KPMG

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

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

June 30, 2011 and 2010

(With Independent Auditors' Reports Thereon)

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

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KPMG LLP
Suite 2000
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Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated statements of financial position of the University of Richmond and its affiliates (the University) as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Richmond and its affiliates as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 1(q) to the consolidated financial statements, the University adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011 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 audits.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards included in Schedule 3 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 audits 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

October 5, 2011

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Assets:			
Cash and cash equivalents	$	115,427	112,062
Investments (notes 2, 3, 6, 11, and 12)		1,853,544	1,593,341
Assets of consolidated variable interest entities (notes 16 and 17):			
Cash and cash equivalents		130,979	112,065
Investments (notes 3, 11, 12, and 16)		911,884	663,696
Accrued income		594	554
Other receivables		423	131
Other assets		73	117
Student accounts receivable, net		1,132	1,322
Accrued income		182	24
Other receivables		2,069	1,936
Notes receivable, net (note 4)		3,659	3,833
Inventories, prepaid expenses, and other		9,776	9,595
Pledges receivable, net (note 5)		14,850	20,814
Funds held in trust (notes 6 and 11)		3,069	2,788
Beneficial interest in trusts (notes 6 and 11)		3,191	3,531
Property, plant, and equipment, net (note 7)		280,935	272,761
Total assets	$	3,331,787	2,798,570
Liabilities:			
Accounts payable and accrued liabilities	$	22,472	18,017
Deferred income		12,704	12,223
U.S. government grants refundable (note 4)		3,818	3,902
Liabilities of consolidated variable interest entities (notes 16 and 17):			
Accounts payable and accrued liabilities		6,218	3,481
Capital contributions received in advance and redemptions payable		97,063	55,991
Funds held on behalf of others (note 16)		949,784	732,469
Annuities and trusts payable (note 6)		6,397	6,021
Notes payable (note 8)		176,878	176,600
Swap agreements (notes 8, 11, and 12)		16,076	20,093
Postretirement benefits (note 10)		11,543	11,199
Total liabilities		1,302,953	1,039,996
Net assets (note 2):			
Unrestricted		999,222	858,980
Temporarily restricted (note 13)		700,006	593,282
Permanently restricted (note 13)		329,606	306,312
Total net assets		2,028,834	1,758,574
Total liabilities and net assets	$	3,331,787	2,798,570

See accompanying notes to the consolidated financial statements.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 157,855	—	—	157,855
Less scholarship allowance	(68,840)	—	—	(68,840)
Net tuition and fees	89,015	—	—	89,015
Grants and contracts	4,217	—	—	4,217
Contributions	5,878	2,818	—	8,696
Investment income (notes 2 and 3)	1,115	1,190	—	2,305
Endowment spending distribution (notes 2 and 3)	43,093	31,814	—	74,907
Auxiliary enterprises	36,801	—	—	36,801
Other sources (note 14)	4,049	—	—	4,049
Net assets released from restrictions	30,840	(30,840)	—	—
Total operating revenues	215,008	4,982	—	219,990
Operating expenses (note 15):				
Instruction	68,109	—	—	68,109
Research	6,559	—	—	6,559
Public service	2,912	—	—	2,912
Libraries	12,489	—	—	12,489
Academic support	24,706	—	—	24,706
Student services	18,966	—	—	18,966
Institutional support	39,039	—	—	39,039
Auxiliary enterprises	38,058	—	—	38,058
Total operating expenses	210,838	—	—	210,838
Increase in net assets from operating activities	4,170	4,982	—	9,152
Nonoperating activities:				
Contributions	—	—	18,901	18,901
Investment income, net of fees (notes 2 and 3)	30,970	—	93	31,063
Endowment spending distribution (notes 2 and 3)	—	—	2,278	2,278
Net realized gains (notes 2 and 3)	75,102	—	71	75,173
Net unrealized gains (notes 2 and 3)	167,776	122,177	4,089	294,042
Loss on disposal of property, plant, and equipment	(68)	—	—	(68)
Redesignated funds	2,495	(350)	(2,145)	—
Change in fair values of swap agreements (notes 8, 11, and 12)	4,017	—	—	4,017
Change in present value of split interest agreements (note 6)	—	—	217	217
Change in postretirement benefit obligation other than net periodic costs (note 10)	(273)	—	—	(273)
Net assets released from restrictions for property, plant, and equipment	19,738	(19,738)	—	—
Affiliated organizations' expenses	(11,359)	—	—	(11,359)
Tax provision	(2,543)	—	—	(2,543)
Other expenses	(3,539)	(347)	(210)	(4,096)
	282,316	101,742	23,294	407,352
Less change in net assets related to funds held on behalf of others (note 16)	(146,244)	—	—	(146,244)
Increase in net assets from nonoperating activities	136,072	101,742	23,294	261,108
Change in net assets	140,242	106,724	23,294	270,260
Net assets at beginning of year	858,980	593,282	306,312	1,758,574
Net assets at end of year	$ 999,222	700,006	329,606	2,028,834

See accompanying notes to the consolidated financial statements.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 149,065	—	—	149,065
Less scholarship allowance	(62,483)	—	—	(62,483)
Net tuition and fees	86,582	—	—	86,582
Grants and contracts	6,649	—	—	6,649
Contributions	6,260	753	—	7,013
Investment income (notes 2 and 3)	732	2,120	—	2,852
Endowment spending distribution (notes 2 and 3)	37,710	29,711	—	67,421
Auxiliary enterprises	33,899	—	—	33,899
Other sources (note 14)	5,855	—	—	5,855
Net assets released from restrictions	26,728	(26,728)	—	—
Total operating revenues	204,415	5,856	—	210,271
Operating expenses (note 15):				
Instruction	64,696	—	—	64,696
Research	7,273	—	—	7,273
Public service	3,061	—	—	3,061
Libraries	12,533	—	—	12,533
Academic support	23,755	—	—	23,755
Student services	18,009	—	—	18,009
Institutional support	37,320	—	—	37,320
Auxiliary enterprises	35,198	—	—	35,198
Total operating expenses	201,845	—	—	201,845
Increase in net assets from operating activities	2,570	5,856	—	8,426
Nonoperating activities:				
Contributions	139	634	2,631	3,404
Investment income, net of fees (notes 2 and 3)	19,565	—	109	19,674
Endowment income (notes 2 and 3)	—	—	2,156	2,156
Net realized gains (losses) (notes 2 and 3)	53,591	—	(757)	52,834
Net unrealized gains (notes 2 and 3)	15,654	40,000	11,540	67,194
Redesignated funds	298	(1,819)	1,521	—
Change in fair values of swap agreements (notes 8, 11, and 12)	(5,343)	—	—	(5,343)
Change in present value of split interest agreements (note 6)	—	—	(555)	(555)
Change in post-retirement benefit obligation other than net periodic costs (note 10)	(986)	—	—	(986)
Net assets released from restrictions for property, plant, and equipment	2,954	(2,954)	—	—
Affiliated organizations expenses	(7,366)	—	—	(7,366)
Tax provision	(402)	—	—	(402)
Other expenses	(154)	(2,721)	(309)	(3,184)
	77,950	33,140	16,336	127,426
Less change in net assets related to funds held on behalf of others (note 16)	(52,348)	—	—	(52,348)
Increase in net assets from nonoperating activities	25,602	33,140	16,336	75,078
Change in net assets	28,172	38,996	16,336	83,504
Net assets at beginning of year	830,808	554,286	289,976	1,675,070
Net assets at end of year	$ 858,980	593,282	306,312	1,758,574

See accompanying notes to the consolidated financial statements.

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	2011	2010
Cash flows from operating activities:		
Change in net assets	$ 270,260	83,504
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	17,939	16,047
Net unrealized and realized gains on investments and funds held in trust	(321,535)	(82,704)
Net loss on disposal of property, plant, and equipment	68	—
Change in fair value of swap agreements	(4,017)	6,982
Amortization of bond premiums	(456)	—
Contributions restricted for purchase of property and equipment	(5,775)	(4,576)
Contributions restricted for endowment	(1,484)	(2,732)
Gifts of property and stock	(2,807)	(1,788)
Change in net assets related to funds held on behalf of others	146,244	52,348
Assets and liabilities of consolidated variable interest entities:		
Change in cash and cash equivalents	(18,914)	(99,446)
Net gains on investments within consolidated VIEs	(124,753)	(38,963)
Net purchases within consolidated VIEs	(123,435)	(79,662)
Change in accrued income, other receivables, and other assets	(288)	(90)
Change in accounts payable and accrued liabilities	2,737	(4,421)
Change in capital contributions received in advance and redemptions payable	41,072	46,917
Change in funds held on behalf of others	71,071	158,823
(Increase) decrease in:		
Student accounts receivables, other receivables, and accrued income	(101)	(285)
Notes receivable	174	397
Inventories, prepaid expenses, and other	(181)	437
Pledges receivable	5,964	10,116
Funds held in trust	162	181
Beneficial interest in trusts	340	(69)
Increase (decrease) in:		
Accounts payable and accrued liabilities	4,455	9,197
Deferred income	481	1,730
U.S. government grants refundable	(84)	(57)
Annuities and trusts payable	376	(185)
Postretirement benefits	344	895
Net cash (used for) provided by operating activities	(42,143)	72,596
Cash flows from investing activities:		
Proceeds from sales of investments	325,068	288,937
Purchases of investments	(262,817)	(336,691)
Purchases of property, plant, and equipment	(25,575)	(48,898)
Proceeds from disposals of property, plant, and equipment	839	—
Net cash provided by (used for) investing activities	37,515	(96,652)
Cash flows from financing activities:		
Contributions restricted for purchase of property and equipment	5,775	4,576
Contributions restricted for endowment	1,484	2,732
Proceeds from issuance of notes payable	75,434	—
Refunding of notes payable	(74,700)	—
Net cash provided by financing activities	7,993	7,308
Net increase (decrease) in cash and cash equivalents	3,365	(16,748)
Cash and cash equivalents at beginning of year	112,062	128,810
Cash and cash equivalents at end of year	$ 115,427	112,062
Supplemental disclosures:		
Cash paid for interest on notes payable and interest rate swap agreements	$ 4,228	5,252
Cash paid for income taxes	717	1,117
Gifts of property and stock	2,808	1,788

See accompanying notes to the consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

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 on November 30, 2007, for the purpose of providing 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 17). 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 as follows:

(b) 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.

The University is involved in certain entities that are considered variable interest entities (VIEs) as defined under U.S. generally accepted accounting principles (GAAP) (note 16). Accordingly, management must evaluate the VIE to determine whether the University is the primary beneficiary and is required to consolidate the assets and liabilities of the entity. The primary beneficiary of a VIE is the enterprise that has the power to direct the activities of a VIE that most significantly impacts the VIE's economic performance and has the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. The determination of the primary beneficiary for a VIE can be complex and requires the exercise of judgment by management regarding the expected results of the entity and how those results are absorbed by beneficial interest holders, as well as which party has the power to direct activities that most significantly impact the performance of the VIEs.

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

(c) 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 through 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 either a restricted or an unrestricted purpose. Permanently restricted net assets consist principally of contributed permanent endowment balances, including unconditional pledges that the donor has pledged to endowment.

(d) Cash and Cash Equivalents

Cash equivalents with a maturity at the date of purchase of three months or less are reported as cash and cash equivalents. There are cash equivalents held by investment custodians that are reported as investments in the accompanying consolidated financial statements. Total cash equivalents included in cash and cash equivalents and investments in the consolidated statements of financial position at June 30, 2011 and 2010 are $26.1 million and $79.9 million, respectively. Additionally, $6.4 million of cash was held in escrow at June 30, 2010 for an investment-specific purpose. No cash was held in escrow at June 30, 2011.

(e) Investments

Investments, funds held in trust, and beneficial interest in trusts 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 the underlying managers and reviewed by the University after considering various sources of information. The University analyzes the underlying managers' 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 and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures and GAAP. In accordance with GAAP, the University has estimated the fair value of its investments in investment funds on the basis of the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the University's fiscal year-end date. If the reported NAV is not as of the University's fiscal year-end date or is not fair value based, the University will adjust the NAV, if deemed necessary, to estimate the NAV in accordance with GAAP. If the University determines it is not practicable to calculate an adjusted NAV, the practical expedient will not be utilized and other valuation methodologies will be used.

Of the amounts reported at NAV, approximately $775.0 million of those investments as of June 30, 2011 are currently redeemable with the fund at NAV 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 NAV. 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 NAV, and that discount could be significant.

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, an investment in these funds should be viewed as illiquid and subject to liquidity risk. The agreements related to investments in investment funds provide for compensation to the managers in the form of management fees of 0.4% to 2.0% annually of net assets and performance incentive fees up to 23% of net profits earned.

The fair value of beneficial interest in trusts is estimated by applying the University's share of the earnings of the trust times the fair value of the underlying assets in the trust as of the reporting date. The fair value of the underlying assets is measured in the same manner as the University's investments.

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 the 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 statements of activities, as increases or decreases in temporarily restricted net assets until amounts have been appropriated and the donor-imposed or regulatory time restrictions have elapsed. 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 in the consolidated statements of activities.

(f) Fair Value Measurements

The University utilizes guidance contained within the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements. ASC Topic 820 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (see note 11).

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, and annuities and trusts payable and has concluded the carrying amounts approximate fair value. The fair value of investments, funds held in trust, and beneficial interest in trusts is estimated as noted above and in note 11. The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other

(Continued)

unobservable 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 with variable interest rates approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities. The fair value of notes payable with fixed interest rates, as disclosed in note 8, is based on rates assumed to be currently available for bond issues with similar terms and average maturities.

(g) Student Accounts Receivable

Student accounts receivable are presented net of an allowance for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic conditions which, in management's judgment, could affect students' ability to pay amounts owed to the University. The University's policy is to periodically review past due accounts for potential write-off based on the facts and circumstances of the individual accounts and to write off accounts at the point where, in management's estimation, the amount is deemed to be permanently uncollectible.

(h) Derivative Instruments

The University accounts for derivatives and hedging activities in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires the University to recognize all derivative instruments as either assets or liabilities in the consolidated statements of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets in the consolidated statements of activities. The University's consolidated financial statements include various derivative instruments such as interest rate swaps (notes 8 and 12). 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 17). The market and credit risks related to this derivative instrument are not materially different from the risks associated with similar underlying assets in the portfolio.

(i) Inventories

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

(j) 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.

(k) Collections

The University's collections of historically significant artifacts, scientific specimens, and art objects are held for education, research, scientific inquiry, and public exhibition. Their value is not reflected in the University's consolidated financial statements.

(l) Revenue Recognition

Tuition and Fees

Student tuition and fees are recorded as revenue during the fiscal year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred income. Student aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue. Student aid does not include payments made to students for services provided to the University.

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 of Trustees (the Board) for long-term purposes are included as nonoperating contributions. Other contributions are considered operating revenues.

Endowment Spending Distributions

Endowment spending distributions consist of endowment returns (regardless of when such income or returns arose) distributed to support current operational needs. The Board approves the amount to be distributed from the endowment pool on an annual basis as determined by the University's spending policy (note 2).

(m) Income Taxes

The University of Richmond has received a letter from the Internal Revenue Service 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.

Tax positions are recognized or derecognized based on a "more likely than not" threshold. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. This applies to positions taken or expected to be taken in a tax return. The University recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in accounts payable and accrued liabilities, if assessed. No interest expense or penalties have been recognized as of and for the years ended June 30, 2011 and 2010.

For all open tax years, the University has analyzed filing positions in all of the federal, state, and foreign jurisdictions where it is required to file income tax returns, including the University's status as a tax-exempt organization. The University believes its income tax filing positions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. As of June 30, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward.

(n) 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.

(o) Reclassifications

Certain reclassifications have been made for the year ended June 30, 2010 to conform to classifications adopted in 2011.

(p) Subsequent Events

In accordance with ASC 855-10, *Subsequent Events*, the University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2011 financial statements through October 5, 2011, the date the consolidated financial statements were issued.

(q) New Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, originally issued as FASB Statement 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167). ASU 2009-17 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 clarifies, but does not significantly change, the characteristics that identify a VIE. Additionally, the ASU requires additional disclosures. The ASU was effective for the University for the year ended June 30, 2011. The adoption of ASU 2009-17 resulted in retrospective reclassifications on the University's consolidated statement of financial position as of June 30, 2010 and the consolidated statement of cash flows for the year ended June 30, 2010, but had no impact on previously reported net assets or changes in net assets.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which provides amendments to ASC Subtopic 820-10, *Fair Value Measurements and Disclosures*, and requires new disclosures on transfers in and out of Levels 1 and 2 and on activity in Level 3 fair value measurements. The ASU was effective for the University for the year ended June 30, 2011.

In February 2010, the FASB issued ASU 2010-10, *Consolidation (Topic 810): Amendments for Certain Investments Funds*, which provides an indefinite deferral of the new VIE-consolidation guidance for interests in entities that either follow the specialized accounting guidance for investment companies or apply the same measurement principles based on industry practice. The ASU was effective for the University for the year ended June 30, 2011 and did not have a material impact on the University.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310)*: *Disclosures about the Credit Quality of Financing Receivables and Allowance for Credit Losses*, which provides amendments to ASC Topic 310, *Receivables*, and requires additional disclosures about the credit quality of financing receivables and the allowance for credit losses, and requires disclosures to be made at a greater level of disaggregation. The ASU was effective for the University for the year ended June 30, 2011.

(2) Endowment

In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA), which serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of the 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 1,300 individual funds at June 30, 2011, established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by 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 allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund should be donor-restricted assets until appropriated for expenditure by the Board.

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, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (98)	642,664	308,766	951,332
Board-designated endowment funds	936,687	—	—	936,687
Total endowed net assets	$ 936,589	642,664	308,766	1,888,019

Endowment net assets consist of the following at June 30, 2010 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (644)	520,619	288,026	808,001
Board-designated endowment funds	823,927	—	—	823,927
Total endowed net assets	$ 823,283	520,619	288,026	1,631,928

(Continued)

Changes in endowment net assets for the year ended June 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$ 823,283	520,619	288,026	1,631,928
Investment return:				
Investment income	22,995	—	—	22,995
Net appreciation	136,632	153,859	3,717	294,208
Total investment return	159,627	153,859	3,717	317,203
Contributions	52	—	17,723	17,775
Appropriation of endowment assets for expenditure	(41,658)	(31,814)	1,484	(71,988)
Other deductions	(943)	—	(200)	(1,143)
Redesignated funds	1,758	—	(1,984)	(226)
Endowment net assets, June 30, 2011 before eliminations	942,119	642,664	308,766	1,893,549
Elimination of intercompany receivables and payables	(5,530)	—	—	(5,530)
Endowment net assets, June 30, 2011	$ 936,589	642,664	308,766	1,888,019

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2009	$ 632,096	479,562	281,595	1,393,253
Investment return:				
Investment income	12,956	—	21	12,977
Net appreciation	54,127	70,689	1,203	126,019
Total investment return	67,083	70,689	1,224	138,996
Contributions	9	—	2,139	2,148
Appropriation of endowment assets for expenditure	(18,648)	(29,632)	1,397	(46,883)
Redesignated funds	101,328	—	1,671	102,999
Endowment net assets, June 30, 2010 before eliminations	781,868	520,619	288,026	1,590,513
Elimination of intercompany receivables and payables	41,415	—	—	41,415
Endowment net assets, June 30, 2010	$ 823,283	520,619	288,026	1,631,928

(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 $0.1 million and $0.6 million as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(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 the policy benchmark over the long term. The policy benchmark represents the weighted average of benchmark returns for each asset class in the policy asset allocation.

(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 and fixed income securities, investment 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, 2011 and 2010 are as follows (in thousands):

	2011		2010	
	Cost	Fair value	Cost	Fair value
Cash equivalents	$ 1,533	1,533	1,665	1,665
Investments in securities:				
Fixed income:				
Government bonds	17,326	17,335	906	984
Corporate bonds	14,550	14,670	5,946	5,912
Total fixed income	31,876	32,005	6,852	6,896
Common and preferred stocks	37,557	41,340	12,645	12,220
Commingled funds	1,797	1,868	1,661	1,630
Investments in investment funds:				
Hedge funds	718,094	1,158,373	738,228	1,021,240
Private equity funds	445,865	408,024	470,913	374,385
Other funds	159,122	203,783	160,909	165,749
Other investments	6,833	6,618	7,503	9,556
Total	$ 1,402,677	1,853,544	1,400,376	1,593,341

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

The University consolidated $911.9 million and $663.7 million of investments held by consolidated VIEs at June 30, 2011 and 2010, respectively (note 16).

At June 30, 2011, the University has committed to make additional capital contributions of approximately $216 million to various investment funds over the next five years (note 11). Additionally, at June 30, 2011, commitments to make additional capital contributions of approximately $179 million have been made by consolidated VIEs.

Total investment return for the years ended June 30, 2011 and 2010 is a positive return of $479.8 million and $212.1 million, respectively, and is classified within operating revenues and nonoperating activities as investment income, endowment spending distribution, 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 income, the spending rate is met with accumulated gains and income.

(4) Notes Receivable

The University's notes receivable consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan program. The availability of funds for loans under the program is dependent upon reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of $3.8 million and $3.9 million as of June 30, 2011 and 2010, respectively, are ultimately refundable to the government, and are classified as U.S. government grants refundable in the consolidated statements of financial position. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the federal government.

Notes receivable and the changes in the allowance for doubtful accounts as of and for the year ended June 30, 2011 and 2010, respectively, are as follows (in thousands):

		2011	2010
Federal government programs	$	4,319	4,344
Less allowance for doubtful accounts:			
Beginning of year:		(511)	(385)
Reserves		(150)	(126)
Write-offs		1	—
End of year		(660)	(511)
Notes receivable, net	$	3,659	3,833

The allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. The aging of the notes receivable portfolio as of June 30, 2011 and 2010 is as follows (in thousands):

		2011	2010
Not in repayment	$	2,127	2,362
Current		1,152	1,159
1 – 60 days past due		93	97
60 – 90 days past due		22	—
90+ days past due		265	215
	$	3,659	3,833

(5) Pledges Receivable

Unconditional pledges at June 30, 2011 and 2010 are expected to be realized in the following periods (in thousands):

		2011		2010	
Less than one year	$	5,124		6,062	
One year to five years		11,300		15,574	
More than five years		2,202		4,313	
		18,626		25,949	
Less:					
Unamortized discount		(2,633)	(1)	(4,268)	(2)
Allowance for uncollectible amounts		(1,143)		(867)	
	$	14,850		20,814	

(1) Discount rates ranging from 2.1% to 6.2%

(2) Discount rates ranging from 2.4% to 10.6%

In addition to the above, the University is named as the 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 the conditions are substantially met.

The methodology for calculating the allowance for uncollectible pledges receivable is based upon management’s analysis of the aging of payment schedules for outstanding pledges and other factors, including donor history and quality. This review resulted in an allowance for uncollectible amounts totaling 6.1% and 3.3% of pledges receivable as of June 30, 2011 and 2010, respectively.

(6) 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 $3.1 million and $2.8 million as of June 30, 2011 and 2010, 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, 2011 and 2010 was $1.6 million and $1.4 million, respectively. Discount rates used in calculating the present value ranged from 4.2% to 10.2%. Changes in value of trusts totaled $(0.3) million and $(0.2) million for the years ended June 30, 2011 and 2010, respectively.

The University is the beneficiary of certain charitable trusts, the assets of which are not in the possession of the University. The present value of the expected cash flows from these 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 3.2% to 10.0%. Changes in value of beneficial interest in trust totaled $1.1 million and $0.1 million for the years ended June 30, 2011 and 2010, 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, 2011 and 2010, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $4.8 million and $4.6 million, respectively. Discount rates used in calculating the present value ranged from 2.0% to 10.6%. Changes in value of annuities totaled $(0.5) million and $(0.4) million for the years ended June 30, 2011 and 2010, respectively.

(7) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2011 and 2010 (in thousands):

	2011	2010
Land	$ 20,802	19,428
Buildings	356,789	333,653
Improvements	25,920	25,655
Equipment	82,902	78,139
Library books	61,410	58,439
Construction in progress	9,959	16,378
	557,782	531,692
Accumulated depreciation	(276,847)	(258,931)
	$ 280,935	272,761

Depreciation expense totaled $17.9 million and $16.0 million for the years ended June 30, 2011 and 2010, respectively.

(8) Notes Payable

Notes payable to the Virginia College Building Authority, including unamortized premiums, consist of the following at June 30, 2011 and 2010 (in thousands):

	Interest rate average	Final maturity	Outstanding principal 2011	Outstanding principal 2010
Tax-exempt fixed-rate notes payable:				
2011 Series A[1]	4.92%	March 1, 2023	$ 29,648	—
2011 Series B[2]	5.00	March 1, 2021	45,330	—
Total tax-exempt fixed-rate notes payable			74,978	—
Tax-exempt variable-rate notes payable:				
2004 Series[3]	0.25	August 1, 2034	46,000	46,000
2006 Series[4]	0.19	November 1, 2036	55,900	55,900
2009 A Series[5]	0.40	March 1, 2039	—	45,085
2009 B Series[5]	0.35	March 1, 2039	—	29,615
Total tax-exempt variable-rate notes payable			101,900	176,600
Total notes payable			$ 176,878	176,600

(1) Refunded the 2009 B series.

(2) Refunded the 2009 A series.

(3) Weekly interest rate determined by the Remarketing Agent. Refunded all of the 1994 series and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum.

(4) Daily interest rate determined by the Remarketing Agent. Refunded all of the 1996 and 1999 series and provided funds for several projects, including Lakeside Dormitory, Boatwright Library and Boiler Plant Improvements.

(5) Refunded all of the 2002 series and provided funds for several projects, including Robins Stadium, Queally Hall and Carole Weinstein International Center.

The preceding table reflects the fixed/variable interest rates on notes payable before the effects of interest rate swap agreements. Interest rate swap agreements are being used to convert the variable rates on 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 (note 12). The University anticipates holding the interest rate swap agreements until all associated debt has been retired.

The University has entered into four fixed rate swap agreements related to notes payable as follows (in thousands):

Maturity	Rate paid	Rate received	Notional amount	Collateral provisions
March 1, 2029	3.778%	68% of 1-month LIBOR[1]	$ 25,000	None
June 1, 2031	3.744	68% of 1-month LIBOR[1]	30,000	None
August 1, 2034	4.000	68% of 1-month LIBOR[1]	25,000	Exposure in excess of $20 million
November 1, 2036	3.774	68% of 1- month LIBOR[1]	10,000	None

(1) London Interbank Offered Rate

No collateral was required to be posted related to the University's interest rate swap agreements during the years ended June 30, 2011 and 2010.

Interest expense on notes payable and interest rate swap agreements, including amortization of premium on notes payable, was $5.3 million and $5.2 million for the years ended June 30, 2011 and 2010, respectively (note 15).

At June 30, 2011 and 2010, respectively, the aggregate annual maturities of notes payable for the next five years and thereafter is as follows (in thousands):

		2011	2010
Payable in fiscal year:			
2012	$	1,690	—
2013		1,845	—
2014		1,900	—
2015		1,975	—
2016		21,825	—
Thereafter		140,215	176,600
		169,450	176,600
Unamortized premium		7,428	—
	$	176,878	176,600

The fair value of all outstanding long-term obligations at June 30, 2011 and 2010 was approximately $180 million and $177 million, respectively.

The University has standby credit facilities to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. Currently, the University has two diversified facilities totaling $101.9 million that are committed for this sole purpose and cannot be used for the operating needs of the University. As of June 30, 2011 and 2010, respectively, there were no draws against these standby credit facilities. The cost of the credit facilities totaled $0.6 million for the years ended June 30, 2011 and 2010 and is included in interest expense in the consolidated statements of activities.

The terms of the University's notes payable provide for certain financial and nonfinancial covenants, including provisions as to the use of the proceeds, limits as to arbitrage and bond issue costs, and various other administrative requirements. The University believes it was in compliance with these covenants as of June 30, 2011 and 2010.

(9) 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 $7.9 million and $7.5 million to these plans for the years ended June 30, 2011 and 2010, respectively, which was charged to expense in the consolidated statements of activities.

(10) Postretirement Benefits

The University sponsors defined benefit healthcare 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 30. At June 30, 2011, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $5.0 million and

$0.2 million, respectively. At June 30, 2010, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $4.8 million and $0.3 million, respectively.

Information with respect to the postretirement plan as of and for the years ended June 30, 2011 and 2010 is as follows (in thousands):

		2011	2010
Change in benefit obligation:			
Benefit obligation at beginning of year	$	11,199	10,305
Service cost		233	168
Interest cost		571	613
Benefits paid		(908)	(986)
Actuarial loss		448	1,099
Accrued postretirement benefit obligation	$	11,543	11,199

Net periodic postretirement benefit cost for the years ended June 30, 2011 and 2010 was as follows (in thousands):

		2011	2010
Net periodic postretirement benefit cost:			
Service cost	$	233	168
Interest cost		571	613
Amortization of unrecognized net loss		237	175
Amortization of prior service cost		(62)	(62)
	$	979	894

Estimated future benefit payments are total benefits expected to be paid from the plan. The following are estimated benefit payments for the years ending 2011 through 2020 (in thousands):

Year ending June 30:		
2012	$	905
2013		911
2014		896
2015		892
2016		865
2017 – 2020		4,219

The estimated net employer payments for benefits for the year ending June 30, 2012 will total approximately $0.9 million.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.45% and 7.56% for 2011 and 2010, respectively, and is assumed to decrease gradually to 4.5% by the year 2030 and remain at that level thereafter. Increasing the assumed healthcare cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2011 by $0.2 million and increase the net periodic postretirement benefit cost for the year ended June 30, 2011 by $28,121.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2011 and 2010 was 5.1%.

The University accounts for the nontaxable federal subsidy related to the postretirement benefit plan drug benefit provided to retirees that is at least “actuarially equivalent” to the Medicare Part D benefit in accordance with ASC Topic 715-60, *Defined Benefit Plans – Postretirement*. As of June 30, 2011, the University has determined the actuarial equivalence of its plans. Therefore, the accumulated benefit obligation and the net periodic benefit cost reflect a reduction arising from this subsidy.

(11) Fair Value Measurements

Fair value measurements are categorized into 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; and 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. Additionally, the University has estimated the fair value of its investments in investment funds on the basis of the NAV per share of the investment (or its equivalent), as a practical expedient, if a) the underlying investment manager’s calculation of NAV is fair value based, and b) the NAV has been calculated as of the University’s fiscal year-end date. 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, corporate debt securities, and hedge funds with available liquidity. Due to the significance of unobservable inputs required in measuring the fair value of investments in hedge funds without available liquidity, 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, 2011 by level within the fair value hierarchy (in thousands):

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 1,533	—	—	1,533
Investment in securities:				
Government bonds	—	17,335	—	17,335
Corporate bonds	—	14,670	—	14,670
Common stock and preferred stock	41,126	—	214	41,340
Commingled funds	1,868	—	—	1,868
Total investment in securities	42,994	32,005	214	75,213
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	327,974	373,093	701,067
Multi-strategy	—	83,301	278,359	361,660
Credit	—	15,630	80,016	95,646
Total hedge funds	—	426,905	731,468	1,158,373
Private equity funds	—	—	408,024	408,024
Other funds:				
Real estate	—	—	71,473	71,473
Real assets	—	—	132,310	132,310
Total other funds	—	—	203,783	203,783
Total investment in investment funds	—	426,905	1,343,275	1,770,180
Other investments	—	7,062	(444)	6,618
Total investments	44,527	465,972	1,343,045	1,853,544

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets of consolidated variable interest entities:				
Investment in securities:				
Government bonds	$ —	3,424	—	3,424
Corporate bonds	—	25,264	—	25,264
Common stock and preferred stock	128,287	762	—	129,049
Commingled funds	38,648	—	—	38,648
Total investment in securities	166,935	29,450	—	196,385
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	149,837	232,824	382,661
Multi-strategy	—	39,162	28,221	67,383
Credit	—	6,752	87,562	94,314
Total hedge funds	—	195,751	348,607	544,358
Private equity funds	—	—	75,123	75,123
Other funds:				
Real estate	—	—	50,804	50,804
Real assets	—	—	45,214	45,214
Total other funds	—	—	96,018	96,018
Total investment in investment funds	—	195,751	519,748	715,499
Total assets of consolidated variable interest entities	166,935	225,201	519,748	911,884
Funds held in trust	2,214	855		3,069
Beneficial interest in trusts	—	—	3,191	3,191
Total	$ 213,676	692,028	1,865,984	2,771,688
Liabilities:				
Interest rate swap agreements	$ —	—	16,076	16,076
Total	$ —	—	16,076	16,076

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 by level within the fair value hierarchy (in thousands):

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets:				
Cash equivalents	$ 1,665	—	—	1,665
Investment in securities:				
Government bonds	—	984	—	984
Corporate bonds	—	5,912	—	5,912
Common and preferred stock	12,220	—	—	12,220
Commingled funds	1,276	354	—	1,630
Total investment in securities	13,496	7,250	—	20,746
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	218,481	352,722	571,203
Multi-strategy	—	61,700	292,221	353,921
Credit	—	6,416	89,700	96,116
Total hedge funds	—	286,597	734,643	1,021,240
Private equity funds	—	—	374,385	374,385
Other funds:				
Real estate	2	1,095	60,508	61,605
Real assets	—	—	104,144	104,144
Total other funds	2	1,095	164,652	165,749
Total investment in investment funds	2	287,692	1,273,680	1,561,374
Other investments	—	9,556	—	9,556
Total investments	15,163	304,498	1,273,680	1,593,341

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets of consolidated variable interest entities:				
Investment in securities:				
Government bonds	$ —	1,901	—	1,901
Corporate bonds	—	26,590	7,521	34,111
Common and preferred stock	84,187	376	183	84,746
Commingled funds	29,851	360	—	30,211
Total investment in securities	114,038	29,227	7,704	150,969
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	2,666	195,793	198,459
Multi-strategy	—	13,940	112,782	126,722
Credit	—	—	87,754	87,754
Total hedge funds	—	16,606	396,329	412,935
Private equity funds	—	—	49,230	49,230
Other funds:				
Real estate	—	—	26,978	26,978
Real assets	—	—	23,584	23,584
Total other funds	—	—	50,562	50,562
Total investment in investment funds	—	16,606	496,121	512,727
Total assets of consolidated variable interest entities	114,038	45,833	503,825	663,696
Funds held in trust	2,145	643	—	2,788
Beneficial interest in trusts	—	—	3,531	3,531
Total	$ 131,346	350,974	1,781,036	2,263,356
Liabilities:				
Interest rate swap agreements	$ —	—	20,093	20,093
Total	$ —	—	20,093	20,093

(Continued)

The following table summarizes changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2011 and 2010 (in thousands):

	Common and preferred stocks	Investment in investment funds: Hedge funds	Investment in investment funds: Private equity funds	Investment in investment funds: Other funds	Other investments	Consolidated assets of VIEs	Beneficial interest in trusts	Total	
Assets:									
Beginning balance as of July 1, 2009	$ —	442,988	336,193	160,560	—	139,040	3,462	1,082,243	
Total net gains included in: Change in net assets	—	77,439	31,000	(3,183)	—	31,046	69	136,371	
Purchases into (sales out of) Level 3	—	3,617	7,192	7,275	—	333,739	—	351,823	
Transfers into (out of) Level 3	—	210,599	—	—	—	—	—	210,599	
Ending balance as of June 30, 2010	—	734,643	374,385	164,652	—	503,825	3,531	1,781,036	
Transfers into Level 3	—	93,359	—	57	—	—	—	93,416	(b)
Transfers out of Level 3	—	(193,460)	—	—	—	(86,850)	—	(280,310)	(a)
Total net gains included in: Change in net assets	1,801	136,891	67,946	54,790	2,977	72,486	(340)	336,551	
Purchases, issuances, sales, and settlements:									
Purchases	815	67,418	57,002	19,159	—	133,786	—	278,180	
Sales	(2,402)	(107,383)	(91,309)	(34,875)	(3,421)	(103,499)	—	(342,889)	
Ending balance as of June 30, 2011	$ 214	731,468	408,024	203,783	(444)	519,748	3,191	1,865,984	
Net unrealized gains (losses) included in net gain for the period related to assets held at June 30, 2011	$ 2,006	109,352	58,687	37,792	(444)	61,018	—	268,411	

(a) Transferred from Level 3 to Level 2 because of change in liquidity terms

(b) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity

		Swap agreements
Liabilities:		
Beginning balance as of July 1, 2009	$	(13,111)
Total net losses included in:		
Change in net assets		(5,342)
Purchases into (sales out of) Level 3		(1,640)
Ending balance as of June 30, 2010		(20,093)
Total net gains included in:		
Change in net assets		4,017
Ending balance as of June 30, 2011	$	(16,076)
Net unrealized gains included in change in fair value of swap agreements fir the period related to liabilities held at June 30, 2011	$	4,017

The following table summarizes changes in Level 2 assets and liabilities measured at fair value on a recurring basis for the year ended June 30, 2011 (in thousands):

		Investment in securities		Investment in investment funds			Consolidated			
		Fixed income	Commingled funds	Hedge funds	Other funds	Other investments	assets of VIEs	Funds held in trust	Total	
Assets:										
Beginning balance as of July 1, 2010	$	6,896	354	286,597	1,095	9,556	45,833	643	350,974	
Transfers into Level 2		—	—	193,460	—	—	85,967	—	279,427	(a)
Transfers out of Level 2		—	(445)	(93,359)	(58)	—	—	—	(93,862)	(b)
Total net gains included in:										
Change in net assets		97	98	57,713	8	(1,825)	16,049	(6)	72,134	
Purchases, issuances, sales, and settlements:										
Purchases		37,580	—	45,000	—	1,004	93,936	677	178,197	
Sales		(12,568)	(7)	(62,506)	(1,045)	(1,673)	(16,584)	(459)	(94,842)	
Ending balance as of June 30, 2011	$	32,005	—	426,905	—	7,062	225,201	855	692,028	
Net unrealized gains included in net gain for the period related to assets held at June 30, 2011	$	222	102	47,916	8	1	24,663	1	72,913	

(a) Transferred from Level 3 to Level 2 because of change in liquidity terms

(b) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity

The University had no significant transfers to or from Level 1 during the year ended June 30, 2011. The University's policy is to recognize transfers into or out of the Levels at the end of the reporting period. The University did not have any assets or liabilities measured at fair value on a nonrecurring basis during the years ended June 30, 2011 and 2010.

The following table summarizes information about the attributes of investments in investment funds by major category as of June 30, 2011 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments:				
Hedge funds:				
Equity oriented	$ 701,067	468	Daily to 3 years	15 – 120 days
Multi-strategy	361,660	9,000	90 days to 1 year	45 – 180 days
Credit	95,646	—	1 year to 3 years	60 – 180 days
Total hedge funds	1,158,373	9,468		
Private equity funds	408,024	128,283	N/A	N/A
Other funds:			N/A	N/A
Real estate	71,473	17,501	N/A	N/A
Real assets	132,310	60,392	N/A	N/A
Total other funds	203,783	77,893		
Total investment in investment funds	1,770,180	215,644		
Assets of consolidated variable interest entities:				
Hedge funds:				
Equity oriented	382,661	810	1 year to 2 years	10 – 90 days
Multi-strategy	67,383	—	Daily to 5 years	60 – 75 days
Credit	94,314	—	90 days to 1 year	60 – 90 days
Total hedge funds	544,358	810		

		Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Private equity funds	$	75,123	127,591	N/A	N/A
Other funds:				N/A	N/A
Real estate		50,804	11,067	N/A	N/A
Real assets		45,214	39,165	N/A	N/A
Total other funds		96,018	50,232		
Total investment in investment funds by consolidated variable interest entities		715,499	178,633		
	$	2,485,679	394,277		

(a) Equity Oriented

This category includes investments in hedge funds in three categories a) domestic equity, b) international equity, and c) global equity. Domestic equity funds invest primarily in publicly traded U.S. stocks with long-term investment horizons and modest liquidity constraints. The domestic equity portfolio may contain both a passive core and an active investment strategy and will include both long/short and long only managers. International equity funds invest primarily in publicly traded common stock of predominantly international markets, both in developed and developing/emerging regions. The international equity portfolio takes an active investment approach due to the less efficient nature of the markets, which should generate higher returns than a passive core and will be implemented through both long/short and long only managers, potentially in all regions of the world. Global equity funds invest primarily in publicly traded common stock from a combination of domestic, developed international, and developing/emerging international markets. The global equity portfolio will largely employ an active investment strategy, though from time to time may utilize swaps, exchange traded funds (ETFs), and other derivative products to add or reduce the overall directionality of the portfolio. The fair values of the investments in this category have been estimated using the NAV per share of the investments, as a practical expedient. Investments representing approximately 56% of the value of the investments in this category cannot be redeemed without penalty because the investments include restrictions that do not allow for redemption in the first 0 to 60 months after acquisition. The remaining restriction period for these investments ranged from 0 to 42 months at June 30, 2011.

(b) Multi-Strategy

This category includes investments in hedge funds that invest primarily in investments specializing in asset allocation across multiple investment strategies that have low correlations and/or market exposure to other asset classes. Diversification across strategies and positions will be wide in order to dampen portfolio volatility. The portfolio's liquidity will be moderate, less than that of the traditional public equity portfolios, but more liquid than the private equity/venture capital portfolio. This portfolio will focus on areas and strategies where value added by active management can contribute a substantial portion of the return. The portfolio may utilize swaps, derivatives, ETFs, or other instruments in order to manage risk. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments representing approximately 71% of the value of the investments in this category cannot be redeemed without penalty because the investments include restrictions that do not allow for redemption in the first 0 to 72 months after acquisition. The remaining restriction period for these investments ranged from 0 to 66 months at June 30, 2011.

(c) Credit

This category includes investments in hedge funds that invest primarily in investments in publicly and privately traded credit and credit related securities. The portfolio can hold a mix of traditional benchmark relative strategies and absolute return strategies. It is expected that many types of securities could be considered credit sensitive and the portfolio will contain, but not be limited to, bonds, equities, derivatives, currencies, and private securities. The portfolio will be diversified across credit asset classes and hold a mixture of investment grade and high yield securities of performing and nonperforming debt. Liquidity and volatility will vary by strategy. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments representing approximately 88% of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption. Restrictions do not allow for redemption in the first 0 to 36 months after acquisition. The remaining restriction period for these hedge fund investments ranged from 0 to 21 months at June 30, 2011.

(d) Private Equity

This category includes investments in private equity funds that invest in both private and public companies both domestically and internationally across the international private equity, buyout, early stage, later stage, subordinated debt, credit, and secondary funds asset classes. The private equity portfolio's objective is to earn higher returns than the public equity markets over the long term. This portfolio invests in highly illiquid positions and should generate higher returns as compensation for that illiquidity. The portfolio is diversified across categories and investment stage. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 12 years.

(Continued)

(e) Real Estate

This category includes investments in real estate investment funds. The long-term objective of the real estate portfolio is to provide equity-like returns while providing a partial hedge against inflation. The portfolio is directed largely to illiquid investments with a long time horizon. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 11 years.

(f) Real Assets

This category includes investments in funds comprised of oil and gas, commodities, timber, and inflation-linked bond investments. Real assets represent claims on future streams of inflation-sensitive income, supplying protection against unanticipated inflation. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 15 years.

(12) Derivatives

The following table provides information on the fair value of the derivative instruments in the consolidated statements of financial position and the effect of the derivative instruments in the consolidated statements of activities as of and for the years ended June 30, 2011 and 2010, respectively (in thousands):

	Statement of financial position location	Fair value asset (liability) 2011	Fair value asset (liability) 2010	Statement of activities location	Gain (loss) 2011	Gain (loss) 2010
Interest rate swap agreements:	Swap agreements			Unrestricted – Change in fair value of swap agreements		
March 1, 2029 maturity		$ (4,110)	(5,102)		$ 992	(1,408)
June 1, 2031 maturity		(4,976)	(6,262)		1,286	(1,741)
August 1, 2034 maturity		(5,198)	(6,436)		1,238	(1,565)
November 1, 2036 maturity		(1,792)	(2,293)		501	(629)
Total interest rate swaps		(16,076)	(20,093)		4,017	(5,343)
Equity contracts:	Investments			Unrestricted – Net realized and unrealized gains (losses)		
Index swaps		(444)	—		2,977	—
Options		—	—		(2,898)	—
Total equity contracts		(444)	—		79	—
Total derivatives		$ (16,520)	(20,093)		$ 4,096	(5,343)

See note 8 for additional information regarding the University's purpose for entering into the interest rate swap agreements. The fair value of interest rate swap agreements is the estimated amount the University would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the counterparties. The University's interest rate swap arrangements are exposed to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis exchange.

Certain University derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At June 30, 2011, the University's long-term debt ratings exceeded these benchmarks.

The University is exposed to credit loss in the event of nonperformance by a counterparty to any of the derivative instruments described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on the University's consolidated statements of financial position. The University controls this counterparty credit risk by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction, monitoring for any change in the credit standing of its counterparty during the life of the transaction, and requiring collateral be posted when predetermined thresholds are crossed.

Investment strategies employed by the University may incorporate the use of various derivative financial instruments with off-balance-sheet risk. The University uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. During the year ended June 30, 2011, the University entered into:

a) **Swap Agreements**: Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon, or calculated by, references to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference, subject to a predetermined threshold limit, being paid by one party to the other. During the term of the swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to market. The University records a realized gain or loss when periodic payments are received or made. In addition to counterparty credit risk, risks may arise from unanticipated movements in the fair value of the underlying securities and the lack of market liquidity to unwind the positions at current fair values.

b) **Option Contracts**: Option contracts purchased give the University the right, but not the obligation, to buy or sell within a limited time, a financial instrument, commodity, or currency at a contracted price. Option contracts may also be settled in cash, based on the difference between the contracted price and market price at exercise date. The value of an option has two components: time value and intrinsic value. An option expires on a certain date and as the expiration date approaches, the time value of an option will decline. In addition, if the stock underlying the option declines in price, the intrinsic value of an "in the money" option will decline. Further, if the price of the stock underlying the option does not exceed the strike price of the option on the expiration date, the option will expire worthless. As a result, there is the potential for the University to lose its entire investment in an option. In addition to counterparty credit risk, all options expose the University to market risk for changes in the financial instrument underlying the written option.

(13) Composition of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2011 and 2010 (in thousands):

		2011	2010
Support of particular operating activities	$	30,935	29,289
Acquisition of long-lived assets		26,407	43,374
Accumulated appreciation on donor-restricted endowment funds		642,664	520,619
	$	700,006	593,282

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, 2011 and 2010.

(14) Lease Obligations

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, 2011 and 2010 was $3.1 million and $3.0 million, respectively.

The following is a schedule by years of future minimum rentals on the noncancelable operating lease as of June 30, 2011 (in thousands):

Year ending June 30:		
2012	$	3,139
2013		3,205
2014		3,365
2015		3,480
2016		3,549
2017 and beyond		8,552
	$	25,290

The University leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms of up to 5 years. Total operating lease expense for the years ended June 30, 2011 and 2010 was $0.7 million.

As of June 30, 2011, future minimum lease payments by fiscal year on noncancelable operating leases with initial or remaining lease terms in excess of one year are as follows (in thousands):

Year ending June 30:		
2012	$	645
2013		360
2014		247
2015		179
2016		180
2017 and beyond		—
	$	1,611

(15) Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statements 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, 2011 (in thousands):

Functional category		Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$	53,114	7,158	1,591	6,246	68,109
Research		5,116	689	153	601	6,559
Public service		2,271	306	68	267	2,912
Libraries		9,739	1,313	292	1,145	12,489
Academic support		19,267	2,596	577	2,266	24,706
Student services		14,791	1,993	443	1,739	18,966
Institutional support		29,877	4,374	972	3,816	39,039
Auxiliary enterprises		35,366	—	1,222	1,470	38,058
		169,541	18,429	5,318	17,550	210,838
Maintenance		18,429	(18,429)	—	—	—
Interest		5,318	—	(5,318)	—	—
Depreciation		17,550	—	—	(17,550)	—
Total operating expenses	$	210,838	—	—	—	210,838

The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2010 (in thousands):

Functional category		Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$	51,746	6,000	1,519	5,431	64,696
Research		5,817	674	171	611	7,273
Public service		2,448	284	72	257	3,061
Libraries		10,025	1,162	294	1,052	12,533
Academic support		19,000	2,203	558	1,994	23,755
Student services		14,405	1,670	422	1,512	18,009
Institutional support		29,373	3,682	934	3,331	37,320
Auxiliary enterprises		32,542	—	1,186	1,470	35,198
		165,356	15,675	5,156	15,658	201,845
Maintenance		15,675	(15,675)	—	—	—
Interest		5,156	—	(5,156)	—	—
Depreciation		15,658	—	—	(15,658)	—
Total operating expenses	$	201,845	—	—	—	201,845

Depreciation expense of $0.4 million for the years ended June 30, 2011 and 2010 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 $171.8 million and $164.5 million for the years ended June 30, 2011 and 2010, respectively. Supporting services consist of institutional support in the amount of $39.0 million and 37.3 million for the years ended June 30, 2011 and 2010, respectively. Also included in Supporting services are fundraising expenses in the amount of $4.4 million and $4.9 million for the years ended June 30, 2011 and 2010, respectively.

(16) Variable Interest Entities

In accordance with FASB ASC Topic 810-10-15, *Consolidation – Variable Interest Entities*, SMC consolidates RFMC and the Richmond Fund, which are VIEs. SMC is considered the primary beneficiary as it controls the activities of RFMC and Richmond Fund and is considered to be the variable interest holder most closely associated with the business since it is an investment management company. SMC is subsequently consolidated by the University of Richmond in accordance with FASB ASC 958-810, *Consolidation*.

At June 30, 2011 and 2010, the following balances related to these two VIEs were consolidated in the University's consolidated statements of financial position (in thousands):

		2011	2010
Assets of consolidated VIEs:			
Cash and cash equivalents	$	130,979	112,065
Government bonds		3,424	1,901
Corporate bonds		25,264	34,112
Common and preferred stock		129,050	84,746
Commingled funds		38,648	30,211
Hedge funds		544,358	412,935
Private equity funds		76,558	49,230
Other funds		94,582	50,561
Accrued income, receivables, and other assets		1,090	802
Total assets of consolidated VIEs		1,043,953	776,563
Liabilities of consolidated VIEs:			
Accounts payable and accrued liabilities		(6,218)	(3,481)
Capital contributions received in advance and redemptions payable		(97,063)	(55,991)
Total net assets of consolidated VIEs	$	940,672	717,091

$1,050.4 million and $791.3 million of the assets above are not available to creditors of the University at June 30, 2011 and 2010, respectively. Additionally, investors of the Richmond Fund have no recourse to the credit of the University.

The net assets of the Richmond Fund are $949.8 million and $732.3 million at June 30, 2011 and 2010, respectively, and are included in funds held on behalf of others in the consolidated statements of financial position. This amount includes the University's liability related to changes in net assets of funds held on behalf of others of $146.2 million and $52.3 million at June 30, 2011 and 2010, respectively.

As the general partner of the Richmond Fund, RFMC is entitled to receive management fees based on assets under management and performance allocations based upon returns earned by the Richmond Fund. The University's financial position, financial performance, and cash flows are affected by the amount of management fees and performance allocation earned and payable to the University (note 17).

(17) Related-Party Transactions

Investment management fees paid to SMC by the University for the years ended June 30, 2011 and 2010 were $3.2 million and $3.1 million, 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 million of each limited partner's assets under management, 0.75% of the next $150 million, 0.5% of the next $250 million, and 0.4% of the excess of $500 million. Management fees earned by RFMC from

(Continued)

the Richmond Fund during the years ended June 30, 2011 and 2010 were $8.4 million and $7.0 million, respectively, of which $2.2 million and $1.7 million were payable to RFMC at June 30, 2011 and 2010, 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%. RFMC earned a performance allocation of $3.2 million and $0.6 million during the years ended June 30, 2011 and 2010 respectively, of which $0.9 million was payable to RFMC at June 30, 2011. No performance allocation was payable to RFMC at June 30, 2010.

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 $0.4 million in twenty equal quarterly installments on the first business day of each quarter. At June 30, 2011 and 2010, there was a payable from the Richmond Fund to RFMC in the amount of $0.1 million and $0.2 million, 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, 2011 was a liability to the University and a receivable to the Richmond Fund in the amount of $9.8 million. The change in settlement value for the year ended June 30, 2011 totaled $26.8 million and was a loss for the University and a gain for the Richmond Fund. The settlement value of the swap at June 30, 2010 was a liability to the University and a receivable to the Richmond Fund in the amount of $15.4 million. The change in settlement value for the year ended June 30, 2010 totaled $15.4 million and was a loss for the University and a gain for the Richmond Fund. These amounts have been eliminated in the consolidation.

(18) Conflict of Interest

Members of the governing boards and senior management of the University may be directly or indirectly associated with companies doing business with the University. The University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. The annual disclosures cover these key officials and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict. Written conflict of interest policies for the University require, among other things, that no member of a governing board may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which that member (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to the University, and in accordance with applicable conflict of interest laws.

(19) Commitments and Contingencies

The University is in the process of constructing, renovating, and equipping certain facilities for which outstanding commitments totaled approximately $19.0 million, including construction in progress of $8.6 million at June 30, 2011.

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 consolidated 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.

(20) Recently Issued Accounting Standards

In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). ASU 2011-04 amended ASC 820 to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. The University is currently evaluating the effect that the provisions of ASU 2011-04 will have on its consolidated financial statements.

SUPPLEMENTARY INFORMATION

Schedule 1

UNIVERSITY OF RICHMOND

Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Assets:			
Cash and cash equivalents	$	114,795	111,638
Investments (notes 2, 3, 6, 11, and 12)		1,882,997	1,623,339
Student accounts receivable, net		1,132	1,322
Accrued income		182	24
Other receivables		2,014	1,884
Notes receivable, net (note 4)		3,659	3,833
Inventories, prepaid expenses, and other		8,568	3,809
Pledges receivable (note 5)		14,850	20,814
Funds held in trust (notes 6 and 11)		3,069	2,788
Beneficial interest in trusts (note 6 and 11)		3,191	3,531
Property, plant, and equipment, net (note 7)		252,627	244,064
Total assets	$	2,287,084	2,017,046
Liabilities:			
Accounts payable and accrued liabilities	$	31,696	32,934
Deferred income		12,704	12,223
U.S. government grants refundable (note 4)		3,818	3,902
Annuities and trusts payable (note 6)		6,397	6,021
Notes payable (note 8)		176,878	176,600
Swap agreements (notes 8, 11, and 12)		16,076	20,093
Postretirement benefits (note 10)		11,543	11,199
Total liabilities		259,112	262,972
Net assets (note 2):			
Unrestricted		998,360	858,980
Temporarily restricted (note 13)		700,006	593,282
Permanently restricted (note 13)		329,606	306,312
Total net assets		2,027,972	1,758,574
Total liabilities and net assets	$	2,287,084	2,021,546

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

See accompanying independent auditors' report and notes to the consolidated financial statements.

Schedule 2

UNIVERSITY OF RICHMOND

Statement of Activities

Year ended June 30, 2011
(with summarized financial information for the year ended June 30, 2010)

(Dollars in thousands)

	2011				2010
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenues:					
Tuition and fees	$ 157,855	—	—	157,855	149,065
Less scholarship allowance	(68,840)	—	—	(68,840)	(62,483)
Net tuition and fees	89,015	—	—	89,015	86,582
Grants and contracts	4,217	—	—	4,217	6,649
Contributions	5,878	2,818	—	8,696	7,013
Investment income (notes 2 and 3)	1,115	1,190	—	2,305	2,852
Endowment spending distribution (notes 2 and 3)	43,093	31,814	—	74,907	67,421
Auxiliary enterprises	36,801	—	—	36,801	33,899
Other sources (note 14)	7,782	—	—	7,782	8,388
Net assets released from restrictions	30,840	(30,840)	—	—	—
Total operating revenues	218,741	4,982	—	223,723	212,804
Operating expenses (note 15):					
Instruction	68,109	—	—	68,109	64,696
Research	6,559	—	—	6,559	7,273
Public service	2,912	—	—	2,912	3,061
Libraries	12,489	—	—	12,489	12,533
Academic support	24,706	—	—	24,706	23,755
Student services	18,966	—	—	18,966	18,009
Institutional support	41,615	—	—	41,615	39,703
Auxiliary enterprises	38,058	—	—	38,058	35,198
Total operating expenses	213,414	—	—	213,414	204,228
Increase in net assets from operating activities	5,327	4,982	—	10,309	8,576
Nonoperating activities:					
Contributions	—	—	18,901	18,901	3,404
Investment income, net of fees (notes 2 and 3)	22,997	—	93	23,090	14,804
Endowment spending distribution (notes 2 and 3)	—	—	2,278	2,278	2,156
Net realized gains (notes 2 and 3)	34,582	—	71	34,653	38,959
Net unrealized gains (notes 2 and 3)	56,647	122,177	4,089	182,913	26,708
Loss on disposal of property, plant and equipment	(68)	—	—	(68)	—
Redesignated funds	2,495	(350)	(2,145)	—	—
Change in fair values of swap agreements (notes 8, 11, and 12)	4,017	—	—	4,017	(5,343)
Change in present value of split interest agreements (note 6)	—	—	217	217	(555)
Change in postretirement benefit obligation other than net periodic costs (note 10)	(273)	—	—	(273)	(986)
Net assets released from restrictions for property, plant, and equipment	19,738	(19,738)	—	—	—
Tax provision	(2,543)	—	—	(2,543)	(402)
Other expenses	(3,539)	(347)	(210)	(4,096)	(3,797)
Increase in net assets from nonoperating activities	134,053	101,742	23,294	259,089	74,948
Change in net assets	139,380	106,724	23,294	269,398	83,524
Net assets at beginning of year	858,980	593,282	306,312	1,758,574	1,675,050
Net assets at end of year	$ 998,360	700,006	329,606	2,027,972	1,758,574

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

See accompanying independent auditors' report and notes to the consolidated financial statements.

Schedule 3

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

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	$ 2,491,932	—	2,491,932
Federal Supplemental Educational Opportunity Grant Program	84.007	390,423	—	390,423
Federal Work Study Program	84.033	298,591	—	298,591
Academic Competitiveness Grant	84.375	181,575	—	181,575
National Science and Mathematics Access to Retain Talent Grant	84.376	54,000	—	54,000
Federal Perkins Loan Program (note 3)	84.038	—	539,680	539,680
Federal Direct Loan Program (note 4)	84.268	—	29,074,144	29,074,144
Total student financial assistance programs cluster		3,416,521	29,613,824	33,030,345
Research and development programs cluster:				
Direct payments:				
National Science Foundation:				
Mathematical and Physical Sciences:				
Research at Undergraduate Institutes: Chemical Investigations into the Bioactivity of the DNA Lesion 8-Oxo-2-deoxyguanosine	47.049	75,628	—	75,628
Research at Undergraduate Institutions: Cosmic Microwave Background Analysis in the Post-WMAP Era	47.049	5,218	—	5,218
Research at Undergraduate Institutions: Theoretical Nuclear Structure Studies	47.049	17,517	—	17,517
Research at Undergraduate Institutions: Nanoparticle Film Assemblies: Interfaces for Controlling Nanoscale Absorption Environment and Electrochemical Behavior of Immobilized Redox Proteins	47.049	104,390	—	104,390
Research at Undergraduate Institutions: A Theoretical Investigation of Multi-reference Diradical Molecules	47.049	50,791	—	50,791
Collaborative Research: Simulation of Systematic Effects in Interferometry for Studies of the Cosmic Microwave Background	47.049	9,211	—	9,211
CAREER: Theoretical Studies of Relationships between Bonding Preferences in Inorganic Molecules, their Oligomers, and Extended Solids – Focusing on Metal Halides	47.049	3,124	—	3,124
Long-Term Undergraduate Research Experience	47.049	454,887	—	454,887
UBM Group-Studying Cell Response to Input Signals	47.049	35,803	—	35,803
Geosciences:				
Research at Undergraduate Institutions: Stability and Structure of Temperate and Tropical Marine Sponge Symbiont Communities in Response to Climate Change	47.050	21,835	—	21,835
Computing and Information Science and Engineering:				
Research at Undergraduate Institutions: Managing Memory Demands of Data Intensive Workloads in Chip Multiprocessors	47.070	977	—	977
Biological Sciences:				
Research at Undergraduate Institutions: Understanding Steroid Regulation of Ionotropic Glutamate Receptors	47.074	19,326	—	19,326
Macromolecular Recognition and Differential Ion Channel Functioning	47.074	58,191	—	58,191
Major Research Instrumentation Grant: Acquisition of Instrumentation for Creation of a Regional Undergraduate Biophysical Chemistry Research Cluster	47.074	1,436	—	1,436
Research at Undergraduate Institutions: Role of Protein Dynamics	47.074	8,698	—	8,698
Collaborative Research: Assembling the Tree of Life, Porifera Tree of Life, The Porifera Tree of Life Project	47.074	42,707	—	42,707
Social, Behavioral, and Economic Sciences:				
Research at Undergraduate Institutions: Computational Developmental Bilingualism	47.075	104,246	—	104,246
Recovery Act Research Support:				
ARRA Collaborative Research: The Proper Scale for Environmental Markets with Application to Nitrogen Trading in the Neuse River Basin	47.082	26,928	—	26,928
ARRA Major Research Instrumentation Grant: Acquisition of a Computer Cluster for Undergraduate Research & Teaching in Computational Chemistry	47.082	20,064	—	20,064
ARRA Research at Undergraduate Institutions: Preparing For The Era of Cosmic Microwave Background	47.082	55,932	—	55,932

(Continued)

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

Federal grantor/program title	CFDA number	Grant expenditures	Loan disbursements	Total
Department of Energy:				
Nuclear and Particle Physics Research	81.049	$ 39,144	—	39,144
Nuclear Structure Research	81.049	109,393	—	109,393
Theoretical Investigation of the Structure and Reactivity of the Molecular Constituents of Oil, Sand, and Oil Shale	81.049	72,158	—	72,158
Nuclear Stewardship Research	81.112	184,652	—	184,652
Department of Education:				
Enhancing Internationalization in the Humanities: Focus on the Middle East	84.016	57,669	—	57,669
Fullbright-Hays Faculty Research Abroad Program	84.019	20,597	—	20,597
Enhancing Outcome-Based Performance Measures	84.133	68,614	—	68,614
National Center for Education Research	84.305	23,809	—	23,809
Department of Health and Human Services – National Institutes of Health:				
Retraining Automatic Biases Related to Problem Drinking in College Students	93.273	20,307	—	20,307
A Combination Strategy	93.395	58,077	—	58,077
Finding Polyglatamine Disease and Rescue Mechanisms Using Proteomic Analysis	93.853	19,375	—	19,375
Mosquito Egg Development	93.855	21,055	—	21,055
Role of Shigella	93.855	38,600	—	38,600
Lipid Modulation of Potassium Channels	93.859	12,660	—	12,660
Pass through payments:				
National Science Foundation:				
North Carolina A&T State University Developing Economic Pedagogic Portal Grant	47.076	3,797	—	3,797
Total research and development programs cluster		1,866,816	—	1,866,816
Other grants:				
Direct payments:				
National Endowment for the Humanities:				
Landscape of the American Past: Visualizing Emancipation	45.169	6,189	—	6,189
Pass through payments:				
Department of Interior – National Park Service:				
University of Maryland Center for Environmental Science:				
To Weed or Not To Weed: An Economic Decision Support Tool for the National Capital Region Parks	15.DAV	9,010	—	9,010
Evaluating Potential National Natural Landmarks (NNL)	15.DAV	6,160	—	6,160
Assessment of Natural Resource Condition, Colonial National Historical Park (CNHP) Virginia	15.DAV	783	—	783
Total other grants		22,142	—	22,142
Total federal awards		$ 5,305,479	29,613,824	34,919,303

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the University of Richmond and its affiliates (the University) for the year ended June 30, 2011. 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 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 Perkins Loan Program

The total amount of Perkins loans outstanding at June 30, 2011 under the Federal Perkins Loans Program (CFDA Number 84.038) was $4,317,763 and is included in notes receivable in the University's basic consolidated financial statements.

(4) Federal Direct Loan Program

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

The University is responsible only for the performance of certain administrative functions with respect to the Program, and accordingly, these loans are not included in the University's 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, 2011.

(Continued)

(5) Reconciliation of Schedule of Expenditures of Federal Awards to Consolidated Statement of Activities

Federal grant expenditures per the Schedule	$	5,305,479
Less: Federal grants considered agency transactions		(2,727,507)
Add: Nonfederal grants and contracts		1,639,028
Grants and contracts per Consolidated Statement of Activities for the year ended June 30, 2011	$	4,217,000

(6) Subrecipients

The University passed through research and development programs cluster funds totaling $478,149 for the year ended June 30, 2011.

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, 2011, and have issued our report thereon dated October 5, 2011 which included an explanatory paragraph that described the University's adoption of FASB ASU 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, in 2011. 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

Management of the University is responsible for establishing and maintaining effective 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 a 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 the 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

October 5, 2011

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

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Its 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 University of Richmond and its affiliates' (the University) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* (the Compliance Supplement) that could have a direct and material effect on the University's major federal program for the year ended June 30, 2011, except the requirements discussed in the second paragraph of their report. The University's major federal program is 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 its major federal program 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 Educational Loan Servicing, LLC (d/b/a 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, 2011 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 compliance requirements referred to in the first paragraph above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Educational Loan Servicing, LLC (d/b/a Campus Partners). Internal control over compliance related to such functions for the year ended June 30, 2011 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.

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

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

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

February 16, 2012

UNIVERSITY OF RICHMOND AND ITS AFFILIATES

Schedule of Finding and Questioned Costs

Year ended June 30, 2011

(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: None reported

(f) Material weaknesses in internal control over major programs: None

(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: None

(i) Major program: Student Financial Assistance Programs Cluster (CFDA Nos. 84.007; 84.033; 84.038; 84.063; 84.268; 84.375; and 84.376)

(j) Dollar threshold used to distinguish between Type A and Type B programs: $300,000

(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: None