



BROWN UNIVERSITY

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)



KPMG LLP
One Financial Plaza, Suite 2300
Providence, RI 02903

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying financial statements of Brown University, which comprise the balance sheets as of June 30, 2021 and 2020, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 1(q) to the financial statements, in 2021, the University adopted Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), as amended. Our opinion is not modified with respect to this matter.

KPMG LLP

October 27, 2021

BROWN UNIVERSITY

Balance Sheets

June 30, 2021 and 2020

(Dollars in thousands)

Assets	2021	2020
Cash and cash equivalents	\$ 724,876	452,767
Accounts receivable and other assets	91,975	80,832
Contributions receivable, net	306,557	279,082
Funds held in trust by others	50,114	53,439
Right-of-use assets-operating	98,634	—
Investments	7,225,770	4,766,897
Land, buildings and equipment, net	1,295,182	1,261,176
Total assets	<u>\$ 9,793,108</u>	<u>6,894,193</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 124,163	91,564
Liabilities associated with investments	38,313	6,344
Student deposits and grant advances	95,822	49,754
Operating lease obligations	99,172	—
Other long-term obligations	91,768	111,859
Retirement obligations	74,938	85,896
Bonds, loans and notes payable	1,454,801	1,069,945
Total liabilities	<u>1,978,977</u>	<u>1,415,362</u>
Net assets:		
Without donor restrictions	1,567,060	1,143,271
With donor restrictions	6,247,071	4,335,560
Total net assets	<u>7,814,131</u>	<u>5,478,831</u>
Total liabilities and net assets	<u>\$ 9,793,108</u>	<u>6,894,193</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2021

(Dollars in thousands)

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Operating revenues:			
Net tuition and fees	\$ 330,835	—	330,835
Grants and contracts	236,053	—	236,053
Contributions	59,856	47,597	107,453
Endowment return appropriated	167,499	14,600	182,099
Sales and services of auxiliary enterprises	62,904	—	62,904
Other income	46,255	—	46,255
Net assets released from restrictions	38,270	(38,270)	—
Total operating revenues	<u>941,672</u>	<u>23,927</u>	<u>965,599</u>
Operating expenses:			
Salaries and wages	418,854	—	418,854
Employee benefits	127,226	—	127,226
Graduate student support	96,137	—	96,137
Purchased services	133,001	—	133,001
Supplies and general	120,101	—	120,101
Utilities and occupancy	41,357	—	41,357
Interest	33,455	—	33,455
Depreciation	88,826	—	88,826
Operating expenses	<u>1,058,957</u>	<u>—</u>	<u>1,058,957</u>
Change in net assets from operating activities	<u>(117,285)</u>	<u>23,927</u>	<u>(93,358)</u>
Nonoperating activities:			
Contributions	9,246	192,319	201,565
Net investment return	501,348	1,875,959	2,377,307
Endowment return appropriated	(29,214)	(152,885)	(182,099)
Other changes, net	30,981	904	31,885
Net assets released from restrictions	28,713	(28,713)	—
Change in net assets from nonoperating activities	<u>541,074</u>	<u>1,887,584</u>	<u>2,428,658</u>
Change in net assets	423,789	1,911,511	2,335,300
Net assets, beginning of year	<u>1,143,271</u>	<u>4,335,560</u>	<u>5,478,831</u>
Net assets, end of year	\$ <u>1,567,060</u>	<u>6,247,071</u>	<u>7,814,131</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2020

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating revenues:			
Net tuition and fees	\$ 399,031	—	399,031
Grants and contracts	209,263	—	209,263
Contributions	68,830	31,622	100,452
Endowment return appropriated	156,066	3,881	159,947
Sales and services of auxiliary enterprises	86,046	—	86,046
Other income	43,129	—	43,129
Net assets released from restrictions	20,553	(20,553)	—
Total operating revenues	<u>982,918</u>	<u>14,950</u>	<u>997,868</u>
Operating expenses:			
Salaries and wages	421,848	—	421,848
Employee benefits	115,302	—	115,302
Graduate student support	89,390	—	89,390
Purchased services	96,521	—	96,521
Supplies and general	138,866	—	138,866
Utilities	35,073	—	35,073
Interest	22,823	—	22,823
Depreciation	86,941	—	86,941
Operating expenses	<u>1,006,764</u>	<u>—</u>	<u>1,006,764</u>
Change in net assets from operating activities	<u>(23,846)</u>	<u>14,950</u>	<u>(8,896)</u>
Nonoperating activities:			
Contributions	4,709	130,544	135,253
Net investment return	96,729	385,012	481,741
Endowment return appropriated	(25,516)	(134,431)	(159,947)
Other changes, net	(52,886)	10,047	(42,839)
Net assets released from restrictions	18,180	(18,180)	—
Change in net assets from nonoperating activities	<u>41,216</u>	<u>372,992</u>	<u>414,208</u>
Change in net assets	17,370	387,942	405,312
Net assets, beginning of year	<u>1,125,901</u>	<u>3,947,618</u>	<u>5,073,519</u>
Net assets, end of year	<u>\$ 1,143,271</u>	<u>4,335,560</u>	<u>5,478,831</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2021 and 2020

(Dollars in thousands)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,335,300	405,312
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(2,400,866)	(502,425)
Depreciation	88,826	86,941
Amortization of bond premium	(7,395)	(6,230)
Net (gain) loss from disposals of land, building and equipment	(570)	182
Change in funded status of pension obligation	(20,856)	20,705
Change in fair value of interest rate swap liabilities	(16,466)	19,562
Change in asset retirement obligation	811	849
Change in estimate of split-interest obligations	2,220	546
Contributions restricted for plant and endowment	(169,062)	(165,446)
Change in accounts receivable and other assets	(15,807)	15,097
Change in accounts payable and accrued liabilities	38,533	(3,380)
Change in contributions receivable, net	(27,475)	(1,639)
Change in other operating liabilities, net	52,526	(25,639)
Net cash used in operating activities	<u>(140,281)</u>	<u>(155,565)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(128,196)	(151,785)
Purchases of investments	(1,872,601)	(892,292)
Sales and redemptions of investments	1,814,012	957,964
Notes repaid by students and others, net	4,664	4,261
Change in funds held in trust by others, excluding swap collateral	(8,075)	22,547
Net cash used in investing activities	<u>(190,196)</u>	<u>(59,305)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	169,062	165,446
Proceeds from sale of restricted gifts of securities	32,551	20,493
Payments under split-interest obligations	(2,678)	(2,594)
Payments on long-term debt	(9,775)	(82,590)
Proceeds from issuance of debt, including premium	402,026	371,056
Cash collateral posted under swap agreements	(3,800)	(36,100)
Cash collateral returned under swap agreements	15,200	23,000
Advance from line of credit	—	50,000
Payment of advance from line of credit	—	(50,000)
Net cash provided by financing activities	<u>602,586</u>	<u>458,711</u>
Change in cash and cash equivalents	272,109	243,841
Cash and cash equivalents, beginning of year	<u>452,767</u>	<u>208,926</u>
Cash and cash equivalents, end of year	\$ <u>724,876</u>	<u>452,767</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

Brown University (the University or Corporation) is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 6,670 undergraduate students and 3,000 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

(b) Basis of Presentation and Tax Status

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and present balances and transactions according to the existence or absence of donor-imposed restrictions.

The John Nicholas Brown Center for the Study of American Civilization and certain entities established by the University's investment office that holds certain investment funds, are all separate legal entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated.

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended, and is generally exempt from income taxes. The University assesses uncertain tax positions and determined that there are no such positions that have a material effect on the financial statements.

(c) Classification of Net Assets

Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions into two classes of net assets. Accordingly, net assets of the University are classified and reported as follows:

- *Without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.
- *With donor restrictions* – Net assets subject to donor-imposed stipulations that are more specific than broad limits resulting from a not-for-profit's nature, environment in which it operates and incorporating documents. Some donors impose restrictions that are temporary in nature for example, stipulating that resources be used only after a specific date, for particular programs or services, or to acquire buildings and equipment. Other donors impose restrictions that are perpetual in nature, for example, donor-restricted endowment funds stipulating that resources be maintained in perpetuity.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. The University is incorporated in and subject to the laws of Rhode Island, which contain the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the net assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University in accordance with the standard of prudence prescribed by UPMIFA.

(d) Fair Value Measurements

Investments, funds held in trust by others, and interest rate swaps are reported at fair value in the University's financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. The University uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. The hierarchy is defined as follows:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no observable market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

Investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy.

(e) Statements of Activities

The statements of activities separately report changes in net assets from operating and nonoperating activities. Operating activities consist principally of revenues and expenses related to ongoing educational and research programs, including endowment return appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, changes in fair values of interest rate swaps, change in pension plan and other long-term obligations, contributions for long-term purposes, net assets released from donor restrictions for property placed in service, and other activities not in direct support of annual operations.

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Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

Revenue from contracts with customers is recognized when control of the promised goods or services is transferred in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services (i.e., the transaction price). Revenues are derived from various sources, as follows:

- Revenue from student education, residence, and dining services is determined based on published rates and is billed and reflected net of reductions from institutional student aid, which may be funded by endowment funds or other institutional resources. Such revenue is recognized as the services are provided over the academic year, which generally aligns with the University's fiscal year. Aid in excess of a student's tuition and fees is reflected as a reduction of residence and dining charges. Disbursements made directly to students for living costs or other purposes are reported as an expense. Payments for student services are generally received prior to the commencement of each academic term and are reported as student deposits (contract liabilities) to the extent services will be rendered in the following fiscal year.

The composition of student tuition and fee revenue was as follows for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Undergraduate	\$ 381,477	418,456
Graduate and masters programs	172,219	168,391
Other	—	29,047
	<u>553,696</u>	<u>615,894</u>
Tuition and fees	553,696	615,894
Less university scholarships	<u>(222,861)</u>	<u>(216,863)</u>
Net tuition and fees	<u>\$ 330,835</u>	<u>399,031</u>

Sales and services of auxiliary enterprises revenues are recognized when goods or services are provided to students and customers. Auxiliary enterprises revenues consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Residence, dining and health services	\$ 54,826	68,502
Bookstore, rental and other auxiliary income	<u>8,078</u>	<u>17,544</u>
Total	<u>\$ 62,904</u>	<u>86,046</u>

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Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

Contributions, including unconditional promises from donors reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions which impose donor restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor restrictions. Bequest intentions and conditional promises are not recorded in the University's financial statements.

- Grants and contracts awarded by federal and other sponsors, which generally are considered nonexchange transactions restricted by sponsors for certain purposes, are recognized as revenue when qualifying expenditures are incurred and conditions under the agreements are met. The University has elected the simultaneous release policy available under ASU 2018-08, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions if the restriction is met in the same period that the revenue is recognized. Total revenue from grants and contracts recognized in net assets without donor restrictions was \$236,053 and \$209,263 for the years ended June 30, 2021 and 2020, respectively. Payments received from sponsors in advance of conditions being met are reported as grant advances, which totaled \$38,510 and \$27,089 as of June 30, 2021 and 2020, respectively. Conditional awards from federal sponsors outstanding as of June 30, 2021 were \$438,234.
- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) net assets with donor restrictions if the terms of the contributions require them to be added to principal or if the terms of the related contributions impose restrictions on their availability or use; or (2) net assets without donor restrictions in all other cases. Investment return attributable to donor-restricted endowment funds is reported as net assets with donor restrictions to the extent not appropriated and spent.

Expenses are reported as decreases in net assets without donor restrictions.

(f) Cash Equivalents

For purposes of the statements of cash flows, cash equivalents, except for those held by investment managers and those held as collateral for debt or interest rate swaps, consist of money market funds and investments with original maturities of three months or less and are carried at cost, which approximates fair value.

(g) Accounts and Notes Receivable and Other Assets

Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory and prepaid expenses. Notes and accounts receivable are presented net of an allowance for uncollectible amounts.

(h) Land, Buildings and Equipment

Land, buildings and equipment are stated at cost of acquisition or construction (including capitalized interest) or, to the extent received as a gift, at estimated fair value at the time of receipt, and are presented net of accumulated depreciation. All other expenditures for maintenance and repairs are charged to operating activities as incurred.

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Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

Depreciation is calculated using the straight-line method with estimated useful lives of 30-to-40 years for buildings, 20-to-30 years for building improvements, and 3-to-15 years for equipment, depending upon asset class. Depreciation on buildings that support research efforts are componentized and depreciated over useful lives ranging from 15–40 years.

(i) Fund Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$40,821 and \$32,712 at June 30, 2021 and 2020, respectively. The University receives all or a specified portion of the return on the underlying assets of most of the trusts, which is primarily restricted for scholarships. Most of these trust interests are classified in Level 3 in the fair value hierarchy. Other trustee funds of \$9,293 and \$20,727 at June 30, 2021 and 2020, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held as collateral or in reserve in accordance with debt or interest rate swap agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

(j) Federal Student Loan Advances

The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program and the Health Professions Student Loan Program (the Programs). Under federal law, the authority for schools to make new loans under the Programs ended on September 30, 2017, and final distributions to student were permitted through June 30, 2018.

(k) Collections

The University's collections include works of art, historical treasures, and artifacts that are maintained in the University's libraries and museums. These collections are protected and preserved for education and research purposes. The collections are not recognized as assets in the financial statements of the University.

(l) Derivatives

The University uses derivatives for both debt and investment-related purposes. Interest-rate swaps, as described in note 7 (c), are initially used to manage interest-rate risk by fixing the rate on associated variable-rate debt issuances. In addition, certain of the University's investment strategies utilize various derivative financial instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Positions are expected to create gains or losses which, when combined with the applicable portion of the total investment portfolio, provide an expected result. Among the derivative instruments that may be entered from time to time include total return swaps to manage exposures in equity markets, foreign currency forward contracts to manage currency exposures in the portfolio. The University has established policies and procedures to monitor and manage risks related to these instruments. In connection with its investment derivative activities, the University generally maintains master netting agreements and collateral agreements with its counterparties. The agreements provide the University the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(m) Liabilities Associated with Investments

The University may, from time to time, incur liabilities associated with its investments portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a realized gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheets at June 30, 2021 and 2020 include \$35,376 and \$0, respectively, representing the fair value of identical securities that must be acquired to settle obligations to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given that they are measured based on quoted market prices. In addition, liabilities associated with investments include the fair value swaps and futures of \$2,937 and \$6,344 entered into in fiscal 2021 and 2020, respectively.

(n) Other Long-Term Obligations

Other long-term obligations consisted of the following for the years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Federal student loan advances	\$ 11,720	15,698
Split interest obligations	13,926	14,384
Asset retirement obligations	17,767	16,956
Interest-rate swap liabilities	<u>48,355</u>	<u>64,821</u>
Total	<u>\$ 91,768</u>	<u>111,859</u>

(o) Use of Estimates

The preparation of financial statements 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 dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(p) Risks and Uncertainties

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Although it is not possible to determine the pandemic's ultimate length, severity, or impacts on the economy or the University's finances, the University could experience adverse effects posed by the risks, or our stakeholders' perceptions of the risks, related to COVID-19.

The University announced its Plan for a Healthy and Safe 2020-21 in July 2020, providing the roadmap for the steps Brown is taking to mitigate the impact of the global COVID-19 pandemic during the phased resumption of on-campus instruction and operations. The Plan for a Healthy and Safe 2020-21 included a one-time transition to three semesters and an extensive COVID-19 testing program. The full extent of the continual impact of COVID-19 on the University will depend on various future developments, particularly the duration and depth of the pandemic, which may be influenced by new COVID-19 variants.

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Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(q) Recent Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), as amended, that requires, among other things, a lessee to recognize a right-of-use asset representing an entity's right to use the underlying asset for the lease term and a liability for lease payments on the balance sheet, regardless of classification of a lease as an operating or finance lease. As permitted by the ASU, for leases with a term of twelve months or less as a lessee, the University has elected not to recognize lease assets and liabilities and account for the lease similar to existing guidance for operating leases. The University adopted ASU 2016-02 in fiscal year 2021 using the modified retrospective approach. Right-of-use assets and related lease obligations of \$105,502 were recognized as of July 1, 2020 and are included in the balance sheet. The guidance did not materially impact the University's results of operations.

(r) Leasing

The University determines if an arrangement is a lease at inception. The University has leases for which it is a lessor. Operating leases are included in right of use assets, and the related lease obligations in the balance sheet.

Lease right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating lease right-of-use assets and related obligations are recognized at commencement date based on the present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. The incremental borrowing rate is based on the information available at commencement date in determining the present value of lease payments. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Rental income arising from operating leases as a lessor is included in operating revenue in other sources in the statement of activities. The cash paid for amounts included in the measurement of these liabilities, under ASC 842, for operating leases for the year ended June 30, 2021 was \$8,845.

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Notes to Financial Statements
June 30, 2021 and 2020
(Dollars in thousands)

(2) Liquidity and Availability

Financial assets available for general expenditures within one year of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 724,876	452,767
Accounts receivable, net	58,627	41,105
Pledge receivables available for operations	18,134	18,274
Working capital investments	440,611	294,954
Approved endowment income appropriated for upcoming fiscal year	<u>194,632</u>	<u>182,129</u>
Total financial assets available within one year	1,436,880	989,229
Liquidity resources:		
Taxable commercial paper	125,000	125,000
Bank line of credit	<u>100,000</u>	<u>100,000</u>
Total financial assets and liquidity resources available within one year	<u>\$ 1,661,880</u>	<u>1,214,229</u>

The University manages its financial assets to be available as its operating expenditures, liabilities and other obligations come due. In addition, the University invests cash in excess of daily requirement in short-term investments or fixed income securities. To supplement working capital, the University has a \$100,000 line of credit and a \$125,000 taxable commercial paper program at June 30, 2021.

Additionally, the University has Corporation-designated endowments of \$960,328 and \$635,594 as of June 30, 2021 and 2020, respectively. Although the University does not intend to spend from its Corporation-designated endowment funds, other than amounts appropriated for general expenditure, as part of its annual budget approval and appropriation process, amounts from its Corporation-designated endowment funds could be made available if necessary. However, both the Corporation-designated funds and donor-restricted endowment funds contain investments with liquidity constraints, of which \$2,468,312 can be liquidated on a daily to quarterly basis at June 30, 2021 (refer to note 4 for disclosures about investments).

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Notes to Financial Statements

June 30, 2021 and 2020

(Dollars in thousands)

(3) Contributions Receivable

The University's contributions receivable are recognized net of discounts at rates commensurate with the risks involved and after allowances for uncollectible accounts are reported at net realizable value, which approximates fair value. Contributions receivable were as follows at June 30:

	<u>2021</u>	<u>2020</u>
Contributions expected to be received in:		
Less than one year	\$ 79,136	71,145
Between one and five years	162,341	142,007
More than five years	<u>131,739</u>	<u>144,055</u>
Gross contributions receivable	373,216	357,207
Unamortized discount (at rates ranging from 0.3% to 4.8%) and allowance for uncollectibles	<u>(66,659)</u>	<u>(78,125)</u>
Contributions receivable, net	<u>\$ 306,557</u>	<u>279,082</u>

At June 30, 2021, the University had conditional promises to give of \$247,938. These conditional promises to give are not recognized as assets or revenue in the financial statements.

(4) Investments

Investment Strategy

In addition to traditional stocks and fixed-income securities, the University may also hold shares or units in institutional funds as well as in alternative investment funds involving absolute return, private equity and real asset strategies. Absolute return strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with absolute return strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and may focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs), commercial properties, commodities, or oil and gas, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by fund managers in the absence of readily determinable market values.

Investments also include assets related to donor annuities, pooled income funds, and charitable remainder trusts. Certain of these funds are held in trust by the University for one or more beneficiaries who are generally paid lifetime income, after which the principal is made available to the University in accordance with donor restrictions, if any. The assets are reported at fair value and related liabilities, which are reported as split-interest obligations, represent the present value of estimated future payments to beneficiaries.

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Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market where quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2021 and 2020, the University had no plans or intentions to sell investments at amounts different from NAV.

Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The following tables summarize the University's investments by strategy type as of June 30, 2021 and 2020:

	2021				
	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Investments:					
Equities:					
Domestic	\$ 144,703	135,372	449,847	41,370	771,292
Global	612,105	127,776	—	—	739,881
Fixed income:					
Domestic	103,441	97,746	5,514	3,166	209,867
Global	130,550	—	38,518	50	169,118
Absolute return:					
General arbitrage	411,737	2	—	—	411,739
Distressed	311	—	—	—	311
Global	1,141,575	272,117	—	—	1,413,692
Private equity:					
Buy-out	1,024,586	26	—	28,705	1,053,317
Venture	1,807,555	—	—	27,010	1,834,565
Real assets:					
Real estate	166,027	1,783	—	37,063	204,873
Commodities, oil and gas	63,869	18,673	74,393	19,390	176,325
Cash and cash equivalents	—	240,790	—	—	240,790
Total	\$ 5,606,459	894,285	568,272	156,754	7,225,770

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	2020				
	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Investments:					
Equities:					
Domestic	\$ 53,658	67,748	21,753	218,675	361,834
Global	512,024	81,666	—	—	593,690
Fixed income:					
Domestic	55,308	93,764	16,377	3,333	168,782
Global	106,835	—	55,715	50	162,600
Absolute return:					
General arbitrage	462,863	2	—	746	463,611
Distressed	589	—	—	—	589
Global	1,001,996	204,030	—	—	1,206,026
Private equity:					
Buy-out	610,920	—	—	30,030	640,950
Venture	827,478	—	—	19,114	846,592
Real assets:					
Real estate	130,427	1,960	—	37,162	169,549
Commodities, oil and gas	—	21,920	17,237	15,552	54,709
Cash and cash equivalents	—	97,965	—	—	97,965
Total	<u>\$ 3,762,098</u>	<u>569,055</u>	<u>111,082</u>	<u>324,662</u>	<u>4,766,897</u>

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. Investments classified in Level 2 and 3 consist of directly held investments that have valuations based on inputs other than quoted prices.

Certain funds contain “rolling” lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two to five years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement. Private equity and real assets are held in funds that have initial terms of ten to twelve years with extensions of one to three years, and have an average remaining life of approximately four to seven years.

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The following tables present activities for the years ended June 30, 2021 and 2020 for the University's investments classified in Level 3:

Level 3 roll forward	2021					
	Equities	Fixed income	Private equity	Real assets	Absolute return	Total
Fair value as of June 30, 2020	\$ 218,675	3,383	49,144	52,714	746	324,662
Acquisitions	1,782	—	7,575	—	—	9,357
Dispositions	(389,710)	—	(28)	(1,242)	—	(390,980)
Net realized and unrealized gains (losses)	210,623	(167)	(976)	4,981	(746)	213,715
Fair value at June 30, 2021	\$ 41,370	3,216	55,715	56,453	—	156,754

Level 3 roll forward	2020					
	Equities	Fixed income	Private equity	Real assets	Absolute return	Total
Fair value as of June 30, 2019	\$ 106,176	11,165	28,131	64,326	732	210,530
Acquisitions	541	—	30,025	233	—	30,799
Dispositions	(23,395)	(8,309)	(13,342)	(4,439)	—	(49,485)
Net realized and unrealized gains (losses)	135,353	527	4,330	(7,406)	14	132,818
Fair value at June 30, 2020	\$ 218,675	3,383	49,144	52,714	746	324,662

There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2021 and 2020, respectively.

Total investment return is included in the statements of activities as follows for the years ended June 30:

	2021	2020
Operating:		
Endowment return appropriated	\$ 182,099	159,947
Included in other income	9,973	13,046
Nonoperating activities:		
Net investment return	2,377,307	481,741
Endowment return appropriated	(182,099)	(159,947)
Total return	\$ 2,387,280	494,787

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Total investment management and advisory expenses, including internal costs, were \$19,523 and \$14,088 for the years ended June 30, 2021 and 2020, respectively, and have been netted against the total return.

(a) Liquidity

Investment liquidity as of June 30, 2021 and 2020 is aggregated below based on redemption or sale ability:

	2021						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 280,108	119,047	485,323	448,224	104,715	73,756	1,511,173
Fixed income	144,887	—	131,807	—	25,000	77,291	378,985
Absolute return	2	131,169	801,449	—	863,015	30,107	1,825,742
Private equity	—	—	—	—	158,566	2,729,316	2,887,882
Real assets	94,848	38,882	—	—	—	247,468	381,198
Cash and cash equivalents	240,790	—	—	—	—	—	240,790
Total	<u>\$ 760,635</u>	<u>289,098</u>	<u>1,418,579</u>	<u>448,224</u>	<u>1,151,296</u>	<u>3,157,938</u>	<u>7,225,770</u>

	2020						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 217,470	60,761	272,882	130,414	38,085	235,912	955,524
Fixed income	169,125	—	87,013	—	10,038	65,206	331,382
Absolute return	1,974	130,200	832,029	112,977	585,063	7,983	1,670,226
Private equity	—	—	—	—	31,844	1,455,698	1,487,542
Real assets	41,117	—	—	—	—	183,141	224,258
Cash and cash equivalents	97,965	—	—	—	—	—	97,965
Total	<u>\$ 527,651</u>	<u>190,961</u>	<u>1,191,924</u>	<u>243,391</u>	<u>665,030</u>	<u>1,947,940</u>	<u>4,766,897</u>

Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 5 to 180 days, at June 30, 2021 and 2020.

(b) Commitments

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity, real assets and private credit as of June 30, 2021 and 2020 was \$1,019,846 and \$905,251, respectively.

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(c) Investment Derivatives

The University's investment-related derivative positions, categorized by primary underlying risk, are as follows as of June 30, 2021 and 2020:

	2021		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized gain (loss)</u>
Instrument type:			
Total return swaps	\$ 145,970	—	17,425
Futures and options	255,427	—	4,092
Total	<u>\$ 401,397</u>	<u>—</u>	<u>21,517</u>
	2020		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized gain (loss)</u>
Instrument type:			
Total return swaps	\$ 141,122	—	(4,271)
Futures and options	20,916	—	332
Total	<u>\$ 162,038</u>	<u>—</u>	<u>(3,939)</u>

Contracts in a net asset position are included in investments on the balance sheets, and contracts in a net liability position are included in liabilities associated with investments on the balance sheets and are as follows as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Instrument type included in investments:		
Total return swaps	\$ 19,248	2,074
Futures and options	5,206	820
Instrument type included in liabilities associated with investments:		
Total return swaps	\$ 1,823	6,344
Futures and options	1,114	—

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(5) Endowment

The University's endowment consists of approximately 3,400 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2021:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Historical gift value	\$ —	1,786,756	1,786,756
Appreciation	—	3,710,943	3,710,943
Corporation-designated endowment funds	<u>960,328</u>	<u>62,148</u>	<u>1,022,476</u>
Total endowment net assets	\$ <u><u>960,328</u></u>	<u><u>5,559,847</u></u>	<u><u>6,520,175</u></u>

Endowment net assets consist of the following at June 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Historical gift value	\$ —	1,657,198	1,657,198
Appreciation	—	2,019,376	2,019,376
Corporation-designated endowment funds	<u>635,594</u>	<u>65,298</u>	<u>700,892</u>
Total endowment net assets	\$ <u><u>635,594</u></u>	<u><u>3,741,872</u></u>	<u><u>4,377,466</u></u>

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2020	\$ 635,594	3,741,872	4,377,466
Investment return, net	353,818	1,854,479	2,208,297
Endowment return appropriated	(29,214)	(152,885)	(182,099)
Contributions	41	126,733	126,774
Reclassifications and other changes	<u>89</u>	<u>(10,352)</u>	<u>(10,263)</u>
Endowment net assets, June 30, 2021	\$ <u><u>960,328</u></u>	<u><u>5,559,847</u></u>	<u><u>6,520,175</u></u>

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Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2019	\$ 571,146	3,405,548	3,976,694
Investment return, net	72,592	382,623	455,215
Endowment return appropriated	(25,516)	(134,431)	(159,947)
Contributions	41	79,309	79,350
Reclassifications and other changes	17,331	8,823	26,154
Endowment net assets, June 30, 2020	<u>\$ 635,594</u>	<u>3,741,872</u>	<u>4,377,466</u>

(a) Interpretation of Relevant Laws

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature are reported in net assets with donor restrictions. There were no donor-restricted endowment funds underwater at June 30, 2021 and 2020.

(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and designated funds. The long-term investment return objective is formulated to maintain purchasing power after accounting for both inflation and spending. The Corporation has set a long-term return goal at 5.5% above the higher education price index. Actual returns in any given year or period of years may vary from this amount.

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(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The University invests its endowment funds and allocates the related return for expenditure in accordance with the total return concept. The endowment utilization is determined in accordance with the policy adopted by the Corporation. This policy fixes the spending range between 4.5% and 5.5% of the average fair value of applicable endowments over the prior twelve quarters, with the objective being to hold the spending rate to no more than a 5% average over time. Applicable endowments include Corporation-designated and donor-restricted endowment funds.

(6) Land, Buildings and Equipment

Land, buildings and equipment include the following at June 30:

	<u>2021</u>	<u>2020</u>
Land	\$ 93,323	91,899
Buildings	798,992	765,659
Improvements	1,318,731	1,258,602
Equipment	247,710	239,158
Construction in progress	<u>128,815</u>	<u>112,275</u>
	2,587,571	2,467,593
Accumulated depreciation	<u>(1,292,389)</u>	<u>(1,206,417)</u>
Land, buildings and equipment, net	<u>\$ 1,295,182</u>	<u>1,261,176</u>

Outstanding commitments on uncompleted construction contracts total \$89,013 at June 30, 2021.

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(7) Bonds, Loans and Notes Payable

The University has entered into various agreements primarily for the purpose of financing the acquisition, renovation, and improvement of its facilities. The bonds, loans and notes payable outstanding for these purposes are as follows:

Name of issue	Interest rate(s)	Type of rate	Final maturity	Balance at June 30	
				2021	2020
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	0.12%	Variable	2044	\$ 39,080	39,635
Series 2005A	0.02%	Variable	2035	85,500	85,500
Series 2011	3.25%–5.00%	Fixed	2033	33,780	36,455
Series 2012	5.00%	Fixed	2023	118,240	118,240
Series 2013	4.00%–5.00%	Fixed	2044	120,945	124,085
Series 2015	0.50%	Variable	2046	39,010	40,315
Series 2017A	4.00%–5.00%	Fixed	2048	141,125	141,125
Series 2019	5.00%	Fixed	2030	54,560	54,560
Brown University Taxable Bonds:					
Series 2020A	1.91%–2.92%	Fixed	2051	665,000	300,000
Commercial bank term loans:					
Fiscal year 2019 issuance	0.34%	Variable	2022	71,000	73,000
Promissory note	noninterest bearing	N/A	2030	2,900	3,000
Total bonds, loans and notes payable before premium				1,371,140	1,015,915
Unamortized premium				83,661	54,030
Total bonds, loans and notes payable				\$ <u>1,454,801</u>	<u>1,069,945</u>

(a) Tax Exempt Bonds

The University's tax-exempt debt, primarily Facilities Revenue Bonds, is issued through RIHEBC, a state agency serving as a conduit issuer of tax exempt debt. The University is required under certain of its financing agreements with RIHEBC to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the related properties. The Revenue Bonds currently outstanding were issued primarily to finance new and ongoing capital projects, student housing, academic, research and administrative buildings, and infrastructure.

In July 2019, the University issued through RIHEBC tax-exempt bonds with a total par value of \$54,560 at an interest rate of 5.0%, maturing in 2030. The bonds were sold at a premium of \$16,496, resulting in an effective yield of 1.73%. The proceeds were used to refinance \$70,795 of Series 2009 tax-exempt bonds.

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(b) Taxable Bonds and Other Debt

In September 2020, the University issued taxable bonds with a total par value of \$365,000 at an interest rate of 2.92%, maturing in fiscal year 2051; to add to the Series 2020A taxable bonds issued in May 2020. The bonds were sold at a premium of \$37,026, resulting in an effective yield of 2.44%. The proceeds will be used for general corporate purposes.

In May 2020, Series 2020A taxable bonds were issued in the amount of \$300,000 at interest rates of 1.91% to 2.92%, maturing in 2051. The proceeds will be used for general purposes, capital projects, and may also be used to pay down existing debt.

The University has a \$125,000 Taxable Commercial Paper Program that allows for the issuance of Standard Commercial Paper Notes, Series A. In July 2019, the Taxable Commercial Paper Program was amended to increase the maximum amount of taxable promissory notes from \$50,000 to \$125,000 and to terminate the Extendible Commercial Paper Notes, Series B. These unsecured, taxable promissory notes can be issued in various amounts with maturities no greater than 270 days. At June 30, 2021 and 2020, there were no outstanding notes.

Principal payments of bonds, notes and loans payable as of June 30, 2021 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2022	\$	167,760
2023		67,185
2024		7,105
2025		9,215
2026		9,645
Thereafter		<u>1,110,230</u>
Total	\$	<u><u>1,371,140</u></u>

At June 30, 2021, the University had a \$100,000 committed line of credit. The line of credit matures in May 2024 and is available at a rate of one-month LIBOR plus 55 basis points. At June 30, 2020 the University had two \$50,000 committed lines of credit. The first line of credit matured in July 2021 and was available at a rate of LIBOR floor rate of 1% plus 75 basis points. In May 2020, the University executed an \$50,000 line of credit at a rate of one-month LIBOR floor rate of 1% plus 150 basis points, which matured in May 2021. As of June 30, 2021, and 2020, the full lines of credit in the amounts of \$100,000 were available.

The University has two stand-by bond purchase agreements with financial institutions totaling approximately \$125,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. The \$85,500 agreement expired in November 2020 and was substituted with a comparable agreement, which matures in December 2023. The \$39,517 agreement matures January 2023. There were no amounts outstanding at June 30, 2021 and 2020, under these agreements, nor has either agreement ever been called upon.

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The University provided self-liquidity for its taxable commercial paper program at June 30, 2021 and 2020.

(c) Interest Rate Swaps

At June 30, 2021 and 2020, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match the par amounts of the bonds and amortize at the same rate as the associated debt.

As of June 30, the following interest-rate swap agreements were outstanding:

<u>Counterparty</u>	<u>Associated debt</u>	<u>Expiration date</u>	<u>June 30, 2021</u>		<u>Fair value of liability at June 30</u>	
			<u>remaining notional value</u>	<u>Swap fixed rate</u>	<u>2021</u>	<u>2020</u>
JP Morgan	Series 2003B	9/1/2043	\$ 39,080	3.732 %	\$ (15,697)	(21,122)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(30,467)	(40,734)
Goldman Sachs	None	9/1/2032	12,033	3.891	(2,191)	(2,965)
					<u>\$ (48,355)</u>	<u>(64,821)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. At June 30, 2021, the collateral posting requirement was \$7,658; however, \$7,700 was on deposit as collateral to ensure continuing collateral coverage.

Interest rate volatility, remaining outstanding notional value and time to maturity will affect each swap's fair value at subsequent reporting dates. To the extent the University holds a swap through its expiration date, the swap's fair value will reach zero. Because the swap fair values are based predominantly on observable inputs corroborated by market data, they are classified in Level 2 in the GAAP fair value hierarchy.

(8) Retirement Benefits

The University participates in two contributory retirement plans. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$21,833 and \$30,396 for the years ended June 30, 2021 and 2020, respectively.

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The University also has a non-qualified deferred compensation plan under IRC 457(b) that is offered to a select group of employees. Assets are held by a custodian on behalf of the University and are restricted for payments to participants and beneficiaries. At June 30, 2021 and 2020, total assets held by the University were \$40,924 and \$31,026, respectively, and included in investments on the balance sheet. A corresponding liability is included in retirement obligations.

The Brown University Food Services and Plant Operations Employees' Pension Plan is a qualified, noncontributory defined benefit plan which provides pensions for certain full-time weekly paid employees. The policy of the University is to fund pension costs in accordance with the Employee Retirement Income Security Act of 1974, as amended.

Information regarding the defined benefit pension plan for the years ended June 30 is as follows:

	<u>2021</u>	<u>2020</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 140,483	116,793
Service cost	6,055	4,636
Interest cost	3,595	3,938
Benefits paid	(3,485)	(2,937)
Actuarial (gain) loss	<u>(3,167)</u>	<u>18,053</u>
Projected benefit obligation at end of year	<u>\$ 143,481</u>	<u>140,483</u>

The projected benefit obligation was determined using the following assumptions as of June 30:

	<u>2021</u>	<u>2020</u>
Discount rate	2.72 %	2.56 %
Rate of compensation increase	3.00	3.00

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The following is a summary of activity under the plan for the years ended June 30:

	2021	2020
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 85,613	82,628
Actual return on plan assets	24,839	3,422
Contributions	2,500	2,500
Benefits paid	(3,485)	(2,937)
Fair value of plan assets at end of year	109,467	85,613
Projected benefit obligation at end of year	(143,481)	(140,483)
Funded status included in retirement obligations	\$ (34,014)	(54,870)
	2021	2020
Net periodic pension cost:		
Service cost	\$ 6,055	4,636
Interest cost	3,595	3,938
Expected return on assets	(3,999)	(4,943)
Amortization of unrecognized loss and prior service cost	2,646	1,324
Net periodic pension cost	\$ 8,297	4,955

Net periodic pension cost was determined using the following assumptions for the years ended June 30:

	2021	2020
Discount rate	2.56 %	3.41 %
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	4.70	6.00

The expected rate of return on plan assets was derived based upon assumptions of inflation, real returns, anticipated value added by the investment manager and expected asset class allocations.

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2021 and 2020, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$812 and \$933, respectively, and a net unrecognized actuarial loss of \$17,932 and \$44,464, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

The plan assets at June 30, 2021 and 2020 consist of variable annuity investments with various equity and fixed income focuses, which are classified as Level 1 in the GAAP fair value hierarchy.

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(Dollars in thousands)

The investment strategy for the Plan takes into account several factors consistent with the characteristics of an employee pension plan. As such, the strategy recognizes a long-term time horizon where a substantial allocation to equities is appropriate and will help to maximize returns; broad diversification in order to increase return and reduce risk; and investment in institutional retirement annuities that serves to reduce administrative costs.

The actual asset allocation for the pension plan as of June 30, 2021 and 2020, and the weighted average asset targeted allocation are as follows:

	<u>Target</u>	<u>Actual</u>	
		<u>2021</u>	<u>2020</u>
Equity funds	75 %	79 %	75 %
Fixed income funds	25	21	25
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The University's estimated contribution for 2021 is \$3,000.

Estimated future benefit payments as of June 30, 2021 are as follows:

Fiscal year:		
2022	\$	4,254
2023		4,406
2024		4,706
2025		5,046
2026		5,390
2027–2031		31,906

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(9) Net Assets

The University's net assets as of June 30 are as follows:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Corporation-designated endowment funds	\$ 960,328	635,594
Investment in plant, net	295,207	281,518
University operations	<u>311,525</u>	<u>226,159</u>
Total without donor restrictions	<u>1,567,060</u>	<u>1,143,271</u>
With donor restrictions:		
Donor-restricted endowment funds:		
Scholarships and student support	1,785,175	1,192,189
Professorships	1,485,884	978,916
Departmental and programmatic support	1,192,920	822,260
General use	419,444	289,709
Instruction and lectureships	358,885	245,683
Fellowships	<u>317,539</u>	<u>213,115</u>
	5,559,847	3,741,872
Contributions receivable	306,557	279,082
Donor restricted for programs	214,095	173,777
Split-interest net assets	77,708	56,699
Investment in plant, net	<u>88,864</u>	<u>84,130</u>
Total with donor restrictions	<u>6,247,071</u>	<u>4,335,560</u>
	<u>\$ 7,814,131</u>	<u>5,478,831</u>

(10) Functional Classification of Expenses

The statements of activities present expenses by natural classification. The University also summarizes its operating expenses by functional classification. Functional categories are reported after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness, and depreciation.

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Operating expenses by nature and function are summarized as follows for the fiscal year ended June 30, 2021:

	2021					
	Instruction and departmental research	Sponsored programs	Academic and student support	Auxiliary services	Institutional support	Total
Salaries and wages	\$ 185,577	62,080	77,446	29,413	64,338	418,854
Employee benefits	52,649	18,260	22,562	8,403	25,352	127,226
Graduate student support	7,600	16,982	71,555	—	—	96,137
Purchased services	22,827	45,408	31,823	7,864	25,079	133,001
Supplies and general	13,698	14,520	57,758	15,093	19,032	120,101
Utilities and occupancy	12,594	3,160	7,704	13,982	3,917	41,357
Interest	10,595	3,258	6,872	11,027	1,703	33,455
Depreciation	28,131	8,652	18,245	29,277	4,521	88,826
	\$ 333,671	172,320	293,965	115,059	143,942	1,058,957

Operating expenses by nature and function are summarized as follows for the fiscal year ended June 30, 2020:

	2020					
	Instruction and departmental research	Sponsored programs	Academic and student support	Auxiliary services	Institutional support	Total
Salaries and wages	\$ 191,391	58,033	78,285	30,641	63,498	421,848
Employee benefits	52,836	17,261	23,494	8,740	12,971	115,302
Graduate student support	8,264	16,182	64,944	—	—	89,390
Purchased services	29,068	35,272	8,311	9,057	14,813	96,521
Supplies and general	36,280	16,000	60,443	14,653	11,490	138,866
Utilities and occupancy	10,333	2,530	7,147	12,404	2,659	35,073
Interest	7,228	2,223	4,688	7,522	1,162	22,823
Depreciation	27,534	8,468	17,858	28,656	4,425	86,941
	\$ 362,934	155,969	265,170	111,673	111,018	1,006,764

(11) Commitments and Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

The University is a defendant in various legal actions arising in the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that the ultimate unrecognized liability, if any, will not have a material effect on the University's financial position.

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(12) Related-Party Transactions

Members of the Corporation and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each Corporation member and University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms that are fair and reasonable to and in the best interest of the University.

Effective July 1, 2017, the University, along with The Neurology Foundation, Inc.; University Emergency Medicine Foundation; University Medicine Foundation; University Surgical Associates, Inc.; Brown Urology, Inc.; and Brown Dermatology, Inc. (collectively the Foundations), joined to create the nonprofit Brown Physicians, Inc. (BPI). BPI is an affiliated clinical practice that will enhance the partnership between the Foundations and the Warren Alpert Medical School. Under the formation and support agreement, the University is obligated to pay BPI \$25,000 over a 10-year period. In 2021, the University paid \$2,500 to BPI, with the remaining \$12,500 included in accounts payable and accrued liabilities at June 30, 2021. In addition, the University authorized a line of credit agreement with BPI, up to \$30,000. There was no amount outstanding under the line of credit at June 30, 2021.

(13) Supplemental Disclosure of Cash Flow Information

Following is information intended to supplement the statements of cash flows for the years ended June 30:

	<u>2021</u>	<u>2020</u>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$3,454 and \$2,242	\$ 38,993	28,948
(Decrease) increase in accounts payable for land, buildings and equipment	(5,934)	5,382
Increase (decrease) in payables for purchases of investments	31,969	(18,079)

(14) Subsequent Events

In September 2021, the University paid down Series 2011 tax-exempt bonds in the amount of \$33,780 and the commercial bank term loan in the amount of \$71,000. In addition, in September 2021, the University made a bullet payment of \$57,640 on Series 2012 tax-exempt bond.

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued October 27, 2021, and subsequent events have been evaluated through that date.