



**BROWN UNIVERSITY**

Financial Statements

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



**KPMG LLP**  
50 Kennedy Plaza  
Providence, RI 02903

## **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, 2008 and 2007, 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 the University as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 8, 2008

**BROWN UNIVERSITY**

## Statements of Financial Position

June 30, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 59,485	38,311
Accounts receivable and other assets	47,853	51,015
Contributions receivable, net	225,582	250,358
Notes receivable, net	32,921	32,402
Funds held in trust by others	65,783	57,143
Bond proceeds held in refunding trust	—	34,231
Investments, at fair value	3,202,668	2,907,460
Land, buildings and equipment, net	733,643	673,084
Total assets	<u>\$ 4,367,935</u>	<u>4,044,004</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 69,952	49,112
Annuity and other split-interest obligations	22,936	22,221
Deferred revenues and student deposits	21,752	22,109
Refundable advances	40,221	39,432
Liabilities associated with investments	213,401	38,339
Bond proceeds payable through refunding trust	—	34,231
Asset retirement obligations	12,708	13,478
Bonds, loans and notes payable	496,292	450,049
Total liabilities	<u>877,262</u>	<u>668,971</u>
Net assets:		
Unrestricted	1,853,085	1,781,882
Temporarily restricted	272,350	264,221
Permanently restricted	1,365,238	1,328,930
Total net assets	<u>3,490,673</u>	<u>3,375,033</u>
Total liabilities and net assets	<u>\$ 4,367,935</u>	<u>4,044,004</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2008

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 284,224	—	—	284,224
Less: University scholarships	(83,546)	—	—	(83,546)
Net tuition and fees	200,678	—	—	200,678
Grant and contracts – direct	102,142	—	—	102,142
Grant and contracts – indirect	31,089	—	—	31,089
Contributions	54,512	3,753	—	58,265
Endowment income distributed	102,217	8,027	—	110,244
Sales and services of auxiliary enterprises	80,746	—	—	80,746
Other income	22,985	956	—	23,941
Net assets released from restrictions	10,343	(10,343)	—	—
Total operating revenues	<u>604,712</u>	<u>2,393</u>	<u>—</u>	<u>607,105</u>
Operating expenses:				
Salaries and wages	291,136	—	—	291,136
Employee benefits	77,147	—	—	77,147
Purchased services	45,169	—	—	45,169
Supplies and general	77,210	—	—	77,210
Utilities	18,301	—	—	18,301
Other	32,630	—	—	32,630
Total operating expenses before interest and depreciation	541,593	—	—	541,593
Interest	19,599	—	—	19,599
Depreciation	45,080	—	—	45,080
Total operating expenses	<u>606,272</u>	<u>—</u>	<u>—</u>	<u>606,272</u>
Change in net assets from operating activities	<u>(1,560)</u>	<u>2,393</u>	<u>—</u>	<u>833</u>
Nonoperating activities:				
Contributions to long-term assets	47,539	15,438	22,000	84,977
Net investment earnings	132,198	9,511	17,663	159,372
Endowment income distributed	(102,217)	(8,027)	—	(110,244)
Other changes, net	(4,757)	(11,186)	(3,355)	(19,298)
Change in net assets from nonoperating activities	<u>72,763</u>	<u>5,736</u>	<u>36,308</u>	<u>114,807</u>
Change in accounting principle	—	—	—	—
Change in net assets	71,203	8,129	36,308	115,640
Net assets, beginning of year	1,781,882	264,221	1,328,930	3,375,033
Net assets, end of year	\$ <u>1,853,085</u>	<u>272,350</u>	<u>1,365,238</u>	<u>3,490,673</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2007

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 270,763	—	—	270,763
Less: University scholarships	(78,654)	—	—	(78,654)
Net tuition and fees	192,109	—	—	192,109
Grant and contracts – direct	99,935	—	—	99,935
Grant and contracts – indirect	30,158	—	—	30,158
Contributions	51,888	38,110	—	89,998
Endowment income distributed	90,299	7,006	—	97,305
Sales and services of auxiliary enterprises	76,387	—	—	76,387
Other income	21,418	550	—	21,968
Net assets released from restrictions	10,689	(10,689)	—	—
Total operating revenues	572,883	34,977	—	607,860
Operating expenses:				
Salaries and wages	274,405	—	—	274,405
Employee benefits	71,416	—	—	71,416
Purchased services	42,204	—	—	42,204
Supplies and general	74,598	—	—	74,598
Utilities	16,641	—	—	16,641
Other	32,480	—	—	32,480
Total operating expenses before interest and depreciation	511,744	—	—	511,744
Interest	16,459	—	—	16,459
Depreciation	42,635	—	—	42,635
Total operating expenses	570,838	—	—	570,838
Change in net assets from operating activities	2,045	34,977	—	37,022
Nonoperating activities:				
Contributions to long-term assets	19,139	24,106	58,541	101,786
Net investment earnings	440,734	17,862	39,739	498,335
Endowment income distributed	(90,299)	(7,006)	—	(97,305)
Other changes, net	(10,210)	3,367	10,897	4,054
Change in net assets from nonoperating activities	359,364	38,329	109,177	506,870
Change in accounting principle	583	—	—	583
Change in net assets	361,992	73,306	109,177	544,475
Net assets, beginning of year	1,419,890	190,915	1,219,753	2,830,558
Net assets, end of year	\$ 1,781,882	264,221	1,328,930	3,375,033

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

## Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 115,640	544,475
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in accounting principle	—	(583)
Depreciation and amortization	45,080	42,635
Net realized and unrealized gains on investments	(121,757)	(505,933)
Contributions of property and securities	(33,951)	(38,867)
Contributions restricted for long-term investment	(75,393)	(78,501)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	3,162	(4,323)
Contributions receivable, net	24,776	(24,255)
Accounts payable and accrued liabilities	14,396	16,201
Deferred revenues and student deposits	(357)	2,807
Asset retirement obligations	(770)	943
Refundable advances	789	1,238
Net cash used in operating activities	<u>(28,385)</u>	<u>(44,163)</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(99,195)	(133,394)
Purchases from the sale of investments and other sources	(5,804,193)	(2,961,280)
Sales of investments	5,839,755	2,990,910
Notes issued	(32,804)	(32,202)
Notes repaid	32,285	31,326
Change in funds held in trust by others, net	(8,640)	(13,718)
Net cash used in investing activities	<u>(72,792)</u>	<u>(118,358)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	75,393	78,501
Payments of long-term debt	(3,757)	(2,528)
Net proceeds from issuance of debt	50,000	135,667
Extinguishment of debt	—	(48,643)
Change in annuity and other split-interest obligations	715	408
Net cash provided by financing activities	<u>122,351</u>	<u>163,405</u>
Change in cash and cash equivalents	21,174	884
Cash and cash equivalents, beginning of year	<u>38,311</u>	<u>37,427</u>
Cash and cash equivalents, end of year	<u>\$ 59,485</u>	<u>38,311</u>

See accompanying notes to financial statements.

## **BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

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

#### **(a) Description of Organization**

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 6,500 undergraduate students and 2,200 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates interested 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.

The financial statements include the accounts of the John Nicholas Brown Center for the Study of American Civilization and Farview Incorporated, a real estate holding company, both of which are wholly owned subsidiaries. Brown University and these consolidated entities are collectively referred to herein as the University.

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

The financial statements of the University are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

University resources are reported for accounting purposes in separate classes of net assets based upon the existence or absence of donor-imposed restrictions. The net assets are classified as permanently restricted, temporarily restricted, or unrestricted.

Permanently restricted net assets include gifts of cash and other assets that are required to be retained permanently by the University. Generally the donors of these assets permit the University to use all or part of the investment return on these assets. Such assets are primarily included in the University's endowment funds. Pursuant to Rhode Island General Law, and subject to the provisions of the Uniform Management of Institutional Funds Act, these funds include sufficient net appreciation in order to maintain the purchasing power of the historical dollar value of the contribution.

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of the contributed funds. Temporary restrictions may expire either due to the passage of time or through actions of the University pursuant to stipulations indicated by the donor.

Unrestricted net assets are those not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the University or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as net assets released from restrictions.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

The statements of activities report the change in net assets from operating and nonoperating activities separately. Significant operating revenues include tuition and fees, gifts and net assets released from restrictions for operating use, grants and contracts, and the allocation of endowment spending in support of the University's educational programs or research conducted by the academic departments. Operating expenses include the costs of providing University programs and other activities, and are reported based on the nature of the expense incurred. Nonoperating activities primarily consist of the excess (deficiency) of long-term investment earnings over amounts utilized in operating activities, contributions and net assets released from restrictions for endowment and facilities, and other activities not in direct support of the University's annual operations.

**(c) *Cash Equivalents***

Cash equivalents may consist of money market funds and investments with maturity dates when purchased of less than 90 days, and are carried at cost, which approximates fair value.

**(d) *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. Accounts receivable and other assets are carried at net realizable value, which approximates fair value. Notes receivable consist primarily of loans to students. Such loans may have significant restrictions and long maturities, and it is not practicable to estimate their fair value.

**(e) *Investments***

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Fair value is determined on the following basis: equity and fixed-income investments are valued at the last sale price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sale price is available). Nonmarketable securities include alternative investments such as private equity, venture capital, and real estate, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations may reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ materially from the values that would have been used had a ready market existed. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

Certain of the University's investment funds and partnerships use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the University may have exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds. In addition, the University maintains certain directly held derivative financial instruments to hedge its portfolio, including exchange contracts, futures, options, and swap agreements. The portfolio is exposed to certain counterparty credit risks associated with these instruments. These risks are managed by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction, diversifying across a number of counterparties, executing standardized contracts among all parties to the transaction, and monitoring for any change in the credit standing of the counterparty during the term of the transaction. Based on its review, the University does not believe its counterparty exposures would have material adverse effect on the financial statements.

The University also participates in a repurchase agreement under which the University periodically borrows funds collateralized with certain of its securities for other investment purposes. These amounts are reflected both as investments and liabilities associated with investments on the 2008 statement of financial position. Borrowings are at a variable rate, which was 2.12% at June 30, 2008.

Investments also include gift annuities and charitable remainder trusts. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the University in accordance with donor intentions. The assets are recorded at fair value and liabilities, which are included in accounts payable and accrued liabilities, are recorded to recognize the present value of estimated future payments due to beneficiaries.

**(f) *Endowment***

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 applicable endowment for the three calendar years preceding the budget year, with the objective being to hold the spending rate to no more than 5% average over time. Applicable endowments include pooled quasi-endowment and true endowment funds, as well as separately invested funds and funds held in trust by others, the income of which accrues to the University. Excluded are funds where the income accrues to others (life income funds) and funds where the income must be added to principal.

**(g) *Split-Interest Agreements***

Charitable gift annuity agreements reflect transfers of assets by donors to the University in exchange for a promise to receive payments over a period specified in the agreement. At the time of the agreement, discount rates and actuarial assumptions are determined by management and used to calculate the present value of the future payments (annuity liability). The difference between the assets transferred from the donor and the related annuity liability is recognized as a contribution. Liabilities are adjusted over the term of the agreements for changes in actuarial assumptions and, as applicable, asset values.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

The University is also a beneficiary of certain irrevocable perpetual trusts. The funds in the trusts are managed by trustees other than the University. The University is entitled to receive all or a specified percentage of the annual net income earned from the assets of the trusts, which primarily are restricted for scholarships. The University, however, will never receive the assets held in the trust.

**(h) Grants and Contracts**

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.

**(i) Tax Exempt Status**

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to the appropriate sections of the Code.

**(j) Contributions**

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received are measured at their fair values and are reported as restricted or unrestricted revenues based upon the existence or absence of donor-imposed restrictions. Bequest intentions and conditional promises are not recorded in the University's financial statements.

**(k) 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 the appraised 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.

**(l) 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.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

**(m) 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.

**(n) Use of Estimates**

The preparation of financial statements in accordance with GAAP 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) Changes in Accounting Principles**

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). Under FAS 158, the University was required, effective June 30, 2007, to recognize the funded status of its defined benefit pension plan, measured as the difference between the fair value of the plan assets and the projected benefit obligation, in its statement of financial position. Accordingly, the University recorded a decrease in its pension liability and an increase in unrestricted net assets in the amount of \$583.

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. A tax position is measured at the largest amount of benefit that is greater than a 50% likely of being realized upon settlement. The adoption of FIN 48 did not materially affect the University's financial statements.

**(p) Reclassifications**

Certain 2007 financial information has been reclassified to conform to the 2008 presentation.

**(2) Accounts, Notes and Contributions Receivable**

Accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$721 and \$649, respectively, at June 30, 2008, and \$753 and \$615, respectively, at June 30, 2007.

The University has recorded unconditional contributions receivable of \$225,582 and \$250,358 as of June 30, 2008 and 2007, respectively. These amounts are presented net of an allowance for uncollectible contributions and are discounted at risk-free interest rates based on when the promise is expected to be received to reflect present value.

**BROWN UNIVERSITY**

## Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

The following summary represents the unconditional contributions receivable recorded as of June 30:

	<u>2008</u>	<u>2007</u>
Contributions expected to be received:		
In one year or less	\$ 50,421	68,026
Between one and five years	197,608	156,411
In more than five years	<u>20,778</u>	<u>77,032</u>
Gross contributions receivable	268,807	301,469
Discount and allowance for uncollectibles	<u>(43,225)</u>	<u>(51,111)</u>
Contributions receivable, net	<u>\$ 225,582</u>	<u>250,358</u>

**(3) Investments**

The fair values of investments held as of June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 473,862	378,160
Public equity	1,058,361	1,047,203
Hedged strategies	902,042	879,634
Private equity	419,516	289,740
Real assets	<u>348,887</u>	<u>312,723</u>
Total investments, at fair value	<u>\$ 3,202,668</u>	<u>2,907,460</u>

Certain investments in public equity and hedged strategies are held through commingled limited partnership and trust entities primarily investing in publicly traded securities.

The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions will be determined by the general partners. As of June 30, 2008, the University has unfunded commitments of \$689,701.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

(a) ***Long-Term Pooled Investments***

Certain endowment and other investments are pooled on a fair value basis with each participating fund owning shares in the pool. Additions or withdrawals are based on the fair value of the pooled investments. The investment activity for the pooled investments is summarized as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Investment income, net of fees	\$ 16,526	7,216
Net realized gains	368,525	186,792
Net unrealized (depreciation) appreciation	<u>(217,033)</u>	<u>299,971</u>
Total	<u>\$ 168,018</u>	<u>493,979</u>

The change in the fair value of the long-term pooled funds is shown below:

Fair value at June 30, 2007	\$ 2,761,784
Amount distributed for operations	(110,244)
Investment income, net of fees	16,526
Net realized and unrealized appreciation on investments	151,492
New gifts	61,794
Operating funds invested in long-term pool	52,067
Net transfers	<u>(799)</u>
Fair value at June 30, 2008	<u>\$ 2,932,620</u>

(b) ***Funds Held in Trust by Others***

Funds held in trust by others represent funds that are held and administered by outside trustees. The administration of endowment funds held in trust in perpetuity of \$13,249 and \$14,530 at June 30, 2008 and 2007, respectively, is at the direction of the donor; the income from these funds inures to the benefit of the University. The plant funds held in trust of \$52,534 and \$42,613 at June 30, 2008 and 2007, respectively, are bond proceeds which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures and amounts held in reserve.

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Notes to Financial Statements  
June 30, 2008 and 2007  
(Dollars in thousands)

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

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

	<u>2008</u>	<u>2007</u>
Land	\$ 47,214	46,827
Buildings and improvements	990,627	916,598
Equipment	79,342	78,369
Construction in progress	<u>84,860</u>	<u>65,442</u>
	1,202,043	1,107,236
Accumulated depreciation	<u>(468,400)</u>	<u>(434,152)</u>
Land, buildings and equipment, net	<u>\$ 733,643</u>	<u>673,084</u>

Outstanding commitments on uncompleted construction contracts total \$45,348 at June 30, 2008.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

#### (5) 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	
				2008	2007
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	2.17 – 2.40%	Fixed	revolving	\$ 46,800	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	10,345	11,550
Series 2001A	3.90% – 5.25%	Fixed	2023	28,715	29,245
Series 2001B	1.20% *	Variable	2032	55,340	55,340
Series 2003A	2.35% – 4.85%	Fixed	2037	45,410	46,200
Series 2003B	1.45% *	Variable	2043	44,880	45,225
Series 2004	2.50% – 4.75%	Fixed	2025	20,980	21,800
Series A 2005	1.45% *	Variable	2035	85,500	85,500
Series 2007	4.25% – 5.00%	Fixed	2037	90,010	90,010
Tax-Exempt Commercial Paper, revolving through 2036	1.70% – 1.80%	Fixed	revolving	50,000	—
Brown University Taxable Bonds Series 2005	5.09%	Fixed	2015	17,000	17,000
Loan payable – U.S. Department of Education	5.50%	Fixed	2021	1,312	1,379
Total bonds, loans and notes payable				\$ 496,292	450,049

\* As of June 30, 2008

#### ***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.

The Series 2007 Facilities Revenue Bonds were issued to refund a substantial portion of the Series 1998 Bonds, and all of the outstanding \$15,000 Tax Exempt Commercial Paper issued earlier in the year, and to finance various infrastructure improvements throughout the University. The Series 2007 bonds are comprised of both serial and term fixed rate bonds, with final maturity on September 1, 2037.

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### Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

#### *Taxable Bonds and Other Debt*

The Brown University Taxable Bonds, Series 2005 were issued to finance a portion of the acquisition cost of an office building. 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 2006, the University implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to \$50,000 in revolving commercial paper.

Interest paid in 2008 and 2007 was \$17,573 and \$16,314, respectively. Principal payments of bonds and loan payable as of June 30, 2008 for the succeeding five fiscal years ending June 30 are as follows:

2009	\$	3,891
2010		4,035
2011		4,185
2012		5,954
2013		7,814

The University's bonds, loans and notes payable are stated at face value. Fair value has been calculated by determining the net present values of future cash outlays under such debt agreements using appropriate market interest rates, comparable debt and other assumptions. The total estimated fair value of the University's bonds, loans and notes payable approximated carrying value at June 30, 2008 and 2007.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2008, the full amount of \$40,000 was available. The interest rate was 3.21% at June 30, 2008.

#### *Interest Rate Swaps*

The University utilizes interest-rate swap agreements with counterparties to effectively convert a portion of its total variable-rate debt to fixed rates and for other hedging purposes. Changes in the swaps' fair value are recognized as nonoperating activities. Differences between fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense in operations. The fair value of the swap instruments represents the estimated benefit or cost to cancel the agreements as of the reporting dates, and is based on option pricing models that consider interest rates and other market factors.

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(Dollars in thousands)

Following is a summary of interest rate swaps (variable rate based on USD-BMA Municipal Swap Index) with financial institution counterparties issued in conjunction with the University's long-term debt:

<u>Trade/effective date</u>	<u>Notional amount</u>	<u>Maturity date</u>	<u>Purpose</u>	<u>Fair value at June 30</u>	
				<u>2008</u>	<u>2007</u>
November 6, 2003	\$ 44,880	September 1, 2043	Swap variable rate on Series 2003B bonds for fixed rate of 3.732%	\$ (3,433)	159
July 7, 2005	85,500	May 1, 2035	Swap variable rate on Series A 2005 bonds for fixed rate of 3.979%	(1,363)	3,540
November 15, 2006	55,340	September 1, 2032	Swap variable rate on Series 2001B bonds for fixed rate of 3.891%	(1,174)	1,443
Total (liability) asset recognized				\$ <u>(5,970)</u>	<u>5,142</u>

**(6) Retirement Benefits**

The University participates in several different 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 \$19,942 and \$18,391 for the years ended June 30, 2008 and 2007, respectively. The University has no liability for unfunded pension costs under these plans.

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 discussed in note 1, effective June 30, 2007, the University adopted FAS No. 158.

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

	<u>2008</u>	<u>2007</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 35,979	33,189
Service cost	1,728	1,506
Interest cost	2,228	2,081
Benefits paid	(1,253)	(1,179)
Actuarial (gain) loss	(391)	382
Projected benefit obligation at end of year	<u>\$ 38,291</u>	<u>35,979</u>

The projected benefit obligation was determined using the following assumptions for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Discount rate	6.82%	6.32%
Rate of compensation increase	4.50	4.50

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

	<u>2008</u>	<u>2007</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 33,115	28,586
Actual return on plan assets	(839)	4,508
Contributions	1,375	1,200
Benefits paid	(1,253)	(1,179)
Fair value of plan assets at end of year	<u>\$ 32,398</u>	<u>33,115</u>
Funded status recorded in accounts payable and accrued liabilities	<u>\$ (5,893)</u>	<u>(2,864)</u>
	<u>2008</u>	<u>2007</u>
Net periodic pension cost:		
Service cost	\$ 1,728	1,506
Interest cost	2,228	2,081
Expected return on assets	(2,494)	(2,163)
Amortization of unrecognized prior service cost	149	171
Net periodic pension cost	<u>\$ 1,611</u>	<u>1,595</u>

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

	<u>2008</u>	<u>2007</u>
Discount rate	6.32%	6.41%
Rate of compensation increase	4.50	4.50
Expected long term rate of return	7.50	7.50

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

As of June 30, 2008, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$961 and a net unrecognized actuarial loss of \$1,250.

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 serve to reduce administrative costs.

The actual asset allocation target for the pension plan as of June 30, 2008 and 2007, and the weighted average asset targeted allocation for 2008 by asset category are as follows:

	<u>Target 2008</u>	<u>Actual</u>	
		<u>2008</u>	<u>2007</u>
Equity securities	65%	63%	67%
Fixed income securities	33	36	32
Cash and cash equivalents	2	1	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The estimated employer contribution for 2009 is \$1,500.

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Estimated future benefit payments as of June 30, 2008 are as follows:

	<u>Amount</u>
Fiscal year:	
2009	\$ 1,644
2010	1,729
2011	1,824
2012	1,908
2013	2,008
2014 – 2018	12,643

**(7) Net Assets**

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

		<u>2008</u>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating:					
Undesignated, departmental funds	\$	59,624	—	—	59,624
University designated		106,534	—	—	106,534
Donor restricted		—	78,057	—	78,057
Facilities and equipment		284,574	101,564	—	386,138
Student loans		8,706	—	8,533	17,239
Endowment and life income		1,393,647	92,729	1,356,705	2,843,081
Total net assets	\$	<u>1,853,085</u>	<u>272,350</u>	<u>1,365,238</u>	<u>3,490,673</u>

		<u>2007</u>			
		<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating:					
Undesignated, departmental funds	\$	57,304	—	—	57,304
University designated		98,030	—	—	98,030
Donor restricted		—	82,955	—	82,955
Facilities and equipment		263,989	92,437	—	356,426
Student loans		8,553	—	8,033	16,586
Endowment and life income		1,354,006	88,829	1,320,897	2,763,732
Total net assets	\$	<u>1,781,882</u>	<u>264,221</u>	<u>1,328,930</u>	<u>3,375,033</u>

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**(8) 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>2008</u>	<u>2007</u>
Instruction and departmental research	\$ 218,781	200,450
Sponsored programs	101,264	98,497
Academic and student support	111,015	109,085
Auxiliary services	86,229	82,384
Institutional support	88,983	80,422
	<u>\$ 606,272</u>	<u>570,838</u>

**(9) 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.