

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

**Consolidated Financial Statements
for the years ended
June 30, 2009 and 2008**

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, 2009 and 2008, 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 opinions.

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, 2009 and 2008, 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 20, 2009

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 2,259,926	\$ 2,214,817
Contributions receivable, net	4,620,208	4,962,549
Related party receivable	24,832	30,867
Investments	30,882,228	39,412,256
Cash value of life insurance policies	231,228	217,417
Longwood Center for the Visual Arts art collection	2,619,581	2,374,353
Depreciable property and equipment, net of accumulated depreciation	1,254,326	1,457,816
Land	1,229,185	1,229,185
Other assets	-	2,062
Beneficial interest in perpetual trust	1,829,874	2,302,351
	Total assets	Total assets
	\$ 44,951,388	\$ 54,203,673
 Liabilities and Net assets		
Liabilities		
Accounts payable	\$ 47,210	\$ 88,805
Amounts payable to third party beneficiaries	776,351	846,966
Annuities payable	394,177	413,577
Notes payable	-	51,887
	Total liabilities	Total liabilities
	1,217,738	1,401,235
 Net assets		
Unrestricted net assets		
Current operations	(1,959,141)	2,084,197
Funds functioning as endowment	5,041,813	6,689,648
Designated for specific purposes	895,573	772,045
	Total unrestricted net assets	Total unrestricted net assets
	3,978,245	9,545,890
Temporarily restricted net assets	13,491,648	17,180,373
Permanently restricted net assets	26,263,757	26,076,175
	Total net assets	Total net assets
	43,733,650	52,802,438
	Total liabilities and net assets	Total liabilities and net assets
	\$ 44,951,388	\$ 54,203,673

See notes to consolidated financial statements.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Activities
Years ended June 30, 2009 and 2008

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	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses), and other support				
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>
Total revenues, gains (losses), and other support	<u>(1,345,269)</u>	<u>(4,779,133)</u>	<u>494,027</u>	<u>(5,630,375)</u>
Expenses				
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>
Total expenses	<u>3,438,413</u>	<u>-</u>	<u>-</u>	<u>3,438,413</u>
Change in net assets before reclassifications	(4,783,682)	(4,779,133)	494,027	(9,068,788)
Reclassifications	<u>(783,963)</u>	<u>1,090,408</u>	<u>(306,445)</u>	<u>-</u>
Change in net assets	(5,567,645)	(3,688,725)	187,582	(9,068,788)
Net assets, beginning of year	<u>9,545,890</u>	<u>17,180,373</u>	<u>26,076,175</u>	<u>52,802,438</u>
Net assets, end of year	<u>\$ 3,978,245</u>	<u>\$ 13,491,648</u>	<u>\$ 26,263,757</u>	<u>\$ 43,733,650</u>

(continued)

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Activities
Years ended June 30, 2009 and 2008

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	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains (losses), and other support				
Contributions	\$ 794,502	\$ 3,623,852	\$ 456,059	\$ 4,874,413
Income from perpetual trust	-	110,771	-	110,771
Investment income	880,032	3,239,167	36,202	4,155,401
Net realized and unrealized loss on investments	(1,168,493)	(5,805,383)	3,490	(6,970,386)
Net unrealized loss on perpetual trust	-	(68,412)	(178,552)	(246,964)
Other revenue	43,902	217,733	2,070	263,705
Annuity and unitrust adjustments	-	40,781	-	40,781
Net assets released from restrictions	<u>2,665,628</u>	<u>(2,665,628)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>3,215,571</u>	<u>(1,307,119)</u>	<u>319,269</u>	<u>2,227,721</u>
Expenses				
Program expenses				
Institutional support	1,760,021	-	-	1,760,021
Scholarships and grants	1,030,989	-	-	1,030,989
Alumni association	52,473	-	-	52,473
Other	6,285	-	-	6,285
Supporting expenses				
Administrative and general	329,783	-	-	329,783
Fundraising	<u>289,441</u>	<u>-</u>	<u>-</u>	<u>289,441</u>
Total expenses	<u>3,468,992</u>	<u>-</u>	<u>-</u>	<u>3,468,992</u>
Change in net assets before reclassifications	(253,421)	(1,307,119)	319,269	(1,241,271)
Reclassifications	<u>-</u>	<u>(546,689)</u>	<u>546,689</u>	<u>-</u>
Change in net assets	(253,421)	(1,853,808)	865,958	(1,241,271)
Net assets, beginning of year	<u>9,799,311</u>	<u>19,034,181</u>	<u>25,210,217</u>	<u>54,043,709</u>
Net assets, end of year	<u>\$ 9,545,890</u>	<u>\$ 17,180,373</u>	<u>\$ 26,076,175</u>	<u>\$ 52,802,438</u>

See notes to consolidated financial statements.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Consolidated Statements of Cash Flows
Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (9,068,788)	\$ (1,241,271)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	59,115	67,200
Loss on disposition of assets	144,375	-
Net realized and unrealized loss on investments	9,140,978	6,970,386
Permanently restricted contributions	(923,263)	(456,059)
Net unrealized loss on perpetual trust	472,477	246,964
Gifts in kind, art collection	(245,228)	(61,939)
Changes in operating assets and liabilities		
Contributions receivable	342,341	(2,172,566)
Related party receivable	6,035	21,940
Cash value of life insurance policies	(13,811)	(14,031)
Accounts payable	(41,595)	69,942
Amounts payable to third party beneficiaries	(70,615)	(21,364)
Net decrease in annuities payable	(19,400)	(1,521)
Net cash provided by operating activities	(217,379)	3,407,681
Cash flows from investing activities		
Purchase of investments, net of proceeds from sales of investments	(610,950)	(4,152,883)
Purchase of property and equipment	-	(94,802)
Change in other assets	2,062	(2,062)
Net cash used by investing activities	(608,888)	(4,249,747)
Cash flows from financing activities		
Permanently restricted contributions	923,263	456,059
Payments on notes payable	(51,887)	(113,817)
Net cash provided by financing activities	871,376	342,242
Net decrease in cash and cash equivalents	45,109	(499,824)
Cash and cash equivalents, beginning of year	2,214,817	2,714,641
Cash and cash equivalents, end of year	\$ 2,259,926	\$ 2,214,817
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 5,175	\$ 9,915

See notes to consolidated financial statements.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

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 2009 and 2008, 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 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.
- **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.

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 its cash and cash equivalents on deposit with financial institutions in the United States. In October and November 2008 the Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is scheduled to expire on December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. During the year, the Foundation from time to time may have had amounts on deposit in excess of the insured limits.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 1 - Summary of significant accounting policies (continued)

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, 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 charge 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.

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, 2009 and 2008 were \$450,674 and \$829,352, respectively and are included as amounts payable to third party beneficiaries in the statement of financial position.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 1 - Summary of significant accounting policies (continued)

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 United States Treasury 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, 2009 and 2008, \$657,487 and \$72,194, 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).

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 balance sheets 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 balance sheets for notes payable approximate fair value due to the effect of the variable rate of interest stated in the note.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 1 - Summary of significant accounting policies (continued)

Fair value (continued)

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.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) which defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement and enhances disclosures about fair value measurements. Effective July 1, 2008, the Foundation adopted the provisions of SFAS 157. SFAS 157 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. Adoption of SFAS 157 did not have a material impact on the Foundation's financial statements.

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

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.

Subsequent events

Subsequent events have been evaluated through October 20, 2009, which is the date the financial statements were available to be issued.

Reclassifications

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

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 2 - Contributions receivable

Contributions receivable consists of the following at June 30:

	2009	2008
Cash pledges expected to be collected in:		
Less than one year	\$ 312,559	\$ 67,252
One to five years	1,341,060	1,760,502
Thereafter	6,236,890	6,501,979
Total	7,890,509	8,329,733
Less discount to present value at 6% for 2009 and 2008	3,270,301	3,367,184
Total	\$ 4,620,208	\$ 4,962,549

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

	2009	2008
Temporarily restricted	\$ 3,589,264	\$ 2,409,314
Permanently restricted	1,030,944	2,553,235
	\$ 4,620,208	\$ 4,962,549

At June 30, 2009 and 2008, the Foundation had received bequests and other intentions to give of approximately \$7,762,422 and \$7,204,913, 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, 2009 and 2008

Note 3 - Investments (continued)

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

	2009		2008	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ <u>2,259,926</u>	\$ <u>2,259,926</u>	\$ <u>2,214,477</u>	\$ <u>2,214,817</u>
Investments:				
Investment in real estate investment trusts	2,223,010	1,459,160	1,501,925	1,519,403
Government bonds and corporate obligations	9,687,824	9,123,112	11,433,286	10,861,308
Corporate stocks	28,813,611	19,403,888	25,348,927	23,462,319
Hedge funds	<u>1,235,701</u>	<u>896,068</u>	<u>3,437,831</u>	<u>3,569,226</u>
Total investments	<u>41,960,146</u>	<u>30,882,228</u>	<u>41,721,969</u>	<u>39,412,256</u>
Beneficial interest in perpetual trust:				
Cash and cash equivalents	74,953	74,953	159,435	159,435
Government bonds and corporate obligations	663,488	660,037	866,265	804,848
Corporate stocks	<u>1,284,009</u>	<u>1,094,884</u>	<u>1,162,796</u>	<u>1,338,068</u>
Total beneficial interest in perpetual trust	<u>2,022,450</u>	<u>1,829,874</u>	<u>2,188,496</u>	<u>2,302,351</u>
Total	\$ <u>46,242,522</u>	\$ <u>34,972,028</u>	\$ <u>46,124,942</u>	\$ <u>43,929,424</u>

Cash and cash equivalents includes operating cash of \$1,141,377 and \$337,205 as of June 30, 2009 and 2008.

Investment fees netted against investment income for the years ended June 30, 2009 and 2008 were \$198,797 and \$276,888, respectively.

The Foundation has invested in "hedge funds," which include various financial instruments such as puts, calls, options, and futures contracts. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the statement of activities, with net unrealized gains (losses) of approximately \$(339,633) and \$131,395 recognized for the years ended June 30, 2009 and 2008, respectively.

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.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

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:

Measurement at fair value on a recurring basis:

	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	\$ <u>2,073,591</u>	\$ <u>173,459</u>	\$ <u>12,876</u>	\$ <u>2,259,926</u>
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	<u>-</u>	<u>-</u>	<u>896,068</u>	<u>896,068</u>
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 valued at Level 3 because some of the factors used in valuation include factors not easily observable in similar instruments in an active market.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

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 Plan's level 3 investment assets for the year ended June 30, 2009.

	<u>Cash</u> <u>Equivalents</u>	<u>Hedge</u> <u>Funds</u>	<u>Total</u> <u>(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
Settlements (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 Plan's level 3 investment liabilities for the year ended June 30, 2009:

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

Note 5 - Real estate, property and equipment

The following is a summary of depreciable property and equipment at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Buildings	\$ 1,356,071	\$ 1,554,071
Property and equipment	36,498	36,498
Vehicles	<u>116,225</u>	<u>116,225</u>
	1,508,794	1,706,794
Less accumulated depreciation	<u>254,468</u>	<u>248,978</u>
Depreciable property and equipment, net	\$ <u>1,254,326</u>	\$ <u>1,457,816</u>

Depreciation expense was \$59,115 and \$67,200 for the years ended June 30, 2009 and 2008, respectively.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 6 - Beneficial interest in perpetual trust

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

At June 30, 2009 and 2008 the market value of the Nance Trust was \$1,829,874 and \$2,302,351, 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, 2009, were \$140,321 and \$(472,478), respectively; and \$110,771 and \$(246,964), respectively for the year ended June 30, 2008.

Note 7 - Notes payable

Notes payable consisted of the following at June 30:

	Final Maturity	2009	2008
Note payable of \$455,000, deed of trust, private individual, no stated interest, imputed at 6%, payable \$100,000 annually, including interest, callable as of January 1, 2007, collateralized by a building with a net book value of \$1,186,561	2009	\$ -	\$ 51,877

Total interest expense for the years ended June 30, 2009 and 2008, was \$3,113 and \$9,915, respectively.

Note 8 - Temporarily restricted net assets

The amounts included as temporarily restricted net assets as of June 30, 2009 and 2008 consisted of the following:

	2009	2008
Longwood Center for the Visual Arts	\$ 4,741,375	\$ 4,873,747
Scholarships and awards	2,752,684	6,873,806
Academic support	3,729,412	3,856,922
Class gift projects	364,641	261,194
Athletics	196,798	162,846
Hardy House	105,981	286,257
Other capital projects	563,158	545,791
Other purpose restrictions	498,717	152,554
Time restrictions	538,882	167,256
	\$ 13,491,648	\$ 17,180,373

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
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Note 9 - Permanently restricted net assets

The following original endowment gifts are classified as permanently restricted net assets at June 30, 2009 and 2008, and relate to the following purposes:

	2009	2008
Scholarships and awards	\$ 20,085,892	\$ 20,490,886
Professorships	1,000,000	1,000,000
Longwood Center for the Visual Arts	763,988	723,694
Ames Hull Springs Farm	2,468,124	2,468,124
Library	55,450	57,475
Other endowment gifts	1,890,303	1,335,996
	\$ 26,263,757	\$ 26,076,175

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, 2009 and 2008, totaled \$2,170,883 and \$2,665,628, respectively.

Note 11 - Endowment

Effective July 1, 2008, the Foundation adopted the provisions of FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 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 of 2006 (UPMIFA) and also required 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.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
June 30, 2009 and 2008

Note 11 - Endowment (continued)

Interpretation of relevant law

The Board of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (the “Act”) 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 the Act. In accordance with the Act, 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, 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>

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
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Note 11 - Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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>

Endowment net assets consists of the following at June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 6,833,684	\$ 26,076,175	\$ 32,909,859
Board-designated endowment funds	<u>6,689,648</u>	<u>-</u>	<u>-</u>	<u>6,689,648</u>
Total endowed net assets	<u>\$ 6,689,648</u>	<u>\$ 6,833,684</u>	<u>\$ 26,076,175</u>	<u>\$ 39,599,507</u>

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Note 11 - Endowment (continued)

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2007	\$ 7,549,075	10,377,424	\$ 25,210,217	\$ 43,136,716
Investment return:				
Investment income	879,825	3,078,945	36,202	3,994,972
Net realized and unrealized loss	<u>(1,167,871)</u>	<u>(5,565,889)</u>	<u>3,490</u>	<u>(6,730,270)</u>
Total investment return	(288,046)	(2,486,944)	39,692	(2,735,298)
Contributions	95,633	358,096	456,059	909,788
Appropriation of endowment assets for expenditure	(47,624)	(689,117)	-	(736,741)
Net unrealized loss on perpetual trust	-	(68,412)	(178,552)	(246,964)
Other revenue	9,511	-	2,070	11,581
Annuity and unitrust adjustments	-	40,781	-	40,781
Administrative fees	(100,926)	(437,018)	-	(537,944)
Reclassifications	<u>(527,975)</u>	<u>(261,126)</u>	<u>546,689</u>	<u>(242,412)</u>
Endowment net assets, June 30, 2008	<u>\$ 6,689,648</u>	<u>\$ 6,833,684</u>	<u>\$ 26,076,175</u>	<u>\$ 39,599,507</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 the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$2,770,046 as of June 30, 2009. 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. There were no such deficiencies as of June 30, 2008.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
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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, 2009 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 fiscal year ended June 30, 2009 only .50% was appropriated 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 fiscal year ended June 30, 2009 almost 75% 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 lease

In November 1998, the Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Foundation leased the real estate to Longwood University for the same lease term. At June 30, 2004, an option to purchase the property for \$555,000 was exercised by the Foundation, and the purchase transaction closed during the year ended June 30, 2005 with the issuance for a four-year non-interest bearing note for the balance of the purchase price (See Note 7). 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, 2009 and 2008.

Note 13 - Related parties

The Foundation received contribution revenue from Board members in the amount of \$133,725 and \$51,731 for the years ending June 30, 2009 and 2008, respectively. The amount of contribution receivable due from the Board members totaled \$368,093 and \$129,576 at June 30, 2009 and 2008, 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 is \$2,415,746 and \$2,449,969 at June 30, 2009 and 2008, 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, 2009 and 2008, Longwood University owed the Foundation \$24,832 and \$30,867, respectively.

Note 14 - Concentrations of credit risk

The Foundation maintains its cash, cash equivalent, 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 2009 and 2008, the Foundation maintained 89% and 88%, respectively, of its investment portfolio with one financial institution.

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. During the year ended June 30, 2008, contributions from one donor represented approximately 12% of the Foundation's total revenues and three donors represented approximately 66% of contributions receivable.

LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES
Notes to Consolidated Financial Statements
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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 contributes 10.40% of the employees' salary totaling \$20,865 and \$17,752 for the years ended June 30, 2009 and 2008, respectively.

Note 16 - Deferred compensation

The Foundation has a deferred compensation agreement with the President of Longwood 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 President was given the option of increasing the deferred compensation amount by deferring a portion of her annual salary increase. The President has no interest or entitlement to payment until the President's disability or death while employed by the University, or the President's 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, 2009 and 2008 was \$81,738 and \$66,288, respectively, which was included as amounts payable to third party beneficiaries in the consolidated statements of financial position.

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

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 \$21,089 and \$546,689 were reclassified to permanently restricted net assets under these agreements during the years ended June 30, 2009 and 2008, respectively.

During the fiscal year ended June 30, 2009, management determined, during analysis needed to implement changes required to comply with the Uniform Prudent Management of Institutional Fund Act and implement FSP 117-1, that net assets of \$825,870 needed reclassification from unrestricted to temporarily restricted net assets. In addition, \$327,534 previously classified as permanently restricted was reclassified as \$41,907 unrestricted and \$285,627 temporarily 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, 2009.