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UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Financial Statements, Supplemental Schedules, including the Schedule of Expenditures of Federal Awards, and Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

June 30, 2017

(With Independent Auditors' Reports Thereon in Accordance with *Government Auditing Standards* and Uniform Guidance)

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report

The Board of Trustees
University of Richmond:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Richmond and its affiliates, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University of Richmond and its affiliates as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

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Report on Summarized Comparative Information

We have previously audited the University of Richmond and its affiliates' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 17, 2017

Consolidated Statement of Financial Position

As of June 30, 2017

With comparative financial information as of June 30, 2016

(in thousands)

		2017	2016
Assets:			
Cash and cash equivalents	$	88,545	81,679
Pledges receivable, net		9,915	13,456
Investments		2,434,732	2,184,113
Other assets, net		26,472	25,195
Property, plant and equipment, net		334,195	351,390
Consolidated variable interest entity (note 1)			
Cash and cash equivalents		119,132	279,226
Investments		1,884,048	1,537,964
Other assets		771	769
Total assets	**$**	**4,897,810**	**4,473,792**
Liabilities:			
Accounts payable and other liabilities	$	47,702	47,115
Postretirement benefits		18,984	19,405
Notes payable		240,741	243,463
Interest rate swap agreements		24,580	34,421
Consolidated variable interest entity (note 1)			
Partner contributions received in advance		6,904	167,477
Other liabilities		14,206	9,062
Funds held on behalf of others *(note 1)*		1,997,465	1,608,301
Total liabilities		**2,350,582**	**2,129,244**
Net assets:			
Unrestricted		1,288,345	1,176,172
Temporarily restricted		866,452	783,755
Permanently restricted		392,431	384,621
Total net assets		**2,547,228**	**2,344,548**
Total liabilities and net assets	**$**	**4,897,810**	**4,473,792**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Activities

For the year ended June 30, 2017

With summarized comparative financial information for the year ended June 30, 2016

(in thousands)

	2017				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2016 Total**
Operating revenues:					
Tuition and fees	$ 188,197	—	—	188,197	181,673
Less scholarship allowance	(78,437)	—	—	(78,437)	(74,632)
Net tuition and fees	109,760	—	—	109,760	107,041
Grants and contracts	3,914	—	—	3,914	4,557
Contributions	7,060	2,832	—	9,892	8,724
Investment return, net	65,638	49,781	—	115,419	111,133
Auxiliary enterprises	41,432	—	—	41,432	39,327
Other sources	12,051	—	—	12,051	12,870
Net assets released from restrictions	48,850	(48,850)	—	—	—
Total operating revenues	**288,705**	**3,763**	**—**	**292,468**	**283,652**
Operating expenses:					
Instruction	83,534	—	—	83,534	80,743
Research	5,157	—	—	5,157	5,707
Public service	3,881	—	—	3,881	3,626
Academic support and libraries	47,496	—	—	47,496	44,796
Student services	48,670	—	—	48,670	47,273
Institutional support	40,039	—	—	40,039	40,369
Auxiliary enterprises	48,265	—	—	48,265	46,678
Total operating expenses	**277,042**	**—**	**—**	**277,042**	**269,192**
Change in net assets from operating activities	**11,663**	**3,763**	**—**	**15,426**	**14,460**
Nonoperating activities:					
Contributions	—	1,962	3,795	5,757	7,018
Investment return, net	328,736	81,922	4,317	414,975	(255,733)
Change in fair value of interest rate swap agreements	9,841	—	—	9,841	(8,789)
Change in postretirement benefits	1,234	—	—	1,234	(2,997)
Affiliated organizations' expenses	(15,163)	—	—	(15,163)	(14,698)
Loss on sale of land and building	(5,367)	—	—	(5,367)	—
Other nonoperating activities, net	(1,290)	(947)	(302)	(2,539)	(3,449)
Net assets released from restrictions	4,003	(4,003)	—	—	—
	321,994	78,934	7,810	408,738	(278,648)
Less change in net assets related to variable interest entity *(note 1)*	(221,484)	—	—	(221,484)	73,584
Change in net assets from nonoperating activities	**100,510**	**78,934**	**7,810**	**187,254**	**(205,064)**
Change in net assets	**112,173**	**82,697**	**7,810**	**202,680**	**(190,604)**
Net assets at beginning of year	**1,176,172**	**783,755**	**384,621**	**2,344,548**	**2,535,152**
Net assets at end of year	**$ 1,288,345**	**866,452**	**392,431**	**2,547,228**	**2,344,548**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended June 30, 2017

With comparative financial information for the year ended June 30, 2016

(in thousands)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 202,680	(190,604)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	25,871	24,133
Net unrealized and realized (gains) losses on investments	(278,079)	111,912
Loss on sale of land and building	5,367	—
Amortization of note premiums	(552)	(949)
Contributions restricted for purchase of property and equipment	(122)	(3,629)
Contributions restricted for endowment	(3,916)	(8,234)
Change in fair value of interest rate swap agreements	(9,841)	8,789
Change in assets and liabilities of consolidated variable interest entity *(note 1)*		
Cash and cash equivalents	160,094	(200,282)
Investments	(346,084)	11,615
Other assets	(2)	1,110
Partner contributions received in advance	(160,573)	149,616
Other liabilities	5,144	(4,288)
Change in assets and liabilities that provide (use) cash:		
Pledges receivable, net	3,541	8,376
Other assets, net	(1,277)	2,457
Accounts payable and other liabilities	(464)	1,479
Postretirement benefits	(421)	3,414
Funds held on behalf of others *(note 1)*	389,164	7,213
Net cash used in operating activities	**(9,470)**	**(77,872)**
Cash flows from investing activities:		
Proceeds from sales of investments	651,411	485,645
Purchases of investments	(623,951)	(345,266)
Proceeds from sale of property, plant and equipment	20,800	—
Purchases of property, plant and equipment	(33,792)	(42,731)
Net cash provided by investing activities	**14,468**	**97,648**
Cash flows from financing activities:		
Contributions restricted for purchase of property and equipment	122	3,629
Contributions restricted for endowment	3,916	8,234
Repayment of notes payable	(2,170)	(21,825)
Proceeds from issuance of notes payable	—	40,000
Net cash provided by financing activities	**1,868**	**30,038**
Net increase in cash and cash equivalents	6,866	49,814
Cash and cash equivalents at beginning of year	81,679	31,865
Cash and cash equivalents at end of year	**$ 88,545**	**81,679**
Supplemental disclosure:		
Cash paid for interest on notes payable and interest rate swap agreements	9,510	9,048
Cash paid for income taxes	3,949	—
Purchase of property, plant and equipment funded by accounts payable	1,051	(612)

See accompanying notes to the consolidated financial statements.

1 Organization and Summary of Significant Accounting Policies

Organization

The University of Richmond is a private institution of higher education located in Richmond, Virginia that provides a collaborative learning and research environment to students and professionals through a combination of liberal arts, law, business, leadership studies and continuing education.

Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, provides investment research, advice, counsel and management with respect to the University of Richmond's endowment assets. The Richmond Fund, LP (Richmond Fund) is an investment limited partnership that provides a vehicle for unaffiliated 501(c) organizations to achieve investment returns that mirror the investment returns achieved by the University of Richmond's endowment. The Richmond Fund Management Company, LLC (RFMC), a wholly controlled affiliate of SMC, is the general partner of the Richmond Fund and is managed by SMC's Board of Managers. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, owned and operated a building and land located in Richmond, Virginia. As described in Note 9, the building and land were sold as of June 30, 2017.

Basis of Presentation

The consolidated financial statements include the financial statements of the University of Richmond and its affiliates (collectively, the University). The consolidated financial statements have been prepared on the accrual basis of accounting and significant intercompany balances and transactions have been eliminated in consolidation.

The assets and liabilities in the consolidated statement of financial position are presented in order of liquidity with the exception of investments, which have certain components that are considered short term and others that are considered long term.

The University classifies revenues earned and expenses incurred related to its core missions of teaching, research and scholarship, and investment returns made available for current use as operating revenues or expenses in the consolidated statement of activities. All other activities, including contributions restricted by donors or designated for longer term use by the Board of Trustees (the Board), are shown as a component of nonoperating activities.

Variable Interest Entity

Richmond Fund is considered a variable interest entity (VIE) consolidated by SMC based upon an analysis by management. SMC controls the activities of the Richmond Fund and as an investment management company, is considered to be the variable interest holder most closely associated with Richmond Fund's business. Consequently, SMC is considered to be the primary beneficiary. SMC is then consolidated by the University of Richmond.

The assets of the Richmond Fund are not available to creditors of the University of Richmond. Similarly, investors of the Richmond Fund have no recourse against the credit of the University of Richmond. The noncontrolling interest of the Richmond Fund is reported as funds held on behalf of others in the consolidated statement of financial position.

As the general partner of the Richmond Fund, RFMC receives management fees based on assets under management and performance allocations based upon returns earned by the Richmond Fund. The University's financial position, financial performance and cash flows are affected by the amount of management fees and performance allocations earned and payable to the University.

Net Asset Classes

The accompanying consolidated financial statements present information regarding the University's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted	Are not subject to donor restrictions but may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties.
Temporarily Restricted	Are subject to donor restrictions that expire through the passage of time or can be fulfilled or removed by actions pursuant to those restrictions. Temporarily restricted net assets consist principally of appreciation on donor restricted gifts, gifts for future capital projects, and unconditional pledges.
Permanently Restricted	Are subject to donor restrictions requiring that they be maintained permanently, thereby restricting the use of principal. Usually, donor restrictions allow part or all of the income earned to be used currently for either a restricted or unrestricted purpose. Permanently restricted net assets consist principally of contributed permanent endowment balances.

Cash and Cash Equivalents

Cash equivalents with a maturity of three months or less at date of purchase are reported as cash and cash equivalents. Cash equivalents held by investment custodians are reported as investments in the accompanying consolidated financial statements.

Investments

Investments are recorded at fair value in the consolidated statement of financial position. In determining fair value, the University uses various methods, including the market, income and cost approaches.

Investments in stocks, bonds and other fixed income securities are valued based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying fund managers and reviewed by the University after considering various sources of information.

The University has estimated the fair value of its hedge funds, real asset funds and private equity funds on the basis of the net asset value (NAV) per share of the investment or its equivalent, as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the University's fiscal year end date. If the NAV is not fair value based or not available at the University's fiscal year end date, the University estimates the NAV. The University uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Hedge and private equity funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge fund and private equity arrangements. The University's investments are also subject to management and performance fees as specified in such funds' agreements.

Investments in real estate consist primarily of investment funds which invest in real estate partnerships as well as mortgages held by the University. Real estate funds are valued using NAV of the fund and mortgages are valued using the discounted cash flow method.

Investments are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

Investment transactions are accounted for on a trade date basis. Dividend income or expense is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Cash dividends declared on stocks for which the securities portfolio reflects a short position as of the reporting date are recognized as an expense on the ex-dividend date. Realized gains and losses are determined by the specific identification method for investments in investment funds and average cost for investments in securities.

Investment return, including realized and unrealized gains and losses, is recognized when earned and reported in the consolidated statement of activities net of related investment fees. Realized and unrealized gains and losses are reported in the consolidated statement of activities as increases or decreases in unrestricted net assets, where there are no donor restrictions, or temporarily restricted net assets, until amounts have been appropriated and the donor-imposed or regulatory time restrictions have been satisfied.

Fair Value Measurements

The University measures certain assets and liabilities that are recognized or disclosed in the accompanying consolidated financial statements at fair value. The University determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities traded in active markets.
Level 2	Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other market-corroborated inputs.
Level 3	Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The fair value of interest rate swap agreements is determined using pricing models developed based on the London Interbank Offered Rate (LIBOR) and other unobservable market data. The value was determined after considering the potential impact of collateralization and netting agreements, and adjusted to reflect nonperformance risk of both the counterparty and the University.

Derivative Instruments

Certain derivative instruments, such as interest rate swap agreements, are used by the University. The University recognizes all derivative instruments as either assets or liabilities in the consolidated statement of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets in the consolidated statement of activities.

Property, Plant and Equipment

Property, plant and equipment consisting of land, improvements, buildings, equipment and library books are stated at cost, if acquired by purchase, or estimated fair value at the date of donation, if contributed by a donor, net of accumulated depreciation. Depreciation is calculated using the straight-line method based on estimated useful lives of 30 to 50 years for buildings, 10 to 20 years for improvements, 5 to 10 years for equipment, and 10 years for library books.

Collections

The University's collections of historically significant artifacts, scientific specimens and art objects are held for education, research, scientific inquiry, and public exhibition. Their value is not reflected in the University's consolidated financial statements, as permitted by U.S. generally accepted accounting principles (GAAP).

Revenue Recognition

Tuition and Fees

Student tuition and fees are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are categorized as deferred revenue and reported within accounts payable and other liabilities in the consolidated statement of financial position. Student aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue.

Contributions

Contributions of cash and other assets, including unconditional pledges, are recorded as revenue in the consolidated statement of activities, based upon any donor-imposed restrictions, on the date of the donors' commitment or gift. Contributions whose restrictions are met in the same fiscal year as their receipt are reported as unrestricted contribution revenue. Contributions of other assets are recorded at the estimated fair value at the date of gift. Unconditional pledges are recorded at the estimated present value on the date of the commitment, which approximates fair value, net of an allowance for uncollectible amounts. Conditional pledges are not recognized as revenue until such time as the conditions are substantially met. At June 30, 2017, the fair value of the conditional pledges received by the University is indeterminable.

Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, the University is exempt from Federal income taxes to the extent provided under Section 501 of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. The University accounts for uncertain tax positions, when applicable. No interest expense or penalties have been recognized as of and for the year ended June 30, 2017. The tax years that remain subject to examination by the major tax jurisdictions under the statute are from the year 2013 forward.

The Richmond Fund, RFMC and Richmond Quadrangle, LLC do not record provisions for income taxes because the partners and members report their share of the entities' income or loss on their respective income tax returns.

Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Comparative Financial Information and Reclassifications

The consolidated financial statements include certain prior year information for comparative purposes, which do not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2016, from which this information was derived. In addition, certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

New Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-02, *Consolidation: Amendments to the Consolidation Analysis*. This ASU modifies existing consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. In January 2017, FASB issued ASU 2017-02, *Not-for-Profit Entities - Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity* was issued. This ASU further clarifies the consolidation guidance in ASU 2015-02, explaining the model to be used by not-for-profit entities to evaluate the consolidation of investments in limited partnerships and limited liability companies that are similar to limited partnerships. The provisions of these updates are effective for fiscal years beginning after December 15, 2016 and may be applied using the modified retrospective or retrospective approach. The University has adopted these two updates effective July 1, 2017. As a result, the University has determined that the Richmond Fund will no longer be consolidated and the corresponding assets, liabilities, operating activities, and cash flow activities will no longer be included in these consolidated financial statements.

Subsequent Events

The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2017 consolidated financial statements through October 17, 2017, the date the consolidated financial statements were issued.

2 Endowment

At June 30, 2017, the University's endowment consisted of approximately 1,400 individual funds, established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University's Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The University has interpreted the Commonwealth of Virginia's enacted version of the Uniform Prudent Management of Institutional Funds Act (the Act) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

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

1. The duration and preservation of the fund;
2. The purposes of the University 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 University;
7. The University's investment policies.

Spending Policy

The University's spending policy was developed with the objectives of meeting the current operating needs of the University, providing year-to-year budget stability and protecting the future purchasing power of the endowment assets against the impact of inflation.

Under normal circumstances, endowment spending will increase at a level of 5.5% per year above the previous year's spending rate. If, however, this amount exceeds 6% or is less than 4% of a three-year moving average of the market value of the endowment assets calculated on a one-year lagged basis, spending will be reduced to 6% or increased to 4% of the three-year moving average, respectively.

On April 21, 2017, the Board approved a revision to the University's spending policy. Beginning in fiscal year 2018, the endowment spending will increase at a rate of 3.0% per year above the previous year's spending rate. The University will continue its policy of adjusting this rate if the proposed amount exceeds 6% or is less than 4% of the three-year moving average of market value of the endowment assets calculated on a one-year lagged basis.

Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing University operations. The primary investment objective is to earn an average annual real total return of at least 5% per year over the long term. Actual returns in any given year may vary from this amount. A secondary objective is to outperform, over the long term, a blended policy benchmark based on the current asset allocation policy. A third objective is to rank in the top quartile of the National Association of College and University Business Officers' reported endowment returns.

Strategies Employed for Achieving Objectives

To satisfy the return objectives, the University 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 University's asset allocation policy provides a diversified strategic mix of asset classes which emphasizes investments in equity and fixed income securities, hedge funds, private equity, real assets, real estate funds, and cash and produces the highest expected investment return within a prudent risk framework.

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration. At June 30, 2017, there were no significant deficiencies of this nature.

Endowment Net Assets at June 30 (in thousands)

	2017			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment fund	$ —	809,964	377,209	1,187,173
Board-designated endowment funds	1,207,901	—	—	1,207,901
Total endowment net assets	**$ 1,207,901**	**809,964**	**377,209**	**2,395,074**

	2016			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment fund	$ (1,100)	728,044	367,880	1,094,824
Board-designated endowment funds	1,069,618	—	—	1,069,618
Total endowment net assets	**$ 1,068,518**	**728,044**	**367,880**	**2,164,442**

Changes in Endowment Net Assets (in thousands)

	2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2016 Total
Beginning endowment net assets	$ 1,068,518	728,044	367,880	2,164,442	2,382,915
Investment return:					
Investment income, net	16,614	—	533	17,147	10,115
Net appreciation (depreciation)	137,137	130,238	1,347	268,722	(100,035)
Total investment return (loss)	153,751	130,238	1,880	285,869	(89,920)
Contributions	202	—	3,714	3,916	6,277
Appropriated for expenditure	(65,992)	(48,318)	—	(114,310)	(109,848)
Reinvested endowment income	4,114	—	3,383	7,497	7,186
Other adjustments	(1,262)	—	352	(910)	2,797
Endowment net assets before eliminations	1,159,331	809,964	377,209	2,346,504	2,199,407
Intercompany eliminations[1]	48,570	—	—	48,570	(34,965)
Ending endowment net assets	**$ 1,207,901**	**809,964**	**377,209**	**2,395,074**	**2,164,442**

[1] *Intercompany eliminations are the changes in the rate of return agreement payable or receivable at June 30 as described in note 11.*

3 Investments and Derivatives

Fair Value Measurements

The following tables show the estimated fair value of University investments, investments of VIE, and derivatives for the fiscal year ended June 30. Fair value measurements not valued using NAV as the practical expedient are categorized into a three-level hierarchy.

Fair Value of Assets and Liabilities (in thousands)

	2017	2016
Assets		
Investments		
Cash equivalents	$ 474	508
Corporate bonds and other fixed income	118,252	82,669
Common stock and preferred stock	20,445	16,700
Commingled funds	1,897	1,783
Hedge funds		
Credit	189,024	173,604
Global equity long-only	429,309	251,026
Global equity long/short	565,895	651,387
Multi-strategy	219,158	251,430
Real estate	6,884	7,513
Private equity funds	564,917	482,683
Real assets	244,971	182,552
Real estate	73,506	82,258
Total investments	2,434,732	2,184,113
Investments of consolidated VIE		
Common stock and preferred stock	318,756	288,445
Commingled funds	37,196	38,634
Hedge funds		
Credit	151,476	64,244
Global equity long-only	277,227	220,866
Global equity long/short	312,829	300,613
Multi-strategy	320,616	218,065
Real estate	19,591	20,295
Private equity funds	252,442	230,149
Real assets	131,984	106,732
Real estate	61,931	49,921
Total investments of consolidated VIE	1,884,048	1,537,964
Total assets reported at fair value	**$ 4,318,780**	**3,722,077**
Liabilities		
Interest rate swap agreements	$ 24,580	34,421

Fair Value of Assets and Liabilities by Level at June 30, 2017 (in thousands)

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash equivalents	$ 474	—	—	474
Corporate bonds and other fixed income	58,527	14,654	45,071	118,252
Common and preferred stock	20,445	—	—	20,445
Commingled funds	1,897	—	—	1,897
Investments measured at net asset value[1]				2,293,664
Total investments	81,343	14,654	45,071	2,434,732
Investments of consolidated VIE				
Common stock and preferred stock	318,756	—	—	318,756
Commingled funds	37,196	—	—	37,196
Investments measured at net asset value[1]				1,528,096
Total investments of consolidated VIE	355,952	—	—	1,884,048
Total assets	**$ 437,295**	**14,654**	**45,071**	**4,318,780**
Liabilities				
Interest rate swap agreements	$ —	—	24,580	24,580

[1] *Fair value amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.*

Fair Value of Assets and Liabilities by Level at June 30, 2016 (in thousands)

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Cash equivalents	$ 508	—	—	508
Corporate bonds and other fixed income	3,906	78,763	—	82,669
Common and preferred stock	16,700	—	—	16,700
Commingled funds	1,783	—	—	1,783
Investments measured at net asset value[1]				2,082,453
Total investments	22,897	78,763	—	2,184,113
Investments of consolidated VIE				
Common stock and preferred stock	288,423	22	—	288,445
Commingled funds	38,634	—	—	38,634
Investments measured at net asset value[1]				1,210,885
Total investments of consolidated VIE	327,057	22	—	1,537,964
Total assets	**$ 349,954**	**78,785**	**—**	**3,722,077**
Liabilities				
Interest rate swap agreements	$ —	—	34,421	34,421

[1] *Fair value amounts presented are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statement of financial position.*

Level 3 Investments

Investment in level 3 assets changed by purchases of $42.5 million and unrealized gains of $2.6 million, for an ending balance of $45.1 million at June 30, 2017.

Investment Return

The components of investment return as reflected in the consolidated statement of activities are shown below. Investment return designated for operations is defined as the endowment spending distribution, as determined by the University's spending policy, and other investment income from unrestricted sources.

Investment Return (in thousands)

	2017	2016
Interest and dividends, net of fees	$ 37,427	24,734
Net realized and unrealized gains (losses) – University	278,079	(111,912)
Net realized and unrealized gains (losses) – consolidated VIE	214,888	(57,422)
Total investment return	530,394	(144,600)
Less: spending on current operations		
Endowment spending	113,136	107,998
Other investment income	2,283	3,135
Investment return, net – operating	**115,419**	**111,133**
Investment return, net – nonoperating	**$ 414,975**	**(255,733)**

Alternative Investment Commitments and Redemption Information at June 30, 2017 (in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investments				
Hedge funds				
Credit	$ 189,024	14,700	Quarterly to rolling 2 year lock-up	90 – 150 days
Global equity long-only	429,309	—	Monthly to rolling 3 year lock-up	10 - 90 days
Global equity long/short	565,895	31,500	Monthly to 1 year lock-up	30 – 90 days
Multi-strategy	219,158	21,836	Monthly to 2 years	45 - 90 days
Real estate	6,884	—	N/A	N/A
Private equity funds	564,917	223,645	N/A	N/A
Real assets	244,971	113,734	N/A	N/A
Real estate	73,506	88,373	N/A	N/A
	$ 2,293,664	**493,788**		
Investments of consolidated VIE				
Hedge funds				
Credit	151,476	19,694	Quarterly to rolling 2 year lock-up	90 days
Global equity long-only	277,227	—	Monthly to 2 year lock-up	10 - 90 days
Global equity long/short	312,829	—	Quarterly to rolling 5 year lock-up	60 – 90 days
Multi-strategy	320,616	—	Monthly to annually	30 – 75 days
Real estate	19,591	—	Quarterly	60 days
Private equity funds	252,442	247,978	N/A	N/A
Real assets	131,984	46,665	N/A	N/A
Real estate	61,931	52,448	N/A	N/A
	$ 1,528,096	**366,785**		

Redemptions

Of the investments reported at NAV, approximately $0.74 billion were redeemable at June 30, 2017. It is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value in secondary markets, such estimates of fair value may differ from values that would have been applied had a readily available market existed, and those differences could be material. It is reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and that discount could be significant.

Derivatives

The University entered into four fixed interest rate swap agreements to convert the variable interest rates on notes payable to fixed rates without exchanging the underlying principal amounts. The University anticipates holding the interest rate swap agreements until the associated debt has been retired. The interest rate received under each agreement is calculated at 68% of the one-month LIBOR, which was 1.22% at June 30, 2017.

Certain University derivative instruments contain provisions requiring that long term, unsecured debt be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. During the year ended June 30, 2017, the University's long term debt ratings exceeded these benchmarks. No collateral was required to be posted related to the University's interest rate swap agreements during the year ended June 30, 2017.

Derivatives (in thousands)

	Rate Paid	Notional Amount	Fair Value Liability 2017	Fair Value Liability 2016	Change in Fair Value
Interest rate swap agreements					
March 1, 2029	3.778%	$ 25,000	$ (5,694)	(8,065)	2,371
June 1, 2031	3.744	30,000	(7,614)	(10,735)	3,121
August 1, 2034	4.000	25,000	(8,096)	(11,174)	3,078
November 1, 2036	3.744	10,000	(3,176)	(4,447)	1,271
			$ (24,580)	**(34,421)**	**9,841**

4 Pledges Receivable

Following is an analysis of the maturities of the University's unconditional pledges receivable as of June 30. Pledges receivable are donor restricted for specific purposes including endowment, capital activities, and programmatic support.

Pledges Receivable, net (in thousands)

	2017	2016
Unconditional pledges expected to be collected in:		
Less than one year	$ 5,936	6,503
One year to five years	4,870	8,214
	10,806	14,717
Less unamortized discount[1]	(314)	(496)
Less allowance for uncollectible amounts	(577)	(765)
	$ 9,915	**13,456**

[1]*Discount rates range from 1.2% to 4.7%*

5 Property, Plant and Equipment

Property, plant, and equipment, as shown in the consolidated statement of financial position, consist of the following as of June 30:

Property, Plant and Equipment, net (in thousands)

	2017	2016
Land	$ 6,645	20,740
Buildings	479,421	449,526
Improvements	44,333	39,203
Equipment	94,154	95,993
Library books	80,028	76,996
Construction in progress	19,212	41,559
	723,793	724,017
Accumulated depreciation	(389,598)	(372,627)
	$ 334,195	**351,390**

6 Notes Payable

The University issued tax-exempt revenue bonds through the Virginia College Building Authority and taxable notes through a private placement with New York Life Insurance and Annuity Corporation. Proceeds were used to refinance existing debt as well as to construct, equip, or improve several capital projects on campus.

Principal balances, including unamortized premium amounts, were as follows at June 30:

Notes Payable (in thousands)

	2017	2016
Tax-exempt fixed-rate		
Series 2011A, 3.00% - 5.00%, final maturity in 2023	$ 15,911	18,301
Series 2011B, 5.00%, final maturity in 2021	21,633	21,875
Series 2012, 3.00% - 4.00%, final maturity in 2042	61,297	61,387
Tax-exempt variable-rate[1]		
Series 2004, 0.65%, final maturity in 2035	46,000	46,000
Series 2006, 0.55%, final maturity in 2037	55,900	55,900
Taxable fixed-rate		
Series 2015, 3.60%, final maturity in 2046	40,000	40,000
	$ 240,741	**243,463**

[1]*Variable rates for Series 2004 and Series 2006 notes reset weekly and daily, respectively. Interest rates shown reflect averages for the year ended June 30, 2017.*

Estimated Aggregate Annual Maturities of Notes Payable (in thousands)

Years ending June 30:		
2018	$	2,275
2019		2,390
2020		2,495
2021		23,360
2022		2,745
Thereafter		204,780
		238,045
Unamortized premium		2,696
	$	**240,741**

The University has standby credit facilities to enable the University to repurchase tendered variable-rate debt in the event of a failed remarketing. Two diversified facilities totaling $101.9 million are available to the University solely for this purpose and may not be used for the operating or capital needs of the University. There were no draws against these standby credit facilities for the year ended June 30, 2017.

Interest expense on notes payable, including amortization of premiums on notes payable and the cost of standby credit facilities of $0.3 million, was $9.1 million for the year ended June 30, 2017.

On June 29, 2017, the University entered into an agreement for a one-year revolving credit facility in the amount of $20.0 million to support timing differences within the operating cash portfolio. Interest on drawn amounts is calculated at the LIBOR daily floating rate plus 0.35%. Any unused outstanding credit balance incurs a fee of 0.10%. There were no borrowings from the credit facility for the year ended June 30, 2017.

7 Retirement Plans and Postretirement Benefits

The University has certain contributory defined contribution retirement annuity plans for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $10.2 million into these plans for the year ended June 30, 2017.

The University sponsors defined benefit health care plans that provide postretirement medical benefits to full time employees who meet minimum age and service requirements. These plans, which are closed to new participants, are not funded.

The University utilizes a measurement date of June 30. Net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $10.8 million at June 30, 2017. At June 30, 2017 and 2016, the weighted average annual assumed rate of increase in the per capita cost of covered benefits was 6.60% and 6.90%, respectively, and is assumed to decrease gradually to 4.50% by the year 2038 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in the year ended June 30, 2017 year would increase the postretirement liability by $1.5 million and increase the net periodic postretirement benefit cost by $0.2 million. At June 30, 2017 and 2016, the weighted average discount rate used in determining the accumulated postretirement benefit obligation was 3.80% and 3.60%, respectively.

For the nontaxable federal subsidy related to the postretirement benefit plan drug benefit, the University has determined actuarial equivalence of its plans. Therefore, the accumulated benefit obligation and the net periodic benefit cost reflect a reduction arising from this subsidy.

Changes in Postretirement Benefit Obligation (in thousands)

		2017	2016
Changes in postretirement benefit obligation:			
Accrued postretirement benefit obligation at beginning of year	$	19,405	15,991
Service cost		668	405
Interest cost		680	673
Benefits paid		(1,051)	(1,016)
Actuarial (gain) loss		(718)	3,352
Accrued postretirement benefit obligation at end of year	**$**	**18,984**	**19,405**

Net Periodic Postretirement Benefit Cost (in thousands)

		2017	2016
Net periodic postretirement benefit cost:			
Service cost	$	668	405
Interest cost		680	673
Amortization of unrecognized net loss		516	355
Amortization of prior service cost		—	—
	$	**1,864**	**1,433**

Estimated Future Benefit Payments For Years Ended (in thousands)

Years ending June 30:		
2018	$	1,041
2019		1,100
2020		1,152
2021		1,139
2022		1,145
2023 – 2027		6,488

8 Composition of Net Assets

Permanently restricted net assets at June 30, 2017 and 2016 consist primarily of donor restricted endowment amounts whose income supports scholarships, professorships, lectureships and library funds.

Composition of Temporarily Restricted Net Assets (in thousands)

		2017	2016
Support of particular operating activities	$	46,823	44,438
Acquisition of long-lived assets		9,665	11,273
Accumulated appreciation on donor-restricted endowment funds		809,964	728,044
	$	**866,452**	**783,755**

9 Leases

On May 1, 2003, Richmond Quadrangle, LLC entered into a real estate lease agreement with Philip Morris USA, Inc. that commenced on November 1, 2003. The lease is classified as an operating lease by the University. The rental income pursuant to this lease agreement for the year ended June 30, 2017 was $3.3 million and is included in other sources in the consolidated statement of activities.

On June 30, 2017, Richmond Quadrangle LLC sold the building and land for $20.8 million. The resulting $5.4 million loss is reported as loss on sale of land and building in the consolidated statement of activities.

10 Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statement of activities. Expenses are allocated on the basis of certain financial and nonfinancial data. The composition of expenses for the year ended June 30, 2017 is as follows:

Allocation of Expenses (in thousands)

Functional category	Direct expenses	Maintenance of plant[2]	Interest	Depreciation	Total expenses
Program services					
Instruction	$ 75,390	3,543	1,126	3,475	83,534
Research	4,125	416	209	407	5,157
Public service	2,645	583	80	573	3,881
Academic support and libraries	32,886	5,958	2,810	5,842	47,496
Student services	37,477	5,088	1,118	4,987	48,670
Auxiliary enterprises	28,517	8,428	3,054	8,266	48,265
	181,040	**24,016**	**8,397**	**23,550**	**237,003**
Supporting services					
Institutional support[1]	36,870	1,347	501	1,321	40,039
	$ 217,910	**25,363**	**8,898**	**24,871**	**277,042**

[1] Fundraising expenses of $6.1 million and depreciation expense for Richmond Quadrangle, LLC of $0.4 million are included in direct expenses in institutional support.

[2] Depreciation and interest expenses of $0.6 million and $0.2 million, respectively, are included in maintenance.

11 Related Party Transactions

The following related party transactions have been eliminated in consolidation.

Investment management fees paid to SMC by the University for the year ended June 30, 2017 were $4.6 million.

Per the terms of the Richmond Fund's operating agreement dated January 28, 2008, the responsibility for managing the Richmond Fund is vested exclusively with the general partner, RFMC. The Richmond Fund pays RFMC a quarterly management fee, payable in arrears, equal to 1% per annum of the first $100 million of each limited partner's assets under management, 0.75% of the next $150 million, 0.5% of the next $250 million and 0.4% of the excess of $500 million. Management fees earned by RFMC from the Richmond Fund during the year ended June 30, 2017 were $17.0 million, of which $4.4 million was payable to RFMC. At the end of each fiscal year, the general partner may be entitled to a performance allocation with respect to each allocation layer of each limited partner equal to 10% of the net profits in excess of net profits such limited partner would have achieved if the allocation layer had grown at 10%. RFMC earned a performance allocation of $0.1 million during the year ended June 30, 2017.

On January 28, 2008, the University entered into a blended rate of return agreement with the Richmond Fund. The purpose of the agreement is to equalize the quarterly rate of return of the University's pooled endowment managed by SMC and the Richmond Fund's rate of return prior to fees and expenses. The agreement requires settlement of the swap at least once a calendar year. The University anticipates holding the swap agreement until termination of the Richmond Fund. The settlement value of the swap at June 30, 2017 was a receivable to the Richmond Fund and a liability to the University in the amount of $19.0 million. The change in settlement value for the year ended June 30, 2017 totaled $10.4 million and was a loss for the University and a gain for the Richmond Fund.

12 Contingencies and Commitments

Contingencies

From time to time, the University is involved in various legal proceedings in the normal course of operations. In management's opinion, the University is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, change in net assets, and/or liquidity of the University.

The University receives revenues under U.S. government funded grants and contracts. The ultimate determination of amounts received under these programs generally is based upon allowable costs, which are subject to audit, and are reported to the U.S. government. Recovery of indirect costs is based on predetermined rates negotiated with the U.S. government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the consolidated financial statements.

Commitments

The University is in the process of constructing, renovating and equipping certain facilities. The expected cost to complete construction in progress at June 30, 2017 was approximately $13.8 million.

Statement of Financial Position

As of June 30, 2017

With comparative financial information as of June 30, 2016

(in thousands)

	2017	2016
Assets:		
Cash and cash equivalents	$ 90,216	82,699
Pledges receivable, net	9,915	13,456
Investments	2,434,732	2,209,983
Other assets, net	26,273	54,207
Property, plant and equipment, net	334,195	325,884
Total assets	**$ 2,895,331**	**2,686,229**
Liabilities:		
Accounts payable and other liabilities	$ 63,798	44,392
Postretirement benefits	18,984	19,405
Notes payable	240,741	243,463
Interest rate swap agreements	24,580	34,421
Total liabilities	**348,103**	**341,681**
Net assets:		
Unrestricted	1,288,345	1,176,172
Temporarily restricted	866,452	783,755
Permanently restricted	392,431	384,621
Total net assets	**2,547,228**	**2,344,548**
Total liabilities and net assets	**$ 2,895,331**	**2,686,229**

The supplementary information in this schedule presents the statement of financial position of the University of Richmond exclusive of the financial position of the affiliated entities discussed in note 1 to the consolidated financial statements.

See accompanying Independent Auditors' Report and notes to the consolidated financial statements.

Statement of Activities

For the year ended June 30, 2017

With summarized comparative financial information for the year ended June 30, 2016
(in thousands)

	2017				
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2016 Total**
Operating revenues:					
Tuition and fees	$ 188,197	—	—	188,197	181,673
Less scholarship allowance	(78,437)	—	—	(78,437)	(74,632)
Net tuition and fees	109,760	—	—	109,760	107,041
Grants and contracts	3,914	—	—	3,914	4,557
Contributions	7,060	2,832	—	9,892	8,724
Investment return, net	65,638	49,781	—	115,419	111,133
Auxiliary enterprises	41,432	—	—	41,432	39,327
Other sources	21,823	—	—	21,823	19,919
Net assets released from restrictions	48,850	(48,850)	—	—	—
Total operating revenues	**298,477**	**3,763**	**—**	**302,240**	**290,701**
Operating expenses:					
Instruction	83,534	—	—	83,534	80,743
Research	5,157	—	—	5,157	5,707
Public service	3,881	—	—	3,881	3,626
Academic support and libraries	47,496	—	—	47,496	44,796
Student services	48,670	—	—	48,670	47,273
Institutional support	43,848	—	—	43,848	44,944
Auxiliary enterprises	48,265	—	—	48,265	46,678
Total operating expenses	**280,851**	**—**	**—**	**280,851**	**273,767**
Change in net assets from operating activities	**17,626**	**3,763**	**—**	**21,389**	**16,934**
Nonoperating activities:					
Contributions	—	1,962	3,795	5,757	7,018
Investment return, net	80,759	81,922	4,317	166,998	(199,321)
Change in fair value of interest rate swap agreements	9,841	—	—	9,841	(8,789)
Change in postretirement benefits	1,234	—	—	1,234	(2,997)
Other nonoperating activities, net	(1,290)	(947)	(302)	(2,539)	(3,449)
Net assets released from restrictions	4,003	(4,003)	—	—	—
Change in net assets from nonoperating activities	**94,547**	**78,934**	**7,810**	**181,289**	**(207,538)**
Change in net assets	**112,173**	**82,697**	**7,810**	**202,680**	**(190,604)**
Net assets at beginning of year	**1,176,172**	**783,755**	**384,621**	**2,344,548**	**2,535,152**
Net assets at end of year	**$ 1,288,345**	**866,452**	**392,431**	**2,547,228**	**2,344,548**

The supplementary information in this schedule presents the statement of activities of the University of Richmond exclusive of the activities of the affiliated entities discussed in note 1 to the consolidated financial statements.

See accompanying Independent Auditors' Report and notes to the consolidated financial statements.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Student financial assistance program cluster:					
Direct payments:					
Department of Education					
Federal Pell Grant Program	84.063	$ 2,391,497	—	—	2,391,497
Federal Supplemental Educational Opportunity Grant Program	84.007	267,026	—	—	267,026
Federal Work Study Program	84.033	348,764	—	—	348,764
Federal Perkins Loan Program (note 3)	84.038	—	—	6,338,316	6,338,316
Federal Direct Loan Program (note 4)	84.268	—	—	23,631,910	23,631,910
Total student financial assistance programs cluster		**3,007,287**	**—**	**29,970,226**	**32,977,513**
Research and development programs cluster:					
Direct payments:					
Department of Agriculture – National Institute of Food & Agriculture					
Population Persistence at an Invasion Front: Climatic Institutions of the Spread of the Gypsy Moth	10.310	7,023	—	—	7,023
Department of Defense					
Baseline Surveys for Amphibians and Prothonotary Warblers at Fort A.P. Hill, Virginia	12.300	1,122	—	—	1,122
Department of Defense – National Security Agency					
Construction of Difference sets	12.901	36,278	—	—	36,278
Department of Interior - National Park Service					
Natural Resource Stewardship	15.944	349	—	—	349
Natural Resource Condition Assessment: Fort Monroe National Monument, Harriet Tubman Underground Railroad National Monument	15.945	23,517	10,719	—	34,236
Evaluating Potential National Natural Landmarks	15.945	1,175	—	—	1,175
		24,692	10,719	—	35,411
Department of Justice					
University Coordinated Community Response: The Campus Alliance to End Violence	16.525	14,944	59,058	—	74,002
National Science Foundation					
MATHEMATICAL AND PHYSICAL SCIENCES:					
Research at Undergraduate Institutions: Chemical Investigations into the Bioactivity of the DNA Lesion 8-Oxo-2-Deoxyguanosine	47.049	65,069	—	—	65,069
CAREER: Theoretical Studies of the Relationships between Bonding Preferences in Inorganic Molecules, their Oligomers, and Extended Solids - Focusing on Metal Halides	47.049	96,627	—	—	96,627

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Direct payments, continued:					
National Science Foundation, continued					
MATHEMATICAL AND PHYSICAL SCIENCES, CONTINUED:					
Research at Undergraduate Institutions: Single Molecule Metrology in Scanning Probe Microscopy through Correction of Fast Time Scale Positional Errors	47.049	$ 1,836	—	—	1,836
Research at Undergraduate Institutions: Collaborative Research: Multireference Studies of Organic Polyradicals, Radical Reactions and Graphene Nanoribbons	47.049	111,984	—	—	111,984
Research at Undergraduate Institutions: Cosmic Microwave Background Polarization Analysis with Undergraduates	47.049	35,203	—	—	35,203
Research at Undergraduate Institutions: Xerogel Based-Amperometric Biosensors Incorporating Nanoparticle Networks – Adaptable Templates for Clinically Relevant Measurements	47.049	102,427	—	—	102.427
		413,146	—	—	413,146
RAPID – Abnormal Bleaching in Cilona Varians in the Florida Keys: Consequences for Coral Reef Health	47.050	37,499	—	—	37,499
BIOLOGICAL SCIENCES:					
Collective Research: Research at Undergraduate Institutions: Evaluating the Molecular Genetic Pathway Responsible for Stable Host: Symbiont Interactions in Sponge: Algal Associations	47.074	95,414	—	—	95,414
Research at Undergraduate Institutions: Arts Revision of the Poorly Known Frog Genus Chiasmocleis	47.074	34,244	—	—	34,244
		129,658	—	—	129,658
SOCIAL, BEHAVIORAL, AND ECONOMIC SCIENCES:					
Research at Undergraduate Institutions: An Interdisciplinary Approach for Increasing Female Involvement & Achievement in STEM	47.075	1,034	—	—	1,034
Collaborative Research: Women's Empowerment, Food Security, and Farm Productivity	47.075	13,418	—	—	13,418
		14,452	—	—	14,452
Collaborative Proposal: Preparing Undergraduates for Research in STEM-related Fields Using Electrophysiology	47.076	35,593	—	—	35,593
Department of Energy					
Medium Energy Nuclear Physics at the University of Richmond	81.049	86,536	—	—	86,536
Nuclear Structure Research	81.049	44,431	—	—	44,431
		130,967	—	—	130,967
Low Energy Nuclear Science	81.112	138,697	17,036	—	155,733
Stewardship Science at the University of Richmond	81.112	5,769	—	—	5,769
		144,466	17,036	—	161,502

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2017

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Direct payments, continued:					
Department of Education					
Department of Health and Human Services – Administration for Community Living					
Estimating Return on Investment in State Vocational Rehabilitation Programs	93.433	$ 210,167	251,095	—	461,262
Department of Health and Human Services – National Institutes of Health					
Sodalis Glossinidius Iron Acquisition	93.855	30,004	2,491	—	32,495
Identyfying and Characterizing Heme Tolerance Genes in the Tsetse Symbiont Sodalis Glossinidius	93.855	64,391	33,149	—	97,540
		94,395	35,640	—	130,035
Lipid Modulation of Potassium Channels	93.859	70,675	—	—	70,675
Myosin-XIX and the Molecular Mechanism of Actin-Based Mitochondrial	93.859	97,126	9,507	—	106,633
		167,801	9,507	—	177,308
Pass through payments:					
Department of Defense					
Virginia Commonwealth University:					
Chronic Effects of Neurotrauma Consortium (Award number W81XWH-13-2-0095)	12.420	76,986	—	—	76,986
National Aeronautics and Space Administration					
University of Pennsylvania:					
Research Opportunities in Space and Earth Science (Award number S60631)	43.001	13,167	—	—	13,167
National Science Foundation					
Mathematical and Physical Sciences					
Northern Kentucky University:					
The TIM Consortium: A Dispersed REU Site in Theoretically Interesting Moleculer (Award number 1559886)	47.049	8,177	—	—	8,177
Total research and development programs cluster		**1,560,882**	**383,055**	**—**	**1,943,937**
Other grants:					
Direct payments:					
National Endowment for the Humanities					
Latino Americans	45.164	126	—	—	126
National Science Foundation					
Conference Proposal: The Radio Synchrotron Background	47.049	1,755	—	—	1,755
Student Travel Support for the 2017 IEEE International Symposium on Performance Analysis of System & Software	47.070	9,575	—	—	9,575
Pass through payments:					
National Endowment for the Arts					
Mid-Atlantic Arts Foundation:					
Partnership Agreement Grant (Award number 15-6100-2057)	45.025	19,300	—	—	19,300
Total other grants		**30,756**	**—**	**—**	**30,756**
Total federal awards		**$ 4,598,925**	**383,055**	**29,970,226**	**34,952,206**

See accompanying Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, and Notes to the Schedule of Expenditures of Federal Awards.

1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the University of Richmond and its affiliates (the University) for the year ended June 30, 2017. All federal awards received directly and indirectly from federal agencies are included in this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. Although the University is required to match certain amounts, as defined in the grant agreements, no such matching has been included in this Schedule. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to, and does not, present the consolidated financial position, activities, and cash flows of the University.

2 Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting.

Expenditures for federal student financial assistance programs are recognized as incurred and include grants to students under the Federal Pell Grant and Federal Supplemental Educational Opportunity Grant Programs, student earnings under the Federal Work Study Program, and administrative cost allowances, where applicable.

Expenditures for loans related to the Federal Direct Loan are reported in the Schedule when disbursed.

New loans made during the fiscal year and loans from previous fiscal years for which the University has continuing compliance requirements to adhere to related to the Federal Perkins Loan Program are reported in the Schedule.

Expenditures for other federal awards are recognized as incurred using the cost accounting principles contained in *Uniform Guidance*. Under these cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

3 Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA Number 84.038) (Perkins) is administered directly by the University and the current year loaned amount under Perkins was $366,238. The total amount of Perkins loans outstanding at June 30, 2017 under Perkins was $4,508,051 and is included in other assets in the University's consolidated statement of financial position as of June 30, 2017. The amount of Perkins loans on the Schedule includes the beginning outstanding loan balance, the current year loaned amount, and administrative charges, if applicable.

4 Federal Direct Loan Program

The University participates in the Federal Direct Loan Program (CFDA Number 84.268) (the Program), which includes the Federal Direct Subsidized Loan Program, the Federal Direct Unsubsidized Loan Program, and the Federal Direct PLUS Program. The Program requires the University to request cash from the U.S. Department of Education and disburse such funds.

The University is responsible only for the performance of certain administrative functions with respect to the Program, and accordingly, these loans are not included in the University's consolidated financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under the Program at June 30, 2017.

5 Reconciliation of Schedule to Consolidated Statement of Activities

Reconciliation of Schedule of Expenditures of Federal Awards to Consolidated Statement of Activities

Federal grant expenditures per the Schedule	$ 4,981,980
Less: Federal grants considered agency transactions	(2,391,497)
Add: Nonfederal grants and contracts	1,323,628
Grants and contracts per Consolidated Statement of Activities for the year ended June 30, 2017	**$ 3,914,000**

6 Indirect Cost Rate

The University has not elected to use the 10% de minimus indirect cost rate discussed in Uniform Guidance Section 200.414.

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
University of Richmond:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of the University of Richmond and its affiliates (the University), which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 17, 2017

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
University of Richmond:

Report on Compliance for Each Major Federal Program

We have audited the University of Richmond and its affiliates' (the University's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2017. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2017, and have issued our report thereon dated October 17, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

February 26, 2018
Richmond, Virginia

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Finding and Questioned Costs

Year ended June 30, 2017

(1) Summary of Auditors' Results

(a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:

- Material weakness: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the consolidated financial statements: **No**

(d) Internal control deficiencies over the major program disclosed by the audit:

- Material weakness: **No**
- Significant deficiencies: **None reported**

(e) Type of report issued on compliance for the major program: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**

(g) Major program:

Student Financial Assistance Programs Cluster (CFDA Nos. 84.007, 84.033, 84.038, 84.063, and 84.268)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

None