

RICE UNIVERSITY

1997

Report of the President





I. An Introduction from the President

In July 1997, I completed my fourth year as president of Rice University. This report covers developments since 1993.

As we reflect on the university's progress over that short period, we are mindful that in these rapidly changing times, upholding the distinguished record of Rice in the coming century will require all the resourcefulness we can muster. Our plans for Rice's second century are in fact bold, but no more so than the grand vision articulated by Mr. Rice himself, shepherded to fruition by Captain James A. Baker and Edgar Odell Lovett, and guided to the present by leaders such as George R. Brown and Charles Duncan.

Could they join us now, William Marsh Rice and Edgar Odell Lovett would doubtless be pleased by the university's progress over the decades. The student body remains modest in size, yet great in achievement. Our undergraduates are still admitted to the university without regard to their ability to pay. We boast an exceptional faculty that embraces strongly a dual commitment to instruction and investigation. We are steadfastly committed to a balanced academic curriculum and a program of research initiatives geared to excellence in all things and international distinction in selected disciplines. We have a residential community of students and scholars where interaction and collaboration are actively encouraged and supported. And today, as we prepare Rice University for its second century, we begin this endeavor as we began in 1891: with a plan.

In 1995, I appointed a special committee, chaired by Provost David Auston, to consider alternatives for Rice's future. In February 1997, the Rice University Strategic Planning Committee completed more than two years of concerted effort

involving representatives from all Rice constituencies: faculty, students, staff, alumni, and board members. Following highly fruitful discussion at an all-day retreat in March 1997, our Board of Governors endorsed the broad outlines of the committee's work; in November, the board approved the specific objectives of the plan. The strategic plan identifies the primary goals for the university together with initiatives to be undertaken during the next ten years in fulfillment of these goals.

Our vision of Rice in the decade that lies ahead is of a university of exceptionally high quality and distinction that uniquely combines the best attributes of a residential undergraduate college with the intellectual vitality of a research university. We aim to be unquestionably the best private university between the Atlantic Seaboard and San Francisco Bay. In implementing this plan, we will build on the institutional values that have served us so well during our first hundred years. Distinction in education, preeminence in research, and excellence in service to the community will remain our basic missions.

In the pages that follow, the strategic plan will be articulated in greater detail. It will be evident that the plan builds consciously on our past achievements, not only over the past four years, but over the decades. Clearly, the nation and the university confront challenges of an entirely different nature than those at the time of the opening in 1912.



For the foreseeable future, the world will rely on human capital rather than on physical capital as the primary engine of economic growth. Where it was once thought that prospects for growth hinged on large factories and very ample supplies of natural resources, it is now abundantly clear that economic and, to a large degree, social advances are driven primarily by the power of ideas, the command of skills and information, and the mastery of technology. All these involve people's acquiring, storing, and deploying knowledge. The products of greatest value no longer arrive in crates or bags or boxcars, as in Mr. Rice's day, but can be shipped via fax or the Internet: the products of the human mind. The very meaning of skilled labor is changing rapidly. Where the term "skilled" once applied to people with a specific marketable talent, the workforce now increasingly requires people having an array of skills, one of which must be the capacity to readily acquire new talents as social and economic conditions change.

Universities are no less vulnerable than other institutions to the pressures stemming from this new reality. The class of 2001, which matriculated last August, will be challenged by multiple currents of change, most of which are without precedent in human history. Centers of education that seek to prepare their graduates to rise to these challenges must ceaselessly re-examine and redefine their missions.

Malcolm Gillis

II. A Sketch of Recent Enhancements

The president's inaugural address in 1993 began with re-examination and redefinition of the university's mission. Today, four years into that process, we have concluded that Rice need not undergo radical transformation in outlook or strategy to fulfill its primary goals. On that occasion four years ago, we speculated about the socioeconomic environment likely to be encountered by our graduates—global markets for goods, capital, and services; a more diverse population; ongoing revolutions in information technology, molecular science, and in biomedicine, generally. Our focus then was on strategies to address these changes in the closing years of the twentieth century. Specifically, we articulated four principal near-term commitments: internationalize the curriculum; augment our programs in computational and information technology; build on our strengths in nanoscale science; and deal resourcefully with fundamental demographic shifts. With some satisfaction, we can report that by the end of the 1997-1998 academic year, virtually all of the commitments set forth in 1993 have been realized, thereby setting the stage for the launching of an ambitious, yet sensible, strategic plan.

Let us first consider developments over the past four years.



STATESMEN
SCHOLARS
STUDENTS

Institutions of higher education can ill afford to overlook the potential ramifications of growing interdependence across the planet. The university has sought to enlarge its focus well beyond our national boundaries to prepare our students for fruitful lives in an increasingly complex, interlinked world. A major step in the internationalization of Rice, and in strengthening the social sciences, was the establishment of the James A. Baker III Institute for Public Policy. In 1997, the institute moved into its new quarters in James A. Baker III Hall; shortly thereafter, the third annual Baker Institute conference was held. The conference, introduced by former president George Bush, covered foreign policy challenges at the end of the century. This decidedly memorable event brought together three former secretaries of state—James A. Baker, III, Henry Kissinger, and Warren Christopher—and former president of the Soviet Union Mikhail Gorbachev. The year also witnessed visits to the Rice campus by U.S. Secretary of State Madeleine Albright and Palestinian leader Yasir Arafat. The Baker Institute also has a strong domestic focus. Major conferences on crime and tax reform were held in 1995 and 1996, and the institute will soon announce major collaborative initiatives in health policy. In a very short span of time, the Baker Institute has lived up to its advance billing as a bridge between the world of ideas and the world of action, uniting scholars across disciplines with policymakers in government, economic, and cultural spheres, both domestically and internationally.

We have moved decisively to enhance our faculty strengths and exploit our advantages in areas that combine interdisciplinary teaching and research with international studies. Since 1993, we have added four new faculty positions focused on Latin America, a new distinguished faculty chair in Arabic studies, and a distinguished chair in Islamic economics, finance, and management. The case for a strong program at Rice in Latin American studies is axiomatic given Houston's growing importance as a commercial intersection for trade throughout the Western Hemisphere. Similarly, Houston's historic position as the international capital of the petrochemical industry provides strong impetus to develop programs directed toward a greater understanding of the economies, cultures, and peoples of the Middle East, South Asia, and East Asia.

We believe that, in the global economy of the twenty-first century, prospects for fruitful lives for Rice graduates will be much improved through better understanding of other cultures and by fluency in other languages. Another key initiative in the internationalization of Rice has been the creation of the Center for the Study of Languages. In 1997, we hired the center's first director, who brings to Rice a strong record of foreign language instruction, particularly in teaching across disciplines. Our new program, Foreign Languages Across the Curriculum, is designed to integrate foreign language usage into every student's major, whether it be philosophy, political science, geology, or mechanical engineering. Students anticipating a career in the energy industry, for example, might add to their science or engineering course work a one-hour section in Arabic, which would broaden their understanding of the course material while presenting opportunities for practical application of the language.



NEW UNDERTAKINGS IN SCIENCE AND ENGINEERING

The president's 1993 inaugural address focused at some length on prospects for nanoscale science and nanoscale technology at Rice. Shortly thereafter, the Rice Board of Governors approved a major new set of activities in this challenging new field centered on objects about one nanometer in width (one billionth of a meter). This initiative built directly on the intellectual capital that led to the 1985 discovery at Rice of the first fullerene molecules. Within three years of the board's decision, Rice professors Rick Smalley and Bob Curl won the 1996 Nobel Prize in chemistry for this breakthrough. Today, Rice is clearly among the international leaders in nanoscale research and was the first university anywhere to focus purposefully on the nanoscale frontier in our faculty recruitment, interdisciplinary research programs, equipment and instrumentation purchases, and building plans. In 1997, we completed construction of Dell Butcher Hall, the home of the Center for Nanoscale Science and Technology, containing research and teaching laboratories with the most advanced instrumentation available.

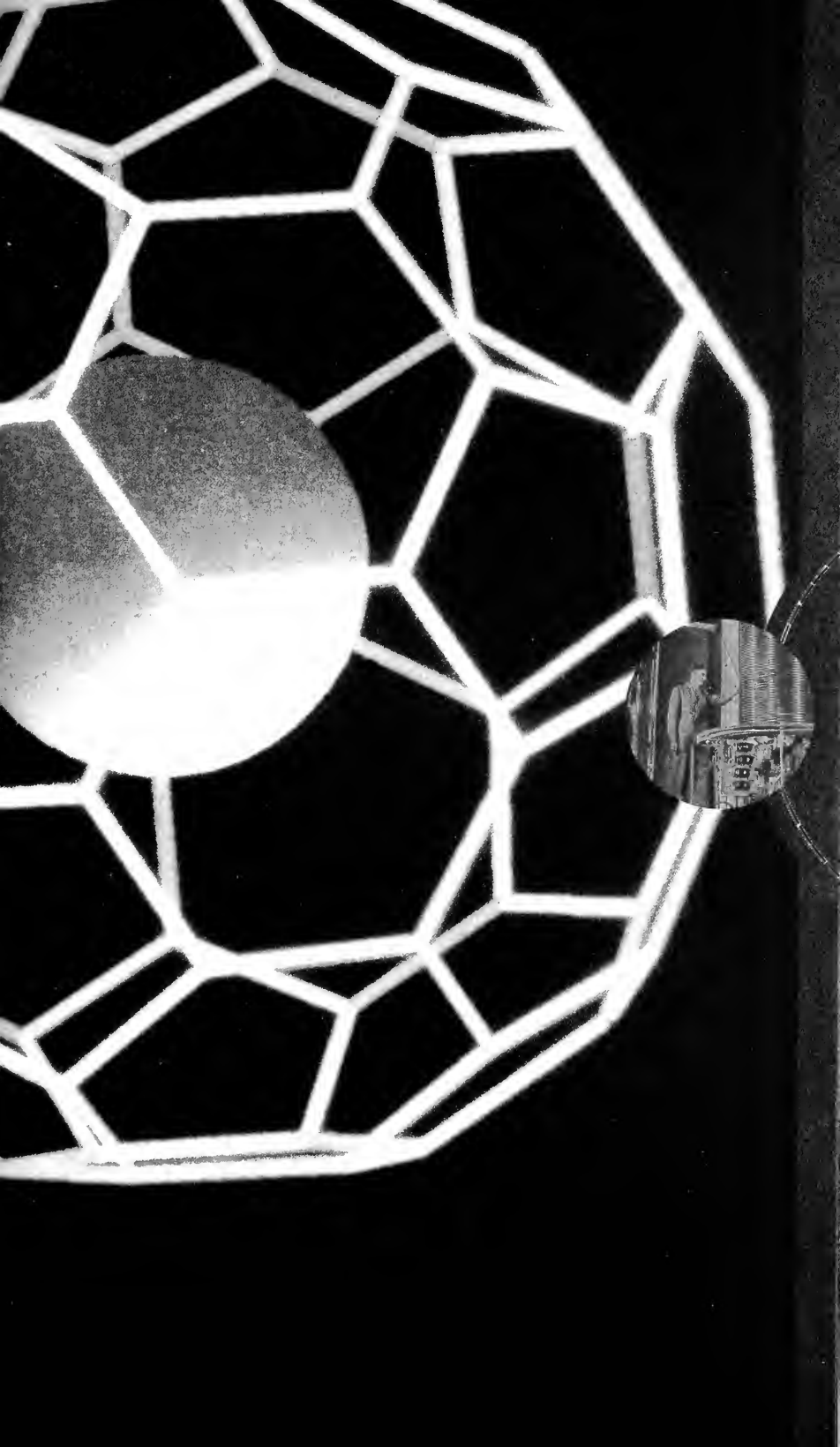
Our work on this new scientific frontier extends well beyond chemistry and physical science. Fully one-quarter of Rice faculty in science and engineering are engaged to some degree in research involving nanoscale science and/or nanotechnology. Rice's Institute of Biosciences and Bioengineering also

embraces research and teaching on ultra-small-scale phenomena. Our faculty are poised for pathbreaking work in biomedicine, generally, and biomedical engineering in particular. Research on cell-based genetic therapies and artificial organs promises to revolutionize the prevention and treatment of many types of illness, just as the microscope revolutionized diagnosis of disease. Biomedical engineering at

Rice benefits immeasurably from very close linkages with faculty at Baylor

College of Medicine and other institutions of the Texas Medical Center, just across the street. Our graduate program in this field has been recognized by the National Research Council for its distinction; we committed last year to extend more opportunities in this field to our undergraduates: a new program in bioengineering will commence when students enroll in fall 1998. With the relocation of much of the chemistry department into new quarters following the completion of Dell Butcher Hall, the way is now clear—thanks to the generosity of friends of the university—for the complete renovation of the Chemistry Building into a center for leading-edge teaching and research in biomedical engineering and related biosciences.







Plans for a new program in computational engineering were depicted at some length in the inaugural remarks of 1993. Construction of a state-of-the-art facility began in 1994, and by 1996, Anne and Charles Duncan Hall had been completed, additional faculty had been brought on board, and the \$45 million undertaking had been virtually fully funded. Like so many other initiatives at Rice, computational engineering is an interdisciplinary effort building on traditional strengths developed over the years: the antecedents were successful programs in electrical and computer engineering, computational mathematics, and electrical engineering as well as projects in parallel processing and computer information technology. This field promises to radically transform both teaching and research in engineering; indeed, it represents a completely different way of doing engineering.

The 1993 inaugural cited the need for electronic studios that would fully capitalize on information technology in a classroom setting. To meet these and other needs, the Center for Technology in Teaching and Learning was established in 1995. The center focuses on the ways in which information technology can expand and enrich education on the Rice campus. The first visible and very successful outgrowth of the center is the Gardiner Symonds Teaching Laboratory, occupying 2,600 square feet above the Fondren Library rotunda. This space challenges the concept of the traditional learning environment in both layout and resources. For students in the humanities as well as other divisions, the Symonds Lab represents a learning experience that brings the electronic studio concept fully into the classroom environment.



FONDREN LIBRARY

In 1993, it was clear that Fondren Library would require considerable improvements in the size and accessibility of its collections as well as concerted effort to take greater advantage of new media and information technology. The relocation of the Baker Institute and the Computer and Information Technology Institute from the library to new quarters allowed the university to open the entire main floor of Fondren to students, faculty, and visitors, providing much-needed additional seating as well as study and work space. New computers on the mezzanine, in combination with those previously distributed throughout the library, will make Fondren the largest student computing facility at Rice. A major enhancement to the undergraduate core collection was made possible by an additional allocation, in 1996, of \$1 million. In 1997, Fondren became the first university library in the nation to enter into a partnership with the U.S. Patent and Trademark Office to become a "virtual" patent office. Also in 1997, Fondren Library began twenty-four-hour-a-day operations, the better to serve our hard-working undergraduate and graduate students.

The initiatives depicted above—internationalization, nanoscale science, biomedical engineering, computational engineering, information technology, and the library—are linked in special ways to the needs of our students as well as to the wider society in which we work. Responsiveness to the community has always been an integral, if not very visible, component of Rice's educational mission. The 1891 charter not only called for the establishment of an institute, but charged the trustees with cultivating other means of instruction for the inhabitants of Houston and Texas. In responding to the educational needs of a population that grows more diverse with each passing year, we have established a wide variety of programs intended to make the fruits of Rice scholarship and teaching more accessible both to children and to adults throughout our city and state. Some of this activity is centered in our School of Continuing Studies; other programs focus on the Shepherd School of Music and the Rice University Art Gallery; another very considerable portion of this effort is embedded in a large number of outreach programs.

Annually, Rice's School of Continuing Studies offers more than 250 continuing education courses, including the largest selection of noncredit humanities courses of any college or university in Texas. Enrollment each year routinely approaches and occasionally exceeds 10,000. The school's foreign language program offers courses in Spanish, French, German, Italian, Russian, Arabic, Chinese, and Japanese. Students from forty-one countries have enrolled in the English as a second language program.

An estimated 10,000 people each year visit the Rice University Art Gallery and the Rice Media Center; more than 65,000 people attend the free operas, concerts, and recitals offered in Alice Pratt Brown Hall by the Shepherd School of Music. In 1997, we opened the Edythe Bates Old Grand Organ and Recital Hall, featuring a cathedral-class grand organ that must be seen and heard to be believed.

While continuing studies and the performing arts provide meaningful opportunities for the lifelong education of our community, the reality is that many people reach adulthood unable to avail themselves of or to appreciate these offerings because of weakness in public education. Caltech physicist David Goodstein has noted, for example, that of the 22,000 high schools in America, there are at least 20,000 without a qualified physics teacher. Rice faculty have been in the forefront of efforts to rectify problems of this nature. As a result, Rice has no fewer than twenty-nine outreach programs for public school students, kindergarten through high school, especially in science and mathematics. Through Rice's Center for Education, we have also developed innovative programs for continuing education of teachers, to ensure the quality of instruction given to young students. In serving our community thus, we also serve the university. We anticipate and fully expect that these students, many of them minorities, will reach their senior years of high school in a much better position to apply for admission to, and to excel at, our nation's most prestigious universities, including Rice.







III. Looking to the Future

Our considerable past achievements are but a prologue to our goals for the future. These goals are expressed in our recently completed strategic plan. The Strategic Planning Committee's report, *Rice: The Next Century*, calls for implementation of more than thirty discrete initiatives over the next ten years. These measures have been consolidated into a framework for implementation under three general headings: enhance the quality and value of education and scholarship, strengthen the faculty, and expand and strengthen our interactions beyond the hedges.

As a practical matter, the order in which these three basic goals are listed is of little consequence, owing to the strong interdependence between objectives across the three categories. To illustrate: Major improvements in the quality of undergraduate and graduate education depend greatly on resourceful programs to enhance the quality of the faculty. Expanding and strengthening our activities beyond the hedges will not only improve the quality of a Rice education, but will also assist in efforts to recruit the best faculty and most highly motivated students. In all very selective schools, a strong faculty is a magnet for strong students, but the reverse is also true: Better students, both undergraduate and graduate, are important in attracting higher-quality faculty.

ENHANCE THE QUALITY AND VALUE OF EDUCATION AND SCHOLARSHIP

Rice has always enjoyed an outstanding reputation for the proficiencies of students who enroll here and for the excellent education delivered to these students. Over the course of the next decade, we will continue to emphasize Rice's greater educational value, which stems from high-quality programs, affordable tuition, very generous financial aid, and low student debt.

The faculty and administration have made a renewed commitment to providing a liberal education and to developing a broad program of general education as a required component of the degree plan of every Rice undergraduate. Our responsibility is to enhance the students' capacity to think critically and creatively in a wide range of contexts as well as to provide them in-depth knowledge in their chosen disciplines. In addition, we will shortly announce the launching of a major new program to augment the already strong written and oral communication skills of our students. We expect the program will be of a scope, and of a type, unique in higher education. We are also taking concrete measures to involve more undergraduates in our research programs wherever possible. These opportunities expose students to leading-edge research and involve them in the process of experimentation, independent thinking, and intellectual inquiry that will serve them throughout their lives.

Further significant new investments planned for Fondren Library stress the centrality of the library as a educational resource for Rice, the region, and the nation, using both traditional and emerging information technologies. There will be extensive renovation of the existing facility, including significant expansion scheduled to occur between 2000 and 2003. Opening a new music library in the Shepherd School of Music building will not only strengthen our offerings in music, but will liberate critical space in the main library. In all, the strategic plan recommends an investment of more than \$41 million over the next ten years toward the enhancement of Rice's library resources.

The quality and value of a Rice education is enriched greatly by a broad menu of student activities outside of the classroom and laboratory. Rice is justifiably proud of its residential college system. Nevertheless, the eight residential colleges currently accommodate only about two-thirds of all undergraduates, and not all college facilities are competitive with those of our peer institutions. In order to provide on-campus housing for no fewer than four-fifths of our students, the strategic plan provides for the construction of a ninth and a tenth college. We will also persist in our present search to increase faculty participation and to promote stimulating intellectual as well as social life in the colleges.



Our athletic facilities, whether used for intramural, recreational, or intercollegiate purposes, must be maintained and upgraded to enable us to compete with other institutions for the most well-rounded students. Today's students are more likely than ever to subscribe to the maxim that a healthy body is an important complement to an active mind. Rice's intramural program encompasses eleven sports and is extremely popular: Approximately half of undergraduate students and 20 percent of graduate students, faculty, and staff consistently participate. Although our facilities for intramural and other recreational athletics have served the university well through the years, in many cases they are no longer adequate. Immediate attention will be devoted to renovating existing facilities and, where necessary, building new ones.



STRENGTHEN THE FACULTY

The reputation of any university derives primarily from the quality of its faculty. Our founding mission requires that we secure and keep faculty who are both excellent teachers and innovative scholars. To ensure that we can recruit the best new people, and to counter frequent offers from other institutions that constantly attempt to lure away our best faculty, we must offer highly competitive salaries, state-of-the-art facilities, ready access to information technology, and other ancillary resources necessary to support high-quality teaching and research. Rice will hire additional faculty in selected areas of greatest impact at a rate of one percent per year over the next decade, bringing the total number of tenured and tenure-track faculty to nearly 500, thereby improving our already enviable student-faculty ratio. An increase in the number of visiting scholars will similarly enrich the intellectual life of the campus; we plan to make six such additional appointments each year for the next five years. We have already begun to amplify and augment our awards and recognition for outstanding teachers. We will also establish resource centers to assist new and existing faculty in developing their teaching effectiveness.

Rice has enjoyed a level of achievement commensurate with that of much larger universities for many reasons. Not least of those has been our ability to leverage our strengths in discrete areas of study into bold new interdisciplinary programs such as computational engineering, nanoscale science, public policy (through the Baker Institute), and numerous others across the academic spectrum. We remain alert to additional interdisciplinary initiatives that might further infuse the univer-







sity with new ways to organize ideas and approach teaching and research. Examples in the coming years include a university-wide undertaking in natural resources and the environment that will draw on new directions in engineering, economics, political science, business (through the Jones School), and the humanities. Other such areas include cognitive sciences, cross-cultural studies, and the economics and politics of regulation, each of which would involve several departments across a number of schools. We expect to establish at least two new interdisciplinary centers over the next five years. Our strategy is to use university resources as a base to enable faculty to leverage research grants and contracts that, in time, become the primary source of funding.

The strategic plan calls for significant improvements in the physical space in which our faculty and students work. Our first priority among capital projects is the construction of a new humanities building, adjacent to Rayzor Hall and Fondren Library, to be followed by the renovation of existing facilities for the humanities at a combined cost of \$37.5 million. In addition to the library improvements and the renovation of the Chemistry Building previously discussed, other projects include expanded space for the Jones Graduate School of Administration and the School of Architecture.

Strong, well-supported graduate programs are inextricably linked with the quality of faculty. Just as the opportunity to study with a particular professor can be a powerful magnet to a student interested in that professor's field, the intelligence and enthusiasm of our students—both graduate and undergraduate—are important factors in attracting and retaining outstanding faculty. We recognize that Rice's small size cannot support the broad range of graduate programs characteristic of large research universities. Therefore, we will strengthen graduate education by highly focused investments in faculty and facilities in key areas.

We will provide competitive stipends and travel funds to attract top-quality graduate students. To enhance graduate life outside the campus, construction will soon begin on a new graduate house located closer to the academic center of campus than the current, inadequate graduate housing.




EXPAND AND STRENGTHEN OUR INTERACTIONS BEYOND THE HEDGES

From its humble beginnings in a muddy prairie at the terminus of the Main Street trolley line, Rice has played an important if not always fully appreciated role in the life of Houston and the surrounding region. In recent years, Rice's community interaction has risen to new heights. This increased extramural involvement has clearly benefited the university and, we hope, the broader community in which we learn and work.


The strategic plan provides for strengthening community-focused programs currently in place: collaborations with other institutions, such as those of the Texas Medical Center, NASA, the University of Houston, and our local museums and symphony. The plan also calls for expansion of programs offered through the School of Continuing Studies to reach an ever-widening circle of eager learners of all ages. The plan provides further intensification of our outreach to public education K-12 as we bring the resources of the university to bear on solving the problems of educating the youth of our community.

Additionally, we will exploit emerging technology to create a "Virtual Rice" network of faculty, students, alumni, and friends to encourage lifelong relationships within the growing Rice community. This community now circles the globe, making all the more appropriate our efforts toward the internationalization of Rice.



With the emergence of Rice as an institution of national and international preeminence, opportunities and demands for major academic conferences and other significant events staged on campus have increased substantially. The third annual conference of the Baker Institute was held in Autry Court, the largest indoor campus venue, yet substantial numbers of people were nevertheless required to view the conference via remote simulcasts or were simply turned away. We have begun to plan for a convocation center of sufficient size to accommodate large conferences, special events in drama and the arts, intercollegiate athletics for women and men, and other major community gatherings.





IV. Continuing an Audacious Tradition

Clearly not all of these priorities can be fully realized by 2003; some elements will still be in process in 2008.

Over the next decade, implementation of all of our proposed initiatives will cost between \$450 million and \$500 million, requiring us to raise an average of nearly two million dollars per week over the next five years. The numbers may appear large for a university of Rice's size but are not at all unreasonable for a university of Rice's aspirations.

From the very beginning, Rice has set for itself goals that were both exalted and audacious: in Lovett's words, to aim for university standing of the highest grade and to assign no upper limit to our educational endeavor. Today's generation has the responsibility, the opportunity, and the privilege to ensure that Lovett's ambitious commitment to excellence is as fully honored in the next century as it has been in the century now drawing to a close.



RICE
The NEXT
CENTURY

1997

Financial Report of the University

TO THE BOARD OF GOVERNORS,
WILLIAM MARSH RICE UNIVERSITY

We have audited the accompanying consolidated statement of financial position of William Marsh Rice University (a nonprofit Texas corporation) as of June 30, 1997, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 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 financial statements referred to above present fairly, in all material respects, the financial position of William Marsh Rice University as of June 30, 1997, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Arthur Andersen LLP

Houston, Texas
October 3, 1997

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 1997

With Summarized Financial Information as of June 30, 1996

	DOLLARS (IN THOUSANDS)	
	1997	1996
ASSETS:		
Cash and cash equivalents	\$ 1,295	\$ 4,937
Accounts receivable and other assets	41,126	26,679
Loans receivable, net	6,270	6,298
Pledges receivable, net	31,837	27,148
Investments	2,321,184	1,859,097
Property, plant and equipment, net	270,352	239,602
Total assets	<u>\$ 2,672,064</u>	<u>\$ 2,163,761</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 41,740	\$ 29,813
Actuarial liability for annuities payable	75,620	63,016
Federal student loan and other advances refundable	5,146	4,908
Assets held in trust for others	11,562	9,669
Total liabilities	<u>134,068</u>	<u>107,406</u>
NET ASSETS:		
Unrestricted	2,041,384	1,614,567
Temporarily restricted	110,871	93,254
Permanently restricted	385,741	348,534
Total net assets	<u>2,537,996</u>	<u>2,056,355</u>
Total liabilities and net assets	<u>\$ 2,672,064</u>	<u>\$ 2,163,761</u>

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 1997

With Summarized Financial Information for the Year Ended June 30, 1996

	DOLLARS (IN THOUSANDS)				
	1997			1996	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
OPERATING REVENUES:					
Endowment distribution	\$ 86,643	\$ 2,210	\$ —	\$ 88,853	\$ 84,771
Student tuition and fees, net	30,859	—	—	30,859	27,978
Grants and contracts	45,123	1,794	—	46,917	43,443
Gifts and pledges	12,798	4,821	—	17,619	16,022
Gifts and trusts released from restrictions	3,149	(2,288)	(861)	—	—
Auxiliary enterprises	18,308	—	—	18,308	19,682
Other revenues	6,792	1	49	6,842	7,262
Total operating revenues	203,672	6,538	(812)	209,398	199,158
OPERATING EXPENSES:					
Educational and general activities	170,912	—	—	170,912	158,915
Auxiliary enterprises expenditures	26,489	—	—	26,489	26,926
Total operating expenses	197,401	—	—	197,401	185,841
Net operating income	6,271	6,538	(812)	11,997	13,317
NONOPERATING CHANGES:					
Gifts and trusts for plant and endowment	—	11,563	15,115	26,678	24,971
Endowment gains and earnings, net of operating distribution	398,235	24,757	34,315	457,307	289,158
Net assets released from restrictions	24,378	(24,378)	—	—	—
Present value adjustment on annuities payable	—	(701)	(11,411)	(12,112)	(8,541)
Other nonoperating changes	(2,067)	(162)	—	(2,229)	972
Net nonoperating changes	420,546	11,079	38,019	469,644	306,560
NET INCREASE IN NET ASSETS	426,817	17,617	37,207	481,641	319,877
NET ASSETS, beginning of year	1,614,567	93,254	348,534	2,056,355	1,736,478
NET ASSETS, end of year	<u>\$ 2,041,384</u>	<u>\$ 110,871</u>	<u>\$ 385,741</u>	<u>\$ 2,537,996</u>	<u>\$ 2,056,355</u>

The accompanying notes are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 1997

With Summarized Financial Information for the Year Ended June 30, 1996

	DOLLARS (IN THOUSANDS)	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 481,641	\$ 319,877
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities—		
Depreciation	12,600	12,793
(Gain) loss on disposal of property, plant and equipment	2,067	(972)
Net realized and unrealized investment gains	(467,785)	(305,728)
Equipment gifts in-kind	(175)	(316)
Present value adjustment on annuities payable	12,112	8,541
Decrease (increase) in—		
Accounts and loans receivable and other assets	(14,419)	(1,521)
Pledges receivable	(4,689)	5,626
Increase in—		
Accounts payable and accrued liabilities	11,927	4,982
Amortization of bond discount, net	(7,028)	(232)
Contributions restricted for permanent investment	(14,516)	(36,235)
Net cash provided by (used in) operating activities	<u>11,735</u>	<u>6,815</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investments	1,281,455	782,089
Purchases of investments	(1,270,827)	(784,501)
Proceeds from outside trusts	2,098	—
Proceeds from disposal of property, plant and equipment	500	1,067
Purchases of property, plant and equipment	(45,742)	(39,591)
Net cash used in investing activities	<u>(32,516)</u>	<u>(40,936)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for permanent investment—		
Endowment	10,503	25,680
Plant	3,514	9,372
Trusts and other	499	1,183
Increase in federal student loan funds	238	208
Net increase in assets held in trust for others	1,893	1,123
Payments on annuities payable	(395)	(399)
Increase in annuities payable resulting from new gifts	887	595
Net cash provided by financing activities	<u>17,139</u>	<u>37,762</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,642)	3,641
CASH AND CASH EQUIVALENTS:		
Beginning of year	4,937	1,296
End of year	<u>\$ 1,295</u>	<u>\$ 4,937</u>

The accompanying notes are an integral part of this financial statement.

NOTE 1 · SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The financial statements of William Marsh Rice University (the University) as of June 30, 1997, and for the year then ended have been prepared in accordance with generally accepted accounting principles. Accordingly, the accompanying financial statements have been prepared on the accrual basis of accounting and include the accounts of the University and all wholly owned subsidiaries. All material transactions between the University and its subsidiaries have been eliminated.

The financial information shown for 1996 in the accompanying financial statements is included to provide a basis for comparison with 1997 and presents summarized totals only. Certain reclassifications of 1996 information have been made to conform to the 1997 presentation.

NET ASSET CATEGORIES

Standards for external financial reporting by not-for-profit organizations require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions or by law.

A description of the University's three net asset categories follows:

- a. **Unrestricted net assets** include the following:
 1. All revenues traditionally classified as unrestricted resources of the University, including tuition and fees, unrestricted gifts and income on unrestricted endowments, recovery of facility and administrative costs from grants and contracts, and auxiliary enterprise revenues.
 2. Revenues related to sponsored research agreements which are considered exchange transactions.
 3. Gifts and endowment income with donor-imposed restrictions if the restriction is anticipated to be met within the current operating cycle of the University.
 4. Investments in plant assets stated at cost or fair value at the date of gift, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the assets. Equipment is removed from the records at the time of disposal.
 5. All expenditures of the University.
- b. **Temporarily restricted net assets** include gifts and income from restricted endowments for which donor-imposed restrictions have not been met. The category also includes annuity and life income activity and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted.
- c. **Permanently restricted net assets** include gifts, trusts and pledges which require by donor restriction that the corpus be invested in perpetuity and only the income be made available for program operations. Those gifts which the donors specify are to provide loans to students also become a part of this category.

Expirations of temporary restrictions on net assets or subsequent donor release of restrictions are reported as reclassifications between the applicable classes of net assets.

CONTRIBUTIONS

Contributions, including unconditional promises to give and irrevocable trusts held by others where the University is the beneficiary, are recognized as revenues in the period received or promised. Contributions restricted for the acquisition of land, buildings and equipment are reported as temporarily restricted revenues. These contributions are reclassified to unrestricted net assets as the assets are placed in service. Promises to give that are subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Contributions scheduled to be received after one year are discounted at a rate commensurate with the risk. Amortization of the discount is recorded as additional contribution revenue.

OPERATING AND NONOPERATING ACTIVITIES

The statement of activities reports the change in net assets from the University's operating and nonoperating activities. Operating activities do not include (a) gifts and trusts related to plant and endowment (including annuity and life income trusts), (b) release from restrictions of contributions restricted to the acquisition of buildings and equipment, (c) endowment earnings in excess of the University's operating needs as defined by University spending policy (see Note 3), (d) present value adjustment on annuities payable or (e) unrestricted bequests.

INVESTMENTS

Investments are made within guidelines authorized by the Board of Governors. Investments are initially recorded at cost at date of acquisition or fair market value at date of donation in the case of gifts. Investments in marketable securities are stated at market value. All other investments are stated at cost or amortized cost. Property taxes and maintenance costs on certain undeveloped real estate interests in the endowment have been capitalized (accumulated costs of approximately \$2,800,000 at June 30, 1997).

Ownership of investments is recognized as of the trade date. Items traded which have not settled are recognized as accounts receivable or accounts payable until the settlement date.

PROPERTY, PLANT AND EQUIPMENT

The educational plant is stated at cost for purchased assets and fair market value at the date of donation in the case of gifts. The University depreciates its educational plant assets (excluding library books and works of art) using the straight-line method over their estimated useful lives. Repairs and maintenance of property, plant and equipment are expensed as incurred.

ANNUITY AND LIFE INCOME TRUSTS, GIFT ANNUITIES AND AGENCY ARRANGEMENTS

Annuity and life income trusts arise from donated assets for which the University's subsidiary generally acts as trustee and periodically pays specified amounts to the designated beneficiaries. Generally, beneficiary payments are a fixed amount or percentage for annuity trusts and based on the income earned on the donated assets for life income trusts. At a date specified in each gift instrument, usually the beneficiary's date of death, ownership of the donated assets will transfer to the University and the beneficiary payments will cease. The University also receives gift annuities which arise from gifts for which the University takes ownership of the assets at the date of gift with an obligation to periodically pay specified amounts to designated beneficiaries. Assets held in these trusts and gift annuities are included in investments. Contribution revenues are recognized at the date the trusts or gift annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts or gift annuity term for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments. The University has also received certain agency funds for which the University serves as custodian. Agency funds are included in investments with a corresponding liability (assets held in trust for others) in the accompanying financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of resources, other than those assigned to investment managers for long-term investment, which are invested in money market funds and certificates of deposit with original maturities of 90 days or less.

USE OF 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1997

NOTE 2 · PLEDGES RECEIVABLE

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges are recorded after discounting to the present value of the future cash flows. Unconditional promises are expected to be realized in the following periods:

(DOLLARS IN THOUSANDS)	JUNE 30	
	1997	1996
In one year or less	\$ 13,436	\$ 12,734
Between one year and five years	16,722	12,075
More than five years	4,423	4,172
Less- Discount of \$2,141 and \$1,425 and allowance of \$603 and \$408 in 1997 and 1996, respectively	(2,744)	(1,833)
	<u>\$ 31,837</u>	<u>\$ 27,148</u>

Pledges receivable at June 30, 1997 and 1996, have the following restrictions:

(DOLLARS IN THOUSANDS)	1997	1996
Permanently invested	\$ 8,737	\$ 11,000
Buildings	14,778	10,864
Support of University programs and activities	11,066	7,117
Less- Discount of \$2,141 and \$1,425 and allowance of \$603 and \$408 in 1997 and 1996, respectively	(2,744)	(1,833)
	<u>\$ 31,837</u>	<u>\$ 27,148</u>

A discount rate of 6 percent was applied for the years ended June 30, 1997 and 1996.

NOTE 3 · INVESTMENTS

Investments at June 30, 1997 and 1996, are as follows:

(DOLLARS IN THOUSANDS)	1997	1996
Marketable securities (cost of \$1,282,260 in 1997 and \$999,537 in 1996)	\$ 2,284,605	\$ 1,820,366
Developed real estate*	27,742	29,112
Undeveloped real estate*	5,951	6,306
Mortgage loans*	2,070	2,508
Oil and gas properties (net of accumulated amortization of \$25,863 in 1997 and \$25,815 in 1996)*	816	805
	<u>\$ 2,321,184</u>	<u>\$ 1,859,097</u>

* Stated at cost or amortized cost.

Marketable securities in the table above include annuity and life income funds securities of \$192,579,000 (cost of \$80,483,000) and \$113,246,000 (cost of \$69,857,000) as of June 30, 1997 and 1996, respectively.

The University has adopted an endowment earnings distribution policy based on total investment returns, as permitted by the Texas Uniform Management of Institutional Funds Act. Under this policy, the Board of Governors approves an endowment earnings distribution which is based on the earnings distribution of the preceding year and the market value of the endowment assets. Sources of this distribution for each restricted endowment, in the order utilized, are (a) earned income as traditionally defined (interest, dividends and rents), (b) reinvested earned income from prior years and (c) capital gains where not prohibited by the gift document. Sources of this distribution for the unrestricted general endowment, in the order utilized, are (a) earned income as traditionally defined (interest, dividends and rents) and (b) capital gains.

The following tables summarize investment income and net gains for the years ended June 30, 1997 and 1996, by source and net asset classification:

(DOLLARS IN THOUSANDS)	YEAR ENDED JUNE 30				
	1997			1996	
	INVESTMENT INCOME	NET GAINS REALIZED	NET GAINS UNREALIZED	TOTAL	TOTAL
Marketable securities	\$ 56,641	\$ 361,932	\$ 105,587	\$ 524,160	\$ 350,980
Oil and gas properties	12,026	—	—	12,026	9,025
Other investments	9,708	266	—	9,974	13,924
	<u>\$ 78,375</u>	<u>\$ 362,198</u>	<u>\$ 105,587</u>	<u>\$ 546,160</u>	<u>\$ 373,929</u>

(DOLLARS IN THOUSANDS)	YEAR ENDED JUNE 30				
	1997			1996	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
Investment earnings	\$ 67,255	\$ 3,152	\$ 7,968	\$ 78,375	\$ 68,201
Net gains on investments	417,623	23,815	26,347	467,785	305,728
Total endowment gains and earnings	484,878	26,967	34,315	546,160	373,929
Endowment distribution	86,643	2,210	—	88,853	84,771
Endowment gains and earnings, net of operating distributions	<u>\$ 398,235</u>	<u>\$ 24,757</u>	<u>\$ 34,315</u>	<u>\$ 457,307</u>	<u>\$ 289,158</u>

Endowment earnings, net of operating distributions, are reinvested under the University's endowment earnings distribution policy in the investment pool as net assets functioning as endowment.

The endowment distribution includes investment income of \$343,000 and \$312,000 in 1997 and 1996, respectively, for operating funds which are invested in the investment pool (see Note 4).

NOTE 4 • NET ASSETS

The University's unrestricted, temporarily and permanently restricted net assets are summarized as follows:

(DOLLARS IN THOUSANDS)	YEAR ENDED JUNE 30				
	1997			1996	
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
Operating-					
Undesignated	\$ 6,750	\$ —	\$ —	\$ 6,750	\$ 4,583
Designated or restricted by donor, including pledges	11,569	25,472	—	37,041	30,189
Internally designated for specific programs	26,558	—	—	26,558	26,541
Net investment in plant	252,382	3,447	—	255,829	222,826
Endowment and designated for long- term investment, including pledges	1,743,013	78,443	339,686	2,161,142	1,726,048
Annuity and living trusts	—	3,509	44,152	47,661	43,269
Loans	1,112	—	1,903	3,015	2,899
	<u>\$ 2,041,384</u>	<u>\$ 110,871</u>	<u>\$ 385,741</u>	<u>\$ 2,537,996</u>	<u>\$ 2,056,355</u>

The Board of Governors has designated certain unrestricted and temporarily restricted net assets for long-term investment. Substantially all net assets designated for long-term investment and endowment assets participate in one common investment pool of marketable securities (see Note 3).

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1997

NOTE 5 · EDUCATIONAL PLANT

Property and equipment of the educational plant at June 30, 1997 and 1996, are as follows:

(DOLLARS IN THOUSANDS)	ESTIMATED USEFUL LIVES (YEARS)	1997	1996
Land	—	\$ 9,656	\$ 9,656
Buildings and improvements	20-50	212,453	177,144
Equipment, furniture and library books	2-20	174,252	173,092
Construction in progress	—	26,600	33,714
Less- Accumulated depreciation	—	(152,609)	(154,004)
		<u>\$ 270,352</u>	<u>\$ 239,602</u>

The University's charter requires that a portion of unrestricted endowment income be specifically set aside each year to fund a portion of plant improvements.

Certain capital projects and major maintenance projects for auxiliary enterprises are funded with interest-bearing advances from unrestricted net assets. The advances for capital and major maintenance projects bear interest ranging from 4 percent to 19 percent.

NOTE 6 · STUDENT FINANCIAL AID

Gross student tuition and fees of \$49,285,000 and \$45,687,000 in 1997 and 1996, respectively, are presented in the financial statements net of scholarship and fellowship awards of \$18,426,000 and \$17,709,000. Auxiliary enterprises revenue was reduced by scholarship awards of \$807,000 and \$838,000 in 1997 and 1996, respectively, which was applied to room and board charges. In addition, stipends and other direct payments to students totaled \$4,898,000 and \$4,251,000 in 1997 and 1996, respectively.

NOTE 7 · EXPENDITURES

Educational and general expenditures of the University by major functional category for the years ended June 30, 1997 and 1996, are as follows:

(DOLLARS IN THOUSANDS)	1997	1996
Instruction and departmental research	\$ 86,913	\$ 80,958
Sponsored research	40,014	37,123
Library	8,327	7,576
Scholarships and fellowships	4,898	4,251
Student services	7,025	6,627
General administration	13,696	12,932
Institutional development and other activities	10,039	9,448
Total educational and general	<u>\$ 170,912</u>	<u>\$ 158,915</u>

The above table includes depreciation expense of \$8,454,000 and \$7,898,000 and operations and maintenance expense of \$16,553,000 and \$14,524,000 for the years ended June 30, 1997 and 1996, respectively, which were allocated to the major functional categories based on space usage. In addition, depreciation expense of \$4,586,000 and \$4,449,000 was allocated to auxiliary enterprises in 1997 and 1996, respectively.

NOTE 8 · RETIREMENT PLANS

Substantially all employees are eligible to participate in defined contribution retirement plans which are administered by outside agencies. The contributions of the University and the plan participants are applied to annuity contracts. The University's contributions to these plans of \$7,496,000 in 1997 were recorded as expenditures in the appropriate functional category.

NOTE 9 · COMMITMENTS AND CONTINGENCIES

There are several suits and claims pending against the University, the effect of which cannot be estimated at this time; however, officials of the University and legal counsel believe that the ultimate uninsured liability, if any, will not be material to the University's financial position and activities.

The University was committed under contracts at June 30, 1997, for capital improvements and major maintenance of approximately \$8,090,000 to be financed primarily from gifts and net assets designated for long-term investments. Other commitments of \$4,780,000 were also outstanding at June 30, 1997.

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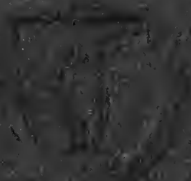
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