



**BROWN UNIVERSITY**

Financial Statements

June 30, 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 statement of financial position of Brown University (the University) as of June 30, 2007, and the related statements of activities, cash flows and expenses by function for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2006 financial statements and, in our report dated October 20, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

October 25, 2007

**BROWN UNIVERSITY**

## Statement of Financial Position

June 30, 2007

(with comparative information as of June 30, 2006)

(Thousands of dollars)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Cash and cash equivalents	\$ 38,311	37,427
Accounts receivable and other assets	51,015	46,692
Notes receivable, net	32,402	31,526
Contributions receivable, net	250,358	226,103
Investments, at fair value	2,931,926	2,392,684
Funds held in trust by others	57,143	43,425
Bond proceeds held in refunding trust	34,231	—
Land, buildings and equipment, net	673,084	582,813
Total assets	<u>\$ 4,068,470</u>	<u>3,360,670</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 111,734	72,532
Annuity and other split-interest obligations	22,404	21,996
Deferred revenues and student deposits	22,109	19,302
Refundable advances	39,432	38,194
Asset retirement obligations	13,478	12,535
Bonds payable through refunding trust	34,231	—
Bonds, loans and notes payable	450,049	365,553
Total liabilities	<u>693,437</u>	<u>530,112</u>
Net assets:		
Unrestricted	1,781,882	1,419,890
Temporarily restricted	264,221	190,915
Permanently restricted	1,328,930	1,219,753
Total net assets	<u>3,375,033</u>	<u>2,830,558</u>
Total liabilities and net assets	<u>\$ 4,068,470</u>	<u>3,360,670</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**  
Statement of Activities  
Year ended June 30, 2007  
(with comparative totals for the year ended June 30, 2006)  
(Thousands of dollars)

	2007			Total	2006 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenues:					
Tuition and fees	\$ 270,763	—	—	270,763	257,496
Less University scholarships	(78,654)	—	—	(78,654)	(71,040)
	192,109	—	—	192,109	186,456
Grants and contracts – direct	99,935	—	—	99,935	104,387
Grants and contracts – indirect	30,158	—	—	30,158	29,288
Contributions for operating use	51,888	38,110	—	89,998	56,120
Endowment income distributed	90,299	7,006	—	97,305	85,826
Sales and services of auxiliary enterprises	76,387	—	—	76,387	70,738
Other income	10,850	550	—	11,400	16,456
Net assets released from restrictions	10,689	(10,689)	—	—	—
Total operating revenues	562,315	34,977	—	597,292	549,271
Operating expenses:					
Instruction and departmental research	200,450	—	—	200,450	189,928
Sponsored programs	98,497	—	—	98,497	99,569
Academic and student support	109,085	—	—	109,085	102,413
Institutional support	80,422	—	—	80,422	76,328
Auxiliary services	82,384	—	—	82,384	72,155
Total operating expenses	570,838	—	—	570,838	540,393
Change in net assets from operating activities	(8,523)	34,977	—	26,454	8,878
Nonoperating activities:					
Contributions to long-term assets	19,139	24,106	58,541	101,786	120,825
Net investment earnings	451,302	17,862	39,739	508,903	271,453
Endowment income distributed	(90,299)	(7,006)	—	(97,305)	(85,826)
Change in value of split interest agreements	(40)	(3,359)	3,826	427	57,441
Other changes, net	(10,170)	6,726	7,071	3,627	7,255
Change in net assets from nonoperating activities	369,932	38,329	109,177	517,438	371,148
Changes in accounting principles	583	—	—	583	(11,910)
Change in net assets	361,992	73,306	109,177	544,475	368,116
Net assets, beginning of year	1,419,890	190,915	1,219,753	2,830,558	2,462,442
Net assets, end of year	\$ 1,781,882	264,221	1,328,930	3,375,033	2,830,558

See accompanying notes to financial statements.

**BROWN UNIVERSITY**  
Statement of Cash Flows  
Year ended June 30, 2007  
(with comparative information for the year ended June 30, 2006)  
(Thousands of dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 544,475	368,116
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in accounting principles	(583)	11,910
Depreciation and amortization	42,635	32,552
Net realized and unrealized gains on investments	(505,933)	(279,266)
Contributions of property and securities	(38,867)	(33,567)
Contributions restricted for long-term investment	(78,501)	(42,117)
Changes in assets and liabilities:		
Accounts receivable and other assets	(4,323)	7,944
Contributions receivable, net	(24,255)	(52,837)
Accounts payable and accrued liabilities	16,201	(2,968)
Deferred revenues and student deposits	2,807	3,914
Asset retirement obligations	943	—
Refundable advances	1,238	901
Net cash (used in) provided by operating activities	<u>(44,163)</u>	<u>14,582</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(133,394)	(121,600)
Purchases of investments	(2,961,280)	(2,562,129)
Sales of investments	2,990,910	2,617,152
Notes issued	(32,202)	(32,723)
Notes repaid	31,326	34,367
Change in funds held in trust, net	(13,718)	(26,117)
Net cash used in investing activities	<u>(118,358)</u>	<u>(91,050)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	78,501	42,117
Payments of long-term debt	(2,528)	(18,598)
Net proceeds from issuance of bonds	135,667	134,515
Extinguishment of debt	(48,643)	—
Change in annuity and other split-interest obligations	408	(53,801)
Net cash provided by financing activities	<u>163,405</u>	<u>104,233</u>
Change in cash and cash equivalents	884	27,765
Cash and cash equivalents, beginning of year	<u>37,427</u>	<u>9,662</u>
Cash and cash equivalents, end of year	<u>\$ 38,311</u>	<u>37,427</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Expenses by Function

Year ended June 30, 2007

(with summarized comparative information for the year ended June 30, 2006)

(Thousands of dollars)

2007											
	Instruction and Departmental Research	Sponsored Programs	Academic and Student Support			Institutional Support		Auxiliary Services	Operation and Maintenance of Plant	Total	2006 Total
			Libraries and Acad Support	Computing and Info Services	Student Services	General and Administrative	Advancement and Univ Relations				
Expenses:											
Salaries and wages	\$ 115,370	47,755	10,639	9,020	22,490	28,719	14,017	14,475	11,920	274,405	260,180
Employee benefits	26,437	10,709	3,127	2,714	4,431	10,920	4,227	3,706	5,145	71,416	69,462
Purchased services	8,057	14,905	312	331	1,868	6,486	1,093	4,928	4,224	42,204	39,866
Supplies and general Utilities	10,840	6,442	9,130	3,719	10,111	1,191	2,277	14,483	3,223	61,416	63,043
Travel	3,539	3,522	185	207	3,053	1,597	700	324	55	16,641	17,101
Other expenses	9,807	1,613	793	354	4,839	2,972	2,892	4,082	5,128	13,182	12,432
Subtotal	174,050	84,946	24,186	16,345	46,792	51,885	25,206	41,998	46,336	32,480	494,538
Interest expense	4,138	2,124	1,631	223	1,503	364	158	6,318	—	16,459	13,303
Plant expense allocation	11,650	5,980	4,592	629	4,230	1,025	445	17,785	(46,336)	—	—
Depreciation	10,612	5,447	4,527	573	3,854	934	405	16,283	—	42,635	32,552
2007 total	\$ 200,450	98,497	34,936	17,770	56,379	54,208	26,214	82,384	—	570,838	
2006 total	\$ 189,928	99,569	32,000	18,232	52,181	50,402	25,926	72,155	—	—	540,393

See accompanying notes to financial statements.

# BROWN UNIVERSITY

## Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

### (1) Summary of Significant Accounting Policies

#### *Description of Organization*

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 5,900 undergraduate students and 1,850 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.

#### *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 Corporation 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, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

The Statement of Activities reports the change in net assets from operating and nonoperating activities separately. 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 by functional categories, after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness and depreciation. Nonoperating activities primarily consist of the excess 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.

### ***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.

### ***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.

### ***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, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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 controlled 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 its counterparty during the life of the transaction.

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.

### ***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.

### ***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.

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.

# **BROWN UNIVERSITY**

## Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

### ***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.

### ***Tax Exempt Status***

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

### ***Contributions***

Contributions, including unconditional promises to give, are recognized as revenues or gains in the period received. Contributions received are measured at their fair values and are reported as restricted or unrestricted support based upon the existence or absence of donor-imposed restrictions. Contributions made towards long-lived assets are reported as temporarily restricted until expended. Contributions that are expected to be released from restrictions within the year are classified as increases in unrestricted net assets.

Contributions received in the form of bequest intentions are generally conditional and therefore not recorded in the University's financial statements. Such gifts are identified as conditional pledges until the passage of time or events making them unconditional take place.

### ***Land, Buildings and Equipment***

Land, buildings and equipment are stated at cost of acquisition or construction (including construction financing) or, if received as a gift, at the appraised value at the time of receipt, 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.

### ***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, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

### ***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.

### ***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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Changes in Accounting Principles***

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (FAS 158), *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under FAS 158, the University is 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 has recorded a decrease in pension liability and an increase in unrestricted net assets in the amount of \$583.

In March 2005, FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to the legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets are required to be accrued. The University identified asbestos abatement as a conditional asset retirement obligation and calculated the liability using a per square foot estimate based on historical experience. Accordingly, the University adopted FIN 47 effective July 1, 2005, recorded a liability of \$11,910, and recorded as a reduction of unrestricted net assets a cumulative effect of change in accounting principle.

### ***Prior Year Financial Information***

While comparative information is not required under GAAP, the University believes that this information is useful and has included comparative financial information from the financial statements for 2006. This summarized information is not intended to be a full presentation in conformity with GAAP, which would require certain additional information. Accordingly, such information should be read in conjunction with the University's audited financial statements for the year ended June 30, 2006. In addition, certain 2006 comparative financial information has been reclassified to conform to the 2007 presentation.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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

Accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$753 and \$615, respectively, at June 30, 2007, and \$727 and \$594, respectively, at June 30, 2006.

The University has recorded unconditional contributions receivable of \$250,358 and \$226,103 as of June 30, 2007 and 2006, respectively. These amounts are presented net of an allowance for uncollectible contributions and are discounted at risk-free interest rates when the promise is received to record at present value.

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

	<u>2007</u>	<u>2006</u>
Contributions expected to be received:		
In one year or less	\$ 68,026	109,489
Between one and five years	156,411	130,881
In more than five years	77,032	17,471
	<u>301,469</u>	<u>257,841</u>
Gross contributions receivable		
Discount and allowance for uncollectibles	<u>(51,111)</u>	<u>(31,738)</u>
Contributions receivable, net	<u>\$ 250,358</u>	<u>226,103</u>

**(3) Investments**

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

	<u>2007</u>	<u>2006</u>
Cash and fixed income	\$ 378,437	387,537
Public equity	1,047,203	805,455
Hedged strategies	895,440	782,974
Private equity	298,122	180,725
Real assets	312,724	235,993
	<u>2,931,926</u>	<u>2,392,684</u>
Total investments, at fair value		

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, 2007, the University has unfunded commitments of \$512,456.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

***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 nominal fair value per share was \$18.9035 and \$16.1536 at June 30, 2007 and 2006, respectively. The investment activity for the pooled investments is summarized as follows for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Investment income, net of fees	\$ 7,216	19,183
Net realized gains	162,326	130,150
Net unrealized appreciation	<u>324,437</u>	<u>124,939</u>
Total	<u>\$ 493,979</u>	<u>274,272</u>

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

Fair value at June 30, 2006	\$ 2,291,242
Amount distributed for operations	(97,305)
Investment income, net of fees	7,216
Net gains and unrealized appreciation on investments	486,763
New gifts	86,439
Operating funds invested in long-term pool	1,600
Transfer of gift annuities	(15,012)
Net transfers	<u>841</u>
Fair value at June 30, 2007	<u>\$ 2,761,784</u>

***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 \$14,530 and \$12,940 at June 30, 2007 and 2006, 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 \$42,613 and \$30,485 at June 30, 2007 and 2006, respectively, are bond proceeds which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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

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

	<u>2007</u>	<u>2006</u>
Land	\$ 46,827	26,564
Buildings and improvements	916,598	725,640
Equipment	78,369	71,125
Construction in progress	65,442	152,433
	<u>1,107,236</u>	<u>975,762</u>
Accumulated depreciation	<u>(434,152)</u>	<u>(392,949)</u>
Land, buildings and equipment, net	<u>\$ 673,084</u>	<u>582,813</u>

Outstanding commitments on uncompleted construction contracts total \$35,608 at June 30, 2007.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

**(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	
				2007	2006
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	5.29%	Fixed	—	\$ 46,800	16,000
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	11,550	46,485
Series 2001A	3.70% - 5.25%	Fixed	2023	29,245	29,755
Series 2001B	3.68%	Variable	2032	55,340	55,340
Series 2003A	2.00% - 4.85%	Fixed	2037	46,200	46,200
Series 2003B	3.73%	Variable	2043	45,225	45,225
Series 2004	2.00% - 4.75%	Fixed	2025	21,800	22,605
Series A 2005	3.73%	Variable	2035	85,500	85,500
Series 2007	4.25% - 5.00%	Fixed	2037	90,010	—
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	1,379	1,443
Total bonds, loans and notes payable				\$ 450,049	365,553

***Tax Exempt Bonds***

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.

In June 2007, the Series 2007 Facilities Revenue Bonds were issued to refund a substantial portion of the Series 1998 Bonds, 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.

In October 2005, the Series A 2005 Facilities Revenue Bonds were issued to finance work on a variety of new and ongoing capital projects for research, academic and administrative buildings, and infrastructure throughout the University. The bonds currently bear interest at a variable rate determined weekly and paid to bondholders on a monthly basis.

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***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.

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>2007</u>	<u>2006</u>
November 6, 2003	\$ 45,225	September 1, 2043	Swap variable rate on Series 2003B bonds for fixed rate of 3.732%	\$ 159	187
July 7, 2005	85,500	May 1, 2035	Swap variable rate on Series A 2005 bonds for fixed rate of 3.979%	3,540	6,087
November 15, 2006	55,340	September 1, 2032	Swap variable rate on Series 2001B bonds for fixed rate of 3.891%	1,443	—
Total asset recognized				\$ <u>5,142</u>	<u>6,274</u>

***Taxable Bonds and Other Debt***

In November 2005, 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. As of June 30, 2007, all of the outstanding commercial paper is Taxable Standard Commercial Paper Notes, Series A.

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In December 2006, the University also implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to \$50,000 in notes. As of June 30, 2007, no tax-exempt commercial paper was outstanding.

Interest paid in 2007 and 2006 was \$16,459 and 13,303, respectively. Principal payments of bonds and loan payable as of June 30, 2007 for the succeeding five fiscal years ending June 30 are as follows:

2008	\$	3,758
2009		3,891
2010		4,035
2011		4,185
2012		5,954

The University's bonds, loans and notes payable are stated at face value. Fair value has been calculated for disclosure purposes 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 values at June 30, 2007 and 2006 were \$484,050 and \$377,788, respectively.

The University has a revolving line of credit available of up to \$40,000. As of June 30, 2007, the full amount of \$40,000 was available. The interest rate was 6.07%, at June 30, 2007.

**(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 \$18,391 and \$17,953 for the years ended June 30, 2007 and 2006, 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 June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 33,189	37,064
Service cost	1,506	1,792
Interest cost	2,081	1,901
Benefits paid	(1,179)	(1,147)
Changes in actuarial assumptions	382	(6,421)
Projected benefit obligation at end of year	\$ <u>35,979</u>	<u>33,189</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.32%	6.41%
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>2007</u>	<u>2006</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 28,586	26,397
Actual return on plan assets	4,508	2,266
Contributions	1,200	1,070
Benefits paid	(1,179)	(1,147)
Fair value of plan assets at end of year	\$ <u>33,115</u>	<u>28,586</u>
Funded status	\$ (2,864)	(4,603)
Unrecognized prior service cost	—	879
Unrecognized net loss	—	672
Accrued pension cost	\$ <u>(2,864)</u>	<u>(3,052)</u>

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	<u>2007</u>	<u>2006</u>
Net periodic pension cost:		
Service cost	\$ 1,506	1,792
Interest cost	2,081	1,901
Expected return on assets	(2,163)	(1,988)
Amortization of unrecognized net loss	—	281
Amortization of unrecognized prior service cost	171	227
Net periodic pension cost	<u>\$ 1,595</u>	<u>2,213</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.41%	5.25%
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, 2007, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$1,110 and a net unrecognized actuarial gain of \$1,693. The net of these two amounts, \$583, appears on the 2007 statement of activities as the effect of a change in accounting principle increasing unrestricted net assets.

The effects of applying FAS 158 on the University's financial position as of June 30, 2007 were as follows:

	<u>Before FAS 158</u>	<u>After FAS 158</u>
Accrued pension cost	\$ 3,447	\$ 2,864
Total liabilities	\$ 694,020	\$ 693,437
Total net assets	\$ 3,374,450	\$ 3,375,033

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.

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The actual asset allocation target for the pension plan as of June 30, 2007 and 2006, and the weighted average asset targeted allocation for 2007 by asset category are as follows:

	<b>Target 2007</b>	<b>Actual</b>	
		<b>2007</b>	<b>2006</b>
Equity securities	65%	67%	57%
Fixed income securities	33%	32%	31
Real estate	—%	—%	11
Cash and cash equivalents	2%	1%	1
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Information about the expected cash flows for the Plan follows:

Estimated employer contributions:	
2008	\$ 1,400

Estimated future benefit payments as of June 30, 2007 are as follows:

<u>Fiscal year:</u>	<u>Amount</u>
2008	\$ 1,560
2009	1,585
2010	1,651
2011	1,733
2012	1,815
2013 - 2017	10,938

**(7) Net Assets**

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

	<b>2007</b>			<b>2006 Total</b>
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	
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
<b>Total net assets</b>	<b>\$ 1,781,882</b>	<b>264,221</b>	<b>1,328,930</b>	<b>3,375,033</b>

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**(8) 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.