

## **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, 2001 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, 2001, from which the summarized information was derived. Certain reclassifications have been made for the year ended June 30, 2001 to conform to classifications adopted in 2002.

The assets and liabilities on the 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.

### **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 accounting principles generally accepted in the United States of America 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, 2002 and 2001 are as follows:

	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2001</b>
	<b><u>Cost</u></b>	<b><u>Market Value</u></b>	<b><u>Cost</u></b>	<b><u>Market Value</u></b>
Cash equivalents	\$ 15,692,602	\$ 15,692,602	\$ 19,313,086	\$ 19,313,204
U. S. government bonds	30,688,963	31,245,785	15,518,159	15,809,712
Corporate and global bonds	35,983,017	37,883,973	62,952,319	63,478,451
Common & preferred stock	351,102,584	361,149,056	389,859,036	448,299,141
Hedge funds	184,643,352	294,620,283	115,796,440	221,496,902
Venture capital partnerships	289,168,109	223,046,231	264,382,863	289,081,542
Other investments	<u>83,217,717</u>	<u>83,612,357</u>	<u>62,283,791</u>	<u>74,490,870</u>
	<b>\$ <u>990,496,344</u></b>	<b>\$ <u>1,047,250,287</u></b>	<b>\$ <u>930,105,694</u></b>	<b>\$ <u>1,131,969,822</u></b>

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 1,950,889 total units (each having a market value of \$495.81) 902,837 units are classified as unrestricted net assets, 36,589 units are classified as temporarily restricted net assets, and 1,011,463 are classified as permanently restricted net assets at June 30, 2002.

At June 30, 2002, the University has committed to make additional capital contributions of approximately \$205,000,000 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, 2002, 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, 2002 is \$(95,726,853) and is classified within operating revenues and non-operating activities as investment income, endowment income and realized and unrealized gains or losses. 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.

June 30, 2002

UNIVERSITY OF RICHMOND  
NOTES TO FINANCIAL STATEMENTS

Note 3. Notes Payable

Virginia College Building Authority:	June 30, 2002	June 30, 2001
Series of 1992:		
Due November 1, 2002 with annual interest at 5.625% (Refunded – See Series of 2002)	-	8,770,000
Due November 1, 2012 with annual interest at 6.25% (See subsequent event note 10)	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 (1.25% at June 30, 2002).	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 (1.25% at June 30, 2002).	15,400,000	15,400,000
Series of 2002:		
Due March 1, 2032 with initial interest at 4.40%;	7,170,000	-
Due March 1, 2032 with initial interest at 5.00%;	15,000,000	-
There is a mandatory tender on March 1, 2009 and interest rate will be re-determined on that date. This series refunded part of the Series of 1992, and provided funds for several projects, including Weinstein Hall, Gottwald Science Center and Marsh Hall.		
<b>Total VCBA Notes</b>	<b>84,425,000</b>	<b>71,025,000</b>
Note Payable to SunTrust Bank		
Due January 22, 2004 with annual renewals at bank option for three additional years. Interest at LIBOR plus 24 basis points. (2.08% at June 30, 2002)	8,000,000	-
	<b>\$ 92,425,000</b>	<b>\$ 71,025,000</b>

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

2004	8,000,000
Years after 2007	<u>84,425,000</u>
	<b>\$ 92,425,000</b>

Interest expense on long-term debt was \$2,780,839 for the year ended June 30, 2002.

The fair value of all outstanding long-term obligations at June 30, 2002 and 2001 was approximately \$96,000,000 and \$73,000,000, respectively.

**Note 4. Property, Plant and Equipment**

Property, plant and equipment consists of the following at June 30, 2002 and 2001:

	<u>2002</u>	<u>2001</u>
Land	\$ 5,396,290	\$ 538,000
Buildings	175,517,988	157,180,743
Improvements	14,512,518	12,829,678
Equipment	53,809,025	51,396,508
Books	32,060,401	29,223,357
Construction in progress	<u>12,272,068</u>	<u>9,091,485</u>
	\$ 293,568,290	\$ 260,259,771
Accumulated depreciation	< <u>162,501,263</u> >	< <u>152,670,928</u> >
	<b>\$ <u>131,067,027</u></b>	<b>\$ <u>107,588,843</u></b>

Contracts have been let for construction in the amount of \$26,272,000 including construction in progress of \$12,272,068 at June 30, 2002.

**Note 5. Pledges Receivable**

Unconditional pledges at June 30, 2002 are expected to be realized in the following periods:

Less than one year	\$ 639,756
One year to five years	13,685,626
More than five years	6,480,496
Less: Discount at 5.8%	< <u>5,046,586</u> >
	<b>\$ <u>15,759,292</u></b>

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 \$4,720,122 to these plans for the year ended June 30, 2002, 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, 2002 and 2001 was as follows:

	2002	2001
Accumulated postretirement benefit obligation:		
Retirees	\$5,527,708	\$ 3,813,243
Fully eligible active plan participants	307,304	285,545
Other active plan participants	1,839,432	1,710,955
Unrecognized net gain/(loss)	<u>(1,037,834)</u>	<u>719,407</u>
	<b>\$ <u>6,636,610</u></b>	<b>\$ <u>6,529,150</u></b>

Net periodic postretirement benefit cost for 2002 included service cost of \$182,720 and interest cost on the accumulated postretirement benefit obligation of \$375,247, and amortization of unrecognized net loss of \$20,799 for a total net periodic postretirement benefit cost of \$578,766. Employer contributions for 2002 were \$402,907 and benefits paid were \$547,206.

The weighted average annual assumed rate of increase in the per capita cost of covered benefits is 12% for 2002 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, 2002 by \$207,210 and the net periodic postretirement benefit cost for the year ended June 30, 2002 by \$13,064.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7.0 percent at June 30, 2002.

**Note 8. Explanation of Net Asset Balances**

Temporarily restricted net assets consist of the following at June 30, 2002 and 2001.

	2002	2001
Support of particular operating activities	\$ 18,012,923	\$ 17,367,528
Quasi-Endowment	9,028,487	9,028,487
Acquisition of long-lived assets	<u>19,220,975</u>	<u>8,050,029</u>
	<b>\$ <u>46,262,385</u></b>	<b>\$ <u>34,446,044</u></b>

Permanently restricted net assets consist primarily of amounts whose income supports scholarships, professorships, lectureships and library funds at June 30, 2002 and 2001.

**Note 9. Allocation of Expenses**

The University allocates maintenance of plant, interest and depreciation to the program and support expenses reported in the accompanying 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 Statement of Activities.

<u>Functional Category</u>	<u>Direct Expenses</u>	<u>Maintenance</u>	<u>Interest</u>	<u>Depreciation</u>	<u>Total Expenses</u>
Instruction	\$ 33,868,932	\$ 4,351,709	\$ 905,141	\$ 3,414,194	\$ 42,539,976
Research	2,003,019	257,363	53,530	201,917	2,515,829
Public service	1,301,935	167,281	34,794	131,243	1,635,253
Libraries	7,180,106	922,548	191,887	723,798	9,018,339
Academic support	10,826,664	1,391,083	289,340	1,091,395	13,598,482
Student services	8,315,263	1,068,401	222,224	838,228	10,444,116
Institutional support	17,666,662	2,269,932	472,138	1,780,907	22,189,639
Auxiliary enterprises	24,350,531	0	611,785	1,670,000	26,632,316
	105,513,112	10,428,317	2,780,839	9,851,682	128,573,950
Maintenance	10,428,317	(10,428,317)			
Interest	2,780,839		(2,780,839)		
Depreciation	9,851,682			(9,851,682)	
<b>Total Operating Expenses</b>	<b>\$ 128,573,950</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 128,573,950</b>

**Note 10. Subsequent Event**

In August 2002, the University issued VCBA Revenue Bonds Series 2002B in the aggregate principal amount of \$7,445,000. The bonds are due March 1, 2032 with an initial mandatory tender date on March 1, 2009 for the purpose of adjusting the interest rate and bear interest at 5.00%. The bond proceeds will be used for refunding the Virginia College Building Authority's Educational Facilities Revenue Bonds Series of 1992 due November 1, 2012 with annual interest at 6.25%.