Note 1. Summary of Significant Accounting Policies

The University of Richmond is a private four-year institution of higher education. The major accounting policies followed by the University are described below:

Basis of Presentation:

The financial statements of the University of Richmond have been prepared on the accrual basis.

The financial statements as of and for the year ended June 30, 2000 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2000, from which the summarized information was derived. Certain reclassifications have been made for the year ended June 30, 2000 to conform to classifications adopted in 2001.

Net Asset Classes:

The accompanying 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. Unrestricted net assets include funds formerly classified as operating, plant, and designated plant and endowment funds.

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 of a long-term nature 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.

Investments:

Investments are recorded at fair value. Revenues from realized and unrealized changes in the fair value of investments are reported separately in the statement of activities. Fair values of investments are based on quoted market prices or estimates provided by external investment managers or other independent sources. If not available, they are based on management's best estimate of fair value.

Financial Instruments:

The carrying amount of student accounts receivable, accounts payable and accrued liabilities approximates fair value because of the short maturity of these financial instruments. A reasonable estimate of the fair value of the notes receivable from students under government loan programs could not be made because the notes receivable are not salable and can only be assigned to the U. S. Government or its designees.

Cash and Cash Equivalents:

Cash and equivalents with a maturity of three months or less are reported as cash and cash equivalents. Some cash equivalents held for investment purposes are included in investments.

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:

Plant assets consisting of land and 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 financial statements in conformity with 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 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 cost and market value of the investments at June 30, 2001 and 2000 are as follows:

	2001 Cost	2001 Market Value	2000 Cost	2000 Market Value
Cash equivalents	$ 19,313,086	$ 19,313,204	$ 11,201,781	$ 11,201,781
U. S. government bonds	15,518,159	15,809,712	9,526,052	9,536,590
Corporate and global bonds	62,952,319	63,478,451	74,777,790	74,771,362
Common & preferred stock	389,859,036	448,299,141	334,938,348	420,793,494
Hedge funds	115,796,440	221,496,902	103,796,440	173,897,615
Venture capital partnerships	264,382,863	289,081,542	224,789,031	367,279,361
Other investments	62,283,791	74,490,870	52,858,799	52,515,123
	$ 930,105,694	**$ 1,131,969,822**	**$ 811,888,241**	**$ 1,109,995,326**

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 1,936,233 total units (each having a market value of $559.27) 898,664 units are classified as unrestricted net assets, 36,590 units are classified as temporarily restricted net assets, and 1,000,979 are classified as permanently restricted net assets at June 30, 2001.

At June 30, 2001, the University has committed to make additional capital contributions of approximately $230,000,000 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, 2001, the endowment portfolio held a total return swap agreement. The market and credit risks related to this derivative investment are not materially different from the risks associated with similar underlying assets in the portfolio.

Total investment return for the year ending June 30, 2001 is $88,118,027 and is classified within operating revenues and non-operating activities as investment income, endowment income and realized and unrealized gains. Operating investment return includes income generated from short-term investments and the endowment spending formula, and non-operating activities investment return includes income and gains earned on the investment pool.

Note 3. Bonds Payable

Bonds payable to the Virginia College Building Authority consist of the following:	June 30, 2001	June 30, 2000
Series of 1992:		
Due November 1, 2002 with annual interest at 5.625%	8,770,000	8,770,000
Due November 1, 2012 with annual interest at 6.25%	7,355,000	7,355,000
Series of 1994:		
Due November 1, 2019 with initial annual interest at 5.55%; on November 1, 2004, interest rate will be redetermined. Bondholders have “put” options on that date.	17,000,000	17,000,000
Series of 1996:		
Due November 1, 2026 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (2.65% at June 30, 2001).	22,500,000	22,500,000
Series of 1999:		
Due November 1, 2022 with a monthly variable interest rate determined by the Remarketing Agents based on prevailing market conditions (2.65% at June 30, 2001).	15,400,000	15,400,000
	$ 71,025,000	**$ 71,025,000**

The aggregate future principal requirements of maturities on bonds payable are:

2003	8,770,000
Years after 2006	62,255,000
	$ 71,025,000

Interest expense on long-term debt was $3,375,221 for the year ended June 30, 2001.

The fair value of all outstanding long-term obligations at June 30, 2001 and 2000 was approximately $73,000,000 and $72,000,000, respectively.

Note 4. Property, Plant and Equipment

Property, plant and equipment consists of the following at June 30, 2001 and 2000:

	2001	2000
Land	$ 538,000	$ 538,000
Buildings	157,180,743	156,549,052
Improvements	12,829,678	12,771,315
Equipment	51,396,508	46,662,588
Books	29,223,357	26,604,390
Construction in progress	9,091,485	8,221,350
	$ 260,259,771	$ 251,346,695
Accumulated depreciation	<152,670,928 >	< 143,587,055>
	$ 107,588,843	**$ 107,759,640**

Contracts have been let for construction in the amount of $22,150,000 including construction in progress of $9,091,485 at June 30, 2001.

Note 5. Pledges Receivable

Unconditional pledges at June 30, 2001 are expected to be realized in the following periods:

Less than one year	$ 685,121
One year to five years	6,414,109
More than five years	7,188,362
Less: Discount at 6%	< 4,574,988>
	$ 9,712,604

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

Note 6. Retirement Plans

The University has certain contributory defined contribution retirement annuity plans, funded through the Teachers' Insurance and Annuity Association, the Vanguard Group, and the American Funds, for academic and nonacademic employees. Contributions are based on a percentage of the employee's salary. The University contributed $4,160,423 to these plans for the year ended June 30, 2001, which was charged to expense in the Statement of Activities.

Note 7. Postretirement Benefits Other Than Pensions

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, 2001 and 2000 was as follows:

	2001	2000
Accumulated postretirement benefit obligation:		
Retirees	$ 3,813,243	$ 3,727,674
Fully eligible active plan participants	285,545	279,137
Other active plan participants	1,710,955	1,672,562
Unrecognized net gain	719,407	733,322
	$ 6,529,150	**$ 6,412,695**

Net periodic postretirement benefit cost for 2001 included service cost of $171,569 and interest cost on the accumulated postretirement benefit obligation of $367,043, and amortization of unrecognized net gain of ($13,915) for a total net periodic postretirement benefit cost of $524,697. Employer contributions for 2001 were $353,691 and benefits paid were $408,242.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 7.0% for 2001 and is assumed to decrease gradually to 4.75% by the year 2004 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, 2001 by $582,805 and the net periodic postretirement benefit cost for the year ended June 30, 2001 by $50,640.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 6.75 percent at June 30, 2001.

Note 8. Explanation of Net Asset Balances

Temporarily restricted net assets consist of the following at June 30, 2001 and 2000.

	2001	2000
Support of particular operating activities	$ 17,367,528	$ 15,059,691
Quasi-Endowment	9,028,487	8,322,487
Acquisition of long-lived assets	8,050,029	3,433,333
	$ 34,446,044	**$ 26,815,511**

Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2001 and 2000.

Note 9. Subsequent Event

Subsequent to June 30, 2001, the University entered into an agreement to purchase 39 acres of property, including the former corporate headquarters of Reynolds Metals Company in Richmond, Virginia. The University plans to purchase the property using unrestricted and temporarily restricted net assets together with a contribution from Alcoa, Inc.