



**BROWN UNIVERSITY**

Financial Statements

June 30, 2015 and 2014

(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 financial statements of Brown University, which comprise the balance sheets as of June 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

October 23, 2015

**BROWN UNIVERSITY**

## Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Cash and cash equivalents	\$ 51,188	25,546
Receivables for investments sold	—	12,232
Accounts receivable and other assets	45,610	47,697
Contributions receivable, net	161,786	150,393
Notes receivable, net	31,972	32,133
Funds held in trust by others	68,253	123,844
Investments	3,709,288	3,485,789
Land, buildings and equipment, net	1,064,105	1,048,118
Total assets	<u>\$ 5,132,202</u>	<u>4,925,752</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 52,321	56,724
Liabilities associated with investments	134,127	8,056
Student deposits and grant advances	63,097	58,767
Federal student loan advances	24,416	24,428
Split-interest obligations	22,613	18,737
Other long-term obligations	70,760	54,205
Bonds, loans and notes payable	845,227	852,088
Total liabilities	<u>1,212,561</u>	<u>1,073,005</u>
Net assets:		
Unrestricted	992,318	1,002,498
Temporarily restricted	1,544,744	1,516,971
Permanently restricted	1,382,579	1,333,278
Total net assets	<u>3,919,641</u>	<u>3,852,747</u>
Total liabilities and net assets	<u>\$ 5,132,202</u>	<u>4,925,752</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2015

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 450,532	—	—	450,532
Less university scholarships	(161,460)	—	—	(161,460)
Net tuition and fees	289,072	—	—	289,072
Grants and contracts – direct	113,033	—	—	113,033
Grants and contracts – indirect	38,425	—	—	38,425
Contributions	68,760	29,932	—	98,692
Endowment return appropriated	136,878	5,847	—	142,725
Sales and services of auxiliary enterprises	90,022	—	—	90,022
Other income	36,696	—	—	36,696
Net assets released from restrictions	15,799	(15,799)	—	—
Total operating revenues	<u>788,685</u>	<u>19,980</u>	<u>—</u>	<u>808,665</u>
Operating expenses:				
Salaries and wages	322,533	—	—	322,533
Employee benefits	93,351	—	—	93,351
Graduate student support	64,600	—	—	64,600
Purchased services	71,696	—	—	71,696
Supplies and general	110,511	—	—	110,511
Utilities	29,624	—	—	29,624
Other	16,584	—	—	16,584
Interest	30,634	—	—	30,634
Operating expenses before depreciation	<u>739,533</u>	<u>—</u>	<u>—</u>	<u>739,533</u>
Net change from operating activities before depreciation	49,152	19,980	—	69,132
Depreciation	<u>71,424</u>	<u>—</u>	<u>—</u>	<u>71,424</u>
Change in net assets from operating activities	<u>(22,272)</u>	<u>19,980</u>	<u>—</u>	<u>(2,292)</u>
Nonoperating activities:				
Contributions	1,213	29,228	55,890	86,331
Net investment return	28,555	124,013	318	152,886
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Other changes, net	(6,299)	(14,100)	(6,907)	(27,306)
Net assets released from restrictions	10,121	(10,121)	—	—
Change in net assets from nonoperating activities	<u>12,092</u>	<u>7,793</u>	<u>49,301</u>	<u>69,186</u>
Change in net assets	(10,180)	27,773	49,301	66,894
Net assets, beginning of year	<u>1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>
Net assets, end of year	<u>\$ 992,318</u>	<u>1,544,744</u>	<u>1,382,579</u>	<u>3,919,641</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

## Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 428,890	—	—	428,890
Less university scholarships	(153,424)	—	—	(153,424)
Net tuition and fees	275,466	—	—	275,466
Grants and contracts – direct	110,528	—	—	110,528
Grants and contracts – indirect	36,971	—	—	36,971
Contributions	74,324	18,715	—	93,039
Endowment return appropriated	125,366	10,101	—	135,467
Sales and services of auxiliary enterprises	87,311	—	—	87,311
Other income	32,523	—	—	32,523
Net assets released from restrictions	9,667	(9,667)	—	—
Total operating revenues	<u>752,156</u>	<u>19,149</u>	<u>—</u>	<u>771,305</u>
Operating expenses:				
Salaries and wages	313,076	—	—	313,076
Employee benefits	95,299	—	—	95,299
Graduate student support	62,189	—	—	62,189
Purchased services	67,874	—	—	67,874
Supplies and general	104,883	—	—	104,883
Utilities	27,265	—	—	27,265
Other	10,244	—	—	10,244
Interest	27,093	—	—	27,093
Operating expenses before depreciation	<u>707,923</u>	<u>—</u>	<u>—</u>	<u>707,923</u>
Net change from operating activities before depreciation	44,233	19,149	—	63,382
Depreciation	<u>66,655</u>	<u>—</u>	<u>—</u>	<u>66,655</u>
Change in net assets from operating activities	<u>(22,422)</u>	<u>19,149</u>	<u>—</u>	<u>(3,273)</u>
Nonoperating activities:				
Contributions	5,670	18,786	72,720	97,176
Net investment return	113,036	325,484	6,076	444,596
Endowment return appropriated	(22,255)	(113,212)	—	(135,467)
Other changes, net	(11,151)	9,253	(552)	(2,450)
Net assets released from restrictions	5,349	(5,349)	—	—
Change in net assets from nonoperating activities	<u>90,649</u>	<u>234,962</u>	<u>78,244</u>	<u>403,855</u>
Change in net assets	68,227	254,111	78,244	400,582
Net assets, beginning of year	<u>934,271</u>	<u>1,262,860</u>	<u>1,255,034</u>	<u>3,452,165</u>
Net assets, end of year	<u>\$ 1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 66,894	400,582
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(147,624)	(430,041)
Depreciation	71,424	66,655
Amortization of bond premium	(4,066)	(3,862)
Loss from disposals of land, building and equipment	1,804	3,373
Change in funded status of pension obligation	6,824	(1,170)
Change in fair value of interest rate swap liabilities	8,666	1,355
Change in asset retirement obligation	1,065	(222)
Change in estimate of split-interest obligations	6,207	(5,501)
Contributions restricted for plant and endowment	(76,976)	(88,164)
Change in accounts receivable and other assets	2,087	(8,750)
Change in accounts payable and accrued liabilities	(2,543)	6,386
Change in contributions receivable	(11,393)	(13,947)
Change in other operating liabilities, net	4,318	5,692
Net cash used in by operating activities	<u>(73,313)</u>	<u>(67,614)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(87,575)	(94,115)
Purchases of investments	(1,345,394)	(1,313,061)
Sales and redemptions of investments	1,273,390	1,329,048
Purchases of securities sold short	(33,365)	—
Proceeds from securities sold short	147,403	—
Notes repaid by students and others, net	161	827
Change in funds held in trust by others	54,591	(47,776)
Net cash provided by (used in) investing activities	<u>9,211</u>	<u>(125,077)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	76,976	88,164
Proceeds from sale of restricted gifts of securities	20,394	14,263
Payments under split-interest obligations	(2,331)	(2,402)
Payments on long-term debt	(20,825)	(46,335)
Proceeds from issuance of debt, including premium	—	150,950
Proceeds from commercial paper programs	14,530	14,750
Payments on commercial paper programs	—	(14,750)
Cash collateral posted under swap agreements	16,100	—
Cash collateral returned under swap agreements	(15,100)	—
Bond issuance costs	—	(412)
Net cash provided by financing activities	<u>89,744</u>	<u>204,228</u>
Change in cash and cash equivalents	25,642	11,537
Cash and cash equivalents, beginning of year	<u>25,546</u>	<u>14,009</u>
Cash and cash equivalents, end of year	\$ <u>51,188</u>	\$ <u>25,546</u>

See accompanying notes to financial statements.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2015 and 2014

(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 6,200 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 accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and present balances and transactions according to the existence or absence of donor-imposed restrictions.

The John Nicholas Brown Center for the Study of American Civilization; Fairview Incorporated, a real estate holding company; KARING, a Rhode Island not-for-profit corporation that holds certain property of the Warren Alpert Medical School; and certain limited liability partnerships established by the University's investment office that holds certain investment funds, are all separate legal entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated.

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

##### **(c) Classification of Net Assets**

The University is incorporated in and subject to the laws of Rhode Island, which contain the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the net assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University (the Corporation) 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

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### Notes to Financial Statements

June 30, 2015 and 2014

(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. The University uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. The hierarchy is defined as follows:

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

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

As described in note 1(o), investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy.

#### (e) *Statements of Activities*

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



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### Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

Revenues are derived from various sources, as follows:

- Tuition and fees are recognized at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Deposits and other advance payments are reported as a liability. Sales and services of auxiliary enterprises are recognized at the time the services are provided.
- Contributions, including unconditional promises from donors reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions 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. Payments received in advance of grant and contract expenditures are reported as a liability.
- 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.

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### Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

**(h) Land, Buildings and Equipment**

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

Depreciation is calculated using the straight-line method with estimated useful lives of 30-to-40 years for buildings, 20-to-30 years for building improvements, and 3-to-15 years for equipment, depending upon asset class.

**(i) Fund Held in Trust by Others**

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$22,411 and \$23,592 at June 30, 2015 and 2014, respectively. The University receives all or a specified portion of the return on the underlying assets of most of the trusts, which is primarily restricted for scholarships. Most of the investments held in the trusts are classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity or are considered illiquid. Other trustee funds of \$44,313 and \$100,251 at June 30, 2015 and 2014, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held in reserve in accordance with debt or similar agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

**(j) Federal Student Loan Advances**

The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program and the Health Professions Student Loan Program (the Programs). 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.

**(k) Collections**

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

**(l) Liabilities Associated with Investments**

The University may, from time to time, incur liabilities associated with its investments portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a realized gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheet at June 30, 2015 include \$121,869 representing the fair value of the identical securities that must be acquired to settle the obligation to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy

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### Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

given that they are measured based on quoted market prices. In addition, liabilities associated with investments include the fair value of credit default swaps of \$10,511 and \$8,056 respectively, at June 30, 2015 and 2014 as well as \$1,747 related to the fair value of total return swaps entered into in fiscal 2015.

**(m) Other Long-Term Obligations**

Other long-term obligations include the funded status of the defined benefit pension plan of \$19,624 and \$12,800 at June 30, 2015 and 2014, respectively; the interest-rate swap liability of \$37,836 and \$29,170 at June 30, 2015 and 2014, respectively; and the asset retirement obligation of \$13,300 and \$12,235 at June 30, 2015 and 2014, respectively.

**(n) 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.

**(o) Recent Accounting Pronouncement**

Effective in fiscal 2015, the University retrospectively adopted the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the balance sheet. As a result of the adoption, the June 30, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments of \$766,531 previously classified in Level 2 and \$1,907,325 in Level 3. In addition, the June 30, 2013 opening balance in the Level 3 roll forward was restated to reflect the removal of NAV-measured investments aggregating \$1,705,321, as well as all NAV-measured activity in fiscal 2014. See note 3 for further information.

**(p) Reclassifications**

Certain 2014 financial information has been reclassified to conform to the 2015 presentation.

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### Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### (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>2015</u>	<u>2014</u>
Contributions expected to be received in:		
Less than one year	\$ 39,350	50,689
Between one and five years	121,186	120,582
More than five years	<u>24,598</u>	<u>1,926</u>
Gross contributions receivable	185,134	173,197
Unamortized discount (at rates ranging from 0.7% to 4.8%) and allowance for uncollectibles	<u>(23,348)</u>	<u>(22,804)</u>
Contributions receivable, net	<u>\$ 161,786</u>	<u>150,393</u>

#### (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), commercial properties or commodities, or oil and gas, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by fund managers in the absence of readily determinable market values.

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

##### *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 to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2015, the University had no plans or intentions to sell investments at amounts different from NAV. At June 30, 2014, the sale of 21 private real assets fund interests was in negotiation. In July 2014, the investments were sold at a price other than NAV. Accordingly, at June 30, 2014; the fair value of such funds has been reflected at the sale price.

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

The following tables summarize the University's investments by strategy type as of June 30, 2015 and 2014:

	2015				
	Investments Classified in the Fair Value Hierarchy				
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Investments:					
Equities:					
U.S. equities	\$ 180,916	134,385	6,849	147	322,297
Non-U.S. equity funds	425,504	135,909	—	—	561,413
Fixed income:					
Domestic	110,367	5,566	108,645	46,295	270,873
U.S. Treasury inflation-protected	22,608	—	—	—	22,608
Hedged strategies:					
General arbitrage funds	259,778	—	—	—	259,778
Distressed funds	7,412	—	—	—	7,412
Global/Non-U.S. funds	913,534	—	—	—	913,534
Private equity:					
Buy-out funds	415,881	—	—	—	415,881
Venture funds	286,593	—	—	—	286,593
Real assets:					
Real estate and timber	84,203	1,742	1,231	1,036	88,212
Commodities, oil and gas	171,425	—	—	—	171,425
Cash and cash equivalents	—	389,262	—	—	389,262
Total	\$ 2,878,221	666,864	116,725	47,478	3,709,288

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Notes to Financial Statements

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	<b>2014</b>				
	<b>Investments Measured at NAV</b>	<b>Investments Classified in the Fair Value Hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investments:					
Equities:					
U.S. equities	\$ 205,278	27,025	—	528	232,831
Non-U.S. equity funds	396,291	210,933	—	—	607,224
Fixed income:					
Domestic	174,971	6,427	103,635	49,665	334,698
U.S. Treasury inflation-protected	22,639	—	—	—	22,639
Hedged strategies:					
General arbitrage funds	206,587	39,629	—	—	246,216
Distressed funds	18,675	—	—	—	18,675
Global/Non-U.S. funds	617,579	—	—	—	617,579
Private equity:					
Buy-out funds	419,697	—	—	—	419,697
Venture funds	245,296	—	—	—	245,296
Real assets:					
Real estate and timber	193,743	1,806	—	1,036	196,585
Commodities, oil and gas	173,100	—	—	—	173,100
Cash and cash equivalents	—	371,249	—	—	371,249
<b>Total</b>	<b>\$ 2,673,856</b>	<b>657,069</b>	<b>103,635</b>	<b>51,229</b>	<b>3,485,789</b>

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

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

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The following tables present activities for the years ended June 30, 2015 and 2014 for the University's investments classified in Level 3:

Level 3 roll forward	2015			
	Equities	Fixed income	Real assets	Total
Fair value as of June 30, 2014	\$ 528	49,665	1,036	51,229
Acquisitions	—	30,941	—	30,941
Dispositions	—	(37,283)	—	(37,283)
Net realized and unrealized gains	(381)	2,972	—	2,591
Fair value at June 30, 2015	\$ 147	46,295	1,036	47,478

Level 3 roll forward	2014			
	Equities	Fixed income	Real assets	Total
Fair value as of June 30, 2013	\$ 12	33,629	1,036	34,677
Acquisitions	260	37,991	—	38,251
Dispositions	—	(26,782)	—	(26,782)
Net realized and unrealized gains	256	4,827	—	5,083
Fair value at June 30, 2014	\$ 528	49,665	1,036	51,229

There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2015 and 2014, respectively.

The following summarizes investment return components for the years ended June 30, 2015 and 2014:

	2015	2014
Interest and dividends	\$ 13,535	25,642
Net realized and unrealized gains, net of investment management and advisory expenses	147,624	430,041
Investment return	\$ 161,159	455,683

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

	<b>2015</b>	<b>2014</b>
Operating:		
Endowment return appropriated	\$ 142,725	135,467
Included in other income	8,273	11,087
Nonoperating activities:		
Net investment return	152,886	444,596
Endowment return appropriated	(142,725)	(135,467)
Total return	\$ 161,159	455,683

Total investment management and advisory expenses, including internal costs, were \$21,942 and \$17,324 for the years ended June 30, 2015 and 2014, respectively, and have been netted against the total return.

**(a) Liquidity**

Investment liquidity as of June 30, 2015 and 2014 is aggregated below based on redemption or sale ability:

	<b>2015</b>						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 280,672	—	211,639	180,890	202,485	8,024	883,710
Fixed income	156,497	51,926	—	—	81,048	4,010	293,481
Hedged strategies	—	198,079	—	134,958	816,975	30,712	1,180,724
Private equity	—	—	—	—	—	702,474	702,474
Real assets	2,973	72,145	—	—	—	184,519	259,637
Cash and cash equivalents	389,262	—	—	—	—	—	389,262
Total	\$ 829,404	322,150	211,639	315,848	1,100,508	929,739	3,709,288

	<b>2014</b>						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 244,665	—	233,620	186,181	167,342	8,247	840,055
Fixed income	129,627	117,207	—	—	78,402	32,101	357,337
Hedged strategies	39,629	166,813	—	68,113	528,553	79,362	882,470
Private equity	—	—	—	—	—	664,993	664,993
Real assets	3,177	86,079	90,861	—	—	189,568	369,685
Cash and cash equivalents	371,249	—	—	—	—	—	371,249
Total	\$ 788,347	370,099	324,481	254,294	774,297	974,271	3,485,789



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Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 5 to 180 days, at June 30, 2015 and 2014.

**(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, 2015 was \$254,141 and \$108,663, respectively.

**(c) Investment Derivatives**

The University's endowment investment portfolio includes derivative financial instruments that have been entered 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.

In fiscal year 2015, the University entered into total return swap contracts for investment purposes and to manage exposure in equity markets. These swaps involve commitments to pay interest in exchange for a market return, based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from or make a payment to the related counterparty. Realized gains and losses associated with these contracts are recorded in the statement of operations as periodic payments are received or paid. At June 30, 2015, the University held two swaps in a net liability position of \$1,747, with a total notional value of \$47,307, and one swap in a net asset position of \$380, with a total notional value of \$33,738.

At June 30, 2015 and 2014, the University held credit default swaps to simulate long or short positions or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2015 and 2014, the total notional amount of credit default swap contracts for buyer protection was \$340,000 and \$210,000, respectively. The fair value of these contracts as of June 30, 2015 and 2014 was \$10,511 and \$8,056, respectively, and is included in liabilities associated with investments on the balance sheets. The unrealized loss on these contracts as of June 30, 2015 and 2014 was \$1,535 and \$362,

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respectively, and is included in net investment return on the statements of activities. The University had posted collateral of \$10,690 and \$7,924 as of June 30, 2015 and 2014, respectively, which is included in domestic fixed income investments in the 2015 and 2014 fair value hierarchy tables in note 3.

At June 30, 2014, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. These contracts had total asset fair values of \$814 at June 30, 2014, respectively. The University recognized a net unrealized loss of \$4,222 for the year ended June 30, 2014, 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 was not required to post any collateral at June 30, 2014. In 2015, the swaption contracts were terminated.

**(4) Endowment**

The University's endowment consists of approximately 2,900 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,795)	1,288,076	1,250,406	2,536,687
Corporation-designated endowment funds	<u>477,319</u>	<u>59,343</u>	<u>—</u>	<u>536,662</u>
Total endowment net assets	\$ <u><u>475,524</u></u>	<u><u>1,347,419</u></u>	<u><u>1,250,406</u></u>	<u><u>3,073,349</u></u>

Endowment net assets consist of the following at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,515)	1,278,188	1,190,547	2,467,220
Corporation-designated endowment funds	<u>474,626</u>	<u>57,903</u>	<u>—</u>	<u>532,529</u>
Total endowment net assets	\$ <u><u>473,111</u></u>	<u><u>1,336,091</u></u>	<u><u>1,190,547</u></u>	<u><u>2,999,749</u></u>

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Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2014	\$ 473,111	1,336,091	1,190,547	2,999,749
Investment return, net	22,058	124,912	—	146,970
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Contributions	1,213	8,068	51,529	60,810
Reclassifications and other changes	640	(425)	8,330	8,545
Endowment at June 30, 2015	\$ <u>475,524</u>	<u>1,347,419</u>	<u>1,250,406</u>	<u>3,073,349</u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2013	\$ 416,779	1,126,291	1,126,878	2,669,948
Investment return, net	76,415	323,596	—	400,011
Endowment return appropriated	(22,255)	(113,212)	—	(135,467)
Contributions	166	302	61,739	62,207
Reclassifications and other changes	2,006	(886)	1,930	3,050
Endowment at June 30, 2014	\$ <u>473,111</u>	<u>1,336,091</u>	<u>1,190,547</u>	<u>2,999,749</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

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**(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 \$1,795 and \$1,515 as of June 30, 2015 and 2014, 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.

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

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**(5) Land, Buildings and Equipment**

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

	<u>2015</u>	<u>2014</u>
Land	\$ 85,110	72,571
Buildings	648,645	635,624
Improvements	966,207	924,222
Equipment	172,197	156,248
Intangible asset	1,988	—
Construction in progress	<u>50,056</u>	<u>50,024</u>
	1,924,203	1,838,689
Accumulated depreciation	<u>(860,098)</u>	<u>(790,571)</u>
Land, buildings and equipment, net	<u>\$ 1,064,105</u>	<u>1,048,118</u>

Outstanding commitments on uncompleted construction contracts total \$21,649 at June 30, 2015.

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**(6) Bonds, Loans and Notes Payable**

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

Name of issue	Interest rate(s)	Type of rate	Final maturity	Balance at June 30	
				2015	2014
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	0.05%	Variable	2043	42,105	42,550
Series 2004	3.875% – 4.75%	Fixed	2025	—	15,550
Series 2005A	0.04%	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	2.50% – 5.00%	Fixed	2032	59,190	63,170
Series 2012	5.00%	Fixed	2022	118,240	118,240
Series 2013	3.00% – 5.00%	Fixed	2044	137,865	138,715
Tax-exempt commercial paper, revolving through 2042	0.05% - 0.06%	Fixed	Revolving	15,530	1,000
Taxable standard commercial Paper Notes, Series A, revolving through 2036	0.09% – 0.11%	Fixed	Revolving	50,000	50,000
Brown University Taxable Bonds:					
Series 2005	5.09%	Fixed	2016	17,000	17,000
Series 2009	4.57%	Fixed	2019	100,000	100,000
Promissory note	non-interest bearing	N/A	2029	3,500	—
Loans payable – community:					
Development entities	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				803,483	806,278
Unamortized premium				41,744	45,810
Total bonds, loans and notes payable				\$ 845,227	852,088

**(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

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Bonds currently outstanding were issued primarily to finance new and ongoing capital projects, student housing, academic, research and administrative buildings, and infrastructure.

In September 2014, the University refinanced \$14,530 of its 2004 RIHEBC Facilities Revenue Bonds. The current refunding was financed by the issuance of \$14,530 tax exempt commercial paper under its RIHEBC tax exempt commercial paper program.

In December 2013, the Series 2013 Facilities Revenue Bonds were issued in the amount of \$138,715 to refund \$25,460 of the Series 2003A RIHEBC bonds and \$14,750 of RIHEBC tax-exempt commercial paper, with the remaining proceeds to be used for capital projects. The Series 2013 Bonds included an original issue premium of \$12,235, which will be amortized over the life of the debt.

**(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. The Taxable Commercial Paper Program has a number of individual notes that are issued at various times, amounts and staggered maturity dates. The notes are issued at market prices, which at June 30, 2015 ranged from 0.09% to 0.11%. During the life of the note, 1 day to 270 days, the rate is fixed. As an individual note matures, new notes are issued to pay for the maturing notes. The agreement allows the University to continue this revolving process until 2036.

The University also maintains a tax exempt commercial program through RIHEBC. Proceeds from the tax exempt commercial paper program must be used within 18 months; however, once debt is issued, the University can continue to rollover the tax exempt commercial paper until the end of the program in 2042. The issuance of new money requires renewal by RIHEBC every three years. The program was renewed in 2013 and, as of June 30, 2015 and 2014, \$15,530 and \$1,000, respectively, remained outstanding.

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Principal payments of bonds, notes and loans payable as of June 30, 2015 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2016	\$	25,955
2017		9,500
2018		9,790
2019		10,235
2020		110,650
Thereafter		<u>637,353</u>
Total	\$	<u><u>803,483</u></u>

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, 2015 and 2014 was approximately \$878,000 and \$893,000, respectively. These estimated fair values are based on significant observable inputs categorized in Level 2 of the fair value hierarchy.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2015, the full amount of \$40,000 was available at a rate of 0.93%.

In fiscal 2015, the University entered into two stand-by bond purchase agreements with financial institutions totaling approximately \$127,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. Financing obtained through these stand-by credit agreements to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over a two to five year period. The agreements have various maturity dates between November 2017 and January 2020. There were no amounts outstanding at June 30, 2015 under these agreements. In fiscal 2014, the University provided self-liquidity for the Series 2003B and 2005A bonds totaling approximately \$128,000.

The University provided self-liquidity for its taxable commercial paper program at June 30, 2015 and 2014, respectively.

(c) ***Interest Rate Swaps***

At June 30, 2015 and 2014, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.



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

Counterparty	Associated debt	Expiration date	June 30, 2015 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2015	2014
JP Morgan	Series 2003B	9/1/2043	\$ 42,105	3.732%	\$ (13,111)	(11,346)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(21,927)	(15,390)
Goldman Sachs	None	9/1/2032	16,188	3.891	(2,798)	(2,434)
					<u>\$ (37,836)</u>	<u>(29,170)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. This rating was maintained by the University at June 30, 2015 and 2014. At June 30, 2015, the collateral posting requirement was \$987; however, \$1,000 was on deposit as collateral to ensure continuing collateral coverage.

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

#### (7) Retirement Benefits

The University participates in two contributory retirement plans. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$23,417 and \$24,290 for the years ended June 30, 2015 and 2014, respectively.

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

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

	<u>2015</u>	<u>2014</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 78,995	69,207
Service cost	3,539	3,070
Interest cost	3,278	3,186
Benefits paid	(1,984)	(1,939)
Actuarial loss	2,956	5,471
Projected benefit obligation at end of year	<u>\$ 86,784</u>	<u>78,995</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.33%	4.20%
Rate of compensation increase	3.00	3.00

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

	<u>2015</u>	<u>2014</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 66,195	55,237
Actual return on plan assets	1,449	8,897
Contributions	1,500	4,000
Benefits paid	(1,984)	(1,939)
Fair value of plan assets at end of year	67,160	66,195
Projected benefit obligation at end of year	<u>(86,784)</u>	<u>(78,995)</u>
Funded status included in other long-term obligations	<u>\$ (19,624)</u>	<u>(12,800)</u>

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	<u>2015</u>	<u>2014</u>
Net periodic pension cost:		
Service cost	\$ 3,539	3,070
Interest cost	3,278	3,186
Expected return on assets	(4,596)	(3,940)
Amortization of unrecognized loss and prior service cost	744	817
Net periodic pension cost	<u>\$ 2,965</u>	<u>3,133</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.20%	4.67%
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	7.00	7.00

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2015 and 2014, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$721 and \$854, respectively, and a net unrecognized actuarial gain of \$20,191 and an actuarial loss of \$14,700, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

The plan assets at June 30, 2015 and 2014 consist of variable annuity investments with various equity and fixed income focuses measured at NAV.

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.

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The actual asset allocation for the pension plan as of June 30, 2015 and 2014, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2015	2014
Equity funds	75%	75%	77%
Fixed income funds	25	25	23
Total	100%	100%	100%

The University's estimated contribution for 2016 is \$1,500.

Estimated future benefit payments as of June 30, 2015 are as follows:

Fiscal year:	
2016	\$ 2,648
2017	2,833
2018	3,092
2019	3,340
2020	3,566
2021 – 2025	22,306

**(8) Restricted Net Assets**

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

	2015		2014	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,347,419	1,250,406	1,336,091	1,190,547
Contributions receivable	61,248	100,538	53,261	97,132
Donor-restricted purposes	125,199	31,635	127,619	34,752
Student loans	10,878	—	—	10,847
Total	\$ 1,544,744	1,382,579	1,516,971	1,333,278

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

#### (9) 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:

	<u>2015</u>	<u>2014</u>
Instruction and departmental research	\$ 304,074	301,096
Sponsored programs	109,970	103,773
Academic and student support	198,750	171,910
Auxiliary services	101,041	99,866
Institutional support	97,122	97,933
	<u>\$ 810,957</u>	<u>774,578</u>

#### (10) Commitments and Contingencies

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

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

#### (11) Related-Party Transactions

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

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**(12) Supplemental Disclosure of Cash Flow Information**

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

	<b>2015</b>	<b>2014</b>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$848 and \$3,094	\$ 34,105	29,096
Noncash investing activities:		
Increase in accounts payable for land, buildings and equipment	1,860	4,156
Increase in payables for purchases of investments	126,071	780
Decrease in receivables for investments sold	(12,232)	(9,055)
Noncash financing activities:		
Seller financed note payable	3,500	—

**(13) Subsequent Events**

In July 2015, the University established a \$100,000 line of credit with a maturity in July 2016, with the option to renew and interest rate of LIBOR plus an interest rate margin. The University may use the line of credit for University working capital, capital expenditures, and general corporate purposes.

In September 2015, the University borrowed \$50,000 through a taxable direct placement at a variable rate of one-month LIBOR plus 30 basis points, maturing in September 2018. The proceeds will be used to pay down the current \$50,000 outstanding in the Taxable Commercial Paper Program.

In October 2015, the University issued through RIHEBC tax-exempt direct placement bonds with a total par value of \$45,000 at an interest rate of 0.50%, maturing in 2046. The proceeds were used to refinance \$17,000 of Series 2005 Taxable bonds and \$14,470 of RIHEBC Tax-exempt commercial paper program, with remaining proceeds to be used for capital projects.

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 23, 2015, and subsequent events have been evaluated through that date.