



**BROWN UNIVERSITY**

Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011, 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, 2012 and 2011, 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 29, 2012

**BROWN UNIVERSITY**

## Statements of Financial Position

June 30, 2012 and 2011

(Dollars in thousands)

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Cash and cash equivalents	\$ 52,890	86,971
Receivables for investments sold	79,720	45,005
Accounts receivable and other assets	72,168	55,466
Contributions receivable, net	158,784	161,136
Notes receivable, net	32,202	33,190
Funds held in trust by others	17,333	27,943
Investments	2,786,235	2,877,651
Land, buildings and equipment, net	953,334	897,578
Total assets	<u>\$ 4,152,666</u>	<u>4,184,940</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 64,384	64,123
Liabilities associated with investments	78,423	110,523
Deferred revenues and student deposits	50,806	57,210
Federal student loan advances	24,671	24,616
Split-interest obligations	23,143	20,578
Other long-term obligations	88,544	46,707
Bonds, loans and notes payable	660,096	629,493
Total liabilities	<u>990,067</u>	<u>953,250</u>
Net assets:		
Unrestricted	717,741	751,671
Temporarily restricted	1,262,796	1,373,012
Permanently restricted	1,182,062	1,107,007
Total net assets	<u>3,162,599</u>	<u>3,231,690</u>
Total liabilities and net assets	<u>\$ 4,152,666</u>	<u>4,184,940</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

## Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 360,794	—	—	360,794
Less university scholarships	(122,940)	—	—	(122,940)
Net tuition and fees	237,854	—	—	237,854
Grants and contracts – direct	130,002	—	—	130,002
Grants and contracts – indirect	43,031	—	—	43,031
Contributions	58,539	9,980	—	68,519
Endowment return appropriated	111,937	4,488	—	116,425
Sales and services of auxiliary enterprises	81,583	—	—	81,583
Other income	26,979	459	—	27,438
Net assets released from restrictions	10,323	(10,323)	—	—
Total operating revenues	<u>700,248</u>	<u>4,604</u>	<u>—</u>	<u>704,852</u>
Operating expenses:				
Salaries and wages	328,632	—	—	328,632
Employee benefits	87,954	—	—	87,954
Purchased services	58,697	—	—	58,697
Supplies and general	86,907	—	—	86,907
Utilities	19,170	—	—	19,170
Other	38,067	—	—	38,067
Interest	25,792	—	—	25,792
Total operating expenses before depreciation	645,219	—	—	645,219
Depreciation and amortization	59,601	—	—	59,601
Total operating expenses	<u>704,820</u>	<u>—</u>	<u>—</u>	<u>704,820</u>
Change in net assets from operating activities	(4,572)	4,604	—	32
Nonoperating activities:				
Contributions to long-term assets	6,618	19,864	68,483	94,965
Net investment return	(1,513)	13,262	(401)	11,348
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Other changes, net	(52,207)	(13,777)	6,973	(59,011)
Net assets released from restrictions	49,992	(49,992)	—	—
Change in net assets from nonoperating activities	(29,358)	(114,820)	75,055	(69,123)
Change in net assets	(33,930)	(110,216)	75,055	(69,091)
Net assets, beginning of year	751,671	1,373,012	1,107,007	3,231,690
Net assets, end of year	<u>\$ 717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 345,013	—	—	345,013
Less university scholarships	(118,872)	—	—	(118,872)
Net tuition and fees	226,141	—	—	226,141
Grants and contracts – direct	126,865	—	—	126,865
Grants and contracts – indirect	41,648	—	—	41,648
Contributions	50,493	1,719	—	52,212
Endowment return 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	<u>658,777</u>	<u>7,733</u>	<u>—</u>	<u>666,510</u>
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
Interest	24,977	—	—	24,977
Total operating expenses before depreciation	606,258	—	—	606,258
Depreciation and amortization	56,250	—	—	56,250
Total operating expenses	<u>662,508</u>	<u>—</u>	<u>—</u>	<u>662,508</u>
Change in net assets from operating activities	<u>(3,731)</u>	<u>7,733</u>	<u>—</u>	<u>4,002</u>
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 return 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	<u>102,025</u>	<u>186,498</u>	<u>66,832</u>	<u>355,355</u>
Change in net assets	98,294	194,231	66,832	359,357
Net assets, beginning of year	<u>653,377</u>	<u>1,178,781</u>	<u>1,040,175</u>	<u>2,872,333</u>
Net assets, end of year	\$ <u>751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**  
Statements of Cash Flows  
Years ended June 30, 2012 and 2011  
(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (69,091)	359,357
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(19,010)	(415,562)
Realized loss on partial swap termination	2,767	—
Depreciation and amortization	59,601	56,250
Loss from disposals of land, building and equipment	4,056	10,365
Change in funded status of pension obligation	11,805	(4,368)
Change in fair value of interest rate swap liabilities	29,989	(4,052)
Change in asset retirement obligation	43	(526)
Change in estimate of split-interest obligations	4,817	6,630
Contributions restricted for plant and endowment	(77,129)	(72,250)
Change in operating assets, net	(1,244)	27,304
Change in operating liabilities, net	(6,890)	5,636
Net cash used in operating activities	<u>(60,286)</u>	<u>(31,216)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(119,113)	(142,951)
Purchases of investments	(1,521,797)	(2,624,222)
Sales and redemptions of investments	1,590,401	2,643,096
Notes issued	(35,643)	(35,757)
Notes repaid	36,631	35,922
Change in funds held in trust by others	10,610	18
Loans issued to Providence Richmond Street Investment Fund, LLC	—	(58,500)
Net cash used in investing activities	<u>(38,911)</u>	<u>(182,394)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	77,129	72,250
Payments under split-interest obligations	(2,252)	(1,868)
Payment for partial swap termination	(2,767)	—
Payments on long-term debt	(84,525)	(11,615)
Proceeds from issuance of debt, including premium	80,630	3,200
Net proceeds from commercial paper program	35,000	15,000
Proceeds from secured borrowings for investment purposes	55,005	79,998
Payments on secured borrowings for investment purposes	(79,998)	—
Cash collateral posted under swap agreements	(35,300)	(2,100)
Cash collateral returned under swap agreements	22,800	2,100
Advance from line of credit	566	—
Payment of advance from line of credit	(566)	—
Bond issuance costs	(606)	—
Proceeds from loans issued to KARING	—	72,248
Net cash provided by financing activities	<u>65,116</u>	<u>229,213</u>
Change in cash and cash equivalents	(34,081)	15,603
Cash and cash equivalents, beginning of year	<u>86,971</u>	<u>71,368</u>
Cash and cash equivalents, end of year	<u>\$ 52,890</u>	<u>86,971</u>

See accompanying notes to financial statements.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

#### **(1) Summary of Significant Accounting Policies**

##### **(a) Organization**

Brown University is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 6,400 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 not-for-profit 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 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. 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

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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 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, noncapitalized plant expenditures, changes in fair values of interest rate swaps and early termination thereof, change in pension plan and other long-term obligations, contributions to long-term assets, net assets released from restrictions for property placed in service, 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.



## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

- 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 Receivable and Other Assets and Notes Receivable**

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 cash held as interest rate swap collateral, and are carried at net realizable value, which approximates fair value. Notes receivable are presented net of an allowance for uncollectible amounts and 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, 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, repairs, and library books are charged to operating activities as incurred.

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 10 years for building equipment. Equipment is depreciated over a range of 3-to-15 years, depending upon asset class.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(i) ***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). 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 refundable to the U.S. government.

(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 2011 financial information has been reclassified to conform to the 2012 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:

	<u>2012</u>	<u>2011</u>
Contributions expected to be received in:		
One year or less	\$ 50,727	62,735
Between one and five years	120,913	72,577
More than five years	<u>11,006</u>	<u>51,658</u>
Gross contributions receivable	182,646	186,970
Unamortized discount (at rates ranging from 0.7% to 6.2%) and allowance for uncollectibles	<u>(23,862)</u>	<u>(25,834)</u>
Contributions receivable, net	<u>\$ 158,784</u>	<u>161,136</u>

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

### **(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, 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, 2012 and 2011, 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.

**BROWN UNIVERSITY**  
Notes to Financial Statements  
June 30, 2012 and 2011  
(Dollars in thousands)

The following tables summarize the University's investments and other assets within the fair value hierarchy as of June 30, 2012 and 2011 as well as related strategy, liquidity and funding commitments:

	<b>June 30, 2012</b>				<b>Redemption or liquidation</b>	<b>Days' notice</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>		
Investments:						
Equities:						
U.S. equities	\$ 16,330	99,700	47,813	163,843	Daily to Annual	1 – 90
Non-U.S. equity index funds	83,696	—	—	83,696	Daily	1
Non-U.S. equity funds	162,812	201,794	60,989	425,595	Daily to illiquid	15 – N/A
Fixed income:						
Domestic	4,907	153,492	82,868	241,267	Daily to Annual	1 – 60
U.S. Treasury inflation-protected	76,467	8,124	16,248	100,839	Daily to Annual	1 – 90
Hedged strategies:						
General arbitrage funds	—	117,221	14,449	131,670	Monthly to illiquid	5 – N/A
Distressed funds	—	—	55,762	55,762	Semi-Annual to illiquid	90 – N/A
Global/Non-U.S. funds	—	142,324	411,867	554,191	Monthly to illiquid	30 – N/A
Private equity:						
Buy-out funds	—	—	430,559	430,559	Illiquid	N/A
Venture funds	—	—	188,350	188,350	Illiquid	N/A
Real assets:						
Real estate and timber	976	1,790	210,741	213,507	Daily to illiquid	1 – N/A
Commodities, oil and gas	52	—	48,819	48,871	Daily to Illiquid	1 – N/A
Cash and cash equivalents	148,085	—	—	148,085	Daily	1
Total	<u>\$ 493,325</u>	<u>724,445</u>	<u>1,568,465</u>	<u>2,786,235</u>		
Funds held in trust by others	\$ 5,206	—	12,127	17,333	Daily to illiquid	1 – N/A

	<b>June 30, 2011</b>				<b>Redemption or liquidation</b>	<b>Days' notice</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>		
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	<u>\$ 328,386</u>	<u>985,147</u>	<u>1,564,118</u>	<u>2,877,651</u>		
Funds held in trust by others	\$ 15,353	—	12,590	27,943	Daily to illiquid	1 – N/A

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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.

The following tables present the activities for the years ended June 30, 2012 and 2011 for the University's assets classified in Level 3:

Level 3 roll forward	2012						Funds held in trust by others
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total investments	
Beginning fair value as of June 30, 2011	\$ 150,881	47,154	532,863	583,079	250,141	1,564,118	12,590
Acquisitions	4,000	49,600	31,089	69,152	27,236	181,077	—
Dispositions	(11,475)	(32)	(81,703)	(77,992)	(22,903)	(194,105)	—
Transfers	(25,169)	(8,124)	—	—	—	(33,293)	—
Net realized and unrealized (losses) gains	(9,435)	10,518	(171)	44,670	5,086	50,668	(463)
Fair value at June 30, 2012	\$ 108,802	99,116	482,078	618,909	259,560	1,568,465	12,127

  

Level 3 roll forward	2011						Funds held in trust by others
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total investments	
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

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

Fiscal 2012 and 2011 transfers of \$33,293 and \$123,579, respectively, represent the expiration of lock-ups.

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

	<u>2012</u>	<u>2011</u>
Operating:		
Endowment return appropriated	\$ 116,425	111,443
Included in other income	13,019	12,493
Nonoperating activities:		
Net investment return	11,348	409,037
Endowment return appropriated	<u>(116,425)</u>	<u>(111,443)</u>
Total return	<u>\$ 24,367</u>	<u>421,530</u>

Total investment management and advisory expenses were \$22,158 and \$21,356 for the years ended June 30, 2012 and 2011, respectively, and have been netted against the total return.

**(a) Liquidity**

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale period:

	<u>Investment fair values</u>
Investment redemption or sale period:	
Pending	\$ 10,000
Daily	674,540
Monthly	303,193
Quarterly	376,361
Semi-annually	53,719
Subject to rolling lock-ups	362,316
Illiquid	<u>1,006,106</u>
Total as of June 30, 2012	<u>\$ 2,786,235</u>

**(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

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2012 was \$210,564 and \$97,926, respectively. Additionally, some marketable investments require capital to be phased in over time. The aggregate amount of unfunded commitments associated with marketable investments as of June 30, 2012 was \$52,900.

#### **(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, 2012 and 2011, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio with asset fair values of \$4,796 and \$18,242, respectively, at June 30, 2012 and 2011. The University recorded a net unrealized (loss) gain of \$(13,446) and \$2,001 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, and amounted to \$55,005 and \$79,998, respectively. Such borrowings are at a variable rate, which was 0.3% at June 30, 2012.

From time to time, the University enters into different types of futures contracts for commodity exposure. At June 30, 2012 and 2011, contracts were in place representing \$50,259 and \$50,700, respectively, in notional value.

#### **(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 \$12,127 and \$12,590 at June 30, 2012 and 2011, 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 trustee funds of \$5,206 and \$15,353 at June 30, 2012 and 2011, 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 \$3,601 and \$13,748 of restricted cash at June 30, 2012 and 2011, respectively, related to the Medical School facility (see note 7).

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2012 and 2011

(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 upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,176)	1,098,856	1,090,150	2,166,830
Corporation-designated endowment funds	<u>300,726</u>	<u>57,535</u>	<u>—</u>	<u>358,261</u>
Total endowment net assets	<u>\$ 278,550</u>	<u>1,156,391</u>	<u>1,090,150</u>	<u>2,525,091</u>

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

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

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets June 30, 2011	\$ 309,801	1,225,717	1,025,496	2,561,014
Investment return, net	2,305	13,063	—	15,368
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Contributions	57	1,867	58,552	60,476
Reclassifications and other changes	<u>(1,365)</u>	<u>(79)</u>	<u>6,102</u>	<u>4,658</u>
Endowment net assets June 30, 2012	<u>\$ 278,550</u>	<u>1,156,391</u>	<u>1,090,150</u>	<u>2,525,091</u>



## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets June 30, 2010	\$ 249,378	1,009,797	952,028	2,211,203
Investment return, net	85,194	294,704	7,291	387,189
Endowment return 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	<u>\$ 309,801</u>	<u>1,225,717</u>	<u>1,025,496</u>	<u>2,561,014</u>

(a) *Interpretation of Relevant Laws*

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 \$22,176 and \$15,826 as of June 30, 2012 and 2011, 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.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(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:

	<u>2012</u>	<u>2011</u>
Land	\$ 62,649	62,840
Buildings	623,218	576,012
Improvements	752,617	635,750
Equipment	115,033	105,943
Construction in progress	68,925	138,282
	<u>1,622,442</u>	<u>1,518,827</u>
Accumulated depreciation	<u>(669,108)</u>	<u>(621,249)</u>
Land, buildings and equipment, net	<u>\$ 953,334</u>	<u>897,578</u>

Outstanding commitments on uncompleted construction contracts total \$85,576 at June 30, 2012.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 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	
				2012	2011
Taxable Standard Commercial					
Paper Notes, Series A, revolving through 2036	0.15% – 0.17%	Fixed	Revolving	\$ 50,000	50,000
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2001A	n/a	Fixed	2023	—	27,000
Series 2001B	n/a	* Variable	2032	—	55,340
Series 2003A	3.60% – 4.85%	Fixed	2037	42,050	42,925
Series 2003B	0.14%	* Variable	2043	43,385	43,780
Series 2004	3.60% – 4.75%	Fixed	2025	17,480	18,395
Series 2005A	0.11%	* 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
Series 2011	2.00% – 5.00%	Fixed	2032	70,600	—
Tax-exempt commercial paper, revolving through 2036					
	.15% – 0.21%	Fixed	Revolving	50,000	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
Loans payable – Community: Development Entities					
	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				<u>650,568</u>	<u>629,493</u>
Unamortized premium				<u>9,528</u>	<u>—</u>
Total bonds, loans and notes payable				<u>\$ 660,096</u>	<u>629,493</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 for research, student housing, academic and administrative buildings, and infrastructure. In August 2011, the Series 2011 Facilities Revenue Refunding Bonds were issued in the amount of \$70,600 to currently refund the Series 2001A and Series 2001B Bonds. The Refunding Bonds included an original issue premium of \$10,030.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012, \$50,000 has been drawn against this program.

Principal payments of bonds, notes and loans payable as of June 30, 2012 for the succeeding five fiscal years ending June 30 are as follows:

2013	\$ 5,910
2014	6,125
2015	6,415
2016	25,370
2017	8,910

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, the University determined that the aggregate estimated fair value of its debt as of June 30, 2012 and 2011 was approximately \$701,000 and \$647,000, respectively.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2012, the full amount of \$40,000 was available at a rate of 0.98975%.

The University provides as the initial liquidity 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, 2012, 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 for the JPMorgan swap and the \$85,500 Goldman Sachs swap amortize at the same rate as the related debt principal.

In fiscal 2012, the Series 2001B corresponding variable-rate debt, for the \$35,833 Goldman Sachs swap was refunded with fixed rate debt. Additionally, for economic reasons the University terminated one-third of the Goldman Sachs 2006 swap. As a result, the University recognized a

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

realized loss on partial swap termination of \$2,757, which is recorded in nonoperating activities in other changes, net in the 2012 statement of activities.

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

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30 liability	
					2012	2011
JP Morgan	3/3/2008	9/1/2043	\$ 43,385	3.732%	\$ (16,943)	(7,860)
Goldman Sachs	10/4/2005	5/1/2035	85,500	3.979	(26,702)	(8,198)
Goldman Sachs	11/21/2006	9/1/2032	35,833	3.891	(7,747)	(5,345)
					<u>\$ (51,392)</u>	<u>(21,403)</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 the University maintain a minimum credit rating to avoid collateral posting requirements. At June 30, 2012, the collateral requirement was \$9,448; however, \$12,500 was on deposit as collateral to ensure continuing collateral coverage.

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, during 2011, 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 \$66,784 and \$57,452 as of June 30, 2012 and 2011, respectively, and is included in land, buildings and equipment. The loans payable to the CDEs as of June 30, 2012 and 2011 are reported net of the loan receivable from the LLC and are included in bonds, loans and notes payable.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(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 \$22,279 and \$21,048 for the years ended June 30, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 54,097	53,415
Service cost	2,314	2,390
Interest cost	2,954	2,839
Benefits paid	(1,837)	(1,751)
Actuarial loss (gain)	14,093	(2,796)
Projected benefit obligation at end of year	<u>\$ 71,621</u>	<u>54,097</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	4.01%	5.57%
Rate of compensation increase	3.00	3.50

**BROWN UNIVERSITY**  
Notes to Financial Statements  
June 30, 2012 and 2011  
(Dollars in thousands)

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

	<u>2012</u>	<u>2011</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 40,823	35,773
Actual return on plan assets	1,056	6,801
Contributions	6,500	—
Benefits paid	<u>(1,837)</u>	<u>(1,751)</u>
Fair value of plan assets at end of year	46,542	40,823
Projected benefit obligation at end of year	<u>(71,621)</u>	<u>(54,097)</u>
Funded status recorded in other long-term obligations	<u>\$ (25,079)</u>	<u>(13,274)</u>

The plan assets at June 30, 2012 and 2011 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.

	<u>2012</u>	<u>2011</u>
Net periodic pension cost:		
Service cost	\$ 2,314	2,390
Interest cost	2,954	2,839
Expected return on assets	(3,312)	(2,612)
Amortization of unrecognized loss and prior service cost	<u>378</u>	<u>997</u>
Net periodic pension cost	<u>\$ 2,334</u>	<u>3,614</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	5.57%	5.40%
Rate of compensation increase	3.50	4.00
Expected long-term rate of return	7.50	7.50

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, 2012 and 2011, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$471 and \$575, respectively, and a net unrecognized actuarial loss of

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

\$24,863 and \$8,789, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statement of 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, 2012 and 2011, and the weighted average asset targeted allocation are as follows:

	<b>Target</b>	<b>Actual</b>	
		<b>2012</b>	<b>2011</b>
Equity funds	65%	65%	68%
Fixed funds	35	35	32
Total	100%	100%	100%

The University's estimated contribution for 2013 is \$5,000.

Estimated future benefit payments as of June 30, 2012 are as follows:

Fiscal year:

2013	\$	2,159
2014		2,231
2015		2,364
2016		2,524
2017		2,704
2018 – 2022		17,260



**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

**(9) Net Assets**

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

		<b>2012</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Operating	\$	129,244	—	—	129,244
Donor-restricted purposes		—	24,721	—	24,721
Net investment in plant		300,048	4,484	—	304,532
Student loans		9,899	—	10,328	20,227
Endowment		278,550	1,156,391	1,090,150	2,525,091
Contributions receivable		—	77,200	81,584	158,784
Total net assets	\$	<u>717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</u>

		<b>2011</b>			
		<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Operating	\$	119,661	—	—	119,661
Donor-restricted purposes		—	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
Contributions receivable		—	89,471	71,665	161,136
Total net assets	\$	<u>751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>

**(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:

	<b>2012</b>	<b>2011</b>
Instruction and departmental research	\$ 265,010	242,855
Sponsored programs	124,211	121,224
Academic and student support	134,218	125,221
Auxiliary services	85,831	85,397
Institutional support	95,550	87,811
	<u>\$ 704,820</u>	<u>662,508</u>

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

#### (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 the 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) Supplemental Disclosure of Cash Flow Information

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

	<u>2012</u>	<u>2011</u>
Cash paid for interest, including recurring swap settlements	\$ 27,962	25,347
Noncash investing activities:		
Increase in accounts payable for land, buildings and equipment	802	1,109
(Decrease) increase in payables for purchases of investments	(32,100)	74,439
Increase in receivables for investments sold	34,715	34,958

#### (14) Subsequent Events

In July 2012, the University issued tax-exempt bonds with a total par value of \$118,240 through RIHEBC at a fixed rate of 5.00%, maturing in September 2021 and September 2022. The bonds were sold at a premium of \$31,567, resulting in effective yields of 1.87% and 2.01% at the respective maturity dates. The proceeds were used to refinance \$50,000 of RIHEBC Tax-exempt commercial paper and \$8,220 in taxable commercial paper, with the remaining proceeds to be used for capital projects.

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 29, 2012, and subsequent events have been evaluated through that date.