2009–10 Treasurer's Report

Letter of Transmittal

To the Board of Trustees, President, Faculty, Staff and Students
University of Richmond

Dear Colleagues:

The following pages represent the University of Richmond's 2009–2010 audited consolidated financial statements as of June 30, 2010. Despite the uncertain economy, you will note from the highlights below that by every measure, the University emerged from fiscal 2010 financially strong.

The consolidated statement of financial position consisted of assets totaling $2.8 billion and liabilities totaling $1.0 billion, resulting in total net assets of $1.8 billion. The overall net assets increased 5%, recovering a significant portion of the decline last year. Endowment-related investment gains, in large part, and the unrestricted and restricted operating results, to a lesser degree, contributed to the increase in the net assets.

The performance of the Richmond endowment was +10.1% for the fiscal year. UR's endowment return continues to outperform both internal and external benchmarks. Over the past ten years, the endowment pool achieved a net average annual return of 7.4% as compared to the policy benchmark of 3.3%. The University's total endowment assets increased from $1.4 billion last year to $1.6 billion as of June 30, 2010, reflecting realized and unrealized investment gains of $126 million and operating cash invested in the endowment during the year. Total endowment per student stands at $424,871 at June 30. This is significantly higher than the 2009 median total financial resources for Aa rated private colleges and universities of $223,789.

For the second consecutive year, University operations came through the difficult economic environment in good shape. Net operating income, both restricted and unrestricted, totaled $8.4 million in fiscal 2010 and $3.1 million in fiscal 2009. Operating revenues totaled $210 million, a 6.7% increase over last year. Operating expenses totaled $202 million, a 4.1% increase from the prior year. Based on the budgeted revenues and expenditures, all of our schools ended the year on budget. All academic and administrative support units also finished the year on budget.

Not readily obvious from our financial statements is the University's continued investment in nurturing the core mission and sustaining the quality of a Richmond education. Clearly, the dedicated work of faculty and staff make the Richmond education exemplary. Because of that belief, even in challenging times, we have continued to invest in our employees. We have also continued our commitment to investing in financial aid, honoring the commitment made earlier this decade to be need-blind in admissions and to meet 100% of undergraduate students' demonstrated need. This commitment to access and affordability, combined with the quality of a Richmond education, has resulted in Richmond being acknowledged as not only one of the nation's best universities, but also one of its best values. As we plan for fiscal 2012 and beyond, our goal is to preserve an appropriate balance between our commitment to access and affordability and our aspirations for the academic enterprise. Despite these investments in the core mission, campus expenses remained relatively flat mainly due to the continued sound stewardship of the University resources. For the second consecutive year, the academic and administrative units partnered to reduce their non-salary expenses by roughly 5% through targeted reductions, thus preserving the academic mission-critical spending.

Richmond also had a good year in terms of private giving, as donors continue to recognize the importance of the research and educational efforts of our exceptional faculty and students. The University obtained approximately $21.4 million in new gifts—an increase of $3.2 million over fiscal 2009. This is the second-largest year of giving on record, exceeded only by the $24.7 million received in 2007. Due to the generosity of our donors and our ability to leverage our balance sheet, the campus has undertaken its most ambitious building effort in the last three decades. The Carole Weinstein International Center, a $20.4 million project, was completed shortly before the fall semester. The building accommodates the Office of International Education and related academic programs, supported by contemporary technology and co-curricular features including a new café. The $28.4 million stadium is the new home for our national champion football team. Once opened in Fall of 2010, it will host several of our sports programs in a venue providing a great, on-campus game day experience for our Spiders and fans alike. The $19.4 million Queally Hall project will add much needed space for our nationally ranked Robins School of Business. Westhampton Center, a $3.5 million project, was completed earlier this year and provided a first-rate addition to the Deanery to support the programming needs of Westhampton College. The new campus master plan, which is currently underway, will lay the foundation for future campus facilities projects.

While we are fortunate to be weathering the economic storm better than many institutions, we are not immune to the financial realities facing the nation. Richmond is defined by the quality of our exceptional faculty, students and staff. To expand upon this tradition, we must remain vigilant in our disciplined management of resources so that we can continue to make strategic investments in people, programs and facilities. By providing the means to attract and retain talent and to support the work of our campus community, the University of Richmond will continue to uphold its commitment to outstanding education and scholarship.

Hossein Sadid
Vice President for Business and Finance

University of Richmond and its Affiliates

Consolidated Statement of Financial Position

As of June 30, 2010, with summarized financial information as of June 30, 2009

	2010			2009
	Operating	**Endowment**	**Total**	**Total**
Assets:				
Cash and cash equivalents	$ 173,569,403	50,556,982	224,126,385	141,428,488
Investments (notes 2, 3, 4 and 10)	677,343,158	1,579,694,152	2,257,037,310	2,007,198,850
Funds held in trust (notes 4 and 10)	2,787,978	—	2,787,978	2,713,216
Student accounts receivable, net	1,322,047	—	1,322,047	1,040,096
Accrued income	577,293	—	577,293	1,119,143
Pledges receivable (note 5)	19,136,111	1,677,608	20,813,719	30,930,434
Beneficial interest in trusts (note 4)	3,531,377	—	3,531,377	3,462,390
Other receivables	2,067,828	—	2,067,828	1,443,277
Notes receivable	3,832,785	—	3,832,785	4,229,574
Inventories, prepaid expenses and other	9,712,292	—	9,712,292	10,138,110
Property, plant and equipment, net (note 6)	272,760,693	—	272,760,693	239,132,574
Total assets	**$1,166,640,965**	**1,631,928,742**	**2,798,569,707**	**2,442,836,152**
Liabilities:				
Accounts payable and accrued liabilities	$ 21,498,549	—	21,498,549	16,722,368
Funds held on behalf of others (notes 1 and 15)	788,459,945	—	788,459,945	530,371,657
Annuities and trusts payable (note 4)	6,021,329	—	6,021,329	6,205,767
Deferred income	12,223,386	—	12,223,386	10,493,260
Notes payable (note 7)	176,600,000	—	176,600,000	176,600,000
Swap agreements (notes 3, 7, 10 and 11)	20,092,938	—	20,092,938	13,110,584
Postretirement benefits (note 9)	11,198,513	—	11,198,513	10,305,255
U.S. government grants refundable	3,901,544	—	3,901,544	3,958,622
Total liabilities	**1,039,996,204**	**—**	**1,039,996,204**	**767,767,513**
Net assets (notes 2 and 12):				
Unrestricted	35,696,147	823,283,353	858,979,500	830,807,086
Temporarily restricted (note 12)	72,662,438	520,619,268	593,281,706	554,285,636
Permanently restricted (note 12)	18,286,176	288,026,121	306,312,297	289,975,917
Total net assets	**126,644,761**	**1,631,928,742**	**1,758,573,503**	**1,675,068,639**
Total liabilities and net assets	**$1,166,640,965**	**1,631,928,742**	**2,798,569,707**	**2,442,836,152**

See accompanying notes to the consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Activities

For the year ended June 30, 2010, with summarized financial information for the year ended June 30, 2009

	2010				2009
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 146,123,600	—	—	146,123,600	135,033,999
Less scholarship allowance	(62,482,729)	—	—	(62,482,729)	(52,401,931)
Net tuition and fees	83,640,871	—	—	83,640,871	82,632,068
Grants and contracts	6,649,114	—	—	6,649,114	5,263,100
Contributions	6,260,014	752,516	—	7,012,530	5,953,817
Investment income (notes 2 and 3)	732,747	2,119,643	—	2,852,390	5,112,162
Endowment income (notes 2 and 3)	37,709,546	29,711,403	—	67,420,949	57,966,644
Auxiliary enterprises	36,839,945	—	—	36,839,945	35,967,574
Other sources (note 13)	5,854,322	—	—	5,854,322	4,155,867
Net assets released from restrictions	26,727,970	(26,727,970)	—	—	—
Total operating revenues	**204,414,529**	**5,855,592**	**—**	**210,270,121**	**197,051,232**
Operating expenses (note 14):					
Instruction	64,695,696	—	—	64,695,696	62,516,561
Research	7,273,325	—	—	7,273,325	6,510,855
Public service	3,061,126	—	—	3,061,126	3,124,064
Libraries	12,533,338	—	—	12,533,338	11,553,287
Academic support	23,755,148	—	—	23,755,148	23,988,638
Student services	18,009,427	—	—	18,009,427	17,129,327
Institutional support	37,320,019	—	—	37,320,019	33,776,504
Auxiliary enterprises	35,196,951	—	—	35,196,951	35,359,337
Total operating expenses	**201,845,030**	**—**	**—**	**201,845,030**	**193,958,573**
Increase in net assets from operating activities	**2,569,499**	**5,855,592**	**—**	**8,425,091**	**3,092,659**
Nonoperating activities:					
Contributions	139,287	633,863	2,631,090	3,404,240	2,498,851
Investment income, net of fees (notes 2 and 3)	19,564,836	—	109,276	19,674,112	15,043,206
Endowment income (notes 2 and 3)	—	—	2,155,997	2,155,997	1,939,647
Net realized and unrealized gains (losses) (notes 2 and 3)	69,244,892	39,999,559	10,783,219	120,027,670	(381,542,454)
Redesignated funds	298,724	(1,819,250)	1,520,526	—	—
Change in fair values of swap agreements (notes 3, 7, 10 and 11)	(5,342,604)	—	—	(5,342,604)	(8,194,305)
Change in present value of split interest agreements (note 4)	—	—	(555,000)	(555,000)	(920,695)
Change in post-retirement benefit obligation other than net periodic costs (note 9)	(985,810)	—	—	(985,810)	(1,114,668)
Net assets released from restrictions for property, plant and equipment	2,954,143	(2,954,143)	—	—	—
Affiliated organizations expenses	(7,365,992)	—	—	(7,365,992)	(5,346,662)
Other expenses	(555,085)	(2,719,551)	(308,728)	(3,583,364)	(2,377,620)
Minority interest in (earnings) losses of affiliates	(52,349,476)	—	—	(52,349,476)	62,413,685
Increase (decrease) in net assets from nonoperating activities	**25,602,915**	**33,140,478**	**16,336,380**	**75,079,773**	**(317,601,015)**
Change in net assets	**28,172,414**	**38,996,070**	**16,336,380**	**83,504,864**	**(314,508,356)**
Net assets at beginning of year	**830,807,086**	**554,285,636**	**289,975,917**	**1,675,068,639**	**1,989,576,995**
Net assets at end of year	**$ 858,979,500**	**593,281,706**	**306,312,297**	**1,758,573,503**	**1,675,068,639**

See accompanying notes to the consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Cash Flows

For the year ended June 30, 2010

Cash flows from operating activities:	
Change in net assets	$ 83,504,864
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	16,047,482
Net unrealized and realized gains on investments and funds held in trust	(121,667,420)
Change in fair value of swap agreements	6,982,354
Contributions restricted for purchase of property and equipment	(4,575,854)
Contributions restricted for endowment	(2,731,572)
Gifts of property and stock	(1,787,637)
Minority interest in earnings of affiliates	52,349,476
Decrease in funds held in trust	181,258
Increase in student accounts receivables, other receivables and accrued income	(364,652)
Decrease in pledges receivable	10,116,715
Increase in beneficial interest in trusts	(68,987)
Decrease in notes receivable	396,789
Decrease in inventories, prepaid expenses and other	425,818
Increase in accounts payable and accrued liabilities	4,776,181
Decrease in annuities and trusts payable	(184,438)
Increase in deferred income	1,730,126
Increase in postretirement benefits	893,258
Decrease in U.S. government grants refundable	(57,078)
Net cash provided by operating activities	**45,966,683**
Cash flows from investing activities:	
Proceeds from sales of investments	391,305,603
Purchases of investments	(518,722,926)
Purchases of property, plant and equipment	(48,897,701)
Net cash used for investing activities	**(176,315,024)**
Cash flows from financing activities:	
Increase in funds held on behalf of others	205,738,812
Contributions restricted for endowment	2,731,572
Contributions restricted for purchase of property and equipment	4,575,854
Net cash provided by financing activities	**213,046,238**
Net increase in cash and cash equivalents	**82,697,897**
Cash and cash equivalents at beginning of year	**141,428,488**
Cash and cash equivalents at end of year	**$ 224,126,385**
Supplemental disclosure:	
Cash paid for interest on notes payable and interest rate swap agreements	$ 5,251,541
Gifts of property and stock	1,787,637

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2010

1) Summary of Significant Accounting Policies

The University of Richmond is a private institution of higher education. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, was formed on April 9, 2003, for the purpose of owning and operating the building and land located at 6601 Broad Street, Richmond, Virginia, formerly known as the Alcoa-Reynolds Building. Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, was formed 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 15). 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:

a) Basis of Presentation

The consolidated financial statements include the financial statements of the University of Richmond and its affiliates (collectively, the University). The consolidated financial statements have been prepared on the accrual basis of accounting and all significant intercompany balances and transactions have been eliminated in consolidation. In accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 810-10-15, *Consolidation, Variable Interest Entities*, SMC consolidates RFMC and the Richmond Fund, which are variable interest entities of which SMC is the primary beneficiary. SMC is subsequently consolidated by the University of Richmond in accordance with AICPA Statement of Position (SOP) 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*. The net assets of consolidated variable interest entities are $732,278,133 and $521,122,794 at June 30, 2010 and 2009, respectively, and are included in funds held on behalf of others in the consolidated statement of financial position. This amount includes the University's liability related to its minority interest in earnings (losses) of affiliates of $52,349,476 and $(62,413,685) at June 30, 2010 and 2009, respectively. Also included in funds held on behalf of others in the consolidated statement of financial position is $55,991,415 and $9,073,863 of Richmond Fund limited partner capital contributions received in advance of the subscription date and distributions payable at June 30, 2010 and 2009, respectively.

The consolidated financial statements as of and for the year ended June 30, 2010 include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2009, from which the summarized information was derived.

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

b) Net Asset Classes

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

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

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

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

c) Cash and Cash Equivalents

Cash equivalents with a maturity at date of purchase of three months or less are reported as cash and cash equivalents. There are cash equivalents held by the investment custodians that are reported as cash and cash equivalents in the accompanying consolidated financial statements. The cash equivalents at June 30, 2010 and 2009 are $79,877,025 and $87,184,830, respectively. Additionally, $6,372,719 of cash was held in escrow at June 30, 2010 for an investment-specific purpose.

d) Investments

Investments and funds held in trust are recorded at fair value and primarily include investments in securities and investments in investment funds.

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

Investments in investment funds primarily include investments in hedge funds and private equity funds and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures and U.S. generally accepted accounting principles (GAAP). 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. Examples of factors that might necessitate an adjustment to the investment manager's reported NAV when it is not as of the University's fiscal year end date are capital contributions that have been made or distributions that have been received since the calculation date of the reported NAV, changes to market or economic conditions, which could affect the value of the investment fund's portfolio after the calculation date of the reported NAV or changes that have occurred in the composition of the underlying investment portfolio of the investment fund after the NAV calculation date. If the University has concluded that an adjustment is necessary because the reported NAV is not calculated consistently with fair value measurement principles, the University will evaluate the reasons why the NAV has not been based upon fair value and, when possible, obtain sufficient information to estimate a fair value based NAV. 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 used be as described below.

Hedge funds for which the practical expedient cannot be utilized are valued based upon valuations determined in good faith by the underlying investment managers and reviewed by the University. Based on the specific investment, the University may consider, among other factors, the volume of redemptions occurring at the reporting date at NAV, restrictions on redemptions at the reporting date and the portion of the fund designated as a "side pocket" not available for redemption.

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

Of the amounts reported at net asset value, $303,202,697 of those investments are currently redeemable with the fund at net asset value under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although, a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

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

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

Investment transactions are accounted for on 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 statement 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 on the consolidated statement of activities.

e) Fair Value of Financial Instruments

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

f) Derivative Instruments

The University accounts for derivatives and hedging activities in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires the University to recognize all derivative instruments as either assets or liabilities on the consolidated statement of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets on the consolidated statement of activities. The University's consolidated financial statements include various derivative instruments such as interest rate swaps (notes 7 and 11). 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 15). 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.

g) Inventories

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

h) Property, Plant and Equipment

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

i) Contributions

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

j) Income Taxes

The University of Richmond has received a letter from the IRS dated September 1941, exempting the University of Richmond from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the University of Richmond is a public charity under Section 509(a)(I) 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 on 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, 2010 and 2009.

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 the financial position. As of June 30, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2007 forward.

k) Fair Value Measurements

The University utilizes guidance contained within the provisions of FASB 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 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 10).

l) 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.

m) Reclassifications

Certain reclassifications have been made for the year ended June 30, 2009 to conform with classifications adopted in 2010.

n) Subsequent Events

In accordance with ASC 885-10, *Subsequent Events*, the University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2010 financial statements through September 17, 2010, the date the consolidated financial statements were issued.

o) New Accounting Pronouncements

Effective July 1, 2009, the University adopted the enhanced disclosures about an entity's derivative and hedging activities included in FASB ASC Topic 815, *Derivatives and Hedging*.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009–06, *Income Taxes (740): Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, which rescinds two disclosure requirements about income tax uncertainties and adds implementation guidance for all entities about applying the related accounting requirements. The ASU was effective for the University for the year ended June 30, 2010.

In September 2009, the FASB issued Accounting Standards Update (ASU) 2009–12 which provides amendments to ASC Subtopic 820-10, *Fair Value Measurements and Disclosures* (Topic 820). The amendments in this ASU permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the ASC on the basis of the NAV per share of the investment (or its equivalent) if the NAV is consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date. The ASC also requires disclosures by major category of investment about the attributes of investments within the scope of the ASC. The ASU was effective for the University for the year ended June 30, 2010.

2) Endowment

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

The University's endowment consists of approximately 1,200 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

a) Interpretation of Relevant Law

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

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

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The University's investment policies

Endowment net assets consist of the following at June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (643,962)	520,619,268	288,026,121	808,001,427
Board-designated endowment funds	823,927,315	—	—	823,927,315
Total endowed net assets	**$ 823,283,353**	**520,619,268**	**288,026,121**	**1,631,928,742**

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

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

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

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2009	$ 632,096,449	479,562,101	281,595,422	1,393,253,972
Investment return:				
Investment income	12,956,540	—	20,188	12,976,728
Net appreciation	54,126,917	70,689,341	1,203,422	126,019,680
Total investment return	67,083,457	70,689,341	1,223,610	138,996,408
Contributions	8,500	—	2,138,824	2,147,324
Appropriation of endowment assets for expenditure	(18,648,269)	(29,632,174)	1,396,859	(46,883,584)
Redesignated funds	101,327,984	—	1,671,406	102,999,390
Endowment net assets, June 30, 2010 before eliminations	781,868,121	520,619,268	288,026,121	1,590,513,510
Elimination of intercompany receivables and payables	41,415,232	—	—	41,415,232
Endowment net assets, June 30, 2010	**$ 823,283,353**	**520,619,268**	**288,026,121**	**1,631,928,742**

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

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

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 $643,962 and $979,708 as of June 30, 2010 and 2009, 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 over the long term a blended custom benchmark based on a current asset allocation policy of 25% of the Russell 3000 Index, 15% of treasury bills multiplied by 2, 15% of the Venture Economics Index, 20% of the MSCI-World Ex-United States Index, 5% of the Merrill Lynch High Yield Master II Index, 5% of the three-month treasury bill, 5% of the NCREIF Real Estate Index and 10% of the Consumer Price Index plus 6%.

d) Strategies Employed for Achieving Objectives

To satisfy the long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University's asset allocation policy is to provide a diversified strategic mix of asset classes which places emphasis on investments in equity securities and funds, fixed income securities and funds, real assets, real estate and cash and produces the highest expected investment return within a prudent risk framework.

e) Spending Policy

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

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

3) Investments

The costs and fair values of investments at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Cost	**Fair value**	**Cost**	**Fair value**
Cash equivalents	$ 1,665,234	1,665,234	953,964	953,964
Investments in securities:				
Short-term investments	—	—	11,337,634	11,337,634
Government bonds	2,722,162	2,884,701	10,185,526	10,386,205
Corporate bonds	45,712,775	40,023,497	97,846,714	99,839,785
Common and preferred stocks	104,392,009	97,486,734	85,810,540	72,565,026
Commingled funds	33,295,311	30,211,044	46,395,510	34,889,272
Investments in investment funds:				
Hedge funds	1,130,760,721	1,434,174,951	1,024,956,649	1,204,609,112
Private equity funds	519,680,826	423,614,677	446,076,815	338,175,873
Other funds	209,114,874	215,214,120	212,464,920	226,011,046
Other investments	9,727,315	11,762,352	8,430,599	8,430,933
Total	**$ 2,057,071,227**	**2,257,037,310**	**1,944,458,871**	**2,007,198,850**

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

At June 30, 2010, the University has committed to make additional capital contributions of approximately $435,000,000 to various investment funds over the next five years (see note 10).

During fiscal year 2009, the endowment portfolio held credit default swaps which were terminated prior to June 30, 2009. The University entered into credit default swaps for a variety of reasons including hedging its exposure to various issuers or to take an active long or short position with respect to a particular issuer. The University made a stream of fixed payments to the other party in exchange for the right to receive certain payment amounts in the event of a credit event or default. Credit default swaps held by the University during the year ended June 30, 2009 consisted primarily of purchased protection agreements on corporate credit. The change in fair value totaled $(1,581,417) for the year ended June 30, 2009. No credit default swaps were held during the year ended June 30, 2010.

Total investment return for the year ended June 30, 2010 is a positive return of $212,131,118 and is classified within operating revenues and nonoperating activities as investment income, endowment income and net realized and unrealized gains and losses. Operating investment return includes income generated from short-term investments and the endowment spending formula, and nonoperating activities investment return includes income and gains earned (losses incurred) on the investment pool, in excess of the spending rate. When the spending rate exceeds actual investment income the spending rate is met with accumulated gains and income.

On September 29, 2008, the University was notified that the trustee of the Common Fund for Short Term Investments (the Fund) had initiated the process of terminating the Fund and had established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. At June 30, 2009, the University had $11,337,634 invested in the Fund which was included in investments in the consolidated statement of financial position. As of June 30, 2010, the University has received 100% of its investment in the Fund as of September 29, 2008.

4) Annuities and Trusts

The University is the beneficiary and trustee of certain charitable remainder trusts. Under these trust agreements, the donors contributed assets to the University. For the remainder of the beneficiary's life, the University pays a fixed amount to the beneficiary as defined in the agreement. The fair value of the assets received under these agreements of $2,787,978 and $2,713,216 as of June 30, 2010 and 2009, 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, 2010 and 2009 was $1,443,303 and $1,413,512, respectively. Discount rates used in calculating the present value ranged from 4.2% to 10.2%. Changes in value of trusts totaled $(196,503) and $217,241 for the years ended June 30, 2010 and 2009, respectively.

The University is the beneficiary of certain charitable remainder trusts, the assets of which are not in the possession of the University. The present value of the expected cash flows from these remainder trusts is included in beneficial interest in trusts in the consolidated statements of financial position. Discount rates used in calculating the present value ranged from 3.2% to 10.0%. Changes in value of beneficial interest in trust totaled $69,289 and $(574,843) for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $4,578,026 and $4,792,255, respectively. Discount rates used in calculating the present value ranged from 2.4% to 10.6%. Changes in value of annuities totaled $(427,786) and $(563,093) for the years ended June 30, 2010 and 2009, respectively.

5) Pledges Receivable

Unconditional pledges at June 30, 2010 are expected to be realized in the following periods:

Less than one year	$ 5,194,845
One year to five years	15,574,056
More than five years	4,312,715
	25,081,616
Less discount rates ranging from 2.4% to 10.6%	(4,267,897)
	$ 20,813,719

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

6) Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30, 2010 and 2009:

	2010	**2009**
Land	$ 19,427,717	18,801,985
Buildings	333,652,588	285,076,474
Improvements	25,655,399	25,157,245
Equipment	78,138,726	74,991,214
Library books	58,439,365	55,465,023
Construction in progress	16,377,709	22,523,962
	531,691,504	482,015,903
Accumulated depreciation	(258,930,811)	(242,883,329)
	$ 272,760,693	**239,132,574**

Contracts have been let for construction in the amount of approximately $32,939,000 including construction in progress of $16,378,000 at June 30, 2010.

7) Notes Payable

Notes payable to the Virginia College Building Authority consist of the following at June 30, 2010 and 2009:

	2010	2009
Series of 2004:		
Due August 1, 2034 with a weekly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (0.21% and 2.50% at June 30, 2010 and 2009, respectively)	$ 46,000,000	46,000,000
This series refunded all of the Series of 1994, and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum.		
Series of 2006:		
Due November 1, 2036 with a daily rate as determined by the Remarketing Agents based on prevailing market conditions (0.15% and 1.30% at June 30, 2010 and 2009, respectively).	55,900,000	55,900,000
This series refunded all of the Series of 1996 and 1999, and provided funds for several projects, including Lakeside Dorm, Boatwright Library and Boiler Plant Improvements.		
Series of 2009:		
Due March 1, 2039 with a reset rate of 0.40% through the next reset date, March 1, 2011	45,085,000	45,085,000
Due March 1, 2039 with a reset rate of 0.35% through the next reset date, February 1, 2011	29,615,000	29,615,000
On the mandatory tender dates of March 1, 2011 and February 1, 2011, respectively, the interest rates will be redetermined based upon the prevailing market conditions.		
This series refunded all of the Series of 2002, and provided funds for several projects, including First Market Stadium, Robins School of Business and Carole Weinstein International Center.		
	$176,600,000	**176,600,000**

The fair value of all outstanding long-term obligations at June 30, 2010 and 2009 was approximately $177,000,000, respectively.

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

- The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $6,436,290 and $4,870,916 as of June 30, 2010 and 2009, respectively. The change in fair value totaled $(1,565,374) and $(2,391,877) for the years ended June 30, 2010 and 2009, respectively. According to the terms of the swap agreement, the University is required to post collateral if the fair value of the liability exceeds $20,000,000. No collateral was required to be posted related to the agreement at June 30, 2010.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $30,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty-five years. The fair value of the swap is a liability of $6,262,319 and $4,521,499 as of June 30, 2010 and 2009, respectively. The change in fair value totaled $(1,740,820) and $(2,554,267) for the years ended June 30, 2010 and 2009, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $10,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $2,292,739 and $1,663,938 as of June 30, 2010 and 2009, respectively. The change in fair value totaled $(628,801) and $(961,499) for the years ended June 30, 2010 and 2009, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 3.778% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty years. The fair value of the swap is a liability of $5,101,590 and $3,693,981 as of June 30, 2010 and 2009, respectively. The change in fair value totaled $(1,407,609) and $(2,344,995) for the years ended June 30, 2010 and 2009, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 2.46115% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The fair value of the swap is a receivable of $1,639,750 as of June 30, 2009 and the change in fair value totaled $1,639,750 for the year ended June 30, 2009. The University unwound this swap in July 2009, and recognized a gain of $1,913,000.

The interest rate swap agreements are being used to convert the variable rates on these notes payable to a fixed rate without exchanging the underlying principal amounts. The agreements are used to minimize the impact of future interest rate changes (see note 11).

Interest expense on notes payable and interest rate swap agreements was $5,155,643 and $4,861,649 for the years ended June 30, 2010 and 2009, respectively.

On August 1, 2009 the University converted a one-year revolving credit facility in the amount of $50,000,000 to a Liquidity Support Agreement (Hybrid Line of Credit). There were no borrowings from either facility during the years ended June 30, 2010 and 2009.

8) Retirement Plans

The University has certain contributory defined contribution retirement annuity plans, funded through the Teachers' Insurance and Annuity Association, the Vanguard Group, and the American Funds, for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $7,536,521 and $7,080,766 to these plans for the years ended June 30, 2010 and 2009, respectively, which was charged to expense in the consolidated statement of activities.

9) Postretirement Benefits

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

The University utilizes a measurement date of June 30th. At June 30, 2010, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $4,750,477 and $252,744, respectively. At June 30, 2009, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $3,826,921 and $314,997, respectively.

Information with respect to the postretirement plan as of and for the years ended June 30, 2010 and 2009 is as follows:

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$10,305,255	9,205,236
Service cost	167,645	166,776
Interest cost	613,266	549,600
Benefits paid	(985,984)	(823,271)
Actuarial loss	1,098,331	1,206,914
Accrued postretirement benefit obligation	**$11,198,513**	**10,305,255**

Net periodic postretirement benefit cost for the years ended June 30, 2010 and 2009 was as follows:

	2010	2009
Net periodic postretirement benefit cost:		
Service cost	$ 167,644	166,776
Interest cost	613,266	549,600
Amortization of unrecognized net loss	174,775	154,499
Amortization of prior service cost	(62,253)	(62,253)
	$ 893,432	**808,622**

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:

Years ending June 30:	
2011	$ 904,941
2012	899,990
2013	903,966
2014	886,202
2015	880,430
2016–2020	4,151,070

The estimated net employer contributions to the plan for the year ending June 30, 2011 will total approximately $904,941.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.56% and 7.67% for 2010 and 2009, respectively, and is assumed to decrease gradually to 4.5% by the year 2030 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2010 by $186,234 and increase the net periodic postretirement benefit cost for the year ended June 30, 2010 by $20,848.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2010 and 2009 was 5.1% and 6.25%, respectively.

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, 2010, the University has determined actuarial equivalence of its plans. Therefore, the accumulated benefit obligation and the net periodic benefit cost reflect a reduction arising from this subsidy.

10) Fair Value Measurements

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, 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 Fund'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 and 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, 2010, by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 1,665,234	—	—	1,665,234
Investment in securities:				
Government bonds	—	2,884,701	—	2,884,701
Corporate bonds	—	32,502,256	7,521,241	40,023,497
Common stock and preferred stock	96,927,849	375,765	183,120	97,486,734
Commingled funds	29,850,558	360,486	—	30,211,044
	126,778,407	36,123,208	7,704,361	170,605,976
Investment in investment funds:				
Hedge funds	—	303,202,697	1,130,972,254	1,434,174,951
Private equity funds	—	—	423,614,677	423,614,677
Other funds	—	—	215,214,120	215,214,120
	—	303,202,697	1,769,801,051	2,073,003,748
Other investments	757,151	11,005,201	—	11,762,352
Total investments	129,200,792	350,331,106	1,777,505,412	2,257,037,310
Funds held in trust	2,145,152	642,826	—	2,787,978
Total	**$131,345,944**	**350,973,932**	**1,777,505,412**	**2,259,825,288**
Liabilities:				
Swap agreements	$ —	—	20,092,938	20,092,938
Total	**$ —**	**—**	**20,092,938**	**20,092,938**

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

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 953,964	—	—	953,964
Investment in securities:				
Short-term investments	11,337,634	—	—	11,337,634
Government bonds	—	10,386,205	—	10,386,205
Corporate bonds	—	86,164,801	13,674,984	99,839,785
Common stock and preferred stock	68,962,262	341,148	3,261,616	72,565,026
Commingled funds	34,889,272	—	—	34,889,272
	115,189,168	96,892,154	16,936,600	229,971,886
Investment in investment funds:				
Hedge funds	—	669,258,327	535,350,785	1,204,609,112
Private equity funds	—	—	338,175,873	338,175,873
Other funds	—	37,692,310	188,318,736	226,011,046
	—	706,950,637	1,061,845,394	1,768,796,031
Other investments	630,614	7,800,319	—	8,430,933
Total investments	116,773,746	811,643,110	1,078,781,994	2,007,198,850
Funds held in trust	1,961,477	751,739	—	2,713,216
Total	**$118,735,223**	**812,394,849**	**1,078,781,994**	**2,009,912,066**
Liabilities:				
Swap agreements	$ —	—	13,110,584	13,110,584
Total	**$ —**	**—**	**13,110,584**	**13,110,584**

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, 2010 and 2009:

	Investment in securities	Investment in investment funds	Credit default swaps	Total
Assets:				
Beginning balance as of July 1, 2008	$ 10,155,564	1,282,288,546	1,581,417	1,294,025,527
Total net losses included in:				
Change in net assets	—	(245,406,519)	(1,581,417)	(246,987,936)
Purchases into (sales out of) Level 3	6,781,036	24,963,367	—	31,744,403
Ending balance as of June 30, 2009	16,936,600	1,061,845,394	—	1,078,781,994
Total net gains included in:				
Change in net assets	(1,788,712)	138,090,755	—	136,302,043
Purchases into (sales out of) Level 3	(7,443,527)	359,266,042	—	351,822,515
Transfers into (out of) Level 3	—	210,598,860	—	210,598,860
Ending balance as of June 30, 2010	**$ 7,704,361**	**1,769,801,051**	**—**	**1,777,505,412**
Net unrealized gains (losses) included in net gain for the period related to assets held at June 30, 2010	$ (1,788,712)	95,656,053	—	93,867,341

	Swap agreements
Liabilities:	
Beginning balance as of July 1, 2008	$ (4,916,279)
Total net losses included in:	
Change in net assets	(8,194,305)
Ending balance as of June 30, 2009	(13,110,584)
Total net losses included in:	
Change in net assets	(5,342,604)
Purchases into (sales out of) Level 3	(1,639,750)
Ending balance as of June 30, 2010	**$ (20,092,938)**
Net realized losses included in net gain for the period related to liabilities held at June 30, 2010	$ (5,342,604)

The University did not have any assets or liabilities measured at fair value on a nonrecurring basis during the year ended June 30, 2010.

The following table summarizes information about the attributes of investments in investment funds by major category as of June 30, 2010:

	Fair value	Unfunded commitments	Redemption center frequency (if currently eligible)	Redemption notice period
Domestic equity	$ 322,911,430	—	Quarterly, Semi-Annually, Annually, Bi-Annually, Tri-Annually	45 – 90 days
International equity	223,620,469	4,000,000	Monthly, Quarterly, Annually, 30 months, Tri-Annually	30 – 120 days
Global equity	223,130,018	2,562,666	Quarterly, Annually, Semi-Annually, Tri-Annually, rolling 3-year lockup, rolling 5-year lockup	45 – 95 days
Diversified	108,908,771	—	Quarterly, Annually	60 – 90 days
Multi-strategy	376,230,054	1,146,349	Quarterly, Semi-Annually, annually and rolling 3-year lockup – Annually	45 – 180 days
Credit	216,245,664	14,841,406	Semi-Annually, Annually, rolling 2 year lock up – Bi-annually, Tri-Annually	60 – 180 days
International private equity	68,057,411	75,803,993	N/A	N/A
Buyout	137,248,926	74,245,101	N/A	N/A
Early stage ventures	62,196,708	43,547,117	N/A	N/A
Later stage ventures	62,494,685	28,052,315	N/A	N/A
Subordinated debt	52,614,491	30,007,461	N/A	N/A
Secondary funds	4,131,000	903,543	N/A	N/A
Real estate	87,486,853	41,947,034	N/A	N/A
Real assets	127,727,268	117,583,125	N/A	N/A
	$ 2,073,003,748	**434,640,110**		

a) Domestic Equity

This category includes investments in hedge funds that 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. The passive core is meant to provide low-cost exposure to the U.S. equity market and will primarily be achieved through the use of, but not limited to, swaps, exchange traded funds (ETFs) and other derivative products, utilized from time to time to add or reduce the directionality of the portfolio. The portfolio seeks to generate incremental returns (alpha) through its active investment strategies. The active investment strategies will include both long/short and long only managers. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments representing approximately 65% 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 48 months after acquisition. The remaining restriction period for these investments ranged from 0 to 33 months at June 30, 2010.

b) International Equity

This category includes investments in hedge funds that 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. Despite an active approach, from time to time there may be opportunities to add or reduce directionality to international markets through the use of, but not limited to, swaps, ETFs and other derivative products. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments representing approximately 77% 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 24 to 36 months after acquisition. The remaining restriction period for these investments ranged from 0 to 30 months at June 30, 2010.

c) Global Equity

This category includes investments in hedge funds that 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, ETFs and other derivative products to add or reduce the overall directionality of the portfolio. Investments in the global equity category typically have a broader investment mandate and cannot be classified specifically into domestic or international alone due to the global approach of the portfolio management function. An investment is generally defined as global if the investment has more than 20% of its gross exposure domiciled outside of either its home country or its primary investing region and investments will include both long/short and long only managers. The fair values of the investments in this category have been estimated using the NAV per share of the investments. Investments representing approximately 63% 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 45 months at June 30, 2010.

d) Diversified and 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 83% 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 36 months after acquisition. The remaining restriction period for these investments ranged from 0 to 21 months at June 30, 2010.

e) Credit

This category includes investments in hedge funds and private equity 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 97% of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption. For hedge fund investments, 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 30 months at June 30, 2010. The private equity 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 0 to 10 years.

f) 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 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 0 to 11 years.

g) 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 0 to 11 years.

h) 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 0 to 10 years.

11) Derivatives

The following tables provide information on the fair value of the derivative instruments in the consolidated statement of financial position and the effect of the derivative instruments on the consolidated statement of activities as of and for the years ended June 30, 2010 and 2009, respectively:

Year ended June 30, 2010

	Liability derivatives	
Derivatives not designated as hedging instruments	**Statement of financial position location**	**Fair value**
Interest rate swaps	Swap agreements	$ 20,092,938

Derivatives not designated as hedging instruments	**Location of gain or (loss) recognized in change in net assets**	**Amount of gain or (loss) recognized in change in net assets**
Interest rate swaps	Change in fair value of swap agreements	$ (5,342,604)

Year ended June 30, 2009

	Liability derivatives	
Derivatives not designated as hedging instruments	**Statement of financial position location**	**Fair value**
Interest rate swaps	Swap agreements	$ 13,110,584

Derivatives not designated as hedging instruments	**Location of gain or (loss) recognized in change in net assets**	**Amount of gain or (loss) recognized in change in net assets**
Interest rate swaps	Change in fair value of swap agreements	$ (8,194,305)

See note 7 for additional information regarding the University's purpose for entering into these arrangements.

12) Composition of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2010 and 2009:

	2010	**2009**
Support of particular operating activities	$ 29,287,977	25,663,532
Acquisition of long-lived assets	43,374,461	48,141,345
Accumulated appreciation on donor-restricted endowment funds	520,619,268	480,480,759
	$ 593,281,706	**554,285,636**

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, 2010 and 2009.

13) Lease Agreement

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

The rental income pursuant to this lease agreement for the years ended June 30, 2010 and 2009 was $3,011,998 and $2,950,198, respectively.

The following is a schedule by years of future minimum rentals on the noncancelable operating lease as of June 30, 2010:

Years ending June 30:	
2011	$ 3,075,035
2012	3,139,333
2013	3,204,916
2014	3,365,034
2015	3,479,878
2016 and beyond	12,101,872
	$ 28,366,068

14) Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statement of activities based upon each functional line's percentage of the total. The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2010.

Functional category	Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$ 51,746,212	5,999,518	1,519,435	5,430,531	64,695,696
Research	5,817,497	674,488	170,820	610,520	7,273,325
Public service	2,448,411	283,872	71,893	256,950	3,061,126
Libraries	10,024,666	1,162,272	294,357	1,052,043	12,533,338
Academic support	19,000,320	2,202,920	557,910	1,993,998	23,755,148
Student services	14,404,662	1,670,094	422,967	1,511,704	18,009,427
Institutional support	29,373,049	3,681,844	932,463	3,332,663	37,320,019
Auxiliary enterprises	32,541,153	—	1,185,798	1,470,000	35,196,951
	165,355,970	15,675,008	5,155,643	15,658,409	201,845,030
Maintenance	15,675,008	(15,675,008)	—	—	—
Interest	5,155,643	—	(5,155,643)	—	—
Depreciation	15,658,409	—	—	(15,658,409)	—
Total operating expenses	**$201,845,030**	**—**	**—**	**—**	**201,845,030**

Depreciation expense of $389,073 for the year ended June 30, 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 $164,525,011. Supporting Services consist of Institutional support in the amount of $37,320,019.

15) Related-Party Transactions

Investment management fees paid to SMC by the University for the years ended June 30, 2010 and 2009 were $3,101,656 and $2,776,238, respectively, which have been eliminated in consolidation.

Per the terms of the Richmond Fund's operating agreement dated January 28, 2008, the responsibility for managing the Richmond Fund is vested exclusively with the general partner, RFMC. The Richmond Fund pays the general partner a management fee payable quarterly in arrears equal to 1% per annum of the first $100,000,000 of each limited partner's assets under management, 0.75% of the next $150,000,000, 0.5% of the next $250,000,000 and 0.4% of the excess of $500,000,000. Management fees earned by RFMC from the Richmond Fund during the years ended June 30, 2010 and 2009 were $7,041,157 and $4,133,503, respectively, of which $1,742,860 and $1,232,390 were payable to RFMC at June 30, 2010 and 2009, 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 $635,500 in fiscal year 2010. No performance allocation was earned by RFMC during the year ended June 30, 2009.

Expenses of the Richmond Fund for all partnership expenses are subject to a cap of 0.05% for partnership expenses in excess of the management fee for each fiscal quarter. The Richmond Fund will reimburse the general partner for organizational and offering costs in the amount of $350,000 in twenty equal quarterly installments on the first business day of each quarter. At June 30, 2010 and 2009, there was a payable from the Richmond Fund to RFMC in the amount of $192,500 and $262,500, respectively, for organizational and offering costs, which has been eliminated in consolidation.

On January 28, 2008, the University entered into a blended rate of return agreement with the Richmond Fund. The purpose of the agreement is to equalize the quarterly rate of return of the University's pooled endowment managed by SMC and the Richmond Fund's rate of return prior to fees and expenses. The agreement requires quarterly settlement of the swap within 45 days of the quarter-end date. The University anticipates holding the swap agreement until termination of the Richmond Fund. The settlement value of the swap at June 30, 2010 was a liability to the University and a receivable to the Richmond Fund in the amount of $15,380,005. The change in settlement value for the year ended June 30, 2010 totaled $15,393,678 and was a loss for the University and a gain for the Richmond Fund. The settlement value of the swap at June 30, 2009 was a receivable to the University and a liability to the Richmond Fund in the amount of $20,010,504. The change in settlement value for the year ended June 30, 2009 totaled $21,793,529 and was a gain for the University and a loss for the Richmond Fund. These amounts have been eliminated in the consolidation.

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

The following table categorizes the net assets held on behalf of the Richmond Fund, LP as of June 30, 2010 and 2009:

	2010	2009
Cash and cash equivalents	$ 111,406,273	12,964,408
Government bonds	1,900,580	337,601
Corporate bonds	34,111,655	49,272,639
Common and preferred stock	84,766,762	292,121,279
Mutual funds	30,211,045	—
Hedge funds	412,934,944	150,452,377
Partnerships	49,229,858	27,984,653
Other investments	50,562,454	25,914,170
Receivables and other assets	16,147,411	680,395
Total gross assets	**791,270,982**	**559,727,522**
Accounts payable and accrued liabilities	(2,980,358)	(28,519,309)
Securities sold short	(21,076)	(1,011,556)
Capital contributions received in advance and redemption payable	(55,991,415)	(9,073,863)
Total net assets	**$ 732,278,133**	**521,122,794**

16) Recently Issued Accounting Standards

In June 2009, the FASB issued 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 variable interest entity (VIE). It also clarifies, but does not significantly change, the characteristics that identify a VIE. Additionally, the ASU requires additional disclosures. The ASU is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2009. The University is currently evaluating the impact of ASU 2009-17 on its consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06 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 disclosures are effective for fiscal years beginning after December 15, 2010. The University is currently evaluating the impact of ASU 2010-06 on its consolidated financial statements.

17) Contingencies

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

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

Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated statement of financial position of the University of Richmond and its affiliates (the University) as of June 30, 2010, and the related consolidated statement of activities, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2009 consolidated financial statements, and in our report dated September 18, 2009, we expressed an unqualified opinion on those consolidated financial statements and included a paragraph describing the adoption by the University of the provisions of FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* (included in FASB Accounting Standards Codification Subtopic 958-205-45, *Not-for-Profit Entities—Financial Statement Presentation—Other Presentation Matters*), as of July 1, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

KPMG LLP

September 17, 2010

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It is characterized by a distinctly integrated student experience—a rich and innovative life for students inside and outside the classroom—and a welcoming spirit that prizes diversity of experience and thought. It is rooted in a determination to engage as a meaningful part of our community and our world. It is committed to ensuring its opportunities are accessible to talented students of all backgrounds.

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