University of Richmond

2012–13 Treasurer's Report

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Cover Photo: Boatwright Memorial Library *Interior Photo: Ryland Hall*

Message From the Vice President for Business and Finance / Treasurer

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

Dear Colleagues:

I am pleased to present the University of Richmond's audited consolidated financial statements for the fiscal year ended June 30, 2013. In an environment of tepid economic growth and a changing national higher education landscape, the University's considerable resources and continued commitment to excellence enabled the University to end fiscal 2013 in strong financial condition.

The University's consolidated statement of financial position consists of assets totaling $3.8 billion and liabilities totaling $1.6 billion, resulting in total net assets of $2.2 billion. Compared to last year, the University's overall consolidated net assets increased by $185.2 million or 9.3%. This increase was driven largely by endowment-related investment performance, and positive unrestricted and restricted operating performance.

The University's endowment, managed by Spider Management Company, continues to deliver sustained, positive investment performance. Total endowment assets increased from $1.9 billion to $2.0 billion as of June 30, 2013. The one-year return for the University's total endowment was 12.3% for fiscal year 2013 as compared to the policy benchmark of 11.3%. More importantly and impressively, over the past ten years the endowment has achieved an average annual investment return of 10.1% compared to the policy benchmark of 8.6%. The Spider Management investment philosophy emphasizes long-term preservation of the purchasing power of the endowment via a well-diversified portfolio that focuses on a thoughtful and rigorous approach to managing risk and evaluating opportunities. Over the long-run this strategy has provided the University with the financial flexibility to support key initiatives and programs, as well as expand the financial aid resources available to fund a University of Richmond education.

In November, the University issued $60 million of new tax-exempt debt related to projects that were included in Phase One of the 2011 Campus Master Plan. This brings the total amount of outstanding debt at June 30, 2013, to $232.5 million. As part of the debt issuance process, both Standard and Poor's and Moody's Investor Services affirmed the University's ratings—Moody's affirmed the existing Aa1 credit rating with a stable outlook, and Standard and Poor's affirmed the University's AA+ rating, also with a stable outlook. In arriving at their decisions, both rating agencies cited the University's strong balance sheet, history of balanced financial operations, integrated financial and strategic planning, and a highly competitive academic market position.

Proceeds from the issuance of these bonds are funding several critically important projects, including the construction of two new student residences on campus. The Westhampton Residence Hall, with approximately 48,000 square feet, will accommodate 157 students in three-person and four-person suites, along with several single rooms and a college fellows apartment. The South Campus Apartments, with approximately 79,000 square feet, will house 176 students in 44 four-person apartment units. Construction began in the spring and both new student residence facilities are scheduled to be open for the fall 2014 semester. Additionally, a major overhaul of the Robins Center is underway. This includes a renovation of the basketball floor and bowl area, seating improvements, improved LED sports lighting, installation of new elevators and locker room enhancements. The basketball floor, arena, and significant portion of the concourse are scheduled to be completed by November 2013 in time for the opening of basketball season.

Operating activities resulted in another year of positive results. Net consolidated operating income totaled $22.4 million in fiscal 2013, up from $15.9 million in fiscal 2012. Fiscal 2013 operating revenues totaled $253.7 million, a 7.4% increase over last year. Net tuition revenue for the year was $97.9 million, an increase of 4.2% over fiscal 2012, despite the fact that the increase in undergraduate tuition and fees for the year was held to 2.4%, one of the lowest increases in recent history. Endowment income was $90.4 million, representing 35.6% of gross consolidated operating revenues for fiscal 2013. Total fiscal 2013 contributions designated as operating revenue stood at $13.0 million, an increase of $2.5 million over last year.

Operating expenses totaled $231.3 million, a 5.0% increase over fiscal 2012. Despite positive operating performance over the past several years, the University continues to actively manage expenses so that resources are deployed in a manner that aligns funding with institutional priorities, underscoring our commitment to the University's short and long term fiscal health. Consequently, non-compensation departmental budgets remained flat again for fiscal 2013; increases were provided only for staff salaries, fringe benefits, contractual obligations, operation and maintenance of expanded facilities, and otherwise non-discretionary cost increases. However, the University continued to make strategic investments during fiscal 2013, most notably by implementing the recommendations that emerged from a compensation benchmarking analysis.

To gauge whether the University's compensation philosophy aligned with Richmond's national reputation and overall excellence, a comprehensive analysis of the existing salary structure was performed during fiscal 2012. In those instances where faculty and staff salaries were inconsistent with our competitive labor markets, adjustments were made in fiscal 2013 to bring salaries closer to market. This will ensure that the University will continue to attract and retain the caliber of faculty and staff that distinguishes Richmond.

In February, the University officially announced *The Campaign for Richmond: Fulfilling the Promise*. This $150 million campaign focuses on key priorities that will help the University secure a position of excellence and distinction among American institutions of higher education. To date, approximately $137 million in gifts and commitments has been raised toward the campaign goal. Two of the priorities identified as part of the campaign are the creation of a summer fellowship program to support student internships and research experiences, and funding for an admission and career services building.

The inaugural UR Summer Fellowship program was launched in May. This program provides support to full-time undergraduate students to undertake a challenging unpaid internship or conduct research side-by-side with faculty mentors. These experiences, which are designed to complement Richmond's rigorous academic programs, provide students with opportunities to pursue original intellectual discovery and to apply classroom learning in new settings. This year, 300 students were funded so that they could pursue experiences on campus and across the country. We aspire to ultimately guarantee that each undergraduate student has access to at least one UR Summer Fellowship to support an internship or undergraduate research experience prior to graduation.

In July, the University received a very generous $10 million lead gift commitment from Paul and Anne-Marie Queally toward the construction of the new admission and career services center. The building, which will be the principal campus destination for prospective students and their families, will embody the University's commitment to attracting top students and positioning them to launch successful careers. The center will reinforce the academic excellence and quality of student life at the University and highlight the preparation students receive for life after graduation.

The University's fiscal 2013 financial results are a testament to Richmond's long-standing practice of responsible fiscal management and disciplined financial planning. While pressures on tuition and non-tuition revenue sources and volatility in the investment markets will surely continue, the University's emphasis on integrated financial planning and prioritization will help to ensure that the use of resources continues to align with Richmond's core academic mission.

– David B. Hale
Vice President for Business and Finance/Treasurer

University Forum

Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated financial statements of the University of Richmond and its affiliates, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the University of Richmond and its affiliates as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

September 25, 2013

Quatrefoil Society Wall

University of Richmond and its Affiliates

Consolidated Statements of Financial Position

As of June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Assets		
Cash and cash equivalents	$ 203,247	119,998
Investments (notes 3, 6, 11 and 12)	1,977,248	1,823,425
Assets of consolidated variable interest entities (note 16):		
Cash and cash equivalents	48,845	64,662
Investments (notes 3 and 11)	1,246,932	1,105,795
Accrued income	666	663
Other receivables	490	164
Other assets	102	77
Student accounts receivable, net	606	1,229
Accrued income	106	72
Other receivables	1,836	1,329
Notes receivable, net (note 4)	4,478	4,386
Inventories, prepaid expenses and other	10,747	12,217
Pledges receivable, net (note 5)	12,880	12,425
Funds held in trust (notes 6 and 11)	2,809	2,713
Beneficial interest in trusts (notes 6 and 11)	3,584	3,864
Property, plant and equipment, net (notes 7 and 18)	292,334	288,205
Total assets	**$3,806,910**	**3,441,224**
Liabilities:		
Accounts payable and accrued liabilities	$ 23,957	22,371
Deferred income	12,460	12,067
U.S. government grants refundable (note 4)	4,561	4,511
Liabilities of consolidated variable interest entities (note 16):		
Accounts payable and accrued liabilities	4,098	9,425
Change in capital contributions received in advance and redemptions payable	31,127	11,299
Funds held on behalf of others (note 16)	1,274,652	1,156,271
Annuities and trusts payable (note 6)	6,042	6,022
Notes payable (note 8)	232,539	173,951
Swap agreements (notes 8, 11 and 12)	21,835	33,493
Postretirement benefits (note 10)	13,751	15,134
Total liabilities	**1,625,022**	**1,444,544**
Net assets (note 2):		
Unrestricted	1,083,689	980,625
Temporarily restricted (note 13)	752,171	683,535
Permanently restricted (note 13)	346,028	332,520
Total net assets	**2,181,888**	**1,996,680**
Total liabilities and net assets	**$3,806,910**	**$3,441,224**

See accompanying notes to the consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Activities

As of June 30, 2013
(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 168,869	—	—	168,869
Less scholarship allowance	(70,956)	—	—	(70,956)
Net tuition and fees	**97,913**	**—**	**—**	**97,913**
Grants and contracts	5,243	—	—	5,243
Contributions (note 2)	12,368	622	—	12,990
Investment income (notes 2 and 3)	—	1,507	—	1,507
Endowment spending distribution (notes 2 and 3)	54,092	36,292	—	90,384
Auxiliary enterprises	40,773	—	—	40,773
Other sources (note 14)	4,893	—	—	4,893
Net assets released from restrictions	34,998	(34,998)	—	—
Total operating revenues	**250,280**	**3,423**	**—**	**253,703**
Operating expenses (notes 7, 8, 9, 14 and 15):				
Instruction	76,875	—	—	76,875
Research	6,507	—	—	6,507
Public service	2,605	—	—	2,605
Libraries	13,150	—	—	13,150
Academic support	25,294	—	—	25,294
Student services	21,777	—	—	21,777
Institutional support	41,873	—	—	41,873
Auxiliary enterprises	43,259	—	—	43,259
Total operating expenses	**231,340**	**—**	**—**	**231,340**
Increase in net assets from operating activities	**18,940**	**3,423**	**—**	**22,363**
Nonoperating activities:				
Contributions (note 2)	—	—	8,614	8,614
Investment income, net of fees (notes 2 and 3)	36,837	—	77	36,914
Endowment spending distribution (notes 2 and 3)	—	—	2,529	2,529
Net realized gains (notes 2, 3 and 12)	135,611	—	477	136,088
Net unrealized gains (notes 2, 3 and 12)	113,515	47	565	114,127
Net loss on disposal of plant assets	(539)	—	—	(539)
Redesignated funds (note 2)	(69,301)	66,900	2,401	—
Change in fair values of swap agreements (notes 8,11 and 12)	11,658	—	—	11,658
Change in present value of split interest agreements (note 6)	—	—	(1,032)	(1,032)
Change in post-retirement benefit obligation other than net periodic costs (note 10)	1,874	—	—	1,874
Net assets released from restrictions for property, plant and equipment (note 13)	1,824	(1,824)	—	—
Affiliated organizations' expenses	(12,320)	—	—	(12,320)
Tax provision	(815)	—	—	(815)
Other revenues (expenses)	(856)	90	(123)	(889)
	217,488	**65,213**	**13,508**	**296,209**
Less change in net assets related to funds held on behalf of others (note 16)	**(133,364)**	**—**	**—**	**(133,364)**
Increase in net assets from nonoperating activities	**84,124**	**65,213**	**13,508**	**162,845**
Change in net assets	**103,064**	**68,636**	**13,508**	**185,208**
Net assets at beginning of year	**980,625**	**683,535**	**332,520**	**1,996,680**
Net assets at end of year	**$ 1,083,689**	**752,171**	**346,028**	**2,181,888**

See accompanying notes to the consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statement of Activities

As of June 30, 2012
(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 163,485	—	—	163,485
Less scholarship allowance	(69,544)	—	—	(69,544)
Net tuition and fees	**93,941**	**—**	**—**	**93,941**
Grants and contracts	5,195	—	—	5,195
Contributions (note 2)	5,566	4,890	—	10,456
Investment income (notes 2 and 3)	1,380	1,563	—	2,943
Endowment spending distribution (notes 2 and 3)	46,646	34,080	—	80,726
Auxiliary enterprises	38,871	—	—	38,871
Other sources (note 14)	4,094	—	—	4,094
Net assets released from restrictions	31,970	(31,970)	—	—
Total operating revenues	**227,663**	**8,563**	**—**	**236,226**
Operating expenses (notes 7, 8, 9, 14 and 15):				
Instruction	72,410	—	—	72,410
Research	6,984	—	—	6,984
Public service	2,927	—	—	2,927
Libraries	12,448	—	—	12,448
Academic support	24,474	—	—	24,474
Student services	20,953	—	—	20,953
Institutional support	40,529	—	—	40,529
Auxiliary enterprises	39,564	—	—	39,564
Total operating expenses	**220,289**	**—**	**—**	**220,289**
Increase in net assets from operating activities	**7,374**	**8,563**	**—**	**15,937**
Nonoperating activities:				
Contributions (note 2)	—	—	1,572	1,572
Investment income, net of fees (notes 2 and 3)	34,645	—	84	34,729
Endowment spending distribution (notes 2 and 3)	—	—	2,382	2,382
Net realized gains (losses) (notes 2, 3 and 12)	77,445	(167)	816	78,094
Net unrealized losses (notes 2, 3 and 12)	(105,098)	—	(2,503)	(107,601)
Net loss on disposal of plant assets	(9)	—	—	(9)
Redesignated funds (note 2)	21,967	(22,221)	254	—
Change in fair values of swap agreements (notes 8, 11 and 12)	(17,417)	—	—	(17,417)
Change in present value of split interest agreements (note 6)	—	—	178	178
Change in post-retirement benefit obligation other than net periodic costs (note 10)	(3,541)	—	—	(3,541)
Net assets released from restrictions for property, plant and equipment (note 13)	2,760	(2,760)	—	—
Affiliated organizations' expenses	(15,364)	—	—	(15,364)
Tax provision	892	—	—	892
Other revenues	3,063	114	131	3,308
	(657)	**(25,034)**	**2,914**	**(22,777)**
Less change in net assets related to funds held on behalf of others (note 16)	**(25,314)**	**—**	**—**	**(25,314)**
Increase (decrease) in net assets from nonoperating activities	**(25,971)**	**(25,034)**	**2,914**	**(48,091)**
Change in net assets	**(18,597)**	**(16,471)**	**2,914**	**(32,154)**
Net assets at beginning of year	**999,222**	**700,006**	**329,606**	**2,028,834**
Net assets at end of year	**$ 980,625**	**683,535**	**332,520**	**1,996,680**

See accompanying notes to the consolidated financial statements.

University of Richmond and its Affiliates

Consolidated Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 185,208	(32,154)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	19,205	18,813
Net unrealized and realized gains on investments and funds held in trust	(222,446)	(68,568)
Net loss on disposal of plant assets	539	9
Change in fair value of swap agreements	(11,658)	17,417
Amortization of note premiums	(1,252)	(1,236)
Contributions restricted for purchase of property and equipment	(3,484)	(6,749)
Contributions restricted for endowment	(5,830)	(1,752)
Gifts of property and stock	(1,218)	(1,113)
Change in net assets related to funds held on behalf of others	133,364	25,314
Assets and liabilities of consolidated variable interest entities:		
Change in cash and cash equivalents	15,817	66,317
Net (gains) losses on investments within consolidated VIEs	(120,363)	15,214
Net purchases of investments within consolidated VIEs	(20,774)	(209,125)
Change in accrued income, other receivables and other assets	(354)	186
Change in accounts payable and accrued liabilities	(5,327)	3,207
Change in capital contributions received in advance and redemptions payable	19,828	(85,764)
Change in funds held on behalf of others	(14,983)	181,173
(Increase) decrease in:		
Student accounts receivables, other receivables and accrued income	82	753
Notes receivable	(92)	(727)
Inventories, prepaid expenses and other	1,470	(2,441)
Pledges receivable	(455)	2,425
Funds held in trust	89	262
Beneficial interest in trusts	280	(673)
Increase (decrease) in:		
Accounts payable and accrued liabilities	1,586	(101)
Deferred income	393	(637)
U.S. government grants refundable	50	693
Annuities and trusts payable	20	(375)
Postretirement benefits	(1,383)	3,591
Net cash used in operating activities	**(31,688)**	**(76,041)**
Cash flows from investing activities:		
Proceeds from sales of investments	429,517	359,743
Purchases of investments	(359,861)	(259,849)
Purchases of property, plant and equipment	(24,351)	(26,386)
Proceeds from disposals of property, plant and equipment	478	294
Net cash provided by investing activities	**45,783**	**73,802**
Cash flows from financing activities:		
Contributions restricted for purchase of property and equipment	3,484	6,749
Contributions restricted for endowment	5,830	1,752
Repayment of notes payable	(1,845)	(1,691)
Proceeds from issuance of notes payable	61,685	—
Net cash provided by financing activities	**69,154**	**6,810**
Net increase in cash and cash equivalents	**83,249**	**4,571**
Cash and cash equivalents at beginning of year	**119,998**	**115,427**
Cash and cash equivalents at end of year	**$ 203,247**	**119,998**
Supplemental disclosure:		
Cash paid for interest on notes payable and interest rate swap agreements	$ 6,664	6,263
Cash paid for income taxes	107	2,226
Gifts of property and stock	1,218	1,113

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The University of Richmond is a private institution of higher education. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, was formed for the purpose of owning and operating a building and land located in Richmond, Virginia. Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, was formed for the purpose of providing investment research, advice, counsel and management with respect to the University of Richmond's endowment assets. The Richmond Fund, LP (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 achieved by the University of Richmond's endowment. The Richmond Fund Management Company, LLC (RFMC), a wholly controlled affiliate of SMC at June 30, 2013 (note 16), is the general partner of the Richmond Fund and is managed by SMC's Board of Managers.

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

(b) Basis of Presentation

The consolidated financial statements include the financial statements of the University of Richmond and its affiliates (collectively, the University). The consolidated financial statements have been prepared on the accrual basis of accounting and significant intercompany balances and transactions have been eliminated in consolidation.

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

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

(c) Net Asset Classes

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

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

Temporarily restricted net assets – are subject to donor stipulations that expire 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 expected to be received in future periods.

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

(d) 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 investments in the accompanying consolidated financial statements. Total cash equivalents included in cash and cash equivalents and investments on the consolidated statements of financial position at June 30, 2013 and 2012 are $81.6 million and $38.5 million, respectively. At June 30, 2013, $32.3 million of cash and cash equivalents consist of the unexpended proceeds related to certain notes payable issued in November 2012 (note 8). These funds are invested in short-term, highly liquid securities which will be used for construction of certain facilities or payment of debt service. At June 30, 2012, no unexpended bond proceeds were included in cash and cash equivalents.

(e) Investments

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

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

Investment funds primarily include investments in hedge funds and private equity funds and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures and GAAP. In accordance with GAAP, the University has estimated the fair value of its investments in investment funds on the basis of the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the University's fiscal year end date. If the reported NAV is not as of the University's fiscal year end date or is not fair value based, the University will adjust the NAV, if deemed necessary, to estimate the NAV in accordance with GAAP. If the University determines it is not practicable to calculate an adjusted NAV, the practical expedient will not be utilized and other valuation methodologies will be used.

Of the amounts reported at net asset value, approximately $1.4 billion of those investments as of June 30, 2013 are currently redeemable with the fund at net asset value under the current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although a secondary market exists for these investments, the market is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if the University were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and that discount could be significant.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge fund and private equity arrangements. The University's investments are also subject to management and performance fees as specified in such funds' agreements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds should be viewed as illiquid and subject to liquidity risk. The agreements related to investments in investment funds provide for compensation to the managers in the form of management fees up to 2.0% annually of net assets and performance incentive fees up to 20% of net profits earned.

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

Investment transactions are accounted for on the trade date basis. Dividend income or expense is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Cash dividends declared on stocks for which the securities portfolio reflects a short position as of the reporting date are recognized as an expense on the ex-dividend date. Realized gains and losses are determined by the specific identification method for investments in investment funds and average cost for investments in securities. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statements of activities as increases or decreases in unrestricted net assets, where there are no donor restrictions, or temporarily restricted net assets, until amounts have been appropriated and the donor-imposed or regulatory time restrictions have elapsed. Realized and unrealized investment gains and losses are recorded in unrestricted net assets. Appropriations of investment returns for current year expenditure are recorded in redesignated funds in the consolidated statements of activities as increases or decreases in the appropriate net asset category, based on the presence or absence of donor restrictions. Premiums and discounts on fixed income securities are amortized into income using the effective interest method. Fees paid to custodians and investment managers related to investments in securities are recorded on the accrual basis and are netted against investment income on the consolidated statements of activities.

(f) Fair Value Measurements

The University utilizes guidance contained within the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of assets and liabilities that are recognized or disclosed at fair value in the financial statements. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (see note 11).

The carrying amounts of student accounts receivable, other receivables and accounts payable and accrued liabilities approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of notes receivable, evaluated collection history and concluded the carrying amount approximates fair value. Management has estimated the net realizable value of pledges receivable, and annuities and trusts payable and has concluded the carrying amounts approximate fair value. The fair value of investments, funds held in trust and beneficial interest in trusts is estimated as noted above and in note 11. The fair value of interest rate swaps is determined using pricing models developed based on the LIBOR swap rate and other 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. The carrying amount of notes payable with variable interest rates approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities. The fair value of notes payable with fixed interest rates, as disclosed in note 8, is based on rates assumed to be currently available for bond issues with similar terms and average maturities.

(g) Student Accounts Receivable

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

(h) Derivative Instruments

The University accounts for derivatives and hedging activities in accordance with FASB ASC Topic 815, *Derivatives and Hedging*, which requires the University to recognize all derivative instruments as either assets or liabilities on the consolidated statements of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets on the consolidated statements of activities. The University's consolidated financial statements include various derivative instruments such as interest rate swaps and equity contract derivatives (notes 8 and 12).

(i) Inventories

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

(j) Property, Plant and Equipment

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

(k) Collections

The University's collections of historically significant artifacts, scientific specimens and art objects are held for education, research, scientific inquiry, and public exhibition. Their value is not reflected in the University's consolidated financial statements, as permitted by FASB ASC Topic 958, *Accounting for Contributions Received and Contributions Made.*

(l) Revenue Recognition

Tuition and Fees

Student tuition and fees are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred income. Student aid provided by the University for tuition and fees is reflected as a reduction of tuition and fee revenue.

Contributions

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

Endowment Spending Distributions

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

(m) Income Taxes

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

Tax positions are recognized or derecognized based on a "more likely than not" threshold. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which a change in judgment occurs. This applies to positions taken or expected to be taken on a tax return. The University recognizes interest accrued related to unrecognized tax benefits and penalties related to unrecognized tax benefits in accounts payable and accrued liabilities, if assessed. No interest expense or penalties have been recognized as of and for the years ended June 30, 2013 and 2012.

For all open tax years, the University has analyzed filing positions in all of the federal, state and foreign jurisdictions where it is required to file income tax returns, including the University's status as a tax-exempt organization. The University believes its income tax filing positions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. As of June 30, 2013, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2006 forward.

(n) Estimates

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

(o) Reclassifications

Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation.

(p) Subsequent Events

In accordance with ASC 885-10, *Subsequent Events*, the University has evaluated subsequent events for potential recognition and/or disclosure in the June 30, 2013 consolidated financial statements through September 25, 2013, the date the consolidated financial statements were issued.

(2) Endowment

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

The University's endowment consists of approximately 1,300 individual funds at June 30, 2013, 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.

(a) Interpretation of Relevant Law

The University has interpreted the Commonwealth's enacted version of UPMIFA (the Act) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, purposes, and durations for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund should be donor-restricted assets until appropriated for expenditure by the Board of Trustees.

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

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

Endowment net assets consist of the following at June 30, 2013 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (66)	688,173	323,622	1,011,729
Board-designated endowment funds	1,026,856	—	—	1,026,856
Total endowed net assets	**$ 1,026,790**	**688,173**	**323,622**	**2,038,585**

Endowment net assets consist of the following at June 30, 2012 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (163)	620,958	311,903	932,698
Board-designated endowment funds	941,593	—	—	941,593
Total endowed net assets	**$ 941,430**	**620,958**	**311,903**	**1,874,291**

Westhampton Lake

Changes in endowment net assets consist of the following at June 30, 2013 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2012	$ 941,430	620,958	311,903	1,874,291
Investment return:				
Investment income	16,774	—	—	16,774
Net appreciation	177,022	36,292	857	214,171
Total investment return	193,796	36,292	857	230,945
Contributions	5,047	—	8,085	13,132
Appropriation of endowment assets for expenditure	(118,349)	30,923	1,612	(85,814)
Other adjustments	(850)	—	(113)	(963)
Redesignated funds	(1,492)	—	1,278	(214)
Endowment net assets, June 30, 2013 before eliminations	1,019,582	688,173	323,622	2,031,377
Elimination of intercompany receivables and payables	7,208	—	—	7,208
Endowment net assets, June 30, 2013	**$ 1,026,790**	**688,173**	**323,622**	**2,038,585**

Changes in endowment net assets consist of the following at June 30, 2012 are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2011	$ 936,589	642,664	308,766	1,888,019
Investment return (loss):				
Investment income	13,646	—	—	13,646
Net appreciation (depreciation)	4,748	34,080	(1,593)	37,235
Total investment return (loss)	18,394	34,080	(1,593)	50,881
Contributions	114	—	1,464	1,578
Appropriation of endowment assets for expenditure	(23,155)	(55,786)	1,519	(77,422)
Other adjustments	(1,081)	—	143	(938)
Redesignated funds	15,038	—	1,604	16,642
Endowment net assets, June 30, 2012 before eliminations	945,899	620,958	311,903	1,878,760
Elimination of intercompany receivables and payables	(4,469)	—	—	(4,469)
Endowment net assets, June 30, 2012	**$ 941,430**	**620,958**	**311,903**	**1,874,291**

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the University to retain as a fund of perpetual duration in accordance with GAAP. Deficiencies of this nature that are reported in unrestricted net assets were $0.1 million and $0.2 million as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. The University has adopted investment and spending policies for endowment assets that attempt to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing University operations. Per the University's investment policy, as approved by the Board, the primary investment objective is to earn an average annual real total return of at least 5% per year over the long term. Actual returns in any given year may vary from this amount. A secondary objective is to outperform over the long term a policy benchmark. The policy benchmark represents the weighted average of benchmark returns for each asset class in the policy asset allocation.

(d) Strategies Employed for Achieving Objectives

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

(e) Spending Policy

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

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

(3) Investments

The costs and fair values of investments at June 30, 2013 and 2012 are as follows (in thousands):

	2013		2012	
	Cost	Fair value	Cost	Fair value
Cash equivalents	$ 386	386	615	615
Investments in securities:				
Fixed income:				
Government bonds	11,195	11,096	9,105	9,224
Corporate bonds and other fixed income	23,627	23,221	10,224	10,563
Total fixed income	34,822	34,317	19,329	19,787
Common and preferred stock	15,333	16,595	34,097	33,306
Commingled funds	1,125	1,224	1,369	1,383
Investments in investment funds:				
Hedge funds	711,497	1,309,553	684,080	1,131,522
Private equity funds	491,097	403,807	457,645	432,377
Other funds	177,205	205,300	163,745	194,096
Other investments	6,068	6,066	6,048	10,399
Total	**$1,437,533**	**1,977,248**	**1,366,928**	**1,823,425**

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

At June 30, 2013, $16.7 million of unspent proceeds related to certain notes payable issued in November 2012 is included in corporate bonds and other fixed income, with maturities ranging from 6 to 18 months (note 8). At June 30, 2012, no unexpended bond proceeds were included in investments.

The University consolidated $1.2 billion and $1.1 billion of investments held by consolidated variable interest entities at June 30, 2013 and 2012, respectively (note 16).

At June 30, 2013, the University of Richmond has committed to make additional capital contributions of approximately $324 million to various investment funds over the next five years (note 11). Additionally, at June 30, 2013, commitments to make additional capital contributions of approximately $147 million have been made by consolidated variable interest entities.

Total investment return for the years ended June 30, 2013 and 2012 is a positive return of $381.5 million and $91.3 million, respectively, and is classified within operating revenues and nonoperating activities as investment income, endowment spending distribution and net realized and unrealized gains and losses. Operating investment return includes income generated from short-term investments and the endowment spending formula, and nonoperating activities investment return includes income and gains earned (losses incurred) on the investment pool, in excess of the spending rate. When the spending rate exceeds actual investment income, the spending rate is met with accumulated gains and income.

(4) Notes Receivable

The University's notes receivable consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $4.6 million and $4.5 million as of June 30, 2013 and 2012, respectively, are ultimately refundable to the government and are classified as U.S. government grants refundable on the consolidated statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the Federal government.

Notes receivable and the changes in the allowance for doubtful accounts as and for the year ended June 30, 2013 and 2012, respectively, are as follows (in thousands):

	2013	2012
Federal govenment programs	$ 4,536	4,442
Less allowance for doubtful accounts:		
Beginning of year	(56)	(660)
Recoveries (reserves)	(2)	604
End of year	(58)	(56)
Notes receivables, net	**$ 4,478**	**4,386**

The allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. The aging of the notes receivable portfolio as of June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Not in repayment	$ 2,404	2,256
Current	1,811	1,838
1-60 days past due	127	108
60-90 days past due	5	19
90+ days past due	189	221
	$ 4,536	**4,442**

(5) Pledges Receivable

Unconditional pledges at June 30, 2013 and 2012 are expected to be realized in the following periods (in thousands):

	2013	2012
Less than one year	$ 809	5,613
One year to five years	13,932	8,352
	14,741	13,965
Less:		
Unamortized discount	(1,063)[(1)]	(887)[(1)]
Allowance for uncollectible amounts	(798)	(653)
	$ 12,880	**12,425**

[(1)] Discount rates ranging from 1.1% to 5.6%

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

The methodology for calculating an allowance for uncollectible pledges receivable is based upon management's analysis of the aging of payment schedules for outstanding pledges and other factors, including donor history and quality. This review resulted in an allowance for uncollectible amounts totaling 5.4% and 4.8% of pledges receivable as of June 30, 2013 and 2012, respectively.

(6) Annuities and Trusts

The University is the beneficiary and trustee of certain charitable remainder trusts. Under these trust agreements, the donors contributed assets to the University. For the remainder of the beneficiary's life, the University pays a fixed amount or fixed percentage to the beneficiary as defined in the agreement. The fair value of the assets received under these agreements of $2.8 million and $2.7 million as of June 30, 2013 and 2012, respectively, is reported as funds held in trust in the consolidated statements of financial position. The present value of the future payout to the beneficiaries recorded in the consolidated statements of financial position as annuities and trusts payable as of June 30, 2013 and 2012 was $1.4 million and $1.3 million, respectively. Discount rates used in calculating the present value for both years ranged from 4.2% to 10.2%.

The University is the beneficiary of certain charitable trusts, the assets of which are not in the possession of the University. The estimated fair value of the assets is included in beneficial interest in trusts in the consolidated statements of financial position.

The University is a party to certain charitable gift annuity agreements. Under these gift annuity agreements, the donors contributed assets to the University. For the remainder of the annuitant's life, the University pays a fixed amount annuity to the annuitant as defined in the agreement. The fair value of the assets received under these agreements is included in investments in the consolidated statements of financial position. The present value of the future payout to the annuitants at June 30, 2013 and 2012, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $4.6 million and $4.7 million, respectively. Discount rates used in calculating the present value for both years ranged from 1.2% to 10.6%.

(7) Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Land	$ 21,175	21,043
Buildings	367,875	360,967
Improvements	28,315	27,578
Equipment	89,869	86,675
Library books	67,767	64,509
Construction in progress	31,691	23,071
	606,692	583,843
Accumulated depreciation	(314,358)	(295,638)
	$292,334	**288,205**

Depreciation expense totaled $19.2 million and $18.8 million for the years ended June 30, 2013 and 2012, respectively (note 15).

(8) Notes Payable

Notes payable to the Virginia College Building Authority (VCBA), including unamortized premiums, consist of the following at June 30, 2013 and 2012 (in thousands):

	Interest rate	Final maturity	Outstanding principal 2013	2012
Tax-exempt fixed-rate notes payable:				
2011 Series A	3.00–5.00%	March 1, 2023	$ 25,229	27,469
2011 Series B	5.00%	March 1, 2021	43,781	44,582
2012 Series	3.00–4.00%	March 1, 2042	61,629	—
Total tax-exempt fixed-rate notes payable			**130,639**	**72,051**
Tax-exempt variable-rate notes payable:				
2004 Series	(1)	August 1, 2034	46,000	46,000
2006 Series	(2)	November 1, 2036	55,900	55,900
Total tax-exempt variable-rate notes payable			**101,900**	**101,900**
Total notes payable			**$ 232,539**	**173,951**

(1) Weekly interest rate determined by the Remarketing Agent. Refunded all of the 1994 series and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum. Average interest rates for the years ended June 30, 2013 and 2012 were 0.14% and 0.17%, respectively.

(2) Daily interest rate determined by the Remarketing Agent. Refunded all of the 1996 and 1999 series and provided funds for several projects, including Lakeside Dorm, Boatwright Library and Boiler Plant improvements. Average interest rates for the years ended June 30, 2013 and 2012 were 0.15% and 0.11%, respectively.

The preceding table reflects the fixed/variable interest rates on notes payable before the effects of interest rate swap agreements. Interest rate swap agreements are being used to convert the variable rates on notes payable to a fixed rate without exchanging the underlying principal amounts. The agreements are used to minimize the impact of future interest rate changes (note 12). The University anticipates holding the interest rate swap agreements until all associated debt has been retired.

In November 2012, the University issued $60 million of tax-exempt fixed rate revenue bonds through the VCBA. These notes payable bear interest between 3% and 4%, with principal payments due in varying annual installments between 2027 and 2032, with the final installment due in 2042. Proceeds from the issue will be used to construct, equip, or improve several projects, including a new residence hall, new student apartments and the Robins Center, among others.

The University has entered into four fixed rate swap agreements related to notes payable at June 30, 2013 and 2012 as follows (in thousands):

Maturity	Rate Paid	Rate received	Notional amount	Collateral provisions
March 1, 2029	3.778%	68% of one-month LIBOR (1)	$25,000	None
June 1, 2031	3.740%	68% of one-month LIBOR (1)	30,000	None
August 1, 2034	4.000%	68% of one-month LIBOR (1)	25,000	Exposure in excess of $20 million
November 1, 2036	3.770%	68% of one-month LIBOR (1)	10,000	None

(1) London Interbank Offered Rate

No collateral was required to be posted related to the University's interest rate swap agreements during the years ending June 30, 2013 and 2012.

Interest expense on notes payable and interest rate swap agreements, including amortization of premium on notes payable, and the cost of standby credit facilities, was $7.3 million and $6.1 million for the years ended June 30, 2013 and 2012, respectively (note 15).

At June 30, 2013, the aggregate annual maturities of notes payable for the next five years and thereafter is as follows (in thousands):

Payable in fiscal year:	
2014	$ 1,900
2015	1,975
2016	21,825
2017	2,170
2018	2,275
Thereafter	195,770
	225,915
Unamortized premium	6,624
	$ 232,539

The fair value of all outstanding long-term obligations at June 30, 2013 and 2012 was approximately $229 million and $180 million, respectively.

The University has standby credit facilities to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. For the years ended June 30, 2013 and 2012, the University had two diversified facilities totaling $101.9 million that are committed for this sole purpose and cannot be used for the operating needs of the University. For the years ended June 30, 2013 and 2012, there were no draws against these standby credit facilities. The cost of the credit facilities totaled $0.4 million and $0.5 million for the years ended June 30, 2013 and 2012, respectively, and is included in interest expense (note 15).

The terms of the University's notes payable provide for certain financial and nonfinancial covenants, including provisions as to the use of the proceeds, limits as to arbitrage and bond issue costs and various other administrative requirements. The University believes it was in compliance with these covenants for the years ended June 30, 2013 and 2012.

(9) Retirement Plans

The University has certain contributory defined contribution retirement annuity plans, funded through the Teachers' Insurance and Annuity Association, the Vanguard Group, and the American Funds, for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $8.8 million and $8.2 million to these plans for the years ended June 30, 2013 and 2012, respectively, which was charged to expense in the consolidated statements of activities.

(10) Postretirement Benefits

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

The University utilizes a measurement date of June 30th. At June 30, 2013, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $6.5 million and $0.1 million, respectively. At June 30, 2012, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $8.4 million and $0.1 million, respectively.

Information with respect to the postretirement plan as of and for the years ended June 30, 2013 and 2012 is as follows (in thousands):

	2013	2012
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 15,134	11,543
Service cost	451	227
Interest cost	552	566
Benefits paid	(844)	(905)
Actuarial (gain) loss	(1,542)	3,703
Accrued postretirement benefit obligation	**$ 13,751**	**15,134**

Net periodic postretirement benefit cost for the years ended June 30, 2013 and 2012 was as follows (in thousands):

	2013	2012
Net periodic postretirement benefit cost:		
Service cost	$ 451	227
Interest cost	552	566
Amortization of unrecognized net loss	394	224
Amortization of prior service cost	(62)	(62)
	$ 1,335	**955**

Estimated future benefit payments are total benefits expected to be paid from the plan. The following are estimated benefit payments for the years ending 2014 through 2023 (in thousands):

Years ending June 30:	
2014	$ 872
2015	950
2016	957
2017	962
2018	948
2019–2023	4,938

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.34% and 7.45% for 2013 and 2012, respectively, and is assumed to decrease gradually to 4.5% by the year 2030 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2013 by $0.6 million and increase the net periodic postretirement benefit cost for the year ended June 30, 2013 by $0.1 million.

The weighted average discount rates used in determining the accumulated postretirement benefit obligation at June 30, 2013 and 2012 were 4.75% and 3.75%, respectively.

The University accounts for the nontaxable federal subsidy related to the postretirement benefit plan drug benefit provided to retirees that is at least actuarially equivalent to the Medicare Part D benefit in accordance with ASC Topic 715-60, *Defined Benefit Plans-Postretirement*. As of June 30, 2013, 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.

(11) Fair Value Measurements

Fair value measurements are categorized into a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.
Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The University determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the University uses various methods, including the market, income and cost approaches. Additionally, the University has estimated the fair value of its investments in investment funds on the basis of the NAV per share of the investment (or its equivalent), as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the Fund's fiscal year end date. The University uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The University has evaluated the various types of securities and investment funds in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include municipal bonds, foreign government bonds and corporate debt securities and hedge funds with available liquidity. Due to the significance of unobservable inputs required in measuring the fair value of investments in hedge funds without available liquidity, private equity funds and swap agreements, they have been classified as Level 3 within the fair value hierarchy.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2013, by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 386	—	—	386
Investment in securities:				
Government bonds	—	11,096	—	11,096
Corporate bonds and other fixed income	—	23,221	—	23,221
Common stock and preferred stock	16,357	—	238	16,595
Commingled funds	1,224	—	—	1,224
Total investment in securities	17,581	34,317	238	52,136
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	505,463	373,423	878,886
Multi-strategy	—	112,795	168,119	280,914
Credit	—	83,907	65,846	149,753
Total hedge funds	—	702,165	607,388	1,309,553
Private equity funds	—	—	403,807	403,807
Other funds:				
Real estate	—	—	71,914	71,914
Real assets	—	—	133,386	133,386
Total other funds	—	—	205,300	205,300
Total investment in investment funds	—	702,165	1,216,495	1,918,660
Other investments	—	—	6,066	6,066
Total investments	**$ 17,967**	**736,482**	**1,222,799**	**1,977,248**

	Level 1	Level 2	Level 3	Total
Investments of consolidated variable interest entitities:				
Investment in securities:				
Government bonds	$ —	2,372	—	2,372
Corporate bonds	—	30,399	—	30,399
Common stock and preferred stock	258,418	359	—	258,777
Commingled funds	38,385	—	—	38,385
Total investment in securities	296,803	33,130	—	329,933
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	268,013	136,972	404,985
Multi-strategy	—	86,213	34,325	120,538
Credit	—	18,896	79,021	97,917
Total hedge funds	—	373,122	250,318	623,440
Private equity funds	—	—	168,441	168,441
Other funds:				
Real estate	—	—	51,897	51,897
Real assets	—	—	73,221	73,221
Total other funds	—	—	125,118	125,118
Total investment in investment funds	—	373,122	543,877	916,999
Total investments of consolidated variable interest entities	**296,803**	**406,252**	**543,877**	**1,246,932**
Funds held in trust	2,093	716	—	2,809
Beneficial interest in trusts	—	—	3,584	3,584
Total	**$316,863**	**1,143,450**	**1,770,260**	**3,230,573**
Liabilities:				
Swap agreements	$ —	—	21,835	21,835
Total	**$ —**	**—**	**21,835**	**21,835**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012, by level within the fair value hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 615	—	—	615
Investment in securities:				
Government bonds	—	9,224	—	9,224
Corporate bonds and other fixed income	—	10,563	—	10,563
Common stock and preferred stock	32, 944	124	238	33,306
Commingled funds	1,383	—	—	1,383
Total investment in securities	34,327	19,911	238	54,476
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	438,539	309,003	747,542
Multi-strategy	—	81,542	161,215	242,757
Credit	—	57,954	83,269	141,223
Total hedge funds	—	578,035	553,487	1,131,522
Private equity funds	—	—	432,377	432,377
Other funds:				
Real estate	—	—	60,287	60,287
Real assets	—	—	133,809	133,809
Total other funds	—	—	194,096	194,096
Total investment in investment funds	—	578,035	1,179,960	1,757,995
Other investments	—	4,433	5,906	10,339
Total investments	**$ 34,942**	**602,379**	**1,186,104**	**1,823,425**

	Level 1	Level 2	Level 3	Total
Investments of consolidated variable interest entitities:				
Investment in securities:				
Government bonds	$ —	4,981	—	4,981
Corporate bonds	—	28,543	—	28,543
Common stock and preferred stock	132,797	850	—	133,647
Commingled funds	49,943	797	—	50,740
Total investment in securities	182,740	35,171	—	217,911
Investment in investment funds:				
Hedge funds:				
Equity oriented	—	226,138	161,004	387,142
Multi-strategy	—	82,973	51,653	134,626
Credit	—	49,458	62,579	112,037
Total hedge funds	—	358,569	275,236	633,805
Private equity funds	—	—	132,205	132,205
Other funds:				
Real estate	—	—	60,615	60,615
Real assets	—	—	61,259	61,259
Total other funds	—	—	121,874	121,874
Total investment in investment funds	—	358,569	529,315	887,884
Total investments of consolidated variable interest entities	**182,740**	**393,740**	**529,315**	**1,105,795**
Funds held in trust	2,083	630	—	2,713
Beneficial interest in trusts	—	—	3,864	3,864
Total	**$219,765**	**996,749**	**1,719,283**	**2,935,797**
Liabilities:				
Swap agreements	$ —	—	33,493	33,493
Total	**$ —**	**—**	**33,493**	**33,493**

The following table summarizes changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012 (in thousands):

	Common and preferred stocks	Hedge funds	Private equity funds	Other funds	Other investments	Investments of VIEs	Beneficial interest in trusts	Total
Assets:								
Beginning balance as of July 1, 2011	**$ 214**	**731,468**	**408,024**	**204,286**	**6,618**	**519,747**	**3,191**	**1,873,548**
Transfers into Level 3	—	12,293	—	—	—	19	—	12,312 (b)
Transfers out of Level 3	—	(175,026)	—	—	—	(92,001)	—	(267,027) (a)
Total net gains (losses) included in:								
Change in net assets	(199)	20,447	31,212	1,753	1,256	(18,581)	673	36,561
Purchases, issuances, sales, and settlements:								
Purchases	2,315	49,568	62,024	28,650	247	174,185	—	316,989
Sales	(2,092)	(85,263)	(68,883)	(40,593)	(2,215)	(54,054)	—	(253,100)
Ending balance as of June 30, 2012	**$ 238**	**553,487**	**432,377**	**194,096**	**5,906**	**529,315**	**3,864**	**1,719,283**
Transfers into Level 3	124	44,392	—	—	—	48,857	—	93,373 (b)
Transfers out of Level 3	—	(102,168)	—	—	—	(25,142)	—	(127,310) (a)
Total net gains (losses) included in:								
Change in net assets	(217)	75,000	27,816	5,768	268	32,083	(280)	140,438
Purchases, issuances, sales, and settlements:								
Purchases	27,905	154,084	65,717	36,707	506	79,249	—	364,168
Sales	(27,812)	(117,407)	(122,103)	(31,271)	(614)	(120,485)	—	(419,692)
Ending balance as of June 30, 2013	**$ 238**	**607,388**	**403,807**	**205,300**	**6,066**	**543,877**	**3,584**	**1,770,260**
Net unrealized gains (losses) included in net gain for the period related to assets held at June 30, 2013	$ 105	54,149	(15,347)	(2,208)	141	13,666	(280)	50,226

	Swap agreements
Liabilities:	
Beginning balance as of July 1, 2011	**$ (16,076)**
Total net losses included in:	
Change in net assets	(17,417)
Ending balance as of June 30, 2012	**(33,493)**
Total net gains included in:	
Change in net assets	11,658
Ending balance as of June 30, 2013	**$ (21,835)**
Net unrealized gains included in change in fair value of swap agreements for the period related to liabilites held at June 30, 2013	$ 11,658

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

(b) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity and changes in liquidity terms.

The following table summarizes changes in Level 2 assets and liabilities measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012 (in thousands):

	Fixed income	Common and preferred stocks	Hedge funds	Other investments	Investments of VIEs	Funds held in trust	Total
Assets:							
Beginning balance as of July 1, 2011	**$ 32,005**	**—**	**426,905**	**(444)**	**225,201**	**855**	**684,522**
Transfers into Level 2	—	—	175,026	—	92,001	—	267,027 (a)
Transfers out of Level 2	—	—	(12,293)	—	(19)	—	(12,312) (b)
Total net gains (losses) included in:							
Change in net assets	(62)	—	9,911	10,648	16,812	(18)	37,291
Purchases, issuances, sales, and settlements:							
Purchases	20,056	124	64,946	—	101,944	63	187,133
Sales	(32,212)	—	(86,460)	(5,771)	(42,199)	(270)	(166,912)
Ending balance as of June 30, 2012	**$ 19,787**	**124**	**578,035**	**4,433**	**393,740**	**630**	**996,749**
Transfers into Level 2	—	—	102,168	—	25,142	—	127,310 (a)
Transfers out of Level 2	—	(124)	(44,392)	—	(50,523) (c)	—	(95,039) (b)
Total net gains (losses) included in:							
Change in net assets	(846)	—	98,823	11,345	40,971	(4)	150,289
Purchases, issuances, sales, and settlements:							
Purchases	28,859	—	32,056	—	21,643	211	82,769
Sales	(13,483)	—	(64,525)	(15,778)	(24,721)	(121)	(118,628)
Ending balance as of June 30, 2013	**$ 34,317**	**—**	**702,165**	**—**	**406,252**	**716**	**1,143,450**
Net unrealized gains (losses) included in net gain for the period related to assets held at June 30, 2013	$ (667)	—	87,489	(4,433)	36,410	25	118,824

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

(b) Transferred from Level 2 to Level 3 because of lack of observable market data due to decrease in market activity and changes in liquidity terms except as noted in note (c).

(c) Transferred $1.7 million from Level 2 to Level 1 because of obtained observable market data.

The University had $1.7 million of transfers to Level 1 during the year ended June 30, 2013, as noted above, and no significant transfers to or from Level 1 during the year ended June 30, 2012. The University's policy is to recognize transfers into or out of the levels at the end of the reporting period. The University did not have any assets or liabilities measured at fair value on a nonrecurring basis during the years ended June 30, 2013 and 2012.

The following table summarizes information about the attributes of investments in investment funds by major category as of June 30, 2013 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investment in investment funds:				
Hedge funds:				
Equity oriented	$ 878,886	—	Daily to 3 years	15 - 90 days
Multi-strategy	280,914	3,000	65 days to 1 year	45 - 180 days
Credit	149,753	20,000	30 days to 2 years	60 - 150 days
Total hedge funds	1,309,553	23,000		
Private equity funds	403,807	150,300	N/A	N/A
Other funds:				
Real estate	71,914	30,689	N/A	N/A
Real assets	133,386	119,588	N/A	N/A
Total other funds	205,300	150,277		
Total investment in investment funds	**1,918,660**	**323,577**		
Investment of consolidated variable interest entities:				
Hedge funds:				
Equity oriented	404,985	—	Daily to Rolling 5 year lock-up	10 - 90 days
Multi-strategy	120,538	—	Quarterly to Annually	60 - 75 days
Credit	97,917	—	Annually to Rolling 2 year lock-up	60 - 90 days
Total hedge funds	623,440	—		
Private equity funds	168,441	106,856	N/A	N/A
Other funds:				
Real estate	51,897	2,624	N/A	N/A
Real assets	73,221	37,779	N/A	N/A
Total other funds	125,118	40,403		
Total investment in investment funds by consolidated variable interest entities	**916,999**	**147,259**		
	$2,835,659	**470,836**		

(a) Equity Oriented

This category includes investments in hedge funds in three categories a) domestic equity; b) international equity; and c) global equity. Domestic equity funds invest primarily in publicly traded U.S. stocks with long term investment horizons and modest liquidity constraints. The domestic equity portfolio may contain both a passive core and an active investment strategy and will include both long/short and long only managers. International equity funds invest primarily in publicly traded common stock of predominantly international markets, both in developed and developing/emerging regions. The international equity portfolio takes an active investment approach due to the less efficient nature of the markets which should generate higher returns than a passive core and will be implemented through both long/short and long only managers, potentially in all regions of the world. Global equity funds invest primarily in publicly traded common stock from a combination of domestic, developed international and developing/emerging international markets. The global equity portfolio will largely employ an active investment strategy, though from time to time may utilize swaps, exchange traded funds (ETFs) and other derivative products to add or reduce the overall directionality of the portfolio. The fair values of the investments in this category have been estimated using the NAV per share of the investments, as a practical expedient.

(b) Multi–Strategy

This category includes investments in hedge funds that invest primarily in investments specializing in asset allocation across multiple investment strategies that have low correlations and/or market exposure to other asset classes. Diversification across strategies and positions will be wide in order to dampen portfolio volatility. The portfolio's liquidity will be moderate, less than that of the traditional public equity portfolios, but more liquid than the private equity/venture capital portfolio. This portfolio will focus on areas and strategies where value added by active management can contribute a substantial portion of the return. The portfolio may utilize swaps, derivatives, ETFs or other instruments in order to manage risk. The fair values of the investments in this category have been estimated using the NAV per share of the investments as a practical expedient.

(c) Credit

This category includes investments in hedge funds that invest primarily in investments in publicly and privately traded credit and credit related securities. The portfolio can hold a mix of traditional benchmark relative strategies and absolute return strategies. It is expected that many types of securities could be considered credit sensitive and the portfolio will contain, but not be limited to, bonds, equities, derivatives, currencies and private securities. The portfolio will be diversified across credit asset classes and hold a mixture of investment grade and high yield securities of performing and nonperforming debt. Liquidity and volatility will vary by strategy. The fair values of the investments in this category have been estimated using the NAV per share of the investments as a practical expedient.

(d) Private Equity

This category includes investments in private equity funds that invest in both private and public companies both domestically and internationally across the international private equity, buyout, early stage, later stage, subordinated debt, credit and secondary funds asset classes. The private equity portfolio's objective is to earn higher returns than the public equity markets over the long term. This portfolio invests in highly illiquid positions and should generate higher returns as compensation for that illiquidity. The portfolio is diversified across categories and investment stage. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 19 years.

(e) Real Estate

This category includes investments in real estate investment funds. The long-term objective of the real estate portfolio is to provide equity-like returns while providing a partial hedge against inflation. The portfolio is directed largely to illiquid investments with a long time horizon. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 14 years.

(f) Real Assets

This category includes investments in funds comprised of oil and gas, commodities, timber, and inflation-linked bond investments. Real assets represent claims on future streams of inflation-sensitive income, supplying protection against unanticipated inflation. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of the funds will be liquidated over the next 13 years.

(12) Derivatives

The following table provides information on the fair value of the derivative instruments in the consolidated statements of financial position and the effect of the derivative instruments on the consolidated statements of activities as of and for the years ended June 30, 2013 and 2012, respectively (in thousands):

	Statement of financial position location	Fair value asset (liability) 2013	Fair value asset (liability) 2012	Statement of activities location	Gain (loss) 2013	Gain (loss) 2012
Interest rate swap agreements:	Swap agreements			Unrestricted - Change in fair values of swap		
March 1, 2029 maturity		$ (5,465)	(8,271)		$ 2,806	(4,161)
June 1, 2031 maturity		(6,811)	(10,527)		3,716	(5,551)
August 1, 2034 maturity		(6,993)	(10,634)		3,641	(5,436)
November 1, 2036		(2,566)	(4,061)		1,495	(2,269)
Total interest rate swaps		**(21,835)**	**(33,493)**		**11,658**	**(17,417)**
Equity contracts:	Investments			Unrestricted- Net realized and unrealized gains (losses)		
Index swaps		—	—		—	1,915
Options		—	4,433		11,345	8,733
Total equity contracts		**—**	**4,433**		**11,345**	**10,648**
Total deriviatives		**$ (21,835)**	**(29,060)**		**$ 23,003**	**(6,769)**

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

Certain University derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. During the years ended June 30, 2013 and 2012, the University's long-term debt ratings exceeded these benchmarks.

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

Investment strategies employed by the University may incorporate the use of various derivative financial instruments with off balance sheet risk. The University uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. The following summarizes the accounting for each type of derivative contract.

(a) Swap Agreements:

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

(b) Option Contracts:

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

(13) Composition of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2013 and 2012 (in thousands):

	2013	2012
Support of particular operating activities	$ 38,106	33,787
Acquisition of long-lived assets	25,891	28,790
Accumulated appreciation on donor-restricted endowment funds	688,174	620,958
	$752,171	**683,535**

Release of restrictions related to property, plant and equipment is considered a nonoperating activity in the consolidated statements of activities.

Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2013 and 2012.

(14) Lease Obligations

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

The rental income pursuant to this lease agreement for the years ended June 30, 2013 and 2012 was $3.2 million and $3.1 million, respectively and is included in other sources in the consolidated statements of activities.

The following is a schedule by years of future minimum rentals on the non-cancelable operating lease as of June 30, 2013 (in thousands):

Years ending June 30:	
2014	$ 3,365
2015	3,480
2016	3,549
2017	3,620
2018	3,693
2019	1,239
	$ 18,946

The University leases certain equipment and real property. These leases are classified primarily as operating leases and have lease terms of up to 5 years. Total operating lease expense for the years ended June 30, 2013 and 2012 was $1.0 million and $0.8 million, respectively.

As of June 30, 2013, future minimum lease payments by fiscal year on non-cancelable operating leases with initial or remaining lease terms in excess of one year are as follows (in thousands):

Years ending June 30:	
2014	$ 954
2015	712
2016	708
2017	363
2018	298
2019 and beyond	238
	$ 3,273

(15) Allocation of Expenses

The University allocates maintenance of plant, interest, and depreciation to the program and support expenses reported in the accompanying consolidated statements of activities. Expenses are allocated on the basis of certain financial and nonfinancial data. The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2013 (in thousands):

Functional category	Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$ 60,866	6,887	2,265	6,857	76,875
Research	5,152	583	192	580	6,507
Public service	2,062	233	77	233	2,605
Libraries	10,412	1,177	388	1,173	13,150
Academic support	20,027	2,266	745	2,256	25,294
Student services	17,242	1,951	642	1,942	21,777
Institutional support	32,386	4,081	1,343	4,063	41,873
Auxiliary enterprises	39,891	—	1,688	1,680	43,259
	188,038	17,178	7,340	18,784	231,340
Maintenance	17,178	(17,178)	—	—	—
Interest	7,340	—	(7,340)	—	—
Depreciation	18,784	—	—	(18,784)	—
Total operating expenses	**$ 231,340**	**—**	**—**	**—**	**231,340**

The following table reports the amount of these expenses included in the accompanying consolidated statement of activities for the year ended June 30, 2012 (in thousands):

Functional category	Direct expenses	Maintenance	Interest	Depreciation	Total expenses
Instruction	$ 57,531	6,353	1,860	6,666	72,410
Research	5,549	613	179	643	6,984
Public service	2,326	257	75	269	2,927
Libraries	9,890	1,092	320	1,146	12,448
Academic support	19,445	2,147	629	2,253	24,474
Student services	16,647	1,838	539	1,929	20,953
Institutional support	31,528	3,844	1,125	4,032	40,529
Auxiliary enterprises	36,682	—	1,412	1,470	39,564
	179,598	16,144	6,139	18,408	220,289
Maintenance	16,144	(16,144)	—	—	—
Interest	6,139	—	(6,139)	—	—
Depreciation	18,408	—	—	(18,408)	—
Total operating expenses	**$ 220,289**	**—**	**—**	**—**	**220,289**

Depreciation expense of $0.4 million for the years ended June 30, 2013 and 2012 for Richmond Quadrangle, LLC is included as part of direct expenses in institutional support.

Program services consist of instruction, research, public service, libraries, academic support, student services and auxiliary enterprises in the amount of $189.5 million and $179.8 million for the years ended June 30, 2013 and 2012, respectively. Supporting services consist of institutional support in the amount of $41.9 million and $40.5 million for the years ended June 30, 2013 and 2012, respectively. Also included in supporting services are fundraising expenses in the amount of $6.9 million and $6.4 million for the years ended June 30, 2013 and 2012, respectively.

(16) Variable Interest Entities

At June 30, 2013, RFMC consolidated the Richmond Fund, which is a VIE, in accordance with FASB ASC Topic 810-10-15, *Consolidation, Variable Interest Entities.* RFMC is considered the primary beneficiary as it controls the activities of the Richmond Fund and is considered to be the variable interest holder most closely associated with the business since it is an investment management company. RFMC is consolidated by SMC which is consolidated by the University in accordance with FASB ASC 958-810, *Consolidation.*

At June 30, 2012, RFMC was also considered a VIE and consolidated by SMC. On July 1, 2012, SMC acquired remaining members' interests in RFMC and consequently is no longer considered a VIE.

At June 30, 2013 and 2012, the following balances related to the VIEs were consolidated in the University's consolidated statements of financial position (in thousands):

	2013	2012
Assets of consolidated VIEs:		
Cash and cash equivalents	$ 48,845	64,662
Government bonds	2,372	4,981
Corporate bonds	30,399	28,543
Common and preferred stock	238,469	133,647
Commingled funds	58,693	50,740
Hedge funds	623,440	633,805
Private equity funds	168,441	132,205
Other funds	125,118	121,874
Accrued income, other receivables and other assets	1,258	904
Total assets of consolidated VIEs	**1,297,035**	**1,171,361**
Liabilities of consolidated VIEs:		
Accounts payable and accrued liabilities	4,098	9,425
Capital contributions received in advance and redemptions payable	31,127	11,299
Total liabilities of consolidated VIEs	35,225	20,724
Net assets of consolidated VIEs	1,261,810	1,150,637
Total liabilities and net assets of consolidated VIEs	**$1,297,035**	**1,171,361**

The above assets are not available to creditors of the University at June 30, 2013 and 2012, respectively. Similarly, investors of the Richmond Fund have no recourse to the credit of the University.

The net assets of the Richmond Fund are $1.3 billion and $1.2 billion at June 30, 2013 and 2012, respectively, and are included in funds held on behalf of others in the consolidated statements of financial position. This amount includes the University's liability related to its non-controlling interest in earnings of affiliates of $133.4 million and $25.3 million at June 30, 2013 and 2012, respectively.

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

(17) Related-Party Transactions

Investment management fees paid to SMC by the University for the years ended June 30, 2013 and 2012 were $4.2 million and $3.8 million, respectively, which have been eliminated in consolidation.

Per the terms of the Richmond Fund's operating agreement dated January 28, 2008, the responsibility for managing the Richmond Fund is vested exclusively with the general partner, RFMC. The Richmond Fund pays the general partner a management fee payable quarterly in arrears equal to 1% per annum of the first $100 million of each limited partner's assets under management, 0.75% of the next $150 million, 0.5% of the next $250 million and 0.4% of the excess of $500 million. Management fees earned by RFMC from the Richmond Fund during the years ended June 30, 2013 and 2012 were $11.3 million and $10.3 million, respectively, of which $2.9 million and $1.3 million were payable to RFMC at June 30, 2013 and 2012, respectively. These amounts have been eliminated in consolidation. At the end of each fiscal year, the general partner may be entitled to a performance allocation with respect to each allocation layer of each limited partner equal to 10% of the net profits in excess of net profits such limited partner would have achieved if the allocation layer had grown at 10%. RFMC earned a performance allocation of $1.4 million and $(0.9) million during the years ended June 30, 2013 and 2012 respectively. No performance allocation was payable to RFMC at June 30, 2013 and 2012.

Expenses of the Richmond Fund for all partnership expenses are subject to a cap of 0.05% for partnership expenses in excess of the management fee for each fiscal quarter. The Richmond Fund will reimburse the general partner for organizational and offering costs in the amount of $0.4 million in twenty equal quarterly installments on the first business day of each quarter.

On January 28, 2008, the University entered into a blended rate of return agreement with the Richmond Fund. The purpose of the agreement is to equalize the quarterly rate of return of the University's pooled endowment managed by SMC and the Richmond Fund's rate of return prior to fees and expenses. The agreement requires quarterly settlement of the swap within 45 days of the quarter end date. The University anticipates holding the swap agreement until termination of the Richmond Fund. The settlement value of the swap at June 30, 2013 was a liability to the University and a receivable to the Richmond Fund in the amount of $12.6 million. The change in settlement value for the year ended June 30, 2013 totaled $8.5 million and was a loss for the University and a gain for the Richmond Fund. The settlement value of the swap at June 30, 2012 was a liability to the University and a receivable to the Richmond Fund in the amount of $5.4 million. The change in settlement value for the year ended June 30, 2012 totaled $31.8 million and was a loss for the University and a gain for the Richmond Fund. These amounts have been eliminated in the consolidation.

(18) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities. The expected cost to complete construction in progress was approximately $36.5 million at June 30, 2013.

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

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

Armillary outside Gottwald Center for the Sciences

Schedule 1

University of Richmond

Statements of Financial Position

As of June 30, 2013 and 2012

(Dollars in thousands)

	2013	2012
Assets:		
Cash and cash equivalents	$ 202,845	119,021
Investments (notes 3, 6, 11 and 12)	2,006,041	1,852,795
Student accounts receivable, net	606	1,229
Accrued income	106	72
Other receivables	1,781	1,274
Notes receivable, net (note 4)	4,478	4,386
Inventories, prepaid expenses and other	9,845	11,171
Pledges receivable, net (note 5)	12,880	12,425
Funds held in trust (notes 6 and 11)	2,809	2,713
Beneficial interest in trusts (notes 6 and 11)	3,584	3,864
Property, plant and equipment, net (notes 7 and 18)	264,372	259,823
Total assets	**$2,509,347**	**2,268,773**
Liabilities:		
Accounts payable and accrued liabilities	$ 36,070	26,713
Deferred income	12,460	12,067
U.S. government grants refundable (note 4)	4,561	4,511
Annuities and trusts payable (note 6)	6,042	6,022
Notes payable (note 8)	232,539	173,951
Swap agreements (notes 8, 11 and 12)	21,835	33,493
Postretirement benefits (note 10)	13,751	15,134
Total liabilities	**327,258**	**271,891**
Net assets (note 2):		
Unrestricted	1,083,890	980,827
Temporarily restricted (note 13)	752,171	683,535
Permanently restricted (note 13)	346,028	332,520
Total net assets	**2,182,089**	**1,996,882**
Total liabilities and net assets	**$2,509,347**	**2,268,773**

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

See accompanying Independent Auditors' Report and notes to the consolidated financial statements.

Schedule 2

University of Richmond

Statement of Activities

Year end June 30, 2013 with summarized financial information for the year ended June 30, 2012
(Dollars in thousands)

	2013				2012
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	$ 168,869	—	—	168,869	163,485
Less scholarship allowance	(70,956)	—	—	(70,956)	(69,544)
Net tuition and fees	**97,913**	**—**	**—**	**97,913**	**93,941**
Grants and contracts	5,243	—	—	5,243	5,195
Contributions (note 2)	12,368	622	—	12,990	10,456
Investment income (notes 2 and 3)	—	1,507	—	1,507	2,943
Endowment spending distribution (notes 2 and 3)	54,092	36,292	—	90,384	80,726
Auxiliary enterprises	40,773	—	—	40,773	38,871
Other sources (note 14)	11,585	—	—	11,585	5,380
Net assets released from restrictions	34,998	(34,998)	—	—	—
Total operating revenues	**256,972**	**3,423**	**—**	**260,395**	**237,512**
Operating expenses (notes 7, 8, 9, 14 and 15):					
Instruction	76,875	—	—	76,875	72,410
Research	6,507	—	—	6,507	6,984
Public service	2,605	—	—	2,605	2,927
Libraries	13,150	—	—	13,150	12,448
Academic support	25,294	—	—	25,294	24,474
Student services	21,777	—	—	21,777	20,953
Institutional support	45,553	—	—	45,553	43,803
Auxiliary enterprises	43,259	—	—	43,259	39,564
Total operating expenses	**235,020**	**—**	**—**	**235,020**	**223,563**
Increase in net assets from operating activities	**21,952**	**3,423**	**—**	**25,375**	**13,949**
Nonoperating activities:					
Contributions (note 2)	—	—	8,614	8,614	1,572
Investment income, net of fees (notes 2 and 3)	16,870	—	77	16,947	13,729
Endowment spending distribution (notes 2 and 3)	—	—	2,529	2,529	2,382
Net realized gains (losses) (notes 2, 3 and 12)	91,060	—	477	91,537	32,034
Net unrealized gains (losses) (notes 2, 3 and 12)	29,336	47	565	29,948	(78,167)
Net loss on disposal of plant assets	(539)	—	—	(539)	(9)
Redesignated funds (note 2)	(69,301)	66,900	2,401	—	—
Change in fair values of swap agreements (notes 8, 11 and 12)	11,658	—	—	11,658	(17,417)
Change in present value of split interest agreements (note 6)	—	—	(1,032)	(1,032)	178
Change in post-retirement benefit obligation other than net periodic costs (note 10)	1,874	—	—	1,874	(3,541)
Net assets released from restrictions for property, plant and equipment (note 13)	1,824	(1,824)	—	—	—
Tax provision	(815)	—	—	(815)	892
Other revenues (expenses)	(856)	90	(123)	(889)	3,308
Increase (decrease) in net assets from nonoperating activities	**81,111**	**65,213**	**13,508**	**159,832**	**(45,039)**
Change in net assets	**103,063**	**68,636**	**13,508**	**185,207**	**(31,090)**
Net assets at beginning of year	**980,827**	**683,535**	**332,520**	**1,996,882**	**2,027,972**
Net assets at end of year	**$ 1,083,890**	**752,171**	**346,028**	**2,182,089**	**1,996,882**

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

See accompanying Independent Auditors' Report and notes to the consolidated financial statements.

2013–14 Board of Trustees

The University of Richmond provides a collaborative learning and research environment unlike any other in higher education, offering students an extraordinary combination of the liberal arts with law, business, leadership studies, and continuing education.

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

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