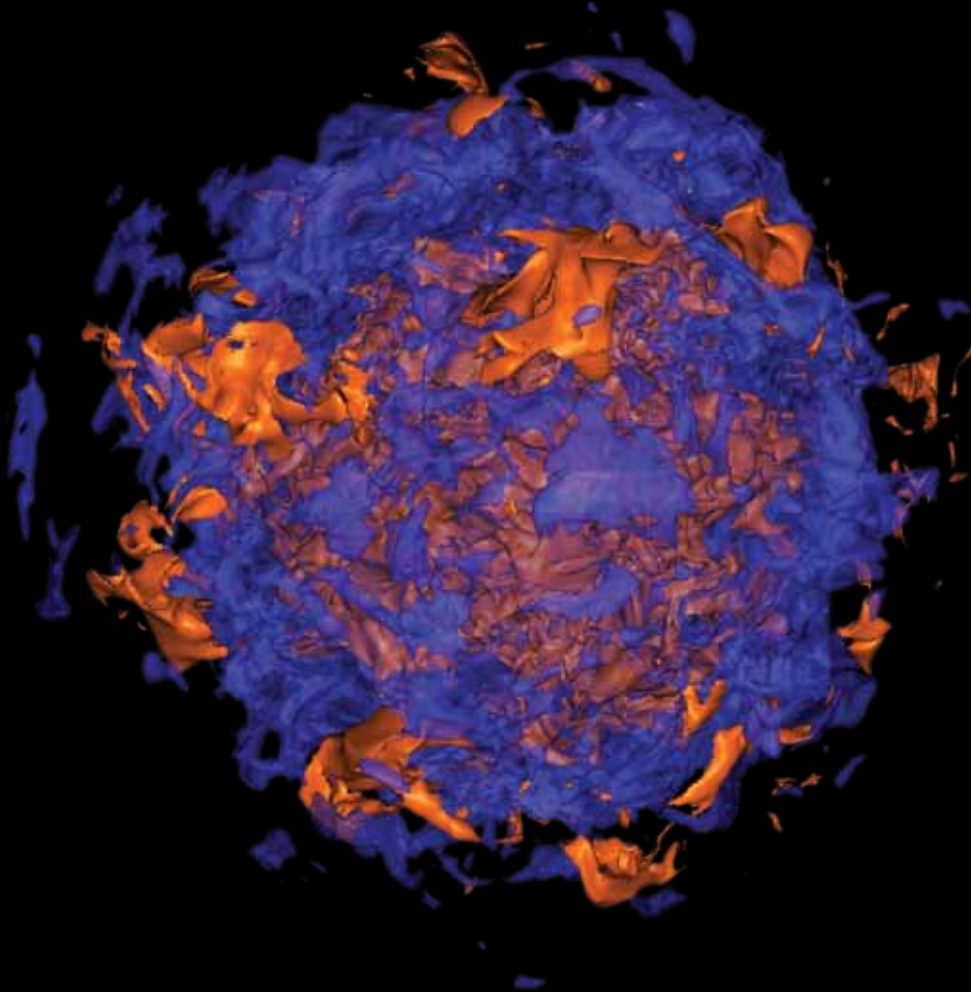


REPORT OF THE TREASURER

2009-10



Research Funding:

*Accelerating Discovery and Expanding Collaboration*



# Princeton University Highlights

*Fiscal years ended June 30*

## Financial

*(dollars in thousands)*

	2010	2009
Principal sources of revenues		
Tuition and fees (net)	\$87,611	\$87,631
Government grants and contracts	242,436	216,512
Private gifts, grants, and contracts	66,515	57,436
Investment earnings, including unrealized gains or losses	1,760,779	(3,731,351)
Principal purposes of expenditures		
Educational and general	1,004,193	974,013
Auxiliary	111,581	107,287
Summary of financial position		
Assets	18,195,422	16,637,761
Liabilities	3,524,915	3,257,639
Net assets	14,670,507	13,380,122
Net assets		
Unrestricted/designated	5,994,533	5,451,277
Temporarily restricted	7,140,152	6,477,745
Permanently restricted	1,535,822	1,451,100
Total	14,670,507	13,380,122

## Students

### Enrollment

Undergraduate students	5,044	4,895
Graduate students	2,450	2,450

### Degrees conferred

Bachelor degrees	1,188	1,136
Advanced and all other degrees	804	752

### Annual tuition rate

Undergraduate	\$35,340	\$34,290
Graduate	35,340	34,290

## Faculty


Full-time equivalent	915	936
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### *On the Cover*

A Princeton-led research team has found a way to make computer simulations of supernovae exploding in three dimensions, which may lead to new scientific insights. Although these mammoth explosions of stars have been observed for thousands of years, researchers have struggled for the past 50 years to mimic the step-by-step destructive action on computers.

Adam Burrows, a professor of astrophysical sciences at Princeton, and his team used powerful supercomputers that allowed the various multidimensional instabilities to be expressed. The scientific visualization employed by the team was an interdisciplinary effort combining astrophysics, applied mathematics, and computer science. The research was funded by the U.S. Department of Energy and the National Science Foundation.

## *Supporting Discovery*

As a world-renowned research university, Princeton seeks to achieve the highest levels of distinction in the discovery and transmission of knowledge and understanding. The attentive stewardship of financial assets provides a stable foundation that enables University researchers to accelerate innovation and creativity. Whether from the traditional projects of scientists working within their fields or the increasingly common ventures of many researchers transcending disciplinary boundaries and time zones, the new knowledge that emerges from our unique interplay of resources and talents is placed at the service of national and global goals. 

## Closing the Books, Opening the Doors



I am pleased to present the financial results for Princeton University for fiscal year 2010.

As we closed the books on fiscal year 2010, we were opening the doors to the new Frick Chemistry Laboratory (shown at right) and breaking ground on the new Neuroscience and Psychology Buildings. These activities exemplify the core mission of the University—teaching and research, including investments in basic research. Our investments are significant and also rely on sponsorship from the federal government and others in support of the advancement of discovery and collaboration.

As you will learn in this report, funding for research at Princeton has increased by 81 percent during the last 25 years, from \$97.6 million to \$176.8 million. And those figures do not include the support from the federal government for the Princeton Plasma Physics Laboratory, which amounted to \$80.1 million this year.

Our new 265,000-square-foot chemistry laboratory and 248,000-square-foot neuroscience/psychology complex will allow an expanded faculty, recruited from the top ranks of scholars, to teach and conduct research at the frontiers of science. Funding for these facilities is coming from a variety of sources. Princeton's U.S. patent for the anti-cancer drug Alimta, developed from the discoveries of chemistry professor emeritus Edward Taylor in cooperation with the pharmaceutical company Eli Lilly, yielded royalties that supported the construction of the laboratory. The neuroscience and psychology project is attracting financial assistance from several generous donors interested in seeing the interdisciplinary Princeton Neuroscience Institute thrive in a state-of-the-art environment.



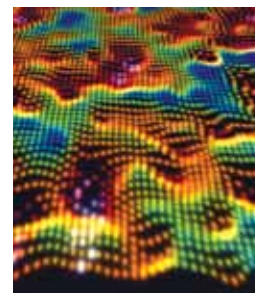
Balance sheets and square feet are metrics, but the important part is the people—the faculty, staff, students, and donors who together are dedicated to the creation and dissemination of knowledge.

Just as I am pleased to present the numbers and good results of this year, I also am proud of Princeton and its commitment to creating spaces and resources for people to expand the boundaries of the arts, humanities, and sciences.

A handwritten signature in black ink that reads "Carolyn N. Ainslie". The signature is written in a cursive, flowing style.

Carolyn N. Ainslie  
Vice President for Finance and Treasurer

## Accelerating Discovery and Expanding Collaboration



Fiscal year 2010 marked the completion of the new Frick Chemistry Laboratory, the start of construction on the new Neuroscience and Psychology Buildings, and the unveiling of initial designs for the Andlinger Center for Energy and the Environment. These structures symbolize and help make possible the continuing strength of Princeton's distinguished research program. University faculty, research staff members, and students conduct pioneering work across a broad range of academic disciplines in state-of-the-art facilities across the campus and abroad. This past year's sponsored research expenditures were \$176.8 million, a 12 percent increase from 2009 despite an uncertain economy. With an additional \$80.1 million in expenditures for the Princeton Plasma Physics Laboratory, the total sponsored research support for 2010 was \$256.9 million. *But like the roots of Princeton's teaching program in a church parsonage, the origins of the University's research program are modest...*



The new Frick Chemistry Laboratory, completed in 2010, provides state-of-the-art facilities for research and teaching.

In an effort to strengthen physics research in the early 1900s, the trustees hired two brilliant young Englishmen, James Jeans in applied mathematics and Owen Richardson in physics. Richardson described the "research facilities" he found in the John C. Green School of Science, which was located near today's Firestone Library and burned down in 1928.

"I remember getting quite a shock when I was first introduced to the part where I was expected to set up a research laboratory," he remembered in a letter 50 years later. "This was a kind of dark basement, ventilated by a hole in the wall, apparently accidental in origin, and inhabited by an impressive colony of hoptoads which enjoyed the use of a swimming pool in one corner. However, with the help of the Clerk of Works these visitors and their amenities were got rid of and a lot of good work was done in it."

Research then, as now, required the marshaling of resources to ensure success.

**Above:** On the brink of a transition from metal to insulator in a recent physics research project, the electrons in a manganese-doped gallium arsenide semiconductor are distributed across the surface of the material in complex, fractal-like patterns.

## Research Funding:

Accelerating Discovery  
and Expanding Collaboration



### DUAL MISSION

While consistently among the top 100 institutions in the United States earning federal research support, Princeton stands out among its peers because of its small size, its absence of more than a handful of professional schools, and the degree to which its faculty is committed to teaching as much as to research. The scholars who come to Princeton not only love to spend hours in laboratories and libraries;

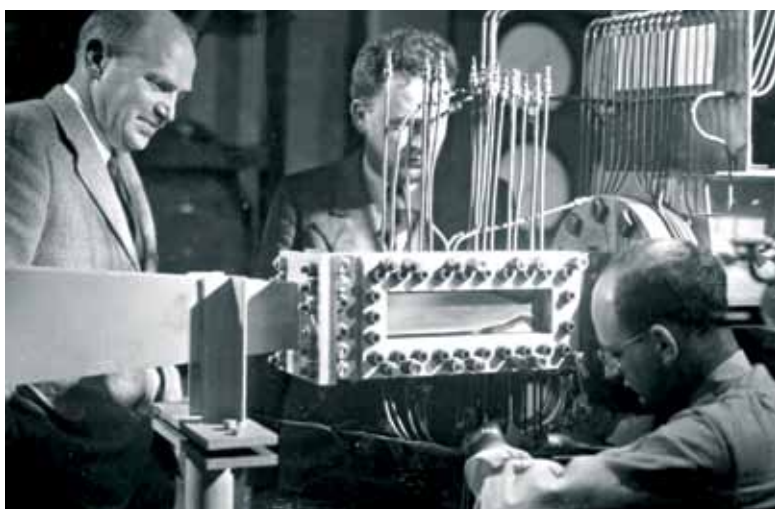
the different academic areas. But after the application of basic research to military operations during the war, the country's leaders realized the value of university research to serve the public good. Demand skyrocketed for technologically complex experiments in the sciences and engineering at a scale and in sophisticated facilities that could be attained only with government support.

Federal investment continued during the Cold War. In 1951, Princeton entered into its first contract with the U.S. Atomic Energy Commission to develop fusion as an energy source for the world at what would become the Plasma Physics Laboratory on the Forrestal Campus. Support increased dramatically following the Soviet Union's launching in 1957 of Sputnik, the first Earth-orbiting artificial satellite. The "space race" ignited, and researchers entered a period they call the "golden age." A host of discoveries funded by generous grants opened doors to further intellectual insights as well as practical devices.

In the last two decades, federal funding has waxed and waned as the country's economy has had its ups and downs. Continued investment is needed both to inspire and prepare the next generation of researchers and to maintain this country's position as a leader in the global economy.

**Above:** The National Spherical Torus Experiment (NSTX) is an innovative magnetic fusion device that began operating at the Princeton Plasma Physics Laboratory in 1999.

**Left:** Researchers in the late 1940s from the Department of Aeronautical Engineering adjust a supersonic wind tunnel on campus. Princeton earned several large contracts from the government during the Cold War for the study of jet propulsion.

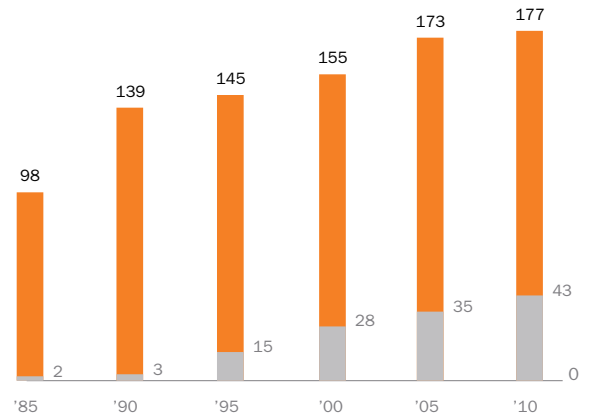


they also treasure time in the classroom. Those at the forefront of research inevitably are the best teachers, almost simultaneously creating new knowledge and sharing it with their students.

This idea of a dual mission also is reflected in Princeton's research policies. The work must serve the public interest by advancing, preserving, and disseminating knowledge. It also must engage undergraduates, graduate students, and postdoctoral researchers as a vital part of their education.

Princeton stewards the gifts, grants, and other financial resources underpinning the research program in a thoughtful and prudent manner. Before World War II, the University essentially funded its own research program, with equivalent support across

■ Total Research Expenditures  
■ Research Center Expenditures



### FUNDING SOURCES

Between 1985 and 2010, support for research at Princeton has increased by 81 percent, from \$97.6 million to \$176.8 million (see chart). These figures do not include the additional funding, primarily from the Department of Energy, for the Princeton Plasma Physics Laboratory. Again excluding the PPPL, the University's current outside research funding comes from: government (85.7 percent); foundations (6.9 percent); industry (5.1 percent); and private/other sources (2.3 percent). Of the government support, the top three funding agencies are: the National Institutes of Health (34.1 percent); the National Science Foundation (27.0 percent); and the Department of Defense (20.0 percent).

About three-quarters of sponsored research funding supports the direct cost of the research. Direct costs are the expenditures for research technical staff, postdoctoral researchers, graduate students, equipment, supplies, travel, and the like. The rest of the funding is for indirect costs—charged as a percentage applied to direct costs in order to reimburse the University for the costs of facilities, including the library (depreciation, heat, power, cleaning, security) and administrative support at both the departmental and central levels (payroll, financial reporting, the Office of Research and Project Administration, departmental support staff, personnel, purchasing, etc.). These recoveries flow into the University's budget as general funds. While indirect costs by definition cannot be specifically identified with individual awards, they are real costs that are essential to fulfill the University's research mission.

The University has been awarded \$27.1 million in stimulus funds since 2009 that will be fully spent over the next two to three years in support of more than 60 projects in wide-ranging fields, while the PPPL has received \$19.4 million for fusion research.

### Total Research Expenditures and Sponsored Research Center Expenditures

*Dollars in Millions*

Cells glow brightly 18 hours after being infected with a genetically engineered virus that directs them to produce colorful fluorescent proteins. Princeton researchers are using this technique to study brain connectivity.



### Research Funding:

Accelerating Discovery  
and Expanding Collaboration



**Above:** Graduate students and postdoctoral researchers from Princeton are conducting Web-based meetings with scientists at partner institutions in the Princeton Physical Sciences-Oncology Center.

**Left:** Scientists from Princeton and Japan have formed a partnership to use the Subaru Telescope, which sits atop an isolated peak in Hawaii that is one of the best on Earth for astronomical viewing.



The top overall award to Princeton in 2010 (excluding the PPPL) was a \$2.9 million stimulus grant to an interdisciplinary team of scientists led by University engineers who are studying how fuel additives can help supersonic jets fly faster and make diesel engines cleaner and more efficient.

As in the days of the early physics department, Princeton continues to fund more than \$50 million of its research internally. When Princeton astronomers entered a 10-year partnership in 2009 with the National Astronomical Observatory of Japan to conduct research at the Subaru Telescope located at the summit of Mauna Kea in Hawaii, it made a substantial commitment of funds from departmental endowments and highly valued research funds targeted at upgrading the telescope's instrumentation. The collaboration already is yielding results, with a team from Princeton and institutions in Hawaii, Canada, Germany, and Japan making the first direct observation of a planet-like object orbiting a star similar to the sun.

### UNITED DISCIPLINES

Princeton physical scientists also are partnering with researchers at four other institutions to explore the driving forces behind the evolution of cancer under a five-year, \$15.2 million award from the National Cancer Institute. The Princeton Physical Sciences-Oncology Center was launched in fall 2009 as one of 12 centers in the institute's new network of Physical Sciences-Oncology Centers. The center's goal is to understand the explosive evolution of cancer under stress at a deep theoretical and experimental level by leveraging the strengths of an interdisciplinary team of physicists, engineers, chemists, biochemists, and oncologists. Using a physics-based approach, the team intends to better grasp the rules or laws that govern how cancer evolves, which may one day inform entirely new treatment approaches.

This type of cross-disciplinary, multi-institutional research is becoming increasingly common. In fact, 24 percent of Princeton's external research funding in 2010 went to interdisciplinary research centers, compared to 2 percent 25 years ago (see chart on previous page).





**Above:** This rendering shows the Neuroscience and Psychology Buildings, where construction began in spring 2010. It will provide a home for the Princeton Neuroscience Institute.



**Left:** Coleen Murphy (seated at right), a faculty member in molecular biology and the Lewis-Sigler Institute for Integrative Genomics, is examining the life cycle of roundworms to better understand their genetic mechanisms—and those of humans.

Princeton is home to many centers that have formed to address emerging areas of research and teaching where the University believes it can be a leader. They are supported through a combination of private gifts, federal and other outside grants, and University funds.

**The Princeton Neuroscience Institute**, formed in 2005 to focus on understanding principles of function and interaction that apply across the brain. This “systems approach,” which includes an understanding of neural coding and dynamics, draws on the University’s historical strengths in quantitative disciplines such as mathematics, physics, engineering, computer science, and economics. A new home for the institute is under construction.

**The Lewis-Sigler Institute for Integrative Genomics**, which was established in 1998 to innovate in research and teaching at the interface of modern biology and the more quantitative sciences. The institute is the hub of the Center for Quantitative Biology.

**The University Center for Human Values**, which celebrated its 20th anniversary in 2010. It was formed to deepen and enhance collaboration at Princeton among scholars across the disciplines with a shared commitment to research and teaching about values in public and private life.



Kwame Anthony Appiah, who teaches in the Department of Philosophy and the University Center for Human Values, is an internationally renowned scholar of moral and political philosophy, African and African American studies, and issues of personal and political identity, multiculturalism, and nationalism.

## Research Funding:

Accelerating Discovery  
and Expanding Collaboration



The Bendheim-Thoman Center for Research on Child Wellbeing, an interdisciplinary center in the Woodrow Wilson School of Public and International Affairs and the Office of Population Research. Established in 1996, its mission is to stimulate basic research, educate faculty and students about issues related to children's policies, and influence policymakers and practitioners at the federal, state, and local levels. Its three major research initiatives are: the Fragile Families and Child Wellbeing Study; The Future of Children, a journal for children's policies (see cover above); and the Princeton Global Network on Child Migration.

The Andlinger Center for Energy and the Environment, established in 2008 to support a vibrant and expanding program of research and teaching in the areas of sustainable energy development, energy conservation, and environmental protection and remediation. The center is pursuing these studies with an eye toward translating fundamental knowledge into practical solutions that will enable sustainable energy production and the protection of the environment and global climate from change. Initial plans for laboratory, classroom, and garden spaces for the center were unveiled in spring 2010 (see rendering).



## CONTINUED VIGILANCE

Princeton's departments are becoming more interdisciplinary as well. Faculty in the Department of Chemistry, which will offer the first full load of classes in the new Frick Chemistry Laboratory in February 2011, work at the frontiers of science where the lines between chemistry and other disciplines fuse. They conduct collaborative, interdisciplinary research with the potential to produce findings ranging from new molecules and forms of energy to advanced models of catalysis and innovative materials.

Princeton has emerged from the recent economic downturn with its research program robust, due in part to the efforts of those who steward the University's financial resources and federal leaders who understand the value of basic research. Continued vigilance will be key in preserving the value of Princeton's assets for future generations.

In a recent speech, Princeton President Shirley M. Tilghman discussed the challenges facing science researchers and encouraged the audience to respond to her call to action.

"Let us not forget that in the second half of the 20th century, men and women on this continent created the most impressive and powerful engines for innovation and creativity that the world has ever known," she said. "The seeds of that success, rooted in our nations' research universities, are still with us, slightly battered but unbowed, and if we nurture them, as I believe we can, the golden age of North American science will not be something that my generation talks about nostalgically. Rather, we will be able to say—and say with confidence—*'The best is still to come!'*"

**Below:** Emily Carter, a Princeton professor of engineering and applied mathematics and an eminent physical chemist, is serving as the founding director of the Andlinger Center for Energy and the Environment.



# Financial Statement Overview



For Princeton University, fiscal 2010 was a year of stabilization, recovery, and resurgence in the aftermath of the worst economic crisis since the Great Depression. Princeton managed to preserve and strengthen its financial condition during the year and emerge with assurance that its financial resources are well on their way to restoration. Net assets for the fiscal year ended June 30, 2010, increased by \$1.3 billion, or 9.6 percent, almost entirely due to investment gains, supplemented by a modest operating surplus. The overall return of 14.7 percent from Princeton's managed investment portfolio outpaced its peer group of large university endowments, in the context of the financial market recovery.

Revenues from gifts and pledges, while below the record highs reached in recent years, were consistent with Princeton's long history of successful fundraising and were a testament to the generosity of Princeton's loyal alumni, even during uncertain times. Revenues from government sponsors grew 12 percent as Princeton was able to compete effectively for increased federal research funding. As a result of Princeton's conservative fiscal management practices, as well as budget reductions made in response to the 2009 investment declines, the University ran an operating surplus in fiscal year 2010 of \$22 million, or 1.7 percent. At the same time, Princeton was able to increase the funding of financial aid for its students, a high priority for the University. Princeton was able to successfully continue its annual practice of issuing tax-exempt bonds for capital expenditure and renewal purposes. Princeton's bonds continued to draw high demand as a safe haven for conservative investors, as they did during the most precarious moments of the financial crisis. In conjunction with its \$250 million 2010 Series bond issue, Princeton received affirmation of the highest attainable credit ratings from both Moody's Investors Service and Standard & Poor's agencies.

## ACCOUNTING PRINCIPLES

Princeton University's financial statements, which follow herein, are presented in accordance with generally accepted accounting principles set forth by the Financial Accounting Standards Board (FASB) as supplemented by the American Institute of Certified Public Accountants (AICPA) audit and accounting guide for not-for-profit entities. In addition to general accounting guidance, the statements reflect the impact of specific reporting requirements of not-for-profit organizations prescribed by FASB Accounting Standards Codification (ASC) 958—*Not-for-Profit Entities* on the subjects of accounting for contributions and the format of general purpose external financial statements. Compliance with AICPA guidance includes the consolidation of wholly owned subsidiaries and significant trusts in which the University is a beneficiary, as well as reporting tuition discounts, primarily fellowships and scholarships, as reductions of tuition revenue. The financial statements are fully comparable, including prior-year data on the Consolidated Statements of Activities.



### FINANCIAL REPORTS

The principal objectives of FASB ASC 958-205 are to provide consistency among the financial statements of not-for-profit organizations and to make them more comparable to those of the for-profit sector. FASB ASC 958-205 requires not-for-profit organizations to provide, for their external financial reports, a statement of financial position, a statement of activities, and a statement of cash flows. The organization's resources are classified among three categories of net assets, that is, gross assets less related liabilities, based solely on the existence or absence of donor-imposed restrictions. Amounts for each of the three classes of net assets—permanently restricted, temporarily restricted, and unrestricted—are displayed in a statement of financial position, and the amounts of change in each category are displayed in a statement of activities.

Permanently restricted net assets are those resources that may never be spent, mainly endowment funds. They are generally the results of gifts and bequests with donor stipulations that they be invested to provide a permanent source of income. They may also include gifts in kind such as works of art or real property. Temporarily restricted net assets include those that, again by donor stipulation, must be invested only for a certain period of time or may be used in a future period for a specified purpose. Under recently adopted FASB ASC 958-205-45-28, temporarily restricted net assets also include income and gains on temporarily and permanently restricted funds, absent explicit donor stipulations

to the contrary, until appropriated for expenditure. Unrestricted net assets may be expended for any purpose and result from gifts, other institutional resources, and income and gains on those funds.

### Statement of Financial Position

The statement of financial position is a snapshot of the University's resources and obligations at the close of the fiscal year and is comparable to the document sometimes referred to as the balance sheet. Assets on the statement, which total \$18.2 billion as of June 30, 2010, are presented in decreasing order of liquidity, from cash to property, the least liquid of its assets. As of June 30, 2010, managed and other investments totaling \$14.7 billion constitute 81 percent of total assets, and property net of accumulated depreciation totaling \$2.7 billion constitute an additional 15 percent. Other significant assets are contributions receivable, a requirement under FASB ASC 958-310, which total \$260 million, and educational and mortgage loans receivable, which total \$401 million.

Liabilities, which total \$3.5 billion as of June 30, 2010, also are presented in order of anticipated time of liquidation. Indebtedness to third parties totaling \$2.7 billion, which primarily includes loans to finance the construction, renovation, and maintenance of University facilities and bonds issued for working capital purposes, constitute 77 percent of total liabilities as of June 30, 2010. Also included are the liabilities under unitrust agreements totaling \$70 million, which represent the estimated amounts payable to donors under the University's planned giving programs. The accounting rules require donees to record a liability for the present value of the expected lifetime payments to donors and to recognize the net amount received as a contribution in the year of receipt.

Net assets, which total \$14.7 billion as of June 30, 2010, are calculated as total assets less total liabilities, and are classified among three categories—

unrestricted, temporarily restricted, and permanently restricted—as discussed above. Unrestricted net assets, which total \$6.0 billion as of June 30, 2010, include gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. In accordance with the accounting rules, certain unrestricted net assets have been partially earmarked, or designated, according to their intended use by the University. Temporarily restricted net assets, which total \$7.1 billion, include promises to give that are receivable in future years as well as donor-restricted contributions, the purpose of which has not yet been fulfilled. A significant portion of temporarily restricted net assets includes income and gains on endowment assets which have been reinvested. Permanently restricted net assets, which total \$1.5 billion, include endowment gifts that cannot be spent and funds held in perpetual trust by others.

#### **Statement of Activities**

The statement of activities is a summary of the income and expenses for the year, classified according to the existence or absence of the restrictions described above. Sources such as tuition, sponsored research, and auxiliary activities are normally shown as unrestricted income, although income from certain gifts or sponsored agreements may be includible in any of the three classes of income depending upon the donor's specifications. Gifts to endowment, for example, are permanently restricted. Income from temporarily restricted sources is reclassified to unrestricted income when the circumstances of the restriction have been fulfilled. All expenditures are made from unrestricted net assets, since an amount cannot be spent until all restrictions on its use have been removed.

The statement of activities is presented in two sections, operating and nonoperating, which attempt to reflect the principles of the University's operating budget. Items of income shown in the operating section, which total \$1.3 billion for the year ended June 30, 2010, include all unrestricted receipts



as well as the endowment earnings made available for spending under the spending rule. Virtually all expenses, which total \$1.2 billion, are considered to be associated with operating activity. For the year ended June 30, 2010, the University produced a surplus from operating activities in the amount of \$22 million, calculated as total operating revenues less total operating expenses. Major items of income that are considered nonoperating, which amount to \$1.3 billion for the year ended June 30, 2010, include unrealized appreciation on investments and endowment income earned in the current year to be used in the succeeding year in accordance with operating budget policy. Unrestricted gift income, primarily from Annual Giving, is shown as operating income, while income from promises to give (pledges) is considered a nonoperating source of income.

The statement of activities concludes with a reconciliation of the change in each class of net assets for the year to the balance of net assets shown on the statement of financial position. The total change in net assets for the year ended June 30, 2010, for all classes of net assets is an increase of \$1.3 billion.



### Statement of Cash Flows

The statement of cash flows is intended to be the bridge from the increase or decrease in net assets for the year to the change in cash balances from one year-end to the next. Several items shown as expenses in the statement of activities, such as depreciation, do not require an outlay of cash, whereas the purchase of capital assets, which does require the expenditure of cash, is added directly to the statement of financial position and only shows on the statement of activities on a depreciation basis. Other items that affect cash balances but are not required to be included in the statement of activities include the purchase and sale of investment securities, borrowing proceeds and the repayment of loan principal, and the net change in accounts receivable and payable.

The reconciling items on the statement of cash flows are grouped into three categories. Operating activities, which used \$586 million in net cash for the year ended June 30, 2010, are those items of income and expense that occur during the normal course of providing services as an educational institution. Cash flows from operating activities also include investment earnings distributions, which have been temporarily suspended since 2009 in order to preserve investment liquidity. Investing activities, which provided \$260 million in net cash, include the acquisition and disposal of capital assets such as buildings and equipment, and the purchase and sale of investments. Financing activities, which provided \$325 million in net cash, are those transactions that provide permanent capital for the organization, such as endowment gifts. Also included are the disbursement of funds for new student and employee loans, and the collection of principal payments on such loans, as well as the proceeds from long-term borrowing to finance capital additions, renewal, and replacement, and the repayment of principal on such indebtedness.

### CONTRIBUTIONS

In accordance with FASB ASC 958-310, donors' unconditional promises to give are required to be recorded as revenue and as amounts receivable by donees in the year received. Where collection is not expected within one year, the amount recorded is determined on a present-value basis. Conditional promises to give are recognized when they become unconditional, that is, when the conditions imposed by the donor have been substantially met.

Contributions must be classified among those that are permanently restricted, temporarily restricted, or unrestricted, as determined solely by the donor. For the year ended June 30, 2010, contributions classified as permanently restricted totaled \$55 million, as temporarily restricted totaled \$94 million, and as unrestricted totaled \$67 million. The classification of contributions is essential for the proper presentation of revenue in the statement of activities and of net assets in the statement of financial position, previously discussed.

### ENDOWMENT MANAGEMENT

A significant portion of the operating budget is financed from endowment earnings. Consequently, the University's investment portfolio is managed for a total return that is accounted for under a consistently applied formula.

Most invested funds participate in the Primary Pool, which is operated on a market-value basis. Long-term growth of principal and increase of future earnings are the University's objectives in the investment of these funds. Funds participating in the Primary Pool are assigned units on a market-value basis. Funds withdrawn from the Primary Pool receive appreciation or depreciation based on the change in unit market values. After deducting investment management fees, the earnings are allocated on the basis of units owned by participating funds.

The University follows an endowment spending rule that provides for an annual increase in the amount of Primary Pool earnings allocated for spending, provided that the resulting spending rate, expressed as a percentage of the market value, remains within a band between 4 and 5.75 percent. Otherwise, the spending rule may be modified for a given year, as was necessary in the years ended June 30, 2009 and 2010, due to the severe decline in the Primary Pool's market value. For the Primary Pool's year ended May 31, 2010, the interest and dividends per unit (net of investment management fees) were \$46.41. The unit earnings allocated for spending in the subsequent fiscal year were \$351.93 in fiscal year 2010 and \$382.53 in fiscal year 2009. The market value of a unit was \$6,903.37 at June 30, 2010, and \$6,343.42 at June 30, 2009.

A Secondary Pool is maintained for funds expected to be disbursed within five years. The University guarantees the principal of these funds and makes annual distributions at prevailing money market rates. Distributions to the participating funds for the Secondary Pool's year ended May 31, 2010, equaled 0.12 percent of the average market value.

The Balanced Fund and the Income Fund have been established for funds subject to the donor's reservation of life income. The fiscal year-end for each pool is December 31. These pools are operated on a market-value basis in a manner similar to the Primary Pool. Earnings are distributed quarterly to the beneficiaries. For the year ended December 31, 2009, the earnings distribution from the Balanced Fund was \$88.38 per unit, and the average market value of a unit was \$2,207.08; the earnings distribution from the Income Fund was \$8.00 per unit, and the average market value of a unit was \$144.70.



The University also maintains a group of separately invested funds. Included therein are funds established from gifts of investments restricted as to sale by donors, funds held in trust by others, and the University's investments in strategic real estate.

## CONCLUSION

In summary, Princeton hopes that the readers of these financial statements find the presentations and explanations helpful in interpreting the financial state of the University. Princeton is blessed with significant financial resources, which it is entrusted to protect and preserve over very long time horizons. This long-term view allows Princeton to weather any near-term financial challenge, such as the one experienced in 2009. The University is committed to utilizing its financial resources in a thoughtful, prudent, and consistent manner in support of its current institutional and research programs, while at the same time preserving their value for future generations.

A handwritten signature in black ink, reading "Kenneth Molinaro". The signature is written in a cursive style.

Kenneth Molinaro  
Controller

# Report on Investments



**Introduction** As of June 30, 2010, the assets that Princeton has traditionally described as “Endowment” stood at \$14.4 billion, approximately \$1.8 billion more than the year before.<sup>1</sup> The vast majority of the Endowment, \$13.9 billion, is actively managed by the Princeton University Investment Company (PRINCO).<sup>2</sup> PRINCO is a University office, but maintains its own Board of Directors (the “Directors”), and operates under the final authority of the University’s Board of Trustees (the “Trustees”).

The purpose of the Endowment is to support the University’s current and future operating needs, while preserving real value for future generations. This mission requires an expected long-term return that exceeds both the annual rate of spending and University inflation. To pursue this goal, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

## Spending

Each year the Trustees decide upon an amount to be spent from the Endowment for the following fiscal year.<sup>3</sup> In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. Until recently, the framework targeted annual spending rates of between 4 percent and 5 percent. In 2006, the Trustees decided that based upon the strengthening of Princeton’s investment program, higher long-term average spending rates could be supported. Importantly, the analysis supporting this decision highlighted the fact that financial markets, and therefore Endowment performance, were likely to be more volatile than had been the case over the past two

decades. As a result, the Trustees decided to expand the spending target range in order to dampen, at least partially, the budgetary impact of financial market volatility. To achieve the twin goals of higher long-term average spending and increased budgetary resilience, the Trustees raised the upper boundary of the spending target range to 5.75 percent.

In fiscal 2010, the Endowment spending distribution, in aggregate, equaled \$653 million.<sup>4</sup> On a per-unit basis, spending charges equated to 6.03 percent of market value at the start of fiscal 2010. This rate was slightly above the targeted range, but Princeton’s spending framework encourages the Trustees to consider issues of budgetary stability and to temporarily set spending at rates outside the targeted range when these issues become overriding concerns.

1. Excluded from “Endowment” are working capital, planned giving investments, bond proceeds awaiting drawdown and certain student loans.

2. The pool actively managed by PRINCO excludes University mortgages, loans, and other assets held for strategic purposes in addition to investment return. “Endowment net assets” as reported in the notes to the Consolidated Financial Statements in the amount of \$13.8 billion as of June 30, 2010 further exclude agency funds in custody for others.

3. Excluded from these decisions are funds devoted to certain strategic purposes, such as subsidizing faculty and staff housing.

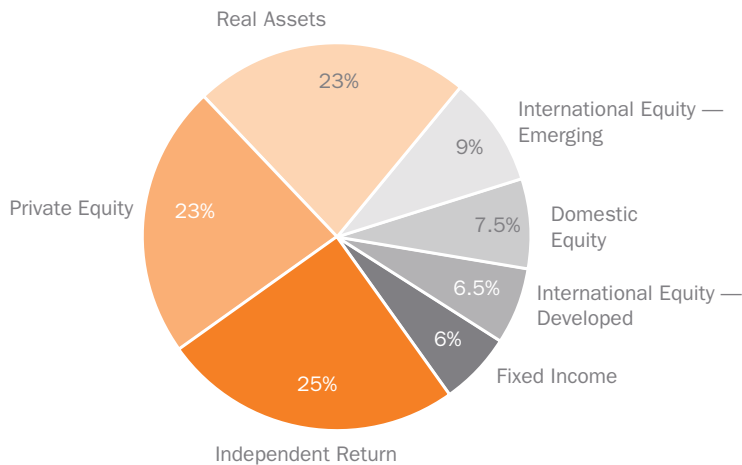
4. Investment earnings distributed in fiscal year 2010 in the amount of \$657 million in the Statement of Activities is composed of Endowment spending of \$653 million, plus earnings from funds held in trust by others, working capital, planned giving investments, and other nonendowment investments.



**FIGURE 1**

**Princeton University Policy Portfolio**

June 30, 2010



The University had excess working capital during fiscal 2010, a result of having issued \$1 billion of taxable bonds in January 2009. At the time, the University decided to take advantage of an opportunity to issue debt that locked in attractive long-term rates, and provided extra safety in the form of excess liquidity during a time of great uncertainty in the world's financial markets. Because of its strong balance sheet, the University was able to build up protective liquidity reserves without selling assets at highly depressed prices. The proceeds from the bond issuance have been segregated in an asset pool apart from the Endowment, and through fiscal 2010 continued to be drawn upon to fund operations. As a result, spending distributions charged against Endowment units have largely been reinvested in the Endowment.

**Asset Allocation**

Asset allocation involves deciding what share of the portfolio should be placed in the various broad asset categories. The decisions attempt to balance the relative merits of equities *versus* fixed income, domestic *versus* foreign investments, and publicly traded *versus* nonmarketable assets.

Princeton's long-term asset allocation decisions are embodied in a Policy Portfolio that describes the asset categories in which Princeton will invest, a set of target weights that indicate how the portfolio will be positioned in "normal" market conditions, and a range of weightings within which exposures can be adjusted in response to strategic (midterm) opportunities arising from significant market disequilibria. Figure 1 at left depicts the Policy Portfolio targets.

Clearly evident is PRINCO's bias toward equities or equity-like assets—94 percent of the portfolio is allocated toward these investments. Also striking is the relatively small portion, 7.5 percent, of the portfolio dedicated directly to Domestic Equities. Large portions of the portfolio are allocated to other high-expected-return categories. Independent Return, Private Equity, and Real Assets bear further description. Independent Return is broadly defined as consisting of investment vehicles that seek high absolute returns that are typically independent of broad market trends. Private Equity and Real Assets include investments in private companies, venture capital opportunities, real estate, and natural resources. These areas have offered attractive opportunities for skilled, patient investors.

The Policy Portfolio is diversified among asset categories for a number of reasons. Most importantly, PRINCO seeks return premia, in both risk-adjusted and absolute terms. In each equity asset category, Princeton has competitive advantages that create superior return potential. A broader opportunity set means that the portfolio may be capable of producing high returns more often and in a greater variety of environments. The multi-asset class approach also offers diversification benefits that help to control risk in most environments.



TABLE 1

**Princeton University Endowment Policy Portfolio Targets**  
Every Five Years Since 1991

<i>Asset Class</i>	<i>1991</i>	<i>1996</i>	<i>2001</i>	<i>2006</i>	<i>2011</i>
Domestic Equity	45.0%	20.0%	20.0%	15.0%	7.5%
International Equity					
Developed Markets	10.0%	7.5%	7.5%	8.5%	6.5%
Emerging Markets	0%	7.5%	7.5%	8.5%	9.0%
Independent Return	0%	25.0%	25.0%	25.0%	25.0%
Private Equity	10.0%	15.0%	15.0%	15.0%	23.0%
Real Assets	10.0%	10.0%	10.0%	18.0%	23.0%
<b>Total Equity</b>	<b>75.0%</b>	<b>85.0%</b>	<b>85.0%</b>	<b>90.0%</b>	<b>94.0%</b>
Fixed Income	20.0%	15.0%	15.0%	10.0%	6.0%
Cash and Other Assets	5.0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

PRINCO's directors, working closely with PRINCO staff, review the Policy Portfolio annually. The fiscal 2010 Policy Portfolio review did not result in any modifications to the long-term allocation targets. Table 1 gives a historical perspective, showing how the Policy Portfolio has evolved over two decades. Clearly evident is the long-standing practice of aggressive positioning. While nontraditional investments have grown as a share of the portfolio, this growth represents deliberate-paced, incremental expansion reflecting extensive consideration over multiple years.

There has been in recent years a "grand unifying theme" of PRINCO's activity, cutting across almost all asset categories. The theme has involved making it a priority to improve and expand our internationally based manager networks. While six years ago PRINCO had just 12 relationships with "foreign local" managers, who managed \$1.1 billion of our assets, as of June 30, these relationships number 43 and collectively control \$3.7 billion of Princeton's assets (including unfunded commitments).

Table 2 compares PRINCO's long-term Policy Portfolio asset allocation targets with the actual weights as of June 30, 2010. Within relatively small and pre-determined ranges, PRINCO's staff and directors will intentionally over- or under-weight relatively more or less compelling asset categories. These deliberate allocation overlays occur most frequently in the marketable asset categories. Within Private Equity and Real Assets, deviations from Policy Portfolio targets can occur without deliberate intent, due to funding and

TABLE 2

**Asset Allocation**  
June 30, 2010

<i>Allocation</i>	<i>Policy Target</i>	<i>Actual</i>
Domestic Equity	7.5%	5.2%
International Equity		
Developed Markets	6.5%	3.4%
Emerging Markets	9.0%	5.7%
Independent Return	25.0%	20.2%
Private Equity	23.0%	37.2%
Real Assets	23.0%	21.6%
Fixed Income	6.0%	2.5%
Cash	0%	4.2%

**FIGURE 2**

**Endowment Performance vs. Benchmarks**

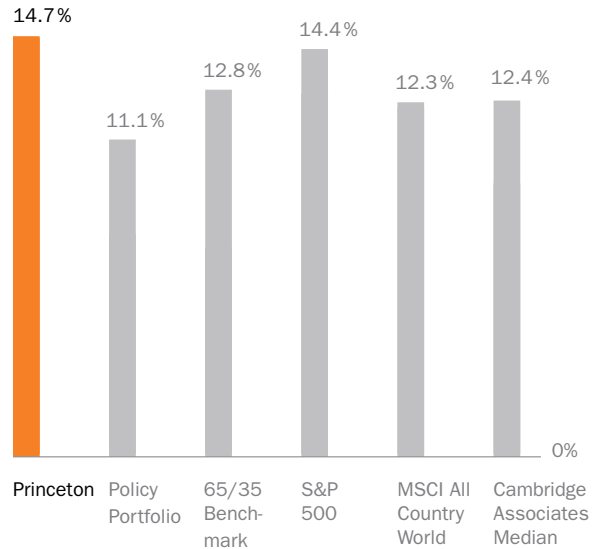
*Fiscal Year 2010*

market dynamics. When the Policy Portfolio targets for Private Equity and Real Assets were established, and when they are reviewed, it is with the understanding that allocation deviations in these categories are neither easily, nor cheaply, controlled with great precision, and therefore will often need to be offset by allocation adjustments in other categories.

**Performance**

For the fiscal year ending June 30, 2010 (see Figure 2), PRINCO produced a positive 14.7 percent return on invested assets, outperforming the Policy Portfolio Index benchmark by 3.6 percent and the median college and university endowment by 2.3 percent.<sup>5</sup> This result was achieved against a backdrop of rebounding financial markets, but continued uncertainty and weakness in developed world economies. The S&P 500 was up 14.4 percent during the period, and the MSCI All Country World Index (ACWI), a broad-based indicator of global public equity markets in both developed and emerging markets, produced a gain of 12.3 percent.

Princeton's investments generally performed well this year, with double-digit gains and consistent outperformance of benchmarks. As shown at right, Princeton's Emerging Markets portfolio delivered outstanding returns. Results in Private Equity were also particularly pleasing, as they also included an above average amount of realized gains. With the exception of Real Assets, which produced a slight loss, each of the Endowment's other categories also delivered positive returns.



The Return to Policy Portfolio represents the weighted average of individual asset class benchmark returns.

**TABLE 3**

**Princeton Asset Class Returns**

*Fiscal Year 2010*

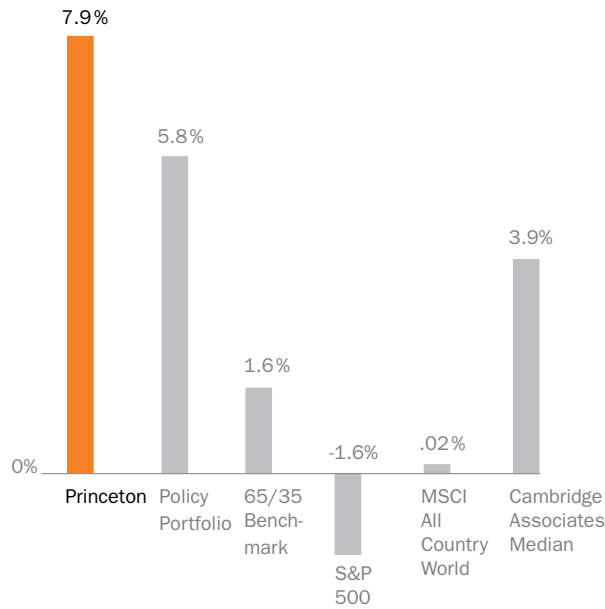
<i>Allocation</i>	<i>Return</i>
Domestic Equity	22.5%
International Equity	
Developed Markets	11.2%
Emerging Markets	43.1%
Independent Return	15.8%
Private Equity	18.6%
Real Assets	-1.6%
Fixed Income	6.4%
S&P 500	14.4%
MSCI All Country World Index	12.3%

5. Policy Portfolio returns represent a weighted average of individual benchmark returns. The median college and university endowment returns represent data compiled by Cambridge Associates for 150 college and university endowments.

**FIGURE 3**

**Endowment Performance vs. Benchmarks**

10 Years Ending June 30, 2010



Return to Policy Portfolio represents the weighted average of individual asset class benchmark returns.

Generally speaking, the evaluation of our investment program should focus on the long term, and our long term results remain very strong in both absolute and relative terms (see Figure 3). In a decade during which returns from global markets were dismal—the S&P 500 suffered an annualized loss of 1.6 percent and the MSCI ACWI had an annualized gain of 0.2 percent for the 10 years ended June 30, 2010—Princeton’s portfolio earned an annualized return of 7.9 percent. This compares favorably against the 5.8 percent return for the Policy Portfolio Index and the 3.9 percent for the median college and university endowment. The managed investment portfolio also did very well relative to a passive blend of 65 percent S&P 500 and 35 percent Barclays Government/Credit Index, which produced an annualized 10-year return of 1.6 percent.<sup>6</sup> Over the past 10 years, Princeton’s excess performance relative to the Policy Portfolio, median college and university, and 65/35 benchmark has added approximately \$3 billion, \$5 billion, and \$7 billion, respectively, to the Endowment.

Additional long-term perspective is available by looking at performance over rolling 10-year periods. Table 4 compares PRINCO’s investment performance over rolling 10-year periods versus that of the 65/35 benchmark. Over rolling decade-long periods the Endowment has consistently outperformed the more conventional, more liquid 65/35 benchmark.



6. The 65 percent S&P 500/35 percent Barclays Government/Credit Index portfolio represents what an investor would earn from a 65/35 investment in these equity and fixed income market indices, rebalanced annually. Since its inception in 1987, PRINCO has used this benchmark to represent the returns that might have been earned by institutional investors pursuing more traditional investment approaches.

TABLE 4

Annualized 10 Year Returns

<i>Fiscal Year</i>	<i>PRINCO</i>	<i>65/35</i>	<i>Difference</i>
1992-2001	16.8%	12.8%	4.0%
1993-2002	15.2%	10.4%	4.8%
1994-2003	14.3%	9.5%	4.8%
1995-2004	15.5%	10.7%	4.8%
1996-2005	15.6%	9.3%	6.3%
1997-2006	15.6%	8.0%	7.6%
1998-2007	16.2%	7.1%	9.1%
1999-2008	14.9%	4.2%	10.7%
2000-2009	9.7%	1.0%	8.7%
2001-2010	7.9%	1.6%	6.3%

Over the past 10 years, Princeton outperformed within asset categories by an average annualized margin of 2.3 percent, with four of seven asset categories outperforming their respective benchmarks. Emerging Markets produced the highest absolute return of the Endowment’s asset categories, returning 13.0 percent on an annualized basis, and handily outperforming its benchmark. The strong relative performance would not have been possible without the shift in our Emerging Markets manager roster over the last five years (i.e., from employing generalist managers to investing primarily with single-country and regional specialists), reflecting PRINCO’s “grand unifying theme.” Private Equity results, while in line with benchmark returns, were far below expectations. However, we note that the 10-year period includes two “crisis” periods (the bursting of the “technology bubble” in the early part of this decade and the recent financial crisis). The Real Assets portfolio produced solid absolute returns, but underperformed its benchmark significantly. A relative performance headwind has been created in Real Assets in recent years due to the substantial expansion of the program, which results in the portfolio’s composition being relatively immature compared to that of the benchmark. Moreover, the comparison to the benchmark (see Figure 4) is made less meaningful by the fact that relative to the Endowment’s Real Assets portfolio, the benchmark comprises a more narrow set of strategies and geographies, limiting its correlation to the program.

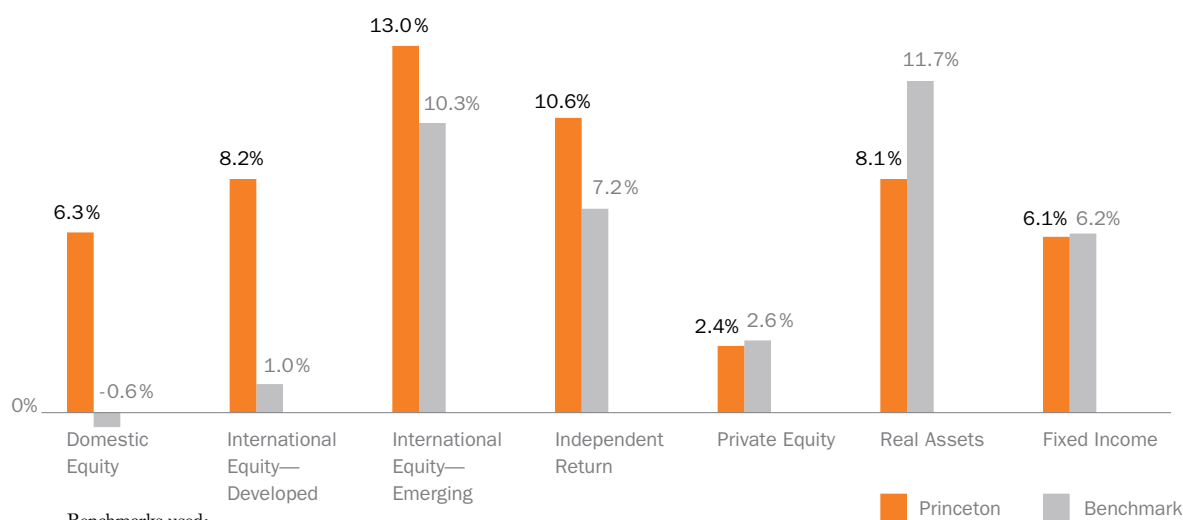


It has become a tradition of PRINCO’s internal annual review to remind ourselves of the importance of focusing on the long term. We feel it is critical to maintain long term perspective when evaluating past results and future prospects. We strive to keep this focus in very difficult times (fiscal 2009) and less difficult times (fiscal 2010). That said, this year’s results are a welcome reward for having stuck with our core investment approach even when and after that approach was acutely penalized (albeit no worse than were most others) during the market turmoil of fiscal 2009.

FIGURE 4

Asset Class Returns vs. Benchmarks

10 Years Ending June 30, 2010



Benchmarks used:

Domestic Equity: S&P 500 Index until 12/31/97; Wilshire 5000 Index thereafter.

International Equity—Developed: MSCI World ex-US Index.

International Equity—Emerging: MSCI Emerging Markets Index.

Independent Return: (40% Wilshire 5000 + 60% 91-day T-Bill) + 550 bps annualized.

Domestic Fixed Income: 2/3 Barclays Agg + 1/3 SB non-US WGBI until 6/30/01; Barclays Gov't thereafter.

Private Equity: Customized Cambridge Associates benchmark.

Real Assets: NCREIF Property Index until 6/30/00; Levered NCREIF Property Index until 6/30/03; thereafter blend of levered NCREIF Property and Timber Indices, Cambridge Associates Oil & Gas Universes and 6.5% Real Return.

We do recognize how much luck, or “noise,” is involved in investment performance. This is particularly true during times like the present, when volatility is high in markets.

And we never forget that, as Nobel laureate Niels Bohr said, “Prediction is very difficult, especially about the future.” In response to this truism, we continue to pursue a diversified approach designed more to over-weight areas of competitive advantage rather than to bet heavily on having better macro prognostication capabilities than other market participants.

Andrew Golden  
 President  
 Princeton University Investment Company

*Princeton University*

# Consolidated Financial Statements



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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees  
of Princeton University:

We have audited the accompanying Statements of Financial Position of Princeton University (the "University") as of June 30, 2010 and 2009, and the related Statements of Activities and Cash Flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization'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, such financial statements present fairly, in all material respects, the financial position of the University at June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

December 2, 2010

Member of  
Deloitte Touche Tohmatsu



# Consolidated Statements of Financial Position

June 30, 2010 and 2009

<i>(dollars in thousands)</i>	2010	2009
<b>Assets</b>		
Cash	\$ 4,064	\$ 5,520
Accounts and accrued interest receivable	93,153	89,681
Receivables associated with investments	1,301	12,523
Educational and mortgage loans receivable	401,362	377,745
Contributions receivable	259,907	269,388
Inventories and deferred charges	3,138	11,048
Securities pledged to creditors	7,195	5,715
Managed investments at market value	13,945,349	12,154,800
Funds held in trust by others	101,692	79,580
Other investments	713,666	1,151,900
Property:		
Land	100,835	99,459
Buildings and improvements	2,441,535	2,234,013
Construction in progress	396,533	373,066
Other property	656,109	634,534
Accumulated depreciation	(930,417)	(861,211)
<b>Total assets</b>	<b>\$ 18,195,422</b>	<b>\$ 16,637,761</b>
<b>Liabilities</b>		
Accounts payable	\$ 77,466	\$ 94,278
Payables associated with investments	29,851	116
Deposits, advance receipts, and accrued liabilities	134,808	148,420
Payable under securities loan agreements	7,572	5,945
Deposits held in custody for others	150,535	141,827
Deferred revenues	42,018	43,538
Liability under planned giving agreements	70,027	65,901
Federal loan programs	6,403	6,334
Indebtedness to third parties	2,718,500	2,501,098
Accrued postretirement benefits	287,735	250,182
<b>Total liabilities</b>	<b>\$ 3,524,915</b>	<b>\$ 3,257,639</b>
<b>Net assets</b>		
Unrestricted	\$ 5,994,533	\$ 5,451,277
Temporarily restricted	7,140,152	6,477,745
Permanently restricted	1,535,822	1,451,100
<b>Total net assets</b>	<b>\$ 14,670,507</b>	<b>\$ 13,380,122</b>
<b>Total liabilities and net assets</b>	<b>\$ 18,195,422</b>	<b>\$ 16,637,761</b>

See notes to consolidated financial statements.

## Consolidated Statements of Activities

Year ended June 30, 2010

<i>(dollars in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
<b>Operating revenues, gains, and other support</b>				
Tuition and fees	\$ 258,830			\$ 258,830
Less scholarships and fellowships	(171,219)			(171,219)
Net tuition and fees	87,611			87,611
Government grants and contracts	242,436			242,436
Private gifts, grants, and contracts	66,515			66,515
Sales and services of auxiliary activities	89,827			89,827
Other sources	113,859			113,859
Investment earnings distributed	246,232	\$ 410,419		656,651
<b>Total operating revenues, gains, and other support</b>	<b>846,480</b>	<b>410,419</b>		<b>1,256,899</b>
Net assets released from restrictions	428,730	(428,730)		-
<b>Total operating revenues, gains, and other support</b>	<b>1,275,210</b>	<b>(18,311)</b>		<b>1,256,899</b>
<b>Operating expenses</b>				
Educational and general:				
Academic departments and programs	547,833			547,833
Academic support	63,161			63,161
Student services	92,273			92,273
Library	66,777			66,777
General administration and institutional support	119,896			119,896
Other student aid	32,984			32,984
Plasma Physics Laboratory	81,269			81,269
<b>Total educational and general</b>	<b>1,004,193</b>			<b>1,004,193</b>
Auxiliary activities	111,581			111,581
Interest on indebtedness	119,250			119,250
<b>Total operating expenses</b>	<b>1,235,024</b>			<b>1,235,024</b>
Results of operations	40,186	(18,311)		21,875
<b>Nonoperating activities</b>				
Adjustments to planned giving agreements		6,669	\$ 1,770	8,439
Increase in value of assets held in trust by others			6,295	6,295
Private gifts, noncurrent		94,332	55,316	149,648
Net unrealized appreciation on investments	450,047	680,356	1,498	1,131,901
Investment earnings not distributed	299,255	309,780	19,843	628,878
Distribution of prior year investment earnings	(246,232)	(410,419)		(656,651)
<b>Increase from nonoperating activity</b>	<b>503,070</b>	<b>680,718</b>	<b>84,722</b>	<b>1,268,510</b>
Increase in net assets	543,256	662,407	84,722	1,290,385
<b>Net assets at the beginning of the year</b>	<b>5,451,277</b>	<b>6,477,745</b>	<b>1,451,100</b>	<b>13,380,122</b>
<b>Net assets at the end of the year</b>	<b>\$ 5,994,533</b>	<b>\$ 7,140,152</b>	<b>\$ 1,535,822</b>	<b>\$ 14,670,507</b>

See notes to consolidated financial statements.

Year ended June 30, 2009

<i>(dollars in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
<b>Operating revenues, gains, and other support</b>				
Tuition and fees	\$ 247,882			\$ 247,882
Less scholarships and fellowships	(160,251)			(160,251)
Net tuition and fees	87,631			87,631
Government grants and contracts	216,512			216,512
Private gifts, grants, and contracts	57,436			57,436
Sales and services of auxiliary activities	86,961			86,961
Other sources	83,569			83,569
Investment earnings distributed	664,295	\$ 63,039		727,334
<b>Total operating revenues, gains, and other support</b>	<b>1,196,404</b>	<b>63,039</b>		<b>1,259,443</b>
Net assets released from restrictions	228,415	(228,415)		-
<b>Total operating revenues, gains, and other support</b>	<b>1,424,819</b>	<b>(165,376)</b>		<b>1,259,443</b>
<b>Operating expenses</b>				
Educational and general:				
Academic departments and programs	540,761			540,761
Academic support	53,859			53,859
Student services	90,884			90,884
Library	62,691			62,691
General administration and institutional support	119,947			119,947
Other student aid	30,909			30,909
Plasma Physics Laboratory	74,962			74,962
<b>Total educational and general</b>	<b>974,013</b>			<b>974,013</b>
Auxiliary activities	107,287			107,287
Interest on indebtedness	80,360			80,360
<b>Total operating expenses</b>	<b>1,161,660</b>			<b>1,161,660</b>
Results of operations	263,159	(165,376)		97,783
<b>Nonoperating activities</b>				
Adjustments to planned giving agreements		5,886	\$ 7,886	13,772
Decrease in value of assets held in trust by others			(26,680)	(26,680)
Private gifts, noncurrent		107,715	42,865	150,580
Net unrealized depreciation on investments	(4,468,644)	(264,456)	(8,911)	(4,742,011)
Investment earnings not distributed	915,900	70,472	24,288	1,010,660
Distribution of prior year investment earnings	(664,295)	(63,039)		(727,334)
<b>Increase from nonoperating activity</b>	<b>(4,217,039)</b>	<b>(143,422)</b>	<b>39,448</b>	<b>(4,321,013)</b>
Increase (decrease) in net assets before reclassifications	(3,953,880)	(308,798)	39,448	(4,223,230)
Net asset reclassifications and transfers	(5,622,398)	5,654,023	(31,625)	-
<b>Increase (decrease) in net assets</b>	<b>(9,576,278)</b>	<b>5,345,225</b>	<b>7,823</b>	<b>(4,223,230)</b>
<b>Net assets at the beginning of the year</b>	<b>15,027,555</b>	<b>1,132,520</b>	<b>1,443,277</b>	<b>17,603,352</b>
<b>Net assets at the end of the year</b>	<b>\$ 5,451,277</b>	<b>\$ 6,477,745</b>	<b>\$ 1,451,100</b>	<b>\$ 13,380,122</b>

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Years ended June 30, 2010 and 2009

<i>(dollars in thousands)</i>	2010	2009
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,290,385	\$ (4,223,230)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	99,314	94,670
Amortization of bond issuance costs and premiums	(2,554)	(2,739)
Property gifts-in-kind	(1,060)	(704)
Adjustments to planned giving agreements	(8,439)	(13,772)
Realized gain on investments	(628,878)	(1,028,780)
Unrealized (appreciation) depreciation on investments	(1,131,901)	4,742,898
(Loss) gain on disposal of fixed assets	1,942	(54)
(Increase) decrease in value of assets held in trust by others	(22,112)	26,680
Contributions received for long-term investment	(149,648)	(150,580)
Changes in operating assets and liabilities:		
Decrease in operating assets	(19,179)	(6,541)
Increase in operating liabilities	(14,317)	(23,886)
<b>Net cash used by operating activities</b>	<b>(586,447)</b>	<b>(586,038)</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant, and equipment	(291,983)	(364,962)
Proceeds from disposal of property, plant, and equipment	7,053	5,524
Purchases of investments	(2,447,252)	(5,343,821)
Proceeds from maturities/sales of investments	2,991,728	4,987,208
<b>Net cash provided by (used by) investing activities</b>	<b>259,546</b>	<b>(716,051)</b>
<b>Cash flows from financing activities:</b>		
Issuance of indebtedness to third parties	271,264	1,475,057
Payment of debt principal	(51,308)	(271,136)
Contributions received for long-term investment	92,855	110,343
Transactions on planned giving agreements	12,565	(10,847)
Net additions under federal loan programs	69	105
<b>Net cash provided by financing activities</b>	<b>325,445</b>	<b>1,303,522</b>
<b>Net (decrease) increase in cash</b>	<b>(1,456)</b>	<b>1,433</b>
<b>Cash at beginning of year</b>	<b>5,520</b>	<b>4,087</b>
<b>Cash at end of year</b>	<b>\$ 4,064</b>	<b>\$ 5,520</b>
<b>Supplemental disclosures:</b>		
Interest paid	\$ 123,185	\$ 64,241

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended June 30, 2010 and 2009

## 1. NATURE OF OPERATIONS

Princeton University (hereafter referred to as “the University”) is a privately endowed, nonsectarian institution of higher learning. When originally chartered in 1746 as the College of New Jersey, it became the fourth college in British North America. It was renamed Princeton University in 1896. First located in Elizabeth, and briefly in Newark, the school moved to Princeton in 1756.

The student body numbers approximately 5,000 undergraduates and 2,450 graduate students in more than 60 departments and programs. The University offers instruction in the liberal arts and sciences and in professional programs of the School of Architecture, the School of Engineering and Applied Science, and the Woodrow Wilson School of Public and International Affairs. The faculty numbers approximately 1,100, including visitors and part-time appointments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Princeton University (now legally known as “The Trustees of Princeton University”) are prepared on the accrual basis and include the accounts of its wholly owned subsidiaries and foundation controlled by the University. Financial information conforms to the statements of accounting principles of the Financial Accounting Standards Board (FASB) and to the American Institute of Certified Public Accountants *Audit and Accounting Guide for Not-for-Profit Organizations*. Relevant pronouncements include FASB Accounting Standards Codification (ASC) 958-310, *Not-for-Profit Entities - Receivables* (formerly Statements of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*), and ASC 958-205, *Not-for-Profit Entities - Presentation of Financial Statement* (formerly SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*).

Under ASC 958-310, unconditional promises to give are recognized as revenues in the year made, not in the year in which the cash is received. The amounts are present-valued based on timing of expected collections. Amounts received from donors to planned giving programs are shown in part as a liability for the present value of annuity payments to the donor and the balance as a gift of either temporarily or permanently restricted net assets.

ASC 958-205 prescribes the standards for external financial statements and requires not-for-profit organizations to prepare a statement of financial position (balance sheet), a statement of activities, and a statement of cash flows. It requires the classification of the organization’s net assets and its revenues and expenses into three categories according to the existence or absence of donor-imposed restrictions—permanently restricted, temporarily restricted, or unrestricted. Changes in each category are reflected in the statement of activities, certain of which are further categorized as nonoperating. Such nonoperating activities primarily reflect transactions of a long-term investment or capital nature, including contributions receivable in future periods, contributions subject to donor-imposed restrictions, and gains and losses on investments in excess of the University’s spending rule. Other significant accounting policies are described elsewhere in these notes.

The preparation of the University’s financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated statements of financial position, and the reported amounts of revenue and expense included in the consolidated statement of activities. Actual results could differ from such estimates.

### Recent accounting pronouncements

In March 2008, the FASB issued ASC 815-10-50, *Derivatives and Hedging* (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*). ASC 815-10-50 requires organizations with derivative instruments to disclose how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under ASC 815, and how derivative instruments and related hedged items affect an organization’s financial statements. ASC 815-10-50 is effective for financial statements issued for the University as of June 30, 2010. This standard did not have a material effect on the University’s financial statements.

In May 2009, the FASB issued ASC 855 *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 was effective for annual fiscal periods ending after June 15, 2009. The University adopted ASC 855 effective June 30, 2009. The University has evaluated subsequent events through December 2, 2010, and determined that there were no subsequent events requiring adjustment or disclosure in the consolidated financial statements, except as described in note 18.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (formerly SFAS No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*). This standard establishes the FASB Accounting Standards Codification (“Codification”) as the single source of authoritative nongovernmental GAAP, superseding existing pronouncements published by the FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and other accounting bodies. This standard establishes only one level of authoritative GAAP. All other accounting literature will be considered nonauthoritative. The ASC reorganizes the GAAP pronouncements into accounting topics and displays them using a consistent structure. This standard was effective for financial statements issued for annual periods ending after September 15, 2009. The University adopted this standard for the year ended June 30, 2010. This standard did not have an effect on amounts reported but has changed disclosure references throughout the University’s financial statements.

Other recent accounting pronouncements that have been adopted are discussed elsewhere in these notes.

### 3. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS No. 157, *Fair Value Measurements*). This standard defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosure about fair value measurements. The University adopted ASC 820, effective July 1, 2008, and subsequently adopted certain related Accounting Standards Updates, and related guidance (collectively ASC 820). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. ASC 820 clarifies that fair value should be based on assumptions that market participants would use when pricing an asset or liability, including assumptions about risk and the risks inherent in valuation techniques and the inputs to valuations. ASC 820 also requires fair value measurements to assume that the transaction occurs in the principal market for the asset or liability (the market with the most volume and activity for the asset or liability from the perspective of the reporting entity), or in the absence of a principal market, the most advantageous market for the asset or liability (the market in which the reporting entity would be able to maximize the amount received or minimize the amount paid). The University applies fair value measurements to certain assets and liabilities, including the University’s managed investments, other investments, funds held in trust by others, and securities pledged under securities loan agreements, in accordance with the requirements described above.

In accordance with ASC 820, the University maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Fair value is based on actively quoted market prices, if available. In the absence of actively quoted market prices, price information from external sources, including broker quotes and industry publications, is used. If pricing information from external sources is not available, or if observable pricing is not indicative of fair value, judgment is required to develop the estimates of fair value using discounted cash flow and other income valuation approaches.

The University also utilizes the following fair value hierarchy, which prioritizes, into three broad levels, the inputs to valuation techniques used to measure fair value:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets and liabilities to which the University has the ability to access at the measurement date. Instruments categorized in Level 1 primarily consist of a broadly traded range of equities and debt securities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived from observable market data by correlation or other means. Instruments categorized in Level 2 consist primarily of investments in certain entities that calculate net asset value per share (or its equivalent) and can be redeemed in the near term.

**Level 3:** Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability. Instruments categorized in Level 3 consist primarily of limited partnership interests and other similar investment vehicles.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement in its entirety determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. Fair value measurements are categorized as Level 3 when a significant amount of price or other inputs that are considered to be unobservable are used in their valuations. The University has adopted Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820), Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU No. 2009-12), issued by the FASB in September 2009, for investments where it has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date. Such investments have been categorized under Level 2 fair value measurements in accordance with ASU No. 2009-12. Certain of these investments may be subject to modest holdback provisions to cover audit and other potential expenses or adjustments in the event of a complete withdrawal.

ASC 820 requires value measurements to be separately disclosed by level within the fair value hierarchy and requires a separate reconciliation of fair value measurements categorized as Level 3.

The following tables present the University's assets that are measured at fair value for each hierarchy level, at June 30, 2010 and 2009. The managed investment categories are presented on a "manager-mandate" basis, that is, all of the assets and market value of the underlying funds and accounts are included in the class which is the primary focus of the fund or account. (Many funds and accounts are provided with flexibility to invest across more than one asset class.)

		<i>Fair Value Measurements at Reporting Date Using</i>			
		<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>	
<i>(dollars in millions)</i>					
<b>2010</b>	<b>Total</b>				
Assets at fair value:					
Managed investments (gross):					
Domestic equity	\$ 926.9	\$ 61.0	\$ 159.0	\$ 706.9	
International equity	1,218.6	265.0	235.4	718.2	
Independent return	3,536.8	-	467.3	3,069.5	
Private equity	4,805.6	-	-	4,805.6	
Real assets	2,587.8	37.4	-	2,550.4	
Fixed income	348.2	348.2	-	-	
Cash and other	521.4	520.6	-	0.8	
Funds held in trust by others	101.7	-	-	101.7	
Other investments	713.7	480.5	-	233.2	
Securities pledged to creditors	7.2	7.2	-	-	
<b>Total</b>	<b>\$ 14,767.9</b>	<b>\$ 1,719.9</b>	<b>\$ 861.7</b>	<b>\$ 12,186.3</b>	
<b>2009</b>					
Assets at fair value:					
Managed investments (gross)	\$ 12,154.8	\$ 961.6	\$ 665.7	\$ 10,527.5	
Funds held in trust by others	79.6	-	-	79.6	
Other investments	1,151.9	935.1	-	216.8	
Securities pledged to creditors	5.7	5.7	-	-	
<b>Total</b>	<b>\$ 13,392.0</b>	<b>\$ 1,902.4</b>	<b>\$ 665.7</b>	<b>\$ 10,823.9</b>	

At June 30, 2009, managed investments, presented on a "manager-mandate" basis, categorized in Level 1, consist primarily of equity and debt securities, including: \$137.9 million in domestic equity, \$245.5 million in international equity, \$235.7 million in fixed income, \$74.9 million in real assets, and \$267.6 million in cash and other; in Level 2 consist primarily of limited partnership interests including: \$42.1 million in domestic equity, \$217.4 million in international equity, and \$406.2 million in independent return; and in Level 3 consist primarily of limited partnership interests, including: \$736.4 million in domestic equity, \$734.7 million in international equity, \$2,817.5 million in independent return, \$3,804.8 million in private equity, \$2,433.3 million in real assets, and \$0.8 million in cash and other.

Other investments categorized in Level 1 consist primarily of debt securities including: \$754.7 million in working capital, \$6.2 million in funds separately invested, and \$174.2 million in bond proceeds awaiting drawdown; and in Level 3 include: \$1.8 million in funds separately invested in equity and debt securities, \$146.3 million in planned giving trusts, and \$68.7 million in strategic real estate.

The following tables present the net change in the assets measured at fair value on a recurring basis and included in the Level 3 fair value category for the years ended June 30, 2010 and 2009:

(dollars in millions)	June 30, 2009	Total gains or losses (realized/unrealized) included in changes in net assets	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		June 30, 2010
			Purchases, sales and settlements	Transfers in and/or (out) of Level 3	
<b>Assets at fair value</b>					
Managed investments (gross):					
Domestic equity	\$ 736.3	\$ 175.7	\$ (88.8)	\$ (116.3)	\$ 706.9
International equity	734.7	222.2	(226.5)	(12.2)	718.2
Independent return	2,817.5	473.6	(177.2)	(44.4)	3,069.5
Private equity	3,804.9	753.4	247.3	-	4,805.6
Real assets	2,433.3	(62.2)	179.3	-	2,550.4
Cash and other	0.8	-	-	-	0.8
Other investments	216.8	20.2	(3.8)	-	233.2
Funds held in trust by others	79.6	6.3	15.8	-	101.7
<b>Total Level 3 investments</b>	<b>\$ 10,823.9</b>	<b>\$ 1,589.2</b>	<b>\$ (53.9)</b>	<b>\$ (172.9)</b>	<b>\$ 12,186.3</b>
	June 30, 2008				June 30, 2009
<b>Assets at fair value</b>					
Managed investments (gross)	\$ 13,711.8	\$ (3,505.8)	\$ 321.5	-	\$ 10,527.5
Other investments	278.8	(43.2)	(18.8)	-	216.8
Funds held in trust by others	106.3	(26.7)	-	-	79.6
<b>Total Level 3 investments</b>	<b>\$ 14,096.9</b>	<b>\$ (3,575.7)</b>	<b>\$ 302.7</b>	<b>-</b>	<b>\$ 10,823.9</b>

Realized gains of \$401.4 and \$729.3 million related to Level 3 investments are included in investment earnings not distributed, and unrealized losses of \$1,187.8 and \$4,305.0 million related to Level 3 investments are included in net unrealized appreciation (depreciation) on investments in the Consolidated Statement of Activities for the years ended June 30, 2010 and 2009, respectively.

ASU No. 2009-12 requires disclosure by major category of investment about the attributes of investments, such as the nature of any restrictions on the ability to redeem investments at the measurement date, any unfunded commitments, and the investment strategies. The following table and disclosures set forth significant terms of the agreements with investment managers by major category at June 30, 2010. The information is presented on a "manager-mandate" basis.

(dollars in millions)	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<b>Managed investments (gross)</b>				
Domestic equity (a)	\$ 926.9	\$ 33.4	daily-annually	4-90 days
International equity-developed (b)	420.3	0.0	daily-annually	6-90 days
International equity-emerging (c)	798.3	68.0	daily-annually	28-90 days
Independent return (d)	3,536.8	104.2	quarterly-annually	30-90 days
Fixed income (e)	348.2	0.0	daily	0 days
Cash and other (e)	521.4	0.0	daily	0 days
<b>Marketable asset classes</b>	<b>\$ 6,551.9</b>	<b>\$ 205.6</b>		
Private equity (f)	4,805.6	2,560.6		
Real assets (g)	2,587.8	1,469.8		
<b>Nonmarketable asset classes</b>	<b>\$ 7,393.4</b>	<b>\$ 4,030.4</b>		
<b>Total</b>	<b>\$ 13,945.3</b>	<b>\$ 4,236.0</b>		



(a) **Domestic Equity:** This class includes funds and accounts primarily invested in equities traded on domestic exchanges or over-the-counter markets. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds, or in the case of segregated accounts, the fair value of the securities held. Investments representing approximately 8 percent of the market value of this class are in nonredeemable assets.

(b) **International Equity-Developed:** This class includes funds invested in publicly traded equity and debt securities traded in countries with developed economies other than the United States. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds. None of the investments in this class are in nonredeemable assets.

(c) **International Equity-Emerging:** This class includes funds invested in publicly traded equity and debt securities traded in countries with emerging economies. The fair values of the investments in this class have been estimated using the net asset value per share of the investee funds. Investments representing approximately 12 percent of the market value of this class are in nonredeemable assets.

(d) **Independent Return:** This class includes funds invested in equity and debt securities and financial instruments such as options, swaps, futures, and other derivatives. Funds in this class may hold both long and short positions in any of these instruments and pursue a variety of investment strategies based upon the fund's investment mandate and the current opportunity set. Due to the diverse nature of the underlying investments, funds in this class are not easily categorized. However, in general terms, approximately 25 percent is invested in funds principally focused on long/short equities, 23 percent is invested in event-driven/arbitrage funds, and 52 percent is invested in funds that opportunistically engage in both strategies. Investments representing approximately 30 percent of the market value of this class are in nonredeemable assets.

(e) **Fixed Income And Cash:** These asset classes include primarily U.S. government and U.S. government-guaranteed agency securities held in separate accounts at the custodial bank. All of the investments in these classes can be redeemed on a daily basis.

(f) **Private Equity:** This class includes funds that invest primarily in buyouts or venture capital. The fair values of the investments in this class have been estimated using partners' capital statements, which reflect the University's ownership interest in partners' capital. The investments in this class are not redeemable. Distributions from investee funds will be received as the underlying investments of the funds are liquidated.

(g) **Real Assets:** This class includes funds that invest primarily in real estate, energy, and timber. The fair values of the investments in this class have been estimated using partners' capital statements, which reflect the University's ownership interest in partners' capital. Generally, investments in this class are not redeemable. However, a small portion, \$83.4 million at June 30, 2010, was invested in funds that allow for investor-initiated withdrawals. More broadly, distributions from investee funds will be received as the underlying investments of the funds are liquidated.

The University is obligated under certain limited partnership agreements to advance additional funding periodically up to specified levels. At June 30, 2010, the University had unfunded commitments of \$4.2 billion. Such commitments are generally called over periods of up to 10 years and contain fixed expiration dates or other termination clauses.

Although the University sells interests in its investments from time to time on an opportunistic basis, as of June 30, 2010, there were no investments identified that were probable of being sold at amounts different from net asset value per share or its equivalent (i.e. "partners' capital accounts").

Investments in the marketable asset classes are generally made in entities that allow the University to request withdrawals on a periodic basis. However approximately \$1.2 billion of the marketable asset classes are invested in "nonredeemable assets" which are not eligible for withdrawal by the University. Nonredeemable assets are either investments in funds without withdrawal rights or specific investments within a fund designated by the fund manager as ineligible for withdrawal. Due to the illiquid nature of nonredeemable assets, it is impossible for the University to predict when these assets will become available.

In addition to nonredeemable assets, the University may have the ability to affect a withdrawal, limited in the event that a fund manager invokes a "gate" provision restricting redemptions from its fund. Gates are generally triggered if aggregate fund withdrawals exceed a specific threshold. No withdrawals were impacted by a gate in the year ended June 30, 2010.

In February 2007, the FASB issued ASC 825, *Financial Instruments* (formerly SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*). This standard permits all entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option").

Unrealized gains and losses on items for which the fair value option has been elected shall be reported in the statement of activities or similar statement. The University has not elected the fair value option under ASC 825.

#### 4. MANAGED INVESTMENTS

All managed investments are reported at fair value. The fair value of marketable equity, debt, and certain derivative securities (which includes both domestic and foreign issues) is generally based upon a combination of published current market prices and exchange rates. The fair value of restricted securities and other investments where published market prices are not available is based on estimated values using discounted cash flow and other industry standard methodologies. Where applicable, independent appraisers and engineers assist in the valuation. The fair value of limited partnerships and similar investment vehicles is estimated by external investment managers, including general partners or valuation committees. These valuations necessarily involve assumptions and methods that are reviewed, evaluated, and adjusted, if necessary, by the University. Changes in assumptions could have a significant effect on the fair values of these instruments. Actual results could differ from these estimates and could have a material impact on the financial statements. These investments are generally less liquid than other investments and the values reported may differ from the values that would have been reported had a ready market for these securities existed. Securities transactions are reported on a trade-date basis. A summary of investments by asset category at fair value, presented on a “look-through basis,” at June 30, 2010 and 2009, is as follows:

<i>(dollars in millions)</i>	2010	2009
Managed investments:		
Domestic equity	\$ 717.5	\$ 664.1
International equity	1,266.8	1,307.2
Independent return	2,811.1	2,674.6
Private equity	5,172.2	4,069.0
Real assets	3,001.2	2,807.6
Fixed income	346.9	249.7
Cash and other	601.0	395.0
Net managed investments	13,916.7	12,167.2
Payables (receivables) associated with investments (net)	28.6	(12.4)
<b>Gross managed investments</b>	<b>\$ 13,945.3</b>	<b>\$ 12,154.8</b>

The Princeton University Investment Company (PRINCO) manages investments for the University and one foundation that the University controls, the Stanley J. Seeger Hellenic Fund. The investment balances managed by PRINCO for these entities as of June 30, included in the University’s consolidated financial statements, are as follows:

<i>(dollars in millions)</i>	2010	2009
Princeton University	\$ 13,740.5	\$ 12,001.1
Stanley J. Seeger Hellenic Fund	25.7	24.3
Deposits held in custody for others	150.5	141.8
<b>Net managed investments</b>	<b>\$ 13,916.7</b>	<b>\$ 12,167.2</b>

The composition of net investment return from managed and other investments for the years ended June 30, 2010 and 2009, were as follows:

<i>(dollars in thousands)</i>	2010	2009
Net realized and unrealized gains and (losses)	\$ 1,082,764	\$ (4,454,964)
Interest, dividends, and other income	678,015	723,613
<b>Total</b>	<b>\$ 1,760,779</b>	<b>\$ (3,731,351)</b>

Princeton University investments together with the Stanley J. Seeger Hellenic Fund and deposits held in custody for others are invested in a single unitized pool. The market value of each unit was \$6,903.37 and \$6,343.42 at June 30, 2010 and 2009, respectively. The average value of a unit during the years ending June 30, 2010 and 2009, was \$6,735.15 and \$7,215.81, respectively.

The average invested market balance in the unitized pool during the years ending June 30, 2010 and 2009, was \$13.231 billion and \$12.636 billion, respectively.

The University follows a spending rule for its unitized investments, including funds functioning as endowment, that provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating revenue, and the balance as nonoperating revenue. Amounts distributed per unit under that rule were \$351.93 and \$382.53 at July 1, 2010 and 2009, respectively.

As of June 30, 2010 and 2009, the University had loaned certain securities, returnable on demand, with a market value of \$7.2 million and \$5.7 million, respectively, to financial institutions that have deposited collateral with respect to such securities of \$7.6 million and \$5.9 million, respectively. The University receives income on the invested collateral, and also continues to receive interest and dividends from the securities on loan. In accordance with ASC 860-30 *Transfers and Servicing - Secured Borrowing and Collateral* (formerly SFAS No.140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*), the securities loaned are shown as an asset labeled securities pledged to creditors, and the obligation to return the collateral is shown as a liability labeled payable under securities loan agreements on the Consolidated Statements of Financial Position.

The University invests in various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

As part of its investment strategy, the University enters into transactions utilizing a variety of financial instruments and strategies, including futures, swaps, options, short sales, and forward foreign currency contracts. These financial instruments and strategies allow the University to fine-tune the asset allocation of the investment portfolio. In all cases, except forward foreign currency exchange and swap contracts, these instruments are traded through securities and commodities exchanges. The forward foreign currency and swap contracts are executed with credit-worthy banks and brokerage firms. At June 30, 2010, the aggregate notional values of futures and equity swap contracts were \$52.5 million and \$5.0 million, respectively, with an aggregate unrealized gain of \$2.8 million. No other contracts were held during the year ended June 30, 2010. At June 30, 2009, there were no equity swaps, forward foreign currency, or futures contracts outstanding. These instruments, when recognized, are recorded at fair value and are included as either an asset or a liability depending on the rights or obligations of the contract. Realized gains or losses are recorded at the time the contract is closed.

## 5. ENDOWMENT

The University's endowment consists of approximately 3,700 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the University to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the University to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In August 2008, the FASB issued ASC 958-205-45-28, *Not-for-Profit Entities - Presentation of Financial Statements - Other Presentation Matters - Classification of Donor-Restricted Endowment Funds subject to the Uniform Prudent Management of Institutional Funds Act* (formerly FASB Staff Position No. 117-1), which the University adopted effective June 30, 2009. ASC 958-205-45-28 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 of 2006 (UPMIFA), which serves as a model act approved by the Uniform Law Commission and for states to use in enacting legislation. UPMIFA was enacted in the state of New Jersey in June 2009. This standard also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and University-designated endowment funds). The enhanced disclosures required as a result of the adoption of this standard have been incorporated within this note.

**Interpretation of relevant law**—The University interprets the UPMIFA, which became effective June 2009, as requiring the preservation of the fair value at the original gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-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. Upon adoption of ASC 958-205-45-28 on June 30, 2009, the portion of donor-restricted net assets not classified as permanently restricted in the amount of \$5.7 billion was reclassified from unrestricted to temporarily restricted in order to conform with the prescribed reporting treatment. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the University and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policies of the University

Endowment Net Asset composition by type of fund as of June 30, 2010 and 2009 is:

2010 (dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (28,773)	\$ 6,888,834	\$ 1,425,856	\$ 8,285,917
Board-designated endowment funds	\$ 5,497,484			5,497,484
<b>Total</b>	<b>\$ 5,468,711</b>	<b>\$ 6,888,834</b>	<b>\$ 1,425,856</b>	<b>\$ 13,783,401</b>
<b>2009 (dollars in thousands)</b>				
Donor-restricted endowment funds	\$ (46,226)	\$ 6,238,855	\$ 1,370,540	\$ 7,563,169
Board-designated endowment funds	\$ 4,336,338			4,336,338
<b>Total</b>	<b>\$ 4,290,112</b>	<b>\$ 6,238,855</b>	<b>\$ 1,370,540</b>	<b>\$ 11,899,507</b>

Changes in Endowment Net Assets for the years ended June 30, 2010 and 2009 are:

2010 (dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
Endowment net assets, beginning of the year	\$ 4,290,112	\$ 6,238,855	\$ 1,370,540	\$ 11,899,507
Investment return:				
Investment earnings	213,018	309,780	68,052	590,850
Net unrealized appreciation	383,407	557,565	122,485	1,063,457
Appreciation on funds with deficiencies	17,453	(17,453)		
<b>Total investment return</b>	<b>613,878</b>	<b>849,892</b>	<b>190,537</b>	<b>1,654,307</b>
Contributions		94,332	55,316	149,648
Appropriation of endowment assets for expenditure	(230,588)	(408,994)		(639,582)
Reclassifications and transfers	795,309	114,749	(190,537)	719,521
<b>Endowment net assets, end of year</b>	<b>\$ 5,468,711</b>	<b>\$ 6,888,834</b>	<b>\$ 1,425,856</b>	<b>\$ 13,783,401</b>

2009 (dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total
Endowment net assets, beginning of the year	\$ 13,576,896	\$ 847,703	\$ 1,301,554	\$ 15,726,153
Investment return:				
Investment earnings	814,601	62,678	24,288	901,567
Net unrealized (depreciation) appreciation	(3,975,037)	(235,207)	(8,911)	(4,219,155)
Reclassification for funds with deficiencies	(46,226)	46,226		
<b>Total investment return</b>	<b>(3,206,662)</b>	<b>(126,303)</b>	<b>15,377</b>	<b>(3,317,588)</b>
Contributions		101,037	42,865	143,902
Appropriation of endowment assets for expenditure	(639,987)	(60,732)		(700,719)
Reclassifications based on change in law and transfers	(5,440,135)	5,477,150	10,744	47,759
<b>Endowment net assets, end of year</b>	<b>\$ 4,290,112</b>	<b>\$ 6,238,855</b>	<b>\$ 1,370,540</b>	<b>\$ 11,899,507</b>

**Funds with deficiencies**—From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$28.8 million and \$46.2 million at June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation of certain programs that was deemed prudent by the Board of Trustees.

In accordance with the terms of donor gift instruments, the University is permitted to reduce the balance of restricted endowments below the original amount of the gift. Subsequent investment gains are then used to restore the balance up to the fair market value of the original amount of the gift. Subsequent gains above that amount are recorded to temporarily restricted net assets.

**Return objectives and risk parameters**—The University has adopted investment and spending policies for endowment assets that attempt to support the University’s current and future operating needs, while preserving intergenerational equity. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for donor-specified periods as well as University-designated funds. Under these policies, the endowment assets are invested in a manner that is intended to produce returns that exceed both the annual rate of spending and university inflation.

**Strategies employed for achieving objectives**—The vast majority of the endowment assets are actively managed by PRINCO, which is structured as a University office, but maintains its own Board of Directors, and operates under the final authority of the University’s Board of Trustees (the “Trustees”).

In pursuit of the investment return objectives, PRINCO maintains an equity-biased portfolio and seeks to partner with best-in-class investment management firms across diverse asset categories.

**Spending policy and how the investment objectives relate to spending policy**—Each year the Trustees decide upon an amount to be spent from the endowment for the following fiscal year. In their deliberations, the Trustees use a spending framework that is designed to enable sizable amounts to be spent in a reasonably stable fashion, while allowing for reinvestment sufficient to preserve purchasing power in perpetuity. The framework targets annual spending rates of between 4.0 percent and 5.75 percent.

The endowment must seek investment returns sufficient to meet spending policy targets as well as to maintain future purchasing power without deterioration of corpus resulting from university inflation.

## 6. OTHER INVESTMENTS

Other investments include working capital (consisting primarily of cash and cash equivalents and U.S. Treasury securities), a small number of funds that must be separately invested due to donor or legal restrictions, planned giving investments, bond proceeds awaiting drawdown, and local real estate holdings expected to be liquidated strategically

over the next several years. A summary of other investments at fair value at June 30, 2010 and 2009, is as follows:

<i>(dollars in millions)</i>	2010	2009
Working capital	\$ 274.8	\$ 754.7
Funds separately invested	3.9	8.0
Planned giving investments	156.9	146.3
Bond proceeds awaiting drawdown	203.6	174.2
Strategic real estate investments	74.5	68.7
<b>Total</b>	<b>\$ 713.7</b>	<b>\$ 1,151.9</b>

## 7. EDUCATIONAL AND MORTGAGE LOANS

Determination of the fair value of educational loans receivable could not be made without incurring excessive costs. These loans include donor-restricted and federally sponsored educational loans that bear mandated interest rates and repayment terms, and are subject to significant restrictions on their transfer and disposition. These loans totaled \$70.0 million and \$66.0 million at June 30, 2010 and 2009, respectively.

Through a program to attract and retain excellent faculty and senior staff, the University provides home acquisition and financing assistance on residential properties in the area surrounding the University. Notes receivable from faculty and staff and co-ownership interests in the properties are included in mortgage loans and are collateralized by mortgages on those properties. These loans and interests totaled \$332.0 million and \$312.4 million at June 30, 2010 and 2009, respectively.

Educational and mortgage loans receivable at June 30, 2010 and 2009, are reported net of allowances for doubtful loans of \$0.7 million and \$0.7 million, respectively.

## 8. PROMISES TO GIVE

At June 30, 2010 and 2009, the University had received from donors unconditional promises to give contributions of amounts receivable in the following periods:

<i>(dollars in thousands)</i>	2010	2009
Less than one year	\$ 63,695	\$ 66,401
One to five years	190,113	212,759
More than five years	29,547	20,770
<b>Total</b>	<b>283,355</b>	<b>299,930</b>
Less unamortized discount and reserve	23,448	30,542
<b>Net amount</b>	<b>\$ 259,907</b>	<b>\$ 269,388</b>

The amounts promised have been discounted at a risk-free rate to take into account the time value of money. Current-year promises are included in revenue as additions to temporarily or permanently restricted net assets, as determined by the donors, and are included in contributions receivable at fair value based on observable ASC 820 Level 2 inputs.

In addition, at June 30, 2010, the University has received from donors promises to give \$1.3 million, which are conditioned upon the raising of matching gifts from other sources and other criteria. These amounts will be recognized as income in the periods in which the conditions have been fulfilled.

## 9. FUNDS HELD IN TRUST BY OTHERS

The University is the income beneficiary of various trusts that are held and controlled by independent trustees. In addition, the University is the income beneficiary of entities that qualify as supporting organizations under Section 509(a)(3) of the U.S. Internal Revenue Code. Funds held in trust by others are recognized at the estimated fair value of the assets or the present value of the future cash flows when the irrevocable trust is established or the University is notified of its existence. Funds held in trust by others, stated at fair value, amounted to \$101.7 million in 2010 and \$79.6 million in 2009.

## 10. PROPERTY

Land additions subsequent to June 30, 1973, are reported at estimated market value at the date of gift, in the case of gifts, and at cost in all other cases. Land acquired through June 30, 1973, is carried at estimated value at that date, computed using municipal tax assessments because it was not practicable to determine historical cost or the market value at the date of gift.

Buildings and improvements are stated at cost. Expenditures for operation and maintenance of physical plant are expensed as incurred.

Items classified as other property at June 30, 2010 and 2009, consist of the following:

<i>(dollars in thousands)</i>	2010	2009
Equipment	\$ 250,822	\$ 241,056
Rare books	79,591	76,737
Library books, periodicals, and bindings	251,649	243,087
Fine arts objects	74,047	73,654
<b>Total</b>	<b>\$ 656,109</b>	<b>\$ 634,534</b>

Equipment, rare books, library books, periodicals, and bindings are stated at cost. Equipment includes items purchased with federal government funds; an indeterminate portion of those items are expected to be transferred to the University at the termination of the respective grant or contract. In addition to purchases with University funds, the University, since its inception, has received a substantial number of fine arts objects from individual gifts and bequests. Art objects acquired through June 30, 1973, are carried at insurable values at that date because it is not practicable to determine the historical cost or market value at the date of gift. Art objects acquired subsequent to June 30, 1973, are recorded at cost or fair value at the date of gift.

The University uses componentized depreciation for buildings and building improvements used for research. The costs of research facilities are separated into building shell, service system, and fixed equipment components that are separately depreciated.

Annual depreciation is calculated on the straight-line method over useful lives ranging from 15 to 50 years for buildings and improvements, 30 years for library books, and 10 and 15 years for equipment.

## 11. CONDITIONAL ASSET RETIREMENT OBLIGATIONS

Under ASC 410-20, *Asset Retirement and Environmental Obligations - Asset Retirement Obligations* (formerly FASB Interpretation No. 47), companies must accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The University has identified asbestos abatement as a conditional asset retirement obligation. Asbestos abatement was estimated using site-specific surveys where available and a per/square foot estimate based on historical cost where surveys were unavailable. ASC 410-20 requires that the estimate be recorded as a liability and as an increase to the asset, and the capitalized portion depreciated over the remaining useful life of the asset. The asset retirement obligation that is included in accrued liabilities was \$13.8 million and \$14.4 million at June 30, 2010 and 2009, respectively, and accretion expense on the asset retirement obligation was \$0.6 million and \$0.7 million for the years ended June 30, 2010 and 2009, respectively.

## 12. INCOME TAXES

Effective July 1, 2007, the University implemented ASC 740, *Income Taxes* (formerly FASB Interpretation No. 48). ASC 740 prescribes the minimum recognition threshold a tax position must meet in connection with accounting for uncertainties in income tax positions taken or expected to be taken by an entity before being measured and recognized in the financial statements. The University continues to evaluate its tax positions pursuant to the principles of ASC 740, and has determined that there is no material impact on the University's financial statements.

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from income taxes on related income. The University files U.S. federal and various state and local tax returns. The Internal Revenue Service is currently conducting a routine audit of the University's employee plans. The audit is nearing completion and no material issues have been identified to date. The statute of limitations on the University's U.S. federal tax returns remains open for the years ended June 30, 2007, through the present.

### 13. DEFERRED REVENUES

Deferred revenues primarily represent advance receipts relating to the University's real estate leasing activities. Such amounts are amortized over the term of the related leases.

### 14. INDEBTEDNESS TO THIRD PARTIES

At June 30, 2010 and 2009, the University's debt consists of taxable bonds, loans through the New Jersey Educational Facilities Authority (NJEFA), commercial paper, various parental loans with the Student Loan Marketing Association ("Sallie Mae") and a national bank, a note with a regional bank, and a mortgage, as follows:

<i>(dollars in thousands)</i>	2010	2009
<b>Taxable Revenue Bonds</b>		
January 14, 2009 Series A, 4.95% and 5.70%, due March 2019 and March 2039, net of unamortized discount of \$3,185 and \$3,295	\$ 996,815	\$ 996,705
<b>NJEFA Revenue Bonds</b>		
February 15, 1999 Series A, 4.80%, due July 2012, net of unamortized discount of \$26 and \$39	2,404	3,536
June 15, 2000 Series E, 5.21%, due July 2010, net of unamortized discount of \$0 and \$23	-	2,307
October 15, 2000 Series H, 5.23%, due July 2010, net of unamortized discount of \$0 and \$50	-	2,235
June 26, 2003 Series E, 3.94%, due July 2028, including unamortized premium of \$3,297 and \$3,597	61,197	64,682
September 18, 2003 Series D, 3.73%, due July 2019, including unamortized premium of \$6,163 and \$6,848	87,173	91,193
July 21, 2004 Series D, 4.50%, due July 2029, including unamortized premium of \$2,496 and \$2,912	35,871	40,882
March 18, 2005 Series A, 4.40%, due July 2030, including unamortized premium of \$3,849 and \$4,277	137,804	138,847
June 8, 2005 Series B, 4.24% due July 2035, including unamortized premium of \$1,733 and \$1,848	80,483	82,863
May 22, 2006 Series D, 4.39%, due July 2031, including unamortized premium of \$791 and \$829	69,591	71,549
August 3, 2006 Series E, 4.50%, due July 2027, including unamortized premium of \$81 and \$86	92,456	92,586
June 6, 2007 Series E, 4.53%, due July 2037, including unamortized premium of \$4,641 and \$4,813	312,636	318,698
May 22, 2007 Series F, 4.39%, due July 2030, including unamortized premium of \$799 and \$839	68,184	68,339
September 10, 2008 Series J, 4.39%, due July 2038, including unamortized premium of \$4,407 and \$4,564	249,997	254,564
October 28, 2008 Series K, 4.36%, due July 2023, including unamortized premium of \$6,436 and \$6,931	192,596	204,466
January 20, 2010 Series B, 4.03%, due July 2040, including unamortized premium of \$12,165	262,165	-
<b>NJEFA Dormitory Safety Trust Fund Bonds</b>		
August 14, 2001 Series A, 4.24%, due January 2016	4,993	5,825
<b>NJEFA Equipment Leasing Fund Bonds</b>		
October 11, 2001 Series A, 3.09%, due August 2009	-	9
<b>NJEFA Capital Improvement Fund Bonds</b>		
August 1, 2000 Series A, 5.72%, due August 2020	1,388	1,478
<b>Commercial Paper</b>	12,680	12,680
<b>Parental Loans</b>	48,297	45,698
<b>Notes</b>	1,753	1,923
<b>Mortgage</b>	17	33
<b>Total</b>	<b>\$ 2,718,500</b>	<b>\$ 2,501,098</b>

The proceeds of NJEFA loans were used primarily for new construction, renovation, and rehabilitation of University facilities, annual major maintenance, and purchases of capital equipment.

The University issued the 2010 Series B bonds for the purpose of funding new construction, renovations, and major maintenance. The University intends to issue additional bonds in the future.

The full faith and credit of the University is pledged in all loan agreements with the NJEFA.

Loans with Sallie Mae are used for the parental loan program. At June 30, 2010 and 2009, the amounts outstanding were \$0.6 million and \$1.8 million, respectively, at rates ranging from 0.7 percent to 7.8 percent. As collateral,



the University pledges these parent loans and additional student loans for which Sallie Mae provides a second market. In fiscal 1999, the University entered into a loan facility with a national bank to provide funding currently authorized up to \$70 million for the parental loan program. Terms to the borrowers are similar to the Sallie Mae program in that fixed or variable rates may be selected on a pass-through basis; terms may be as long as 14 years. At June 30, 2010 and 2009, the balances outstanding were \$47.7 million and \$43.9 million, respectively, at rates ranging from 0.7 percent to 7.4 percent.

In fiscal year 1998, a commercial paper program was authorized as an initial step of financing to provide construction funds for approved capital projects. The proceeds permit construction to proceed until permanent financing from gifts or other sources is made available. The program has been authorized to a maximum level of \$120 million. At June 30, 2010 and 2009, \$12.7 million and \$12.7 million, respectively, were issued through the NJEFA on a tax-exempt basis to the investors. Maturities of the debt were from 39 to 182 days, and the nominal interest rates at June 30, 2010 and 2009, were 0.3 percent and 0.5 percent, respectively.

Principal payments for each of the next five years and thereafter on debt outstanding at June 30, 2010, excluding commercial paper, are as follows:

<i>(dollars in thousands)</i>	<b>Principal Payments</b>
2011	\$ 52,826
2012	69,625
2013	60,012
2014	61,715
2015	63,890
Thereafter	2,354,105
<b>Subtotal</b>	<b>2,662,173</b>
Unamortized premium	43,647
<b>Net long-term debt</b>	<b>\$ 2,705,820</b>

The fair value of the University's long-term debt is estimated based on current notes offered for the same or similar issues with similar security, terms, and maturities. At June 30, 2010, the carrying value and the estimated fair value of the University's long-term debt, excluding commercial paper, were \$2,705.8 million and \$2,918.2 million, respectively. At June 30, 2009, the carrying value and the estimated fair value of the University's long-term debt, excluding commercial paper, were \$2,488.4 million and \$2,560.7 million, respectively.

The University has committed bank lines of credit totaling \$200 million, under which the University may borrow on an unsecured basis at agreed-upon rates. There were \$8.5 million and \$5.1 million in letters of credit outstanding under these credit facilities at June 30, 2010 and 2009, respectively.

## 15. EMPLOYEE BENEFIT PLANS

All faculty and staff who meet specific employment requirements participate in a defined contribution plan, which invests in the Teachers Insurance and Annuity Association and College Retirement Equities Fund and Vanguard Fiduciary Trust Funds. The University's contributions were \$45.2 million and \$43.5 million for the years ended June 30, 2010 and 2009, respectively.

### Postretirement benefits other than pensions

In September 2006 the FASB issued ASC 715 *Compensation - Retirement Benefits* (formerly FAS No.158). ASC 715 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the statement of financial position. ASC 715 also requires the recognition of actuarial gains or losses and prior service costs or credits that arise during the period as a component of unrestricted net assets. The University calculates its Accumulated Postretirement Benefit Obligation (APBO) in accordance with ASC 715 (formerly FAS No. 106) that it initially elected in 1993 to amortize over 20 years. The University continues to recognize the cost of providing postretirement benefits for employees over the period of their working years.

The University provides single coverage health insurance to its retirees who meet certain eligibility requirements. Participants may purchase additional dependent or premium coverage. The accounting for the plan

anticipates future cost-sharing changes to the written plan that are consistent with the University's expressed intent to increase retiree contributions in line with medical costs.

The benefit costs for the years ended June 30, 2010 and 2009, consist of the following:

<i>(dollars in thousands)</i>	2010	2009
Service cost	\$ 9,104	\$ 8,661
Interest cost	15,383	14,077
Net amortization of transition amount	3,374	3,374
<b>Total</b>	<b>\$ 27,861</b>	<b>\$ 26,112</b>

The APBO at June 30, 2010 and 2009, consisted of actuarially determined obligations to the following categories of employees:

<i>(dollars in thousands)</i>	2010	2009
Retirees	\$ 109,673	\$ 90,469
Active employees eligible to retire	73,391	78,056
Other active participants	104,671	81,657
<b>Total</b>	<b>\$ 287,735</b>	<b>\$ 250,182</b>

As of June 30, 2010 and 2009, the APBO was unfunded.

Assumed discount rates of 5.25 percent and 6.25 percent were used to calculate the APBO at June 30, 2010 and 2009, respectively. The assumed health care cost trend rates used to calculate the APBO at June 30, 2010, were 9.0 percent for prescription drug claims, declining by 0.8 percent per year until the long-term trend rate of 5.0 percent is reached, and 6.0 percent for medical claims, declining by 0.2 percent per year until the long-term trend rate of 5.0 percent is reached. At June 30, 2009, the assumed health care cost trend rates were 10.0 percent for prescription drug claims, declining by 1.0 percent per year until the long-term trend rate of 5.0 percent is reached, and 6.0 percent for medical claims, declining by 0.20 percent per year until the long-term trend rate of 5.0 percent is reached. An increase of 1 percent in the cost trend rate would raise the APBO to \$339.7 million and \$292.2 million and cause the service and interest cost components of the net periodic cost to be increased by \$4.7 million and \$4.7 million for the years ended June 30, 2010 and 2009, respectively. A decrease of 1 percent in the cost trend rate would decrease the APBO to \$246.4 million and \$216.4 million and cause the service and interest cost components of the net period cost to be decreased by \$4.1 million and \$3.7 million for the years ended June 30, 2010 and 2009, respectively.

Postretirement plan benefit payments for fiscal years 2011 through 2015 are expected to range from \$8.4 million to \$11.4 million per year, with aggregate expected payments of \$71.5 million for fiscal years 2016 through 2020. These amounts reflect the total benefits expected to be paid from the plan and exclude the participants' share of the cost. Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

The University has applied for and is receiving the federal subsidy as provided for in the Medicare Modernization Act (MMA), and has recognized the effect of the MMA in the calculation of its postretirement benefit obligation as of June 30, 2010 and 2009.

## 16. NET ASSETS

Net assets are categorized as unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets are derived from gifts and other institutional resources that are not subject to explicit donor-imposed restrictions. The unrestricted category also includes income and gains on these funds. Included in the total is the net investment in plant and equipment. Certain net assets classified as unrestricted for external reporting purposes are designated for specific purposes or uses under the internal operating budget practices of the University. Restricted net assets are generally established by donors in support of schools or departments of the University, often for specific purposes such as professorships, research, faculty support, scholarships and fellowships, athletics, library and art museum, building construction, and other specific purposes. Temporarily restricted net assets include gifts, pledges, trusts and

remainder interests, and income and gains that can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions and time restrictions imposed by donors or implied by the nature of the gift, or by the interpretations of law. Temporary restrictions are normally released upon the passage of time or the incurrence of expenditures that fulfill the donor-specified purpose. Permanently restricted net assets include gifts, pledges, trusts and remainder interests, and income and gains that are required by donor-imposed restrictions to be permanently retained. Investment earnings are spent for general or specific purposes in accordance with donor wishes, based on the University's endowment spending rule.

## 17. NATURAL CLASSIFICATION OF EXPENSES

Operating expenses incurred for the years ended June 30, 2010 and 2009, were as follows:

<i>(dollars in thousands)</i>	2010	2009
Salaries and wages	\$ 493,794	\$ 470,726
Employee benefits	180,964	165,830
Purchased services	43,082	46,747
Supplies	53,089	56,321
Space and occupancy	74,394	77,061
Other expenses	138,153	139,039
Other student aid	32,984	30,909
Depreciation	99,314	94,667
Interest	119,250	80,360
<b>Total</b>	<b>\$ 1,235,024</b>	<b>\$ 1,161,660</b>

## 18. COMMITMENTS AND CONTINGENCIES

At June 30, 2010, the University had authorized major renovation and capital construction projects for more than \$940.5 million. Of the total, approximately \$501.2 million had not yet been expended.

Minimum operating lease commitments at June 30, 2010, under agreements to lease office space are as follows:

<i>(dollars in thousands)</i>	Lease payments
2011	\$ 3,840
2012	3,840
2013	3,840
2014	3,840
2015	4,080
Thereafter	38,560
<b>Total</b>	<b>\$ 58,000</b>

The University has entered into certain agreements to guarantee the debt of others. Under these agreements, if the principal obligor defaults on the debt, the University may be required to satisfy all or part of the remaining obligation. The total amount of these guarantees is \$15.2 million at June 30, 2010. Subsequent to June 30, 2010, the University entered into a guarantee in the amount of \$12.0 million.

The University is subject to certain legal claims that have arisen in the normal course of operations. In the opinion of management, the ultimate outcome of these actions will not have a material effect on the University's financial position, statement of activities, or cash flows.

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2. As of 10/27/10. An asterisk indicates a graduate degree.

1. As of 10/27/10. The dates in parentheses refer to the end of the term as trustee. An asterisk indicates a graduate degree.



OFFICE OF FINANCE AND TREASURY  
PRINCETON UNIVERSITY

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