2008–09 Treasurer's Report

University of Richmond

Letter of Transmittal

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

Dear Colleagues,

Since the last period of extended recession in the 1970s and similar to the rest of today's economy, universities are faced with significant financial challenges including liquidity problems and budget deficits. Despite these challenges, the University of Richmond has been fortunate to maintain its momentum for continued investment in its people and facilities while maintaining disciplined financial management, guided by the *Richmond Promise*, our strategic plan. FY2009 was also marked by transition in leadership in Business and Finance. After several decades of invaluable service to the University, Herbert C. Peterson, Vice President for Business and Finance, retired leaving a legacy of successful financial performance.

Statement of Activities

For the 41st consecutive year, the University's statement of activities reports a net unrestricted operating surplus; this surplus is $2.2 million this year, contributing to the University's ability to sustain its financial capacity for investment in people and facilities. However, the surplus reflects a decline of $1.7 million from last year due to lower investment income. The total non-operating deficit was at $317.6 million, an overall decline in net assets of $314.5 million. The combined deficit is primarily due to the decline in the market value of investments. Net student tuition and fees increased $1.6 million to $82.6 million due in large part to a 3.3% undergraduate tuition increase. Auxiliary enterprises provided $2.8 million of revenue to the campus, compared to $2.1 million in the prior year. Total educational and general expenses, including financial aid, were 9% higher than the prior fiscal year–$211.0 million in FY2009 as compared to $192.6 million in FY2008. The increase is primarily attributable to compensation to recruit and retain the very best faculty and staff and scholarship programs to support students.

In FY2009, personnel costs totaled $117 million (versus $112 million in FY2008), or 60% of total expenses. 2,073 undergraduate students, or 70% of all undergraduates, received financial aid in FY2009. These undergraduates funded all or part of their education with $61.6 million of financial aid, of which $48.9 million, or 79%, is represented by grants funded from the University of Richmond sources. The average financial aid awarded to an undergraduate student was $25,680 versus $23,500 in FY2008. An additional $2.9 million of the University sources supported the School of Continuing Studies, graduate and professional students.

Endowment

Worldwide economic conditions have constrained the University's resources. This includes reduced income from interest and investment earnings and declines in new gifts and pledges. However, the University of Richmond continues to benefit from strong performance of its endowment, available debt capacity and strong enrollment in a time of global, national and regional economic uncertainties. Despite the substantial decline in market value of investments and lower gift activities, the University ended the year with a stable balance sheet: Net assets, the excess of assets over liabilities, decreased by $314.5 million from $2.0 billion to $1.7 billion. The University's total endowment assets, including funds held by others, decreased from $1.7 billion last year to $1.4 billion as of June 30, 2009. The performance of the Richmond endowment was -14% for FY2009. UR's endowment return outperformed both internal and external benchmarks and is likely to be placed in the top fifth percentile of endowments greater than $1 billion dollars. Over the past ten years, the endowment pool has achieved a net average annual return of 9% in comparison to our long-term annual return objective of 5%. Total financial resources per student was $460,760 per student at June 30, 2008, significantly higher than the $291,178 figure for the 2008 median total financial resources for AA rated private colleges and universities. That figure for FY2009 is $376,491, but comparison data is not available at this time.

Statement of Operations

Based on the University's actual revenues and expenses, the University's statement of operations reflects a balanced budget for FY2008-09. All schools and academic and administrative support units ended the fiscal year on budget. Although the auxiliary enterprises were on budget overall, a significant reallocation of resources was made to deal with the unanticipated deficit in the Athletics department. The University is engaged in a comprehensive review to assess the expected revenues and expenditures in Athletics for the coming year and a review of internal control practices within the department.

Long-Term Debt

During FY2009, the University increased its long-term debt from $131.5 million to $176.6 million. The University issued $45.1 million of new tax-exempt debt to finance new capital projects. The University also refinanced $29.6 million of its previously outstanding debt in order to take advantage of favorable interest rates. Moody's Investors Service affirmed its Aa1 rating of the University's public debt. Later in the year, in response to the rating downgrade of the facility provider for the remaining debt, the University replaced its credit facilities with two new banks. The increased size of the University's long-term debt, coupled with the continuing uncertainties in the credit market, calls for more disciplined management of the University's long-term debt and its debt capacity.

Capital Improvements

The generosity of our donors and the University's ability to leverage its balance sheet are responsible for the campus being able to experience currently its most ambitious building boom in the last three decades: The Carole Weinstein International Center, a $20.4 million dollar project, will be completed for the Fall semester, 2010. The Center will accommodate the Office of International Education and related academic programs, supported by contemporary technology and co-curricular features including a new café. The on-campus stadium, a $28.4 million project, will be the new home of our national championship Spider football team. Once opened in Fall 2010, the stadium will provide a world-class venue and game day experience for several sports programs. Queally Hall and the Westhampton Center with a combined project cost of $22.9 million will add much needed space to our nationally ranked Robins School of Business and programming space to Westhampton College, respectively. In addition to these four highly visible major projects, the University has been investing in a student housing redevelopment program in recent years. A total of $48 million is targeted for this project over a ten-year period.

Conclusion

By all measures, the University will maintain its sound financial position in the foreseeable future. The current financial climate, however, calls for even more disciplined management of our resources in order to sustain our financial strength. We are committed to maintaining a balanced budget while supporting the *Richmond Promise*, which has laid the foundation for the strategic direction of the University. Considering the limitations of various resources (capital, human and financial), we must also be strategic in assessing and prioritizing the demand on existing and new resources. We have begun integrated financial, capital and program planning processes which will become the framework for investing financial resources in the future. The integrated planning process will be open and transparent, relying heavily on close collaboration with academic leadership, deans, faculty, staff and students.

In these challenging economic times, with the continued dedication of our excellent faculty, staff, students, alumni, trustees and friends, we will continue to see the University of Richmond grow and thrive. With thoughtful stewardship of our resources we will insure that our resources afford a bright future for current and next generation Spiders.

Hossein F. Sadid
Vice President for Business and Finance/Treasurer

University of Richmond and its Affiliates

Consolidated Statement of Financial Position

As of June 30, 2009, with summarized financial information as of June 30, 2008

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

See accompanying notes to consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Activities

For the year ended June 30, 2009, with summarized financial information for the year ended June 30, 2008

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

See accompanying notes to consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Cash Flows

For the year ended June 30, 2009

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

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2009

1) Summary of Significant Accounting Policies

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

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

a) Basis of Presentation

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

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

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

b) Net Asset Classes

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

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

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

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

c) Cash and Cash Equivalents

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

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

d) Investments

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

Investments in investment funds primarily include investments in hedge funds and private equity funds, such as venture capital partnerships, oil and natural gas partnerships and real estate partnerships, and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures and U.S. generally accepted accounting principles (GAAP). The University has concluded that the net asset value reported by the underlying fund is a practical expedient for or approximates the fair value of the investment. Of the amounts reported at net asset value, $301,953,198 of those investments are currently redeemable with the fund at net asset value under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although, a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the University were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant.

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

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

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

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

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

Investment transactions are accounted for on a trade date basis. Dividend income or expense is recognized on the ex dividend date and interest income is recognized on the accrual basis. Cash dividends declared on stocks for which the securities portfolio reflects a short position as of the reporting date are recognized as an expense on the ex dividend date. Realized gains and losses are determined by the specific identification method for investments in investment funds and average cost for investments in securities. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statement of activities, as increases or decreases in unrestricted net assets unless their use is restricted by external stipulation. Premiums and discounts on fixed income securities are amortized into income using the effective interest method. Fees paid to custodians and investment managers related to investments in securities are recorded on the accrual basis and are netted against investment income on the consolidated statement of activities.

e) Fair Value of Financial Instruments

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

f) Derivative Instruments

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

g) Inventories

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

h) Property, Plant and Equipment

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

i) Contributions

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

j) Income Taxes

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

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

k) Estimates

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

l) Reclassifications

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

m) New Accounting Pronouncements

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also expands disclosures about fair value measurements (note 10).

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

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

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

2) Endowment

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

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

a) Interpretation of Relevant Law

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

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

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

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

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

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

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

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**

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

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

b) Funds with Deficiencies

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

c) Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. The University has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing University operations. Per the University's investment policy, as approved by the Board, the primary investment objective is to earn an average annual real total return of at least 5% per year over the long term. Actual returns in any given year may vary from this amount. A secondary objective is to outperform over the long term a blended custom benchmark based on a current asset allocation policy of 25% of the Russell 3000 Index, 20% of treasury bills multiplied by 2, 15% of the Venture Economics Index, 20% of the MSCI-World Ex-United States Index, 5% of the Barclay's Aggregate Index, 5% of the NCREIF Real Estate Index and 10% of the Consumer Price Index plus 6%.

d) Strategies Employed for Achieving Objectives

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

e) Spending Policy

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

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

3) Investments

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

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

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

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

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

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

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

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

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

4) Annuities and Trusts

The University is the beneficiary and trustee of certain charitable remainder trusts. Under these trust agreements, the donors contributed assets to the University. For the remainder of the beneficiary's life, the University pays a fixed amount to the beneficiary as defined in the agreement. The fair value of the assets received under these agreements of $2,713,216 and $3,378,430 as of June 30, 2009 and 2008, respectively, is reported as funds held in trust in the consolidated statements of financial position. The present value of the future payout to the beneficiaries recorded in the consolidated statements of financial position as annuities and trusts payable as of June 30, 2009 and 2008 was $1,413,512 and $1,828,969, respectively. Discount rates used in calculating the present value ranged from 4.2% to 10.2%. Changes in value of trusts totaled $217,241 and $28,646 for the years ended June 30, 2009 and 2008, respectively.

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

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

5) Pledges Receivable

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

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

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

6) Property, Plant and Equipment

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

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

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

7) Notes Payable

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

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

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

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

- The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $4,870,916 and $2,479,039 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,391,877) and $(2,167,460) for the years ended June 30, 2009 and 2008, respectively. According to the terms of the swap agreement, the University is required to post collateral if the fair value of the liability exceeds $20,000,000. No collateral was required to be posted related to the agreement at June 30, 2009.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $30,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty-five years. The fair value of the swap is a liability of $4,521,499 and $1,967,232 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,554,267) and $(2,389,924) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $10,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $1,663,938 and $702,439 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(961,499) and $(858,713) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 3.778% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty years. The fair value of the swap is a liability of $3,693,981 and $1,348,986 as of June 30, 2009 and 2008, respectively. The change in fair value totaled $(2,344,995) and $(1,664,887) for the years ended June 30, 2009 and 2008, respectively. There are no collateral posting requirements related to this swap agreement.

- The University pays the counterparty a fixed rate of 2.46115% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The fair value of the swap is a receivable of $1,639,750 as of June 30, 2009 and the change in fair value totaled $1,639,750 for the year ended June 30, 2009. This swap was entered into during fiscal year 2009. There are no collateral posting requirements related to this swap agreement. The University unwound this swap in July 2009, and recognized a gain of $1,913,000.

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

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

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

8) Retirement Plans

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

9) Postretirement Benefits

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

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

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

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

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

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

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

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

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

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

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

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

The Act also provides that a nontaxable federal subsidy will be paid to sponsors of postretirement benefit plans that provide retirees with a drug benefit that is at least "actuarially equivalent" to the Medicare Part D benefit. As of June 30, 2009, the University has determined actuarial equivalence of its plans. Therefore, the accumulated benefit obligation and the net periodic benefit cost reflect a reduction arising from this subsidy.

10) Fair Value Measurements

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

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

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The University determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the University uses various methods, including the market, income and cost approaches. The University uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

11) Composition of Net Asset Balances

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

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

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

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

12) Lease Agreement

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

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

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

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

13) Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statement of activities based upon each functional line's percentage of the total. The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2009.

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

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

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

14) Related-Party Transactions

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

Per the terms of the Richmond Fund's operating agreement dated January 28, 2008, the responsibility for managing the Richmond Fund is vested exclusively with the general partner, RFMC. The Richmond Fund pays the general partner a management fee payable quarterly in arrears equal to 1% per annum of the first $100,000,000 of each limited partner's assets under management, 0.75% of the next $150,000,000, 0.5% of the next $250,000,000 and 0.4% of the excess of $500,000,000. Management fees earned by RFMC from the Richmond Fund during the year ended June 30, 2009 and 2008 were $4,133,503 and $1,091,205, respectively, of which $1,232,390 and $775,728 were payable to RFMC at June 30, 2009 and 2008, respectively. These amounts have been eliminated in consolidation. At the end of each fiscal year, the general partner is entitled to a performance allocation with respect to each allocation layer of each limited partner equal to 10% of the net profits in excess of net profits such limited partner would have achieved if the allocation layer had grown at 10%. No performance allocation was earned by RFMC for the years ended June 30, 2009 and 2008.

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

On January 28, 2008, the University entered into a blended rate of return agreement with the Richmond Fund. The purpose of the agreement is to equalize the quarterly rate of return of the University's pooled endowment managed by SMC and the Richmond Fund's rate of return prior to fees and expenses. The agreement requires quarterly settlement of the swap within 45 days of the quarter-end date. The University anticipates holding the swap agreement until termination of the Richmond Fund. The settlement value of the swap at June 30, 2009 was a receivable to the University and a liability to the Richmond Fund in the amount of $20,010,504. The change in settlement value for the year ended June 30, 2009 totaled $21,793,529 and was a gain for the University and a loss for the Richmond Fund. The settlement value of the swap at June 30, 2008 was a liability to the University and a receivable to the Richmond Fund in the amount of $4,334,813. The change in settlement value for the year ended June 30, 2008 totaled $7,920,383 and was an expense for the University and revenue for the Richmond Fund. These amounts have been eliminated in consolidation.

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

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

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

15) Recently Issued Accounting Standards

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

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

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

16) Contingencies

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

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

Independent Auditors' Report

The Board of Trustees
University of Richmond:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Richmond and its affiliates as of June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

September 18, 2009

2009–10 Board of Trustees

The University of Richmond provides a learning environment unlike any other in higher education, offering students an extraordinary combination of the liberal arts with law, business, leadership studies, and continuing education. It is characterized by a distinctly integrated student experience—a rich and innovative life for students inside and outside the classroom—and a determination to engage as a meaningful part of the Richmond community, the nation, and the world.

University of Richmond
28 Westhampton Way
Richmond, Virginia 23173
(804) 289-8000
www.richmond.edu