7,402,193
Less: Deferred Loss	(464,195)	
Add: Unamortized Premium	1,284,279	
Add: Gain on Refunding	29,000	
Total	$ 21,513,679	

VCBA Pooled Bonds 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 2002-A	3.00 - 5.25%	9/2022	$ 245,000
Fitness center 2003-A	2.00 - 5.00%	9/2023	440,000
Lacrosse/field hockey complex and phase II heating plant 2004A	3.00 - 5.00%	9/2024	735,000
Soccer fields, Lancer gym, and Blackwell, Fitness center 2005-A	3.00 - 5.00%	9/2025	3,580,000
Fitness center, Blackwell, and heating plant III, Baseball/softball 2006-A	3.00 - 5.00%	9/2026	6,015,000
Lacrosse/field hockey complex, baseball/ softball, heating plant phase II & III 2007-A	3.00 - 5.00%	9/2027	6,240,000
Fitness center and parking garage 2007-B	3.00 - 5.00%	9/2019	1,865,000
Athletic offices, heating plant phase III Student union 2009-A	3.00 - 5.00%	9/2028	3,815,000
Fitness Center and parking garage 2010-B	3.00 - 5.00%	9/2022	2,520,000
Fitness Center, Lacrosse/field hockey, Soccer fields, Lancer gym, Blackwell and Heating Plant II 2012-A	3.00 - 5.00%	9/2024	10,535,000
Total notes payable			$ 35,990,000

A summary of future principal requirements of notes and loans payable as of June 30, 2012 follows:

Year ending June 30	Principal	Interest
2013	$ 2,050,000	$ 1,603,974
2014	2,130,000	1,540,810
2015	2,220,000	1,437,825
2016	2,310,000	1,331,219
2017	2,420,000	1,218,856
2018-2022	12,965,000	4,255,119
2023-2027	11,015,000	1,192,000
2028-2031	880,000	28,994
	35,990,000	12,608,797
Less: Deferred Loss	(1,704,429)	
Add: Unamortized Premium	3,340,401	
Total:	$ 37,625,972	

10. COMMITMENTS

Construction Contracts

As of June 30, 2012, outstanding commitments for capital outlay projects totaled approximately $17,622,733.

Operating Leases

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, 2012, was $493,899. The University has, as of June 30, 2012, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2013	$ 597,509
2014	287,107
2015	281,089
2016	264,160
2017	223,103
Total	$ 1,652,968

Installment Purchase Agreements

The University has entered into an installment purchase contract to finance the acquisition of software. The remaining length of the purchase agreement is one year. Payment on this commitment is as follows:

Fiscal Year	Installment Purchase
2013	$ 13,500
2014	13,500
2015	13,500
2016	13,500
Total	$ 54,000

Other Contractual Agreements

The University was committed to pay Longwood University Real Estate Foundation $6,102,131 pursuant to a support agreement related to student housing

(Lancer Park, Longwood Landings, and Longwood Village). The University was also contractually committed to payments totaling $136,561 relative to an energy performance contract and $88,500 for a CampusEAI software agreement. The University has, as of June 30, 2012, the following total future payments due under the above agreements:

Fiscal Year	Contractual Agreements
2013	$ 5,409,173
2014	838,125
2015	76,959
2016	49,103
2017	13,528
2018	13,948
2019	14,380
2020 - 2026	113,948
Total due:	$ 6,529,164

11. PRIOR YEAR DEFEASANCE OF DEBT

On March 7, 2012 the Commonwealth, on behalf of the University, issued $2,016,739 in General Obligation bonds, Series 2012-A with a true interest cost (TIC) of 1.5829% to advance refund $1,670,810 of an outstanding Series 2002-A and $545,000 of an outstanding Series 2005-A. The bonds were issued to provide funds to provide debt service savings for the Commonwealth. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The debt defeasance resulted in an accounting loss of $154,000 for the University. The defeasance will reduce the University's total debt service payments for these bonds by $250,587 over the next twelve years.

On March 6, 2012 the Commonwealth, on behalf of the University, issued $10,535,000 in VCBA bonds, Series 2012A to advance refund $1,770,000 of an outstanding Series 2003A, $3,355,000 of an outstanding Series 2004A, and $5,885,000 of an outstanding Series 2005A. The bonds were issued to provide funds to provide debt service savings for the Commonwealth. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. The debt defeasance resulted in an accounting loss of $1,350,000 for the University. The defeasance will reduce the University's total debt service payments for these bonds by $891,422 over the next twelve years.

In addition to the 2002-A, 2003A, 2004-A, and 2005-A, certain 2009-A, 2008-B, 2006-A, and 2004-B Higher Education Bonds were defeased by the

University in prior years. As with the 2012-A 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, 2012 $20,714,595 of the defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2012, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the Virginia Acts of Assembly, Chapter 890.

Original appropriation:	
Educational and general programs	$ 21,752,100
Student financial assistance	3,784,818
Supplemental adjustments:	
Central Fund appropriation transfers	215,007
VIVA	8,611
Military Survivors	16,000
Carryforward	2,011
SVRTC	108,905
2 - Year Transfer Grant	65,000
CSAP	142,264
HEETF Lease Payment	(54,746)
Capital Out-of-State Fee	(120,600)
Capital Out-of-State Fee Adjustment	12,690
FY 2011 Reversion	(2,012)
Adjusted appropriations	$ 25,930,048

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/ Amortization	Total
Instruction	$ 18,748,165	$ 4,963,968	$ 1,860,116	$ -	$ 6,171	$ 2,375,307	$ -	$ -	$ 27,953,727
Research	66,421	1,291	53,953	-	-	4,942	-	-	126,607
Public service	941,257	238,549	347,645	-	2,573	28,375	-	-	1,558,399
Academic support	3,639,139	1,005,668	1,701,457	-	660	648,373	-	-	6,995,297
Student services	2,211,643	727,427	581,151	-	4,352	69,166	-	-	3,593,739
Student aid	-	-	-	8,943,771	-	-	-	-	8,943,771
Institutional Support	4,353,986	2,287,795	2,029,860	-	113,370	432,865	-	-	9,217,876
Operation & Maintenance of Plant	2,326,681	1,106,747	2,210,130	-	2,039,601	784,280	-	-	8,467,439
Depreciation		-	-	-	-	-	-	8,515,014	8,515,014
Amortization	-	-	-	-	-	-	-	1,147,452	1,147,452
Auxiliary activities	9,432,061	2,008,330	14,615,834	-	1,495,640	7,075,836	-	-	34,627,701
Other Expenses	-	-	-	-	-	-	25,539	-	25,539
Total	$ 41,719,353	$ 12,339,775	$ 23,400,146	$ 8,943,771	$ 3,662,367	$ 11,419,144	$ 25,539	$ 9,662,466	$ 111,172,561

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 $1,559,755 for the year ended June 30, 2012. For fiscal year 2012 the rate was 6.58 percent. Contributions to the VRS were calculated using a base salary amount of approximately $23,206,080 for the fiscal year ended June 30, 2012. The

University's total payroll was approximately $41,731,086 for the year ended June 30, 2012.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in two optional retirement plans, which include: Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF) and Fidelity. These are defined contribution plans where retirement benefits received are based upon employer and employee contributions plus interest and dividends. Total contributions to employees who became members prior to July 1, 2010, were 10.4 percent (employer paid). Total contributions to employees who became members on or after July 1, 2010, were 13.5 percent (8.5 percent employer paid and 5 percent employee paid).

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 $1,389,915 for the year ended June 30, 2012. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $13,630,692.

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 $188,960 for the fiscal year ended June 30, 2012.

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. Information relating to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. CONTINGENCIES

Longwood University receives assistance from non-State grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements, including the expenditure of resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of Longwood University. As of June 30, 2012, Longwood University estimates that no material liabilities will result from such audits.

17. RISK MANAGEMENT

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

18. COMPONENT UNITS

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

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

Foundation, Inc. and Longwood Real Estate Foundation in the body of the financial statements as component units.

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

The Longwood University Foundation's financial statements include the accounts of the Foundation and its supporting organizations, the Duvahl Ridgeway Hull and Andrew W. Hull Charitable Foundation and the Hull Springs Farm Foundation. The Foundation receives 85% of the Hull Foundations net income. The Hull Foundation includes two charitable remainder trusts and other investments. The Foundation's financial statements are audited by Cherry, Bekaert, & Holland, LLP. Complete financial statements can be obtained from the Longwood University Foundation at 201 High Street, Farmville, Virginia 23909.

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

The Longwood University Real Estate Foundation's financial statements include the accounts of the Real Estate Foundation and its wholly owned subsidiaries, Longwood Housing Foundation, LLC, Longwood Woodland Pond Housing Foundation, LLC, Longwood Woodland Pond Development Foundation, LLC, and Longwood North Campus Housing Foundation, LLC (collectively, the "Foundation"). The Real Estate Foundation's financial statements are audited by Dixon Hughes Goodman. Complete financial statements can be obtained from the Longwood University Real Estate Foundation at 515 Main Street, Farmville, VA 23909.

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Investments of the Longwood Foundation

Investments and the beneficial interest in the perpetual trust portfolio are composed of the following at June 30, 2012:

	2012	
	Cost	Market Value
Cash and cash equivalents	$ 3,360,436	$ 3,360,436
Investments:		
Government and corporate obligations	121,284	120,383
Corporate stocks	672,377	746,705
Hedge Funds	44,965,278	43,536,871
Total investments	45,758,939	44,403,959
Beneficial interest in perpetual trust:		
Cash and cash equivalents	70,611	70,611
Government bonds and corporate obligations	755,468	771,665
Corporate stocks	1,035,427	1,021,830
Real estate funds	274,263	261,839
Total beneficial interest in perpetual trust	2,135,769	2,125,945
Total	$ 51,255,144	$ 49,890,340

Investment fees netted against investment income for the years ended June 30, 2012, and 2011 were $411,700 and $686,086 respectively.

In April 2010, the Foundation became a partner in the Richmond Fund, LP, a Virginia limited partnership (the "Fund") managed by Spider Management Company, LLC, a Virginia limited liability company and wholly-owned subsidiary of the University of Richmond. The Fund is only available to tax-exempt organizations described in section 501(c) of the Internal Revenue Code to which contributions may be made that are deductible under Code section 170 and are "accredited investors" within the meaning set forth in Rule 501 (a) of Regulation D under the Securities Act of 1933, as amended.

The Fund's investment objective is to provide steady gains during market upswings through a diverse array of public/private and domestic/international investments, while preserving capital during market downturns. The Fund is invested as if it is part of the endowment of the University of Richmond, and the time weighted returns for the Fund and the University of Richmond are blended on a quarterly basis. The assets of the Fund, when combined with the University of Richmond's endowment assets on a pro forma basis, will be invested in accordance with the University of Richmond's Investment Policy Statement. The Foundation's initial investment in the Fund is subject to an initial five-year lockup period and certain withdrawal restrictions.

At June 30, 2012, the Fund consisted of 24 partners and the Foundation's interest in the Fund represents 3.80% of the total partnership capital. The Fund is audited on a semi-annual basis on June 30 and December 31.

Longwood University Foundation Beneficial Interest in Perpetual Trust

The Longwood University Foundation is the beneficiary of the annual income earned from the Nellie Ward Nance Trust (Nance Trust) held by Wells Fargo. The assets of the Nance Trust are not in the possession or under control of the Foundation. At June 30, 2012 and 2011 the Nance Trust had market value of $2,125,945 and $2,238,402, respectively, which is recorded in the consolidated statement of financial position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2012, were $88,809 and ($112,458); and $99,402 and $278,674 for the year ended June 30, 2011.

Investments of the Longwood Real Estate Foundation

Investments in real estate included the Watson house at a total cost of $640,403 as of December 31, 2010. During 2011, the property was reclassified into property and equipment and began being depreciated. The University plans to purchase the property from the Real Estate Foundation at some unspecified future date.

B. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Longwood University Foundation contributions receivable consisted of the following at June 30, 2012:

	2012
Cash pledges expected to be collected in:	
Less than one year	$ 361,287
One year to five years	1,526,306
Over five years	3,722,262
	5,609,855
Less:	
Discount to net present value at 5% for current year pledge 3-6% net present value for prior year pledges	(2,308,090)
Net Contributions Receivable	$ 3,301,765

The ownership of contributions receivable for each class of net assets as of June 30, 2012 is as follows:

Temporarily Restricted	$ 2,212,537
Permanently Restricted	1,089,228
Total	$ 3,301,765

During the year ended June 30, 2012, management determined that $944,942 of contributions receivable at June 30, 2011 should have been classified as temporarily restricted. This amount has been reclassified above in the prior year.

At June 30, 2012 and 2011, the Foundation had received bequests and other intentions to give of approximately $9,587,422 and $4,817,422 respectively. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors.

The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts uncollectible, they will be charged to operations when that determination is made.

C. CAPITAL ASSETS

Longwood University Foundation

Land	$ 1,229,185
Longwood Center for Visual Arts Collection	3,566,529
Buildings	1,441,071
Property and Equipment	40,410
Vehicles	124,275
Total cost of capital assets	6,401,470
Less: accumulated depreciation	(423,991)
Total capital assets, net	$ 5,977,479

Longwood University Real Estate Foundation

Land	$ 7,472,657
Land Improvements	10,752,339
Buildings	31,790,613
Furniture and Equipment	2,247,306
Leasehold Improvements	448,999
Construction in Progress	3,123,181
Total cost of capital assets	55,835,095
Less: accumulated depreciation	(8,280,334)
Total capital assets, net	$ 47,554,761

D. LONG-TERM INDEBTEDNESS

Longwood University Real Estate Foundation

Long-term debt is as follows at December 31, 2011:

Variable Rate Educational Facilities Revenue Bonds Series 2007, thirty (30) year term. Interest is subject to a fixed-to-floating interest rate swap agreement which requires fixed rate payments of 4.065% on an initial notional amount of $40,745,000. The swap arrangement expires September 1, 2036, covering the life of the bonds	$ 40,225,000
Deed of trust note payable, due in monthly payments of principal of $10,330 plus monthly interest payments of 2.25% plus LIBOR (2.51% at December 31, 2010), maturing 7/5/2014	2,179,542
Promissory note, 3.50%, due in monthly payments of principal and interest of $11,651, maturing 12/30/2016	2,000,000
Deed of trust note payable, 7.09%, due in monthly payments of principal and interest of $1,687, maturing 6/5/2014	46,301
Deed of trust note payable, 7.0 percent, due in monthly payments of principal and interest of $1,742, maturing 2/14/2013	20,228
Deed of trust note payable, 7.09 percent, due in monthly payments of principal and interest of $5,074, maturing 2/7/2032	666,458
	45,137,529
Less - current portion	(869,945)
	$ 44,267,584

During 2007, the Longwood University Real Estate Foundation received financing through the issuance of Educational Facilities Variable Rate Revenue Bonds (Longwood Student Housing Projects) Series 7 through the Industrial Development Authority of the town of Farmville. The 2007 bonds were issued in the amount of $41,855,000 to refund $7,840,000 in Educational Facilities Variable Rate Demand Revenue Bonds, Series 2006A and $23,580,000 in Educational Facilities Variable Rate Demand Revenue Bonds, Series 2006B and to finance the acquisition, construction, and equipping of student housing and a pedestrian bridge between student housing and the University campus. The loan agreement is collateralized by a deed of trust which grants the credit institution a first priority lien on and a security interest in each of the property and equipment collateralized. The 2007 bonds mature on December 7, 2037, but are subject to optional redemption and tender for purchase prior to maturity.

The 2007 bonds have a weekly variable interest rate as determined by the remarketing agent. The rate at December 31, 2011 and 2010 was .28% and .42% respectively. For as long as the bonds bear interest at a weekly rate, the Real Estate Foundation shall pay the remarketing agent an ongoing remarketing fee. Total remarketing fees paid for 2011 and 2010, were $35,052 and $46,893, respectively.

The Real Estate Foundation has a Standby Bond Purchase Agreement (SBPA) with the Liquidity Facility Provider (Bank). Under the SBPA, the Bank agrees to purchase eligible bonds that have not been remarketed. The bonds contain a demand feature that allows the bondholders to put the bonds either weekly or daily back to the remarketing agent based on the bondholders' interest rate election on the bonds held. If the bonds tendered are not remarketed by the remarketing agent the Bank agrees to purchase eligible bonds, which may then be remarketed at a later time. This agreement is set to expire on December 7, 2012, but the expiration date can be extended at the request of the Real Estate Foundation for an additional period not to exceed one year, which is subject to approval of the Bank. In the event of termination of the agreement by the Bank, the Real Estate Foundation shall repay in full all outstanding disbursements under the bond, together with accrued and unpaid interest thereon in ten consecutive equal semi-annual installments to the Bank beginning the next succeeding January 1 or July 1 following written notice.

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. The Foundation is required to deposit into the repair and replacement reserve account an amount equal to $150 per bed unit each year. By submitting a requisition to the Trustee, the Foundation may request withdrawals from this fund at any time, and there is no minimum balance requirement. These accounts are disclosed in Note 8 of the Longwood University Real Estate Foundation, LLC footnotes.

Under the bond agreement, the University will rent units in the projects only to students, faculty, and other persons under the same rental program it uses for its own student housing facilities. The agreement requires preferential treatments in that the University must assign all of its students in need of housing first to the Longwood Student Housing Projects, until 95% of the units in the Longwood Student Housing Projects have been filled.

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

The University will be charged with maintaining a Project Revenue account. Such funds are to be held by the University solely on behalf of the Real Estate 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 Real Estate Foundation.

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

Under the bonds and the deed of trust note ($2,179,542), the Real Estate Foundation is required to meet certain debt coverage ratios. As of December 31, 2011, management believes the Real Estate Foundation has met the required ratios.

Maturities under long-term debt are as follows:

2012	$ 869,945
2013	920,540
2014	2,797,303
2015	954,225
2016	2,735,914
Thereafter	36,859,602
Total	45,137,529
Less - current portion	(869,945)
	$ 44,267,584

The Real Estate Foundation executed a fixed-to-floating interest rate swap agreement in order to reduce its exposure to interest rate risk in connection with the variable rate bonds. The agreement requires fixed rate payments of 4.065% on a notional amount that approximates the outstanding principal of the bonds. The swap agreement expires September 1, 2036, covering the life of the bonds. The agreement is recorded at fair value which was $(12,596,467) at December 31, 2011. The swap is revalued each year and the change in value is reported in the consolidated statements of activities as a change in net assets. The Foundation is exposed to credit loss in the event of nonperformance by the other parties to the interest rate swap agreements. However, the Foundation does not anticipate nonperformance by the counterparties.

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 by a Trustee:

Debt service reserve account	$1,366,848
Repair and replacement account	890,423
Series 2007 Bond Fund	211,795
General fund	491,099
	$2,960,165

E. COMMITMENTS

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. The Foundation continues to lease the property to Longwood University on a month-to-month basis, with $20,000 of rental income recognized in each of the years ended June 30, 2012 and 2011.

The Foundation is leasing certain real estate under capital lease agreement for a term of five years. On October 1, 2009, the Foundation began subleasing the real estate to Longwood University under an operating sublease agreement, the terms of which provide for a current annual rental payment of $12, payable monthly through June 30, 2014. Rental income recognized under this sublease agreement totaled $12 in each of the years ended June 30, 2012 and 2011.

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. Dues of $49,124 and $45,625 were paid to the Association during 2011 and 2010, respectively.

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 $169,212 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 was August 1, 2011. The University has been paying this lease commitment directly to the Association. No amounts have been paid from the Real Estate Foundation during 2011 and 2010.

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

The Real Estate Foundation leases parking space from an unrelated entity for the Longwood Landings property. The lease requires monthly payments of $5,250 with a term that ended on May 21, 2010. This agreement is now month-to-month.

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

2012	$	262,084
2013		267,326
2014		272,673
2015		278,126
2016		283,688
Thereafter		108,981
Total	$	1,472,878

F. RISK MANAGEMENT

Longwood University Foundation

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

G. RELATED PARTY

Longwood University Foundation

The Foundation received contribution revenue from Board members in the amount of $249,321 for the year ending June 30, 2012. The amount of contributions receivable due from the Board members amounted to $952,008 at June 30, 2012.

In conjunction with its mission to support the activities and operations of Longwood University, the Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets leased to the University is $2,392,665 at June 30, 2012, including land on the consolidated statement of financial position.

On March 1, 2004, the Foundation entered into a capital lease agreement with Longwood University to lease a parking lot. The Foundation was given the parking lot as a contribution, which at the time was recorded as its appraised value of $51,000. The lease expires February 28, 2013. The University has the option to purchase the parking lot for $1 at the end of the lease term. The lease provides for a current annual rental payment of $6,516 and interest of 2%. At June 30, 2012, Longwood University owed the Foundation $5,338.

Longwood University Real Estate Foundation

The Foundation receives rent from the University for use of various buildings and parking facilities. The total amount earned for 2011 from these rental arrangements was $5,882,453. Outstanding receivables at December 31, 2011 were $158,910.

The Foundation pays the University fees under management agreements related to facilities covered by tax-exempt bond issuances. These fees are based on costs to manage the specific properties. Total management fees paid for 2011 were $391,198. In addition, the Foundation reimburses the University for operational costs paid directly by the University related to the housing projects. At December 31, 2011, the Foundation had a payable to the University of $188,953, which is included in accounts payable and accrued expenses on the consolidated statement of financial position.

The Foundation has an agreement with the University to manage the Longwood University Bed & Breakfast, also known as the University Inn (formerly known as the Alumni House). The University is billed for all expenses and the Foundation receives no fees for its services. During 2010 and 2011, the Foundation completed a renovation of the Bed & Breakfast at a cost of $123,800. The Foundation was carrying $104,000 of these renovation costs as a receivable at December 31, 2010, but has now considered these costs paid on behalf of the University and has classified them as contributions to Longwood University on the consolidated statement of activities. The Foundation had an outstanding receivable at December 31, 2011 of $33,875 for expenses not yet reimbursed and renovation costs.

During 2009, the Foundation loaned $57,676 to the Longwood University Foundation to purchase a piece of property in Westmoreland County known as the Yeatman property. This amount is included in receivables at December 31, 2011.

H. SUBSEQUENT EVENTS

Subsequent to year-end, the following activities occurred with the Longwood University Real Estate Foundation:

- The Longwood University Real Estate Foundation sold the property known as 117 West Third Street to the University at a total purchase price of $225,864. The date of settlement was June 1, 2012.

- The Longwood University Real Estate Foundation purchased one additional unit at Woodland Pond Condominiums at a purchase price of $169,000.

- The Longwood University Real Estate Foundation had a $500,000 uncollateralized commercial revolving line of credit. The outstanding balance on this line was $475,000 at December 31, 2011. Subsequent to year-end, the $475,000 balance was refinanced.

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Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 4, 2013

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Longwood University, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 1. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the University is based on the reports of the other auditors.

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

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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activities and aggregate discretely presented component units of the University as of June 30, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 1 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2013, on our consideration of Longwood University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Martha S. Mavredes

AUDITOR OF PUBLIC ACCOUNTS

LONGWOOD UNIVERSITY

Farmville, Virginia

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