UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Audit of Federal Awards Performed in
Accordance with U.S. Office of Management
and Budget Circular A-133

June 30, 2009

(With Independent Auditors' Reports Thereon)

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated statement of financial position of the University of Richmond and its affiliates (the University) as of June 30, 2009, and the related consolidated statements of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2008 consolidated financial statements, and in our report dated October 9, 2008, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit provides 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 the University of Richmond and its affiliates as of June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the University adopted the recognition and disclosure provisions of FASB staff position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds,* as of July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments, and Non-Profit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

September 18, 2009

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statement of Financial Position

June 30, 2009
(With summarized financial information as of June 30, 2008)

	2009			2008
Assets	**Operating**	**Endowment**	**Total**	**Total**
Cash and cash equivalents	$ 123,686,342	17,742,146	141,428,488	154,978,514
Investments (notes 2, 3, 4, and 10)	632,887,488	1,374,311,362	2,007,198,850	2,150,348,007
Funds held in trust (notes 4 and 10)	2,713,216	—	2,713,216	3,378,430
Student accounts receivable, net	1,040,096	—	1,040,096	1,269,728
Accrued income	1,119,143	—	1,119,143	382,674
Pledges receivable (note 5)	28,854,868	2,075,566	30,930,434	38,454,349
Beneficial interest in trusts (note 4)	3,462,390	—	3,462,390	3,990,711
Other receivables	1,443,277	—	1,443,277	2,269,670
Notes receivable	4,229,574	—	4,229,574	4,300,605
Inventories, prepaid expenses and other	10,138,110	—	10,138,110	9,350,396
Property, plant and equipment, net (note 6)	239,132,574	—	239,132,574	229,935,662
Total assets	$ 1,048,707,078	1,394,129,074	2,442,836,152	2,598,658,746
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	$ 15,847,266	875,102	16,722,368	11,805,526
Funds held on behalf of others (notes 1 and 14)	530,371,657	—	530,371,657	431,110,949
Annuities and trusts payable (note 4)	6,205,767	—	6,205,767	6,757,907
Deferred income	10,493,260	—	10,493,260	10,090,889
Notes payable (note 7)	176,600,000	—	176,600,000	131,515,000
Swap agreements (notes 3, 7, and 10)	13,110,584	—	13,110,584	4,916,279
Postretirement benefits (note 9)	10,305,255	—	10,305,255	9,205,236
U.S. government grants refundable	3,958,622	—	3,958,622	3,679,965
Total liabilities	766,892,411	875,102	767,767,513	609,081,751
Net assets (notes 2 and 11):				
Unrestricted	198,710,637	632,096,449	830,807,086	1,606,488,725
Temporarily restricted (note 11)	74,723,535	479,562,101	554,285,636	85,888,242
Permanently restricted (note 11)	8,380,495	281,595,422	289,975,917	297,200,028
Total net assets	281,814,667	1,393,253,972	1,675,068,639	1,989,576,995
Total liabilities and net assets	$ 1,048,707,078	1,394,129,074	2,442,836,152	2,598,658,746

See accompanying notes to consolidated financial statements.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2009
(With summarized financial information as of June 30, 2008)

	2009				2008
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenues:					
Tuition and fees	$ 135,033,999	—	—	135,033,999	126,371,709
Less scholarship allowance	(52,401,931)	—	—	(52,401,931)	(45,301,485)
Net tuition and fees	82,632,068	—	—	82,632,068	81,070,224
Grants and contracts	5,263,100	—	—	5,263,100	4,896,667
Contributions	4,959,885	993,932	—	5,953,817	5,595,927
Investment income (notes 2 and 3)	3,175,736	1,936,426	—	5,112,162	6,472,622
Endowment income (notes 2 and 3)	31,584,584	26,382,060	—	57,966,644	52,868,904
Auxiliary enterprises	35,967,574	—	—	35,967,574	32,282,445
Other sources (note 12)	4,155,867	—	—	4,155,867	3,993,192
Net assets released from restrictions	28,401,006	(28,401,006)	—	—	—
Total operating revenues	196,139,820	911,412	—	197,051,232	187,179,981
Operating expenses (note 13):					
Instruction	62,516,561	—	—	62,516,561	57,967,720
Research	6,510,855	—	—	6,510,855	5,469,075
Public service	3,124,064	—	—	3,124,064	2,448,960
Libraries	11,553,287	—	—	11,553,287	11,037,753
Academic support	23,988,638	—	—	23,988,638	22,325,948
Student services	17,129,327	—	—	17,129,327	15,774,125
Institutional support	33,776,504	—	—	33,776,504	32,243,375
Auxiliary enterprises	35,359,337	—	—	35,359,337	32,722,082
Total operating expenses	193,958,573	—	—	193,958,573	179,989,038
Increase in net assets from operating activities	2,181,247	911,412	—	3,092,659	7,190,943
Nonoperating activities:					
Contributions	—	1,687,996	810,855	2,498,851	30,553,575
Investment income, net of fees (notes 2 and 3)	14,892,539	—	150,667	15,043,206	15,296,468
Endowment income (notes 2 and 3)	—	—	1,939,647	1,939,647	4,373,971
Net realized and unrealized (losses) gains (notes 2 and 3)	(230,034,121)	(148,780,084)	(2,728,249)	(381,542,454)	29,874,994
Redesignated funds	7,608,873	(1,141,372)	(6,467,501)	—	—
Change in fair values of swap agreements (notes 3, 7, and 10)	(8,194,305)	—	—	(8,194,305)	(4,322,184)
Change in present value of split interest agreements (note 4)	—	—	(920,695)	(920,695)	(727,468)
Change in post-retirement benefit obligation other than net periodic costs (note 9)	(1,114,668)	—	—	(1,114,668)	105,240
Net assets released from restrictions for property, plant and equipment	13,561,210	(13,561,210)	—	—	—
Affiliated organizations expenses	(5,346,662)	—	—	(5,346,662)	(4,565,477)
Other expenses	(2,368,785)	—	(8,835)	(2,377,620)	—
Minority interest in losses (earnings) of affiliates	62,413,685	—	—	62,413,685	(1,678,898)
(Decrease) increase in net assets from nonoperating activities	(148,582,234)	(161,794,670)	(7,224,111)	(317,601,015)	68,910,221
(Decrease) increase in net assets before effect of adoption of FSP FAS 117-1	(146,400,987)	(160,883,258)	(7,224,111)	(314,508,356)	76,101,164
Reclassification of net assets in accordance with FSP FAS 117-1 (note 2)	(629,280,652)	629,280,652	—	—	—
Change in net assets	(775,681,639)	468,397,394	(7,224,111)	(314,508,356)	76,101,164
Net assets at beginning of year	1,606,488,725	85,888,242	297,200,028	1,989,576,995	1,913,475,831
Net assets at end of year	$ 830,807,086	554,285,636	289,975,917	1,675,068,639	1,989,576,995

See accompanying notes to consolidated financial statements.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statement of Cash Flows

Year ended June 30, 2009

Cash flows from operating activities:	
Change in net assets	$ (314,508,356)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	14,617,397
Net realized and unrealized losses on investments and funds held in trust	381,542,454
Change in fair value of swap agreements	8,194,305
Contributions restricted for purchase of property and equipment	(8,075,798)
Contributions restricted for endowment	(1,653,563)
Gifts of property and stock	(1,015,221)
Minority interest in losses of affiliates	(62,413,685)
Decrease in funds held in trust	73,999
Decrease in student accounts receivables, other receivables and accrued income	319,556
Decrease in pledges receivable	7,523,915
Decrease in beneficial interest in trusts	528,321
Decrease in notes receivable	71,031
Increase in inventories, prepaid expenses and other	(787,714)
Increase in accounts payable and accrued liabilities	4,916,842
Decrease in annuities and trusts payable	(552,140)
Increase in postretirement benefits	1,100,019
Increase in deferred income	402,371
Net cash provided by operating activities	30,283,733
Cash flows from investing activities:	
Proceeds from sales of investments	500,983,775
Purchases of investments	(737,770,636)
Purchases of property, plant and equipment	(23,814,309)
Net cash used in investing activities	(260,601,170)
Cash flows from financing activities:	
Increase in funds held on behalf of others	161,674,393
Contributions restricted for endowment	1,653,563
Contributions restricted for purchase of property and equipment	8,075,798
Increase in U.S. government grants refundable	278,657
Proceeds from notes issued	45,085,000
Net cash provided by financing activities	216,767,411
Net decrease in cash and cash equivalents	(13,550,026)
Cash and cash equivalents at beginning of year	154,978,514
Cash and cash equivalents at end of year	$ 141,428,488
Supplemental disclosure:	
Cash paid for interest on notes payable and interest rate swap agreements	$ 5,141,692
Gifts of property and stock	1,015,221

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

The University of Richmond is a private institution of higher education. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, was formed on April 9, 2003, for the purpose of owning and operating the building and land located at 6601 Broad Street, Richmond, Virginia, formerly known as the Alcoa-Reynolds Building. Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, was formed November 30, 2007, for the purpose to provide investment research, advice, counsel and management with respect to the University of Richmond's endowment assets. On November 30, 2007, the Richmond Fund, LP (Richmond Fund) and the Richmond Fund Management Company, LLC (RFMC) were also formed. The Richmond Fund is an investment limited partnership that provides a vehicle for other unaffiliated 501(c) organizations to achieve investment returns that mirror the investment returns achieved by the University of Richmond's endowment (notes 2 and 14). RFMC is the general partner of the Richmond Fund and is managed by SMC's Board of Managers. On March 3, 2008, The Richmond Fund Limited (RF Ltd.), a Cayman Island company, was formed. The sole member of RF Ltd. is the Richmond Fund and its purpose is to invest assets of the Richmond Fund outside of the United States of America.

The significant accounting policies followed by the University of Richmond and its affiliates are described below:

(a) 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 all significant intercompany balances and transactions have been eliminated in consolidation. In accordance with the Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46R), SMC consolidates RFMC and the Richmond Fund, which are variable interest entities of which SMC is the primary beneficiary. SMC is subsequently consolidated by the University of Richmond in accordance with AICPA Statement of Position (SOP) 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The net assets of consolidated variable interest entities are $521,122,794 and $332,504,645 at June 30, 2009 and 2008, respectively, and are included in funds held on behalf of others in the consolidated statement of financial position. This amount includes the University's liability related to its minority interest in (losses) earnings of affiliates of $(62,413,685) and $1,678,898 at June 30, 2009 and 2008, respectively. Also included in funds held on behalf of others in the consolidated statement of financial position is $9,073,863 and $82,500,000 of Richmond Fund limited partner capital contributions received in advance of the subscription date and distributions payable at June 30, 2009 and 2008, respectively.

The consolidated financial statements as of and for the year ended June 30, 2009 include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2008, from which the summarized information was derived.

The assets and liabilities on the consolidated statement of financial position are presented in order of liquidity with the exception of investments, which have certain components which are considered short term and others which are considered long term. The endowment column on the consolidated statement of financial position includes board designated resources, permanently restricted resources excluding annuities and funds held on behalf of others. All other resources are included in the operating column on the consolidated statement of financial position.

(b) 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. The three classes are differentiated by donor restrictions.

Unrestricted Net Assets – may be designated for specific purposes by the University or may be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets – are subject to donor stipulations that expire by the passage of time or can be fulfilled or removed by actions pursuant to the stipulations. Temporarily restricted net assets consist principally of gifts restricted by donors for capital projects, which have not yet been completed, and other operating purposes, and unconditional pledges receivable that are not permanently restricted.

Permanently Restricted Net Assets – are subject to donor stipulations requiring that they be maintained permanently, thereby restricting the use of principal. Usually, donor stipulations allow part or all of the income earned to be used currently for a restricted purpose. Permanently restricted net assets consist principally of contributed permanent endowment balances, including unconditional pledges.

(c) Cash and Cash Equivalents

Cash equivalents with a maturity at date of purchase of three months or less are reported as cash and cash equivalents. There are cash equivalents held by the investment custodians that are reported as cash and cash equivalents in the accompanying consolidated financial statements. The cash equivalents at June 30, 2009 and 2008 are $87,184,830 and $54,760,094, respectively.

During the year ended June 30, 2006, an unrelated party charitable organization engaged the University to hold and invest its investment portfolio. On October 1, 2008, the unrelated charitable organization transferred its investment portfolio to the Richmond Fund. At June 30, 2008, the fair value of the assets under this agreement was approximately $16,106,000 and was reported as cash and cash equivalents and funds held on behalf of others on the consolidated statements of financial position. At June 30, 2009, these investments were part of Richmond Fund net assets and are included in investments and funds held on behalf of others in the consolidated statement of financial position.

(d) Investments

Investments and funds held in trust are recorded at fair value and primarily include investments in securities and investments in investment funds. Investments in securities include fixed maturities, equity securities, rights and warrants and exchange traded funds. Fair value for these investments is measured based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers and reviewed by the University after considering various sources of information. The University analyzes the underlying manager’s valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. Due to variations in trading volumes and the lack of quoted market prices for fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate.

Investments in investment funds primarily include investments in hedge funds and private equity funds, such as venture capital partnerships, oil and natural gas partnerships and real estate partnerships, and are reported at fair value as determined by the University in accordance with the University’s valuation policies and procedures and U.S. generally accepted accounting principles (GAAP). The University has concluded that the net asset value reported by the underlying fund is a practical expedient for or approximates the fair value of the investment. Of the amounts reported at net asset value, $301,953,198 of those investments are currently redeemable with the fund at net asset value under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, 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, 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. Although, a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore 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 the discount could be significant.

The FASB recently issued proposed SFAS 157-g, which provides guidance on applying fair value to alternative investments, including hedge funds and private equity funds. The proposed statement permits an investor to estimate the fair value of alternative investments for which a readily available market price is not available using the net asset value of the fund as a practical expedient. The guidance resulting from this project may impact the carrying amount of such investments in future periods.

Hedge funds for which market prices or quotations are not readily available are valued based upon valuations determined in good faith by the underlying investment managers and reviewed by the University. Based on the specific investment, the University may consider, among other factors, the volume of redemptions occurring at the reporting date at net asset value (NAV), restrictions on redemptions at the reporting date and the portion of the fund designated as a “side pocket” not available for redemption.

Private equity funds for which market prices or quotations are not readily available are valued at their estimated fair value as determined in good faith by the underlying investment managers and reviewed by the University. Based on the specific investment and its underlying assets, the University may consider, among other factors, quotes from market participants, pricing models, valuations or implied market inputs of comparable securities, recent sales or purchase multiples of comparable companies or securities, forecasted cash flows of the company, operating results or other financial data against set benchmarks, the book value of the company, market conditions, or other factors it deems relevant. The approved methodology will often depend on the availability of information, the type of investment, the stage of the company, and the business of the company. The University attempts to maximize the use of observable inputs when available, and maintains documentation to support the rationale and method used to estimate fair value.

The University's investments in investment 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. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds should be viewed as illiquid and subject to liquidity risk. The agreements related to investments in other funds provide for compensation to the managers in the form of management fees of 0.3% to 4.0% annually of net assets and performance incentive fees up to 23% of net profits earned.

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. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statement of activities, as increases or decreases in unrestricted net assets unless their use is restricted by external stipulation. Premiums and discounts on fixed income securities are amortized into income using the effective interest method. Fees paid to custodians and investment managers related to investments in securities are recorded on the accrual basis and are netted against investment income on the consolidated statement of activities.

(e) Fair Value of Financial Instruments

The carrying amounts of student accounts receivable, other receivables and accounts payable and accrued liabilities approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of notes receivable, evaluated collection history and has concluded the carrying amount approximates fair value. Management has estimated the net realizable value of pledges receivable, beneficial interest in trusts, and annuities and trusts payable and has concluded the carrying amounts approximate fair value. The fair value of investments and funds held in trust are estimated as noted above and in note 10. The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other observable market data. The value was determined after considering the potential impact of collateralization and netting agreements, adjusted to reflect nonperformance risk of both the counterparty and the University. The carrying amount of notes payable approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities.

(f) Derivative Instruments

The University accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires the University to recognize all derivative instruments as either assets or liabilities on 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 on the consolidated statement of activities. The University's consolidated financial statements include various derivative instruments such as interest rate swaps and credit default swaps. Additionally, The University's investment portfolio includes a total return swap whose purpose is to equalize the quarterly rate of return of the University of Richmond's pooled endowment managed by SMC and the Richmond Fund's rate of return prior to fees and expenses (notes 2 and 14).

(g) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first in, first out method.

(h) 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.

(i) Contributions

Contributions, including unconditional pledges, are recognized as revenues when donors' commitments are received. Contributions other than cash are recorded at their estimated fair value at the date of the gift. Conditional pledges become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional pledges are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted. Gifts whose restrictions are met in the same fiscal year as their receipt are combined with unrestricted gifts and reported as unrestricted contribution revenues. Permanently restricted contributions and contributions designated by the Board for long-term purposes are included as nonoperating contributions. Other contributions are considered operating revenues.

(j) Income Taxes

The University of Richmond has received a letter from the IRS dated September 1941, exempting the University of Richmond from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the University of Richmond is a public charity under Section 509(a)(l) of the Internal Revenue Code. Richmond Quadrangle, LLC and SMC are limited liability corporations, which will ultimately pass all of their income through to the University of Richmond. RFMC is a limited liability corporation and the Richmond Fund is a limited partnership. RFMC and the Richmond Fund do not record provisions for income taxes because the members and partners, respectively, report their share of the entities' income or loss on their income tax returns.

On July 1, 2007, the University adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken on a tax return. The implementation of FIN 48 had no impact on the University's consolidated statement of financial position or statement of activities. The University does not believe its consolidated financial statements include (or reflect) any uncertain tax positions.

(k) Estimates

The preparation of consolidated financial statements in conformity with GAAP 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.

(l) Reclassifications

Certain reclassifications have been made for the year ended June 30, 2008 to conform with classifications adopted in 2009.

(m) New Accounting Pronouncements

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities. SFAS No. 157 defines fair value as 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. SFAS No. 157 also expands disclosures about fair value measurements (note 10).

In June 2009, the FASB issued Proposed FSP FAS No. 157-g. The Proposed FSP's guidance clarifies that investors would be permitted, as a practical expedient, to estimate the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. The Proposed FSP FAS No. 157-g has not been finalized as of the date of issuance of this report; however, the University elected to follow the guidance included in the Proposed FSP FAS No. 157-g for the year ended June 30, 2009.

In August 2008, the FASB issued FSP No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of*

Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds. FSP No. 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). A key component of FSP No. 117-1 is a requirement to classify the portion of investment return from donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The University adopted FSP No. 117-1 as of July 1, 2008 and has reported the resulting net asset reclassification as a separate line item within the 2009 statement of activities. The disclosure requirements of FSP No. 117-1 are set forth in note 2.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 is effective for financial periods ending after June 15, 2009. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2009 financial statements through September 18, 2009, the date the financial statements were available to be issued.

(2) Endowment

Through June 30, 2008, the University's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending. Effective July 1, 2008, the Commonwealth of Virginia (the Commonwealth) enacted UPMIFA, the provisions of which apply to funds existing on or established after that date.

The University's endowment consists of approximately 1,200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees (the 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.

(a) Interpretation of Relevant Law

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (979,708)	479,562,101	281,595,422	760,177,815
Board-designated endowment funds	633,076,157	—	—	633,076,157
Total endowed net assets	$ 632,096,449	479,562,101	281,595,422	1,393,253,972

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ 633,897,899	—	288,002,451	921,900,350
Board-designated endowment funds	785,477,140	—	—	785,477,140
Total endowed net assets	$ 1,419,375,039	—	288,002,451	1,707,377,490

(Continued)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$ 1,419,375,039	—	288,002,451	1,707,377,490
Net asset reclassification in accordance with FSP FAS 117-1	(629,280,652)	629,280,652	—	—
Endowment net assets after reclassification	790,094,387	629,280,652	288,002,451	1,707,377,490
Investment return:				
Investment income	12,121,285	—	30,564	12,151,849
Net depreciation	(131,545,919)	(129,904,435)	(2,137,034)	(263,587,388)
Total investment return	(119,424,634)	(129,904,435)	(2,106,470)	(251,435,539)
Contributions	680,775	—	701,581	1,382,356
Appropriation of endowment assets for expenditure	(20,922,701)	(19,814,116)	1,259,805	(39,477,012)
Redesignated funds	7,703,849	—	(6,261,945)	1,441,904
Endowment net assets, June 30, 2009 before eliminations	658,131,676	479,562,101	281,595,422	1,419,289,199
Elimination of intercompany receivables	(26,035,227)	—	—	(26,035,227)
Endowment net assets, June 30, 2009	$ 632,096,449	479,562,101	281,595,422	1,393,253,972

(Continued)

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$ 1,372,824,255	—	281,316,689	1,654,140,944
Investment return:				
Investment income	12,232,328	—	35,280	12,267,608
Net appreciation	87,703,732	—	465,918	88,169,650
Total investment return	99,936,060	—	501,198	100,437,258
Contributions	908	—	3,394,925	3,395,833
Appropriation of endowment assets for expenditure	(54,791,342)	—	1,187,348	(53,603,994)
Redesignated funds	1,405,158	—	1,602,291	3,007,449
Endowment net assets, June 30, 2008	$ 1,419,375,039	—	288,002,451	1,707,377,490

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration in accordance with GAAP. Deficiencies of this nature that are reported in unrestricted net assets were $979,708 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets. There were no such deficiencies as of June 30, 2008.

(c) Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. 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. Per the University's investment policy, as approved by the Board, 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 custom benchmark based on a current asset allocation policy of 25% of the Russell 3000 Index, 20% of treasury bills multiplied by 2, 15% of the Venture Economics Index, 20% of the

MSCI-World Ex-United States Index, 5% of the Barclay's Aggregate Index, 5% of the NCREIF Real Estate Index and 10% of the Consumer Price Index plus 6%.

(d) Strategies Employed for Achieving Objectives

To satisfy the long-term rate-of-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 is to provide a diversified strategic mix of asset classes which places emphasis on investments in equity securities and funds, fixed income securities and funds, real assets, real estate and cash and produces the highest expected investment return within a prudent risk framework.

(e) 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 rate of 6% 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 delayed basis, spending will be reduced to 6% or increased to 4% of the three-year moving average, respectively.

(3) Investments

The costs and fair values of investments at June 30, 2009 and 2008 are as follows:

	2009		2008	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$ 953,964	953,964	2,239,340	2,239,340
Short-term investments	11,337,634	11,337,634	98,130,000	98,130,000
Government bonds	10,185,526	10,386,205	50,362,469	49,280,396
Corporate and global bonds	97,846,714	99,839,785	21,493,008	21,346,550
Common and preferred stocks	751,158,104	802,519,310	741,932,531	955,407,006
Hedge funds	407,051,601	510,374,099	297,811,342	452,955,336
Venture capital partnerships	445,029,810	337,345,873	391,456,751	345,926,361
Other investments	220,895,519	234,441,980	168,565,602	225,063,018
Total	$ 1,944,458,872	2,007,198,850	1,771,991,043	2,150,348,007

Other investments include primarily real estate, oil and natural gas and real estate partnerships, notes receivable, and real estate loans. Long/short equity investments are included in common and preferred stocks.

At June 30, 2009, the University has committed to make additional capital contributions of approximately $419,000,000 to various venture capital partnerships over the next five years.

(Continued)

The University's endowment investment portfolio includes derivative financial instruments that have been acquired to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. The endowment also employs certain derivative financial instruments to replicate long or short asset positions more cost effectively than through purchases or sales of the underlying assets.

During the year ended June 30, 2009, the endowment portfolio held credit default swaps which were terminated during the year. The University enters into credit default swaps for a variety of reasons including hedging its exposure to various issuers or to take an active long or short position with respect to a particular issuer. The University makes a stream of fixed payments to the other party in exchange for the right to receive certain payment amounts in the event of a credit event or default. Credit default swaps held by the University during the year ended June 30, 2009 consisted primarily of purchased protection agreements on corporate credit. The change in fair value totaled $(1,581,417) for the year ended June 30, 2009. At June 30, 2008, the fair value of the credit default swaps was an asset of $1,581,417. The change in fair value for the year ended June 30, 2008 totaled $1,581,417. At June 30, 2008, the approximate notional value of the University's credit default swaps was $220,000,000, which is not recorded in the consolidated financial statements.

The market and credit risks related to these derivative investments are not materially different from the risks associated with similar underlying assets in the portfolio.

Total investment return for the year ended June 30, 2009 is a negative return of $(301,480,795) and is classified within operating revenues and nonoperating activities as investment income, endowment income and net realized and unrealized gains and losses. Operating investment return includes income generated from short-term investments and the endowment spending formula, and nonoperating activities investment return includes income and gains earned (losses incurred) on the investment pool, in excess of the spending rate. When the spending rate exceeds actual investment return the spending rate is met with accumulated gains and income.

On September 29, 2008, the University was notified that the trustee of the Common Fund for Short Term Investments (the Fund) had initiated the process of terminating the Fund and had established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. At June 30, 2009 and 2008, the University had $11,337,634 and $98,130,000, respectively, invested in the Fund which is included in investments in the consolidated statement of financial position. As of June 30, 2009, the University has received approximately 89% of its investment in the Fund as of September 29, 2008. The University will be able to withdraw the remaining amount of its investment over time as the value of the underlying securities of the Fund reach maturity. The University and the Fund expect that the University's entire investment will be returned to the University.

(4) Annuities and Trusts

The University is the beneficiary and trustee of certain charitable remainder trusts. Under these trust agreements, the donors contributed assets to the University. For the remainder of the beneficiary's life, the University pays a fixed amount to the beneficiary as defined in the agreement. The fair value of the assets received under these agreements of $2,713,216 and $3,378,430 as of June 30, 2009 and 2008, respectively, is reported as funds held in trust in the consolidated statements of financial position. The present value of the future payout to the beneficiaries recorded in the consolidated statements of financial position as annuities and trusts payable as of June 30, 2009 and 2008 was $1,413,512 and $1,828,969, respectively.

(Continued)

Discount rates used in calculating the present value ranged from 4.2% to 10.2%. Changes in value of trusts totaled $217,241 and $28,646 for the years ended June 30, 2009 and 2008, respectively.

The University is the beneficiary of certain charitable remainder trusts, the assets of which are not in the possession of the University. The present value of the expected cash flows from these remainder trusts is included in beneficial interest in trusts in the consolidated statements of financial position. Discount rates used in calculating the present value ranged from 2.8% to 10.0%. Changes in value of beneficial interest in trust totaled $(574,843) and $(168,358) for the years ended June 30, 2009 and 2008, respectively.

The University is a party to certain charitable gift annuity agreements. Under these gift annuity agreements, the donors contributed assets to the University. For the remainder of the annuitant's life, the University pays a fixed amount annuity to the annuitant as defined in the agreement. The fair value of the assets received under these agreements is included in investments in the consolidated statements of financial position. The present value of the future payout to the annuitants at June 30, 2009 and 2008, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $4,792,255 and $4,928,938, respectively. Discount rates used in calculating the present value ranged from 2.0% to 10.6%. Changes in value of annuities totaled $(563,093) and $(587,756) for the years ended June 30, 2009 and 2008, respectively.

(5) Pledges Receivable

Unconditional pledges at June 30, 2009 are expected to be realized in the following periods:

Less than one year	$	8,259,269
One year to five years		13,822,044
More than five years		13,943,215
		36,024,528
Less discount rates ranging from 2% to 11%		(5,094,094)
	$	30,930,434

In addition to the above, the University is named beneficiary of conditional gifts and bequests, the fair value of which is not determinable. These gifts are not recorded in the accompanying consolidated statements of financial position and activities until conditions are met.

(6) Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30, 2009 and 2008:

	2009	2008
Land	$ 18,801,985	18,801,985
Buildings	285,076,474	269,779,877
Improvements	25,157,245	23,015,127
Equipment	74,991,214	71,622,545
Library books	55,465,023	51,810,303
Construction in progress	22,523,962	23,171,757
	482,015,903	458,201,594
Accumulated depreciation	(242,883,329)	(228,265,932)
	$ 239,132,574	229,935,662

Contracts have been let for construction in the amount of approximately $81,506,000 including construction in progress of $22,523,962 at June 30, 2009.

(7) Notes Payable

Notes payable to the Virginia College Building Authority consist of the following at June 30, 2009 and 2008:

	2009	2008
Series of 2002:		
Due March 1, 2032 with initial interest at 4.40%;	$ —	7,170,000
Due March 1, 2032 with initial interest at 5.00%;	—	15,000,000
Due March 1, 2032 with initial interest at 5.00%;	—	7,445,000
This series refunded all of the Series of 1992, and provided funds for several projects, including Weinstein Hall, Gottwald Science Center and Marsh Hall.		
Series of 2004:		
Due August 1, 2034 with a weekly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (2.50% and 1.53% at June 30, 2009 and 2008, respectively)	46,000,000	46,000,000
This series refunded all of the Series of 1994, and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum.		
Series of 2006:		
Due November 1, 2036 with a daily rate as determined by the Remarketing Agents based on prevailing market conditions (1.30% and 2.71% at June 30, 2009 and 2008, respectively)	55,900,000	55,900,000
This series refunded all of the Series of 1996 and 1999, and provided funds for several projects, including Lakeside Dorm, Boatwright Library and Boiler Plant Improvements.		
Series of 2009:		
Due March 1, 2039 with an initial rate of 0.80% through March 1, 2010	45,085,000	—
Due March 1, 2039 with an initial rate of 0.80% through February 1, 2010	29,615,000	—
On the mandatory tender dates of March 1, 2010 and February 1, 2010, respectively, the interest rate will be redetermined.		
This series refunded all of the Series of 2002, and provided funds for several projects, including First Market Stadium, Robins School of Business and Carole Weinstein International Center.		
	$ 176,600,000	131,515,000

The fair value of all outstanding long-term obligations at June 30, 2009 and 2008 was approximately $177,000,000 and $132,000,000, respectively.

The University has entered into five fixed rate swap agreements related to notes payable as follows:

- The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $4,870,916 and $2,479,039 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,391,877) and $(2,167,460) for the years ended June 30, 2009 and 2008, respectively. According to the terms of the swap agreement, the University is required to post collateral if the fair value of the liability exceeds $20,000,000. No collateral was required to be posted related to the agreement at June 30, 2009.
- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $30,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty-five years. The fair value of the swap is a liability of $4,521,499 and $1,967,232 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,554,267) and $(2,389,924) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.
- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $10,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $1,663,938 and $702,439 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(961,499) and $(858,713) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.
- The University pays the counterparty a fixed rate of 3.778% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty years. The fair value of the swap is a liability of $3,693,981 and $1,348,986 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,344,995) and $(1,664,887) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.
- The University pays the counterparty a fixed rate of 2.46115% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The fair value of the swap is a receivable of $1,639,750 as of June 30, 2009 and the change in fair value totaled $1,639,750 for the year ended June 30, 2009. This swap was entered into during fiscal year 2009. There are no collateral posting requirements related to this swap agreement. The University unwound this swap in July 2009, and recognized a gain of $1,913,000.

The interest rate swap agreements are being used to convert the variable rates on these notes payable to a fixed rate without exchanging the underlying principal amounts. The agreements are used to minimize the impact of future interest rate changes.

Interest expense on notes payable and interest rate swap agreements was $4,861,649 and $5,027,475 for the years ended June 30, 2009 and 2008, respectively.

On December 28, 2008, the University renewed a one-year revolving credit facility in the amount of $50,000,000 to support timing differences within the investment portfolio. There were no borrowings from the facility during the years ended June 30, 2009 and 2008.

(8) Retirement Plans

The University has certain contributory defined contribution retirement annuity plans, funded through the Teachers' Insurance and Annuity Association, the Vanguard Group, and the American Funds, for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $7,080,766 and $6,725,881 to these plans for the years ended June 30, 2009 and 2008, respectively, which was charged to expense in the consolidated statements of activities.

(9) Postretirement Benefits

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 are not funded.

The University utilizes a measurement date of June 30th. At June 30, 2009, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $3,826,921 and $314,997, respectively. At June 30, 2008, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement cost were $2,774,506 and $377,251, respectively.

Information with respect to the postretirement plan as of and for the years ended June 30, 2009 and 2008 is as follows:

		2009	2008
Change in benefit obligation:			
Benefit obligation at beginning of year	$	9,205,236	9,320,835
Service cost		166,776	171,489
Interest cost		549,600	556,199
Benefits paid		(823,271)	(843,287)
Actuarial loss		1,206,914	—
Accrued postretirement benefit obligation	$	10,305,255	9,205,236

Net periodic postretirement benefit cost for the years ended June 30, 2009 and 2008 was as follows:

		2009	2008
Net periodic postretirement benefit cost:			
Service cost	$	166,776	171,489
Interest cost		549,600	556,199
Amortization of unrecognized net loss		154,499	167,493
Amortization of prior service cost		(62,253)	(62,253)
	$	808,622	832,928

Estimated future benefit payments are total benefits expected to be paid from the plan. The following are estimated benefit payments for the years ending 2010 through 2018:

Years ending June 30:		
2010	$	1,041,088
2011		951,757
2012		940,390
2013		939,182
2014		918,556
2015 – 2018		4,337,000

The estimated net employer contributions to the plan for year ending June 30, 2010 total $1,041,088.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 6.5% and 7.0% for 2009 and 2008, respectively, and is assumed to decrease gradually to 5.0% by the year 2012 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2009 by $138,006 and increase the net periodic postretirement benefit cost for the year ended June 30, 2009 by $15,476.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2009 and 2008 was 6.25%.

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The Act introduces a prescription drug benefit under Medicare (Medicare Part D).

The Act also provides that a nontaxable federal subsidy will be paid to sponsors of postretirement benefit plans that provide retirees with a drug benefit that is at least "actuarially equivalent" to the Medicare Part D benefit. As of June 30, 2009, 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.

(10) Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value within that framework and expands disclosure requirements regarding the use of fair value measurements. Statement No. 157 became effective for the University on July 1, 2008.

Statement No. 157 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) 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, inputs other than quoted prices that are observable for the asset or liability and 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 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. In determining fair value, the University uses various methods, including the market, income and cost approaches. The University uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The University has evaluated the various types of securities and investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include municipal bonds, foreign government bonds and corporate debt securities and hedge funds. Due to the significance of unobservable inputs required in measuring the fair value of investments in private equity funds and swap agreements, they have been classified as Level 3 within the fair value hierarchy.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2009, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash equivalents	$ 953,964	—	—	953,964
Short-term investments	11,337,634	—	—	11,337,634
Government bonds	—	10,386,205	—	10,386,205
Corporate and global bonds	—	86,164,801	13,674,984	99,839,785
Common and preferred stocks	103,851,536	430,096,737	268,571,037	802,519,310
Hedge funds	—	239,502,736	270,871,363	510,374,099
Venture capital partnerships	—	—	337,345,873	337,345,873
Other investments	630,614	45,492,630	188,318,736	234,441,980
Total investments	116,773,748	811,643,109	1,078,781,993	2,007,198,850
Funds held in trust	1,961,477	751,739	—	2,713,216
Total	$ 118,735,225	812,394,848	1,078,781,993	2,009,912,066
Liabilities:				
Swap agreements	$ —	—	13,110,584	13,110,584
Total	$ —	—	13,110,584	13,110,584

(Continued)

The following table summarizes changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2009:

Assets:		
Beginning balance as of July 1, 2008	$	1,294,025,526
Total net losses included in:		
Change in net assets		(246,987,937)
Purchases into (out of) Level 3		31,744,404
Ending balance as of June 30, 2009	$	1,078,781,993
Net unrealized losses included in net loss for the period relating to assets held at June 30, 2009	$	(499,059,287)
Liabilities:		
Beginning balance as of July 1, 2008	$	4,916,279
Total net losses included in:		
Change in net assets		8,194,305
Ending balance as of June 30, 2009	$	13,110,584
Net unrealized losses included in net loss for the period relating to liabilities held at June 30, 2009	$	(8,194,305)

(11) Composition of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2009 and 2008:

		2009	2008
Support of particular operating activities	$	25,663,532	26,090,603
Acquisition of long-lived assets		48,141,345	59,797,639
Accumulated appreciation on donor-restricted endowment funds		480,480,759	—
	$	554,285,636	85,888,242

Release of restrictions related to property, plant and equipment is considered a nonoperating activity.

Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2009 and 2008.

(12) Lease Agreement

On May 1, 2004, Richmond Quadrangle, LLC, a University affiliate, entered into a lease agreement with Philip Morris USA, Inc. for real estate owned by the affiliate. The lease commenced on November 1, 2004 with an initial lease term of fifteen years and an option to extend the lease for three consecutive five-year terms. The lease is classified as an operating lease by the University.

The rental income pursuant to this lease agreement for the years ended June 30, 2009 and 2008 was $2,950,198 and $2,889,609, respectively.

The following is a schedule by years of future minimum rentals on the noncancelable operating lease as of June 30, 2009:

Years ending June 30:		
2010	$	3,011,998
2011		3,075,035
2012		3,139,333
2013		3,204,916
2014		3,365,034
Later years		15,581,750
	$	31,378,066

(13) 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 based upon each functional line's percentage of the total. The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2009.

Functional category		Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$	49,454,525	6,498,416	1,488,972	5,074,648	62,516,561
Research		5,150,494	676,785	155,071	528,505	6,510,855
Public service		2,471,331	324,737	74,407	253,589	3,124,064
Libraries		9,139,375	1,200,931	275,168	937,813	11,553,287
Academic support		18,976,519	2,493,550	571,343	1,947,226	23,988,638
Student services		13,550,373	1,780,544	407,973	1,390,437	17,129,327
Institutional support		27,016,966	3,362,897	770,536	2,626,105	33,776,504
Auxiliary enterprises		32,771,158	—	1,118,179	1,470,000	35,359,337
		158,530,741	16,337,860	4,861,649	14,228,323	193,958,573
Maintenance		16,337,860	(16,337,860)	—	—	—
Interest		4,861,649	—	(4,861,649)	—	—
Depreciation		14,228,323	—	—	(14,228,323)	—
Total operating expenses	$	193,958,573	—	—	—	193,958,573

Depreciation expense of $389,074 for the year ended June 30, 2009 for Richmond Quadrangle, LLC is included as part of direct expenses in Institutional support.

Program Services consist of Instruction, Research, Public service, Libraries, Academic support, Student services and Auxiliary enterprises in the amount of $160,182,069. Supporting Services consist of Institutional support in the amount of $33,776,504.

(14) Related-Party Transactions

Investment management fees paid to SMC by the University for the year ended June 30, 2009 and 2008 were $2,776,238 and $3,025,664, respectively, which have been eliminated in consolidation.

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 the general partner a management fee payable quarterly in arrears equal to 1% per annum of the first $100,000,000 of each limited partner's assets under management, 0.75% of the next $150,000,000, 0.5% of the next $250,000,000 and 0.4% of the excess of $500,000,000. Management fees earned by RFMC from the Richmond Fund during the year ended June 30, 2009 and 2008 were $4,133,503 and $1,091,205, respectively, of which $1,232,390 and $775,728 were payable to RFMC at June 30, 2009 and 2008, respectively. These amounts have been eliminated in consolidation. At the end of each fiscal year, the general partner is 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%. No performance allocation was earned by RFMC for the years ended June 30, 2009 and 2008.

Expenses of the Richmond Fund for all partnership expenses are subject to a cap of 0.05% for partnership expenses in excess of the management fee for each fiscal quarter. The Richmond Fund will reimburse the general partner for organizational and offering costs in the amount of $350,000 in twenty equal quarterly installments on the first business day of each quarter. At June 30, 2009 and 2008, there was a payable from the Richmond Fund to RFMC in the amount of $262,500 and $332,500, respectively, for organizational and offering costs, which has been eliminated in consolidation.

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 quarterly settlement of the swap within 45 days of the quarter-end date. The University anticipates holding the swap agreement until termination of the Richmond Fund. The settlement value of the swap at June 30, 2009 was a receivable to the University and a liability to the Richmond Fund in the amount of $20,010,504. The change in settlement value for the year ended June 30, 2009 totaled $21,793,529 and was a gain for the University and a loss for the Richmond Fund. The settlement value of the swap at June 30, 2008 was a liability to the University and a receivable to the Richmond Fund in the amount of $4,334,813. The change in settlement value for the year ended June 30, 2008 totaled $7,920,383 and was an expense for the University and revenue for the Richmond Fund. These amounts have been eliminated in consolidation.

At June 30, 2009 and 2008, there was a payable from the Richmond Fund to the University in the amount of $6,024,723 and $0, respectively, related to timing differences between partner capital contributions and investment capital calls. These amounts have been eliminated in consolidation.

The following table categorizes the net assets held on behalf of the Richmond Fund, LP as of June 30, 2009 and 2008:

		2009	2008
Cash and cash equivalents	$	12,964,408	130,973,203
Government bonds		337,601	20,925,161
Corporate bonds		49,272,639	103,106
Common stock		292,121,279	196,488,734
Hedge funds		150,452,377	78,890,690
Partnerships		27,984,653	8,058,486
Other investments		25,914,170	16,217,883
Receivables and other assets		680,395	4,434,023
Total gross assets		559,727,522	456,091,286
Accounts payable and accrued liabilities		(28,519,309)	(1,709,821)
Securities sold short		(1,011,556)	(39,376,820)
Capital contributions received in advance		(9,073,863)	(82,500,000)
Total net assets	$	521,122,794	332,504,645

(15) Recently Issued Accounting Standards

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133* (FAS 161). FAS 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. FAS 161 also requires entities to disclose additional information about the amounts and location of derivatives located within the financial statements, how the provisions of Statement 133 have been applied, and the impact that hedges have on an entity’s financial position, financial performance, and cash flows. FAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The University is currently evaluating the impact of FAS 161 on the disclosures about its hedging activities and use of derivatives.

In April 2009, the FASB issued FASB Statement 164, *Not-for-Profit Entities: Mergers and Acquisitions* (FAS 64). FASB Statement 164 gives not-for-profit organizations specific guidance on accounting for mergers and acquisitions. The Statement’s requirements prescribe how to determine whether a combination is a merger or an acquisition, how to account for each, and the disclosures that should be made. FAS 164 is to be applied prospectively to mergers with merger dates on or after December 15, 2009, and to acquisitions with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. The University is currently evaluating the impact of FAS 164 on its consolidated financial statements.

In June 2009, the FASB issued FASB Statement 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167). FAS 167 contains new criteria for determining the primary beneficiary and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a VIE. It also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity's status as a VIE, a company's power over a VIE, or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded in applying FIN 46R's provisions. Additionally, the Statement requires additional disclosures. The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The University is currently evaluating the impact of FAS 167 on its consolidated financial statements.

(16) Contingencies

The University receives revenues under U.S. Government 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 government. The University is of the opinion that adjustments, if any, arising from such audits will not have a material effect on the financial statements.

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, results of operations and/or liquidity of the University.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/program title	CFDA number	Grant expenditures	Loan disbursements	Total
Student financial assistance programs cluster:				
Direct payments:				
Department of Education:				
Federal Pell Grant Program	84.063	$ 1,033,872	—	1,033,872
Federal Supplemental Educational Opportunity Grant Program	84.007	276,800	—	276,800
Federal Work Study Program	84.033	273,674	—	273,674
Academic Competitiveness Grant	84.375	82,400	—	82,400
National Science and Mathematics Access to Retain Talent Grant	84.376	10,000	—	10,000
Federal Family Educational Loan Program (note 3)	84.032	—	72,338	72,338
Federal Perkins Loan Program (note 4)	84.038	—	117,640	117,640
Federal Direct Loan Program (note 5)	84.268	—	24,771,196	24,771,196
Total student financial assistance programs cluster		1,676,746	24,961,174	26,637,920
Research and development programs cluster:				
Direct payments:				
National Science Foundation:				
Mathematical and Physical Sciences:				
Chemical Investigation	47.049	54,774	—	54,774
Enhancing the Mathematical Sciences Workforce for the 21st Century: Long Term Undergraduate Research Experience	47.049	352,177	—	352,177
Research at Undergraduate Institutions: Cosmic Microwave Background Analysis in the Post-WMAP Era	47.049	23,852	—	23,852
Research at Undergraduate Institutions: Theoretical Nuclear Structure Studies	47.049	10,098	—	10,098
Undergraduate Biology Mentoring Group-Studying Cell Response to Input Signal	47.049	16,331	—	16,331
Research at Undergraduate Institutions: Nanoparticle Film Assemblies: Interfaces for Controlling Nanoscale Absorption Environment and Electrochemical Behavior of Immobilized Redox Proteins	47.049	26,718	—	26,718
Research at Undergraduate Institutions: A Theoretical Investigation of Multi-reference Diradical Molecules	47.049	12,355	—	12,355
Geosciences:				
Research at Undergraduate Institutions: Stability and Structure of Temperate and Tropical Marine Sponge Symbiont Communities in Response to Climate Change	47.050	95,630	—	95,630
Computing and Information Science and Engineering:				
Cyber Trust Individual or Small Group Proposal: Research at Undergraduate Institutions: Ensuring Computation Integrity in Distributed Volunteer Computing Platforms	47.070	71,892	—	71,892
Research at Undergraduate Institutions: Managing Memory Demands of Data Intensive Workloads in Chip Multiprocessors	47.070	38,037	—	38,037
Biological Sciences:				
Function of Kinesin Associated Proteins	47.074	38,556	—	38,556
Macromolecular Recognition and Differential Ion Channel Functioning	47.074	146,070	—	146,070
Major Research Instrumentation Grant: Acquisition of Instrumentation for Creation of a Regional Undergraduate Biophysical Chemistry Research Cluster	47.074	132,077	—	132,077
Reversionary Syntheses in Systematics: Research at Undergraduate Institutions: Diversity Beyond Morphology	47.074	132,316	—	132,316
Research at Undergraduate Institutions: Role of Protein Dynamics	47.074	122,701	—	122,701
Collaborative Research: Assembling the Tree of Life, Porifera Tree of Life, The Porifera Tree of Life Project	47.074	8,131	—	8,131
Social, Behavioral, and Economic Sciences:				
Major Research Instrumentation Grant: Acquisition of Apparatus	47.075	21,349	—	21,349
Research at Undergraduate Institutions: Computational Developmental Bilingualism	47.075	38,228	—	38,228
Education and Human Resources:				
Course, Curriculum, and Laboratory Improvement: Increasing Active Learning in Mathematics and Computer Science	47.076	22,909	—	22,909

(Continued)

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/program title	CFDA number	Grant expenditures	Loan disbursements	Total
Department of Energy:				
Nuclear and Particle Physics Research	81.049	$ 26,586	—	26,586
Nuclear Structure Research	81.049	44,954	—	44,954
Nuclear Stewardship Research	81.112	140,820	—	140,820
Department of Education				
Enhancing Internationalization in the Humanities: Focus on the Middle East	84.016	33,834	—	33,834
Department of Health and Human Services – National Institutes of Health:				
Retraining Automatic Biases Related to Problem Drinking in College Students	93.273	72,330	—	72,330
A Combination Strategy	93.395	57,342	—	57,342
Finding Polyglatamine Disease and Rescue Mechanisms Using Proteomic Analysis	93.853	33,774	—	33,774
Mosquito Egg Development	93.855	74,576	—	74,576
Role of Shigella	93.855	41,760	—	41,760
Pass through payments:				
National Science Foundation:				
North Carolina A&T State University Developing Economic Pedagogic Portal Grant DUE-0817382	47.076	20,940	—	20,940
Total research and development programs cluster		1,911,117	—	1,911,117
Other grants:				
Direct payments:				
National Science Foundation:				
Intergovernmental Personnel Act Assignment	27.011	10,396	—	10,396
Virginia Operator Theory and Analysis Meeting	47.049	1,243	—	1,243
National Endowment for the Humanities:				
On the Road: Wrapped in Pride	45.164	1,000	—	1,000
Visualizing the Past: Tools and Techniques for Understanding Processes	45.169	13,625	—	13,625
Total other grants		26,264	—	26,264
Total federal awards		$ 3,614,127	24,961,174	28,575,301

See accompanying notes to schedule of expenditures of federal awards.

See accompanying independent auditors’ report.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of University of Richmond and its affiliates (the University) for the year ended June 30, 2009. All federal awards received directly and indirectly from federal agencies are included in this Schedule. Although the University is required to match certain amounts, as defined in the grants, 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, Federal Family Educational Loan, and Federal Perkins Loan Program are reported in the Schedule when disbursed.

Expenditures for other federal awards are recognized as incurred using the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, *Costs Principles for Educational Institutions*. Under these cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

(3) Federal Family Educational Loan Program

The University participates in the Federal Family Educational Loan Program (the FFEL Program), which includes subsidized, unsubsidized, and PLUS loans. The FFEL Program does not require the University to request cash from a federal agency and disburse such funds.

The University is responsible only for the performance of certain administrative functions with respect to the FFEL Program, and accordingly, these loans are not included in the University's basic consolidated financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under the FFEL Program at June 30, 2009.

(4) Federal Perkins Loan Program

The total amount of Perkins loans outstanding at June 30, 2009 was $4,616,773 and is included in notes receivable in the University's basic consolidated financial statements.

(5) Federal Direct Loan Program

The University participates in the Federal Direct Loan Program (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.

(Continued)

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 basic 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, 2009.

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 the consolidated financial statements of the University of Richmond and its affiliates (the University) as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009, which included a paragraph describing the University's adoption of the recognition and disclosure provisions of FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, as of July 1, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 18, 2009

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

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
University of Richmond:

Compliance

We have audited the compliance of the University of Richmond and its affiliates (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditors' results Section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We did not audit the University's compliance with the requirements governing program income and student loan repayments, except for those related to exit interviews, in accordance with the requirements of the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement. Those requirements govern functions performed by Campus Partners. Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of work was not sufficient to enable us to express, and we do not express, an opinion on compliance with those requirements.

Campus Partners' compliance with the requirements governing the functions that it performs for the University for the year ended June 30, 2009 was examined by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' examination of Campus Partners compliance with such requirements.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to in the first paragraph above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-4.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Requirements governing program income and student loan repayments, except for those related to exit interviews, in the Student Financial Assistance Cluster: Federal Perkins Loan program as described in the Compliance Supplement are performed by Campus Partners. Internal control over compliance related to such functions for the year ended June 30, 2009 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Our report does not include the results of the other accountants' testing of Campus Partners' internal control over compliance related to such functions.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1 through 2009-4 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2009-1, 2009-3, and 2009-4 to be material weaknesses.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 18, 2010

(1) Summary of Auditors' Results

(a) The type of report issued on the consolidated financial statements: **unqualified opinion**

(b) Significant deficiencies in internal control over financial reporting disclosed by the audit of the consolidated financial statements: **none reported**

(c) Material weaknesses in internal control over financial reporting disclosed by the audit of the consolidated financial statements: **none**

(d) Noncompliance that is material to the consolidated financial statements: **none**

(e) Significant deficiencies in internal control over major programs: **Yes, findings 2009-1 through 2009-4**

(f) Material weaknesses in internal control over major programs: **Yes, findings 2009-1, 2009-3 and 2009-4**

(g) The type of report issued on compliance for major programs: **Unqualified opinion**

(h) Any audit findings, that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes, findings 2009-1 and 2009-4.**

(i) Major programs: **Student Financial Assistance Programs Cluster (CFDA Nos. 84.007; 84.032; 84.033; 84.038; 84.063; 84.268; 84.375; and 84.376) and Research and Development Programs Cluster (CFDA Nos. 47.049; 47.050; 47.070; 47.074; 47.075; 47.076; 81.049; 81.112; 84.016; 93.273; 93.395; 93.853; and 93.855)**

(j) Dollar threshold used to distinguish between Type A and Type B programs: **$992,233**

(k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No**

(2) **Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:** None

(3) Findings and Questioned Costs relating to Federal Awards:

2009-1 Allowable Costs – Material Weakness

Time and Effort Reporting

Program – Research and Development Programs Cluster (CFDA Nos. 47.049; 47.050; 47.070; 47.074; 47.075; 47.076; 81.049; 81.112; 84.016; 93.273; 93.395; 93.853; and 93.855)

Condition – For 21 of 49 students paid with federal funding, the time and effort report prepared was not signed by the student within the six-month period. For 1 of 49 students paid with federal funding, the time and effort report was signed by the Principal Investigator but was not signed by the student.

Criteria – Per OMB Circular A-21, after-the-fact activity records reporting requires that professorial and professional staff prepare activity reports each academic term, but no less frequently than every six months. Per OMB Circular A-21, employees other than professorial and professional staff, unless alternate arrangements are agreed to, are required to complete activity reports no less frequently than monthly and which coincide with one or more pay periods. The effort reporting is required to be compared to the actual federal funds received to ensure effort either equals or exceeds federal funding received.

Effect – Noncompliance with requirements may result in unallowable charges to the cluster of programs.

Questioned Costs –Total federal funding for the 1 student who did not sign their time and effort report totaled approximately $5,760.

Recommendation – The University should ensure time and effort reporting is completed properly and timely.

Views of Responsible Officials:

Contact Person Responsible for Corrective Action – Jennifer M. Sauer, Associate Vice President for Business and Finance.

Corrective Action Plan – Time and Effort reporting for students engaged in sponsored research has been modified to ensure timely and accurate collection of effort certifications of student time. This finding relates to a breakdown in procedure during the summer of 2008, fiscal year 2009. The corrective action was implemented during fiscal year 2009 and as such, the above noted weakness should not reoccur.

Anticipated Completion Date – Completed.

2009-2 Equipment and Real Property Management – Significant Deficiency

Program – Research and Development Programs Cluster (CFDA Nos. 47.049; 47.050; 47.070; 47.074; 47.075; 47.076; 81.049; 81.112; 84.016; 93.273; 93.395; 93.853; and 93.855)

Condition – For 1 of 6 equipment purchases, the Grants Manager did not authorize the procurement action.

Criteria – Per OMB Circular A-110, equipment records shall be maintained and reconciled. The University's policy is for both the Grants Manager and the Principal Investigator to approve all federal grants procurements and related invoices prior to purchase.

Effect – Noncompliance with equipment and real property requirements may result in inappropriate record-keeping.

Questioned Costs –None. All other aspects of the University's policy adhered to.

Recommendation – We recommend that the University ensure adherence to its written policies and procedures for procuring goods and services.

Views of Responsible Officials:

Contact Person Responsible for Corrective Action – Jennifer M. Sauer, Associate Vice President for Business and Finance.

Corrective Action Plan – Procedures for approving all equipment purchases have been modified to ensure proper authorization of all procurement transactions. To ensure this deficiency will not occur in the future, the purchasing approval queue was changed so that any account code used in conjunction with a grant number will require the proper approvals. This particular deficiency was a result of an improper account code, which was corrected prior to payment. In addition, the approval for this purchase was also obtained correctly prior to payment of the vendor.

Anticipated Completion Date – Completed.

2009-3 Procurement, Suspension and Debarment – Material Weakness

Program – Research and Development Programs Cluster (CFDA Nos. 47.049; 47.050; 47.070; 47.074; 47.075; 47.076; 81.049; 81.112; 84.016; 93.273; 93.395; 93.853; and 93.855)

Condition – For 1 of 6 procurement actions tested, the Grants Manager did not authorize the procurement action taken.

Criteria – Per OMB Circular A-110, all recipients of federal funds are required to establish written procurement policies. The University's policy is for both the Grants Manager and the Principal Investigator to approve all federal grants procurements prior to purchase.

Effect – Noncompliance with requirements may result in improper procurements.

Questioned Costs – None. All other aspects of the University's procurement policy were adhered to and procurements were properly completed.

Recommendation – We recommend that the University ensure adherence to its written policies and procedures for procuring goods and services in accordance with OMB Circular A-110.

Views of Responsible Officials:

Contact Person Responsible for Corrective Action – Jennifer M. Sauer, Associate Vice President of Business and Finance.

Corrective Action Plan – Procedures for approving all equipment purchases have been modified to ensure proper authorization of all procurement transactions. To ensure this deficiency will not occur in the future, the purchasing approval queue was changed so that any account code used in conjunction with a grant number will require the proper approvals. This particular deficiency was a result of an improper account code, which was corrected prior to payment. In addition, the approval for this purchase was also obtained correctly prior to payment of the vendor.

(Continued)

Anticipated Completion Date – Completed.

2009-4 Special Tests and Provisions – Student Status Changes – Material Weakness

Program – Student Financial Assistance Programs Cluster (CFDA Nos. 84.007; 84.032; 84.033; 84.038; 84.063; 84.268; 84.375; and 84.376)

Condition – For 2 of 54 student status changes tested, which was the entire population, the University did not submit the status change to the NSLDS within 60 days of the status change.

Criteria – Per 34 CFR Sections 682.610 and 685.309, student status changes are required to be submitted within thirty days unless there is a scheduled submission of the Student Status Confirmation Report within sixty days upon discovery of a student who received a loan and either did not enroll or ceased to be enrolled on at least a half-time basis.

Effect – Noncompliance with requirements may result in reduced funding for the cluster of programs.

Questioned Costs – None.

Recommendation – We recommend that the University emphasize its policies and procedures for ensuring student status changes are submitted timely and accurately.

Views of Responsible Officials:

Contact Person Responsible for Corrective Action – Cynthia Deffenbaugh, Director of Student Financial Aid.

Corrective Action Plan – The process has been enhanced to report a small subset of student status changes which was not covered by the prior procedures.

Anticipated Completion Date – Completed.