BROWN UNIVERSITY

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying statements of financial position of Brown University (the University) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 1 to the financial statements, the University adopted the provisions of Financial Accounting Standards Board Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, and Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, in 2009.

KPMG LLP

October 26, 2009

BROWN UNIVERSITY

Statements of Financial Position

June 30, 2009 and 2008

(Dollars in thousands)

Assets		**2009**	**2008**
Cash and cash equivalents	$	129,452	59,485
Accounts receivable and other assets		47,575	47,853
Contributions receivable, net		208,007	225,582
Notes receivable, net		32,894	32,921
Funds held in trust by others		13,193	65,783
Investments		2,189,993	3,202,668
Land, buildings and equipment, net		777,539	733,643
Total assets	$	3,398,653	4,367,935
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	78,027	69,952
Deferred revenues and student deposits		25,666	21,752
Liabilities associated with investments		10,081	213,401
Refundable advances		39,258	40,221
Split-interest obligations		15,987	22,936
Asset retirement obligations		12,418	12,708
Bonds, loans and notes payable		492,400	496,292
Total liabilities		673,837	877,262
Net assets:			
Unrestricted		694,198	1,853,085
Temporarily restricted		1,046,982	272,350
Permanently restricted		983,636	1,365,238
Total net assets		2,724,816	3,490,673
Total liabilities and net assets	$	3,398,653	4,367,935

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2009

(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:					
Tuition and fees	$	302,018	—	—	302,018
Less university scholarships		(100,181)	—	—	(100,181)
Net tuition and fees		201,837	—	—	201,837
Grant and contracts – direct		103,149	—	—	103,149
Grant and contracts – indirect		30,698	—	—	30,698
Contributions		48,038	1,867	—	49,905
Endowment income appropriated		122,992	10,038	—	133,030
Sales and services of auxiliary enterprises		80,682	—	—	80,682
Other income		23,620	966	—	24,586
Net assets released from restrictions		11,746	(11,746)	—	—
Total operating revenues		622,762	1,125	—	623,887
Operating expenses:					
Salaries and wages		301,192	—	—	301,192
Employee benefits		83,639	—	—	83,639
Purchased services		48,447	—	—	48,447
Supplies and general		77,787	—	—	77,787
Utilities		21,495	—	—	21,495
Other		34,110	—	—	34,110
Total operating expenses before interest and depreciation		566,670	—	—	566,670
Interest		18,635	—	—	18,635
Depreciation and amortization		51,242	—	—	51,242
Total operating expenses		636,547	—	—	636,547
Change in net assets from operating activities		(13,785)	1,125	—	(12,660)
Nonoperating activities:					
Contributions to long-term assets		41,633	10,030	54,793	106,456
Net investment return		(688,093)	(11,123)	(12,436)	(711,652)
Endowment income appropriated		(122,992)	(10,038)	—	(133,030)
Other changes, net		(12,733)	(14,542)	12,304	(14,971)
Change in net assets from nonoperating activities		(782,185)	(25,673)	54,661	(753,197)
Adjustments required under Rhode Island's enacted version of UPMIFA and FSP 117-1		(362,917)	799,180	(436,263)	—
Change in net assets		(1,158,887)	774,632	(381,602)	(765,857)
Net assets, beginning of year		1,853,085	272,350	1,365,238	3,490,673
Net assets, end of year	$	694,198	1,046,982	983,636	2,724,816

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2008

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	$ 284,224	—	—	284,224
Less university scholarships	(83,546)	—	—	(83,546)
Net tuition and fees	200,678	—	—	200,678
Grant and contracts – direct	102,142	—	—	102,142
Grant and contracts – indirect	31,089	—	—	31,089
Contributions	54,512	3,753	—	58,265
Endowment income appropriated	96,647	8,027	—	104,674
Sales and services of auxiliary enterprises	80,746	—	—	80,746
Other income	22,985	956	—	23,941
Net assets released from restrictions	10,343	(10,343)	—	—
Total operating revenues	599,142	2,393	—	601,535
Operating expenses:				
Salaries and wages	291,136	—	—	291,136
Employee benefits	77,147	—	—	77,147
Purchased services	45,169	—	—	45,169
Supplies and general	77,210	—	—	77,210
Utilities	18,301	—	—	18,301
Other	32,630	—	—	32,630
Total operating expenses before interest and depreciation	541,593	—	—	541,593
Interest	19,599	—	—	19,599
Depreciation and amortization	45,080	—	—	45,080
Total operating expenses	606,272	—	—	606,272
Change in net assets from operating activities	(7,130)	2,393	—	(4,737)
Nonoperating activities:				
Contributions to long-term assets	47,539	15,438	22,000	84,977
Net investment return	132,198	9,511	17,663	159,372
Endowment income appropriated	(96,647)	(8,027)	—	(104,674)
Other changes, net	(4,757)	(11,186)	(3,355)	(19,298)
Change in net assets from nonoperating activities	78,333	5,736	36,308	120,377
Change in net assets	71,203	8,129	36,308	115,640
Net assets, beginning of year	1,781,882	264,221	1,328,930	3,375,033
Net assets, end of year	$ 1,853,085	272,350	1,365,238	3,490,673

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(765,857)	115,640
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		51,242	45,080
Net realized and unrealized losses (gains) on investments		710,255	(145,799)
Change in estimate of split-interest obligations		(4,920)	3,803
Contributions restricted for plant and endowment		(101,543)	(75,393)
Decrease in operating assets, net		17,853	27,938
Increase in operating liabilities, net		17,762	14,058
Net cash used in operating activities		(75,208)	(14,673)
Cash flows from investing activities:			
Purchase of land, buildings and equipment		(102,164)	(99,195)
Purchases of investments from sales and other sources		(3,294,102)	(5,804,193)
Sales of investments		3,393,202	5,829,846
Notes issued		(31,021)	(32,804)
Notes repaid		31,048	32,285
Change in funds held in trust by others		52,590	(8,640)
Net cash provided by (used in) investing activities		49,553	(82,701)
Cash flows from financing activities:			
Contributions restricted for plant and endowment		101,543	75,393
Payments under split-interest obligations		(2,029)	(3,088)
Payments on long-term debt		(3,892)	(3,757)
Net proceeds from issuance of debt		—	50,000
Cash collateral posted under swap agreements		(13,600)	—
Cash collateral returned under swap agreements		13,600	—
Net cash provided by financing activities		95,622	118,548
Change in cash and cash equivalents		69,967	21,174
Cash and cash equivalents, beginning of year		59,485	38,311
Cash and cash equivalents, end of year	$	129,452	59,485
Supplemental disclosure:			
Cash paid for interest	$	18,294	17,573
Change in accounts payable from land, buildings and equipment		(7,026)	6,444

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 5,800 undergraduate students and 2,200 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

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

(b) Basis of Presentation

The accompanying 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 separate entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated in consolidation.

The financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(c) Classification of Net Assets

In 2009, the University adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

The University is incorporated in and subject to the laws of Rhode Island, which effective as of June 30, 2009 adopted UPMIFA. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University in accordance with the standard of prudence prescribed by UPMIFA. As a result of this new law and the adoption of FSP 117-1, the University has classified its June 30, 2009 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 ass*ets contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets contain* no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

Prior to 2009, the University was subject to the Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required the University to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, the University annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA and, accordingly, in 2009 the University reclassified the $436,263 cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. In addition, the adoption of FSP 117-1 in 2009 resulted in the reclassification within donor-restricted endowment funds of $362,917 from unrestricted net assets to temporarily restricted net assets to reflect the unappropriated and unspent balance above historic dollar value. See note 4 for more information about the University's endowment.

(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.

Effective July 1, 2008, the University adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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. SFAS 157 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because the University uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than on inputs used. See *(h)* below and note 3 for further discussion.

(e) Statements of Activities

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

Revenues are derived from various sources, as follows:

- Tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Sales and services of auxiliary enterprises are recognized at the time the services are provided.
- Contributions, including unconditional promises to give reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions and investment return subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Bequest intentions and conditional promises are not recorded in the University's financial statements.
- Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is pursuant to an agreement which provides for a predetermined fixed indirect cost rate.
- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) permanently restricted net assets if the terms of the contributions (or, prior to fiscal 2009, relevant state law) require them to be added to principal; (2) temporarily restricted net assets if the terms of the related contributions impose restrictions on their availability or use; or (3) unrestricted net assets in all other cases. As UPMIFA became effective on June 30, 2009, beginning in fiscal 2010 investment return attributable to donor-restricted endowment funds will be 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 and Notes Receivable and Other Assets

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

(h) Investments

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 University reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The University also holds shares or units in traditional institutional funds as well as in alternative investment funds involving hedge strategies, private equity and real asset strategies. Hedge strategies involve funds whose managers have the authority to invest in multiple asset classes at their discretion, including the ability to invest long and short in the markets. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and are priced accordingly. Private equity and real asset funds generally hold assets which require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the estimated fair values may differ significantly from the value that would have been used had a ready market for the investment 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 University has applied the accounting guidance in Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if the University were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

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

(i) Land, Buildings and Equipment

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

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

(j) 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.

(k) Collections

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

(l) 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.

(m) Reclassifications

Certain 2008 financial information has been reclassified to conform to the 2009 presentation.

(Dollars in thousands)

(2) Contributions Receivable

The University's contributions receivable are recognized net of discounts at rates commensurate with the risks involved and after allowance for uncollectibles are reported at net realizable value, which approximates fair value. Contributions receivable were as follows at June 30:

		2009	2008
Contributions expected to be received in:			
One year or less	$	48,928	50,421
Between one and five years		182,465	197,608
More than five years		10,133	20,778
Gross contributions receivable		241,526	268,807
Unamortized discount (at rates ranging from 2.1% to 6.3%) and allowance for uncollectibles		(33,519)	(43,225)
Contributions receivable, net	$	208,007	225,582

(3) Investments

The following table summarizes the University's investments and funds held in trust by others in the SFAS 157 fair value hierarchy as of June 30, 2009, with comparative totals as of June 30, 2008:

		2009				2008
		Level 1	Level 2	Level 3	Total	Total
Investments						
Cash	$	174,228	—	—	174,228	177,375
Fixed income		303,300	81,026	42,463	426,789	296,487
Public equity		9,273	138,774	115,996	264,043	1,058,361
Hedged strategies		—	113,990	621,240	735,230	902,042
Private equity		—	—	381,766	381,766	419,516
Real assets		885	1,391	205,661	207,937	348,887
Total	$	487,686	335,181	1,367,126	2,189,993	3,202,668
Funds held in trust by others	$	2,650	—	10,543	13,193	65,783

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

(Dollars in thousands)

The following table presents the University's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157:

		Fixed income	Public equity	Hedge strategies	Private equity	Real assets	Funds held in trust	Total
Fair value at July 1, 2008	$	53,735	184,908	897,380	424,278	344,139	13,249	1,917,689
Purchases		10,071	10,000	62,400	70,882	52,382	—	205,735
Distributions		(30,122)	(30,305)	(152,378)	(11,214)	(69,524)	—	(293,543)
Net realized and unrealized gains (losses)		8,779	(48,607)	(159,791)	(102,180)	(121,336)	(2,706)	(425,841)
Transfers to Level 2		—	—	(26,371)	—	—	—	(26,371)
Fair value at June 30, 2009	$	42,463	115,996	621,240	381,766	205,661	10,543	1,377,669

Total investment return consisted of the following for the years ended June 30:

		2009	2008
Interest and dividends	$	26,162	40,162
Net realized and unrealized (losses) gains, net of investment fees		(726,752)	128,013
Total	$	(700,590)	168,175

Total investment management fees for the years ended June 30, 2009 and 2008 were $16,497 and $17,786, respectively, and are netted with net realized and unrealized (losses) gains.

Following is a reconciliation of total investment return to amounts reported in the statements of activities for the years ended June 30:

		2009	2008
Endowment income appropriated – operating	$	133,030	104,674
Investment income included in other income – operating		11,062	8,803
Net investment return (below) above endowment income appropriated – nonoperating		(844,682)	54,698
Total return	$	(700,590)	168,175

(Dollars in thousands)

(a) Liquidity

Investments as of June 30, 2009 are summarized below based on when they may be redeemed or sold:

		Fair values
Investment redemption period or sale:		
Daily	$	584,468
Monthly		43,405
Quarterly		165,085
Semi-annually		42,970
Annually		79,710
Two-to-five years		369,825
Temporarily illiquid		158,529
Locked-up until liquidation		746,001
Total	$	2,189,993

Temporarily illiquid includes lock-ups with indefinite expiration dates, restricted shares, and gates that vary based on the occurrence of events that are uncertain. Locked-up until liquidation includes side pockets, funds in liquidation which have suspended normal liquidity terms, and private equity and real assets where the University has no liquidity terms until the investments are sold by the fund manager.

(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. The University cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. 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, 2009 was $492,551.

(c) Collateralized Borrowing

The University participates in a repurchase agreement under which the University periodically borrows funds collateralized with certain of its securities for other investment purposes. There were no repurchase agreements in effect at June 30, 2009. The balance of such repurchase agreements was $185,316 as of June 30, 2008, and was included in liabilities associated with investments on the 2008 statement of financial position.

(Dollars in thousands)

(d) Funds Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of $10,542 and $13,249 at June 30, 2009 and 2008, respectively. The University receives all or a specified portion of the return on the underlying assets of such trusts, which is primarily restricted for scholarships. The University will never receive the assets held in trust. Other trusteed funds of $2,651 and $52,534 at June 30, 2009 and 2008, respectively, include bond proceeds to be utilized for construction projects in accordance with bond covenants as well as amounts held in reserve.

(4) Endowment

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

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(49,306)	785,047	974,861	1,710,602
Corporation-designated endowment funds		356,956	78,484	—	435,440
Total endowment net assets	$	307,650	863,531	974,861	2,146,042

Endowment net assets consist of the following at June 30, 2008:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	856,638	7,115	1,356,705	2,220,458
Corporation-designated endowment funds		537,009	85,614	—	622,623
Total endowment net assets	$	1,393,647	92,729	1,356,705	2,843,081

(Dollars in thousands)

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

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2008	$	1,393,647	92,729	1,356,705	2,843,081
Interest and dividends		22,960	—	—	22,960
Net realized and unrealized		(647,315)	(10,370)	(12,107)	(669,792)
Endowment income appropriated		(122,992)	(10,038)	—	(133,030)
Contributions		2,716	287	54,791	57,794
Transfers in		28,741	—	—	28,741
Reclassifications and other changes		(7,190)	(8,257)	11,735	(3,712)
Reclassification from adoption of UPMIFA		—	436,263	(436,263)	—
Reclassification under FSP 117-1		(362,917)	362,917	—	—
Endowment net assets, June 30, 2009	$	307,650	863,531	974,861	2,146,042

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, July 1, 2007	$	1,354,006	88,829	1,320,897	2,763,732
Interest and dividends		34,409	—	—	34,409
Net realized and unrealized gains		107,019	9,913	17,614	134,546
Endowment income appropriated		(96,647)	(8,027)	—	(104,674)
Contributions		6,658	9	21,998	28,665
Reclassifications and other changes		(11,798)	2,005	(3,804)	(13,597)
Endowment net assets, June 30, 2008	$	1,393,647	92,729	1,356,705	2,843,081

(Continued)

(a) Interpretation of Relevant Law

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

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

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated $49,306 as of June 30, 2009. 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 the required level will be classified as increases in unrestricted net assets. There were no such deficiencies as of June 30, 2008.

(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. Under this policy, as approved by the Corporation, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 25% of the Barclays Capital Government/Credit Bond Index and 75% of the MSCI All Country World Index while assuming a moderate level of investment risk. The University expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5.5% annually. Actual returns in any given year or period of years may vary from this amount.

(Dollars in thousands)

(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 that places emphasis on investments in public equity, hedge funds, private equity, real assets and fixed income to achieve its long-term return objectives within prudent risk constraints.

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

The University invests its endowment funds and allocates the related earnings for expenditure in accordance with the total return concept. The endowment usage is determined in accordance with the policy adopted by the Corporation. This policy fixes the spending range of endowment total return between 4.5% and 5.5% of the average fair value of 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 Corporation-designated and donor-designated endowment funds.

(5) Land, Buildings and Equipment

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

		2009	2008
Land	$	53,448	47,214
Buildings and improvements		1,081,829	990,627
Equipment		87,635	79,342
Construction in progress		71,440	84,860
		1,294,352	1,202,043
Accumulated depreciation		(516,813)	(468,400)
Land, buildings and equipment, net	$	777,539	733,643

Outstanding commitments on uncompleted construction contracts total $26,697 at June 30, 2009.

(Dollars in thousands)

(6) Bonds, Loans and Notes Payable

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

Name of issue	Interest rate(s)		Type of rate	Final maturity		Balance at June 30 2009	2008
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	0.20% – 0.67%		Fixed	Revolving	$	46,800	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:							
Series 1998	4.75%		Fixed	2014		9,075	10,345
Series 2001A	3.90% – 5.25%		Fixed	2023		28,165	28,715
Series 2001B	0.18%	*	Variable	2032		55,340	55,340
Series 2003A	2.70% – 4.85%		Fixed	2037		44,600	45,410
Series 2003B	0.17%	*	Variable	2043		44,530	44,880
Series 2004	2.75% – 4.75%		Fixed	2025		20,140	20,980
Series A 2005	0.30%	*	Variable	2035		85,500	85,500
Series 2007	4.25% – 5.00%		Fixed	2037		90,010	90,010
Tax-Exempt Commercial Paper, revolving through 2036	0.33% – 0.40%		Fixed	Revolving		50,000	50,000
Brown University Taxable Bonds Series 2005	5.09%		Fixed	2015		17,000	17,000
Loan payable – U.S. Department of Education	5.50%		Fixed	2021		1,240	1,312
Total bonds, loans and notes payable					$	492,400	496,292

* As of June 30, 2009

(a) *Tax Exempt Bonds*

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

(Dollars in thousands)

(b) Taxable Bonds and Other Debt

The Brown University Taxable Bonds, Series 2005 were issued to finance a portion of the acquisition cost of an office building. In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to $50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B.

In 2006, the University implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to $50,000 in revolving commercial paper.

Principal payments of bonds and loan payable as of June 30, 2009 for the succeeding five fiscal years ending June 30 are as follows:

2010	$	4,035
2011		4,185
2012		5,954
2013		7,814
2014		8,184

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party and other data, the University determined that the aggregate carrying value of its debt as of June 30, 2009 and 2008 approximated its fair value.

The University has a revolving line of credit available up to $20,000. As of June 30, 2009, the full amount of $20,000 was available at a rate of 1.07%.

(c) Interest Rate Swaps

At June 30, 2009, the University had in place various interest-rate swap agreements to effectively convert its variable-rate bonds to fixed rates until maturity of the bonds. The swaps' notionals amortize at the same rate as the related debt principal.

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

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30 asset (liability) 2009	2008
JP Morgan (formally Bear Stearns)	11/6/2003	3/3/2008	9/1/2043	$ 44,530	3.732%	$ (7,361)	(3,433)
Goldman Sachs	7/7/2005	10/4/2005	5/1/2035	85,500	3.979	(4,373)	(1,363)
Goldman Sachs	11/15/2006	11/21/2006	9/1/2032	55,340	3.891	(3,007)	(1,174)
						$ (14,741)	(5,970)

(Dollars in thousands)

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Based on the University's current credit rating, cash collateral must be posted by the University if the mark-to-market liability payable by the University exceeds $25 million. The JPMorgan swap stipulates that the University maintain its current credit rating to avoid collateral posting requirements. The counterparties are required to maintain a minimum credit rating based on provisions contained in the individual swap agreements, which were at or above the minimum thresholds contained in the agreements as of June 30, 2009 and 2008.

Interest rate volatility, remaining outstanding principal and time to maturity will affect each swap's fair value at subsequent reporting dates. To the extent the University holds a swap through its expiration date, the swap's fair value will reach zero. Because the swap fair values are based predominantly on observable inputs corroborated by market data, they are categorized as Level 2 for purposes of valuation disclosure under SFAS 157.

(7) Retirement Benefits

The University participates in two contributory retirement plans. The plans provide for the purchase of annuities on a compulsory basis by full-time faculty and administrative staff. The expense to the University, representing its contributions to the accounts of faculty and staff, was $19,437 and $19,942 for the years ended June 30, 2009 and 2008, 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.

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

	2009	2008
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 38,291	35,979
Service cost	1,806	1,728
Interest cost	2,541	2,228
Benefits paid	(1,326)	(1,253)
Actuarial loss (gain)	2,267	(391)
Projected benefit obligation at end of year	$ 43,579	38,291

(Dollars in thousands)

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

	2009	2008
Discount rate	6.24%	6.82%
Rate of compensation increase	4.00	4.50

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

		2009	2008
Change in plan assets:			
Fair value of plan assets at beginning of year	$	32,398	33,115
Actual return on plan assets		(5,668)	(839)
Contributions		4,250	1,375
Benefits paid		(1,326)	(1,253)
Fair value of plan assets at end of year		29,654	32,398
Projected benefit obligation at end of year		(43,579)	(38,291)
Funded status recorded in accounts payable and accrued liabilities	$	(13,925)	(5,893)

		2009	2008
Net periodic pension cost:			
Service cost	$	1,806	1,728
Interest cost		2,541	2,228
Expected return on assets		(2,426)	(2,494)
Amortization of unrecognized prior service cost		149	149
Net periodic pension cost	$	2,070	1,611

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

	2009	2008
Discount rate	6.82%	6.32%
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.

(Dollars in thousands)

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2009 and 2008, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of $812 and $961, respectively, and a net unrecognized actuarial loss of $11,611 and $1,250, respectively. These changes affecting the funded status of the plan are included in other changes in nonoperating activities.

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

The actual asset allocation for the pension plan as of June 30, 2009 and 2008, and the weighted average asset targeted allocation are as follows:

		Actual	
	Target	**2009**	**2008**
Equity securities	65%	59%	63%
Fixed income securities	33	30	36
Cash and cash equivalents	2	11	1
Total	100%	100%	100%

The estimated employer contribution for 2010 is $3,000.

Estimated future benefit payments as of June 30, 2009 are as follows:

	Amount
Fiscal year:	
2010	$ 1,787
2011	1,881
2012	1,962
2013	2,060
2014	2,193
2015 – 2019	13,752

(Dollars in thousands)

(8) Net Assets

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

2009	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Undesignated, departmental funds	$ 38,008	—	—	38,008
University designated	47,011	—	—	47,011
Donor restricted	—	89,170	—	89,170
Facilities and equipment	291,971	94,281	—	386,252
Student loans	9,558	—	8,775	18,333
Endowment	307,650	863,531	974,861	2,146,042
Total net assets	$ 694,198	1,046,982	983,636	2,724,816

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

(Dollars in thousands)

(9) Functional Classification of Expenses

Functional categories are reported after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness and depreciation. Operating expenses incurred in the fiscal years ended June 30 were as follows:

		2009	2008
Instruction and departmental research	$	236,373	218,781
Sponsored programs		103,988	101,264
Academic and student support		116,727	111,015
Auxiliary services		92,957	86,229
Institutional support		86,502	88,983
	$	636,547	606,272

(10) Commitments and Contingencies

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

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

(11) Related-Party Transactions

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

(12) Subsequent Events

In August 2009, the University issued taxable bonds with a par value of $100,000 at a fixed rate of 4.57%, maturing September 1, 2019. No principal payments are required on the bonds until their maturity. The bonds are for general University purposes. In September 2009, the University issued $70,795 in tax-exempt bonds through RIHEBC at a fixed rate of 5%, maturing September 1, 2039. The bonds were sold at a premium, resulting in a yield to the first optional call date by the University (September 1, 2019) of 4.15%. No principal payments are required on the bonds until their maturity. The bonds are being used to refund $50,000 of taxable commercial paper and to finance various capital projects.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2009 and through October 26, 2009, the date on which the financial statements were issued.