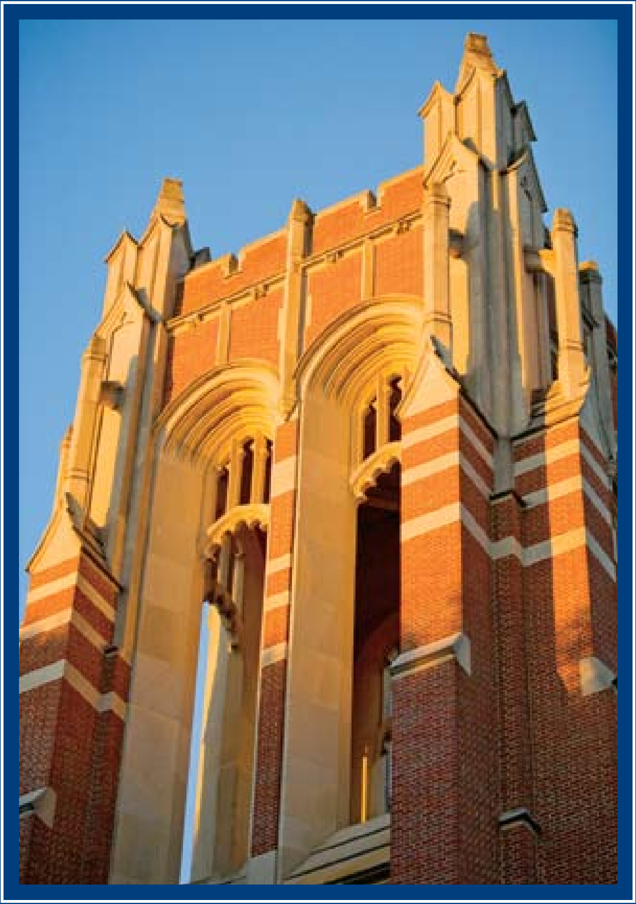

2007–08 Treasurer's Report

University of Richmond

Letter of Transmittal

To the President and Board of Trustees
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, 2008. Richmond continues to enjoy strong enrollments and sound financial results.

Operations

Operating revenues for 2008 amounted to $187.2 million versus $177.4 million in 2007, an increase of $9.8 million while operating expenses increased to $179.9 million versus $169.3 million in 2007. The net increase from operating activities for 2008 amounted to $7.3 million, down slightly from $8.1 million in 2007. The additional expenditures were for compensation for our faculty and staff and strategic plan initiatives. The change in net assets from all activities amounted to $76 million including the increase in endowment assets.

The Endowment Fund

The market value of the endowment at June 30, 2008 was $1.7 billion versus $1.65 billion a year ago. The endowment return was + 6.7% for Fiscal 2008 versus – 13.1% for the S&P500 and the return for the ten years ended June 30, 2008 was + 12.1% versus + 2.8% for the S&P500. Spider Management Company, LLC, our investment management affiliate, has used derivatives among other management tools to protect the portfolio and provide a positive return for the fiscal year.

Our endowment spending policy provided $57.2 million to support our operations in Fiscal 2008. This can be equated to a "scholarship" of $15,400 to every full-time student in addition to any other financial aid individual students may receive.

During the year, the University formed Richmond Fund Management Company, LLC and Richmond Fund, LP for the purpose of managing investment assets of non-profit organizations not affiliated with the University of Richmond. This new venture began on January 31, 2008 with initial capital of $192 million. This arrangement is mutually beneficial to UR and the other organizations. Total invested assets of these organizations amounted to $332.5 million at June 30, 2008 and are included in the balance sheet in operating investments and in funds held on behalf of others.

Looking Forward

We are now developing a new Strategic Plan under the leadership of President Ayers. The five themes of the plan are the integrated academic enterprise, access and affordability, diversity and inclusivity, the student experience, and community engagement. The final report is expected to be presented to the Board of Trustees in January 2009 for approval and will outline our institutional priorities for the next five years. Capital initiatives already begun or slated to begin this year are the Carole Weinstein International Center, expansion of the on-campus stadium to accommodate football, the Queally Hall addition to the Robins School of Business, and expansion of the current Deanery to include the Westhampton Center.

The 2008-09 school year is underway with excellent incoming classes in all of our schools. The applicant pool for first-year undergraduates entering this fall was 7,970, an all time high.

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

Respectfully submitted,

H C Peterson

Herbert C. Peterson
Vice President for Business and Finance/Treasurer

University of Richmond and its Affiliates

Consolidated Statement of Financial Position

As of June 30, 2008, with summarized financial information as of June 30, 2007

	2008			2007
	Operating	**Endowment**	**Total**	**Total**
ASSETS				
Cash and cash equivalents	$154,978,514		$154,978,514	$30,923,834
Investments (Notes 2 and 6)	429,889,526	$1,720,458,481	2,150,348,007	1,798,977,854
Funds held in trust (Note 6)	3,378,430		3,378,430	3,831,231
Student accounts receivable, net	1,269,728		1,269,728	746,304
Accrued income	382,674		382,674	984,926
Pledges receivable (Note 5)	35,426,801	3,027,548	38,454,349	27,135,601
Beneficial interest in trusts (Note 6)	3,990,711		3,990,711	2,884,300
Other receivables	2,269,670		2,269,670	3,442,438
Notes receivable	4,300,605		4,300,605	3,841,729
Inventories, prepaid expenses and other	9,350,396		9,350,396	9,771,061
Property, plant and equipment, net (Note 4)	229,935,662		229,935,662	216,000,690
Total Assets	**$875,172,717**	**$1,723,486,029**	**$2,598,658,746**	**$2,098,539,968**

	Operating	Endowment	Total	2007 Total
LIABILITIES				
Accounts payable and accrued liabilities	$11,803,291	$2,235	$11,805,526	$12,073,887
Funds held on behalf of others (Notes 1 and 12)	415,004,645	16,106,304	431,110,949	12,204,524
Annuities and trusts payable (Note 6)	6,757,907		6,757,907	7,083,682
Deferred income	10,090,889		10,090,889	8,485,133
Notes payable (Note 3)	131,515,000		131,515,000	131,515,000
Swap agreements (Notes 2 and 3)	4,916,279		4,916,279	594,095
Postretirement benefits (Note 8)	9,205,236		9,205,236	9,320,835
U.S. government grants refundable	3,679,965		3,679,965	3,786,981
Total Liabilities	**$592,973,212**	**$16,108,539**	**$609,081,751**	**$185,064,137**

	Operating	Endowment	Total	2007 Total
NET ASSETS				
Unrestricted	$187,113,686	$1,419,375,039	$1,606,488,725	$1,564,525,435
Temporarily restricted (Note 9)	85,888,242		85,888,242	60,610,788
Permanently restricted (Note 9)	9,197,577	288,002,451	297,200,028	288,339,608
Total Net Assets	**$282,199,505**	**$1,707,377,490**	**$1,989,576,995**	**$1,913,475,831**
Commitments and contingencies (Notes 2, 3 and 4)				
Total Liabilities and Net Assets	**$875,172,717**	**$1,723,486,029**	**$2,598,658,746**	**$2,098,539,968**

See accompanying Notes to Consolidated Financial Statements.

University of Richmond and its Affiliates

Consolidated Statement of Activities

For the year ended June 30, 2008, with summarized financial information for the year ended June 30, 2007

	2008				2007
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	**Total**
OPERATING REVENUES					
Tuition and fees	$126,371,709			$126,371,709	$118,485,271
Less: scholarship allowance	(45,301,485)			(45,301,485)	(39,389,687)
Net tuition and fees	81,070,224			81,070,224	79,095,584
Grants and contracts	4,896,667			4,896,667	4,092,197
Contributions	4,688,493	$907,434		5,595,927	5,500,723
Investment income (Note 2)	4,588,415	1,884,207		6,472,622	7,779,054
Endowment income (Note 2)	28,640,464	24,228,440		52,868,904	48,443,541
Auxiliary enterprises	32,282,445			32,282,445	28,562,737
Other sources (Note 11)	3,993,192			3,993,192	3,933,351
Net assets released from restrictions	23,613,382	(23,613,382)		0	0
Total operating revenues	**$183,773,282**	**$3,406,699**	**$0**	**$187,179,981**	**$177,407,187**
OPERATING EXPENSES (Note 10)					
Instruction	$57,967,720			$57,967,720	$55,335,278
Research	5,469,075			5,469,075	4,743,478
Public service	2,448,960			2,448,960	2,021,117
Libraries	11,037,753			11,037,753	10,748,620
Academic support	22,325,948			22,325,948	19,422,617
Student services	15,774,125			15,774,125	13,723,726
Institutional support	32,138,135			32,138,135	32,362,325
Auxiliary enterprises	32,722,082			32,722,082	30,917,223
Total operating expenses	**$179,883,798**	**$0**	**$0**	**$179,883,798**	**$169,274,384**
Increase in net assets from operating activities	**3,889,484**	**3,406,699**	**0**	**7,296,183**	**8,132,803**
NON-OPERATING ACTIVITIES					
Contributions	$2,151,764	$23,629,930	$4,771,881	$30,553,575	$18,990,050
Investment income, net of fees (Note 2)	2,268,713	618,287	177,140	3,064,140	1,506,281
Endowment income (Note 2)	2,404,401		1,969,570	4,373,971	3,994,014
Net realized and unrealized gains (Note 2)	41,872,801	39,916	194,605	42,107,322	271,497,538
Redesignated funds	(3,010,082)	535,390	2,474,692	0	0
Change in fair values of swap agreements (Notes 2 and 3)	(4,322,184)			(4,322,184)	2,706,005
Change in present value of split interest agreements (Note 6)			(727,468)	(727,468)	(516,161)
Net assets released from restrictions for property, plant and equipment	2,952,768	(2,952,768)		0	0
Affiliated organizations expenses	(4,565,477)			(4,565,477)	0
Minority interest in earnings of affiliates	(1,678,898)			(1,678,898)	0
Increase in net assets from non-operating activities	**$38,073,806**	**$21,870,755**	**$8,860,420**	**$68,804,981**	**$298,177,727**
Increase in net assets before effect of adoption of FASB Statement No. 158	**41,963,290**	**25,277,454**	**8,860,420**	**76,101,164**	**306,310,530**
Effect of adoption of recognition provisions of FASB Statement No. 158 (Note 8)				**0**	**2,502,495**
Change in net assets	**41,963,290**	**25,277,454**	**8,860,420**	**76,101,164**	**303,808,035**
Net assets at beginning of year	**1,564,525,435**	**60,610,788**	**288,339,608**	**1,913,475,831**	**1,609,667,796**
Net assets at end of year	**$1,606,488,725**	**$85,888,242**	**$297,200,028**	**$1,989,576,995**	**$1,913,475,831**

See accompanying Notes to Consolidated Financial Statements.

University of Richmond and its Affiliates

Consolidated Statement of Cash Flows

For the year ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$76,101,164
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	13,521,451
Net unrealized and realized gains on investments and funds held in trust	(42,107,322)
Change in fair value of swap agreements	4,322,184
Contributions restricted for purchase of property and equipment	(9,208,628)
Contributions restricted for endowment	(6,278,763)
Gift of property	(2,100,000)
Decrease in funds held in trust	181,487
Decrease in student accounts receivables, other receivables and accrued income	1,251,596
Increase in pledges receivable	(11,318,748)
Increase in beneficial interest in trusts	(1,106,411)
Increase in notes receivable	(458,876)
Decrease in inventories, prepaid expenses and other	420,665
Decrease in accounts payable and accrued liabilities	(268,361)
Decrease in annuities and trusts payable	(325,775)
Decrease in postretirement benefits	(115,599)
Increase in deferred income	1,605,756
Net cash provided by operating activities	**$24,115,820**
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	493,385,136
Purchases of investments	(802,376,653)
Purchases of property, plant and equipment	(25,356,423)
Net cash used in investing activities	**($334,347,940)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in funds held on behalf of others	418,906,425
Contributions restricted for endowment	6,278,763
Contributions restricted for purchase of property and equipment	9,208,628
Decrease in U.S. government grants refundable	(107,016)
Net cash provided by financing activities	**$434,286,800**
Net increase in cash and cash equivalents	**124,054,680**
Cash and cash equivalents at beginning of year	**30,923,834**
Cash and cash equivalents at end of year	**$154,978,514**
Supplemental disclosure:	
Cash paid for interest on notes payable and interest rate swap agreements	**$5,027,475**
Gift of Property	**$2,100,000**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Richmond is a private institution of higher education. Richmond Quadrangle, LLC, a wholly controlled affiliate of the University of Richmond, was formed on April 9, 2003, for the purpose of owning and operating the building and land located at 6601 Broad Street, Richmond, Virginia, formerly known as the Alcoa-Reynolds Building. Spider Management Company, LLC (SMC), a wholly controlled affiliate of the University of Richmond, was formed November 30, 2007, for the purpose to provide investment research, advice, counsel and management with respect to the University of Richmond's endowment assets. On November 30, 2007, the Richmond Fund, LP (Richmond Fund) and the Richmond Fund Management Company, LLC (RFMC) were also formed. The Richmond Fund is an investment limited partnership that provides a vehicle for other unaffiliated 501(c) organizations to achieve investment returns that mirror the investment returns achieved by the University of Richmond's endowment (Note 12). RFMC 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 below:

Basis of Presentation:

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

The consolidated financial statements as of and for the year ended June 30, 2008 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, 2007, 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. Contributions other than cash are recorded at their estimated fair value at the date of the gift. Conditional pledges become unconditional and are recognized as revenues when the conditions are substantially met. Unconditional pledges are recognized at the estimated net present value, net of an allowance for uncollectible amounts, and are classified as either permanently restricted or temporarily restricted. Gifts whose restrictions are met in the same fiscal year as their receipt are combined with unrestricted gifts and reported as unrestricted contribution revenues. Permanently restricted contributions and contributions designated by the Board for long-term purposes are included as non-operating contributions. Other contributions are considered operating revenues.

Income Taxes:

The University of Richmond has received a letter from the IRS dated September 1941, exempting the University of Richmond from income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. In addition, the University of Richmond is a public charity under section 509(a)(1) of the Internal Revenue Code. Richmond Quadrangle, LLC and SMC are limited liability corporations, which will ultimately pass all of their income through to the University of Richmond. RFMC is a limited liability corporation and the Richmond Fund is a limited partnership. RFMC and the Richmond Fund do not record provisions for income taxes because the members and partners, respectively, report their share of the entities' income or loss on their income tax returns.

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

Investments:

Investments and funds held in trust 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 using discounted cash flow and other industry standard methodologies. 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. The University's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements. Security transactions are accounted for on a trade-date basis. Gains and losses from realized and unrealized changes in the fair value of investments are reported separately in the consolidated statement of activities, as increases or decreases in unrestricted net assets unless their use is restricted by external stipulation. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis.

Fair Value of Financial Instruments:

The carrying amounts of student accounts receivable, other receivables and accounts payable and accrued liabilities approximate fair value because of the short maturity of these financial instruments. Management has estimated the net realizable value of notes receivable, evaluated collection history and has concluded the carrying amount approximates fair value. Management has estimated the net realizable value of pledges receivable, beneficial interest in trusts, and annuities and trusts payable and has concluded the carrying amounts approximate fair value. The fair value of investments and funds held in trust are estimated as noted above. Swap agreements are reported at their estimated fair value, which is based on the amount the University would pay or receive to settle the agreements at the reporting date, taking into account current interest rates. The carrying amount of notes payable approximates the fair value because the variable rates reflect current market rates for notes payable with similar maturities and credit qualities.

Derivative Instruments:

The University accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, as amended, which requires the University to recognize all derivative instruments as either assets or liabilities on the consolidated statement of financial position at their respective fair values. Changes in fair value of derivatives are recognized as a change in net assets on the consolidated statement of activities.

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, 2008 and 2007, respectively, are $54,760,094 and $7,046,987.

During the year ended June 30, 2006, an unrelated party charitable organization engaged the University to hold and invest its investment portfolio. At June 30, 2008 and 2007, the fair value of the assets under this agreement was approximately $16,106,000 and $12,200,000, respectively, and was reported as cash and cash equivalents and funds held on behalf of others on the consolidated statements of financial position.

Inventories:

Inventories are stated at the lower of cost or 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, 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.

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.

Reclassifications:

Certain reclassifications have been made for the year ended June 30, 2007 to conform with classifications adopted in 2008.

NOTE 2. INVESTMENTS

The costs and fair values of investments at June 30, 2008 and 2007 are as follows:

	2008 Cost	**2008 Fair Value**	**2007 Cost**	**2007 Fair Value**
Cash equivalents	$2,239,340	$2,239,340	$903,240	$903,240
Short-term investments	98,130,000	98,130,000	61,500,000	61,500,000
U.S. government bonds	50,362,469	49,280,396	73,218,661	70,303,642
Corporate and global bonds	21,493,008	21,346,550	24,728,973	24,695,754
Common and preferred stocks	741,932,531	955,407,006	582,004,900	875,797,075
Hedge funds	297,811,342	452,955,336	197,288,820	340,209,169
Venture capital partnerships	391,456,751	345,926,361	317,204,811	257,414,484
Other investments	168,565,602	225,063,018	108,621,522	168,154,490
	$1,771,991,043	**$2,150,348,007**	**$1,365,470,927**	**$1,798,977,854**

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

At June 30, 2008, the University has committed to make additional capital contributions of approximately $352,000,000 to various venture capital partnerships over the next five years.

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

At June 30, 2008, the endowment portfolio held credit default swaps, which it enters into for a variety of reasons including hedging its exposure to various issuers or to take an active long or short position with respect to a particular issuer. The University makes a stream of fixed payments to the other party in exchange for the right to receive certain payment amounts in the event of a credit event or default. Credit default swaps held by the University as of June 30, 2008 consist primarily of purchased protection agreements on corporate credit. The fair value of the credit default swaps is an asset of $1,581,417 as of June 30, 2008. The change in fair value totaled $1,581,417 for the year ended June 30, 2008. At June 30, 2008, the approximate notional value of the University's credit default swaps is $220,000,000, which is not recorded in the consolidated financial statements. During the year ended June 30, 2008, the endowment portfolio held a total return swap agreement, which terminated during the year. The change in fair value totaled $1,177,383 for the year ended June 30, 2008. At June 30, 2007, the fair value of the total return swap was a liability of $1,177,383 and the change in fair value totaled $(1,177,383).

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

Total investment return for the year ended June 30, 2008 is $108,886,959 and is classified within operating revenues and non-operating activities as investment income, endowment income and net 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 gains and income.

NOTE 3. NOTES PAYABLE

Notes payable to the Virginia College Building Authority consist of the following at June 30, 2008 and 2007:

	2008	2007
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 (1.53% and 3.74% at June 30, 2008 and 2007, respectively)	46,000,000	46,000,000
This series refunded all of the Series of 1994, and provided funds for several projects, including Gottwald Science Center, Fine Arts Building and Campus Forum.		
Series of 2006:		
Due November 1, 2036 with a daily rate as determined by the Remarketing Agents based on prevailing market conditions (2.71% and 3.95% at June 30, 2008 and 2007, respectively).	55,900,000	55,900,000
This series refunded all of the Series of 1996 and 1999, and provided funds for several projects, including Lakeside Dorm, Boatwright Library and Boiler Plant Improvements.		
	$131,515,000	**$ 131,515,000**

The fair value of all outstanding long-term obligations at June 30, 2008 and 2007 was approximately $132,000,000.

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

- The University pays the counterparty a fixed rate of 4% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $2,479,039 and $311,579 as of June 30, 2008 and 2007, respectively. The change in fair value totaled $(2,167,460) and $(4,618) for the years ended June 30, 2008 and 2007, respectively.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $30,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty-five years. The fair value of the swap is a liability of $1,967,232 as of June 30, 2008 and an asset of $422,692 as of June 30, 2007. The change in fair value totaled $(2,389,924) and $(32,143) for the years ended June 30, 2008 and 2007, respectively.

- The University pays the counterparty a fixed rate of 3.744% on a notional amount of $10,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement until all debt under the agreement has been retired. The fair value of the swap is a liability of $702,439 as of June 30, 2008 and an asset of $156,274 as of June 30, 2007. The change in fair value totaled $(858,713) and $(4,239) for the years ended June 30, 2008 and 2007, respectively.

- The University pays the counterparty a fixed rate of 3.778% on a notional amount of $25,000,000 and the counterparty pays the University a variable interest rate indexed to LIBOR. The University anticipates holding the interest rate swap agreement twenty years. The fair value of the swap is a liability of $1,348,986 as of June 30, 2008 and an asset of $315,901 as of June 30, 2007. The change in fair value totaled $(1,664,887) and $23,319 for the years ended June 30, 2008 and 2007, respectively.

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

Interest expense on notes payable and interest rate swap agreements was $5,027,475 and $4,988,485 for the years ended June 30, 2008 and 2007, respectively.

On December 28, 2007, the University obtained a one-year revolving credit facility in the amount of $50,000,000 to support timing differences within the investment portfolio. There were no borrowings from the facility during the year ended June 30, 2008.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2008 and 2007:

	2008	2007
Land	$18,801,985	$17,251,955
Buildings	269,779,877	258,506,319
Improvements	23,015,127	22,274,374
Equipment	71,622,545	68,956,656
Library books	51,810,303	48,096,190
Construction in progress	23,171,757	15,659,677
	$458,201,594	$430,745,171
Accumulated depreciation	(228,265,932)	(214,744,481)
	$229,935,662	**$216,000,690**

Contracts have been let for construction in the amount of approximately $95,649,000 including construction in progress of $23,171,757 at June 30, 2008.

NOTE 5. PLEDGES RECEIVABLE

Unconditional pledges at June 30, 2008 are expected to be realized in the following periods:

Less than one year	$9,277,320
One year to five years	21,313,868
More than five years	14,288,143
	44,879,331
Less: Discount rates ranging from 3% to 11%	(6,424,982)
	$38,454,349

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

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 $3,378,430 and $3,831,231 as of June 30, 2008 and 2007, 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, 2008 and 2007 was $1,828,969 and $2,021,930, respectively. Discount rates used in calculating the present value ranged from 4.2% to 10.2%. Changes in value of trusts totaled $248,663 and $(19,077) for the years ended June 30, 2008 and 2007, 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, 2008 and 2007, which approximates fair value, is recorded in the consolidated statements of financial position as annuities and trusts payable in the amount of $4,928,938 and $5,061,752, respectively. Discount rates used in calculating the present value ranged from 3.2% to 10.6%. Changes in value of annuities totaled $(587,756) and $(688,878) for the years ended June 30, 2008 and 2007, 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 10.0%. Changes in value of beneficial interest in trust totaled $(388,375) and $191,794 for the years ended June 30, 2008 and 2007, 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 $6,725,881 and $6,408,012 to these plans for the years ended June 30, 2008 and 2007, respectively, which was charged to expense in the consolidated statements 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.

Effective June 30, 2007, the University adopted Statement of Financial Accounting Standard No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 requires organizations to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. The University utilizes a measurement date of June 30th. The effect of the adoption of the recognition provisions of SFAS 158 as of June 30, 2007 decreased unrestricted net assets and increased the postretirement benefit liability by $2,502,495 on the consolidated statement of financial position and decreased the change in unrestricted net assets and total net assets on the consolidated statement of activities by $2,502,495. The $2,502,495 consisted of items not yet recognized as a component of net periodic postretirement benefit costs as of June 30, 2007, including net actuarial loss of $2,941,999 and prior service cost of $439,504. At June 30, 2008, net actuarial loss and prior service cost not yet recognized as a component of net periodic postretirement costs were $2,774,506 and $377,251, respectively.

Information with respect to the postretirement plan as of and for the years ended June 30, 2008 and 2007 is as follows:

	2008	**2007**
Change in benefit obligation:		
Benefit obligation at beginning of year	$9,320,835	$9,446,541
Service cost	171,489	178,365
Interest cost	556,199	563,303
Benefits paid	(843,287)	(867,374)
Accrued postretirement benefit obligation	$9,205,236	$9,320,835

Net periodic postretirement benefit cost for the years ended June 30, 2008 and 2007 was as follows:

	2008	**2007**
Net periodic postretirement benefit cost:		
Service cost	$171,489	$178,365
Interest cost	556,199	563,303
Amortization of unrecognized net loss	167,493	181,577
Amortization of prior service cost	(62,253)	(62,253)
	$832,928	**$860,992**

Estimated future benefit payments are total benefits expected to be paid from the plan. The following are estimated benefit payments for the years ending 2009 through 2018:

Years ending June 30:	
2009	$964,583
2010	938,109
2011	898,011
2012	893,101
2013	875,453
2014-2018	4,265,856

The estimated net employer contributions to the plan for the year ending June 30, 2009 total $964,583.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.0% and 7.5% for 2008 and 2007, respectively, and is assumed to decrease gradually to 5.0% by the year 2012 and remain at that level thereafter. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the postretirement liability as of June 30, 2008 by $182,855 and increase the net periodic postretirement benefit cost for the year ended June 30, 2008 by $15,708.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation at June 30, 2008 and 2007 was 6.25%.

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

The Act also provides that a 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, 2008, 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.

NOTE 9. COMPOSITION OF NET ASSET BALANCES

Temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

	2008	**2007**
Support of particular operating activities	$26,090,603	$24,893,928
Acquisition of long-lived assets	59,797,639	35,716,860
	$85,888,242	**$60,610,788**

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, 2008 and 2007.

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 for the year ended June 30, 2008.

Functional Category	**Direct Expenses**	**Maintenance**	**Interest**	**Depreciation**	**Total Expenses**
Instruction	$47,482,165	$4,396,458	$1,517,480	$4,571,617	$57,967,720
Research	4,479,794	414,792	143,171	431,318	5,469,075
Public service	2,005,977	185,737	64,109	193,137	2,448,960
Libraries	9,041,176	837,139	288,947	870,491	11,037,753
Academic support	18,287,493	1,693,272	584,450	1,760,733	22,325,948
Student services	12,920,804	1,196,360	412,936	1,244,025	15,774,125
Institutional support	26,195,235	2,491,781	860,063	2,591,056	32,138,135
Auxiliary enterprises	30,095,762	0	1,156,319	1,470,001	32,722,082
	150,508,406	11,215,539	5,027,475	13,132,378	179,883,798
Maintenance	11,215,539	(11,215,539)			
Interest	5,027,475		(5,027,475)		
Depreciation	13,132,378			(13,132,378)	
Total Operating Expenses	**$179,883,798**	**$0**	**$0**	**$0**	**$179,883,798**

Depreciation expense of $389,073 for the year ended June 30, 2008 for Richmond Quadrangle, LLC is included as part of direct expenses in Institutional support.

Program Services consist of Instruction, Research, Public service and Libraries in the amount of $76,923,508. Supporting Services consist of Academic support, Student services, Institutional support and Auxiliary enterprises in the amount of $102,960,290.

NOTE 11. LEASE AGREEMENT

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

The rental income pursuant to this lease agreement for the years ended June 30, 2008 and 2007 was $2,889,609 and $2,830,208, respectively.

The following is a schedule by years of future minimum rentals on the noncancelable operating lease as of June 30, 2008:

Years ending June 30:	
2009	$2,950,198
2010	3,011,998
2011	3,075,035
2012	3,139,333
2013	3,204,916
Later Years	18,946,783
	$34,328,263

NOTE 12. RELATED PARTY TRANSACTIONS

Investment management fees paid to SMC by the University for the year ended June 30, 2008 and 2007 were $3,025,664 and $3,499,245, respectively, which have been eliminated in consolidation.

Per the terms of the Richmond Fund's operating agreement dated January 28, 2008, the responsibility for managing the Richmond Fund is vested exclusively with the general partner, RFMC. The Richmond Fund pays the general partner a management fee payable quarterly in arrears equal to 1% per annum of the first $100,000,000 of each limited partner's assets under management, .75% of the next $150,000,000, .5% of the next $250,000,000 and .4% of the excess of $500,000,000. Management fees earned by RFMC from the Richmond Fund during the year ended June 30, 2008 were $1,091,205 of which $775,728 was payable to RFMC at June 30, 2008. These amounts have been eliminated in consolidation. At the end of each fiscal year, the general partner is entitled to a performance allocation with respect to each allocation layer of each limited partner equal to 10% of the net profits in excess of net profits such limited partner would have achieved if the allocation layer had grown at 10%. No performance allocation was earned by RFMC for the year ended June 30, 2008.

Expenses of the Richmond Fund for all partnership expenses are subject to a cap of .05% for partnership expenses in excess of the management fee for each fiscal quarter. The Richmond Fund will reimburse the general partner for organizational and offering costs in the amount of $350,000 in twenty equal quarterly installments on the first business day of each quarter. At June 30, 2008, there was a payable from the Richmond Fund to RFMC in the amount of $332,500 for organizational and offering costs, which has been eliminated in consolidation. RFMC incurred organizational costs of $734,882 for the year ended June 30, 2008.

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, 2008 was a liability to the University and a receivable to the Richmond Fund in the amount of $4,334,813. The change in settlement value for the year ended June 30, 2008 totaled $7,920,383 and was an expense for the University and revenue for the Richmond Fund. These amounts have been eliminated in consolidation.

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

Cash and cash equivalents	$130,973,203
Government bonds	20,925,161
Corporate bonds	103,106
Common stock	196,488,734
Hedge funds	78,890,690
Partnerships	8,058,486
Other investments	16,217,883
Receivables and other assets	4,434,023
Total gross assets	**456,091,286**
Accounts payable and accrued liabilities	(1,709,821)
Securities sold short	(39,376,820)
Capital contributions received in advance	(82,500,000)
Total net assets	**$332,504,645**

NOTE 13. RECENTLY ISSUED LEGISLATION AND ACCOUNTING STANDARDS

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

In August 2008, FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures of All Endowment Funds*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008, with earlier adoption permitted. A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The University will adopt the FSP on July 1, 2008 and a reclassification of net assets from unrestricted to temporarily restricted of approximately $600,000,000 will be included in the University's consolidated financial statements for the year ending June 30, 2009. The University does not believe this net asset reclassification will be operationally significant. Another key component of the FSP is a requirement for expanded disclosures for all endowment funds.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurement* (Statement 157). Statement 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The University is required to adopt Statement 157 beginning on July 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. In November 2007, the FASB proposed a one-year deferral of Statement 157's fair-value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. The University is currently evaluating the impact of adopting Statement 157 on its financial position and results of operations.

NOTE 14. SUBSEQUENT EVENT

On September 29, 2008, the University was notified that Wachovia Bank, N.A., as trustee of the Common Fund for Short Term Investments (the Fund), is resigning as trustee and has initiated the process of terminating the Fund and has established procedures for an orderly liquidation and distribution of the assets of the Fund over a period of time. At June 30, 2008 and September 29, 2008, the University had $98,130,000 and $105,550,000, respectively, invested in the Fund which is included in investments in the consolidated statement of financial position. As of October 9, 2008, the University has received approximately 41% of its investment in the Fund as of September 29, 2008. It is expected that the University will be able to withdraw approximately 62% of the funds by the end of calendar year 2008 and 74% by the end of calendar year 2009 as the value of the underlying securities of the Fund reach maturity. The University and the Fund expect that the University's entire investment will be returned to the University. Management believes that it has sufficient liquidity within its other cash and investment portfolios to meet its obligations as they become due.

Independent Auditors' Report

The Board of Trustees
University of Richmond:

We have audited the accompanying consolidated statement of financial position of the University of Richmond and its affiliates (the University) as of June 30, 2008, 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 2007 consolidated financial statements, and in our report dated September 18, 2007, we expressed an unqualified opinion on those consolidated financial statements. Our report on the University's 2007 consolidated financial statements included an explanatory paragraph that described the University's adoption of the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of June 30, 2007.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Richmond and its affiliates as of June 30, 2008, 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, 2008

2008–09 Board of Trustees

*University of Richmond alumnus/alumna
+University of Richmond honorary degree recipient

The University of Richmond is a nationally ranked liberal arts university offering a unique combination of undergraduate and graduate degree programs in arts and sciences, business, leadership studies, law, and continuing studies. The nation's first school of leadership studies and a top-20 business school enhance a strong liberal arts curriculum.

Student-centered teaching, discovery-based learning, and a global perspective are the cornerstones of a Richmond education. A 9:1 student/faculty ratio, an emphasis on undergraduate research, numerous internships, and service-learning opportunities provide a wealth of hands-on academic and professional experiences.

In recent years, Richmond students have been recipients of the Rhodes, Marshall, Goldwater, and Clarendon Scholarships, among many others.

The University of Richmond is committed to developing a diverse workforce and student body, and to modeling an inclusive campus community that values the expression of differences in ways that promote excellence in teaching, learning, personal development, and institutional success.

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