

**LONGWOOD UNIVERSITY FOUNDATION, INC.  
AND AFFILIATES  
Farmville, Virginia**

**Consolidated Financial Statements  
for the years ended  
June 30, 2010 and 2009**

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

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## Report of Independent Auditors

The Board of Directors  
Longwood University Foundation, Inc. and Affiliates  
Farmville, Virginia

We have audited the accompanying consolidated statements of financial position of Longwood University Foundation, Inc. and Affiliates (the "Foundation") as of June 30, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Longwood University Foundation, Inc. and Affiliates as of June 30, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Cherry Bekaert + Holland, LLP*

Lynchburg, Virginia  
October 27, 2010

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Financial Position**  
**June 30, 2010 and 2009**

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 38,272,138	\$ 2,259,926
Contributions receivable, net	3,682,208	4,620,208
Related party receivable	18,208	24,832
Investments	1,172,678	30,882,228
Cash value of life insurance policies	246,452	231,228
Longwood Center for the Visual Arts art collection	2,680,349	2,619,581
Depreciable property and equipment, net of accumulated depreciation	1,300,070	1,254,326
Land	1,383,185	1,229,185
Beneficial interest in perpetual trust	1,959,728	1,829,874
	<u>50,715,016</u>	<u>44,951,388</u>
<b>Total assets</b>	<b>\$ 50,715,016</b>	<b>\$ 44,951,388</b>
 <b>Liabilities and Net assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 164,128	\$ 47,210
Amounts payable to third party beneficiaries	969,207	776,351
Annuities payable	442,589	394,177
Capital lease obligation	70,317	-
	<u>1,646,241</u>	<u>1,217,738</u>
<b>Total liabilities</b>	<b>1,646,241</b>	<b>1,217,738</b>
 <b>Net assets</b>		
Unrestricted net assets		
Current operations	1,044,919	( 1,959,141 )
Funds functioning as endowment	3,655,791	5,041,813
Designated for specific purposes	895,502	895,573
	<u>5,596,212</u>	<u>3,978,245</u>
Total unrestricted net assets	5,596,212	3,978,245
Temporarily restricted net assets	14,192,859	13,491,648
Permanently restricted net assets	29,279,704	26,263,757
	<u>49,068,775</u>	<u>43,733,650</u>
<b>Total net assets</b>	<b>49,068,775</b>	<b>43,733,650</b>
 <b>Total liabilities and net assets</b>	<b>\$ 50,715,016</b>	<b>\$ 44,951,388</b>

See notes to consolidated financial statements.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Activities**  
**Years ended June 30, 2010 and 2009**

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	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, gains (losses), and other support</b>				
Contributions	\$ 533,660	\$ 1,494,659	\$ 2,257,019	\$ 4,285,338
Income from perpetual trust	-	75,111	-	75,111
Investment income	157,860	658,407	42,429	858,696
Net realized and unrealized gain on investments	2,860,634	642,556	-	3,503,190
Net unrealized gain on perpetual trust	-	-	129,855	129,855
Other revenue	44,876	348,840	-	393,716
Annuity and unitrust adjustments	-	( 213,498 )	-	( 213,498 )
Net assets released from restrictions	1,847,081	( 1,847,081 )	-	-
<b>Total revenues, gains (losses), and other support</b>	<u>5,444,111</u>	<u>1,158,994</u>	<u>2,429,303</u>	<u>9,032,408</u>
<b>Expenses</b>				
Program expenses				
Institutional support	2,252,063	-	-	2,252,063
Scholarships and grants	616,608	-	-	616,608
Alumni association	109,950	-	-	109,950
Other	275,098	-	-	275,098
Supporting expenses				
Administrative and general	283,571	-	-	283,571
Fundraising	159,993	-	-	159,993
<b>Total expenses</b>	<u>3,697,283</u>	<u>-</u>	<u>-</u>	<u>3,697,283</u>
<b>Change in net assets before reclassifications</b>	1,746,828	1,158,994	2,429,303	5,335,125
<b>Reclassifications</b>	<u>( 128,861 )</u>	<u>( 457,783 )</u>	<u>586,644</u>	<u>-</u>
<b>Change in net assets</b>	1,617,967	701,211	3,015,947	5,335,125
<b>Net assets, beginning of year</b>	<u>3,978,245</u>	<u>13,491,648</u>	<u>26,263,757</u>	<u>43,733,650</u>
<b>Net assets, end of year</b>	<u>\$ 5,596,212</u>	<u>\$ 14,192,859</u>	<u>\$ 29,279,704</u>	<u>\$ 49,068,775</u>

(continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Activities**  
**Years ended June 30, 2010 and 2009**

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	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, gains (losses), and other support</b>				
Contributions	\$ 519,730	\$ 1,146,017	\$ 923,263	\$ 2,589,010
Income from perpetual trust	-	140,321	-	140,321
Investment income	146,214	629,613	43,241	819,068
Net realized and unrealized loss on investments	( 4,214,048 )	( 4,926,930 )	-	( 9,140,978 )
Net unrealized loss on perpetual trust	-	-	( 472,477 )	( 472,477 )
Other revenue	31,952	365,165	-	397,117
Annuity and unitrust adjustments	-	37,564	-	37,564
Net assets released from restrictions	<u>2,170,883</u>	<u>( 2,170,883 )</u>	<u>-</u>	<u>-</u>
<b>Total revenues, gains (losses), and other support</b>	<u>( 1,345,269 )</u>	<u>( 4,779,133 )</u>	<u>494,027</u>	<u>( 5,630,375 )</u>
<b>Expenses</b>				
Program expenses				
Institutional support	1,805,708	-	-	1,805,708
Scholarships and grants	1,089,458	-	-	1,089,458
Alumni association	80,740	-	-	80,740
Other	18,701	-	-	18,701
Supporting expenses				
Administrative and general	247,339	-	-	247,339
Fundraising	<u>196,467</u>	<u>-</u>	<u>-</u>	<u>196,467</u>
<b>Total expenses</b>	<u>3,438,413</u>	<u>-</u>	<u>-</u>	<u>3,438,413</u>
<b>Change in net assets before reclassifications</b>	( 4,783,682 )	( 4,779,133 )	494,027	( 9,068,788 )
<b>Reclassifications</b>	<u>( 783,963 )</u>	<u>1,090,408</u>	<u>( 306,445 )</u>	<u>-</u>
<b>Change in net assets</b>	( 5,567,645 )	( 3,688,725 )	187,582	( 9,068,788 )
<b>Net assets, beginning of year</b>	<u>9,545,890</u>	<u>17,180,373</u>	<u>26,076,175</u>	<u>52,802,438</u>
<b>Net assets, end of year</b>	<u>\$ 3,978,245</u>	<u>\$ 13,491,648</u>	<u>\$ 26,263,757</u>	<u>\$ 43,733,650</u>

See notes to consolidated financial statements.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Consolidated Statements of Cash Flows**  
**Years ended June 30, 2010 and 2009**

	2010	2009
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 5,335,125	\$ ( 9,068,788 )
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	61,307	59,115
Loss on disposition of assets	-	144,375
Net realized and unrealized (gain) loss on investments	( 3,503,190 )	9,140,978
Permanently restricted contributions	( 2,257,019 )	( 923,263 )
Net unrealized (gain) loss on perpetual trust	( 129,855 )	472,477
Gifts in kind, art collection	( 60,768 )	( 245,228 )
Gift in kind, land	( 154,000 )	-
Changes in operating assets and liabilities:		
Contributions receivable	938,000	342,341
Related party receivable	6,624	6,035
Cash value of life insurance policies	( 15,224 )	( 13,811 )
Accounts payable	116,918	( 41,595 )
Amounts payable to third party beneficiaries	192,856	( 70,615 )
Annuities payable	48,412	( 19,400 )
	<u>579,186</u>	<u>( 217,379 )</u>
<b>Cash flows from investing activities</b>		
Net sales (purchases) of investments	33,212,740	( 610,950 )
Purchase of property and equipment	( 22,050 )	-
Change in other assets	-	2,062
	<u>33,190,690</u>	<u>( 608,888 )</u>
<b>Cash flows from financing activities</b>		
Permanently restricted contributions	2,257,019	923,263
Principal payments on capital lease obligation	( 14,683 )	-
Principal payments on notes payable	-	( 51,887 )
	<u>2,242,336</u>	<u>871,376</u>
Net cash provided by financing activities		
	<u>2,242,336</u>	<u>871,376</u>
Net increase in cash and cash equivalents	36,012,212	45,109
<b>Cash and cash equivalents, beginning of year</b>	<u>2,259,926</u>	<u>2,214,817</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 38,272,138</u>	<u>\$ 2,259,926</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for interest	\$ 4,449	\$ 9,915
Acquisition of property and equipment under capital lease obligation	\$ 85,000	\$ -

See notes to consolidated financial statements.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1 - Summary of significant accounting policies**

**Principals of consolidation**

The consolidated financial statements include the accounts of the Longwood University Foundation, Inc. and its supporting organizations, the Duvahl Ridgeway Hull and Andrew W. Hull Charitable Foundation (the "Hull Foundation") and the Hull Springs Farm Foundation. During 2008, the Hull Springs Farm Foundation was established as an additional supporting organization to the Longwood University Foundation, Inc. For 2010 and 2009, there was no significant activity within the Hull Springs Farm Foundation.

The Longwood University Foundation, Inc. and Affiliates (the "Foundation") receives 85% of the Hull Foundation's net income. The assets of the Hull Foundation include two charitable remainder trusts and other investments. Fifteen percent of the Hull Foundation net assets are payable to unrelated third parties and have been recorded in the consolidated statements of financial position as amounts payable to third party beneficiaries.

**Nature of Foundation activities**

The Foundation is a non-profit organization that exists for the sole purpose of accepting gifts and distributing funds to support the activities and operations of Longwood University (the "University") in Farmville, Virginia.

**Basis of presentation**

The accompanying consolidated financial statements present information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

- **Unrestricted net assets** are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. Any deficiency in the fair value of assets associated with individual donor-restricted endowment funds that fall below the level of the contribution are included in unrestricted net assets.
- **Temporarily restricted net assets** are limited in use by donor-imposed stipulations that expire by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations.
- **Permanently restricted net assets** are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds and funds held in trust by others.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1 - Summary of significant accounting policies (continued)**

**Cash and cash equivalents**

Cash and cash equivalents consist of cash, money market funds, and treasury bills with a maturity of ninety days or less when acquired. The Foundation places certain of its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. During the year, the Foundation from time to time may have had amounts on deposit in excess of the insured limits. As of June 30, 2010, the Foundation had \$3,841,917 which exceeded these insured limits. As of June 30, 2009, cash and cash equivalents included \$34,062,401 of cash in transit between investment managers. This cash was not on deposit with an FDIC insured institution and, therefore, was not considered in determining cash and cash equivalents in excess of insured limits.

**Investments**

Investments with readily determinable fair values are reported at market value based upon quoted market prices. Donated investments are recorded at fair value as of the date received. Certain hedge fund interests are valued using the net asset value for the shares or units obtained by the investment administrator, the value at the quoted traded price for securities traded on a stock exchange, a mid-market quotation from a broker, a bid quotation, or if unavailable or unrepresentative, at their probable realization value as of year end estimated in good faith by the investment administrator. Investment income and realized and unrealized gains are included in the statements of activities in the appropriate net asset class.

**Longwood Center for the Visual Arts art collection**

The Longwood Center for the Visual Arts art collection is stated at cost, except those items received by gift which are stated at appraised value on the date of the gift and are not depreciated.

**Property and equipment**

Property and equipment are stated at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 40 years for buildings and 5 years for vehicles and property and equipment. Betterments and major renewals which appreciably extend the useful lives of the properties are capitalized, while repairs and maintenance are charged to expense in the year incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gain or loss is reflected in net income. Generally, it is the Foundation's policy to capitalize property and equipment that have an acquisition cost of greater than \$5,000.

**Land**

Land is stated at cost at the date of acquisition or at fair value at the date of gift. Depreciation is not calculated on land.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1 - Summary of significant accounting policies (continued)**

**Irrevocable split-interest agreements**

The Foundation is a participant in various split-interest agreements, for which it serves as trustee. (A split-interest agreement is created when a donor contributes assets to the Foundation or places them in a trust for the benefit of the Foundation, but the Foundation is not the sole beneficiary of the assets' economic value.) Generally, assets held under these agreements are recorded at fair value and are included in investments. Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made and are included in liabilities under charitable gift annuity and trust agreements. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities. The discount rate used to determine the present value of the liability originates from the individual trust or annuity agreement and is based upon life expectancy tables, which approximates the United States Treasury rate. Split-interest agreements where the Foundation is not the trustee are included in either contributions receivable or funds held in perpetual trusts. The split-interest agreement amounts at June 30, 2010 and 2009 were \$509,247 and \$450,674, respectively and are included as amounts payable to third party beneficiaries in the statement of financial position.

**Contributions**

Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenues, depending on the existence and/or nature of any donor restrictions, in the period received.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate, which approximates the Foundation's estimated borrowing rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed time or purpose restrictions are classified as revenues in the temporarily restricted net assets class until such time as the restricted purpose or passage of time specified by the donor has been met.

**Gifts-in-kind**

Material gifts-in-kind items received by the Foundation are recorded as income along with a corresponding charge to expense or capitalized cost. During the years ended June 30, 2010 and 2009, \$308,083 and \$657,487, respectively, were received as gifts-in-kind.

**Income taxes**

The Foundation has received a favorable determination letter from the Internal Revenue Service stating that it is exempt under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1 - Summary of significant accounting policies (continued)**

**Income taxes (continued)**

In July of 2006, the Financial Accounting Standards Board (FASB) issued certain interpretive guidance with respect to accounting for uncertainty in income taxes (the "Guidance"). The Guidance clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with the FASB Accounting Standards Codification (ASC) Income Taxes Topic and prescribes a minimum threshold that a tax position is required to meet before being recognized. Furthermore, the Guidance addresses measurement, classification, and interest and penalties. As used in the Guidance, the term tax position is defined as a position taken in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring an entity's current or deferred income tax assets and liabilities. The Guidance also defines an income tax position to include a decision not to file an income tax return. The Foundation adopted the Guidance on July 1, 2009, as required, and the adoption did not have any impact on the Foundation's financial position or results of operations. The Foundation is no longer subject to U.S. federal, state, or local tax examinations by tax authorities for tax years prior to 2006.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Fair value**

The carrying amounts reflected in the consolidated statements of financial position for cash and cash equivalents, accounts payable, and deferred grant revenue approximate the respective fair values due to the short maturities of those instruments and any differences being immaterial. The carrying amounts of contributions receivable and annuities payable approximate fair value upon application of the discount rate used on future cash flows. The carrying amounts reflected in the consolidated statements of financial position for notes payable approximate fair value due to the effect of the variable rate of interest stated in the note.

The carrying value of investments, beneficial interests in perpetual trusts, and amounts payable to third party beneficiaries approximate fair value as amounts were derived from quoted market prices, net asset value of investments held, a mid-market quotation from a broker, a bid quotation, or if unavailable or unrepresentative, at their probable realization value as of year end, estimated in good faith by the investment administrator.

The Foundation follows the Fair Value Measurements topic of the FASB ASC which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 - Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 1 - Summary of significant accounting policies (continued)**

**Fair value (continued)**

Level 3 - Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

**Note 2 - Contributions receivable**

Contributions receivable consists of the following at June 30:

	2010	2009
Cash pledges expected to be collected in:		
Less than one year	\$ 266,243	\$ 312,559
One to five years	1,355,550	1,337,791
Thereafter	4,907,589	6,240,159
Total	6,529,382	7,890,509
Less discount to present value at 5% for 2010 and 2009	2,847,174	3,270,301
Total	\$ 3,682,208	\$ 4,620,208

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

	2010	2009
Temporarily restricted	\$ 1,549,393	\$ 3,589,264
Permanently restricted	2,132,815	1,030,944
	\$ 3,682,208	\$ 4,620,208

At June 30, 2010 and 2009, the Foundation had received bequests and other intentions to give of approximately \$7,752,422 and \$7,762,422, 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 become uncollectible, they will be charged to operations when that determination is made.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 3 - Investments**

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

	2010		2009	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 38,272,138	\$ 38,272,138	\$ 2,259,926	\$ 2,259,926
Investments:				
Investment in real estate investment trusts	-	-	2,223,010	1,459,160
Government bonds and corporate obligations	136,699	143,359	9,687,824	9,123,112
Corporate stocks	677,330	626,164	28,813,611	19,403,888
Hedge funds	721,234	403,155	1,235,701	896,068
Total investments	<u>1,535,263</u>	<u>1,172,678</u>	<u>41,960,146</u>	<u>30,882,228</u>
Beneficial interest in perpetual trust:				
Cash and cash equivalents	48,967	48,967	74,953	74,953
Government bonds and corporate obligations	776,254	821,654	663,488	660,037
Corporate stocks	1,201,117	1,089,107	1,284,009	1,094,884
Total beneficial interest in perpetual trust	<u>2,026,338</u>	<u>1,959,728</u>	<u>2,022,450</u>	<u>1,829,874</u>
Total	<u>\$ 41,833,739</u>	<u>\$ 41,404,544</u>	<u>\$ 46,242,522</u>	<u>\$ 34,972,028</u>

Cash and cash equivalents includes operating cash of \$4,130,814 and \$1,141,337 as of June 30, 2010 and 2009, respectively.

Investment fees netted against investment income for the years ended June 30, 2010 and 2009 were \$198,797 and \$276,888, respectively.

The Foundation has invested in a "hedge fund," which include various financial instruments such as puts, calls, options, and futures contracts. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the consolidated statement of activities, with net unrealized gains (losses) of approximately \$21,554 and \$(471,028) recognized for the years ended June 30, 2010 and 2009, respectively.

On April 30, 2010, the Foundation's Board of Directors resolved to change the Foundation's primary investment manager from Russell Investment Group (Russell) to Spider Management Company, LLC (Spider). On June 30, 2010, the Foundation transferred investment assets of \$34,062,401 from Russell to Spider. These investment assets consisted of cash as of June 30, 2010 and are included in cash and cash equivalents in the consolidated statement of financial position.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 4 - Fair value measurements of assets and liabilities**

See “Fair value” in Note 1 above for discussions of the methodologies and assumptions used to determine the fair value of the Foundation’s investments.

The following table summarizes the valuation of the Foundation’s financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2010, based on the level of input utilized to measure fair value:

	As of June 30, 2010			Total Fair Value
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 38,272,138	\$ -	\$ -	\$ 38,272,138
Investments:				
Government bonds and corporate obligations	143,359	-	-	143,359
Corporate stocks	626,164	-	-	626,164
Hedge funds	-	-	403,155	403,155
Total investments	<u>769,523</u>	<u>-</u>	<u>403,155</u>	<u>1,172,678</u>
Beneficial interest in perpetual trust:				
Cash and cash equivalents	48,967	-	-	48,967
Government bonds and corporate obligations	821,654	-	-	821,654
Corporate stocks	<u>1,089,107</u>	<u>-</u>	<u>-</u>	<u>1,089,107</u>
Total beneficial interest in perpetual trust	<u>1,959,728</u>	<u>-</u>	<u>-</u>	<u>1,959,728</u>
Total	<u>\$ 41,001,389</u>	<u>\$ -</u>	<u>\$ 403,155</u>	<u>\$ 41,404,544</u>
Planned giving liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 493,417</u>	<u>\$ 493,417</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**Notes to Consolidated Financial Statements**  
**June 30, 2010 and 2009**

**Note 4 - Fair value measurements of assets and liabilities (continued)**

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, based on the level of input utilized to measure fair value:

	As of June 30, 2009			Total Fair Value
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 2,073,591	\$ 173,459	\$ 12,876	\$ 2,259,926
Investments:				
Investment in real estate investment trusts	1,459,160	-	-	1,459,160
Government bonds and corporate obligations	9,123,112	-	-	9,123,112
Corporate stocks	19,403,888	-	-	19,403,888
Hedge funds	-	-	896,068	896,068
Total investments	<u>29,986,160</u>	<u>-</u>	<u>896,068</u>	<u>30,882,228</u>
Beneficial interest in perpetual trust:				
Cash and cash equivalents	74,953	-	-	74,953
Government bonds and corporate obligations	660,037	-	-	660,037
Corporate stocks	<u>1,094,884</u>	<u>-</u>	<u>-</u>	<u>1,094,884</u>
Total beneficial interest in perpetual trust	<u>1,829,874</u>	<u>-</u>	<u>-</u>	<u>1,829,874</u>
Total	<u>\$ 33,889,625</u>	<u>\$ 173,459</u>	<u>\$ 908,944</u>	<u>\$ 34,972,028</u>
Planned giving liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 445,004</u>	<u>\$ 445,004</u>

Planned giving liabilities, which include gift annuities and irrevocable trust liabilities, are considered Level 3 within the valuation hierarchy because some of the factors used in valuation include factors not easily observable in similar instruments in an active market. Planned giving liabilities are included

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**Note 4 - Fair value measurements of assets and liabilities (continued)**

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 investment assets for the year ended June 30, 2010:

	<u>Cash Equivalents</u>	<u>Hedge Funds</u>	<u>Total (Level 3)</u>
Beginning fair value	\$ 12,876	\$ 896,068	\$ 908,944
Total losses included in change in net assets	-	( 164,707)	(164,707)
Sales	<u>( 12,876)</u>	<u>( 328,206)</u>	<u>( 341,082)</u>
Ending fair value	\$ <u>          -</u>	\$ <u>403,155</u>	\$ <u>403,155</u>

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 investment assets for the year ended June 30, 2009:

	<u>Cash Equivalents</u>	<u>Hedge Funds</u>	<u>Total (Level 3)</u>
Beginning fair value	\$ -	\$ 3,569,226	\$ 3,569,226
Total gains (losses) included in change in net assets	314	( 565,327)	( 565,013)
Purchases and issuances	12,562	-	12,562
Sales	<u>          -</u>	<u>( 2,107,831)</u>	<u>( 2,107,831)</u>
Ending fair value	\$ <u>12,876</u>	\$ <u>896,068</u>	\$ <u>908,944</u>

The table below sets forth a summary of changes in the fair value of the Foundation's level 3 investment liabilities for the year ended June 30, 2010:

	<u>Planned Giving Liabilities</u>
Beginning fair value	\$ 445,004
Payments to beneficiaries	( 65,731)
Actuarial adjustments	<u>114,141</u>
Ending fair value	\$ <u>493,417</u>

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**Note 4 - Fair value measurements of assets and liabilities (continued)**

The table below sets forth a summary of changes in the fair value of the Foundation’s level 3 investment liabilities for the year ended June 30, 2009:

	<u>Planned Giving Liabilities</u>
Beginning fair value	\$ 444,106
Payments to beneficiaries	( 63,434)
Actuarial adjustments	<u>64,332</u>
Ending fair value	\$ <u><u>445,004</u></u>

**Note 5 - Property and equipment**

The following is a summary of depreciable property and equipment at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Buildings	\$ 1,441,072	\$ 1,356,071
Property and equipment	36,498	36,498
Vehicles	<u>138,275</u>	<u>116,225</u>
	1,615,845	1,508,794
Less accumulated depreciation	<u>315,775</u>	<u>254,468</u>
Depreciable property and equipment, net	\$ <u><u>1,300,070</u></u>	\$ <u><u>1,254,326</u></u>

Depreciation expense was \$61,307 and \$59,115 for the years ended June 30, 2010 and 2009, respectively.

**Note 6 - Beneficial interest in perpetual trust**

The Foundation is the beneficiary of the annual income earned from the Nelly Ward Nance Trust (the “Nance Trust”) held by Wells Fargo Bank, N.A. The assets of the Nance Trust are not in the possession or under the control of the Foundation.

At June 30, 2010 and 2009, the market value of the Nance Trust was \$1,959,728 and \$1,829,874, respectively, which is recorded in the consolidated statements of financial position. Income and unrealized gains (losses) on the Nance Trust for the year ended June 30, 2010, were \$75,111 and \$129,855 respectively; and \$140,321 and \$(472,478), respectively for the year ended June 30, 2009.

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**Note 7 - Capital lease obligation**

On July 1, 2009, the Foundation entered into a capital lease agreement with Longwood University Real Estate Foundation (the “Real Estate Foundation”) to lease a storage building. The lease expires June 30, 2014 at which time the Foundation has an option to purchase the property for \$1. The lease provides for a current annual rental payment of \$17,000 plus interest of 7.10%. At June 30, 2010, the balance of the capital lease obligation was \$70,317.

The following is a summary of the future minimum payments on the capital lease obligation at June 30, 2010:

<u>Year Ending</u>	<u>Amount</u>
2011	\$ 20,244
2012	20,244
2013	20,244
2014	20,234
Total minimum payments	80,966
Less amounts representing interest	10,649
Present value of minimum payments	70,317
Less current portion	15,760
	\$ 54,557

The payment terms described above are consistent with the payment terms of a note payable between the Real Estate Foundation and a local bank. Prior to the execution of the capital lease agreement, the Board of Directors of the Foundation agreed to original payment terms which included interest at 4.75%. As a result of the change in the final interest rate, the Real Estate Foundation agreed to refund the Foundation the difference in the annual rental payment between interest at 7.10% and 4.75%. The Foundation received a refund of \$1,111 for the year ended June 30, 2010 which was netted against administrative and general expenses in the consolidated statement of activities.

The total cost of depreciable property held under the capital lease obligation was \$85,000 at June 30, 2010. Accumulated depreciation on such property was \$2,125 at June 30, 2010.

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**Note 8 - Temporarily restricted net assets**

The amounts included as temporarily restricted net assets as of June 30, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Longwood Center for the Visual Arts	\$ 4,861,633	\$ 4,741,375
Scholarships and awards	1,899,044	2,752,684
Academic support	3,474,423	3,729,412
Class gift projects	494,842	364,641
Athletics	167,929	196,798
Hardy House	118,859	105,981
Other capital projects	1,909,621	563,158
Other purpose restrictions	106,347	498,717
Time restrictions	<u>1,160,161</u>	<u>538,882</u>
	<u>\$ 14,192,859</u>	<u>\$ 13,491,648</u>

**Note 9 - Permanently restricted net assets**

The following original endowment gifts are classified as permanently restricted net assets at June 30, 2010 and 2009, and relate to the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarships and awards	\$ 21,911,131	\$ 20,085,892
Professorships	1,000,000	1,000,000
Longwood Center for the Visual Arts	829,101	763,988
Ames Hull Springs Farm	2,468,124	2,468,124
Library	57,775	55,450
Other endowment gifts	<u>3,013,573</u>	<u>1,890,303</u>
	<u>\$ 29,279,704</u>	<u>\$ 26,263,757</u>

**Note 10 - Net assets released from restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Net assets released for expenditure during the years ended June 30, 2010 and 2009, totaled \$1,847,081 and \$2,170,883, respectively.

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**Note 11 - Endowment**

The Foundation has adopted the provisions of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the FASB ASC, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowments funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation's endowment consists of approximately 300 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Foundation's Board of Directors (the "Board") to function as endowments. Net assets associated with endowment funds, including funds designated by the Board as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law**

The Board of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net assets consists of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ ( 651,700 )	\$ 3,569,865	\$ 29,279,704	\$ 32,197,869
Board-designated endowment funds	<u>3,655,791</u>	<u>-</u>	<u>-</u>	<u>3,655,791</u>
Total endowed net assets	<u>\$ 3,004,091</u>	<u>\$ 3,569,865</u>	<u>\$ 29,279,704</u>	<u>\$ 35,853,660</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
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**Note 11 - Endowment (continued)**

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2009	\$ 2,271,767	2,570,834	\$ 26,263,757	\$ 31,106,358
Investment return:				
Investment income	128,332	638,894	42,429	809,655
Net realized and unrealized gain	<u>2,364,855</u>	<u>1,001,460</u>	<u>-</u>	<u>3,366,315</u>
Total investment return	2,493,187	1,640,354	42,429	4,175,970
Contributions	19,976	283,958	2,257,019	2,560,953
Appropriation of endowment assets for expenditure	( 1,391,011 )	( 281,655 )	-	( 1,672,666 )
Net unrealized gain on perpetual trust	-	-	129,855	129,855
Other revenue	17,762	-	-	17,762
Annuity and unitrust adjustments	-	( 127,020 )	-	( 127,020 )
Administrative fees	( 278,729 )	( 58,823 )	-	( 337,552 )
Reclassifications	<u>( 128,861 )</u>	<u>( 457,783 )</u>	<u>586,644</u>	<u>-</u>
Endowment net assets, June 30, 2010	<u>\$ 3,004,091</u>	<u>\$ 3,569,865</u>	<u>\$ 29,279,704</u>	<u>\$ 35,853,660</u>

Endowment net assets consists of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ ( 2,770,046 )	\$ 2,570,834	\$ 26,263,757	\$ 26,064,545
Board-designated endowment funds	<u>5,041,813</u>	<u>-</u>	<u>-</u>	<u>5,041,813</u>
Total endowed net assets	<u>\$ 2,271,767</u>	<u>\$ 2,570,834</u>	<u>\$ 26,263,757</u>	<u>\$ 31,106,358</u>

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**Note 11 - Endowment (continued)**

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 6,689,648	6,833,684	\$ 26,076,175	\$ 39,599,507
Investment return:				
Investment income	147,399	591,542	43,241	782,182
Net realized and unrealized loss	<u>( 4,214,048 )</u>	<u>( 4,513,345 )</u>	<u>-</u>	<u>( 8,727,393 )</u>
Total investment return	( 4,066,649 )	( 3,921,803 )	43,241	( 7,945,211 )
Contributions	19,942	178,395	923,263	1,121,600
Appropriation of endowment assets for expenditure	( 50,219 )	( 729,650 )	-	( 779,869 )
Net unrealized loss on perpetual trust	-	-	( 472,477 )	( 472,477 )
Other revenue	16,432	-	-	16,432
Annuity and unitrust adjustments	-	75,686	-	75,686
Administrative fees	( 62,387 )	( 84,045 )	-	( 146,432 )
Reclassifications	<u>( 275,000 )</u>	<u>218,567</u>	<u>( 306,445 )</u>	<u>( 362,878 )</u>
Endowment net assets, June 30, 2009	<u>\$ 2,271,767</u>	<u>\$ 2,570,834</u>	<u>\$ 26,263,757</u>	<u>\$ 31,106,358</u>

**Funds with deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$651,700 and \$2,770,046 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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**Note 11 - Endowment (continued)**

**Return objectives and risk parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as board designated funds. Funds classified as growing toward endowment include in their pledge agreement that if the pledge is not paid within five years the Foundation, at its discretion, could convert the fund to an operating fund. As of June 30, 2010, no funds have ever been converted to an operating fund. In all respects, these funds are treated as endowment funds, including charging an administrative fee and allocating monthly earnings. The only difference is that these funds growing toward endowment have no annual appropriation. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 35.00% Russell 1000, 5.00% Russell 2000, 20.00% MSCI EAFE Index Net Dividend, 29.50% Barclay's Capital US Aggregate Bond Index, 5.00% FTSE/NAREIT Equity REITS Index, and 5.50% LIBOR 30 day (1 month arrears), while assuming a moderate level of investment risk. The Foundation expects in endowment funds, over three to five years, to provide an average real rate of return of approximately 5.50% annually. Actual returns in any given year may vary from this amount.

**Strategies employed for achieving objectives**

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places emphasis on investments in equities, bonds, and absolute return strategies in a 60-30-10 percent ratio to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy**

The Foundation has a policy of appropriating for distribution each year 4.00% of its endowment funds average fair value using the prior twelve quarters, commencing with the first quarter of the preceding fiscal year in which the distribution is planned. The Foundation has a policy of appropriating approximately 1.44% of endowment funds' based on the fair value of the funds on June 30 of the fiscal year to cover administrative costs of the Foundation and President's Office. The Foundation does not take an administrative fee on a fund if it is underwater; therefore for the years ended June 30, 2010 and 2009, only 1.00% and .50% was appropriated, respectively, as the annual fee. In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

As of June 30, 2010 and 2009, approximately 26% and 75%, respectively, of funds were classified as underwater. Due to the large number of underwater funds, the Foundation Board determined it was prudent to reduce the amount being appropriated for fiscal year ended June 30, 2010. Therefore, the spending rate was adjusted such that scholarship funds would be appropriated based on 90% of the 2009 distributions and non-scholarship funds would be appropriated based on 85% of the 2009 distributions. In addition, the underwater fund distributions would be paid from reserves to enable the funds to strengthen during the fiscal year.

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**Note 12 - Operating leases**

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 \$40,000 of rental income recognized in each of the years ended June 30, 2010 and 2009.

As further described in Note 7, 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 \$9 for the year ended June 30, 2010.

**Note 13 - Related parties**

The Foundation received contribution revenue from Board members in the amount of \$97,018 and \$133,725 for the years ending June 30, 2010 and 2009, respectively. The amount of contribution receivable due from the Board members totaled \$710,827 and \$368,093 at June 30, 2010 and 2009, respectively.

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 (including the property disclosed in Note 12) to the University was \$2,618,719 and \$2,415,746 at June 30, 2010 and 2009, respectively, including land on the consolidated statement of financial position.

On March 1, 2004, the Foundation entered into a capital lease agreement with Longwood University to lease a parking lot. The Foundation was given the parking lot as a contribution, which at the time was recorded as its appraised value of \$51,000. The lease expires February 28, 2013. The University has the option to purchase the parking lot for \$1 at the end of the lease term. The lease provides for a current annual rental payment of \$6,516 and interest of 2%. At June 30, 2010 and 2009, Longwood University owed the Foundation \$18,208 and \$24,832, respectively.

**Note 14 - Concentrations of credit risk**

The Foundation maintains its cash, cash equivalents, and investment balances in multiple financial institutions. At times, these cash balances are in excess of FDIC insurance coverage. Related credit risk is mitigated by the high credit quality of this financial institution. The carrying amounts of cash, cash equivalents, and investments approximate fair value. During 2010 and 2009, the Foundation maintained 82% and 89%, respectively, of its investment portfolio with one financial institution.

During the year ended June 30, 2010, contributions from five donors represented approximately 18% of the Foundation's total revenues and four donors represented approximately 77% of contributions receivable. During the year ended June 30, 2009, contributions from three donors represented approximately 16% of the Foundation's total revenues and three donors represented approximately 68% of contributions receivable.

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**Note 15 - Retirement plan**

The Foundation has a section 403(b) retirement plan which covers substantially all full-time employees. The Foundation contributed 10.40% of the employees' salary totaling \$24,249 and \$20,865 for the years ended June 30, 2010 and 2009, respectively.

**Note 16 - Deferred compensation**

The Foundation has a deferred compensation agreement with a former President of Longwood University, whom is still employed by the University, which provides annually for \$20,000 and the related investment earnings to be credited to a deferred compensation account. Effective in fiscal year 2007, the former President was given the option of increasing the deferred compensation amount by deferring a portion of her annual salary increase. The former President has no interest or entitlement to payment until her disability or death while employed by the University, or her involuntary termination that is not a result of performance deficiencies or violations of standards of conduct. The total amount credited to the deferred compensation account, including earnings, for the years ended June 30, 2010 and 2009 was \$134,282 and \$81,738, respectively. The total amount payable under the deferred compensation agreement as of June 30, 2010 and 2009 was \$459,960 and \$325,678, respectively, and is included with amounts payable to third party beneficiaries in the consolidated statements of financial position. Following the former President's termination of employment in fiscal year ending June 30, 2011, the deferred compensation will be paid in full.

**Note 17 - Risk management**

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.

**Note 18 - Reclassifications**

Certain reclassifications have been made to the prior year consolidated financial statements to conform to current year presentation.

Several gift agreements contain a clause which allows the Foundation to use accumulated funds for other than their restricted purpose if the funds do not accumulate to a certain level by a certain date. The funds are classified as temporarily restricted until the endowment terms are met. Net assets of \$467,544 and \$21,089 were reclassified to permanently restricted net assets under these agreements during the years ended June 30, 2010 and 2009, respectively.

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**Note 18 - Reclassifications (continued)**

During the year ended June 30, 2010, management determined that net assets of \$128,861 previously classified as unrestricted needed reclassification of \$9,761 to temporarily restricted and \$119,100 to permanently restricted net assets. The reclassifications are separately listed on the consolidated statement of activities, and had no effect on the statement of cash flows for the year ended June 30, 2010.

**Note 19 - Subsequent events**

As described in Note 3, the Foundation holds investments in a hedge fund, The Alternative Strategies Fund (the "Fund") with a fair market value of \$403,155 as of June 30, 2010. The Fund is managed by Russell Investment Group (Russell). In March 2008, Russell resolved to wind down and close the Fund and has been liquidating the positions, where possible, since that time. In a letter dated October 20, 2010, Russell informed the Fund's shareholders that they have resolved to sell the Fund's remaining assets as soon as practicable. As a result, Russell determined that a change in the Fund's valuation methodology was appropriate. This change in the valuation methodology has resulted in a write down of the Fund's net asset value as of August 31, 2010 of 78.30%. As of August 31, 2010, the net asset value of the Foundation's investment in the Fund was \$326,210, before the estimated write down of approximately \$255,422 as of that date.

Subsequent events have been evaluated through October 27, 2010, which is the date the consolidated financial statements were available to be issued. No additional disclosures requiring disclosure have occurred through this date.