Letter of Transmittal

To the President, Board of Trustees and Alumni
University of Richmond

Ladies and Gentlemen:

I am pleased to present the financial statements for the University of Richmond for the year ended June 30, 2006. We enjoyed strong enrollments, solid advancements toward the goals in our Strategic Plan and good financial results.

The Endowment Fund

The market value of the endowment at June 30, 2006 was $1.39 billion versus $1.21 billion a year ago. The endowment return was + 18.8% for Fiscal 2006 versus + 8.6% for the S&P500 and the return for the ten years ended June 30, 2006 was + 13.4% versus + 8.3% for the S&P500. Our portfolio is well diversified with about 45% invested in hedge/arbitrage and 19% in opportunistic strategies. Our endowment spending policy provided $49.1 million to support the operating budget in Fiscal 2006. This can be equated to a "scholarship" of $13,500 to every full-time student in addition to any other financial aid individual students may receive.

Operations

Richmond's operating revenues for the year amounted to $168.7 million and resulted in a net increase from operating activities of $9.3 million. The change in net assets from all activities amounted to $191.2 million including the increase in endowment assets.

The Strategic Plan

We have just completed our sixth year under the 2000 Strategic Plan. The Plan is ambitious—as it should be. Our goal is to be among the finest small private institutions of our kind in the nation and the Plan continues to build upon the solid foundation created throughout the University's history. In the Plan, we anticipate adding 45 new faculty positions (all in place), 43 staff positions (all in place), 60 new merit scholarships (58 in place) and meeting 100% of the demonstrated financial need of our students (in place), among other objectives. Each of these initiatives contributes to related goals, such as increasing the diversity on our campus and providing more opportunities for students and faculty to engage in research projects. The total cost of these operating initiatives over 10 years amounts to $72 million.

We have begun to look beyond the current strategic plan at needs that have been identified since 2000. Our total capital needs amount to $172 million in the foreseeable future. The Weinstein Center for the Social Sciences, the Gottwald Center for the Sciences and Heilman Center are completed and are spectacular. Other principal projects before us are a library addition and renovation ($23 million), business school addition ($13 million), Weinstein Center for Recreation and Wellness ($13.5 million), law school addition ($10.2 million), First Market Stadium ($20 million) and the Residence Hall Redevelopment Project. In annual operations, our needs include more nationally competitive faculty and students, more financial aid for top students and enhanced recruitment of students, faculty and staff of diverse backgrounds. Quality education is not finite; there is always more to be done when resources are available.

Enrollment

Looking forward, the 2006–07 session is underway. The application pool for undergraduates was 5,400, down about 6% from 2005–06 but the quality of the first-year undergraduate class is very strong. The Law School has admitted a very strong class.

I hope that you will join us on campus and witness the excitement and activity.

Respectfully submitted,

Herbert C. Peterson
Vice President for Business and Finance

University of Richmond and Its Affiliate

Consolidated Statement of Financial Position

As of June 30, 2006, with summarized financial information as of June 30, 2005

	2006			2005
	Operating	Endowment	Total	
ASSETS				
Cash and cash equivalents	$61,184,639		$61,184,639	$138,375,796
Investments (Note 2 and 6)	74,380,774	1,398,513,504	1,472,894,278	1,205,201,928
Funds held in trust (Note 6)	3,374,727		3,374,727	3,184,738
Student accounts receivable, net	817,145		817,145	600,687
Accrued income	616,371	398,873	1,015,244	912,741
Pledges receivable (Note 5)	16,064,423	4,877,977	20,942,400	20,663,177
Beneficial interest in trusts (Note 6)	2,692,506		2,692,506	2,564,475
Other receivables	3,633,322		3,633,322	3,021,305
Notes receivable	3,663,380		3,663,380	3,945,896
Inventories, prepaid expenses and other	8,293,866		8,293,866	8,741,282
Property, plant and equipment, net (Note 4)	196,644,841		196,644,841	182,455,704
Total Assets	**$371,365,994**	**$1,403,790,354**	**$1,775,156,348**	**$1,569,667,729**
LIABILITIES				
Accounts payable and accrued liabilities	$11,554,370		$11,554,370	$9,700,133
Funds held on behalf of others		11,079,016	11,079,016	0
Annuities and trusts payable (Note 6)	6,995,115		6,995,115	6,855,543
Deferred income	8,631,287		8,631,287	6,846,251
Notes payable (Note 3)	113,515,000		113,515,000	113,515,000
Interest rate swap liabilities (Notes 2 and 3)	3,300,100		3,300,100	3,930,798
Postretirement benefits (Note 8)	6,824,721		6,824,721	6,726,569
U. S. government grants refundable	3,588,943		3,588,943	3,611,091
Total Liabilities	**$154,409,536**	**$11,079,016**	**$165,488,552**	**$151,185,385**
NET ASSETS				
Unrestricted	$167,318,187	$1,120,790,125	$1,288,108,312	$1,085,864,539
Temporarily restricted (Note 9)	42,496,452	0	42,496,452	59,599,089
Permanently restricted (Note 9)	7,141,819	271,921,213	279,063,032	273,018,716
Total Net Assets	**$216,956,458**	**$1,392,711,338**	**$1,609,667,796**	**$1,418,482,344**
Commitments and contingencies (Notes 2 and 4)				
Total Liabilities and Net Assets	**$371,365,994**	**$1,403,790,354**	**$1,775,156,348**	**$1,569,667,729**

The Notes to Consolidated Financial Statements are an integral part of this statement.

University of Richmond and Its Affiliate

Consolidated Statement of Activities

For the year ended June 30, 2006, with summarized financial information for the year ended June 30, 2005

	2006				2005
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
OPERATING REVENUES					
Tuition and fees	$109,229,674			$109,229,674	$98,795,318
Less: scholarship allowance	(34,741,549)			(34,741,549)	(29,186,290)
Net tuition and fees	74,488,125			74,488,125	69,609,028
Grants and contracts	4,850,092			4,850,092	5,224,718
Contributions	5,285,555	$945,249		6,230,804	4,521,171
Investment income (Note 2)	4,765,240	1,628,443		6,393,683	4,386,937
Endowment income (Note 2)	24,253,838	21,109,845		45,363,683	41,991,664
Auxiliary enterprises	27,920,560			27,920,560	28,040,475
Other sources	3,482,993			3,482,993	4,804,113
Net assets released from restrictions	20,654,810	(20,654,810)		0	0
Total operating revenues	**$165,701,213**	**$3,028,727**	**$0**	**$168,729,940**	**$158,578,106**
OPERATING EXPENSES (NOTE 10)					
Instruction	$51,956,444			$51,956,444	$49,348,040
Research	4,147,258			4,147,258	3,646,697
Public service	2,200,638			2,200,638	1,855,230
Libraries	10,286,082			10,286,082	10,391,334
Academic support	18,278,762			18,278,762	16,758,775
Student services	11,687,030			11,687,030	11,099,658
Institutional support	30,205,392			30,205,392	27,176,976
Auxiliary enterprises	30,629,603			30,629,603	29,952,506
Total operating expenses	**$159,391,209**	**$0**	**$0**	**$159,391,209**	**$150,229,216**
Increase in net assets from operating activities	**6,310,004**	**3,028,727**	**0**	**9,338,731**	**8,348,890**
NON-OPERATING ACTIVITIES					
Contributions		5,069,718	2,964,033	8,033,751	12,593,446
Investment income (Note 2)	1,237,623	321,884	135,917	1,695,424	1,908,094
Endowment income (Note 2)	2,139,695		1,603,914	3,743,609	3,504,032
Net realized and unrealized gains (Note 2)	167,395,704		988,919	168,384,623	93,957,024
Redesignated funds	902,620	(1,895,537)	992,917	0	0
Change in fair values of interest rate swaps (Notes 2 and 3)	630,698			630,698	(3,930,798)
Change in present value of split interest agreements (Note 6)			(641,384)	(641,384)	125,577
Net assets released from restrictions for property, plant and equipment	23,627,429	(23,627,429)		0	0
Increase (decrease) in net assets from non-operating activities	**$195,933,769**	**($20,131,364)**	**$6,044,316**	**$181,846,721**	**$108,157,376**
Change in net assets	**202,243,773**	**(17,102,637)**	**6,044,316**	**191,185,452**	**116,506,266**
Net assets at beginning of year	**1,085,864,539**	**59,599,089**	**273,018,716**	**1,418,482,344**	**1,301,976,078**
Net assets at end of year	**$1,288,108,312**	**$42,496,452**	**$279,063,032**	**$1,609,667,796**	**$1,418,482,344**

The Notes to Consolidated Financial Statements are an integral part of this statement.

University of Richmond and Its Affiliate

Consolidated Statement of Cash Flows

For the year ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$191,185,452
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	11,077,842
Decrease in funds held in trust	4,202
Increase in student accounts receivables, other receivables and accrued income	(930,978)
Increase in pledges receivable	(279,223)
Increase in beneficial interest in trusts	(128,031)
Decrease in notes receivable	282,516
Decrease in inventories, prepaid expenses and other	447,416
Increase in accounts payable and accrued liabilities	1,854,237
Increase in funds held on behalf of others	11,079,016
Increase in annuities and trusts payable	139,572
Increase in postretirement benefits	98,152
Increase in deferred income	1,785,036
Net unrealized and realized gains on investments and funds held in trust	(165,292,739)
Change in fair value of interest rate swap liability	(630,698)
Contributions restricted for purchase of property and equipment	(4,398,179)
Contributions restricted for endowment	(4,792,579)
Net cash provided by operating activities	**$41,501,014**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	465,276,987
Purchases of investments	(567,870,789)
Purchases of property, plant and equipment	(25,266,979)
Net cash used in investing activities	**($127,860,781)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted for endowment	4,792,579
Contributions restricted for purchase of property and equipment	4,398,179
Decrease in U.S. government grants refundable	(22,148)
Net cash provided by financing activities	**$9,168,610**
Net decrease in cash and cash equivalents	**(77,191,157)**
Cash and cash equivalents at beginning of year	**138,375,796**
Cash and cash equivalents at end of year	**$61,184,639**
Supplemental disclosure:	
Cash paid for interest on notes payable	**$3,202,186**

The Notes to Consolidated Financial Statements are an integral part of this statement.

Notes to Consolidated Financial Statements

June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Richmond is a private four-year institution of higher education. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, was formed on April 9, 2003, for the purpose of owning and operating the building and land located at 6601 Broad Street, Richmond, Virginia, formerly known as the Alcoa-Reynolds Building. All financial statements and footnotes are presented on a consolidated basis.

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

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

The consolidated financial statements as of and for the year ended June 30, 2005 include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2005, from which the summarized information was derived.

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

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

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

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

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

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

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

Investments:
Spider Management Company (SMC) is a separate support organization, which is operated as a department of the University. SMC is organized and controlled by the University whose sole responsibility is to manage the University of Richmond's investment assets. The University's investment management fees for the year ended June 30, 2006 were $3,315,251 and have been reported on the accompanying consolidated statement of activities as an institutional support expense. Investments are recorded at fair value based on quoted market prices or, for hedge funds, venture capital and private equity interests, estimates provided by external investment managers or other independent sources and reviewed by management. If not available, they are based on management's best estimate of fair value. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and therefore value realized upon disposition may vary significantly from currently reported values. Revenues from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statement of activities.

Financial Instruments:
The carrying amounts of student accounts receivable, other receivables, accounts payable and accrued liabilities and annuities and trusts payable approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of notes receivable, evaluated collection history and has concluded the carrying amount approximates fair value. Management has estimated the net realizable value of pledges receivable and beneficial interest in trusts and has concluded the carrying amounts approximate fair value. The fair value of investments and funds held in trust are estimated as noted above.

Cash and Cash Equivalents:
Cash equivalents with a maturity at date of purchase of three months or less are reported as cash and cash equivalents. There are cash equivalents held by the investment custodians that are reported as cash and cash equivalents in the accompanying consolidated financial statements. The cash equivalents at June 30, 2006 are $3,305,858.

During the year ended June 30, 2006, a third party charitable organization engaged the University to hold and invest its investment portfolio. On June 30, 2006, approximately $11,100,000 was transferred to the University by the organization and is reported as cash and cash equivalents and funds held on behalf of others on the consolidated statement of financial position.

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

Property, Plant and Equipment:
Property, plant and equipment consisting of land, improvements, buildings, equipment and library books are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method based on estimated useful lives of 30 to 50 years for buildings, 10 to 20 years for improvements, 5 to 10 years for equipment and 10 years for library books.

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

NOTE 2. INVESTMENTS

The costs and fair values of the investments at June 30, 2006 and 2005 are as follows:

	2006 Cost	2006 Fair Value	2005 Cost	2005 Fair Value
Cash equivalents	$1,083,958	$1,083,958	$1,251,644	$1,251,644
U. S. government bonds	74,449,182	71,090,943	72,647,133	73,704,697
Corporate and global bonds	26,198,302	26,025,890	26,393,520	27,166,686
Common and preferred stocks	371,914,721	447,885,648	298,241,340	366,439,948
Hedge funds	345,196,911	550,919,315	271,459,287	452,605,487
Venture capital partnerships	363,039,156	298,244,035	338,970,815	228,241,367
Other investments	23,420,462	77,644,489	36,830,156	55,792,098
	$1,205,302,692	**$1,472,894,278**	**$1,045,793,893**	**$1,205,201,928**

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

Assets of endowment and similar funds, except certain nonmarketable investments, are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the end of the calendar quarter within which the transaction takes place. Of the 2,028,085 total units (each having a market value of $669.40), 954,591 units are classified as unrestricted net assets, 3,805 units are classified as temporarily restricted net assets, and 1,069,689 are classified as permanently restricted net assets at June 30, 2006.

At June 30, 2006, the University has committed to make additional capital contributions of approximately $217,500,000 to various venture capital partnerships over the next five years.

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

At June 30, 2006, the endowment portfolio held four total return swap agreements. The interest rate applied to one of the swaps is a floating rate based on the USD-LIBOR BBA 3-month rate, plus .65%. The fair value of the total return swap is a liability of $2,250,000 and the change in fair value is a loss of $1,835,000 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006. The interest rates applied to three of the swaps are floating rates based on the USD-LIBOR BBA 3-month rate, plus 14 basis points. The fair value of the three total return swaps is a liability of $1,651,069 and the change in fair value is a loss of $1,651,069 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006.

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

Total investment return for the year ending June 30, 2006 is $225,581,022 and is classified within operating revenues and non-operating activities as investment income, endowment income and realized and unrealized gains. Operating investment return includes income generated from short-term investments and the endowment spending formula, and non-operating activities investment return includes income and gains earned on the investment pool, in excess of the spending rate. When the spending rate exceeds actual investment return the spending rate is met with accumulated earnings.

NOTE 3. NOTES PAYABLE

Virginia College Building Authority:	**June 30, 2006**	**June 30, 2005**
Series of 1996:		
Due November 1, 2026 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (3.71% at June 30, 2006).	22,500,000	22,500,000
Series of 1999:		
Due November 1, 2022 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (3.99% at June 30, 2006).	15,400,000	15,400,000
Series of 2002:		
Due March 1, 2032 with initial interest at 4.40%;	7,170,000	7,170,000
Due March 1, 2032 with initial interest at 5.00%;	15,000,000	15,000,000
Due March 1, 2032 with initial interest at 5.00%;	7,445,000	7,445,000
On the mandatory tender date of March 1, 2009, the interest rate will be redetermined. This series refunded all of the Series of 1992, and provided funds for several projects, including Weinstein Hall, Gottwald Science Center and Marsh Hall.		
Series of 2004:		
Due August 1, 2034 with a weekly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (3.99% at June 30, 2006). This series refunded all of the Series of 1994, and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum.	46,000,000	46,000,000
	$113,515,000	**$113,515,000**

Interest expense on long-term debt was $4,160,670 for the year ended June 30, 2006.

The fair value of all outstanding long-term obligations at June 30, 2006 and 2005 was approximately $114,000,000 and $115,000,000 respectively.

The University has entered into four fixed rate swap agreements as follows:

- A fixed rate swap agreement involving the Series 2004 bond issue in October 2004. The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $306,961 and the change in fair value is a gain of $3,208,837 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006.

- A fixed rate swap agreement involving the Series 1996 and Series 1999 bond issues in June 2006. The University pays the counterparty a fixed rate of 3.744% on a notional amount of $30,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty-five years. The fair value of the swap is an asset of $454,835 and the change in fair value is a gain of $454,835 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006.

- A fixed rate swap agreement effective June 2006, involving the Series 2006 bond issue to be issued in November 2006. The University pays the counterparty a fixed rate of 3.744% on a notional amount of $10,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is an asset of $160,513 and the change in fair value is a gain of $160,513 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006.

- A fixed rate forward swap agreement effective June 2006, involving the March 2009 interest rate reset for the Series 2002 bond issue. The University pays the counterparty a fixed rate of 3.778% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty years. The fair value of the swap is an asset of $292,582 and the change in fair value is a gain of $292,582 and is included in non-operating activities on the consolidated statement of activities for the year ended June 30, 2006.

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

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at June 30, 2006 and 2005:

	2006	**2005**
Land	$15,327,177	$15,327,177
Buildings	231,828,476	197,156,597
Improvements	21,547,163	18,006,738
Equipment	63,500,540	60,083,912
Library books	44,491,018	41,066,985
Construction in progress	22,808,122	42,594,108
	$399,502,496	$374,235,517
Accumulated depreciation	<202,857,655>	<191,779,813>
	$196,644,841	$182,455,704

Contracts have been let for construction in the amount of approximately $44,945,000 including construction in progress of $22,808,122 at June 30, 2006.

NOTE 5. PLEDGES RECEIVABLE

Unconditional pledges at June 30, 2006, are expected to be realized in the following periods:

Less than one year	$5,573,956
One year to five years	14,241,390
More than five years	3,860,762
Less: Discount rates varying from 3% to 11%	< 2,733,708 >
	$ 20,942,400

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

NOTE 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 to the beneficiary as defined in the agreement. The fair value of the assets received under these agreements of $3,374,727 and $3,184,738 as of June 30, 2006 and 2005, 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, 2006 and 2005 was $1,913,781 and $1,826,116, respectively. Discount rates used in calculating the present value ranged from 4.20% to 10.20%. Changes in value of trusts totaled $30,407 and $(462,278) for the years ended June 30, 2006 and 2005, respectively.

The University is a party to certain charitable gift annuity agreements. Under these gift annuity agreements, the donors contributed assets to the University. For the remainder of the annuitant's life, the University pays a fixed amount annuity to the annuitant as defined in the agreement. The fair value of the assets received under these agreements is included in investments in the consolidated statements of financial position. The present value of the future payout to the annuitants at June 30, 2006 and 2005, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $5,081,334 and $5,029,427, respectively. Discount rates used in calculating the present value ranged from 5.80% to 12.80%. Changes in value of annuities totaled $739,008 and $438,626 for the years ended June 30, 2006 and 2005, respectively.

The University is the beneficiary of certain charitable remainder trusts, the assets of which are not in the possession of the University. The present value of the expected cash flows from these remainder trusts is included in beneficial interest in trusts in the consolidated statements of financial position. Discount rates used in calculating the present value ranged from 4.2% to 10%. Changes in value of beneficial interest in trust totaled $(128,031) and $(101,925) for the years ended June 30, 2006 and 2005, respectively.

NOTE 7. 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 $6,031,151 to these plans for the year ended June 30, 2006, which was charged to expense in the consolidated statement of activities.

NOTE 8. POSTRETIREMENT BENEFITS

The University sponsors defined benefit health care plans that provide postretirement medical benefits to full-time employees who meet minimum age and service requirements. These plans are not funded. The status of the plans at June 30, 2006 and 2005 was as follows:

	2006	2005
Accumulated postretirement benefit obligation:		
Retirees	$6,386,483	$7,115,776
Fully eligible active plan participants	481,612	401,449
Other active plan participants	2,578,446	3,123,772
Unrecognized prior service cost	501,755	0
Unrecognized net loss	(3,123,575)	(3,914,428)
	$6,824,721	$6,726,569

Net periodic postretirement benefit cost for the years ended 2006 and 2005 was as follows:

	2006	2005
Net periodic postretirement benefit cost:		
Service cost	$178,365	$182,557
Interest cost	563,303	494,353
Amortization of unrecognized net loss	181,577	49,030
Amortization of prior service cost	(62,253)	0
	$860,992	$725,940

Employer contributions, participant contributions and benefit payments for the years ended 2006 and 2005 were as follows:

	2006	2005
Employer contributions	$845,910	$769,009
Participant contributions	139,520	126,836
Benefit payments	(985,430)	(895,845)

Estimated future benefit payments are total benefits expected to be paid from the plan and include the participants' share of the costs. The following are estimated benefit payments for the years ending 2007 through 2016:

2007	$1,035,812
2008	988,841
2009	939,630
2010	915,200
2011	877,048
2012-2016	4,274,199

The following are estimated net employer contributions to the plan for years ending 2007 through 2016:

2007	$897,364
2008	870,520
2009	848,224
2010	840,469
2011	819,957
2012-2016	4,029,458

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 8% for 2006 and is assumed to decrease gradually to 5.0% by the year 2012 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2006 by $187,649 and increase the net periodic postretirement benefit cost for the year ended June 30, 2006 by $16,092.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2006 and 2005 was 6.25% and 5.25%, respectively.

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

The Act also provides that a non-taxable federal subsidy will be paid to sponsors of postretirement benefit plans that provide retirees with a drug benefit that is at least "actuarially equivalent" to the Medicare Part D benefit. As of June 30, 2006, 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.

The Financial Accounting Standards Board (SFAS) has issued a proposed standard that is expected to be finalized in the Fall of 2006, which would require the University to change the recognition of the funded status of its postretirement plans beginning in the fiscal year ending June 30, 2007. If issued as proposed, actuarial and experience gains and losses and unrecognized prior service cost which are deferred over the remaining service period under SFAS 106, would be required to be recognized on the consolidated statement of financial position with a separate expense on the consolidated statement of activities. The University expects this to increase the postretirement benefits liability and decrease change in unrestricted assets.

NOTE 9. COMPOSITION OF NET ASSET BALANCES

Temporarily restricted net assets consist of the following at June 30, 2006 and 2005:

	2006	2005
Support of particular operating activities	$21,972,282	$31,040,063
Acquisition of long-lived assets	20,524,170	28,559,026
	$42,496,452	$59,599,089

Release of restrictions related to property, plant and equipment is considered a non-operating activity. Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2006 and 2005.

NOTE 10. ALLOCATION OF EXPENSES

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

Functional Category	Direct Expenses	Maintenance	Interest	Depreciation	Total Expenses
Instruction	$41,538,352	$5,304,776	$1,393,461	$319,855	$51,956,444
Research	3,315,667	423,437	111,228	296,926	4,147,258
Public service	1,759,376	224,686	59,020	157,556	2,200,638
Libraries	8,223,561	1,050,213	275,870	736,438	10,286,082
Academic support	14,613,583	1,866,267	490,233	1,308,679	18,278,762
Student services	9,343,596	1,193,250	313,444	836,740	11,687,030
Institutional support	24,148,733	3,083,983	810,102	2,162,574	30,205,392
Auxiliary enterprises	28,452,289	0	707,314	1,470,000	30,629,603
	131,395,157	13,146,612	4,160,672	10,688,768	159,391,209
Maintenance	13,146,612	(13,146,612)			
Interest	4,160,672		(4,160,672)		
Depreciation	10,688,768			(10,688,768)	
Total Operating Expenses	**$159,391,209**	**$0**	**$0**	**$0**	**$159,391,209**

Depreciation expense of $389,074 for the year ended June 30, 2006 for the Richmond Quadrangle is included as part of direct expenses in Institutional support.

Program Services consist of Instruction, Research, Public service and Libraries in the amount of $68,590,422. Supporting Services consist of Academic support, Student services, Institutional support and Auxiliary enterprises in the amount of $90,800,787.

NOTE 11. LEASE COMMITMENT

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

The following is a schedule by years of minimum future rentals on the noncancelable operating lease as of June 30, 2006:

Years ending June 30:

2007	$2,830,208
2008	2,889,609
2009	2,950,198
2010	3,011,998
2011	3,075,035
Later Years	25,291,032
	$40,048,080

Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated statement of financial position of University of Richmond and Its Affiliate (the University) as of June 30, 2006, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2005 consolidated financial statements, and in our report dated August 19, 2005, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University of Richmond and Its Affiliate as of June 30, 2006, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 9, 2006