



**BROWN UNIVERSITY**

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
6<sup>th</sup> 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, 2010 and 2009, 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, 2010 and 2009, 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.

As discussed in note 1(c) to the financial statements, the University changed its method of accounting for donor restricted endowment funds in 2009 due to the adoption of Accounting Standards Codification 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*.

**KPMG LLP**

October 8, 2010

**BROWN UNIVERSITY**

## Statements of Financial Position

June 30, 2010 and 2009

(Dollars in thousands)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 71,368	129,452
Accounts receivable and other assets	59,289	47,575
Contributions receivable, net	194,664	208,007
Notes receivable, net	33,355	32,894
Funds held in trust by others	27,961	13,193
Investments	2,522,480	2,189,993
Land, buildings and equipment, net	820,133	777,539
Total assets	<u>\$ 3,729,250</u>	<u>3,398,653</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 112,104	78,027
Deferred revenues and student deposits	33,184	25,666
Liabilities associated with investments	37,084	10,081
Refundable advances	37,013	39,258
Split-interest obligations	15,816	15,987
Asset retirement obligations	12,556	12,418
Bonds, loans and notes payable	609,160	492,400
Total liabilities	<u>856,917</u>	<u>673,837</u>
Net assets:		
Unrestricted	653,377	694,198
Temporarily restricted	1,178,781	1,046,982
Permanently restricted	1,040,175	983,636
Total net assets	<u>2,872,333</u>	<u>2,724,816</u>
Total liabilities and net assets	<u>\$ 3,729,250</u>	<u>3,398,653</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

## Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 320,538	—	—	320,538
Less university scholarships	(106,456)	—	—	(106,456)
Net tuition and fees	214,082	—	—	214,082
Grant and contracts – direct	113,034	—	—	113,034
Grant and contracts – indirect	36,459	—	—	36,459
Contributions	51,652	4,056	—	55,708
Endowment income appropriated	124,181	10,339	—	134,520
Sales and services of auxiliary enterprises	81,927	—	—	81,927
Other income	24,946	709	—	25,655
Net assets released from restrictions	6,195	(6,195)	—	—
Total operating revenues	<u>652,476</u>	<u>8,909</u>	<u>—</u>	<u>661,385</u>
Operating expenses:				
Salaries and wages	315,164	—	—	315,164
Employee benefits	83,785	—	—	83,785
Purchased services	49,189	—	—	49,189
Supplies and general	78,780	—	—	78,780
Utilities	19,412	—	—	19,412
Other	36,693	—	—	36,693
Total operating expenses before interest and depreciation	583,023	—	—	583,023
Interest	23,955	—	—	23,955
Depreciation and amortization	51,814	—	—	51,814
Total operating expenses	<u>658,792</u>	<u>—</u>	<u>—</u>	<u>658,792</u>
Change in net assets from operating activities	<u>(6,316)</u>	<u>8,909</u>	<u>—</u>	<u>2,593</u>
Nonoperating activities:				
Contributions to long-term assets	18,561	10,186	53,912	82,659
Net investment return	45,922	173,506	(1,041)	218,387
Endowment income appropriated	(30,202)	(104,318)	—	(134,520)
Other changes, net	(68,786)	43,516	3,668	(21,602)
Change in net assets from nonoperating activities	<u>(34,505)</u>	<u>122,890</u>	<u>56,539</u>	<u>144,924</u>
Change in net assets	<u>(40,821)</u>	<u>131,799</u>	<u>56,539</u>	<u>147,517</u>
Net assets, beginning of year	<u>694,198</u>	<u>1,046,982</u>	<u>983,636</u>	<u>2,724,816</u>
Net assets, end of year	<u>\$ 653,377</u>	<u>1,178,781</u>	<u>1,040,175</u>	<u>2,872,333</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2009

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 302,018	—	—	302,018
Less university scholarships	(100,181)	—	—	(100,181)
Net tuition and fees	201,837	—	—	201,837
Grant and contracts – direct	103,149	—	—	103,149
Grant and contracts – indirect	30,698	—	—	30,698
Contributions	48,038	1,867	—	49,905
Endowment income appropriated	122,992	10,038	—	133,030
Sales and services of auxiliary enterprises	80,682	—	—	80,682
Other income	23,620	966	—	24,586
Net assets released from restrictions	11,746	(11,746)	—	—
Total operating revenues	<u>622,762</u>	<u>1,125</u>	<u>—</u>	<u>623,887</u>
Operating expenses:				
Salaries and wages	301,192	—	—	301,192
Employee benefits	83,639	—	—	83,639
Purchased services	48,447	—	—	48,447
Supplies and general	77,787	—	—	77,787
Utilities	21,495	—	—	21,495
Other	34,110	—	—	34,110
Total operating expenses before interest and depreciation	566,670	—	—	566,670
Interest	18,635	—	—	18,635
Depreciation and amortization	51,242	—	—	51,242
Total operating expenses	<u>636,547</u>	<u>—</u>	<u>—</u>	<u>636,547</u>
Change in net assets from operating activities	<u>(13,785)</u>	<u>1,125</u>	<u>—</u>	<u>(12,660)</u>
Nonoperating activities:				
Contributions to long-term assets	41,633	10,030	54,793	106,456
Net investment return	(688,093)	(11,123)	(12,436)	(711,652)
Endowment income appropriated	(122,992)	(10,038)	—	(133,030)
Other changes, net	(12,733)	(14,542)	12,304	(14,971)
Change in net assets from nonoperating activities	<u>(782,185)</u>	<u>(25,673)</u>	<u>54,661</u>	<u>(753,197)</u>
Adjustments required under Rhode Island's enacted version of UPMIFA and ASC 958-205				
Change in net assets	(362,917)	799,180	(436,263)	—
Net assets, beginning of year	1,853,085	272,350	1,365,238	3,490,673
Net assets, end of year	<u>\$ 694,198</u>	<u>1,046,982</u>	<u>983,636</u>	<u>2,724,816</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**  
Statements of Cash Flows  
Years ended June 30, 2010 and 2009  
(Dollars in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 147,517	(765,857)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(228,650)	710,255
Depreciation and amortization	51,814	51,242
Change in estimate of split-interest obligations	1,700	(4,920)
Other changes	(4,205)	—
Contributions restricted for plant and endowment	(77,149)	(101,543)
Decrease in operating assets, net	1,629	17,853
Increase in operating liabilities, net	34,331	17,762
Net cash used in operating activities	<u>(73,013)</u>	<u>(75,208)</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(89,251)	(102,164)
Purchases of investments from sales and other sources	(2,981,813)	(3,294,102)
Sales of investments	2,904,979	3,393,202
Notes issued	(36,056)	(31,021)
Notes repaid	35,595	31,048
Change in funds held in trust by others	(14,768)	52,590
Net cash (used in) provided by investing activities	<u>(181,314)</u>	<u>49,553</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	77,149	101,543
Payments under split-interest obligations	(1,871)	(2,029)
Payments under commercial paper program	(50,000)	—
Payments on long-term debt	(4,035)	(3,892)
Net proceeds from issuance of debt, including premium	175,000	—
Cash collateral posted under swap agreements	—	(13,600)
Cash collateral returned under swap agreements	—	13,600
Net cash provided by financing activities	<u>196,243</u>	<u>95,622</u>
Change in cash and cash equivalents	(58,084)	69,967
Cash and cash equivalents, beginning of year	<u>129,452</u>	<u>59,485</u>
Cash and cash equivalents, end of year	<u>\$ 71,368</u>	<u>129,452</u>
Supplemental disclosure:		
Cash paid for interest	\$ 23,525	18,294
Change in accounts payable from land, buildings and equipment	5,157	(7,026)

See accompanying notes to financial statements.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

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

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 6,000 undergraduate students and 2,200 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.

Brown 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.

##### **(b) Basis of Presentation**

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 and Fairview Incorporated, a real estate holding company, both 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.

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

In 2009, the University adopted the provisions of ASC 958-205, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

The University is incorporated in and subject to the laws of Rhode Island, which effective as of June 30, 2009 adopted legislation that incorporates the provisions outlined in UPMIFA. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University in accordance with the standard of prudence prescribed by UPMIFA. As a result of this new law and the adoption of ASC 958-205, 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.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

Prior to 2009, the University was subject to the Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required the University to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, the University annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA and, accordingly, in 2009 the University reclassified the \$463,263 cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. In addition, the adoption of ASC 958-205 in 2009 resulted in the reclassification within donor-restricted endowment funds of \$362,917 from unrestricted net assets to temporarily restricted net assets to reflect the unappropriated and unspent balance above historic dollar value. In 2010, upon further analysis, \$56,272 of additional endowment fund balances were reclassified from unrestricted net assets to temporarily restricted net assets and are included in other changes, net, on the 2010 statement of activities.

#### (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



## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

these investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than on inputs used. See note 3 for further discussion.

(e) *Statements of Activities*

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

Revenues are derived from various sources, as follows:

- Tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Sales and services of auxiliary enterprises are recognized at the time the services are provided.
- Contributions, including unconditional promises to give reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions and investment return 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 (or, prior to fiscal 2010, relevant state law) 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. As UPMIFA became effective on June 30, 2009, investment return attributable to donor-restricted endowment funds in fiscal 2010 is reported as temporarily restricted to the extent not appropriated and spent.

Expenses are reported as decreases in unrestricted net assets.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

**(f) Cash Equivalents**

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

**(g) Accounts and Notes Receivable and Other Assets**

Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory and prepaid expenses and are carried at net realizable value, which approximates fair value. Notes receivable consist primarily of loans to students that may have significant restrictions and long maturities, and it is not practicable to estimate their fair value.

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

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

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

**(i) Refundable Advances**

The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program and the Health Professions Student Loan Program (the Programs). Such amounts may be re-loaned by the University after collection; however, in the event that the University no longer participates in the Programs, the amounts are generally refunded to the U.S. government. Refundable advances also include amounts received from funding agencies in advance of project activities related to sponsored programs.

**(j) Collections**

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

**(k) Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

#### (1) *Reclassifications*

Certain 2009 financial information has been reclassified to conform to the 2010 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>2010</u>	<u>2009</u>
Contributions expected to be received in:		
One year or less	\$ 57,217	48,928
Between one and five years	153,581	182,465
More than five years	<u>11,248</u>	<u>10,133</u>
Gross contributions receivable	222,046	241,526
Unamortized discount (at rates ranging from 1.52% to 6.3%) and allowance for uncollectibles	<u>(27,382)</u>	<u>(33,519)</u>
Contributions receivable, net	<u>\$ 194,664</u>	<u>208,007</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 strategies, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and may focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITS) or commercial real estate, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by the fund managers in the absence of readily determinable market values.

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

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009  
(Dollars in thousands)

#### *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, 2010 and 2009, the University had no plans or intentions to sell investments at amounts different from NAV.

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

The following tables summarize the University's investments and other assets within the fair value hierarchy as of June 30, 2010 and 2009, as well as related strategy, liquidity and funding commitments:

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

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009  
(Dollars in thousands)

	June 30, 2009				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Equities:						
U.S. equities	\$ 16,975	63,308	11,046	91,329	Daily to annual	1 – 60
Non U.S. Equity funds	—	75,465	97,381	172,846	Daily to illiquid	15 – 120
Fixed income:						
U.S. bonds	65,334	157,040	42,463	264,837	Daily to annual	1 – 60
U.S. Treasury inflation-protected	—	85,438	—	85,438	Daily	1
Hedged strategies:						
General arbitrage funds	5,530	15,468	115,529	136,527	Daily to illiquid	15 – 90
Distressed funds	—	—	48,952	48,952	Biennial to illiquid	90
Global/non-U.S. funds	—	107,730	474,458	582,188	Monthly to illiquid	30 – 180
Private equity:						
Buy-out funds	—	—	266,300	266,300	Illiquid	N/A
Venture funds	—	—	104,720	104,720	Illiquid	N/A
Real assets:						
Real estate and timber	885	1,392	168,211	170,488	Daily to illiquid	N/A
Commodities, oil and gas	—	—	38,066	38,066	Illiquid	N/A
Cash and cash equivalents	228,302	—	—	228,302	Daily	1
Total	\$ 317,026	505,841	1,367,126	2,189,993		
Funds held in trust by others	\$ 2,650	—	10,543	13,193	Daily to illiquid	1 - N/A

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

Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption at calendar year-end 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 eight to ten years with extensions of one to three years, and have an average remaining life of approximately six to seven years.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009  
(Dollars in thousands)

The following tables present the activities for the years ended June 30, 2010 and 2009 for the University's assets classified in Level 3:

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

  

		2009					Funds held
Level 3 roll forward	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total	in trust by others
Beginning value							
as of July 1, 2008	\$ 153,294	53,735	940,787	412,485	344,139	1,904,440	13,249
Acquisitions	10,000	10,071	62,400	70,882	52,382	205,735	—
Dispositions	—	(30,122)	(182,693)	(11,214)	(69,514)	(293,543)	—
Transfers	—	—	(26,371)	—	—	(26,371)	—
Net realized and unrealized gains (losses)	(54,867)	8,779	(155,184)	(101,133)	(120,730)	(423,135)	(2,706)
Fair value at June 30, 2009	\$ 108,427	42,463	638,939	371,020	206,277	1,367,126	10,543

The following summarizes investment return components for the years ended June 30, 2010 and 2009:

	2010	2009
Interest and dividends	\$ 9,615	26,162
Net realized and unrealized gains (losses), net of investment management and advisory fees	222,500	(726,752)
Investment return	\$ 232,115	(700,590)

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

	<u>2010</u>	<u>2009</u>
Operating:		
Endowment income appropriated	\$ 134,520	133,030
Included in other income	13,728	11,062
Nonoperating activities:		
Net investment return above (below) endowment income appropriated	<u>83,867</u>	<u>(844,682)</u>
Investment return	<u>\$ 232,115</u>	<u>(700,590)</u>

Total investment management and advisory fees were \$18,953 and \$16,497 for the years ended June 30, 2010 and 2009, respectively.

**(a) Liquidity**

Investment liquidity as of June 30, 2010 is aggregated below based on redemption or sale period:

	<u>Investment fair values</u>
Investment redemption or sale period:	
Pending	\$ 47,196
Daily	749,465
Monthly	109,288
Quarterly	299,554
Semi-annually	32,519
Subject to rolling lock-ups	485,218
Illiquid	<u>799,240</u>
Total as of June 30, 2010	<u>\$ 2,522,480</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 particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2010 was \$274,553 and \$82,844, respectively.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

#### (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.

As a result of owning derivative financial instruments, the University is subject to market risks such as changes in interest rates that arise from normal business operations. The University regularly assesses these risks and has established business strategies to provide natural offsets, supplemented by the use of derivative financial instruments to protect against the adverse effect of these and other market risks. The University has established policies, procedures, and internal controls governing the use of derivatives. The effects of investment derivatives on the University's financial statements were not material for the years ended June 30, 2010 and 2009.

#### (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 \$11,047 and \$10,543 at June 30, 2010 and 2009, 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 \$16,914 and \$2,650 at June 30, 2010 and 2009, respectively, represent bond proceeds to be utilized for construction projects or required to be held in reserve in accordance with bond agreements.

#### (4) **Endowment**

The University's endowment consists of approximately 2,500 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with endowment funds, including funds designated by the Corporation to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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



**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (49,306)	811,084	896,699	1,658,477
Corporation-designated endowment funds	356,956	52,447	—	409,403
Total endowment net assets	\$ <u>307,650</u>	<u>863,531</u>	<u>896,699</u>	<u>2,067,880</u>

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

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

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2008	\$ 1,393,647	92,729	1,291,647	2,778,023
Interest and dividends	22,960	—	—	22,960
Net realized and unrealized losses	(647,315)	(10,370)	(12,107)	(669,792)
Endowment income appropriated	(122,992)	(10,038)	—	(133,030)
Contributions	2,716	287	41,687	44,690
Transfers in	28,741	—	—	28,741
Reclassifications and other changes	(7,190)	(8,257)	11,735	(3,712)
Reclassification from adoption of UPMIFA	—	436,263	(436,263)	—
Reclassification under ASC 958-205	(362,917)	362,917	—	—
	<u>\$ 307,650</u>	<u>863,531</u>	<u>896,699</u>	<u>2,067,880</u>
Endowment net assets, June 30, 2009	\$ 307,650	863,531	896,699	2,067,880

**(a) Interpretation of Relevant Law**

The portion of donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

**(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$42,835 and \$49,306 as of June 30, 2010 and 2009, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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 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>2010</u>	<u>2009</u>
Land	\$ 56,992	53,448
Buildings and improvements	1,124,871	1,081,829
Equipment	94,847	87,635
Construction in progress	109,843	71,440
	<u>1,386,553</u>	<u>1,294,352</u>
Accumulated depreciation	<u>(566,420)</u>	<u>(516,813)</u>
Land, buildings and equipment, net	<u>\$ 820,133</u>	<u>777,539</u>

Outstanding commitments on uncompleted construction contracts total \$103,727 at June 30, 2010.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009  
(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	
				2010	2009
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	0.25% – 0.38%	Fixed	Revolving	\$ 46,800	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	7,740	9,075
Series 2001A	4.125% – 5.25%	Fixed	2023	27,595	28,165
Series 2001B	0.25% *	Variable	2032	55,340	55,340
Series 2003A	3.00% – 4.85%	Fixed	2037	43,775	44,600
Series 2003B	0.26% *	Variable	2043	44,160	44,530
Series 2004	3.10% – 4.75%	Fixed	2025	19,280	20,140
Series A 2005	0.21% *	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	—
Tax-exempt commercial paper, revolving through 2036	n/a	Fixed	Revolving	—	50,000
Brown University Taxable Bonds					
Series 2005	5.09%	Fixed	2015	17,000	17,000
Series 2009	4.57	Fixed	2019	100,000	—
Loan payable – U.S. department of education	5.50%	Fixed	2021	1,165	1,240
Total bonds, loans and notes payable				\$ 609,160	492,400

\* As of June 30, 2010

#### (a) Tax Exempt Bonds

The University's tax exempt debt, primarily Facilities Revenue Bonds, is issued through RIHEBC, a state agency serving as a conduit issuer of tax exempt debt. The University is required under certain of its financing agreements with RIHEBC to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the properties. The Revenue Bonds currently outstanding were issued primarily to finance new and on-going capital projects for research, student housing, academic and administrative buildings, and infrastructure throughout the University. In October 2009, the Series 2009 Facilities Revenue Bonds were issued to finance capital projects and to pay down tax exempt commercial paper.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009  
(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 2010 the University eliminated the balance outstanding under its tax exempt commercial program, which was renewed and is expected to be drawn upon again in the future.

Principal payments of bonds and loan payable as of June 30, 2010 for the succeeding five fiscal years ending June 30 are as follows:

2011	\$	4,185
2012		5,954
2013		7,814
2014		8,184
2015		8,574

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party and other data, the University determined that the aggregate carrying value of its debt as of June 30, 2010 and 2009 approximated its fair value.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2010, the full amount of \$40,000 was available at a rate of 1.10088%.

**(c) Interest Rate Swaps**

At June 30, 2010, the University had in place various interest-rate swap agreements to effectively convert a portion of its variable-rate bonds to fixed rates until maturity of the bonds. The swaps' notionals amortize at the same rate as the related debt principal.

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

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30	
						asset (liability)	
						2010	2009
JP Morgan (formally Bear Stearns)	06/11/2003	03/03/2008	01/09/2043	\$ 44,160	3.732%	\$ (9,944)	(7,361)
Goldman Sachs	07/07/2005	04/10/2005	01/05/2035	85,500	3.979	(9,641)	(4,373)
Goldman Sachs	15/11/2006	21/11/2006	01/09/2032	55,340	3.891	(5,870)	(3,007)
						\$ (25,455)	(14,741)

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Based on the University's current credit rating, cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25 million. The JPMorgan swap stipulates that the University maintain a minimum credit rating to avoid collateral posting requirements. The counterparties are required to maintain a minimum credit rating based on provisions contained in the individual swap agreements, which were at or above the minimum thresholds contained in the agreements as of June 30, 2010 and 2009.

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) 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 \$20,988 and \$19,437 for the years ended June 30, 2010 and 2009, 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>2010</u>	<u>2009</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 43,579	38,291
Service cost	2,079	1,806
Interest cost	2,684	2,541
Benefits paid	(1,456)	(1,326)
Actuarial loss	6,529	2,267
Projected benefit obligation at end of year	<u>\$ 53,415</u>	<u>43,579</u>

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2010 and 2009  
(Dollars in thousands)

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

	<u>2010</u>	<u>2009</u>
Discount rate	5.40%	6.24%
Rate of compensation increase	4.00	4.00

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

	<u>2010</u>	<u>2009</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 29,654	32,398
Actual return on plan assets	3,075	(5,668)
Contributions	4,500	4,250
Benefits paid	<u>(1,456)</u>	<u>(1,326)</u>
Fair value of plan assets at end of year	35,773	29,654
Projected benefit obligation at end of year	<u>(53,415)</u>	<u>(43,579)</u>
Funded status recorded in accounts payable and accrued liabilities	\$ <u>(17,642)</u>	<u>(13,925)</u>

The plan assets at June 30, 2010 and 2009 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>2010</u>	<u>2009</u>
Net periodic pension cost:		
Service cost	\$ 2,079	1,806
Interest cost	2,684	2,541
Expected return on assets	(2,191)	(2,426)
Amortization of unrecognized loss and prior service cost	<u>723</u>	<u>149</u>
Net periodic pension cost	\$ <u>3,295</u>	<u>2,070</u>

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

	<u>2010</u>	<u>2009</u>
Discount rate	6.24%	6.82%
Rate of compensation increase	4.00	4.50
Expected long-term rate of return	7.50	7.50

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2010 and 2009

(Dollars in thousands)

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2010 and 2009, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$680 and \$812, respectively, and a net unrecognized actuarial loss of \$16,667 and \$11,611, respectively. These changes affecting the funded status of the plan are included in other changes in nonoperating activities.

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

The actual asset allocation for the pension plan as of June 30, 2010 and 2009, and the weighted average asset targeted allocation are as follows:

	<b>Target</b>	<b>Actual</b>	
		<b>2010</b>	<b>2009</b>
Equity securities	65%	57%	59%
Fixed income securities	33	32	30
Cash and cash equivalents	2	11	11
Total	100%	100%	100%

The University's estimated contribution for 2011 is \$3,000.

Estimated future benefit payments as of June 30, 2010 are as follows:

	<b>Amount</b>
Fiscal year:	
2011	\$ 1,931
2012	1,974
2013	2,066
2014	2,179
2015	2,321
2016 – 2020	14,780





## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2010 and 2009

(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>2010</u>	<u>2009</u>
Instruction and departmental research	\$ 240,996	236,373
Sponsored programs	113,503	103,988
Academic and student support	124,360	116,727
Auxiliary services	87,072	92,957
Institutional support	92,861	86,502
	<u>\$ 658,792</u>	<u>636,547</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 out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

#### (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 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.

#### (12) Subsequent Events

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 8, 2010, and subsequent events have been evaluated through that date.