KPMG

BROWN UNIVERSITY

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying statements of financial position of Brown University (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Brown University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 26, 2011

BROWN UNIVERSITY

Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

Assets		**2011**	**2010**
Cash and cash equivalents	$	86,971	71,368
Receivables for investments sold		45,005	10,047
Accounts receivable and other assets		55,466	49,242
Contributions receivable, net		161,136	194,664
Notes receivable, net		33,190	33,355
Funds held in trust by others		27,943	27,961
Investments		2,877,651	2,522,480
Land, buildings and equipment, net		897,578	820,133
Total assets	$	4,184,940	3,729,250
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	98,800	112,104
Liabilities associated with investments		110,523	37,084
Deferred revenues and student deposits		37,139	33,184
Refundable advances		44,687	37,013
Split-interest obligations		20,578	15,816
Asset retirement obligations		12,030	12,556
Bonds, loans and notes payable		629,493	609,160
Total liabilities		953,250	856,917
Net assets:			
Unrestricted		751,671	653,377
Temporarily restricted		1,373,012	1,178,781
Permanently restricted		1,107,007	1,040,175
Total net assets		3,231,690	2,872,333
Total liabilities and net assets	$	4,184,940	3,729,250

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 345,013	—	—	345,013
Less university scholarships	(118,872)	—	—	(118,872)
Net tuition and fees	226,141	—	—	226,141
Grant and contracts – direct	126,865	—	—	126,865
Grant and contracts – indirect	41,648	—	—	41,648
Contributions	50,493	1,719	—	52,212
Endowment income appropriated	104,988	6,455	—	111,443
Sales and services of auxiliary enterprises	82,716	—	—	82,716
Other income	24,251	1,234	—	25,485
Net assets released from restrictions	1,675	(1,675)	—	—
Total operating revenues	658,777	7,733	—	666,510
Operating expenses:				
Salaries and wages	311,588	—	—	311,588
Employee benefits	82,976	—	—	82,976
Purchased services	55,962	—	—	55,962
Supplies and general	77,732	—	—	77,732
Utilities	19,300	—	—	19,300
Other	33,723	—	—	33,723
Total operating expenses before interest and depreciation	581,281	—	—	581,281
Interest	24,977	—	—	24,977
Depreciation and amortization	56,250	—	—	56,250
Total operating expenses	662,508	—	—	662,508
Change in net assets from operating activities	(3,731)	7,733	—	4,002
Nonoperating activities:				
Contributions to long-term assets	4,253	3,764	55,822	63,839
Net investment return	107,164	294,656	7,217	409,037
Endowment income appropriated	(24,666)	(86,777)	—	(111,443)
Other changes, net	(13,564)	3,693	3,793	(6,078)
Net assets released from restrictions	28,838	(28,838)	—	—
Change in net assets from nonoperating activities	102,025	186,498	66,832	355,355
Change in net assets	98,294	194,231	66,832	359,357
Net assets, beginning of year	653,377	1,178,781	1,040,175	2,872,333
Net assets, end of year	$ 751,671	1,373,012	1,107,007	3,231,690

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 320,538	—	—	320,538
Less university scholarships	(106,456)	—	—	(106,456)
Net tuition and fees	214,082	—	—	214,082
Grant and contracts – direct	113,034	—	—	113,034
Grant and contracts – indirect	36,459	—	—	36,459
Contributions	51,652	4,056	—	55,708
Endowment income appropriated	124,181	10,339	—	134,520
Sales and services of auxiliary enterprises	81,927	—	—	81,927
Other income	24,946	709	—	25,655
Net assets released from restrictions	6,195	(6,195)	—	—
Total operating revenues	652,476	8,909	—	661,385
Operating expenses:				
Salaries and wages	315,164	—	—	315,164
Employee benefits	86,966	—	—	86,966
Purchased services	49,189	—	—	49,189
Supplies and general	78,780	—	—	78,780
Utilities	19,412	—	—	19,412
Other	33,511	—	—	33,511
Total operating expenses before interest and depreciation	583,022	—	—	583,022
Interest	23,955	—	—	23,955
Depreciation and amortization	51,814	—	—	51,814
Total operating expenses	658,791	—	—	658,791
Change in net assets from operating activities	(6,315)	8,909	—	2,594
Nonoperating activities:				
Contributions to long-term assets	18,561	10,186	53,912	82,659
Net investment return	52,390	167,038	(1,041)	218,387
Endowment income appropriated	(30,202)	(104,318)	—	(134,520)
Other changes, net	(81,238)	55,967	3,668	(21,603)
Net assets released from restrictions	5,983	(5,983)	—	—
Change in net assets from nonoperating activities	(34,506)	122,890	56,539	144,923
Change in net assets	(40,821)	131,799	56,539	147,517
Net assets, beginning of year	694,198	1,046,982	983,636	2,724,816
Net assets, end of year	$ 653,377	1,178,781	1,040,175	2,872,333

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

		2011	2010
Cash flows from operating activities:			
Change in net assets	$	359,357	147,517
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Net realized and unrealized gains on investments		(415,562)	(228,650)
Depreciation and amortization		56,250	51,814
Loss from disposals of land, building and equipment		10,365	1,954
Change in estimate of split-interest obligations		6,630	1,700
Other changes		—	(4,205)
Contributions restricted for plant and endowment		(72,250)	(77,149)
Change in operating assets, net		27,304	8,013
Change in operating liabilities, net		(3,310)	34,331
Net cash used in operating activities		(31,216)	(64,675)
Cash flows from investing activities:			
Purchase of land, buildings and equipment		(142,951)	(91,205)
Purchases of investments		(2,624,222)	(2,981,813)
Sales of investments		2,643,096	2,898,595
Notes issued		(35,757)	(36,056)
Notes repaid		35,922	35,595
Change in funds held in trust by others		18	(14,768)
Loans issued to Providence Richmond Street Investment Fund, LLC		(58,500)	—
Net cash used in investing activities		(182,394)	(189,652)
Cash flows from financing activities:			
Contributions restricted for plant and endowment		72,250	77,149
Payments under split-interest obligations		(1,868)	(1,871)
Payments under commercial paper program		—	(50,000)
Payments on long-term debt		(11,615)	(4,035)
Proceeds from issuance of debt, including premium in 2010		3,200	175,000
Net proceeds from commercial paper program		15,000	—
Proceeds from secured borrowings for investment purposes		79,998	—
Cash collateral posted under swap agreements		(2,100)	—
Cash collateral returned under swap agreements		2,100	—
Proceeds from loans issued to KARING		72,248	—
Net cash provided by financing activities		229,213	196,243
Change in cash and cash equivalents		15,603	(58,084)
Cash and cash equivalents, beginning of year		71,368	129,452
Cash and cash equivalents, end of year	$	86,971	71,368
Supplemental disclosure:			
Cash paid for interest	$	25,347	23,525
Change in accounts payable from land, buildings and equipment		1,109	5,157

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 6,000 undergraduate students and 2,400 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 financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The accompanying financial statements include the accounts of the John Nicholas Brown Center for the Study of American Civilization, Fairview Incorporated, a real estate holding company, and KARING, a Rhode Island nonprofit corporation further discussed in note 7, all of which are separate 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 in consolidation.

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 pursuant to the Code. The University assesses uncertain tax positions and determined that there were no such positions that have a material effect on the financial statements.

(c) Classification of Net Assets

The University is incorporated in and subject to the laws of Rhode Island, which incorporate the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the 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. The University has classified its net assets as follows:

- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as

temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.

- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

(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. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because the University uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than on inputs used. See note 3 for further discussion.

(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 income appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment income appropriated for operating activities, noncapitalized plant expenditures, changes in fair values of interest rate swaps, change in pension plan obligations, contributions to long-term assets and net assets released from restrictions for plant expenditures, and other activities not in direct support of annual operations.

Revenues are derived from various sources, as follows:

- Tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Sales and services of auxiliary enterprises are recognized at the time the services are provided.

- Contributions, including unconditional promises to give 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 subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Bequest intentions and conditional promises are not recorded in the University's financial statements.
- Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is pursuant to an agreement which provides for a predetermined fixed indirect cost rate.
- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) permanently restricted net assets if the terms of the contributions require them to be added to principal; (2) temporarily restricted net assets if the terms of the related contributions impose restrictions on their availability or use; or (3) unrestricted net assets in all other cases. Investment return attributable to donor-restricted endowment funds is reported as temporarily restricted to the extent not appropriated and spent. Expenses are reported as decreases in unrestricted net assets.

(f) Cash Equivalents

For purposes of the statements of cash flows, cash equivalents, except for those held by investment managers, 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 and are carried at net realizable value, which approximates fair value. Notes receivable consist primarily of loans to students that may have significant restrictions and long maturities, and it is not practicable to estimate their fair value.

(h) Land, Buildings and Equipment

Land, buildings and equipment are stated at cost of acquisition or construction (including capitalized interest) or, if 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, repairs, and library books are charged to operating net assets as incurred.

Depreciation is calculated using the straight-line method with estimated useful lives of 30 years for buildings, 20 years for building improvements, and 10 years for building equipment. Moveable equipment is depreciated over a range of 3 to 15 years, depending upon asset class.

(Dollars in thousands)

(i) Refundable 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). Such amounts may be re-loaned by the University after collection; however, in the event that the University no longer participates in the Programs, the amounts are generally refunded to the U.S. government. Refundable advances also include amounts received from funding agencies in advance of project activities related to sponsored programs.

(j) 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.

(k) 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.

(l) Reclassifications

Certain 2010 financial information has been reclassified to conform to the 2011 presentation.

(2) Contributions Receivable

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

		2011	2010
Contributions expected to be received in:			
One year or less	$	62,735	57,217
Between one and five years		72,577	109,581
More than five years		51,658	55,248
Gross contributions receivable		186,970	222,046
Unamortized discount (at rates ranging from 1.5% to 6.2%) and allowance for uncollectibles		(25,834)	(27,382)
Contributions receivable, net	$	161,136	194,664

(3) 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 hedged strategies, private equity and real asset strategies. Hedged 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 hedged 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) or commercial real estate, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by the 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 recorded at fair value and liabilities, which are reported as split-interest obligations, are recorded to recognize the present value of estimated future payments to beneficiaries.

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. 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. As of June 30, 2011 and 2010, 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.

(Continued)

(Dollars in thousands)

The following tables summarize the University's investments and other assets within the fair value hierarchy as of June 30, 2011 and 2010 as well as related strategy, liquidity and funding commitments:

	June 30, 2011				Redemption	Days'
	Level 1	**Level 2**	**Level 3**	**Total**	**or liquidation**	**notice**
Investments:						
Equities:						
U.S. equities	$ 16,957	94,765	50,934	162,656	Daily to Annual	1 – 90
Non-U.S. equity index funds	27,217	—	—	27,217	Daily	1
Non-U.S. equity funds	127,599	229,244	99,947	456,790	Daily to illiquid	15 – 120
Fixed income:						
U.S. bonds	17,581	307,854	25,942	351,377	Daily to Annual	1 – 60
U.S. Treasury inflation-protected	—	82,143	21,212	103,355	Daily	1
Hedged strategies:						
General arbitrage funds	—	111,473	54,460	165,933	Monthly to illiquid	5 – 45
Distressed funds	—	5,060	61,527	66,587	Semi-Annual to illiquid	90
Global/non-U.S. funds	—	152,929	416,876	569,805	Monthly to illiquid	30 – 180
Private equity:						
Buy-out funds	—	—	418,388	418,388	Illiquid	N/A
Venture funds	—	—	164,691	164,691	Illiquid	N/A
Real assets:						
Real estate and timber	1,096	1,679	198,350	201,125	Daily to illiquid	N/A
Commodities, oil and gas	—	—	51,791	51,791	Illiquid	N/A
Cash and cash equivalents	137,936	—	—	137,936	Daily	Daily
Total	$ 328,386	985,147	1,564,118	2,877,651		
Funds held in trust by others	$ 15,353	—	12,590	27,943	Daily to illiquid	1 – N/A

(Dollars in thousands)

	June 30, 2010 Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
Investments:						
Equities:						
U.S. equities	$ 15,520	79,738	—	95,258	Daily to quarterly	1 – 60
Non-U.S. equity index funds	87,938	—	—	87,938	Daily	1
Non-U.S. equity funds	2,140	101,573	98,874	202,587	Daily to illiquid	15 – 120
Fixed income:						
U.S. bonds	11,666	333,899	49,894	395,459	Daily to annual	1 – 60
U.S. Treasury inflation-protected	—	97,574	—	97,574	Daily	1
Hedged strategies:						
General arbitrage funds	—	82,063	108,950	191,013	Daily to illiquid	15 – 90
Distressed funds	—	—	68,300	68,300	Biennial to illiquid	90
Global/non-U.S. funds	—	143,351	436,145	579,496	Monthly to illiquid	30 – 180
Private equity:						
Buy-out funds	—	—	330,315	330,315	Illiquid	N/A
Venture funds	—	—	111,456	111,456	Illiquid	N/A
Real assets:						
Real estate and timber	1,203	1,572	166,703	169,478	Daily to illiquid	N/A
Commodities, oil and gas	—	—	43,919	43,919	Illiquid	N/A
Cash and cash equivalents	149,687	—	—	149,687	Daily	1
Total	$ 268,154	839,770	1,414,556	2,522,480		
Funds held in trust by others	$ 16,914	—	11,047	27,961	Daily to illiquid	1 – N/A

Registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 1(d) because their fair values are based on quoted prices for identical securities. The University's fixed income strategy includes directly held U.S. corporate bonds, which although readily marketable are valued using matrix pricing and are classified in Level 2. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two or three 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 five to six years with extensions of one to three years, and have an average remaining life of approximately six to seven years.

(Dollars in thousands)

The following tables present the activities for the years ended June 30, 2011 and 2010 for the University's assets classified in Level 3:

		2011						
Level 3 roll forward		**Equities**	**Fixed income**	**Hedged strategies**	**Private equity**	**Real assets**	**Total Investments**	**Funds held in trust by others**
Beginning fair value as of June 30, 2010	$	98,874	49,894	613,395	441,771	210,622	1,414,556	11,047
Acquisitions		110,500	20,000	27,411	89,183	41,064	288,158	—
Dispositions		(339)	—	(170,911)	(75,545)	(48,882)	(295,677)	—
Transfers		(92,577)	(25,942)	(5,060)	—	—	(123,579)	—
Net realized and unrealized gains		34,423	3,202	68,028	127,670	47,337	280,660	1,543
Fair value at June 30, 2011	$	150,881	47,154	532,863	583,079	250,141	1,564,118	12,590

		2010						
Level 3 roll forward		**Equities**	**Fixed income**	**Hedged strategies**	**Private equity**	**Real assets**	**Total Investments**	**Funds held in trust by others**
Beginning fair value as of June 30, 2009	$	108,427	42,463	638,939	371,020	206,277	1,367,126	10,543
Acquisitions		21,000	—	20,000	62,615	37,755	141,370	—
Dispositions		(26,980)	—	(131,209)	(35,640)	(17,729)	(211,558)	—
Transfers		(7,268)	—	(32,945)	—	—	(40,213)	—
Net realized and unrealized gains (losses)		3,695	7,431	118,610	43,776	(15,681)	157,831	504
Fair value at June 30, 2010	$	98,874	49,894	613,395	441,771	210,622	1,414,556	11,047

The following summarizes investment return components for the years ended June 30, 2011 and 2010:

		2011	**2010**
Interest and dividends	$	18,495	9,615
Net realized and unrealized gains, net of investment management and advisory expenses		403,036	222,500
Investment return	$	421,531	232,115

(Dollars in thousands)

Investment returns are included in the statements of activities as follows for the years ended June 30:

		2011	2010
Operating:			
Endowment income appropriated	$	111,443	134,520
Included in other income		12,493	13,728
Nonoperating activities:			
Net investment return above endowment income appropriated		297,595	83,867
Investment return	$	421,531	232,115

Total investment management and advisory expenses were $19,436 and $18,953 for the years ended June 30, 2011 and 2010, respectively.

For purposes of the statements of cash flows, noncash investing activities consisted of an increase in payables for investments purchased of $73,439 and $27,003 and in increase in receivables for investments sold of $34,958 and $6,384 during the years ended June 30, 2011 and 2010, respectively.

(a) Liquidity

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period:

		Investment fair values
Investment redemption or sale period:		
Pending	$	5,058
Daily		707,890
Monthly		249,931
Quarterly		437,233
Semi-annually		47,967
Subject to rolling lock-ups		429,248
Illiquid		1,000,324
Total as of June 30, 2011	$	2,877,651

(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 and real asset investments as of June 30, 2011 was $218,589 and $79,148, respectively.

(c) Investment Derivatives

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

At June 30, 2011 and 2010, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio with assets fair value of $18,242 and $9,241, respectively, at June 30, 2011 and 2010. The University recorded a net unrealized gain (loss) of $2,001 and $(3,937) for the years ended June 30, 2011 and 2010, respectively, pertaining to swaption contracts held. The University is obligated to pledge to the appropriate broker, cash or securities to be held as collateral, as determined by margin requirements for swaption contracts held.

The University also participates in a repurchase agreement under which the University periodically borrows funds collateralized with certain of its securities for other investment purposes. These amounts are reflected both as investments and liabilities associated with investments as of June 30, 2011 and amounted to $79,998. Such borrowings are at a variable rate, which was 0.14% at June 30, 2011.

The University from time to time enters into different types of futures contracts for commodity exposure. At June 30, 2011, contracts were in place representing $50,700 in nominal exposure.

(d) Funds 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 $12,590 and $11,047 at June 30, 2011 and 2010, respectively. The University receives all or a specified portion of the return on the underlying assets of such trusts, which is primarily restricted for scholarships. The University will never receive the assets held in trust. Other trusteed funds of $15,353 and $16,914 at June 30, 2011 and 2010, respectively, represent debt proceeds to be utilized for construction projects or required to be held in reserve in accordance with debt or similar agreements, including $13,748 of restricted cash at June 30, 2011 related to the Medical School facility (see note 7).

(Dollars in thousands)

(4) Endowment

The University's endowment consists of approximately 2,500 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 endowment funds, including funds designated by the Corporation to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2011:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(15,826)	1,170,163	1,025,496	2,179,833
Corporation-designated endowment funds		325,627	55,554	—	381,181
Total endowment net assets	$	309,801	1,225,717	1,025,496	2,561,014

Endowment net assets consist of the following at June 30, 2010:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(42,835)	955,351	952,028	1,864,544
Corporation-designated endowment funds		292,213	54,446	—	346,659
Total endowment net assets	$	249,378	1,009,797	952,028	2,211,203

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2010	$	249,378	1,009,797	952,028	2,211,203
Interest and dividends		14,099	53	—	14,152
Net realized and unrealized gains		71,095	294,651	7,291	373,037
Endowment income appropriated		(24,666)	(86,777)	—	(111,443)
Contributions		725	3,885	62,931	67,541
Reclassifications and other changes		(830)	4,108	3,246	6,524
Endowment net assets June 30, 2011	$	309,801	1,225,717	1,025,496	2,561,014

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2010 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, June 30, 2009	$	307,650	863,531	896,699	2,067,880
Interest and dividends		8,497	567	—	9,064
Net realized and unrealized gains (losses)		28,956	172,805	(2,483)	199,278
Endowment income appropriated		(30,202)	(104,318)	—	(134,520)
Contributions		701	1,924	53,277	55,902
Reclassifications and other changes		(66,224)	75,288	4,535	13,599
Endowment net assets June 30, 2010	$	249,378	1,009,797	952,028	2,211,203

(a) Interpretation of Relevant Law

The portion of donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. 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, which are reported in unrestricted net assets, aggregated $15,826 and $42,835 as of June 30, 2011 and 2010, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in unrestricted net assets.

(Continued)

(Dollars in thousands)

(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.

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

(5) Land, Buildings and Equipment

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

	2011	2010
Land	$ 62,840	56,992
Buildings and improvements	1,211,762	1,124,871
Equipment	105,943	94,847
Construction in progress	138,282	109,843
	1,518,827	1,386,553
Accumulated depreciation	(621,249)	(566,420)
Land, buildings and equipment, net	$ 897,578	820,133

Outstanding commitments on uncompleted construction contracts total $64,946 at June 30, 2011.

(Dollars in thousands)

(6) Bonds, Loans and Notes Payable

The University has entered into various agreements 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 2011	Balance at June 30 2010
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	0.18% – 0.22%		Fixed	Revolving	$	50,000	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:							
Series 1998	n/a		Fixed	2014		—	7,740
Series 2001A	4.30% – 5.25%		Fixed	2023		27,000	27,595
Series 2001B	0.03%	*	Variable	2032		55,340	55,340
Series 2003A	3.30% – 4.85%		Fixed	2037		42,925	43,775
Series 2003B	0.05%	*	Variable	2043		43,780	44,160
Series 2004	3.35% – 4.75%		Fixed	2025		18,395	19,280
Series A 2005	0.06%	*	Variable	2035		85,500	85,500
Series 2007	4.25% – 5.00%		Fixed	2037		90,010	90,010
Series 2009	5.00%		Fixed	2039		70,795	70,795
Tax-exempt commercial paper, revolving through 2036	.08% – 0.14%		Fixed	Revolving		15,000	—
Brown University Taxable Bonds							
Series 2005	5.09%		Fixed	2015		17,000	17,000
Series 2009	4.57		Fixed	2019		100,000	100,000
Loan payable – U.S. department of education	n/a		Fixed	2021		—	1,165
Loans payable – Community Development Entities						13,748	—
Total bonds, loans and notes payable					$	629,493	609,160

* As of June 30, 2011

(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 properties. The Revenue Bonds currently outstanding were issued primarily to finance new and on-going capital projects for research, student housing, academic and administrative buildings, and infrastructure throughout the University.

(Dollars in thousands)

(b) Taxable Bonds and Other Debt

The University's outstanding debt includes two taxable bond issues. Series 2005 Taxable Bonds were issued to finance a portion of the acquisition cost of an office building. Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets. In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to $50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B.

In fiscal 2011, the University renewed its tax exempt commercial program issued through RIHEBC. As of June 30, 2011, $15,000 has been drawn against this program.

Principal payments of bonds and loan payable as of June 30, 2011 for the succeeding five fiscal years ending June 30 are as follows:

2012	$	4,400
2013		6,190
2014		6,465
2015		6,760
2016		25,770

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party and other data, the University determined that the aggregate carrying value of its debt as of June 30, 2011 and 2010 approximated its fair value.

The University has a revolving line of credit available up to $40,000. As of June 30, 2011, the full amount of $40,000 was available at a rate of 0.94%.

The University serves as the initial liquidity facility for each of its variable rate bond issues and commercial paper programs. Additionally, the University has backup liquidity facilities at two separate banks currently totaling $150,000 in the event the debt is unable to be remarketed. These facilities are available exclusively for the temporary repayment of debt.

(c) Interest Rate Swaps

At June 30, 2011, the University had various interest-rate swap agreements in place to effectively convert a portion of its variable-rate bonds to fixed rates until maturity of the bonds. The swaps' notionals amortize at the same rate as the related debt principal.

(Continued)

(Dollars in thousands)

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

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30 asset (liability) 2011	2010
JP Morgan	11/06/2003	03/03/2008	09/01/2043	$ 43,780	3.732%	$ (7,860)	(9,944)
Goldman Sachs	07/07/2005	10/04/2005	05/01/2035	85,500	3.979	(8,198)	(9,641)
Goldman Sachs	11/15/2006	11/21/2006	09/01/2032	55,340	3.891	(5,345)	(5,870)
						$ (21,403)	(25,455)

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. Based on the University's current credit rating, cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds $25 million. The JPMorgan swap stipulates that the University maintain a minimum credit rating to avoid collateral posting requirements. No swap collateral was posted as of June 30, 2011 and 2010.

Interest rate volatility, remaining outstanding principal 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.

(7) New Markets Tax Credit Transaction

In fiscal 2011, the University entered an agreement with third-party investors to effectively avail itself of certain Federal New Markets Tax Credit (NMTC) incentives. By enabling these third parties to capture the NMTC benefits associated with the acquisition and construction of the University's new Warren Alpert Medical School facility (the Facility), the University was able to reduce its all-in cost of the facility. Under the arrangement, the University loaned $58,500 to Providence Richmond Street Investment Fund, LLC, a limited liability corporation (the LLC) capitalized by the investors. The LLC in turn provided capital to various Community Development Entities (CDEs), which then collectively issued $72,248 of loans at an interest rate of 1.22% to KARING, a special-purpose, wholly owned 501(c)(3) not-for-profit entity consolidated by the University. KARING will hold the facility and lease it back to the University during the seven-year period required for the NMTC structure to be effective.

After this seven-year period, it is anticipated that the University's net assets will increase to the extent of loans to third parties net of financing and other costs. The Facility, which was dedicated in August 2011, had a total carrying value of $57,452 as of June 30, 2011 and is included in land, buildings and equipment. The loans payable to the CDEs as of June 30, 2011 are reported net of the loan receivable from the LLC and included in bonds, loans and notes payable.

(Dollars in thousands)

(8) Retirement Benefits

The University participates in two contributory retirement plans. The plans provide for the purchase of annuities on a compulsory basis by full-time faculty and administrative staff. The expense to the University, representing its contributions to the accounts of faculty and staff, was $21,048 and $20,988 for the years ended June 30, 2011 and 2010, respectively.

The Brown University Food Services and Plant Operations Employees' Pension Plan is a 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:

		2011	2010
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	53,415	43,579
Service cost		2,390	2,079
Interest cost		2,839	2,684
Benefits paid		(1,751)	(1,456)
Actuarial (gain) loss		(2,796)	6,529
Projected benefit obligation at end of year	$	54,097	53,415

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

	2011	2010
Discount rate	5.57%	5.40%
Rate of compensation increase	3.50	4.00

(Dollars in thousands)

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

		2011	2010
Change in plan assets:			
Fair value of plan assets at beginning of year	$	35,773	29,654
Actual return on plan assets		6,801	3,075
Contributions		—	4,500
Benefits paid		(1,751)	(1,456)
Fair value of plan assets at end of year		40,823	35,773
Projected benefit obligation at end of year		(54,097)	(53,415)
Funded status recorded in accounts payable and accrued liabilities	$	(13,274)	(17,642)

The plan assets at June 30, 2011 and 2010 consist of investments measured at NAV and are classified in Level 2 in the GAAP fair value hierarchy because of the plan's ability to redeem its interests at or near the statement of financial position date.

		2011	2010
Net periodic pension cost:			
Service cost	$	2,390	2,079
Interest cost		2,839	2,684
Expected return on assets		(2,612)	(2,191)
Amortization of unrecognized loss and prior service cost		997	723
Net periodic pension cost	$	3,614	3,295

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

	2011	2010
Discount rate	5.40%	6.24%
Rate of compensation increase	4.00	4.00
Expected long-term rate of return	7.50	7.50

The expected rate of return on 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, 2011 and 2010, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of $575 and $680, respectively, and a net unrecognized actuarial loss of

(Dollars in thousands)

$8,789 and $16,667, respectively. These changes affecting the funded status of the plan are included in other changes in nonoperating activities.

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, 2011 and 2010, and the weighted average asset targeted allocation are as follows:

		Actual	
	Target	**2011**	**2010**
Equity funds	65%	68%	57%
Fixed funds	35	32	32
Cash and cash equivalents	—	—	11
Total	100%	100%	100%

The University's estimated contribution for 2012 is $3,000.

Estimated future benefit payments as of June 30, 2011 are as follows:

	Amount
Fiscal year:	
2012	$ 2,046
2013	2,083
2014	2,187
2015	2,318
2016	2,476
2017 – 2021	15,910

(Dollars in thousands)

(9) Net Assets

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

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating:				
Undesignated, departmental funds	$ 30,745	—	—	30,745
University designated	88,916	—	—	88,916
Donor restricted	—	17,827	—	17,827
Net investment in plant	312,238	39,997	—	352,235
Student loans	9,971	—	9,846	19,817
Endowment	309,801	1,225,717	1,025,496	2,561,014
Pledges receivable	—	89,471	71,665	161,136
Total net assets	$ 751,671	1,373,012	1,107,007	3,231,690

	2010			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Operating:				
Undesignated, departmental funds	$ 31,624	—	—	31,624
University designated	64,443	—	—	64,443
Donor restricted	—	11,365	—	11,365
Net investment in plant	298,111	41,740	—	339,851
Student loans	9,821	—	9,362	19,183
Endowment	249,378	1,009,797	952,028	2,211,203
Pledges receivable	—	115,879	78,785	194,664
Total net assets	$ 653,377	1,178,781	1,040,175	2,872,333

(Continued)

(Dollars in thousands)

(10) Functional Classification of Expenses

Functional categories are reported after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness and depreciation. Operating expenses incurred in the fiscal years ended June 30 were as follows:

		2011	2010
Instruction and departmental research	$	242,855	242,426
Sponsored programs		121,224	110,887
Academic and student support		125,221	124,831
Auxiliary services		85,397	87,279
Institutional support		87,811	93,368
	$	662,508	658,791

(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 out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

(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 as well as the 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 in the best interest of the University.

(13) Subsequent Events

In August 2011, the University issued tax-exempt bonds with a par amount of $70,600 through RIHEBC at fixed rates ranging from 2% to 5% at serial maturities beginning September 2012 and a final maturity on September 2032. The bonds were sold at a premium of $10,030, resulting in effective yields of 0.20% to 3.77%. The proceeds were used to refinance the RIHEBC Series 2001A fixed rate and RIHEBC Series 2001B variable rate bonds.

The University considers events or transactions that occur after the statement of financial position 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 on October 26, 2011, and subsequent events have been evaluated through that date.