BROWN UNIVERSITY

Financial Statements

June 30, 2014 and 2013

(With Independent Auditors’ Report Thereon)
Independent Auditors’ Report

The President and Corporation
Brown University:

We have audited the accompanying financial statements of Brown University, which comprise the balance sheets as of June 30, 2014 and 2013, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

October 24, 2014

KPMG LLP
## BROWN UNIVERSITY
### Balance Sheets
June 30, 2014 and 2013
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Assets</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$25,546</td>
<td>14,009</td>
</tr>
<tr>
<td>Receivables for investments sold</td>
<td>12,232</td>
<td>21,287</td>
</tr>
<tr>
<td>Accounts receivable and other assets</td>
<td>47,697</td>
<td>38,535</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>159,998</td>
<td>146,051</td>
</tr>
<tr>
<td>Notes receivable, net</td>
<td>32,133</td>
<td>32,960</td>
</tr>
<tr>
<td>Funds held in trust by others</td>
<td>114,239</td>
<td>66,463</td>
</tr>
<tr>
<td>Investments</td>
<td>3,485,789</td>
<td>3,076,163</td>
</tr>
<tr>
<td>Land, buildings and equipment, net</td>
<td>1,048,118</td>
<td>1,019,875</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$4,925,752</td>
<td>4,415,343</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$ 56,724</td>
<td>46,182</td>
</tr>
<tr>
<td>Liabilities associated with investments</td>
<td>8,056</td>
<td>7,276</td>
</tr>
<tr>
<td>Student deposits and grant advances</td>
<td>58,767</td>
<td>52,913</td>
</tr>
<tr>
<td>Federal student loan advances</td>
<td>24,428</td>
<td>24,590</td>
</tr>
<tr>
<td>Split-interest obligations</td>
<td>18,737</td>
<td>26,640</td>
</tr>
<tr>
<td>Other long-term obligations</td>
<td>54,205</td>
<td>54,242</td>
</tr>
<tr>
<td>Bonds, loans and notes payable</td>
<td>852,088</td>
<td>751,335</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,073,005</td>
<td>963,178</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,002,498</td>
<td>934,271</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>1,516,971</td>
<td>1,262,860</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>1,333,278</td>
<td>1,255,034</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>3,852,747</td>
<td>3,452,165</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$4,925,752</td>
<td>4,415,343</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
# BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

## Unrestricted Temporarily Restricted Permanently Restricted Total

<table>
<thead>
<tr>
<th>Operating revenues:</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees</td>
<td>$428,890</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Less university scholarships</td>
<td>(153,424)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net tuition and fees</td>
<td>275,466</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grants and contracts – direct</td>
<td>110,528</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Grants and contracts – indirect</td>
<td>36,971</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Contributions</td>
<td>74,324</td>
<td>18,715</td>
<td>-</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>125,366</td>
<td>10,101</td>
<td>-</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises</td>
<td>87,311</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other income</td>
<td>32,523</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>9,667</td>
<td>(9,667)</td>
<td>-</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>752,156</td>
<td>19,149</td>
<td>-</td>
</tr>
</tbody>
</table>

## Operating expenses:

| Salaries and wages | 313,076 | - | - | 313,076 |
| Employee benefits | 95,299 | - | - | 95,299 |
| Graduate student support | 62,189 | - | - | 62,189 |
| Purchased services | 67,874 | - | - | 67,874 |
| Supplies and general | 104,857 | - | - | 104,857 |
| Utilities | 18,787 | - | - | 18,787 |
| Other | 18,748 | - | - | 18,748 |
| Interest | 27,093 | - | - | 27,093 |
| Operating expenses before depreciation | 707,923 | - | - | 707,923 |
| Net change from operating activities before depreciation | 44,233 | 19,149 | - | 63,382 |
| Depreciation | 66,655 | - | - | 66,655 |
| Change in net assets from operating activities | (22,422) | 19,149 | - | (3,273) |

## Nonoperating activities:

| Contributions | 5,670 | 18,786 | 72,720 | 97,176 |
| Net investment return | 113,036 | 325,484 | 6,076 | 444,596 |
| Endowment return appropriated | (22,255) | (113,212) | - | (135,467) |
| Other changes, net | (11,151) | 9,253 | (552) | (2,450) |
| Net assets released from restrictions | 5,349 | (5,349) | - | - |
| Change in net assets from nonoperating activities | 90,649 | 234,962 | 78,244 | 403,855 |
| Change in net assets | 68,227 | 254,111 | 78,244 | 400,582 |
| Net assets, beginning of year | 934,271 | 1,262,860 | 1,255,034 | 3,452,165 |
| Net assets, end of year | $1,002,498 | 1,516,971 | 1,333,278 | 3,852,747 |

See accompanying notes to financial statements.
BROWN UNIVERSITY
Statement of Activities
Year ended June 30, 2013
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$ 400,020</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Less university scholarships</td>
<td>(138,398)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net tuition and fees</td>
<td>261,622</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Grants and contracts – direct</td>
<td>121,931</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Grants and contracts – indirect</td>
<td>40,355</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Contributions</td>
<td>55,527</td>
<td>14,978</td>
<td>—</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>119,966</td>
<td>5,892</td>
<td>—</td>
</tr>
<tr>
<td>Sales and services of auxiliary enterprises</td>
<td>84,947</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other income</td>
<td>31,752</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>3,137</td>
<td>(3,137)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total operating revenues</strong></td>
<td>719,237</td>
<td>17,733</td>
<td>—</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>297,094</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>92,268</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Graduate student support</td>
<td>58,869</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Purchased services</td>
<td>63,320</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Supplies and general</td>
<td>95,355</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Utilities</td>
<td>17,567</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>18,797</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Interest</td>
<td>22,495</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Operating expenses before depreciation</strong></td>
<td>665,765</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net change from operating activities before depreciation</strong></td>
<td>53,472</td>
<td>17,733</td>
<td>—</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>66,597</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets from operating activities</strong></td>
<td>(13,125)</td>
<td>17,733</td>
<td>—</td>
</tr>
<tr>
<td><strong>Nonoperating activities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>50,966</td>
<td>9,065</td>
<td>64,185</td>
</tr>
<tr>
<td>Net investment return</td>
<td>72,772</td>
<td>212,013</td>
<td>4,592</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>(21,867)</td>
<td>(103,991)</td>
<td>—</td>
</tr>
<tr>
<td>Other changes, net</td>
<td>125,173</td>
<td>(132,145)</td>
<td>4,195</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>2,611</td>
<td>(2,611)</td>
<td>—</td>
</tr>
<tr>
<td><strong>Change in net assets from nonoperating activities</strong></td>
<td>229,655</td>
<td>(17,669)</td>
<td>72,972</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>216,530</td>
<td>64</td>
<td>72,972</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>717,741</td>
<td>1,262,796</td>
<td>1,182,062</td>
</tr>
<tr>
<td><strong>Net assets, end of year</strong></td>
<td>$ 934,271</td>
<td>1,262,860</td>
<td>1,255,034</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
BROWN UNIVERSITY  
Statements of Cash Flows  
Years ended June 30, 2014 and 2013  
(Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$400,582</td>
<td>289,566</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net realized and unrealized gains on investments</td>
<td>(430,041)</td>
<td>(268,053)</td>
</tr>
<tr>
<td>Realized loss on partial swap termination</td>
<td>—</td>
<td>2,600</td>
</tr>
<tr>
<td>Depreciation</td>
<td>66,655</td>
<td>66,597</td>
</tr>
<tr>
<td>Amortization of bond premium</td>
<td>(3,862)</td>
<td>(3,658)</td>
</tr>
<tr>
<td>Loss from disposals of land, building and equipment</td>
<td>3,373</td>
<td>591</td>
</tr>
<tr>
<td>Change in funded status of pension obligation</td>
<td>(1,170)</td>
<td>(11,109)</td>
</tr>
<tr>
<td>Change in fair value of interest rate swap liabilities</td>
<td>1,355</td>
<td>23,577</td>
</tr>
<tr>
<td>Change in asset retirement obligation</td>
<td>(222)</td>
<td>384</td>
</tr>
<tr>
<td>Change in estimate of split-interest obligations</td>
<td>(5,501)</td>
<td>5,765</td>
</tr>
<tr>
<td>Contributions restricted for plant and endowment</td>
<td>(88,164)</td>
<td>(72,745)</td>
</tr>
<tr>
<td>Change in accounts receivable and other assets</td>
<td>(9,162)</td>
<td>33,633</td>
</tr>
<tr>
<td>Change in accounts payable and accrued liabilities</td>
<td>6,386</td>
<td>8,753</td>
</tr>
<tr>
<td>Change in other operating assets, net</td>
<td>(13,535)</td>
<td>672</td>
</tr>
<tr>
<td>Change in other operating liabilities, net</td>
<td>5,692</td>
<td>2,026</td>
</tr>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>(67,614)</td>
<td>13,939</td>
</tr>
</tbody>
</table>

Cash flows from investing activities:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additions to land, buildings and equipment</td>
<td>(94,115)</td>
<td>(143,178)</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(1,313,061)</td>
<td>(933,127)</td>
</tr>
<tr>
<td>Sales and redemptions of investments</td>
<td>1,329,048</td>
<td>953,543</td>
</tr>
<tr>
<td>Notes repaid by (advanced to) students and others, net</td>
<td>827</td>
<td>(758)</td>
</tr>
<tr>
<td>Change in funds held in trust by others</td>
<td>(47,776)</td>
<td>(49,130)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(125,077)</td>
<td>(172,650)</td>
</tr>
</tbody>
</table>

Cash flows from financing activities:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions restricted for plant and endowment</td>
<td>88,164</td>
<td>72,745</td>
</tr>
<tr>
<td>Proceeds from sale of restricted gifts of securities</td>
<td>14,263</td>
<td>—</td>
</tr>
<tr>
<td>Payments under split-interest obligations</td>
<td>(2,402)</td>
<td>(2,268)</td>
</tr>
<tr>
<td>Payments on long-term debt</td>
<td>(46,335)</td>
<td>(5,910)</td>
</tr>
<tr>
<td>Proceeds from issuance of debt, including premium</td>
<td>150,950</td>
<td>149,807</td>
</tr>
<tr>
<td>Proceeds from commercial paper programs</td>
<td>14,750</td>
<td>9,220</td>
</tr>
<tr>
<td>Payments on commercial paper programs</td>
<td>(14,750)</td>
<td>(58,220)</td>
</tr>
<tr>
<td>Bond issuance costs</td>
<td>(412)</td>
<td>(439)</td>
</tr>
<tr>
<td>Payment for partial swap termination</td>
<td>—</td>
<td>(2,600)</td>
</tr>
<tr>
<td>Payments on secured borrowings for investment purposes</td>
<td>—</td>
<td>(55,005)</td>
</tr>
<tr>
<td>Cash collateral posted under swap agreements</td>
<td>—</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Cash collateral returned under swap agreements</td>
<td>—</td>
<td>14,500</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>204,228</td>
<td>119,830</td>
</tr>
<tr>
<td>Change in cash and cash equivalents</td>
<td>11,537</td>
<td>(38,881)</td>
</tr>
</tbody>
</table>

Cash and cash equivalents, beginning of year

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>14,009</td>
<td>52,890</td>
</tr>
</tbody>
</table>

Cash and cash equivalents, end of year $25,546 14,009

See accompanying notes to financial statements.
(1) Summary of Significant Accounting Policies

(a) Organization

Brown University is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 6,400 undergraduate students and 2,400 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

(b) Basis of Presentation and Tax Status

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

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

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

(c) Classification of Net Assets

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

- **Permanently restricted net assets** contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.

- **Temporarily restricted net assets** contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.
BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2014 and 2013
(Dollars in thousands)

- **Unrestricted net assets** contain no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

**(d) Fair Value Measurements**

Investments, funds held in trust by others, and interest rate swaps are reported at fair value in the University’s financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. The University uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. In addition, classification of certain alternative investments within the fair value hierarchy is based on the University’s ability to timely redeem its interest rather than the valuation inputs. The hierarchy is defined as follows:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, and also includes alternative investments redeemable on or near the measurement date; and
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no market data is available, and also includes alternative investments not redeemable near the measurement date.

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

**(e) Statements of Activities**

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

- Tuition and fees are recognized at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Deposits and other advance payments are reported as a liability. Sales and services of auxiliary enterprises are recognized at the time the services are provided.

- Contributions, including unconditional promises from donors reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Bequest intentions and conditional promises are not recorded in the University’s financial statements.

- Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is pursuant to an agreement which provides for a predetermined fixed indirect cost rate. Payments received in advance of grant and contract expenditures are reported as a liability.

- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) permanently restricted net assets if the terms of the contributions require them to be added to principal; (2) temporarily restricted net assets if the terms of the related contributions impose restrictions on their availability or use; or (3) unrestricted net assets in all other cases. Investment return attributable to donor-restricted endowment funds is reported as temporarily restricted to the extent not appropriated and spent.

Expenses are reported as decreases in unrestricted net assets.

(f) Cash Equivalents

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

(g) Accounts Receivable and Other Assets and Notes Receivable

Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory and prepaid expenses, and cash held as interest rate swap collateral, and are carried at net realizable value, which approximates fair value. Notes receivable are presented net of an allowance for uncollectible amounts and consist primarily of loans to students that may have significant restrictions and long maturities, and it is not practicable to estimate their fair value.
Land, Buildings and Equipment

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

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

Fund Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of $13,988 and $12,848 at June 30, 2014 and 2013, 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. These are classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity. Other trusteed funds of $100,251 and $53,615 at June 30, 2014 and 2013, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held in reserve in accordance with debt or similar agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

Federal Student Loan Advances

The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program and the Health Professions Student Loan Program (the Programs). Such amounts may be re-loaned by the University after collection; however, in the event that the University no longer participates in the Programs, the amounts are generally refundable to the U.S. government.

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.

Liabilities Associated with Investments

Liabilities associated with investments include the fair value of credit default swaps in 2014 and payables for securities purchased in 2013.
(m) Other Long-Term Obligations

Other long-term obligations include the funded status of the defined benefit pension plan of $12,800 and $13,970 at June 30, 2014 and 2013, respectively; the interest-rate swap liability of $29,170 and $27,815 at June 30, 2014 and 2013, respectively; and the asset retirement obligation of $12,235 and $12,457 at June 30, 2014 and 2013, respectively.

(n) Use of Estimates

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

(o) Reclassifications

Certain 2013 financial information has been reclassified to conform to the 2014 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:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions expected to be received in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>$50,689</td>
<td>$57,596</td>
</tr>
<tr>
<td>Between one and five years</td>
<td>122,448</td>
<td>101,819</td>
</tr>
<tr>
<td>More than five years</td>
<td>9,665</td>
<td>9,818</td>
</tr>
<tr>
<td>Gross contributions receivable</td>
<td>182,802</td>
<td>169,233</td>
</tr>
<tr>
<td>Unamortized discount (at rates ranging from 0.1% to 2.5%) and allowance for uncollectibles</td>
<td>(22,804)</td>
<td>(23,182)</td>
</tr>
<tr>
<td>Contributions receivable, net</td>
<td>$159,998</td>
<td>$146,051</td>
</tr>
</tbody>
</table>

(3) Investments

Investment Strategy

In addition to traditional stocks and fixed-income securities, the University may also hold shares or units in institutional funds as well as in alternative investment funds involving hedged, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and may focus on
investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs), commercial properties or commodities, or oil and gas, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by fund managers in the absence of readily determinable market values.

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

**Basis of Reporting**

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University’s interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University’s interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2014, the sale of 21 private real assets fund interests was in negotiation. The purchase and sale agreement was signed on July 29, 2014 to sell the interests at a price other than NAV. Accordingly, at June 30, 2014, the fair value of such funds has been reflected at the final negotiated sale price. As of June 30, 2013, 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 within the fair value hierarchy by strategy type as of June 30, 2014 and 2013:

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. equities</td>
<td>$27,025</td>
<td>135,321</td>
<td>70,485</td>
<td>232,831</td>
</tr>
<tr>
<td>Non-U.S. equity funds</td>
<td>210,933</td>
<td>243,301</td>
<td>7,719</td>
<td>461,953</td>
</tr>
<tr>
<td><strong>Fixed income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>6,427</td>
<td>131,517</td>
<td>196,754</td>
<td>334,698</td>
</tr>
<tr>
<td>U.S. Treasury inflation-protected</td>
<td>—</td>
<td>7,546</td>
<td>15,093</td>
<td>22,639</td>
</tr>
<tr>
<td><strong>Hedged strategies:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General arbitrage funds</td>
<td>39,629</td>
<td>125,636</td>
<td>80,951</td>
<td>246,216</td>
</tr>
<tr>
<td>Distressed funds</td>
<td>—</td>
<td>—</td>
<td>18,675</td>
<td>18,675</td>
</tr>
<tr>
<td>Global/Non-U.S. funds</td>
<td>—</td>
<td>48,534</td>
<td>714,316</td>
<td>762,850</td>
</tr>
<tr>
<td><strong>Private equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy-out funds</td>
<td>—</td>
<td>—</td>
<td>419,697</td>
<td>419,697</td>
</tr>
<tr>
<td>Venture funds</td>
<td>—</td>
<td>—</td>
<td>245,296</td>
<td>245,296</td>
</tr>
<tr>
<td><strong>Real assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate and timber</td>
<td>1,806</td>
<td>92,232</td>
<td>102,547</td>
<td>196,585</td>
</tr>
<tr>
<td>Commodities, oil and gas</td>
<td>—</td>
<td>86,079</td>
<td>87,021</td>
<td>173,100</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>371,249</td>
<td>—</td>
<td>—</td>
<td>371,249</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$657,069</td>
<td>870,166</td>
<td>1,958,554</td>
<td>3,485,789</td>
</tr>
</tbody>
</table>
BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2014 and 2013
(Dollars in thousands)

<table>
<thead>
<tr>
<th>Investments:</th>
<th>June 30, 2013</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities:</td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>Total</td>
</tr>
<tr>
<td>U.S. equities</td>
<td>$ 25,753</td>
<td>110,693</td>
<td>57,103</td>
<td>193,549</td>
</tr>
<tr>
<td>Non-U.S. equity funds</td>
<td>167,101</td>
<td>273,744</td>
<td>67,555</td>
<td>508,400</td>
</tr>
<tr>
<td>Fixed income:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td>4,704</td>
<td>136,264</td>
<td>148,010</td>
<td>288,978</td>
</tr>
<tr>
<td>U.S. Treasury inflation-protected</td>
<td>72,654</td>
<td>7,577</td>
<td>15,155</td>
<td>95,386</td>
</tr>
<tr>
<td>Hedged strategies:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General arbitrage funds</td>
<td>—</td>
<td>116,620</td>
<td>46,115</td>
<td>162,735</td>
</tr>
<tr>
<td>Distressed funds</td>
<td>—</td>
<td>—</td>
<td>47,698</td>
<td>47,698</td>
</tr>
<tr>
<td>Global/Non-U.S. funds</td>
<td>—</td>
<td>77,583</td>
<td>502,850</td>
<td>580,433</td>
</tr>
<tr>
<td>Private equity:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy-out funds</td>
<td>—</td>
<td>—</td>
<td>408,798</td>
<td>408,798</td>
</tr>
<tr>
<td>Venture funds</td>
<td>—</td>
<td>—</td>
<td>188,306</td>
<td>188,306</td>
</tr>
<tr>
<td>Real assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate and timber</td>
<td>1,735</td>
<td>1,121</td>
<td>198,726</td>
<td>201,582</td>
</tr>
<tr>
<td>Commodities, oil and gas</td>
<td>—</td>
<td>—</td>
<td>59,682</td>
<td>59,682</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>340,616</td>
<td>—</td>
<td>—</td>
<td>340,616</td>
</tr>
<tr>
<td>Total</td>
<td>$ 612,563</td>
<td>723,602</td>
<td>1,739,998</td>
<td>3,076,163</td>
</tr>
</tbody>
</table>

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. 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 balance sheet date. 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 funds contain “rolling” lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two or three years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement. Private equity and real assets are held in funds that have initial terms of seven to eight years with extensions of one to three years, and have an average remaining life of approximately six to seven years.
The following tables present the activities for the years ended June 30, 2014 and 2013 for the University’s investments classified in Level 3:

### 2014

<table>
<thead>
<tr>
<th>Level 3 roll forward</th>
<th>Equities</th>
<th>Fixed income</th>
<th>Hedged strategies</th>
<th>Private equity</th>
<th>Real assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value as of June 30, 2013</td>
<td>124,658</td>
<td>163,165</td>
<td>596,663</td>
<td>597,104</td>
<td>258,408</td>
<td>1,739,998</td>
</tr>
<tr>
<td>Acquisitions</td>
<td></td>
<td>13,254</td>
<td>206,620</td>
<td>63,479</td>
<td>43,517</td>
<td>326,870</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(69,576)</td>
<td>(60,601)</td>
<td>(84,431)</td>
<td>(131,130)</td>
<td>(52,993)</td>
<td>(398,731)</td>
</tr>
<tr>
<td>Transfers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(90,861)</td>
<td>(90,861)</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>23,122</td>
<td>96,029</td>
<td>95,090</td>
<td>135,540</td>
<td>31,497</td>
<td>381,278</td>
</tr>
<tr>
<td>Fair value at June 30, 2014</td>
<td>78,204</td>
<td>211,847</td>
<td>813,942</td>
<td>664,993</td>
<td>189,568</td>
<td>1,958,554</td>
</tr>
</tbody>
</table>

### 2013

<table>
<thead>
<tr>
<th>Level 3 roll forward</th>
<th>Equities</th>
<th>Fixed income</th>
<th>Hedged strategies</th>
<th>Private equity</th>
<th>Real assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value as of June 30, 2012</td>
<td>108,802</td>
<td>99,116</td>
<td>482,078</td>
<td>618,909</td>
<td>259,560</td>
<td>1,568,465</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>2,000</td>
<td>36,874</td>
<td>104,000</td>
<td>56,298</td>
<td>36,355</td>
<td>235,527</td>
</tr>
<tr>
<td>Dispositions</td>
<td>(2,521)</td>
<td>(52)</td>
<td>(92,329)</td>
<td>(167,020)</td>
<td>(43,234)</td>
<td>(305,156)</td>
</tr>
<tr>
<td>Net realized and unrealized gains</td>
<td>16,377</td>
<td>27,227</td>
<td>102,914</td>
<td>88,917</td>
<td>5,727</td>
<td>241,162</td>
</tr>
<tr>
<td>Fair value at June 30, 2013</td>
<td>124,658</td>
<td>163,165</td>
<td>596,663</td>
<td>597,104</td>
<td>258,408</td>
<td>1,739,998</td>
</tr>
</tbody>
</table>

Transfers in 2014 from Level 3 to Level 2 are the result of the pending sale of 21 private real estate funds at June 30, 2014. There were no transfers between Levels 1 and 2 in 2014 and 2013.

The following summarizes investment return components for the years ended June 30, 2014 and 2013:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividends</td>
<td>$25,642</td>
<td>35,207</td>
</tr>
<tr>
<td>Net realized and unrealized gains, net of investment management and advisory fees</td>
<td>$430,041</td>
<td>268,053</td>
</tr>
<tr>
<td>Investment return</td>
<td>$455,683</td>
<td>303,260</td>
</tr>
</tbody>
</table>
Total investment return is included in the statements of activities as follows for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>$135,467</td>
<td>$125,858</td>
</tr>
<tr>
<td>Included in other income</td>
<td>11,087</td>
<td>13,883</td>
</tr>
<tr>
<td>Nonoperating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment return</td>
<td>444,596</td>
<td>289,377</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>(135,467)</td>
<td>(125,858)</td>
</tr>
<tr>
<td>Total return</td>
<td>$455,683</td>
<td>303,260</td>
</tr>
</tbody>
</table>

Total investment management and advisory expenses, including internal costs, were $17,324 and $16,817 for the years ended June 30, 2014 and 2013, respectively, and have been netted against the total return.

(a) Liquidity

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

<table>
<thead>
<tr>
<th></th>
<th>Daily</th>
<th>Monthly</th>
<th>Quarterly</th>
<th>Semi-annually to annually</th>
<th>Subject to rolling lock-ups</th>
<th>Illiquid</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>$244,665</td>
<td>—</td>
<td>233,620</td>
<td>69,957</td>
<td>138,295</td>
<td>8,247</td>
<td>694,784</td>
</tr>
<tr>
<td>Fixed income</td>
<td>129,627</td>
<td>117,207</td>
<td>—</td>
<td>—</td>
<td>78,402</td>
<td>32,101</td>
<td>357,337</td>
</tr>
<tr>
<td>Hedged strategies</td>
<td>39,629</td>
<td>166,813</td>
<td>—</td>
<td>184,337</td>
<td>557,600</td>
<td>79,362</td>
<td>1,027,741</td>
</tr>
<tr>
<td>Private equity</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>664,993</td>
<td>664,993</td>
</tr>
<tr>
<td>Real assets</td>
<td>3,177</td>
<td>86,079</td>
<td>90,861</td>
<td>—</td>
<td>—</td>
<td>189,568</td>
<td>369,685</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>371,249</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>371,249</td>
</tr>
<tr>
<td>Total</td>
<td>$788,347</td>
<td>370,099</td>
<td>324,481</td>
<td>254,294</td>
<td>774,297</td>
<td>974,271</td>
<td>3,485,789</td>
</tr>
</tbody>
</table>

Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 7 to 180 days.

(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, 2014 was $215,780 and $76,420, respectively.

(c) Investment Derivatives

The University’s endowment investment portfolio includes derivative financial instruments that have been entered to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. The endowment also employs certain derivative financial instruments to replicate long or short asset positions more cost effectively than through purchases or sales of the underlying assets. The University has established policies, procedures, and internal controls governing the use of derivatives.

At June 30, 2014 and 2013, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. These contracts had total asset fair values of $814 and $5,036 at June 30, 2014 and 2013, respectively. The University recognized a net unrealized (loss) gain of ($4,222) and $240 for the years ended June 30, 2014 and 2013, respectively, pertaining to swaption contracts held. The University is obligated to pledge to the appropriate broker cash or securities to be held as collateral, as determined by margin requirements for swaption contracts held. The University was not required to post any collateral at June 30, 2014 and 2013.

Beginning in fiscal 2014, credit default swaps were entered to simulate long or short positions or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2014, the total notional amount of credit default swap contracts for buyer protection was $210,000. The fair value of these contracts as of June 30, 2014 was $8,056 and is included in investments in liabilities associated with investments on the balance sheet. The unrealized loss on these contracts as of June 30, 2014 was $362 and is included in net investment return on the statement of activities. The University had posted collateral of $7,924 as of June 30, 2014, which is included in domestic fixed income investments in the 2014 fair value hierarchy table in note 3.

(4) Endowment

The University’s endowment consists of approximately 2,700 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions. In 2013, upon further analysis of the endowment, $97,143 associated primarily with accumulated returns on Corporation-designated funds was reclassified from temporarily restricted to unrestricted net assets and is included in other changes, net on the 2013 statement of activities. This change had no impact on total expendable net assets or the total endowment.
Endowment net assets consist of the following at June 30, 2014:

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

Endowment net assets consist of the following at June 30, 2013:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Donor-restricted endowment funds</td>
<td>$ (7,126)</td>
<td>1,067,832</td>
<td>1,126,878</td>
<td>2,187,584</td>
</tr>
<tr>
<td>Corporation-designated endowment funds</td>
<td>423,905</td>
<td>58,459</td>
<td>—</td>
<td>482,364</td>
</tr>
<tr>
<td>Total endowment net assets</td>
<td>$ 416,779</td>
<td>1,126,291</td>
<td>1,126,878</td>
<td>2,669,948</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment at June 30, 2013</td>
<td>$ 416,779</td>
<td>1,126,291</td>
<td>1,126,878</td>
<td>2,669,948</td>
</tr>
<tr>
<td>Investment return, net</td>
<td>76,415</td>
<td>323,596</td>
<td>—</td>
<td>400,011</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>(22,255)</td>
<td>(113,212)</td>
<td>—</td>
<td>(135,467)</td>
</tr>
<tr>
<td>Contributions</td>
<td>166</td>
<td>302</td>
<td>61,739</td>
<td>62,207</td>
</tr>
<tr>
<td>Reclassifications and other changes</td>
<td>2,006</td>
<td>(886)</td>
<td>1,930</td>
<td>3,050</td>
</tr>
<tr>
<td>Endowment at June 30, 2014</td>
<td>$ 473,111</td>
<td>1,336,091</td>
<td>1,190,547</td>
<td>2,999,749</td>
</tr>
</tbody>
</table>
Changes in endowment net assets for the year ended June 30, 2013 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment at June 30, 2012</td>
<td>$278,818</td>
<td>1,118,579</td>
<td>1,065,141</td>
<td>2,462,538</td>
</tr>
<tr>
<td>Investment return, net</td>
<td>62,797</td>
<td>211,197</td>
<td>—</td>
<td>273,994</td>
</tr>
<tr>
<td>Endowment return appropriated</td>
<td>(21,867)</td>
<td>(103,991)</td>
<td>—</td>
<td>(125,858)</td>
</tr>
<tr>
<td>Contributions</td>
<td>—</td>
<td>1,669</td>
<td>59,959</td>
<td>61,628</td>
</tr>
<tr>
<td>Reclassifications and other changes</td>
<td>97,031</td>
<td>(101,163)</td>
<td>1,778</td>
<td>(2,354)</td>
</tr>
<tr>
<td>Endowment at June 30, 2013</td>
<td>$416,779</td>
<td>1,126,291</td>
<td>1,126,878</td>
<td>2,669,948</td>
</tr>
</tbody>
</table>

(a) Interpretation of Relevant Laws

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

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

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund’s historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated $1,515 and $7,126 as of June 30, 2014 and 2013, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in unrestricted net assets.
(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and designated funds. The long-term investment return objective is formulated to maintain purchasing power after accounting for both inflation and spending. The Corporation has set a long-term return goal at 5.5% above the higher education price index. Actual returns in any given year or period of years may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

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

(5) Land, Buildings and Equipment

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 72,571</td>
<td>72,241</td>
</tr>
<tr>
<td>Buildings</td>
<td>635,624</td>
<td>631,411</td>
</tr>
<tr>
<td>Improvements</td>
<td>924,222</td>
<td>808,426</td>
</tr>
<tr>
<td>Equipment</td>
<td>156,248</td>
<td>140,142</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>50,024</td>
<td>100,305</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,838,689</td>
<td>1,752,525</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(790,571)</td>
<td>(732,650)</td>
</tr>
<tr>
<td>Land, buildings and equipment, net</td>
<td>$ 1,048,118</td>
<td>1,019,875</td>
</tr>
</tbody>
</table>

Outstanding commitments on uncompleted construction contracts total $21,688 at June 30, 2014.
(6) **Bonds, Loans and Notes Payable**

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

<table>
<thead>
<tr>
<th>Name of issue</th>
<th>Interest rate(s)</th>
<th>Type of rate</th>
<th>Final maturity</th>
<th>Balance at June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Rhode Island Health and Education</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building Corporation (RIHEBC) Facilities Revenue Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2003A</td>
<td>3.85% – 4.85%</td>
<td>Fixed</td>
<td>2037</td>
<td>$</td>
</tr>
<tr>
<td>Series 2003B</td>
<td>0.03%</td>
<td>Variable</td>
<td>2043</td>
<td>42,550</td>
</tr>
<tr>
<td>Series 2004</td>
<td>3.875% – 4.75%</td>
<td>Fixed</td>
<td>2025</td>
<td>15,550</td>
</tr>
<tr>
<td>Series 2005A</td>
<td>0.05%</td>
<td>Variable</td>
<td>2035</td>
<td>85,500</td>
</tr>
<tr>
<td>Series 2007</td>
<td>4.25% – 5.00%</td>
<td>Fixed</td>
<td>2037</td>
<td>90,010</td>
</tr>
<tr>
<td>Series 2009</td>
<td>5.00%</td>
<td>Fixed</td>
<td>2039</td>
<td>70,795</td>
</tr>
<tr>
<td>Series 2011</td>
<td>2.50% – 5.00%</td>
<td>Fixed</td>
<td>2032</td>
<td>63,170</td>
</tr>
<tr>
<td>Series 2012</td>
<td>5.00%</td>
<td>Fixed</td>
<td>2022</td>
<td>118,240</td>
</tr>
<tr>
<td>Series 2013</td>
<td>3.00% – 5.00%</td>
<td>Fixed</td>
<td>2044</td>
<td>138,715</td>
</tr>
<tr>
<td>Tax-exempt commercial paper, revolving through 2042</td>
<td>0.07%</td>
<td>Fixed</td>
<td>Revolving</td>
<td>1,000</td>
</tr>
<tr>
<td>Taxable standard commercial Paper Notes, Series A, revolving through 2036</td>
<td>0.08% – 0.10%</td>
<td>Fixed</td>
<td>Revolving</td>
<td>50,000</td>
</tr>
<tr>
<td>Brown University Taxable Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Series 2005</td>
<td>5.09%</td>
<td>Fixed</td>
<td>2016</td>
<td>17,000</td>
</tr>
<tr>
<td>Series 2009</td>
<td>4.57%</td>
<td>Fixed</td>
<td>2019</td>
<td>100,000</td>
</tr>
<tr>
<td>Loans payable – community: Development entities</td>
<td>1.22%</td>
<td>Fixed</td>
<td>2041</td>
<td>13,748</td>
</tr>
<tr>
<td>Total bonds, loans and notes payable before premium</td>
<td></td>
<td></td>
<td></td>
<td>806,278</td>
</tr>
<tr>
<td>Unamortized premium</td>
<td></td>
<td></td>
<td></td>
<td>45,810</td>
</tr>
<tr>
<td>Total bonds, loans and notes payable</td>
<td>$</td>
<td>852,088</td>
<td>751,335</td>
<td></td>
</tr>
</tbody>
</table>

(a) **Tax Exempt Bonds**

The University’s tax exempt debt, primarily Facilities Revenue Bonds, is issued through RIHEBC, a state agency serving as a conduit issuer of tax exempt debt. The University is required under certain of its financing agreements with RIHEBC to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the related properties. The Revenue Bonds currently outstanding were issued primarily to finance new and ongoing capital projects for research, student housing, academic and administrative buildings, and infrastructure.
In December 2013, the Series 2013 Facilities Revenue Bonds were issued in the amount of $138,715 to refund $25,460 of the Series 2003A RIHEBC bonds and $14,750 of RIHEBC tax-exempt commercial paper, with the remaining proceeds to be used for capital projects. The Series 2013 Bonds included an original issue premium of $12,235, which will be amortized over the life of the debt.

In addition, in July 2012, the Series 2012 Facilities Revenue Refunding Bonds were issued in the amount of $118,240 to refinance $50,000 of RIHEBC tax-exempt commercial paper and $8,220 in taxable commercial paper, with the remaining proceeds to be used for capital projects. The Series 2012 Bonds included an original issue premium of $31,567, which will be amortized over the life of the debt.

(b) **Taxable Bonds and Other Debt**

The University’s outstanding debt includes two taxable bond issues. Series 2005 Taxable Bonds were issued to finance a portion of the acquisition cost of an office building. Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets. In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to $50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B. The Taxable Commercial Paper Program has a number of individual notes that are issued at various times, amounts and staggered maturity dates. The notes are issued at market prices which at June 30, 2014 ranged from 0.08% to 0.10%. During the life of the note, 1 day to 270 days, the rate is fixed. As an individual note matures, new notes are issued to pay for the maturing notes. The agreement allows the University to continue this revolving process until 2036.

The University also maintains a tax exempt commercial program through RIHEBC. Proceeds from the tax exempt commercial paper program must be used within 18 months; however, once debt is issued, the University can continue to rollover the tax exempt commercial paper until the end of the program in 2042. The issuance of new money requires renewal by RIHEBC every three years. The program was renewed in 2012 and as of June 30, 2014 and 2013, $1,000 remained outstanding.

Principal payments of bonds, notes and loans payable as of June 30, 2014 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Amount (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>6,295</td>
</tr>
<tr>
<td>2016</td>
<td>26,915</td>
</tr>
<tr>
<td>2017</td>
<td>10,500</td>
</tr>
<tr>
<td>2018</td>
<td>10,835</td>
</tr>
<tr>
<td>2019</td>
<td>11,330</td>
</tr>
<tr>
<td>Thereafter</td>
<td>740,403</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>806,278</strong></td>
</tr>
</tbody>
</table>
The University’s bonds, loans and notes payable are stated at face value. The University’s bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the University determined that the aggregate estimated fair value of its debt as of June 30, 2014 and 2013 was approximately $893,000 and $764,000, respectively. These estimated fair values are based on significant observable inputs categorized in Level 2 of the fair value hierarchy.

The University has a revolving line of credit available up to $40,000. As of June 30, 2014, the full amount of $40,000 was available at a rate of 0.91%.

The University provides the initial liquidity for each of its variable rate bond issues and commercial paper programs. Additionally, the University has backup liquidity facilities at two separate banks currently totaling $150,000 in the event the debt is unable to be remarketed. These facilities are available exclusively for the temporary repayment of debt.

(c) **Interest Rate Swaps**

At June 30, 2014 and 2013, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The swaps’ notional values for the JPMorgan swap and the $85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.

In fiscal 2012, the Series 2001B bonds synthetically fixed by the $17,363 Goldman Sachs swap were refunded with fixed rate debt resulting in an unmatched swap. For economic reasons, the University terminated approximately one-third of the original notional value of this swap in the year ended June 30, 2013. As a result, the University recognized a realized loss on partial swap termination of $2,600, which is recorded in nonoperating activities in other changes, net in the 2013 statement of activities.

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

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>Associated debt</th>
<th>Expiration date</th>
<th>June 30, 2014 remaining notional value</th>
<th>Swap fixed rate</th>
<th>Fair value of liability at June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>Series 2005A</td>
<td>5/1/2035</td>
<td>$85,500</td>
<td>3.979</td>
<td>$ (15,390)</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>None</td>
<td>9/1/2032</td>
<td>$16,788</td>
<td>3.891</td>
<td>(2,434)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$ (29,170)</td>
</tr>
</tbody>
</table>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds $25,000. The JPMorgan swap stipulates
that if the University meets a minimum credit rating there are no collateral posting requirements. This rating was maintained by the University at June 30, 2014 and 2013.

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

(7) Retirement Benefits

The University participates in two contributory retirement plans. The expense to the University, representing its contributions to the accounts of faculty and staff, was $24,290 and $23,278 for the years ended June 30, 2014 and 2013, respectively.

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

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in projected benefit obligation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Projected benefit obligation at beginning of year</td>
<td>$69,207</td>
<td>71,621</td>
</tr>
<tr>
<td>Service cost</td>
<td>3,070</td>
<td>3,286</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,186</td>
<td>2,857</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,939)</td>
<td>(1,889)</td>
</tr>
<tr>
<td>Actuarial loss (gain)</td>
<td>5,471</td>
<td>(6,668)</td>
</tr>
<tr>
<td>Projected benefit obligation at end of year</td>
<td>$78,995</td>
<td>69,207</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.20%</td>
<td>4.67%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.00</td>
<td>3.00</td>
</tr>
</tbody>
</table>
The following is a summary of activity under the plan for the years ended June 30:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in plan assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$55,237</td>
<td>46,542</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>8,897</td>
<td>4,714</td>
</tr>
<tr>
<td>Contributions</td>
<td>4,000</td>
<td>5,870</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,939)</td>
<td>(1,889)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>66,195</td>
<td>55,237</td>
</tr>
<tr>
<td>Projected benefit obligation at end of year</td>
<td>(78,995)</td>
<td>(69,207)</td>
</tr>
<tr>
<td>Funded status included in other long-term obligations</td>
<td>$ (12,800)</td>
<td>(13,970)</td>
</tr>
</tbody>
</table>

Net periodic pension cost:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$3,070</td>
<td>3,286</td>
</tr>
<tr>
<td>Interest cost</td>
<td>3,186</td>
<td>2,857</td>
</tr>
<tr>
<td>Expected return on assets</td>
<td>(3,940)</td>
<td>(3,540)</td>
</tr>
<tr>
<td>Amortization of unrecognized loss and prior service cost</td>
<td>817</td>
<td>1,637</td>
</tr>
<tr>
<td>Net periodic pension cost</td>
<td>$3,133</td>
<td>4,240</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>4.67%</td>
<td>4.01%</td>
</tr>
<tr>
<td>Rate of compensation increase</td>
<td>3.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Expected long-term rate of return</td>
<td>7.00</td>
<td>7.50</td>
</tr>
</tbody>
</table>

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2014 and 2013, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of $854 and $709, respectively, and a net unrecognized actuarial gain of $14,700 and an actuarial loss of $15,147, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.
The plan assets at June 30, 2014 and 2013 consist of variable annuity investments with various equity and fixed income focuses 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 balance sheet date.

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, 2014 and 2013, and the weighted average asset targeted allocation are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity funds</td>
<td>75%</td>
<td>77%</td>
<td>65%</td>
</tr>
<tr>
<td>Fixed income funds</td>
<td>25</td>
<td>23</td>
<td>35</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The University’s estimated contribution for 2014 is $3,000.

Estimated future benefit payments as of June 30, 2014 are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20,371</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020 – 2024</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(8) **Restricted Net Assets**

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

<table>
<thead>
<tr>
<th></th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
<th>Temporarily restricted</th>
<th>Permanently restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment</td>
<td>$1,336,091</td>
<td>1,190,547</td>
<td>1,126,291</td>
<td>1,126,878</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>60,765</td>
<td>99,233</td>
<td>57,401</td>
<td>88,650</td>
</tr>
<tr>
<td>Donor-restricted purposes</td>
<td>120,115</td>
<td>32,651</td>
<td>79,168</td>
<td>28,632</td>
</tr>
<tr>
<td>Student loans</td>
<td>—</td>
<td>10,847</td>
<td>—</td>
<td>10,874</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,516,971</td>
<td>1,333,278</td>
<td>1,262,860</td>
<td>1,255,034</td>
</tr>
</tbody>
</table>

(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:

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction and departmental research</td>
<td>$301,096</td>
<td>282,245</td>
</tr>
<tr>
<td>Sponsored programs</td>
<td>103,773</td>
<td>117,624</td>
</tr>
<tr>
<td>Academic and student support</td>
<td>171,910</td>
<td>155,821</td>
</tr>
<tr>
<td>Auxiliary services</td>
<td>99,866</td>
<td>89,254</td>
</tr>
<tr>
<td>Institutional support</td>
<td>97,933</td>
<td>87,418</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$774,578</td>
<td>732,362</td>
</tr>
</tbody>
</table>

(10) **Commitments and Contingencies**

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

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

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

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

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for interest, including recurring swap settlements,</td>
<td>$29,096</td>
<td>25,593</td>
</tr>
<tr>
<td>net of capitalized interest of $3,094 and $4,867</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noncash investing activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable for land, buildings and equipment</td>
<td>4,156</td>
<td>(9,449)</td>
</tr>
<tr>
<td>Increase (decrease) in payables for purchases of investments</td>
<td>780</td>
<td>(16,142)</td>
</tr>
<tr>
<td>Decrease in receivables for investments sold</td>
<td>(9,055)</td>
<td>(58,433)</td>
</tr>
</tbody>
</table>

(13) **Subsequent Events**

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

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 24, 2014, and subsequent events have been evaluated through that date.