LONGWOOD UNIVERSITY

REPORT ON AUDIT FOR

PERIOD ENDED JUNE 30, 2006

Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of Longwood University (the University) for the year ended June 30, 2006, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a reportable condition; however, we do not consider it to be material weakness;
- an instance of noncompliance that is required to be reported; and
- the University has not completed adequate corrective action with respect to the previously reported issue entitled "Establish a Security Awareness Training Policy and Program." Adequate corrective action has been taken with respect to the findings reported in the prior year that are not repeated in this report.

We recommend that the University improve its information security policies and processes.

- T A B L E O F C O N T E N T S -

INTERNAL CONTROL AND COMPLIANCE FINDING AND RECOMMENDATION

Improve Information Security Policies and Processes

Longwood University (the University) does not have comprehensive information security policies and procedures. Current University policies do not sufficiently address threat detection, incident handling, security monitoring and logging, and configuration management and change control. Additionally, the University does not have a security awareness training program to inform all employees and contractors of their need to protect the sensitivity of data the University maintains and procedures they need to follow to protect that data.

Without comprehensive policies, procedures and practices that address these issues as well as a security awareness training program, the University systems and data are at risk of compromises to the confidentiality, availability, and integrity of this information. Additionally, these policies and procedures and a training program are a requirement of the Commonwealth Security Standards.

We recommend that the University devote the necessary resources to develop policies and procedures that adequately address these issues. We also recommend that the University complete development of their security awareness training program and establish monitoring to ensure that all employees and contractors complete security training. Completing the implementation of the policies and procedures will reduce the risk to the University's systems and data.

The Board and Management need to understand that the development of policies and procedures are only the first step in a comprehensive information security program. These policies and procedures are the blue print of the program. Implementation, review and monitoring are on-going processes of the program. Training also will become an on-going activity that will vary with the employee or contractor's experience and the nature of their access to data. Finally, the Board and Management will need to develop and conduct their own internal review of this program to enhance the program for changes in technology, personnel and the University's operating environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

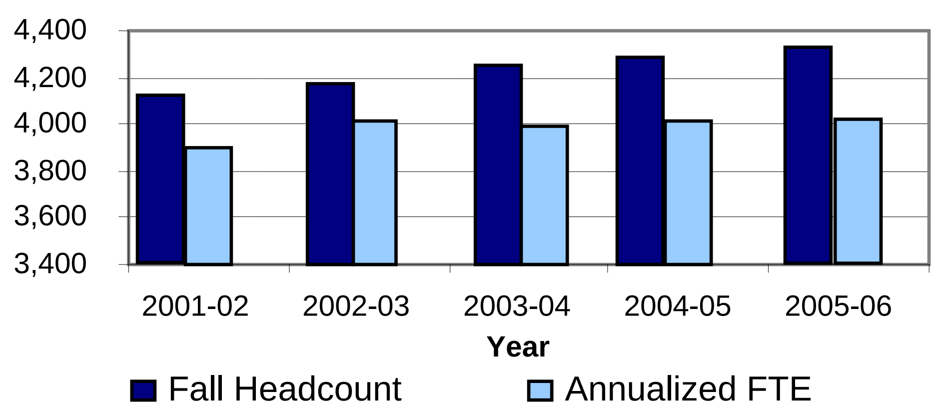
Accounting Standards

The Management's Discussion and Analysis (MD&A) provides a discussion and analysis of the financial performance during the fiscal year ended June 30, 2006, with comparative information presented for the fiscal year ended June 30, 2005. While maintaining financial health is crucial to the long-term viability of the University, the primary mission of a public institution of higher education is to provide education and public service. Net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementations of new programs. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the accompanying financial statements and notes. The financial statements, notes and this discussion are the responsibility of management. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

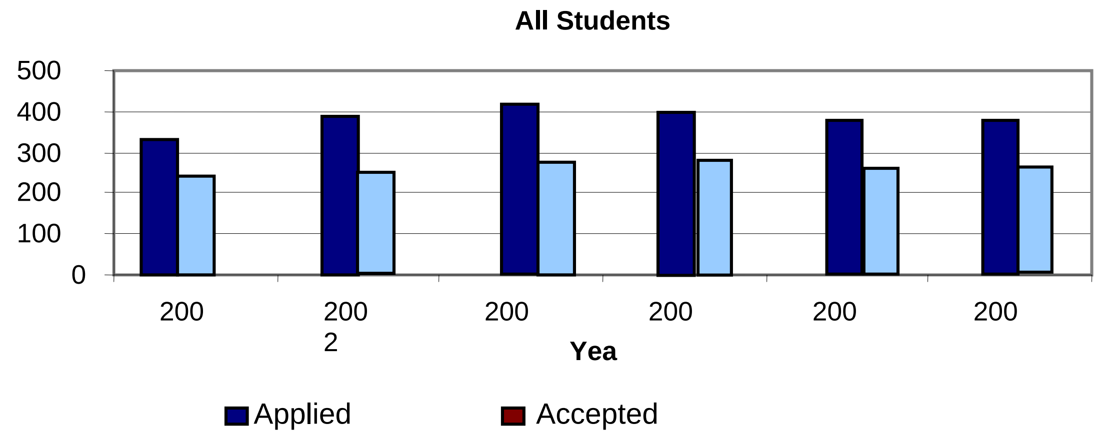
Enrollment and Admissions Information

A significant factor in the University's economic position relates to its ability to recruit and retain high quality students. Headcount enrollment increased from 3,961 in Fall 2001 to 4,374 in Fall 2006. The University is projecting a headcount of over 4,500 by Fall 2007.

Enrollment Statistics



The strategic plan states that the student body will be of high quality. The Fall 2006 entering freshman class remained competitive with a grade-point average of 3.28 and an average SAT score of 1078. This is up from the 3.15 grade-point average and a SAT score of 1065 for freshmen entering Longwood in Fall 2000. Total applications have increased since 2001, with more students choosing Longwood as their first choice to attend.



Using the Annual Report

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

Statement of Net Assets

The Statement of Net Assets presents the financial position at the end of the fiscal year and includes all assets and liabilities. The difference between total assets and total liabilities is net assets, which is an indicator of the current financial condition of the University. The purpose of this statement is to present to the financial statement readers a fiscal snapshot as of June 30, 2006. 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," provides the University's equity in property, plant, and equipment owned by the University, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The next category is "Restricted Net Assets", which is divided into two sub-categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the University, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. The third major category is 'Unrestricted Net Assets" which are available to the University for any lawful purpose of the University.

Statement of Net Assets, as of June 30, 2006 and 2005

Statement of Net Assets	As of June 30, 2006	As of June 30, 2005	Value of Change	Percentage of Change
Assets:				
Current assets	$ 39,933,053	$ 25,385,505	$14,547,548	57%
Non-depreciable capital assets	19,267,291	21,309,082	(1,742,638)	(8%)
Depreciable capital assets, net	106,889,599	96,175,911	10,713,688	11%
Other noncurrent assets	26,179,039	29,347,101	(3,168,062)	(11%)
Total assets	192,268,982	172,217,599		
Liabilities:				
Current liabilities	19,769,773	15,933,724	3,836,049	24%
Noncurrent liabilities	40,793,341	26,707,581	14,085,760	53%
Total liabilities	60,563,114	42,641,305		
Net assets:				
Invested in capital assets, Net	105,550,458	90,603,628	14,946,830	16%
Restricted - Expendable	2,711,272	24,066,471	(21,355,201)	(89%)
Unrestricted	23,444,139	14,906,195	8,551,930	57%
Total net assets	$131,705,869	$129,576,294		

Evaluation of Fiscal Years 2006 to 2005 Statement of Net Assets

The University's total assets increased by $20,051,383 between fiscal years 2005 and 2006 due primarily to a $15 million increase in cash and cash equivalents, including an influx of approximately $16 million in additional bonds and notes payable funding. Cash and cash equivalents increased by approximately $4.4 million as a result of Security Lending. The cash equivalents represent notes payable associated with the construction of the Fitness Center, Lancer Gym project, Soccer Fields project, and Blackwell Bookstore project which are held by the Bank of New York and invested in the State Non-Arbitrage Program. The cash increase is also due to an increase in auxiliary reserves. A $3.9 million increase in notes payable is related to the Housing Renovation project. Depreciable capital assets increased $10.7 million due in large part to capital construction projects that were underway during fiscal year 2005 and completed in fiscal year 2006. These projects that as they are completed move from non-depreciable to depreciable capital assets include the New Science Building, the Steam Plant Upgrade, and Ruffner Reconstruction.

Total liabilities increased by $17,921,809. The primary cause was the addition to bonds and notes payable in the amount of $16.7 million for the Renovation of Housing, Dining Hall refunding, Blackwell Bookstore project, Lancer Gym project, Soccer Field project and the Fitness Center construction.

Statement of Revenues, Expenses, and Changes in Net Assets

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

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

Statement of Revenues, Expenses, and Changes in Net Assets, for the Years Ended June 30, 2006 and 2005

	2006	2005	Value of Change	Percentage of Change
Operating revenues:				
Student tuition and fees	$ 16,892,295	$ 15,163,233	$ 1,729,062	11%
Grants and contracts	6,372,650	6,141,240	231,410	4%
Auxiliary enterprises	28,349,530	25,430,031	2,919,499	11%
Other operating revenues	329,791	319,883	9,908	3%
Total operating revenues	51,944,266	47,054,387		
Operating expenses:				
Instruction	19,272,552	17,646,320	1,626,233	9%
Research	51,451	38,941	12,510	32%
Public service	1,725,016	1,402,657	322,359	23%
Academic support	3,343,585	4,835,044	(1,491,459)	(31%)
Student services	2,766,356	2,316,673	449,683	20%
Institutional support	8,620,893	7,656,184	964,709	13%
Operation and maintenance	5,114,836	4,909,185	205,651	4%
Depreciation	6,721,529	5,022,137	1,699,392	34%
Student aid	3,664,106	3,181,645	482,461	15%
Auxiliary activities	20,091,402	17,599,478	2,491,924	14%
Other operating expenses	18,369	37,395	(19,026)	(51%)
Total operating expenses	71,390,095	64,645,659		
Operating loss	(19,445,829)	(17,591,272)		
Non-operating revenues/(expenses)	27,478,660	25,436,107	2,042,553	8%
Income before other revenues/(expenses) and gains/(losses)	8,032,831	7,844,835		
Other revenues/(expenses) and gains/(losses)	1,608,000	14,375,150	(12,767,150)	(89%)
Increase in net assets	9,640,831	22,219,985		
Net assets, beginning of year, restated	122,065,038	107,356,309		
Net assets, end of year	$131,705,869	$129,576,294		

Evaluation of Fiscal Years 2006 to 2005 Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues primarily include tuition and fees and auxiliary enterprises. There was an increase of $4,889,879 from FY 2005 to FY 2006 due in part to an increase of $1,729,062 in Tuition and Fees revenue. This was due to the increase in enrollment of 85 students and a 6.2 percent increase in charges. Auxiliary Enterprise revenue also increased $2,919,499 due to Longwood receiving more in scholarship money, progress in the move to Division I athletics, and the increase in charges to students mentioned above. Operating expense increased $6,744,436 primarily due to increases in instruction, auxiliary activities and depreciation functional expense categories. Instruction increased due in large part to the additional students enrolled in 2005-2006 and an increase in base adequacy funding of $1.2 million which was used to pay instruction and other program expenses. Depreciation increased due to the $10.7 million increase in depreciable assets mentioned in the Statement of Net Asset section. The increase in Auxiliary activities expenses increased primarily are due to the same reasons as the revenue increase which includes the move to NCAA Division I athletics and increased facility expenses. Other revenues and gains include capital appropriations for maintenance reserve repairs to educational and general buildings, 21st Century, and general obligation bond proceeds. The majority of the increase in net assets represents an increase in capital construction and capital appropriations.

Statement of Cash Flows

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

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

Condensed Statement of Cash Flows

	2006	2005
Cash provided/(used) by:		
Operating activities	$(13,668,244)	$(11,893,713)
Noncapital financing activities	25,822,800	21,531,278
Capital financing activities	2,050,246	5,142,187
Investing activities	920,920	229,579
Net increase in cash	15,125,722	15,009,331
Cash - beginning of the year, restated	38,850,713	31,352,638
Cash - end of year	$ 53,976,435	$ 46,361,969

Evaluation of Statement of Cash Flows for Fiscal Years 2006 to 2005

For Fiscal Year 2006, significant sources of operating cash include: student tuition and fees of $16.6 million, auxiliary enterprise receipts of $28.1 million, and grants and contracts of $5.2 million. Major operating uses of cash include: payments for salaries, wages and fringe benefits of $39.9 million, and payments to suppliers and utilities of $19.3 million. Longwood University received state appropriations for the University's educational and general programs and financial aid of $25.9 million.

Note that cash at the beginning of the year ended June 30, 2006, reflects a beginning balance adjustment of $7,511,256 to reflect a correction in capital project appropriations available. Further information on this adjustment is contained in Note 18 to the financial statements.

Capital Asset and Debt Administration

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

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets with total capital asset additions of $16,515,017 during fiscal year 2006. Significant fiscal year 2006 capital projects include: completion of the Science Building that was funded by state appropriations; beginning construction of Soccer Fields, Fitness Center, and renovations to Lancer Gym and Willet Hall; and planning for Blackwell Hall/bookstore renovation funded by 9(d) bond funding; and planning Wheeler Hall renovations funded by 9(c) bond funding. Fiscal year 2006 depreciation expense totaled $6,721,530. Total capital assets increased by $8,671,898 in fiscal year 2006, which is due largely to the new construction mentioned at the beginning of this section.

Long term debt increased from $26,881,365 in 2005, to $40,453,270 in 2006 as a result of the significant capital projects mentioned in the beginning of this section. The University has maintained a debt service to unrestricted expenditures and mandatory transfer ratio of less than seven percent as calculated under the State Council of Higher Education for Virginia's (SCHEV) formula. This ratio was 3.56 percent at the end of fiscal year 2005 and 5.89 percent at the end of fiscal year 2006.

As a result of the completion of the construction projects listed above, construction in progress decreased from $16,574,409 in 2005 to $14,532,618 at June 30, 2006. Additional information concerning capital assets and non-current liabilities is included in Notes 5 and 7 to the financial statements.

Economic Outlook

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

For fiscal year 2006, the University received an additional $1.2 million over the Governor's recommendation for base adequacy funding. This increased total base adequacy funding by $1.3 million for the last year of the biennium. As a result of the actions taken by the General Assembly, Longwood's total educational and general operating budget increased for FY 2006. As a State institution, there is a direct relationship between the amount received in general fund appropriations and the tuition and fee rates set by the Board of Visitors. The operating funds for the educational and general budgets are largely generated from these two sources.

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

FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2006

	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood University Real Estate Foundation
ASSETS			
Current assets:			
Cash and cash equivalents (Note 3)	$ 28,868,118	$ 214,555	$ 81,460
Securities lending - cash and cash equivalents (Note 3)	4,245,266	-	-
Short-term investments (Note 3)	4,201,178	6,434,868	1,403,016
Accounts receivable, net allowance for doubtful accounts (Note 4)	1,235,552	54,174	-
Notes receivable (Note 4)	243,840	-	-
Contributions receivable, net (Note 4)	-	601,154	130,769
Due from the Commonwealth (Note 8)	185,849	-	-
Inventory	629,529	-	-
Prepaid expenses	323,721	8,974	801,296
Total current assets	39,933,053	7,313,725	2,416,541
Noncurrent assets:			
Restricted cash and cash equivalents (Note 3)	25,108,317	1,126,413	-
Restricted investments (Note 3)	-	33,783,058	-
Other restricted assets	-	213,552	-
Notes receivable, net allowance for doubtful accounts of $104,064 for 2006, respectively (Note 4)	1,070,722	-	-
Non-depreciable capital assets (Note 5)	19,267,291	3,087,533	904,552
Depreciable capital assets, net (Note 5)	106,889,599	1,462,740	6,865,426
Total noncurrent assets	152,335,929	39,673,296	7,769,978
Total assets	192,268,982	46,987,021	10,186,519
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses (Note 6)	5,531,233	65,788	248,429
Deferred revenue	2,443,335	86,860	-
Obligations under securities lending	8,446,444	-	-
Deposits held in custody for others	834,436	-	-
Long-term liabilities - current portion net of deferred loss of $34,190 (Note 7)	2,479,325	220,160	8,956,869
Advance from the Treasurer of Virginia	35,000	-	-
Total current liabilities	19,769,773	372,808	9,205,298
Noncurrent liabilities - net of deferred loss of $42,737 (Note 7)	40,793,341	1,239,333	135,510
Total liabilities	60,563,114	1,612,141	9,340,808
NET ASSETS			
Invested in capital assets, net of related debt	105,550,458	4,275,223	845,711
Restricted:			
Nonexpendable:			
Permanently restricted	-	23,717,805	-
Expendable:			
Loans	221,635	-	-
Capital projects	798,527	-	-
Temporarily restricted	-	13,178,104	-
Other	1,691,110	-	-
Unrestricted	23,444,139	4,203,748	-
Total net assets	$ 131,705,869	$ 45,374,880	$ 845,711

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, 2006

	Longwood University	Component Unit Longwood University Foundation, Inc.	Component Unit Longwood University Real Estate Foundation
Operating revenues:			
Student tuition and fees, net of scholarship allowances of $1,444,827	$ 16,892,295	$ -	$ -
Gifts and contributions	-	3,257,566	1,045,000
Federal grants and contracts	3,294,678	36,455	-
State grants and contracts	1,206,558	-	-
Nongovernmental grants and contracts	1,871,414	63,740	-
Auxiliary enterprises, net of scholarship allowances of $2,017,361 (Note 10)	28,349,530	-	-
Other	329,791	3,442,524	790,229
Total operating revenues	51,944,266	6,800,285	1,835,229
Operating expenses: (Note 13)			
Instruction	19,272,552	-	-
Research	51,451	-	-
Public service	1,725,016	-	-
Academic support	3,343,585	-	-
Student services	2,766,356	-	-
Institutional support	8,620,893	1,139,539	-
Operation and maintenance of plant	5,114,836	-	-
Depreciation	6,721,529	-	-
Student aid	3,664,106	856,933	-
Auxiliary activities (Note 10)	20,091,402	-	-
Administrative and fundraising	-	353,535	-
Other	18,369	52,511	989,541
Total operating expenses	71,390,095	2,402,518	989,541
Operating gain/(loss)	(19,445,829)	4,397,767	845,688
Nonoperating revenues/(expenses):			
State appropriations (Note 12)	25,870,499	-	-
Insurance recoveries	3,400,791	-	-
Investment revenue	862,872	-	23
Debt service interest	(1,533,913)	-	-
Loss on disposal of plant assets	(1,121,589)	-	-
Net nonoperating revenues	27,478,660	-	23
Income before other revenues	8,032,831	4,397,767	845,711
Capital appropriations	1,608,000	-	-
Increase in net assets	9,640,831	4,397,767	845,711
Net assets - beginning of year, restated (Note 18)	122,065,038	40,977,113	-
Net assets - end of year	$ 131,705,869	$ 45,374,880	$ 845,711

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, 2006

Cash flows from operating activities:	
Student tuition and fees	$ 16,582,590
Grants and contracts	5,203,713
Auxiliary enterprises	28,103,992
Payments to employees	(39,851,205)
Payments to suppliers and utilities	(19,306,784)
Payments for scholarships and fellowships	(3,446,507)
Payments for noncapitalized plant improvements and equipment	(1,191,516)
Loans issued to students	(300,740)
Collections of loans from students	361,483
Other operating receipts	330,975
Payments for other expenses	(154,245)
Net cash provided/(used) by operating activities	(13,668,244)
Cash flows from noncapital financing activities:	
State appropriations	25,870,499
Other	(4,323)
Agency receipts	17,180,662
Agency payments	(17,224,038)
Net cash provided by noncapital financing activities	25,822,800
Cash flows from capital financing activities:	
Capital appropriations	1,608,000
Proceeds from capital debt	16,960,898
Acquisition and construction of capital assets	(15,800,560)
Principal paid on capital debt, leases, and installments	(2,598,386)
Interest paid on capital debt, leases, and installments	(1,520,497)
Insurance recoveries	3,400,791
Net cash provided by capital financing activities	2,050,246
Cash flows from investing activities:	
Interest on investments	920,920
Net cash provided by investing activities	920,920
Net increase in cash	15,125,722
Cash and cash equivalents - beginning of the year (restated)	38,850,713
Cash and cash equivalents - end of the year	$ 53,976,435

LONGWOOD UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2006

Reconciliation of net operating loss to net cash used by operating activities:		
Operating loss	$	(19,445,829)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation expense		6,721,529
Changes in assets and liabilities:		
Receivables, net		32,985
Inventory		(101,085)
Prepaid expenses		(160,471)
Notes receivable, net		47,295
Accounts payable and accrued expenses		(344,679)
Deferred revenue		(183,658)
Deposits payable		(77,476)
Accrued compensated absences		82,856
Other		(239,711)
Net cash/(used) by operating activities	$	(13,668,244)

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

NOTES TO FINANCIAL STATEMENTS

LONGWOOD UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

B. Basis of Presentation

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

C. Basis of Accounting

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

D. <u>Cash and Cash Equivalents</u>

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

E. <u>Investments</u>

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

F. <u>Inventories</u>

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

G. <u>Capital Assets</u>

Capital assets include land, buildings and other improvements, library materials, equipment and infrastructure assets such as sidewalks, steam tunnels, and electrical and computer network cabling systems. Capital assets are generally defined by the University as assets with an initial cost of $5,000 or more and an estimated useful life in excess of two years. Library materials are valued using actual cost for acquisitions and published average prices for disposals. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

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

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

H. Non-current Cash and Investments

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

I. Deferred Revenue

Deferred revenue primarily includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but related to the period after June 30, 2006. Deferred revenue consisted of the following at June 30, 2006:

Student tuition and related fees	$1,308,649
Investment income	862,659
Auxiliary enterprise fees	272,027
Total	$2,443,335

J. Accrued Compensated Absences

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

K. Federal Financial Assistance Programs

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

L. Net Assets

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

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

The University's restricted net assets are expendable. Expendable restricted net assets are resources, which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

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

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

M. Revenue and Expense Classifications

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

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

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

N. Scholarship Discounts and Allowances

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

O. Long-term Liabilities

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

2. COMPONENT UNITS

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

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

During the year ended June 30, 2006, the Longwood University Foundation distributed $1,215,609 to the University for both restricted and unrestricted purposes. The Longwood University Foundation's financial statements are audited by Brown, Edwards and Company, LLP. Complete financial statements can be obtained from the Longwood University Foundation at 201 High Street, Farmville, VA 23909.

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

During the year ended June 30, 2006, the Longwood University Real Estate Foundation distributed $164,556 to the University for both restricted and unrestricted purposes. The Longwood University Real Estate Foundation's financial statements are audited by Goodman and Company, LLP. Complete financial statements can be obtained from the Longwood University Real Estate Foundation at 515 Main Street, Farmville, VA 23909.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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

At June 30, 2006, the carrying amount of cash with the Treasurer of Virginia was $30,705,817, which includes appropriations available of $3,462,441. The carrying amount of cash not held by the Treasurer of Virginia is $1,624,741. The carrying amount not held by the Treasurer consists of bank balances reported at June 30, 2006, in the amount of $1,758,089 adjusted for reconciling items, petty cash items and change funds. The Virginia Security for Public Deposits Act eliminates any custodial credit risk for the College.

Investments

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

Concentration of Credit Risk

Concentration of credit risk requires the disclosure by amount and issuer of any investments in any one issuer that represent 5 percent or more of total investments. Investments explicitly guaranteed by the U.S. government and investments in mutual funds or external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2006, the University did not have investments other than money market funds held by the Treasurer of Virginia, therefore, the University does not have concentration of credit risk.

Custodial Credit Risk

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

Interest Rate Risk

The risk that changes in interest rates will adversely affect the fair value of an investment. The University does not invest in funds outside of investing bond proceeds in the State Non-Arbitrage Program (SNAP) and the Local Government Investment Pool (LGIP). 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, 2006, the carrying amount of the cash equivalents was $21,643,869, which was held in the SNAP program.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. 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.

Investments of the Longwood Foundation

Investments of the Longwood Foundation are composed of the following at June 30, 2006:

	Cost	Market Value
Cash and cash equivalents	$ 1,828,290	$ 1,828,290
Investment in real estate investment trusts	1,065,884	1,662,183
Government and corporate obligations	11,353,352	10,735,959
Corporate stocks	18,686,279	20,510,629
Hedge funds	2,782,285	3,181,884
Total	$35,716,090	$37,918,945

Investment fees netted against investment income for the year ended June 30, 2006, are $245,118.

The Foundation has diversified its investment portfolio in order to moderate volatility by investing in certain “hedge funds”. Various financial instruments such as puts, calls, options, and futures contracts may be included in these alternative investment funds. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the statement of activities, with net unrealized gains of approximately $275,000 recognized for the year ended June 30, 2006.

The Foundation is the beneficiary of the annual income earned from the Nellie Ward Nance Trust (Nance Trust) held by Wachovia Bank. The assets of the Nance Trust are not in the possession or under control of the Foundation. At June 30, 2006, the Nance Trust had a market value of $2,298,982, which is recorded in the Statement of Net Assets. Income and unrealized gains on the Nance Trust for the year ended June 30, 2006, were $91,458 and $79,445.

Investments of the Longwood Real Estate Foundation

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

	Acquisition Cost	Holding Cost	Total
Lee Theatre	$ 161,213	$ 290	$ 161,503
Watson House	522,476	7,823	530,299
Horton/Reed House	173,381	2,471	175,852
Griffin Boulevard Property	140,495	2,139	142,634
Chambers Street House	167,213	2,433	169,646
Baker House	218,163	1,669	219,832
Tobacco Warehouse	3,250	-	3,250
Total	$1,386,191	$16,825	$1,403,016

A support agreement was signed on August 1, 2006 between Longwood University and the Longwood Real Estate Foundation. This agreement requires the University to treat the Mid Town project and Lancer Village as part of the University’s housing facilities on an equal basis. Longwood University shall direct and assign students to the Mid-Town Project and Lancer Village in the same manner that it uses to assign students to its own student housing facilities. The University shall, together with any third-party manager of the Mid-Town Project and Lancer Village, to the extent possible, provide that student housing fees for beds in the Mid-Town Project and Lancer Village are billed and collected in the same or similar manner as the student housing fees for the University's other student housing facilities. The University covenants that it will assign all of its students in need of housing first to the 2006 Projects, until at least 95 percent of the beds of each of the 2006 Projects are occupied. The University shall not be required to give either 2006 Project preference, if such preferential treatment at any time would cause the University to breach any financial or other covenants or agreements in any pre-existing or subsequent documents relating to tax-exempt bonds to which the University is a party or any other instruments under which any indebtedness (including guaranties) has been incurred by the University.

4. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

A. Accounts receivable consisted of the following at June 30, 2006:

Student tuition and fees	$ 702,454
Library	6,134
Auxiliary enterprises	66,347
Federal, state, and non-governmental grants and contracts	467,642
Total	1,242,577
Less: Allowance for doubtful accounts	7,025
Net accounts receivable	$1,235,552

B. Notes receivable consisted of the following at June 30, 2006:

Current portion:	
Federal student loans	$ 243,840
Non-current portion:	
Federal student loans	$1,168,944
Employee loans	5,842
Total	1,174,786
Less allowance for doubtful accounts	(104,064)
Net non-current notes receivable	$1,070,722

C. Longwood University Foundation contributions receivable consisted of the following at June 30, 2006:

Cash pledges expected to be collected in:	
Less than one year	$638,992
One year to five years	44,700
Total	683,692
Less:	
Discount to net present value at 3-6%	82,538)
Net contributions receivable	$601,154

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

Temporarily restricted	$132,056
Permanently restricted	469,098
Total	$601,154

At June 30, 2006, the Foundation had received bequests and other intentions to give of approximately $9,183,000. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors.

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ended June 30, 2006, is presented as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Non-depreciable capital assets:				
Land	$ 4,734,673	-	-	4,734,673
Construction in progress	16,574,409	15,436,009	(17,477,800)	14,532,618
Total non-depreciable capital assets	21,309,082	15,436,009	(17,477,800)	19,267,291
Depreciable capital assets:				
Buildings	112,894,323	16,544,631	(2,253,365)	127,185,589
Equipment	14,167,314	609,817	(652,228)	14,124,903
Infrastructure	28,525,495	-	-	28,525,495
Library materials	11,625,620	1,402,360	(66,566)	12,961,414
Total depreciable capital assets	167,212,752	18,556,808	(2,972,159)	182,797,401
Less accumulated depreciation for:				
Buildings	39,707,104	2,999,123	(1,536,044)	41,170,183
Equipment	9,928,350	1,005,895	(247,960)	10,686,285
Infrastructure	12,950,381	1,413,714	-	14,364,095
Library materials	8,451,007	1,302,798	(66,566)	9,687,239
Total accumulated depreciation	71,036,842	6,721,530	(1,850,570)	75,907,802
Depreciable capital assets, net	96,175,910	11,835,278	(1,121,589)	106,889,599
Total capital assets, net	$117,484,992	$27,271,287	$(18,599,389)	$126,156,890

The Longwood University Foundation had $1,462,740 in depreciable assets, net of accumulated depreciation of $145,508 at June 30, 2006.

At June 30, 2006, the Foundation had $3,087,533 in non-depreciable capital assets. This amount includes $1,858,348 in an art collection, with the remaining portion related to land owned by the Foundation.

The Longwood University Real Estate Foundation had $6,865,426 in depreciable assets, net of accumulated deprecation of $191,446. The depreciable assets consisted of buildings, furniture and equipment.

At June 30, 2006, the Real Estate Foundation had $904,552 in non-depreciable capital assets. This amount includes $719,174 in land, with the remaining portion related to construction in progress.

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2006:

Accounts payable and accrued expenses:

Employee salaries, wages, and fringe benefits payable	$ 925,398
Vendors and suppliers accounts payable	4,247,755
Retainage payable	300,637
Interest payable	57,443
Total accounts payable and accrued liabilities	$5,531,233

7. NONCURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), and other non-current liabilities. A summary of changes in non-current liabilities for the year ending June 30, 2006, is presented as follows:

The Longwood University Foundation had $1,239,333 in non-current liabilities outstanding at June 30, 2006. This debt consisted of a note payable, whose maturity is due in 2007. The non-current obligations also consisted of annuities payable and amounts payable to third party beneficiaries.

Category	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term debt:					
General obligation bonds 9C	$10,914,749	$ 4,489,558	$1,578,596	$13,825,711	$ 991,777
Deferred loss on bond Refinancing	(98,244)	(9,563)	(30,880)	(76,927)	(34,190)
Notes payable	15,005,000	11,900,000	495,000	26,410,000	850,000
Loans payable	1,028,938	-	1,028,938	-	-
Installment purchases	30,922	324,416	60,852	294,486	70,871
Total long-term debt	26,881,365	16,704,411	3,132,506	40,453,270	1,878,458
Accrued compensated Absences	1,322,399	120,661	7,608	1,435,452	600,867
Federal loan program Contribution	1,383,944	-	-	1,383,944	-
Total long term liabilities	$29,587,708	$16,825,076	$3,140,114	$43,272,666	$2,479,325

8. LONG-TERM INDEBTEDNESS

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

Bonds payable at June 30, 2006 consist of the following:

	Interest Rates	Maturity	Amount
General obligation revenue bonds:			
Residence Hall:			
Student Housing, Series 1998-R	4.50 - 5.00%	2012	2,029,250
Student Housing, Series 1999	4.75 - 4.88%	2019	375,000
Student Housing, Series 1999-R	2.00 - 5.00%	2019	1,710,011
Housing Repairs 2003-R	2.50 - 5.50%	2010	131,011
Renovate Housing Facilities 2005-A	3.50 - 5.00%	2025	3,710,000
Dining hall:			
Series 1999	4.75 - 4.88%	2019	395,000
Series 1999-R	2.00 - 5.00%	2019	1,829,204
Series 2002-R	4.00 - 5.00%	2016	3,071,672
Series 2006-A	4.00 - 4.125%	2008	574,563
Total bonds payable			$13,825,711

A summary of future principal requirements of long-term debt as of June 30, 2006 follows:

Year ending June 30,	Total Principal	Total Interest
2007	$991,777	$652,550
2008	1,039,598	619,524
2009	1,094,622	562,682
2010	1,130,213	514,899
2011	1,154,098	460,813
2012-2015	3,982,808	1,308,216
2016-2020	3,107,595	679,853
2020-2025	1,325,000	198,000
Total	13,825,711	4,996,537
Less: deferred loss	(76,927)	-
Total	$13,748,784	$4,996,537

Notes Payable

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

	Interest Rates	Maturity	Amount
Virginia College Building Authority:			
Notes payable:			
Fitness center and parking garage	3.00 - 5.25%	September 2022	$ 4,730,000
Fitness center	2.00 - 5.00%	September 2023	4,480,000
Lacrosse/Field Hockey Complex and Phase II Heating Plant	3.00 - 5.00%	September 2024	5,300,000
Fitness center	3.00 - 5.00%	September 2025	7,010,000
Soccer fields, Lancer Gym, and Blackwell	3.50 - 5.00%	September 2025	4,890,000
Total notes payable			$26,410,000

A summary of future principal requirements of notes and loans payable as of June 30, 2006 follows:

Year ending June 30,	Total Principal	Total Interest
2007	$ 850,000	$ 1,252,669
2008	945,000	1,217,774
2009	985,000	1,178,394
2010	1,025,000	1,134,825
2011	1,065,000	1,087,069
2012-2015	4,820,000	3,780,581
2016-2020	7,510,000	3,199,188
2021-2025	9,210,000	1,177,316
Total principal requirements	$26,410,000	$14,027,816

Loans Payable

The University received an interest free treasury loan to cover construction expenses for the University's housing sprinkler project in the amount of $1,028,938. The total principal was repaid as a lump-sum payment by June 30, 2006.

Installment Purchase Agreements

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

A summary of future obligations under installment purchase agreements as of June 30, 2006 follows:

Year ending June 30,	Installment Purchase Agreements
2007	$ 70,871
2008	70,871
2009	70,872
2010	70,872
2011	35,436
Total obligations and gross minimum lease payments	318,922
Less:	
Interest	(24,436)
Present value of minimum lease payments	$294,486

The Statement of Net Assets line "Due from the Commonwealth of Virginia" totaling $185,849 at June 30, 2006, represents equipment purchased by the University that was not reimbursed by the VCBA at year-end.

Longwood University Real Estate Foundation

The Foundation has a $3,000,000 commercial line of credit with a bank. The credit line is to be used to purchase and improve real estate and is securitized by deeds of trust on the property and improvements acquired. The credit line requires monthly interest only payments on any outstanding balance, with principal reductions made at the Foundation's discretion or when specific collateral is released. Principal may be repaid monthly by a separate term note on improved properties up to 20 years and on unimproved properties up to 10 years. Interest on the line is charged at a variable rate of the 30 day LIBOR plus 2.5% (7.84% at June 30, 2006). The outstanding balance on this line was $1,220,876 at June 30, 2006. There is no expiration period in the agreement.

The Foundation also has a note payable with a bank. The note was originally for $7,500,000 dated October 5, 2005 and was increased to $7,800,000 on May 25, 2006. The interest on the note is due quarterly on the first business day of the quarter beginning January 1, 2006 at LIBOR Fixed Rate plus 1.5% (6.609% at June 30, 2006). Principal is due on August 31, 2006. The note is secured by a deed of trust on a portion of the Lancer Village property. The outstanding balance on this note was $7,725,000 at June 30, 2006.

In accordance with the commercial revolving credit agreement, the Foundation financed one property with a term note in the amount of $150,000 dated February 14, 2006. The note requires monthly payments of $1,742, including interest at 7% and matures February 14, 2016. Maturities under this note are as follows:

2007	10,993
2008	11,787
2009	12,639
2010	13,553
2011	14,532
Thereafter	82,999
Total	146,503
Less - current portion	(10,993)
Non-current liabilities	$135,510

9. COMMITMENTS

At June 30, 2006, the University was committed to construction contracts totaling approximately $24,049,252 of which $11,233,565 had been incurred.

The University is committed under various operating lease agreements primarily for buildings and equipment. In general, the agreements are for a period of one year, and typically have renewal options. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense for the fiscal year ended June 30, 2006, was $1,057,985. The University has, as of June 30, 2006, the following total future minimum rental payments due under the above leases:

Fiscal Year	Operating Leases
2007	$250,301
2008	223,928
2009	176,995
2010	55,530
2011	45,530
Total	$752,285

Additionally, the University leases property known as Lancer Village (formerly Stanley Park) from the Longwood University Real Estate Foundation under a lease dated July 28, 2005. The property consists of approximately 30 acres of land and improvements consisting of 264 units, a club house, and parking. The lease requires annual rent of $764,154. The initial term of the lease is four years, terminating on July 31, 2009. These payments are made from room fees collected by the University for occupancy.

In conjunction with its mission to support the activities and operations of Longwood University, the Longwood University Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets leased to the University is $2,675,852 at June 30, 2006.

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expense are distributed as shown in the following table for the year ended June 30, 2006. Additionally, the University used auxiliary revenues to pay debt service, capital improvements and scholarships of $3,054,255, $109,759 and $1,619,799, respectively. Those amounts are not included in the auxiliary operating expenses below.

Revenues:	
Room contracts, net of scholarship allowance of $663,697	$ 7,692,054
Food service contracts, net of scholarship allowance of $470,234	5,493,444
Athletic fees and other revenue, net of scholarship allowance of $353,281	4,552,870
Other student fees and sales and service, net of scholarship allowance of $530,149	10,611,162
Total auxiliary enterprise revenues	28,349,530
Expenses:	
Residential facilities	4,830,228
Dining operations	4,993,947
Athletics	3,259,536
Other auxiliary services	7,007,691
Total auxiliary enterprise expenses	$20,091,402

11. DEFEASANCE OF DEBT

In March 2006, the Commonwealth of Virginia, on behalf of Longwood University, issued $574,563 in General Obligation Refunding Bonds with a true interest cost (TIC) of 3.686 percent to advance refund $565,000 of outstanding 2006A Higher Education Bonds with interest rates of 4.125 to 4.000 percent. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. The debt defeasance resulted in an accounting loss of $9,563. The defeasance will reduce total debt service payments by $20,248 over the next 2 years, resulting in an economic gain of $16,754, discounted at the TIC of 3.686 percent. As a result, these bonds refunded are considered defeased and are not reflected in the accompanying financial statements. At June 30, 2006, $565,000 of the defeased bonds are outstanding.

In previous years, certain 2004B, 1996, 1993, and 1992 Higher Education Bonds were defeased by the University. As with the 2006A Higher Education Bonds noted above, the net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on refunded bonds. As of June 30, 2006, an additional $8,693,531 of these defeased bonds are outstanding.

12. STATE APPROPRIATIONS

During the year ended June 30, 2006, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the 2005 Virginia Acts of Assembly, Chapter 951.

Original appropriation:	
Educational and general programs	$22,003,587
Student financial assistance	2,531,748
Supplemental adjustments:	
Central Fund appropriation transfers	420,613
Additional appropriation for change in June 24, 2006 payroll timing	815,347
Eminent scholars	8,295
Southside Virginia Regional Technology Consortium	170,000
Other adjustments and transfers	(79,091)
Adjusted appropriations	$25,870,499

13. EXPENSES BY NATURAL CLASSIFICATIONS

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

	Salaries and Wages	Fringe Benefits	Services and Supplies	Scholarships and Fellowships	Utilities	Plant and Equipment	Other	Depreciation	Total
Instruction	$13,581,138	$3,910,812	$ 1,223,731	$ -	$ 3,797	$ 553,074	$	$ -	$19,272,552
Research	2,150	249	48,726	-	-	326		-	51,451
Public service	919,986	267,413	416,016	-	1,104	120,497		-	1,725,016
Academic support	2,160,077	657,942	1,091,001	-	-	(565,435)		-	3,343,585
Student services	1,531,898	481,717	734,180	-	-	18,561		-	2,766,356
Institutional support	3,883,156	1,938,831	2,328,889	-	150	469,867		-	8,620,893
Operation and maintenance of plant	1,257,610	641,805	1,545,755	-	479,325	1,190,341		-	5,114,836
Depreciation								6,721,529	6,721,529
Scholarship and related expenses				3,664,106					3,664,106
Auxiliary activities	6,074,924	1,478,365	12,449,968	-	689,130	(600,985)		-	20,091,402
Other expenses	-	-	-	-	-	-	18,369	-	18,369
Total	$29,410,939	$9,377,134	$19,838,266	$3,664,106	$1,173,506	$1,186,246	$18,369	$6,721,529	$71,390,095

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 30, 2004, as well as the ten-year historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $1,393,799 for the year ended June 30, 2006. These contributions included the employee contribution assumed by the employer. For fiscal year 2006 the rate was 8.91 percent. Contributions to the VRS were calculated using a base salary amount of approximately $15,643,089 for the fiscal year ended June 30, 2006. The University's total payroll was approximately $29,056,612 for the year ended June 30, 2006.

Optional Retirement Plans

Full-time faculty and certain administrative staff may participate in six optional retirement plans. University employees currently participate in five of these plans, which include: Fidelity Investments Institutional Services, Great West Life Assurance, Teacher Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF), T. Rowe Price and Associates, and Variable Annuity Life Insurance (VALIC). These are fixed-contribution programs where the retirement benefits received are based upon the employer and employee contributions totaling 10.4 percent contribution, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University and the participant's contributions. Total pension costs under these plans were approximately $1,187,756 for the year ended June 30, 2006. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $11,420,730.

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 $164,150 for the fiscal year 2006.

15. POST-EMPLOYMENT BENEFITS

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

16. CONTINGENCIES

Longwood University receives assistance from non-State grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements, including the expenditure of resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of Longwood University. As of June 30, 2006, 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. RESTATEMENT OF NET ASSETS

Certain amounts from the prior fiscal year have been restated to conform to current year presentation. The University has recalculated capital appropriation revenue related to the 21st Century Bond Program recorded in previous years.

Net assets as previously reported on June 30, 2005	$129,576,294
Capital appropriation recalculation	($7,511,256)
Net assets as of July 1, 2005	$122,065,038

19. SUBSEQUENT EVENTS

After year-end, the Longwood University Real Estate Foundation created two single member LLCs, Lancer Village Housing Foundation, LLC and Longwood Landings Housing Foundation, LLC and transferred its interests in the respective properties to these separate LLCs. The Foundation will be the sole member of each LLC.

In August 2006, the Industrial Development Authority of the town of Farmville issued Educational Facilities Variable Demand Revenue Bonds Series 2006A in the amount of $8,265,000 to finance or refinance the acquisition, renovation and equipping of the student housing facility known as Lancer Village and Series 2006B in the amount of $22,160,000 for the purpose of financing or refinancing all or a portion of the acquisition, renovation and equipping of student housing known as Longwood Landings. Each bond series is subject to a management agreement between the University and the Foundation. The agreements appoint the University as manager of each project to collect all rents and provide all personnel for resident advisory and education staffing.

In association with the bonds, the Foundation entered into two separate interest swap agreements with a bank. The first swap has an initial notional amount of $17,728,000. The second swap has an initial notional amount of $6,612,000. Both agreements call for fixed interest payments of 4.113% against a floating rate equal to 70% of the Relevant Rate for a Reset Date as defined in the contract. The effective date of each swap is September 1, 2006, with the first interest payments due October 1, 2006. The agreements are for thirty years and terminate on September 1, 2036. The swap agreements do not fully hedge the bond agreements, but the amortization of the notional amounts is intended to correspond to the proportional maturity schedule of the related tax exempt bond issuances.

SUPPLEMENTARY INFORMATION

LONGWOOD UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES - REVENUES AND EXPENDITURES
For the Year Ended June 30, 2006

	Food Services	Bookstore	Residential Services	Parking and Transportation
Revenues:				
Student fees	$ 5,341,200	$ -	$ 7,527,279	$ 303,802
Sales and service	152,244	330,667	164,775	634,916
Other	-	-	-	-
Income from security lending transactions (Note 1)	-	-	-	-
Total operating revenues	5,493,444	330,667	7,692,054	938,718
Expenditures:				
Personal services	260,313	-	2,180,594	111,046
Contractual services	4,281,517	737	1,304,293	120,287
Other Expenses	452,117	(3,931)	1,345,341	162,464
Security lending expenditures (Note 1)	-	-	-	-
Total operating expenditures	4,993,947	(3,194)	4,830,228	393,797
Excess of revenues over expenditures before transfers	499,497	333,861	2,861,826	544,921
Nonoperating expenses				
Debt service	(687,794)	-	(949,244)	(348,461)
Capitalized expenses	-	-	-	-
Scholarship funding	-	-	(352,960)	-
Net increase/(decrease) for the year	$ (188,297)	$ 333,861	$ 1,559,622	$ 196,460
Net assets at beginning of year				
Net assets at end of year				

Note 1 - Longwood University maintains cash with the Treasurer in the State Treasurer's General Account. The State Treasurer's General Account participated in security lending transactions during fiscal year 2006 culminating the reporting of the gross revenue and gross expenditures relating to these transactions being reported in the University's financial statements. See Note 3 (Cash and Cash Equivalents) of the University's financial statements for more information regarding the State Treasurer's General Account security lending transactions.

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

Telecommunication	Student Health	Student Union	Recreation and Intramurals	Intercollegiate Athletics	Other Auxiliary	Total
$ 1,036,041	$ 440,495	$ 406,964	$ 143,682	$ 4,177,180	$ 5,295,090	$ 24,671,733
317,124	16,420	3,140	3,690	7,048	577,305	2,207,329
-	-	-	-	368,642	904,295	1,272,937
-	-	-	-	-	197,531	197,531
1,353,165	456,915	410,104	147,372	4,552,870	6,974,221	28,349,530
532,403	385,309	309,591	128,410	2,033,069	1,611,552	7,552,287
307,200	12,785	36,428	8,550	703,589	1,399,273	8,174,659
30,870	17,039	39,944	8,046	522,878	1,592,160	4,166,928
-	-	-	-	-	197,531	197,531
870,473	415,133	385,963	145,006	3,259,536	4,800,516	20,091,405
482,692	41,782	24,141	2,366	1,293,334	2,173,705	8,258,125
-	-	-	-	(280,730)	(788,026)	(3,054,255)
-	-	-	-	-	(109,759)	(109,759)
(3,509)	-	-	-	(1,262,164)	(1,166)	(1,619,799)
$ 479,183	$ 41,782	$ 24,141	$ 2,366	$ (249,560)	$ 1,274,754	$ 3,474,312
						13,658,714
						$ 17,133,026

Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

February 16, 2007

The Honorable Timothy M. Kaine
Governor of Virginia

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

Board of Visitors
Longwood University

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of **Longwood University** (the University, a component unit of the Commonwealth of Virginia, and its discretely presented component units as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component units of the University, which are discussed in Note 2. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates the amounts included for the component units of the University is based on the report of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and of its discretely presented component units as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 8 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition entitled "Improve Information Security Policies and Processes," is described in the section titled "Internal Control and Compliance Finding and Recommendation."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards. The instance of noncompliance and other matters, entitled "Improve Information Security Policies and Processes" is described in the section titled "Internal Control and Compliance Finding and Recommendation."

Status of Prior Findings

The University has not completed adequate corrective action with respect to the previously reported finding "Establish a Security Awareness Training Policy and Program". Accordingly, we included this issue in the finding entitled "Improve Information Security Policies and Processes" in the section of the report entitled "Internal Control and Compliance Finding and Recommendation." The University has taken adequate corrective action with respect to the audit findings reported in the prior year that are not repeated in this report.

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

EXIT CONFERENCE

We discussed this report with management at an exit conference held on March 16, 2007

AUDITOR OF PUBLIC ACCOUNTS

MSM:jab
jab:56

LONGWOOD
UNIVERSITY

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Office of Information and Instructional Technology Services

16 March 2007

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

Dear Mr. Kucharski:

Longwood University received a Management point for the 2006 Fiscal Year because there was no Security Awareness Refresh Training program in place for faculty and staff.

Understanding that the training program in question would need to be automated, the University spent the March through June time frame researching web-based training systems. The contract for MOAT (Managing Ongoing Awareness Tools) was signed by the University CFO on August 30, 2006. The University spent the Fall 2006 semester tweaking the tool to ensure compliance with the Commonwealth's Security Standard. The first set of trainees will be the University Presidential Cabinet starting the week of January 29, 2007. The Executive Council and Staff Advisory Council will be trained during the month of February 2007. Feedback from these three groups will be incorporated into training and the tool will be rolled out to faculty, staff and third party contractors starting the week of March 19, 2007. This training will take place on an annual basis and is the responsibility of the University Information Security Officer.

In reviewing the password control criteria for the Windows Network environment at Longwood University, we took your suggestions into consideration along with the Microsoft Security Guide recommendations as well as the ITRM Standard SEC501-1 Password Management section dated July 1, 2006 to determine the best combination of domain workstation settings that will minimize our security risks while accommodating our wide-ranging constituent base. We feel the adjustments we are making overall meet or exceed the Information Technology Security Standard and the most stringent Microsoft recommended settings.

Management at the University understands the risks involved with password management; management also understands that the password management program in its entirety goes beyond Microsoft's recommendations and goes beyond best practices and accepts this risk. The University, therefore, does not concur with this finding.

Longwood University is currently drafting policies and procedures required to be compliant with the VITA Information Security Standard. This process will continue during FY 2008. Included are documented policies and procedures addressing Threat Detection, Incident Handling, IT Security Monitoring and Logging, and Configuration Management and Change Control, as required by SEC2001-01.1.

Thank you very much.

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

LONGWOOD UNIVERSITY
Farmville, Virginia

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