University of Richmond

Consolidated Financial Statements, the Schedule of Expenditures of Federal Awards, and Audit of Federal Awards Performed in Accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

June 30, 2019

With Independent Auditors' Reports Thereon in Accordance with Government Auditing Standards and Uniform Guidance

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

Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated financial statements of University of Richmond, which comprise the consolidated statement of financial position as of June 30, 2019, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Richmond as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, University of Richmond adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* during the year ended June 30, 2019. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited University of Richmond's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 11, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019 on our consideration of University of Richmond's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of University of Richmond's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Richmond's internal control over financial reporting and compliance.

KPMG LLP

Richmond, Virginia
October 11, 2019

Consolidated Statement of Financial Position

As of June 30, 2019

With comparative financial information as of June 30, 2018
(in thousands)

	2019	2018
Assets		
Cash and cash equivalents	$ 68,181	56,396
Pledges receivable, net	13,027	9,638
Investments	2,561,158	2,597,295
Beneficial interest in perpetual trusts	29,711	29,783
Other assets, net	28,121	29,223
Property, plant and equipment, net	350,382	341,474
Total assets	**$ 3,050,580**	**3,063,809**
Liabilities		
Accounts payable and other liabilities	$ 56,535	85,471
Postretirement benefits	18,740	17,196
Notes payable	235,127	237,971
Interest rate swap agreements	24,929	18,775
Total liabilities	**335,331**	**359,413**
Net assets		
Without donor restrictions	1,371,024	1,370,736
With donor restrictions	1,344,225	1,333,660
Total net assets	**2,715,249**	**2,704,396**
Total liabilities and net assets	**$ 3,050,580**	**3,063,809**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Activities

For the year ended June 30, 2019

With summarized comparative financial information for the year ended June 30, 2018
(in thousands)

	2019			
	Without donor restrictions	With donor restrictions	Total	2018 Total
Operating revenues				
Tuition and fees (Net of scholarship allowance of $83,725 and $83,329)	$ 113,378	—	113,378	108,401
Grants and contracts	3,696	—	3,696	3,318
Contributions	5,371	4,947	10,318	11,434
Investment return, net	120,499	—	120,499	115,372
Auxiliary enterprises	43,387	—	43,387	41,799
Other sources	22,027	—	22,027	28,585
Net assets released from restrictions	3,419	(3,419)	—	—
Total operating revenues	**311,777**	**1,528**	**313,305**	**308,909**
Operating expenses				
Instruction	91,168	—	91,168	85,983
Research	4,829	—	4,829	5,001
Public service	3,845	—	3,845	3,725
Academic support and libraries	51,374	—	51,374	49,826
Student services	53,654	—	53,654	50,083
Institutional support	49,823	—	49,823	50,620
Auxiliary enterprises	50,459	—	50,459	49,981
Total operating expenses	**305,152**	**—**	**305,152**	**295,219**
Change in net assets from operating activities	**6,625**	**1,528**	**8,153**	**13,690**
Nonoperating activities				
Contributions	—	17,332	17,332	8,615
Investment return, net	(4,249)	(1,624)	(5,873)	126,179
Change in fair value of interest rate swap agreements	(6,154)	—	(6,154)	5,805
Change in postretirement benefits	1,098	—	1,098	2,559
Other nonoperating activities, net	(2,149)	(1,554)	(3,703)	320
Net assets released from restrictions	5,117	(5,117)	—	—
Change in net assets from nonoperating activities	**(6,337)**	**9,037**	**2,700**	**143,478**
Change in net assets	**288**	**10,565**	**10,853**	**157,168**
Net assets at beginning of year	**1,370,736**	**1,333,660**	**2,704,396**	**2,547,228**
Net assets at end of year	**$ 1,371,024**	**1,344,225**	**2,715,249**	**2,704,396**

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended June 30, 2019

With comparative financial information for the year ended June 30, 2018
(in thousands)

		2019	2018
Cash flows from operating activities			
Change in net assets	$	10,853	157,168
Adjustments to reconcile change in net assets to net cash used in operating activities			
Depreciation		28,870	27,730
Net unrealized and realized gains on investments		(127,839)	(246,398)
Settlement value for rate of return agreement		10,093	27,326
Amortization of note premiums		(454)	(495)
Contributions restricted for purchase of property and equipment		(2,348)	(3,866)
Contributions restricted for endowment		(8,170)	(6,749)
Change in fair value of interest rate swap agreements		6,154	(5,805)
Change in assets and liabilities that provide (use) cash:			
Pledges receivable, net		(3,389)	277
Beneficial interest in perpetual trusts		72	(1,043)
Other assets, net		1,102	1,619
Accounts payable and other liabilities		(40,484)	(7,916)
Postretirement benefits		1,544	(1,788)
Net cash used in operating activities		**(123,996)**	**(59,940)**
Cash flows from investing activities			
Proceeds from sales of investments		525,557	531,233
Purchases of investments		(361,581)	(476,138)
Purchases of property, plant and equipment		(36,323)	(35,644)
Net cash provided by investing activities		**127,653**	**19,451**
Cash flows from financing activities			
Contributions restricted for purchase of property and equipment		2,348	3,866
Contributions restricted for endowment		8,170	6,749
Repayment of notes payable		(2,390)	(2,275)
Net cash provided by financing activities		**8,128**	**8,340**
Net increase (decrease) in cash and cash equivalents		11,785	(32,149)
Cash and cash equivalents at beginning of year		56,396	88,545
Cash and cash equivalents at end of year	**$**	**68,181**	**56,396**
Supplemental disclosure			
Cash paid for interest on notes payable and interest rate swap agreements	$	7,668	8,415
Cash paid for income taxes		—	75
Change in property, plant and equipment related to accounts payable		1,455	(635)

See accompanying notes to the consolidated financial statements.

1 Organization & Summary of Significant Accounting Policies

Organization

The University of Richmond (the University) is a private institution of higher education located in Richmond, Virginia that provides a collaborative learning and research environment to students and professionals through a combination of liberal arts, law, business, leadership studies and continuing education.

Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, provides investment research, advice, counsel and management with respect to the University of Richmond's endowment assets. The Richmond Fund Management Company, LLC (RFMC), a wholly controlled affiliate of SMC, is the general partner of the Richmond Fund, LP (Richmond Fund) and is managed by SMC's Board of Managers. The Richmond Fund is an investment limited partnership that provides a vehicle for unaffiliated 501(c) organizations to achieve investment returns that mirror the investment returns of the University of Richmond's endowment

Basis of Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and significant inter-entity balances and transactions have been eliminated in consolidation.

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

The University classifies revenues earned and expenses incurred related to its core missions of teaching, research, scholarship and service, and investment returns made available for current use as operating revenues or expenses in the consolidated statement of activities. All other activities, including contributions restricted by donors or designated for longer term use by the Board of Trustees (the Board), are shown as a component of nonoperating activities.

Net Asset Classes

The accompanying consolidated financial statements present information regarding the University's financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

Without Donor Restrictions

Net assets that are not subject to donor-imposed restrictions.

With Donor Restrictions

Are subject to donor restrictions that expire through the passage of time or can be fulfilled or removed by actions pursuant to those restrictions.

Cash and Cash Equivalents

Cash equivalents with a maturity of three months or less at date of purchase are reported as cash and cash equivalents. Cash equivalents held by investment custodians are reported within investments in the accompanying consolidated financial statements.

Investments

Investments are recorded at fair value in the consolidated statement of financial position. In determining fair value, the University uses various methods, including the market, income and cost approaches.

Investments in stocks, bonds and other fixed income securities are valued based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying fund managers and reviewed by the University after considering various sources of information.

Investments are recorded at estimated fair value. For investments made directly by the University whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. The University's interests in alternative investment funds such as fixed income, equities, hedged strategies, private capital, and real assets are reported at the net asset value (NAV) reported by the fund managers. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the University has concluded, as a practical expedient, that the NAV approximates fair value.

Investments in real estate consist primarily of investment funds which invest in real estate partnerships as well as mortgages held by the University. Real estate funds are valued using NAV of the fund.

Investments are exposed to several risks, including 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. Realized gains and losses are determined by the specific identification method for investments in investment funds and average cost for investments in securities.

Investment return, including realized and unrealized gains and losses, is recognized when earned and reported in the consolidated statement of activities net of related investment expenses. Investment return is reported in the consolidated statement of activities as increases or decreases in net assets without donor restrictions or net assets with donor restrictions, until amounts have been appropriated and the donor-imposed or regulatory time restrictions have been satisfied.

Fair Value Measurements

The University measures certain assets and liabilities that are recognized in the accompanying consolidated financial statements at fair value. 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. Accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy are defined as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities traded in active markets.

Level 2

Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and other 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.

Derivative Instruments

Certain derivative instruments, such as interest rate swap agreements, are used by the University. The University recognizes all derivative instruments as either assets or liabilities in 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 without donor restrictions in the consolidated statement of activities.

The fair value of interest rate swap agreements is determined using pricing models developed based on the London Interbank Offered Rate (LIBOR) and other unobservable market data. The value was determined after considering the potential impact of collateralization and netting agreements, and adjusted to reflect nonperformance risk of both the counterparty and the University.

Property, Plant and Equipment

Property, plant and equipment consisting of land, improvements, buildings, equipment and library books are stated at cost, if purchased, or estimated fair value at the date of gift, 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.

Collections

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

Revenue Recognition

Tuition and Fees

Student tuition and fees are recorded as revenue during the academic term that the related academic services are rendered. Student tuition and fees received in advance of services rendered are categorized as deferred revenue and reported within accounts payable and other liabilities in the consolidated statement of financial position. Payments for tuition are typically due the first Monday in August for the Fall semester, first Monday in December for the Spring term, and the first date of each respective summer term. Undergraduate tuition and fees is approximately 88% of total gross tuition and fees.

The University offers several summer terms where revenue is recognized ratably over each summer term. Summer tuition revenue recognized was $2.0 million for the year ended June 30, 2019. Summer tuition revenue deferred was $0.5 million for the year ended June 30, 2019.

Need-based institutional scholarships are awarded to students to defray the costs of the academic programs, which reduce the amount of revenue recognized. Scholarships awarded to students were $83.7 million in 2019 and $83.3 million in 2018.

Contributions

Contributions of cash and other assets, including unconditional pledges, are recorded as revenue based upon any donor-imposed restrictions, on the date of the donors' commitment or gift. Contributions whose restrictions are met in the same fiscal year as their receipt are reported as contribution revenue without donor restrictions. Contributions of other assets are recorded at the estimated fair value at the date of gift. Unconditional pledges are recorded at the estimated present value on the date of the commitment, which approximates fair value, net of an allowance for uncollectible amounts. Conditional pledges are not recognized as revenue until such time as the conditions are substantially met. At June 30, 2019, the fair value of the conditional pledges received by the University is indeterminable.

Auxiliary Enterprises

The University's auxiliary enterprises are managed as self-supporting activities. Auxiliaries consist primarily of food services, dining halls, and bookstore operations. Auxiliary revenues are recognized over the academic term or at the point of sales, for bookstore operations.

Tax Status

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, the University is exempt from Federal income taxes to the extent provided under Section 501 of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements.

The Tax Cuts and Jobs Act (the Act) was enacted on December 22, 2017. Among other things, the Act imposes an excise tax on net investment income for certain organizations and establishes new rules for calculating unrelated business taxable income. The University believes it will be subject to the excise tax; however, the available proposed regulatory guidance is not sufficient to calculate a reasonable estimate. The University has reflected an estimate in its statements for unrelated trade or business income tax using the current proposed regulatory guidance. The University continues to evaluate the impact of the Act on current and future tax positions.

The University accounts for uncertain tax positions, when applicable. Apart from those impacted by the Act, the University has not taken any uncertain tax positions. No interest expense or penalties have been recognized as of and for the year ended June 30, 2019. The tax years that remain subject to examination by the major tax jurisdictions under the statute are from the year 2015 and forward.

Estimates

The preparation of consolidated financial statements 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.

New Accounting Pronouncements

ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The ASU establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the ASU replaces most existing revenue recognition guidance in GAAP. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU did not materially change the timing or amount of revenue recognized by the University. However, the ASU requires that tuition, fees and auxiliary student revenues be presented in the consolidated statement of activities at the transaction price, i.e., net of any scholarship allowances. Previously, such revenues were presented on a gross basis, i.e., at published rates, followed by a reduction for scholarship allowances. Accordingly, the University's 2018 consolidated statement of activities has been revised to conform to the 2019 presentation.

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU is intended to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonexchange transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange transactions subject to guidance in Topic 606, and (2) determining whether a contribution is conditional. The ASU clarifies that a contribution is conditional if the agreement includes both (a) a barrier or barriers that must be overcome for the recipient to be entitled to the assets transferred and (b) a right of return for the transferred assets or a right of release of the promisor's obligation to transfer assets. The ASU became effective for the University for the year ended June 30, 2019. The University's adoption of the ASU on a modified prospective basis did not have a material effect on its consolidated financial statements..

Comparative Financial Information and Reclassifications

The consolidated financial statements include certain prior year information presented for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2019, from which this information was derived.

Subsequent Events

The University has evaluated subsequent events for potential recognition or disclosure in the June 30, 2019 consolidated financial statements through October 11, 2019, the date the consolidated financial statements were issued.

2 Endowment

At June 30, 2019, the University's endowment consisted of approximately 1,400 individual funds, established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University's 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.

Interpretation of Relevant Law

The University has interpreted the Commonwealth of Virginia's enacted version of the Uniform Prudent Management of Institutional Funds Act (the Act) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument.

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.

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 level of 3% 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 lagged basis, spending will be reduced to 6% or increased to 4% of the three-year moving average, respectively.

Return Objectives and Risk Parameters

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. 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 policy benchmark based on the current asset allocation policy. A third objective is to rank in the top quartile of the National Association of College and University Business Officers' reported endowment returns.

Strategies Employed for Achieving Objectives

To satisfy the return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The University's asset allocation policy provides a diversified strategic mix of asset classes which emphasizes investments in equity and fixed income securities, hedge funds, private equity, real assets, real estate funds, and cash and produces the highest expected investment return within a prudent risk framework.

Underwater Endowment Funds

From time to time, the fair value of assets associated with 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. At June 30, 2019, there were no significant deficiencies of this nature.

Endowment Net Assets at June 30 (in thousands)			
	2019		
	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	$ 1,253,632	—	1,253,632
Donor-restricted endowment funds			
Historical gift value	—	366,124	366,124
Accumulated gains	—	863,742	863,742
Beneficial interest in trusts	—	29,711	29,711
Total endowment net assets	**$ 1,253,632**	**1,259,577**	**2,513,209**

	2018		
	Without donor restrictions	With donor restrictions	Total
Board designated endowment funds	$ 1,253,498	—	1,253,498
Donor-restricted endowment funds			
Historical gift value	—	354,988	354,988
Accumulated gains	—	867,829	867,829
Beneficial interest in trusts	—	29,783	29,783
Total endowment net assets	**$ 1,253,498**	**1,252,600**	**2,506,098**

Changes in Endowment Net Assets (in thousands)				
	2019			
	Without donor restrictions	With donor restrictions	Total	2018 Total
Beginning endowment net assets	$ 1,253,498	1,252,600	2,506,098	2,373,506
Investment return, net	61,243	54,124	115,367	237,714
Contributions	49	8,170	8,219	7,494
Appropriated for expenditure	(64,416)	(58,283)	(122,699)	(119,320)
Other changes				
Reinvested endowment income	4,146	2,183	6,329	6,140
Other adjustments	(888)	783	(105)	564
Ending endowment net assets	**$ 1,253,632**	**1,259,577**	**2,513,209**	**2,506,098**

3 Investments and Other Fair Value Measurements

Fair Value Measurements

The following tables show the estimated fair value of University investments as of June 30. Fair value measurements not valued using NAV as the practical expedient are categorized into a three-level hierarchy.

Fair Value of Investments by Level at June 30 (in thousands)					
	2019				
	Level 1	Level 2	Level 3	NAV	Total
Investments					
Cash equivalents	$ 25,776	—	—	—	25,776
Corporate bonds & other fixed income	96,012	6,878	—	—	102,890
Common stock and preferred stock	733	—	—	—	733
Commingled funds	2,098	—	—	—	2,098
Alternative investments					
Credit	—	—	—	263,907	263,907
Global equity long-only	—	—	—	564,175	564,175
Global equity long/short	—	—	—	526,878	526,878
Multi-strategy	—	—	—	125,202	125,202
Private equity funds	—	—	—	592,314	592,314
Real assets	—	—	—	240,045	240,045
Real estate	—	—	—	117,140	117,140
Total investments	**$124,619**	**6,878**	**—**	**2,429,661**	**2,561,158**

	2018				
	Level 1	Level 2	Level 3	NAV	Total
Investments					
Cash equivalents	$ 31,233	—	—	—	31,233
Corporate bonds & other fixed income	91,534	12,285	—	—	103,819
Common stock and preferred stock	1,038	—	—	—	1,038
Commingled funds	2,113	—	—	—	2,113
Alternative investments					
Credit	—	—	—	241,918	241,918
Global equity long-only	—	—	—	467,568	467,568
Global equity long/short	—	—	—	615,390	615,390
Multi-strategy	—	—	—	207,372	207,372
Private equity funds	—	—	—	555,461	555,461
Real assets	—	—	—	281,426	281,426
Real estate	—	—	—	89,957	89,957
Total investments	**$125,918**	**12,285**	**—**	**2,459,092**	**2,597,295**

Alternative Investment Commitments and Redemption Information (in thousands)				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Alternative investments				
Credit	$ 263,907	65,968	Daily to annually	45 – 150 days
Global equity long-only	564,175	—	Daily to rolling 2 year lock-up	30 - 90 days
Global equity long/short	526,878	31,500	Daily to rolling 3 year lock-up	45 - 90 days
Multi-strategy	125,202	31,727	Monthly to 1 year lock-up	30 - 90 days
Private equity funds	592,314	143,789	N/A	N/A
Real assets	240,045	97,594	N/A	N/A
Real estate	117,140	190,906	N/A	N/A
	$2,429,661	**561,484**		

Redemptions

Of the investments reported at NAV, approximately $818.1 million were redeemable at June 30, 2019. 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 in secondary markets, 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. It is 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 that discount could be significant.

Beneficial Interest in Perpetual Trusts

The University is the beneficiary of certain perpetual trusts held and administered by outside trustees. These trust interests are reported at fair value, based on the value of the underlying assets, which approximates the present value of future income from these trusts. As such, these assets fall within level 3 of the hierarchy of fair value inputs, with changes resulting from net investment return of $(0.1) million. Distributions from these trusts are recorded as investment return designated for current operations.

Derivatives

The University has four fixed interest rate swap agreements to convert variable interest rates on notes payable to fixed rates without exchanging the underlying principal amounts. These assets fall within level 3 of the hierarchy of fair value inputs. The University anticipates holding the interest rate swap agreements until the associated debt has been retired. The interest rate received under each agreement is calculated at 68% of the one-month LIBOR, which was 2.40% at June 30, 2019.

Certain University derivative instruments contain provisions requiring that long term, unsecured debt be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. During the year ended June 30, 2019, the University's long term debt ratings exceeded these benchmarks. No collateral was required to be posted related to the University's interest rate swap agreements during the year ended June 30, 2019.

Derivatives (in thousands)

	Rate Paid	Notional Amount	Fair Value Liability 2019	Fair Value Liability 2018	Change in Fair Value
Interest rate swap agreements					
March 1, 2029	3.778%	$ 25,000	$ (5,543)	(4,208)	(1,335)
June 1, 2031	3.744	30,000	(7,689)	(5,737)	(1,952)
August 1, 2034	4.000	25,000	(8,350)	(6,347)	(2,003)
November 1, 2036	3.744	10,000	(3,347)	(2,483)	(864)
			$ (24,929)	**(18,775)**	**(6,154)**

4 Pledges Receivable

Following is an analysis of the maturities of the University's unconditional pledges receivable as of June 30. Pledges receivable are donor restricted for specific purposes including endowment, capital activities, and programmatic support.

Pledges Receivable, net (in thousands)

	2019	2018
Unconditional pledges expected to be collected in:		
Less than one year	$ 4,012	5,026
One year to five years	10,157	5,182
	14,169	10,208
Less unamortized discount[1]	(611)	(419)
Less allowance for uncollectible amounts	(531)	(151)
	$ 13,027	**9,638**

[1]*Discount rates range from 1.2% to 3.8%*

5 Property, Plant and Equipment

Property, plant, and equipment, as shown in the consolidated statement of financial position, consisted of the following as of June 30:

Property, Plant and Equipment at June 30 **(in thousands)**		
	2019	**2018**
Land	$ 5,906	6,645
Buildings	520,307	511,896
Improvements	47,521	45,428
Equipment	96,896	95,637
Library books	85,805	82,866
Construction in progress	36,127	13,572
	792,562	756,044
Accumulated depreciation	(442,180)	(414,570)
	$ 350,382	**341,474**

6 Notes Payable

The University issued tax-exempt revenue bonds through the Virginia College Building Authority and taxable notes through a private placement with New York Life Insurance and Annuity Corporation. Proceeds were used to refinance existing debt as well as to construct, equip, or improve several capital projects on campus.

Principal balances, including unamortized premium amounts, were as follows at June 30:

Notes Payable **(in thousands)**		
	2019	**2018**
Tax-exempt fixed-rate		
Series 2011A, 4.00% - 5.00%, final maturity in 2023	$ 10,948	13,467
Series 2011B, 5.00%, final maturity in 2021	21,149	21,391
Series 2012, 3.00% - 4.00%, final maturity in 2042	61,130	61,213
Tax-exempt variable-rate[1]		
Series 2004, 1.08%, final maturity in 2035	46,000	46,000
Series 2006, 1.00%, final maturity in 2037	55,900	55,900
Taxable fixed-rate		
Series 2015, 3.60%, final maturity in 2046	40,000	40,000
	$ 235,127	**237,971**

[1]Variable rates for Series 2004 and Series 2006 notes reset weekly and daily, respectively. Interest rates shown reflect averages for the year ended June 30, 2019.

Repayments of Notes Payable for Years Ending June 30 **(in thousands)**	
Years ending June 30:	
2020	$ 2,495
2021	23,360
2022	2,745
2023	2,880
2024	4,650
Thereafter	197,250
	233,380
Unamortized premium	1,747
	$ 235,127

The University has standby credit facilities to enable the University to repurchase tendered variable-rate debt in the event of a failed remarketing. Two diversified facilities totaling $101.9 million are available to the University solely for this purpose and may not be used for the operating or capital needs of the University. There were no draws against these standby credit facilities for the year ended June 30, 2019.

The University has a one-year revolving credit facility in the amount of $20.0 million to support timing differences within the operating cash portfolio. Interest on drawn amounts is calculated at the LIBOR daily floating rate plus 0.35%. Any unused outstanding credit balance incurs a fee of 0.10%. There was no outstanding balance against this facility as of June 30, 2019.

Interest expense on notes payable, including amortization of premiums on notes payable and the cost of standby credit facilities of $0.3 million, was $8.6 million for the year ended June 30, 2019.

7 Retirement Plans and Postretirement Benefits

The University has contributory defined contribution retirement annuity plans for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $11.2 million into these plans for the year ended June 30, 2019.

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, which are closed to new participants, are not funded.

The University utilizes a measurement date of June 30. Net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $7.0 million at June 30, 2019. At June 30, 2019 and 2018, the weighted average annual assumed rate of increase in the per capita cost of covered benefits was 6.00% and 6.30%, respectively, and is assumed to decrease gradually to 4.50% by the year 2037 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in the year ended June 30, 2019 year would increase the postretirement liability by $1.3 million and increase the net periodic postretirement benefit cost by $0.2 million. At June 30, 2019 and 2018, the weighted average discount rate used in determining the accumulated postretirement benefit obligation was 3.50% and 4.25%, respectively.

For the nontaxable federal subsidy related to the postretirement benefit plan drug benefit, 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.

Changes in Postretirement Benefit Obligation (in thousands)		
	2019	**2018**
Accrued postretirement benefit obligation at beginning of year	$ 17,196	18,984
Service cost	555	664
Interest cost	707	701
Benefits paid	(1,120)	(1,041)
Actuarial loss (gain)	1,402	(2,112)
Accrued postretirement benefit obligation at end of year	**$ 18,740**	**17,196**

Net Periodic Postretirement Benefit Cost (in thousands)		
	2019	**2018**
Service cost	$ 555	664
Interest cost	707	701
Amortization of unrecognized net loss	303	447
	$ 1,555	**1,812**

Estimated Future Benefit Payments For Years Ended June 30 (in thousands)	
2020	$ 1,129
2021	1,109
2022	1,143
2023	1,143
2024	1,184
2025 – 2029	6,144

8 Composition of Net Assets

Net assets without donor restrictions include board designated endowments that are used to support general operations. Within the donor restricted endowments category, other programming consists of endowments restricted for specific programmatic purposes, including instruction; library support and materials; and athletics.

Composition of Net Assets at June 30 (in thousands)		
	2019	**2018**
Without donor restrictions		
Board designated endowments	$ 1,253,632	1,253,498
Other net assets without donor restrictions	117,392	117,238
Total without donor restrictions	**1,371,024**	**1,370,736**
With donor restrictions		
Donor restricted endowments		
Scholarships and fellowships	557,022	550,600
Professorships	234,489	235,141
Other programming	468,066	466,859
Purpose restricted and other	84,648	81,060
Total with donor restrictions	**1,344,225**	**1,333,660**
	$ 2,715,249	**2,704,396**

9 Expenses

The composition of expenses for the year ended June 30, 2019 is as follows:

Operating Expenses for the Year Ended June 30, 2019 (in thousands)					
	Compensation and benefits	**Materials and supplies**	**Services and other**	**Interest and depreciation**	**Total**
Instruction	$ 75,397	4,108	6,525	5,138	**91,168**
Research	2,404	367	1,379	679	**4,829**
Public service	2,042	307	749	747	**3,845**
Academic support and libraries	24,688	7,749	9,446	9,491	**51,374**
Student services	29,552	5,201	11,987	6,914	**53,654**
Institutional support	34,634	3,190	9,990	2,009	**49,823**
Auxiliary enterprises	16,525	13,582	7,801	12,551	**50,459**
Total operating expenses	**$ 185,242**	**34,504**	**47,877**	**37,529**	**305,152**
2018 operating expenses	**$ 172,410**	**33,708**	**52,497**	**36,604**	**295,219**

Program services are comprised of instruction, research, public service, academic support and libraries, student services, and auxiliary enterprises. Athletics expenses are included in student services. Supporting services includes institutional support. Fundraising expenses of $6.3 million are included in institutional support. The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statement of activities on a square footage basis.

10 Availability of Financial Assets for General Expenditures

Resources available to the University to fund general expenditures, such as operating expenses, interest and principal payments on debt, and internally funded capital construction, have seasonal variations related to the timing of tuition billings, receipt of gifts and pledge payments, and transfers from the endowment. The University actively manages its resources, utilizing a combination of short, medium, and long-term operating investment strategies, to align its cash inflows with anticipated outflows, in accordance with policies approved by its Board of Trustees. As further described in Note 6, the University may draw upon a revolving credit facility to manage cash flows. At June 30, 2019, existing financial assets and liquidity resources available within one year were as follows:

Availability and Liquidity Resources for General Expenditures at June 30, 2019 (in thousands)	
Financial assets available for general expenditures within one year	
Cash and cash equivalents	$ 45,092
Operating investments	102,889
Liquidity resources	
Revolving credit facility	20,000

Additionally, the University has $1.3 billion in board-designated endowment, of which $818.1 million can be liquidated within one year; however, no liquidation is anticipated.

The Board has approved fiscal year 2020 spending from the endowment, which is estimated to be $126.8 million.

11 Related Party Transactions

Management fees earned by RFMC from the Richmond Fund during the year ended June 30, 2019 were $13.6 million, of which $3.5 million was due to RFMC.

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 settlement of the agreement at least once a calendar year. The University anticipates holding the agreement until termination of the Richmond Fund. At June 30, 2019 and 2018 the University has a liability to the Richmond Fund in the amount of $8.0 million and $41.8 million, respectively, which is included in accounts payable and other liabilities. The settlement value for the year ended June 30, 2019 totaled $10.1 million which has been recorded against investment return.

12 Contingencies and Commitments

Contingencies

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, change in net assets, or liquidity of the University.

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

Commitments

The University is in the process of constructing, renovating and equipping certain facilities. The expected cost to complete construction in progress at June 30, 2019 was approximately $45.9 million.

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Student financial assistance program cluster					
Direct payments					
Department of Education					
Federal Pell Grant Program	84.063	$ 2,815,623	—	—	2,815,623
Federal Supplemental Educational Opportunity Grant Program	84.007	444,672	—	—	444,672
Federal Work Study Program	84.033	435,353	—	—	435,353
Federal Perkins Loan Program (note 3)	84.038	4,608,661	—	—	4,608,661
Federal Direct Loan Program (note 4)	84.268	—	—	21,790,736	21,790,736
Total student financial assistance programs cluster		**8,304,309**	**—**	**21,790,736**	**30,095,045**
Research and development programs cluster					
Direct payments					
United States Department of Agriculture					
Behavioral and Physiological Study of Acaricides and Novel Chemical Control Agents against Ticks	10.001	45,355	—	—	45,355
Department of Defense – National Security Agency					
Construction of Difference sets	12.901	-28	—	—	-28
Department of Interior - National Park Service					
Natural Resource Condition Assessment: Fort Monroe National Monument, Harriet Tubman Underground Railroad National Monument	15.945	6,669	1,850	—	8,519
Evaluating Potential National Natural Landmarks	15.945	8,730	8,080	—	16,810
		15,399	9,930	—	25,329
National Science Foundation					
Computer and Information Science and Engineering:					
CPS: Small: Collaborative Research: Towards Secure, Privacy-Preserving verifiable Cyberphysical Systems	47.070	39,159	—	—	39,159
Mathematical and Physical Sciences:					
Research at Undergraduate Institutions: Chemical Investigations into the Bioactivity of the DNA Lesion 8-Oxo-2-Deoxyguanosine	47.049	14,109	—	—	14,109
Development of non-toxic carbon dots as bone-specific carrier for drug delivery	47.049	10,186	—	—	10,186
Research at Undergrad Institutions: Xerogel Based-Amperometris Biosensors Incorporating Nanoparticle Networks- Adaptable Templates for Clinically Relevant Measurements	47.049	44,104	—	—	44,104

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Research at Undergrad Institutions: Characterizing Pyrolysis and Combustion Pathways for Asphaltene Model Compounds	47.049	23,686	—	—	23,686
Finite Fields and their Applications at Simon Fraser University	47.049	1,573	—	—	1,573
		93,658			93,658
Biological Sciences:					
Research at Undergrad Institutions: Elucidating the signaling interactions that control spinal cord fate specification	47.074	54,155	—	—	54,155
Collaborative Research: Research at Undergraduate Institutions: Linking Thermal Tolerance to Invasion Dynamics: Climate and Physiological Capacity as Regulators of Geographical Spread	47.074	52,962	—	—	52,962
RAPID: Effects of Hurricane Irma on Shallow-Water Marine Ecosystems: Assessing Resiliency of Sponge and Macroinvertebrate Communities in the Florida Keys	47.074	7,803	—	—	7,803
		114,920	—	—	114,920
Social, Behavioral, and Economic Sciences:					
Education and Human Resources:					
Collaborative Proposal: Preparing Undergraduates for Research in STEM-related Fields Using Electrophysiology	47.076	57,529	—	—	57,529
Department of Energy					
Medium Energy Nuclear Physics at the University of Richmond	81.049	99,164	—	—	99,164
Department of Health and Human Services – Administration for Community Living					
Estimating Return on Investment in State Vocational Rehabilitation Programs	93.433	313,838	210,599	—	524,437
Department of Health and Human Services – National Institutes of Health					
Testing the Therapeutic Potential of Carbon Nanodots in Bone Mineralization Diseases	93.846	76,831	43,740	—	120,571
Identifying and Characterizing Heme Tolerance Genes in the Tsetse Symbiont Sodalis Glossinidius	93.855	66,435	58,914	—	125,349
Lipid Modulation of Potassium Channels	93.859	53,040	—	—	53,040
Myosin-XIX and the Molecular Mechanism of Actin-Based Mitochondrial	93.859	88,143	38,438	—	126,581
Investigating the Regulation of Ded1 in Translation and RNA Storage	93.859	91,629	—	—	91,629
		232,812	38,438	—	271,250

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
<u>Pass through payments</u>					
Department of Defense					
Virginia Commonwealth University:					
Chronic Effects of Neurotrauma Consortium (Award number PT108802-SC106742)	12.420	1,535	—	—	1,535
National Science Foundation					
Northern Kentucky University:					
The TIM Consortium: A Dispersed REU Site in Theoretically Interesting Molecules (Award number 4001167-02)	47.049	5,608	—	—	5,608
Virginia Commonwealth University:					
Collaborative Research: Linking Predator Functional Diversity to Prey Dynamics through the Functional Response	47.074	12,553	—	—	12,553
Department of Health and Human Services – National Institutes of Health					
Old Dominion University Research Foundation:					
Spatial Eco-epidemiology of Tick-Borne Rickettisal Pathogens	93.855	8,014	—	—	8,014
USDA – Forest Service					
Gypsy Month Slow the Spread Foundation:					
Variation in Development Traits among Invasion Front Gypsy Moth Populations	10.680	96	—	—	96
Total research and development programs cluster		**1,182,878**	**361,621**	**—**	**1,544,499**

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2019

Federal grantor/program title	CFDA number	Direct grant expenditures	Grant expenditures to subrecipients	Loan disbursements	Total
Other grants					
Direct payments:					
National Endowment for the Humanities					
Distant Viewing Toolkit (DVT) for the Cultural Analysis of Moving Images	45.169	30,092	—	—	30,092
Pass through payments:					
Department of Education					
Richmond Public Schools:					
Richmond Public Schools Arts Integration Learning Certificate (AILC) Project Integration	84.351C	167,865	—	—	167,865
Department of Transportation					
Virginia Department of Motor Vehicles:					
Selective Enforcement – Alcohol	20.616	623	—	—	623
Selective Enforcement - Alcohol	20.616	4,317	—	—	4,317
		4,940	—	—	4,940
National Endowment for the Arts					
Arts Midwest:					
Sounds of China	45.024	4,000	—	—	4,000
Mid-Atlantic Arts Foundation:					
Partnership Agreement Grant (Award number 15-6100-2057)	45.025	18,822	—	—	18,822
Total other grants		**225,719**	**—**	**—**	**225,719**
Total federal awards		**$ 9,712,906**	**361,621**	**21,790,736**	**31,865,263**

See accompanying independent auditors' report on compliance.

1 Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of all federal award programs of the University of Richmond and its affiliates (the University) for the year ended June 30, 2019. All federal awards received directly and indirectly from federal agencies are included in this Schedule. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. Although the University is required to match certain amounts, as defined in the grant agreements, no such matching has been included in this Schedule. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to, and does not, present the consolidated financial position, activities, and cash flows of the University.

2 Basis of Accounting

The accompanying Schedule is presented using the accrual basis of accounting.

Expenditures for federal student financial assistance programs are recognized as incurred and include grants to students under the Federal Pell Grant and Federal Supplemental Educational Opportunity Grant Programs, student earnings under the Federal Work Study Program, and administrative cost allowances, where applicable.

Expenditures for loans related to the Federal Direct Loan Program are reported in the Schedule when disbursed.

New loans made during the fiscal year and loans from previous fiscal years for which the University has continuing compliance requirements to adhere to related to the Federal Perkins Loan Program are reported in the Schedule.

Expenditures for other federal awards are recognized as incurred using the cost accounting principles contained in *Uniform Guidance*. Under these cost principles, certain types of expenses are not allowable or are limited as to reimbursement.

3 Federal Perkins Loan Program

The Federal Perkins Loan Program (CFDA Number 84.038) (Perkins) is administered directly by the University and the current year loaned amount under Perkins was $0. The total amount of Perkins loans outstanding at June 30, 2019 under Perkins was $2,931,566 and is included in other assets in the University's consolidated statement of financial position as of June 30, 2019. The amount of Perkins loans on the Schedule includes the beginning outstanding loan balance, the current year loaned amount, and administrative charges, if applicable.

4 Federal Direct Loan Program

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

The University is responsible only for the performance of certain administrative functions with respect to the Program, and accordingly, these loans are not included in the University's consolidated financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under the Program at June 30, 2019.

5 Reconciliation of Schedule to Consolidated Statement of Activities

Reconciliation of Schedule of Expenditures of Federal Awards to Consolidated Statement of Activities	
Federal grant expenditures per the Schedule	$ 10,074,527
Less: Federal grants considered agency transactions	(2,815,623)
Less: Perkins loan program	(4,608,661)
Add: Nonfederal grants and contracts	1,045,825
Grants and contracts per Consolidated Statement of Activities	**$ 3,696,068**

6 Indirect Cost Rate

The University has not elected to use the 10% de minimis indirect cost rate discussed in Uniform Guidance Section 200.414.

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
University of Richmond:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of University of Richmond (the University), which comprise the consolidated statement of financial position as of June 30, 2019, the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 11, 2019. Our report contains an emphasis of matters paragraph referring to University of Richmond's adoption of Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended, and ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, during the year ended June 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered University of Richmond's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of University's internal control. Accordingly, we do not express an opinion on the effectiveness of University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of Richmond's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Richmond, Virginia
October 11, 2019

KPMG LLP
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1021 East Cary Street
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
University of Richmond:

Report on Compliance for Each Major Federal Program

We have audited University of Richmond's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2019. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, which we consider to be a significant deficiency.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University as of and for the year ended June 30, 2019, and have issued our report thereon dated October 11, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Richmond, Virginia
February 21, 2020

UNIVERSITY OF RICHMOND

Schedule of Findings and Questioned Costs

Year ended June 30, 2019

(1) Summary of Auditors' Results

(a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:

- Material weakness: **No**
- Significant deficiencies: **None reported**

(c) Noncompliance material to the consolidated financial statements: **No**

(d) Internal control deficiencies over the major program disclosed by the audit:

- Material weakness: **No**
- Significant deficiencies: **Yes 2019-001**

(e) Type of report issued on compliance for each major program: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

(g) Major program:

Student Financial Assistance Programs Cluster (Various CFDA)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None reported

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2019-001: Special Test and Provision - Disbursements to or on Behalf of Students

Project Period

July 1, 2018 through June 30, 2019

Federal Program

Student Financial Assistance; CFDA Number 84.268 – Federal Direct Student Loan Program

Federal Agency

Department of Education

Criteria

Per 34 CFR section 668.165(a)(3), if an institution credits a student's account with a Direct Loan, the institution must notify the student or parent in writing of the date and amount of the disbursement, the student's right or parent's right to cancel all or a portion of that loan or loan disbursement, and have the loan proceeds returned to the holder of that loan, and the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. Further, for institutions that implement affirmative confirmation, the loan disbursement notification must be made no earlier than 30 days before, and no later than 30 days after crediting the student's account with the loan.

Condition and context

We selected 40 students for testing of loan disbursements notification, and noted that one student did not receive a notification of their Fall 2018 loan disbursements.

Cause and effect

Loan disbursement notifications are initiated by the Office of Financial Aid weekly. Due to the wrong date range used in the notification process, students with loan disbursements on certain days were not sent loan disbursement notifications. The Office of Financial Aid also did not monitor the notification process to ensure compliance.

Questioned Costs

None.

Whether the sampling was a statistically valid sample

The sample was not intended to be, and was not, a statistically valid sample.

Identification of whether the audit finding is a repeat of a finding in the immediately prior audit

A similar finding was reported in the prior year's audit as finding number 2018-001.

Recommendation

We recommend the University enhance its controls over the loan disbursements notification process to ensure that the proper parameters are used when initiating the notification process on a weekly basis. We also recommend an after-the-fact review of notifications to ensure compliance.

Views of Responsible Officials

Management concurs with KPMG's recommendation to enhance its controls over the loan disbursements notification process as well as perform a review of notification to ensure compliance. As of January 15, 2020 these procedures have been updated and all impacted students through this date have been notified of their loan disbursement. Procedures for reviewing notifications have been implemented and are being closely monitored.