



**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

FINANCIAL STATEMENTS

June 30, 2006 and 2005

C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Longwood University Foundation, Inc. and Affiliate

We have audited the accompanying consolidated statements of financial position of Longwood University Foundation, Inc. and Affiliate (the "Foundation") as of June 30, 2006 and 2005, 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 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Affiliate as of June 30, 2006 and 2005, and the changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

August 11, 2006

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2006 and 2005**

	2006	2005
ASSETS		
Cash	\$ 1,340,968	\$ 278,706
Contributions receivable	601,154	610,250
Investments	37,918,945	34,607,692
Cash value of life insurance policies	201,051	185,469
Longwood Center for the Visual Arts art collection	1,858,348	1,714,393
Depreciable property and equipment, net of accumulated depreciation	1,462,740	1,488,555
Land	1,229,185	1,229,185
Other assets	75,649	160,612
Beneficial interest in perpetual trust	2,298,981	2,219,536
Total assets	\$46,987,021	\$42,494,398
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 65,788	\$ 4,607
Amounts payable to third party beneficiaries	756,377	691,393
Annuities payable	428,066	443,054
Deferred grant revenue	86,860	-
Notes payable	275,050	378,231
Total liabilities	1,612,141	1,517,285
Net assets:		
Unrestricted net assets:		
Current operations	772,710	891,439
Funds functioning as endowment	7,004,537	5,976,688
Designated for specific purposes	701,724	598,622
Total unrestricted net assets	8,478,971	7,466,749
Temporarily restricted net assets	13,178,104	11,207,641
Permanently restricted net assets	23,717,805	22,302,723
Total net assets	45,374,880	40,977,113
Total liabilities and net assets	\$46,987,021	\$42,494,398

The Notes to Consolidated Financial Statements
are an integral part of these statements.

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended June 30, 2006 and 2005**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS, AND OTHER SUPPORT				
Contributions	\$ 534,507	\$ 1,748,152	\$ 1,075,102	\$ 3,357,761
Income from perpetual trust	-	91,458	-	91,458
Investment income	457,199	1,310,977	33,004	1,801,180
Realized and unrealized gains on investments, net	506,275	886,434	1,158	1,393,867
Unrealized gain on perpetual trust, net	-	-	79,445	79,445
Other revenue	23,696	155,788	(6,521)	172,963
Annuity and unitrust adjustments	-	(96,389)	-	(96,389)
Net assets released from restrictions and reclassifications	1,893,063	(2,125,957)	232,894	-
Total revenues, gains, and other support	<u>3,414,740</u>	<u>1,970,463</u>	<u>1,415,082</u>	<u>6,800,285</u>
EXPENSES				
Program expenses:				
Institutional support	1,139,539	-	-	1,139,539
Scholarships and grants	856,933	-	-	856,933
Alumni association	37,561	-	-	37,561
Other	14,950	-	-	14,950
Supporting expenses:				
Administrative and general	234,843	-	-	234,843
Fundraising	118,692	-	-	118,692
Total expenses	<u>2,402,518</u>	<u>-</u>	<u>-</u>	<u>2,402,518</u>
INCREASE (DECREASE) IN NET ASSETS	1,012,222	1,970,463	1,415,082	4,397,767
NET ASSETS				
Beginning	<u>\$ 7,466,749</u>	<u>\$11,207,641</u>	<u>\$22,302,723</u>	<u>\$40,977,113</u>
Ending	<u>\$ 8,478,971</u>	<u>\$13,178,104</u>	<u>\$23,717,805</u>	<u>\$45,374,880</u>

The Notes to Consolidated Financial Statements
are an integral part of these statements.

2005

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 557,930	\$ 1,258,540	\$ 803,154	\$ 2,619,624
-	59,033	-	59,033
321,947	864,327	-	1,186,274
780,003	874,211	-	1,654,214
-	-	100,250	100,250
24,320	158,985	7,731	191,036
-	268	-	268
<u>2,355,330</u>	<u>(2,616,610)</u>	<u>261,280</u>	<u>-</u>
<u>4,039,530</u>	<u>598,754</u>	<u>1,172,415</u>	<u>5,810,699</u>
1,608,205	-	-	1,608,205
858,528	-	-	858,528
60,461	-	-	60,461
16,976	-	-	16,976
198,783	-	-	198,783
169,123	-	-	169,123
<u>2,912,076</u>	<u>-</u>	<u>-</u>	<u>2,912,076</u>
1,127,454	598,754	1,172,415	2,898,623
<u>6,339,295</u>	<u>10,608,887</u>	<u>21,130,308</u>	<u>38,078,490</u>
<u>\$ 7,466,749</u>	<u>\$11,207,641</u>	<u>\$22,302,723</u>	<u>\$40,977,113</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2006 and 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$4,397,767	\$ 2,898,623
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	34,172	59,874
Loss on disposition of assets	-	284
Realized and unrealized gains on investments, net	(1,393,867)	(1,654,214)
Permanently restricted contributions	(778,336)	(1,115,046)
Unrealized gain on perpetual trust, net	(79,445)	(100,250)
Gifts in kind, art collection	(143,955)	(121,845)
Change in operating assets and liabilities:		
Contributions receivable	9,096	435,095
Cash value of life insurance policies	(15,582)	(20,852)
Accounts payable	61,181	(686)
Amounts payable to third party beneficiaries	64,984	123,437
Deferred grant revenue	86,860	-
Net cash provided by (used in) operating activities	2,242,875	504,420
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposition of fixed assets	-	500
Purchase of investments, net of proceeds from sales of investments	(1,917,386)	(519,349)
Purchase of property and equipment	(8,357)	(874,437)
Change in other assets	84,963	127,204
Net cash used in investing activities	(1,840,780)	(1,266,082)
CASH FLOWS FROM FINANCING ACTIVITIES		
Permanently restricted contributions	778,336	1,115,046
Net (decrease) increase in annuities payable	(14,988)	(119,908)
Payments on notes payable	(103,181)	(97,364)
Net cash provided by financing activities	660,167	897,774
Net increase in cash	1,062,262	136,112
Beginning	278,706	142,594
Ending	\$ 1,340,968	\$ 278,706
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ 22,613	\$ 28,430
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Real estate purchased through seller financing	\$ -	\$ 387,610

The Notes to Consolidated Financial Statements are an integral part of these statements.

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 1. Summary of Significant Accounting Policies

Principles of consolidation:

The consolidated financial statements include the accounts of the Longwood University Foundation, Inc. and its supporting organization, the Duvahl Ridgeway Hull and Andrew W. Hull Charitable Foundation (the "Hull Foundation").

The Longwood University Foundation, Inc. and Affiliate (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 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 business:

The Foundation is a non-profit organization that exists for the sole purpose of supporting the activities and operations of Longwood 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 either 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. As of June 30, 2006, 100% of cash and cash equivalents were held at one U.S. institution, which exceeds federally insured limits.

(Continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

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. Certain limited partnership interests, for which fair values are not readily determinable, are carried at cost. Investment income and realized and unrealized gains and losses are included in the statements of activities in the appropriate net asset class.

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 commensurate with the risks involved. 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.

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.

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 the assets. 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.

Irrevocable split-interest agreements:

The Foundation is a participant in various irrevocable 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

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 1. Summary of Significant Accounting Policies (Continued)

Irrevocable split-interest agreements: (continued)

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.

Split-interest agreements where the Foundation is not the trustee are included in either contributions receivable or funds held in perpetual trusts.

Income taxes:

The Foundation 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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimates that were used.

Note 2. Contributions Receivable

Contributions receivable consists of the following at June 30:

	2006	2005
Cash pledges expected to be collected in:		
Less than one year	\$ 638,992	\$ 444,370
One year to five years	44,700	260,400
Over five years	-	-
	683,692	704,770
Less:		
Discount to net present value at 3-6%	(82,538)	(94,520)
	\$ 601,154	\$ 610,250

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

	2006	2005
Temporarily restricted	\$ 132,056	293,963
Permanently restricted	469,098	316,287
	\$ 601,154	\$ 610,250

(Continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 2. Contributions Receivable (Continued)

At June 30, 2006 and 2005, the Foundation had received bequests and other intentions to give of approximately \$9,183,000 and \$9,173,000, 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.

Note 3. Investments

Investments are composed of the following at June 30:

	2006		2005	
	Cost	Market Value	Cost	Market Value
Cash and cash equivalents	\$ 1,828,290	\$ 1,828,290	\$ 1,714,715	\$ 1,714,715
Investment in real estate limited partnership	-	-	25,000	25,000
Investment in real estate investment trusts	1,065,884	1,662,183	1,175,396	1,800,953
Government and corporate obligations	11,353,352	10,735,959	10,020,082	9,925,141
Corporate stocks	18,686,279	20,510,629	16,390,908	18,234,937
Hedge funds	2,782,285	3,181,884	2,774,585	2,906,946
	\$ 35,716,090	\$ 37,918,945	\$ 32,100,686	\$ 34,607,692

Investment fees netted against investment income for the years ended June 30, 2006 and 2005, were \$245,118 and \$211,480, respectively.

The Foundation has diversified its investment portfolio in order to moderate volatility by investing in certain "hedge funds". Various financial instruments such as puts, calls, options, and futures contracts may be included in these alternative investment funds. The Foundation is not liable for losses greater than the invested amount. Realized and unrealized gains and losses of these funds are included with investment gains and losses in the statement of activities, with net unrealized gains of approximately \$275,000 and \$88,000 recognized for the years ended June 30, 2006 and 2005, respectively.

(Continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 4. Real Estate, Property and Equipment

The following is a summary of real estate, property and equipment at June 30, 2006 and 2005:

	2006	2005
Buildings	\$ 1,554,071	\$ 1,554,071
Property and Equipment	20,115	11,758
Vehicles	34,062	34,062
	1,608,248	1,599,891
Less accumulated depreciation	145,508	111,336
Depreciable property and equipment, net	1,462,740	1,488,555
Land – Ames Hull Spring Farm	1,229,185	1,229,185
	\$ 2,691,925	\$ 2,717,740

Depreciation expense was \$ 34,172 and \$59,874 for the years ended June 30, 2006 and 2005, respectively.

Note 5. Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of the annual income earned from the Nellie 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, 2006 and 2005, the Nance Trust had market values of \$2,298,982 and \$2,219,536, respectively, which are recorded in the consolidated statements of position. Income and unrealized gains on the Nance Trust for the year ended June 30, 2006, were \$91,458 and \$79,445; and \$59,033 and \$100,250 for June 30, 2005.

Note 6. Notes Payable

Notes payable consist of the following at June 30:

	Final Maturity	2006	2005
Uncollateralized note payable, private foundation 5.88%, payable \$25,794 annually, including interest.	2007	\$ 45,531	\$ 67,364
Note payable, 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 building with a net book value of \$1,288,267.	2009	229,519	310,867
		\$ 275,050	\$ 378,231

(Continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 6. Notes Payable (Continued)

Principal payments on notes payable are scheduled as follows: 2007 - \$109,346; 2008 - \$113,816; 2009 - \$51,888.

Total interest expense for the years ended June 30, 2006 and 2005, was \$22,613 and \$28,430, respectively.

Note 7. Temporarily Restricted Net Assets

The amounts included as temporarily restricted net assets as of June 30, 2006 and 2005, consisted of the following:

	2006	2005
Longwood Center for the Visual Arts	\$ 3,486,509	\$ 3,105,419
Scholarships and awards	6,487,044	5,296,174
Academic support	1,549,600	522,472
Class gift projects	248,682	176,701
Athletics	155,287	81,438
Hardy House	283,478	282,439
Brock Commons	43,084	40,774
Rotunda reconstruction	558,016	574,765
Other purpose restrictions	245,037	1,021,281
Time restrictions	121,367	106,178
	\$ 13,178,104	\$ 11,207,641

Note 8. Permanently Restricted Net Assets

The following original endowment gifts are classified as permanently restricted net assets at June 30, 2006 and 2005, and relate to the following purposes:

	2006	2005
Scholarships and awards	\$ 18,541,803	\$ 17,289,496
Professorships	1,000,000	1,000,000
Longwood Center for the Visual Arts	571,757	565,544
Ames Hull Springs Farm	2,468,124	2,475,605
Library	57,025	54,400
Other endowment gifts	1,079,096	917,678
	\$ 23,717,805	\$ 22,302,723

(Continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC.
AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005**

Note 9. Net Assets Released and Reclassified

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, 2006 and 2005, totaled \$1,893,063 and \$2,355,330, respectively.

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 \$232,894 and \$261,280 were reclassified to permanently restricted net assets under these agreements during the years ended June 30, 2006 and 2005, respectively.

Note 10. 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 subleased 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 of a four-year non-interest bearing note for the balance of the purchase price (See Note 5). The University continues to lease the property on a month-to-month basis, with \$40,000 of rental income recognized in each of the years ended June 30, 2006 and 2005.

Note 11. Related Parties

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

During the year ended June 30, 2005, a separate real estate foundation was established by the University to handle residence hall renovations and various construction projects. As of June 30, 2006 and 2005, the real estate foundation owed the Longwood University Foundation \$54,174 and \$157,167, respectively.

Note 12. Retirement Plan

The Foundation has a Section 403(b) retirement plan which covers substantially all full-time employees. The Foundation contributes 10% of the employees' salary, totaling \$14,461 and \$10,786 for the years ended June 30, 2006 and 2005, respectively.

Note 13. 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. 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. As of June 30, 2006 and 2005, the total amount credited to the deferred compensation account was \$121,073 and \$92,896, respectively.