Note 1. Summary of Significant Accounting Policies

The University of Richmond is a private four-year 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. All financial statements and footnotes are presented on a consolidated basis.

The major accounting policies followed by the University are described below:

Basis of Presentation:

The consolidated financial statements include the University of Richmond and its affiliate (collectively, the University) and have been prepared on the accrual basis of accounting.

The consolidated financial statements as of and for the year ended June 30, 2004 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2004, from which the summarized information was derived. Certain reclassifications have been made for the year ended June 30, 2004, to conform to classifications adopted in 2005.

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, temporarily restricted funds functioning as endowment and permanently restricted resources excluding annuities. All other resources are included in the operating column on the consolidated statement of financial position.

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.

Contributions:

Contributions, including unconditional pledges, are recognized as revenues when donors' commitments are received. 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 for long-term purposes are included as non-operating contributions. Other contributions are considered operating revenues.

Income Taxes:

The University has received a letter from the IRS dated September 1941, exempting the University from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the University is a public charity under section 509(a) (1) of the Internal Revenue Code. Richmond Quadrangle is a limited liability corporation, which will ultimately pass all of its income through to the University.

Investments:

Spider Management Company (SMC) is a separate support corporation organized and controlled by the University whose sole responsibility is to manage the University of Richmond's investment assets. The University's investment management fees for the year ended June 30, 2005 were $2,649,115 and have been reported on the accompanying consolidated statement of activities as an institutional support expense. Investments are recorded at fair value. Revenues from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statement of activities. Fair values of investments are based on quoted market prices or estimates provided by external investment managers or other independent sources and reviewed by management. If not available, they are based on management's best estimate of fair value.

Financial Instruments:

The carrying amounts of student accounts receivable, funds held in trust, other receivables, accounts payable and accrued liabilities and annuities payable 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.

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, 2005 are $7,280,918.

Inventories:

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

Property, Plant and Equipment:

Property, plant and equipment consisting of land, improvements, buildings, equipment and library books are stated at cost, 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.

Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Note 2. Investments

The costs and fair values of the investments at June 30, 2005 and 2004 are as follows:

	2005 Cost	2005 Fair Value	2004 Cost	2004 Fair Value
Cash equivalents	$ 1,251,644	$ 1,251,644	$ 1,169,050	$ 1,169,050
U. S. government bonds	72,647,133	73,704,697	66,096,786	64,622,516
Corporate and global bonds	26,393,520	27,166,686	26,344,408	31,026,066
Common and preferred stock	298,241,340	366,439,948	264,160,212	317,532,198
Hedge funds	271,459,287	452,605,487	275,295,252	424,412,425
Venture capital partnerships	338,970,815	228,241,367	329,673,831	218,064,071
Other investments	36,830,156	55,792,098	60,810,823	86,227,574
	$ 1,045,793,893	**$ 1,205,201,928**	**$ 1,023,550,362**	**$ 1,143,053,900**

Other investments include primarily mutual funds, notes receivable, real estate loans and real estate.

Assets of endowment and similar funds, except certain nonmarketable investments, are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the end of the calendar quarter within which the transaction takes place. Of the 2,013,317 total units (each having a market value of $582.25), 918,021 units are classified as unrestricted net assets, 36,589 units are classified as temporarily restricted net assets, and 1,058,707 are classified as permanently restricted net assets at June 30, 2005.

At June 30, 2005, the University has committed to make additional capital contributions of approximately $238,900,000 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. At June 30, 2005, the endowment portfolio held a total return swap agreement. The interest rate applied to the swap is a floating rate based on the USD-LIBOR BBA 3-month rate, plus .65%. The fair value of the total return swap is a liability of $415,000 and the change in fair value is a loss and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2005. The market and credit risks related to this derivative investment are not materially different from the risks associated with similar underlying assets in the portfolio.

Total investment return for the year ending June 30, 2005 is $145,747,751 and is classified within operating revenues and non-operating activities as investment income, endowment income and realized and unrealized gains. Operating investment return includes income generated from short-term investments and the endowment spending formula, and non-operating activities investment return includes income and gains earned on the investment pool.

Note 3. Notes Payable

Virginia College Building Authority:	**June 30, 2005**	**June 30, 2004**
Series of 1994:		
Due November 1, 2019 with initial annual interest at 5.55%	-	17,000,000
Series of 1996:		
Due November 1, 2026 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (2.29% at June 30, 2005).	22,500,000	22,500,000
Series of 1999:		
Due November 1, 2022 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (2.29% at June 30, 2005).	15,400,000	15,400,000
Series of 2002:		
Due March 1, 2032 with initial interest at 4.40%;	7,170,000	7,170,000
Due March 1, 2032 with initial interest at 5.00%;	15,000,000	15,000,000
Due March 1, 2032 with initial interest at 5.00%;	7,445,000	7,445,000
On the mandatory tender date of March 1, 2009, the interest rate will be redetermined. 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 (2.29% at June 30, 2005). 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.	46,000,000	-
	$ 113,515,000	**$ 84,515,000**

Interest expense on long-term debt was $3,195,397 for the year ended June 30, 2005.

The fair value of all outstanding long-term obligations at June 30, 2005 and 2004 was approximately $115,000,000 and $87,000,000 respectively.

The University entered into a fixed rate forward swap agreement involving the Series 2004 bond issue in October 2004 to convert the variable rate on these bonds to a fixed rate without exchanging the underlying principal amount. The agreement is used to minimize the impact of future interest rate changes. Under the terms of the agreement, the counterparty pays the University a variable interest rate indexed to LIBOR. The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000. At June 30, 2005, the fair value of the interest rate swap is a liability of $3,515,798. The loss recorded in accruing the liability related to the interest rate swap is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2005. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. Currently, principal on the debt matures in fiscal year 2035.

Note 4. Property, Plant and Equipment

Property, plant and equipment consists of the following at June 30, 2005 and 2004:

	2005	2004
Land	$ 15,327,177	$ 15,194,677
Buildings	197,156,597	185,494,750
Improvements	18,006,738	16,539,877
Equipment	60,083,912	57,553,321
Library books	41,066,985	37,885,880
Construction in progress	42,594,108	36,702,056
	$ 374,235,517	$ 349,370,561
Accumulated depreciation	<191,779,813>	<181,179,746>
	$ 182,455,704	**$ 168,190,815**

Contracts have been let for construction in the amount of $82,076,000 including construction in progress of $42,594,108 at June 30, 2005.

Note 5. Pledges Receivable

Unconditional pledges at June 30, 2005 are expected to be realized in the following periods:

Less than one year	$ 736,545
One year to five years	16,264,897
More than five years	6,382,665
Less: Discount rates varying from 3% to 11%	< 2,720,930 >
	$ 20,663,177

In addition to the above, the University is named beneficiary of conditional gifts and bequests, the fair value of which are not determinable.

Note 6. 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 $5,767,961 to these plans for the year ended June 30, 2005, which was charged to expense in the consolidated statement of activities.

Note 7. 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 status of the plans at June 30, 2005 and 2004 was as follows:

	2005	2004
Accumulated postretirement benefit obligation:		
Retirees	$ 7,115,776	$ 4,979,799
Fully eligible active plan participants	401,449	311,016
Other active plan participants	3,123,772	2,409,769
Unrecognized net loss	(3,914,428)	(997,905)
	$ 6,726,569	**$ 6,702,679**

Net periodic postretirement benefit cost for 2005 included service cost of $182,557 and interest cost on the accumulated postretirement benefit obligation of $494,353, and amortization of unrecognized net loss of $49,030 for a total net periodic postretirement benefit cost of $725,940. Employer contributions for 2005 were $769,009, employee contributions were $126,836 and benefits paid were $895,845.

Estimated future benefit payments are total benefits expected to be paid from the plan and include the participants' share of the costs. The following are estimated benefit payments for the years ending 2006 through 2015:

2006	$ 985,430
2007	1,000,840
2008	968,144
2009	939,593
2010	931,421
2011-2015	4,416,280

The following are estimated net employer contributions to the plan for years ending 2006 through 2015:

2006	$ 845,910
2007	861,477
2008	852,578
2009	844,491
2010	843,055
2011-2015	4,121,416

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 9% for 2005 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, 2005 by $239,922 and increase the net periodic postretirement benefit cost for the year ended June 30, 2005 by $14,650.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2005 and 2004 was 5.25% and 6.25%, respectively.

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).

Note 7. Postretirement Benefits -continued

The Act also provides that a non-taxable 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, 2005, the University is unable to determine actuarial equivalence of its plans. Therefore, the accumulated benefit obligation and the net periodic benefit cost do not reflect any reduction arising from this subsidy. Specific authoritative guidance on accounting for the federal subsidy is pending and that guidance, when issued, could require the University to change previously reported information.

Note 8. Composition of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2005 and 2004:

	2005	**2004**
Support of particular operating activities	$ 23,351,449	$ 23,206,714
Funds functioning as endowment	7,688,614	9,028,487
Acquisition of long-lived assets	28,559,026	29,410,329
	$ 59,599,089	**$ 61,645,530**

Release of restrictions related to property, plant and equipment is considered a non-operating activity. Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2005 and 2004.

Note 9. 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.

Functional Category	Direct Expenses	Maintenance	Interest	Depreciation	Total Expenses
Instruction	$ 39,995,880	$ 4,666,270	$ 1,088,156	$ 3,597,734	$ 49,348,040
Research	2,955,596	344,988	80,411	265,702	3,646,697
Public service	1,503,637	175,510	40,909	135,174	1,855,230
Libraries	8,422,027	983,049	229,136	757,122	10,391,334
Academic support	13,582,746	1,585,426	369,543	1,221,060	16,758,775
Student services	8,996,114	1,050,058	244,755	808,731	11,099,658
Institutional support	22,026,551	2,571,015	599,270	1,980,140	27,176,976
Auxiliary enterprises	27,939,289	0	543,217	1,470,000	29,952,506
	125,421,840	11,376,316	3,195,397	10,235,663	150,229,216
Maintenance	11,376,316	(11,376,316)			
Interest	3,195,397		(3,195,397)		
Depreciation	10,235,663			(10,235,663)	
Total Operating Expenses	$ 150,229,216	$ 0	$ 0	$ 0	$ 150,229,216

Depreciation expense of $364,404 for the year ended June 30, 2005 for the Richmond Quadrangle is included as part of direct expenses in Institutional support.

Program Services consist of Instruction, Research, Public service and Libraries in the amount of $65,241,301. Supporting Services consist of Academic support, Student services, Institutional support and Auxiliary enterprises in the amount of $84,987,915.

Note 10. Lease Commitment

On May 1, 2004, the Richmond Quadrangle, 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.

The following is a schedule by years of minimum future rentals on the noncancelable operating lease as of June 30, 2005:

Years ending June 30:	
2006	$ 2,771,973
2007	2,830,208
2008	2,889,609
2009	2,950,198
2010	3,011,998
Later Years	28,366,067
	$ 42,820,053