



**BROWN UNIVERSITY**

Independent Auditors' Reports as Required by Title 2  
*U.S. Code of Federal Regulations Part 200, Uniform Administrative  
Requirements, Cost Principles, and Audit Requirements for Federal  
Awards and Government Auditing Standards* and Related Information

Year ended June 30, 2016

## BROWN UNIVERSITY

Independent Auditors' Reports as Required by Title 2  
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Year ended June 30, 2016

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## **Independent Auditors' Report**

The President and Corporation  
Brown University:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Brown University (the University), which comprise the balance sheets as of June 30, 2016 and 2015, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



***Other Matter – Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards for the year ended June 30, 2016 is presented for purposes of additional analysis, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2016 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

**KPMG LLP**

October 28, 2016, except as to the supplementary schedule of expenditures of federal awards, which is as of February 16, 2017

**BROWN UNIVERSITY**

## Balance Sheets

June 30, 2016 and 2015

(Dollars in thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 72,414	51,188
Accounts receivable and other assets	55,386	45,610
Contributions receivable, net	170,904	161,786
Notes receivable, net	31,188	31,972
Funds held in trust by others	75,055	68,253
Investments	3,530,605	3,709,288
Land, buildings and equipment, net	1,064,631	1,064,105
Total assets	<u>\$ 5,000,183</u>	<u>5,132,202</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 57,993	52,321
Liabilities associated with investments	74,750	134,127
Student deposits and grant advances	62,769	63,097
Federal student loan advances	24,496	24,416
Split-interest obligations	21,335	22,613
Other long-term obligations	111,883	70,760
Bonds, loans and notes payable	844,676	845,227
Total liabilities	<u>1,197,902</u>	<u>1,212,561</u>
Net assets:		
Unrestricted	891,985	992,318
Temporarily restricted	1,471,106	1,544,744
Permanently restricted	1,439,190	1,382,579
Total net assets	<u>3,802,281</u>	<u>3,919,641</u>
Total liabilities and net assets	<u>\$ 5,000,183</u>	<u>5,132,202</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

## Statement of Activities

Year ended June 30, 2016

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 482,464	—	—	482,464
Less university scholarships	(175,175)	—	—	(175,175)
Net tuition and fees	307,289	—	—	307,289
Grants and contracts – direct	120,594	—	—	120,594
Grants and contracts – indirect	40,432	—	—	40,432
Contributions	63,185	27,099	—	90,284
Endowment return appropriated	152,786	674	—	153,460
Sales and services of auxiliary enterprises	92,655	—	—	92,655
Other income	36,891	—	—	36,891
Net assets released from restrictions	12,086	(12,086)	—	—
Total operating revenues	<u>825,918</u>	<u>15,687</u>	<u>—</u>	<u>841,605</u>
Operating expenses:				
Salaries and wages	337,020	—	—	337,020
Employee benefits	99,605	—	—	99,605
Graduate student support	66,236	—	—	66,236
Purchased services	78,443	—	—	78,443
Supplies and general	111,266	—	—	111,266
Utilities	27,841	—	—	27,841
Other	15,650	—	—	15,650
Interest	29,012	—	—	29,012
Operating expenses before depreciation	<u>765,073</u>	<u>—</u>	<u>—</u>	<u>765,073</u>
Net change from operating activities before depreciation	60,845	15,687	—	76,532
Depreciation	<u>73,156</u>	<u>—</u>	<u>—</u>	<u>73,156</u>
Change in net assets from operating activities	<u>(12,311)</u>	<u>15,687</u>	<u>—</u>	<u>3,376</u>
Nonoperating activities:				
Contributions	2,085	68,602	55,275	125,962
Net investment return	(17,713)	(25,361)	(4,423)	(47,497)
Endowment return appropriated	(26,795)	(126,665)	—	(153,460)
Other changes, net	(45,912)	(5,588)	5,759	(45,741)
Net assets released from restrictions	313	(313)	—	—
Change in net assets from nonoperating activities	<u>(88,022)</u>	<u>(89,325)</u>	<u>56,611</u>	<u>(120,736)</u>
Change in net assets	(100,333)	(73,638)	56,611	(117,360)
Net assets, beginning of year	<u>992,318</u>	<u>1,544,744</u>	<u>1,382,579</u>	<u>3,919,641</u>
Net assets, end of year	<u>\$ 891,985</u>	<u>1,471,106</u>	<u>1,439,190</u>	<u>3,802,281</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2015

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 450,532	—	—	450,532
Less university scholarships	(161,460)	—	—	(161,460)
Net tuition and fees	289,072	—	—	289,072
Grants and contracts – direct	113,033	—	—	113,033
Grants and contracts – indirect	38,425	—	—	38,425
Contributions	68,760	29,932	—	98,692
Endowment return appropriated	136,878	5,847	—	142,725
Sales and services of auxiliary enterprises	90,022	—	—	90,022
Other income	36,696	—	—	36,696
Net assets released from restrictions	15,799	(15,799)	—	—
Total operating revenues	<u>788,685</u>	<u>19,980</u>	<u>—</u>	<u>808,665</u>
Operating expenses:				
Salaries and wages	322,533	—	—	322,533
Employee benefits	93,351	—	—	93,351
Graduate student support	64,600	—	—	64,600
Purchased services	71,696	—	—	71,696
Supplies and general	110,511	—	—	110,511
Utilities	29,624	—	—	29,624
Other	16,584	—	—	16,584
Interest	30,634	—	—	30,634
Operating expenses before depreciation	<u>739,533</u>	<u>—</u>	<u>—</u>	<u>739,533</u>
Net change from operating activities before depreciation	49,152	19,980	—	69,132
Depreciation	<u>71,424</u>	<u>—</u>	<u>—</u>	<u>71,424</u>
Change in net assets from operating activities	<u>(22,272)</u>	<u>19,980</u>	<u>—</u>	<u>(2,292)</u>
Nonoperating activities:				
Contributions	1,213	29,228	55,890	86,331
Net investment return	28,555	124,013	318	152,886
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Other changes, net	(6,299)	(14,100)	(6,907)	(27,306)
Net assets released from restrictions	10,121	(10,121)	—	—
Change in net assets from nonoperating activities	<u>12,092</u>	<u>7,793</u>	<u>49,301</u>	<u>69,186</u>
Change in net assets	(10,180)	27,773	49,301	66,894
Net assets, beginning of year	<u>1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>
Net assets, end of year	<u>\$ 992,318</u>	<u>1,544,744</u>	<u>1,382,579</u>	<u>3,919,641</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2016 and 2015

(Dollars in thousands)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (117,360)	66,894
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized losses (gains) on investments	53,967	(147,624)
Depreciation	73,156	71,424
Amortization of bond premium	(4,066)	(4,066)
Loss from disposals of land, building and equipment	2,594	1,804
Change in funded status of pension obligation	19,597	6,824
Change in fair value of interest rate swap liabilities	21,520	8,666
Change in asset retirement obligation	6	1,065
Change in estimate of split-interest obligations	1,024	6,207
Contributions restricted for plant and endowment	(103,941)	(76,976)
Change in accounts receivable and other assets	(9,633)	2,087
Change in accounts payable and accrued liabilities	1,264	(2,543)
Change in contributions receivable, net	(9,118)	(11,393)
Change in other operating liabilities, net	(248)	4,318
Net cash used in operating activities	<u>(71,238)</u>	<u>(73,313)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(94,053)	(87,575)
Purchases of investments	(2,046,123)	(1,345,394)
Sales and redemptions of investments	2,139,249	1,273,390
Purchases of securities sold short	(544,136)	(33,365)
Proceeds from securities sold short	518,504	147,403
Notes repaid by students and others, net	784	161
Change in funds held in trust by others, excluding swap collateral	7,198	56,591
Net cash (used in) provided by investing activities	<u>(18,577)</u>	<u>11,211</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	103,941	76,976
Proceeds from sale of restricted gifts of securities	20,030	20,394
Payments under split-interest obligations	(2,302)	(2,331)
Payments on long-term debt	(25,955)	(20,825)
Proceeds from issuance of debt, including premium	95,000	—
Proceeds from commercial paper programs	—	14,530
Payments on commercial paper programs	(65,530)	—
Cash collateral posted under swap agreements	(25,700)	(16,100)
Cash collateral returned under swap agreements	11,700	15,100
Advance from line of credit	90,000	—
Payment of advance from line of credit	(90,000)	—
Bond issuance costs	(143)	—
Net cash provided by financing activities	<u>111,041</u>	<u>87,744</u>
Change in cash and cash equivalents	21,226	25,642
Cash and cash equivalents, beginning of year	51,188	25,546
Cash and cash equivalents, end of year	\$ <u>72,414</u>	<u>51,188</u>

See accompanying notes to financial statements.



## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

##### **(a) Organization**

Brown University is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 6,300 undergraduate students and 2,750 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

##### **(b) Basis of Presentation and Tax Status**

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

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

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

##### **(c) Classification of Net Assets**

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

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

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

#### **(d) Fair Value Measurements**

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

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no market data is available.

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

Investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy.

#### **(e) Statements of Activities**

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

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

Revenues are derived from various sources, as follows:

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

Expenses are reported as decreases in unrestricted net assets.

**(f) *Cash Equivalents***

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

**(g) *Accounts Receivable and Other Assets and Notes Receivable***

Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory and prepaid expenses. Notes and accounts receivable are presented net of an allowance for uncollectible amounts.

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

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

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

**(i) Fund Held in Trust by Others**

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$39,312 and \$22,411 at June 30, 2016 and 2015, respectively. The University receives all or a specified portion of the return on the underlying assets of most of the trusts, which is primarily restricted for scholarships. Most of these trust interests are classified in Level 3 in the fair value hierarchy. Other trustee funds of \$35,743 and \$45,842 at June 30, 2016 and 2015, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held as collateral or in reserve in accordance with debt or interest rate swap agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

**(j) Federal Student Loan Advances**

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

**(k) Collections**

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

## **BROWN UNIVERSITY**

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

**(l) Derivatives**

The University uses derivatives for both debt and investment-related purposes. Interest-rate swaps, as described in note 6 (c), were initially used to manage interest-rate risk by fixing the rate on associated variable-rate debt issuances. In addition, certain of the University's investment strategies utilize various derivative financial instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Positions are expected to create gains or losses which, when combined with the applicable portion of the total investment portfolio, provide an expected result. Among the derivative instruments that may be entered from time to time include total return swaps to manage exposures in equity markets, foreign currency forward contracts to manage currency exposures in the portfolio, as well as credit default swaps. The University has established policies and procedures to monitor and manage risks related to these instruments. In connection with its investment derivative activities, the University generally maintains master netting agreements and collateral agreements with its counterparties. The agreements provide the University the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty.

**(m) Liabilities Associated with Investments**

The University may, from time to time, incur liabilities associated with its investments portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a realized gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheets at June 30, 2016 and 2015 include \$72,456 and \$121,869, respectively, representing the fair value of identical securities that must be acquired to settle obligations to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given that they are measured based on quoted market prices. In addition, liabilities associated with investments include the fair value of credit default swaps of \$10,511 at June 30, 2015, as well as \$2,294 and \$1,746 related to the fair value of total return swaps entered into in fiscal 2016 and 2015, respectively.

**(n) Other Long-Term Obligations**

Other long-term obligations include the funded status of the defined benefit pension plan of \$39,221 and \$19,624 at June 30, 2016 and 2015, respectively; interest-rate swap liabilities aggregating \$59,356 and \$37,836 at June 30, 2016 and 2015, respectively; and asset retirement obligations of \$13,306 and \$13,300 at June 30, 2016 and 2015, respectively.

**(o) Use of Estimates**

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

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

#### (2) Contributions Receivable

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

	<u>2016</u>	<u>2015</u>
Contributions expected to be received in:		
Less than one year	\$ 80,946	39,350
Between one and five years	87,293	121,186
More than five years	<u>25,030</u>	<u>24,598</u>
Gross contributions receivable	193,269	185,134
Unamortized discount (at rates ranging from 0.7% to 4.8%) and allowance for uncollectibles	<u>(22,365)</u>	<u>(23,348)</u>
Contributions receivable, net	<u>\$ 170,904</u>	<u>161,786</u>

#### (3) Investments

##### *Investment Strategy*

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

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

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

***Basis of Reporting***

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2016 and 2015, the University had no plans or intentions to sell investments at amounts different from NAV.

Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

**BROWN UNIVERSITY**

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(Dollars in thousands)

The following tables summarize the University's investments by strategy type as of June 30, 2016 and 2015:

	<b>2016</b>				
	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investments:					
Equities:					
U.S. equities	\$ 122,028	126,253	—	678	248,959
Non-U.S. equity funds	445,764	59,488	—	—	505,252
Fixed income:					
Domestic	95,357	14,945	78,394	43,201	231,897
U.S. Treasury inflation-protected	14,932	—	—	—	14,932
Hedged strategies:					
General arbitrage funds	418,011	—	—	—	418,011
Distressed funds	6,343	—	—	—	6,343
Global/Non-U.S. funds	883,756	—	—	—	883,756
Private equity:					
Buy-out funds	365,689	—	—	—	365,689
Venture funds	276,836	—	—	2,842	279,678
Real assets:					
Real estate and timber	50,310	1,694	—	30,896	82,900
Commodities, oil and gas	90,803	—	3,374	8,807	102,984
Cash and cash equivalents	—	390,204	—	—	390,204
Total	\$ 2,769,829	592,584	81,768	86,424	3,530,605



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2015					
Investments classified in the fair value hierarchy					
Investments measured at NAV	Level 1	Level 2	Level 3	Total	
Investments:					
Equities:					
U.S. equities	\$ 180,916	134,385	6,849	147	322,297
Non-U.S. equity funds	425,504	135,909	—	—	561,413
Fixed income:					
Domestic	110,367	5,566	108,645	46,295	270,873
U.S. Treasury inflation-protected	22,608	—	—	—	22,608
Hedged strategies:					
General arbitrage funds	259,778	—	—	—	259,778
Distressed funds	7,412	—	—	—	7,412
Global/Non-U.S. funds	913,534	—	—	—	913,534
Private equity:					
Buy-out funds	415,881	—	—	—	415,881
Venture funds	286,593	—	—	—	286,593
Real assets:					
Real estate and timber	84,203	1,742	1,231	1,036	88,212
Commodities, oil and gas	171,425	—	—	—	171,425
Cash and cash equivalents	—	389,262	—	—	389,262
<b>Total</b>	<b>\$ 2,878,221</b>	<b>666,864</b>	<b>116,725</b>	<b>47,478</b>	<b>3,709,288</b>

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. Investments classified in Level 2 and 3 consist of directly held investments that have valuations based on inputs other than quoted prices.

Certain funds contain “rolling” lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two to five years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement. Private equity and real assets are held in funds that have initial terms of ten to twelve years with extensions of one to three years, and have an average remaining life of approximately three to five years.

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The following tables present activities for the years ended June 30, 2016 and 2015 for the University's investments classified in Level 3:

Level 3 roll forward	2016				Total
	Equities	Fixed income	Private equity	Real assets	
Fair value as of June 30, 2015	\$ 147	46,295	—	1,036	47,478
Acquisitions	—	63,022	—	1,760	64,782
Dispositions	—	(72,813)	—	(4,981)	(77,794)
Transfers in	607	—	3,397	43,188	47,192
Net realized and unrealized gains	(76)	6,697	(555)	(1,300)	4,766
Fair value at June 30, 2015	\$ 678	43,201	2,842	39,703	86,424

Level 3 roll forward	2015				Total
	Equities	Fixed income	Real assets	Total	
Fair value as of June 30, 2014	\$ 528	49,665	1,036	51,229	
Acquisitions	—	30,941	—	30,941	
Dispositions	—	(37,283)	—	(37,283)	
Net realized and unrealized gains	(381)	2,972	—	2,591	
Fair value at June 30, 2015	\$ 147	46,295	1,036	47,478	

On June 30, 2016, the University reclassified \$22,185 in commercial real estate from land, building and equipment to investments. The commercial real estate will be held for long-term investment purposes, is carried at fair value, and is classified in Level 3 of the fair value hierarchy. There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2016 and 2015, respectively.

The following summarizes investment return components for the years ended June 30, 2016 and 2015:

	2016	2015
Interest and dividends	\$ 17,002	16,385
Net realized and unrealized (losses) gains, net of investment management and advisory expenses	(53,967)	147,624
Investment return	\$ (36,965)	164,009

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Total investment return is included in the statements of activities as follows for the years ended June 30:

	<b>2016</b>	<b>2015</b>
Operating:		
Endowment return appropriated	\$ 153,460	142,725
Included in other income	10,532	11,123
Nonoperating activities:		
Net investment return	(47,497)	152,886
Endowment return appropriated	(153,460)	(142,725)
Total return	\$ (36,965)	164,009

Total investment management and advisory expenses, including internal costs, were \$18,816 and \$21,942 for the years ended June 30, 2016 and 2015, respectively, and have been netted against the total return.

**(a) Liquidity**

Investment liquidity as of June 30, 2016 and 2015 is aggregated below based on redemption or sale ability:

		<b>2016</b>						
		<b>Daily</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Semi-annually to annually</b>	<b>Subject to rolling lock-ups</b>	<b>Illiquid</b>	<b>Total</b>
	Equities	\$ 189,306	—	179,255	115,013	264,723	5,914	754,211
	Fixed income	122,399	21,980	—	—	45,068	57,382	246,829
	Hedged strategies	31,755	259,316	99,558	184,853	709,134	23,494	1,308,110
	Private equity	—	—	—	—	—	645,367	645,367
	Real assets	5,067	—	—	—	—	180,817	185,884
	Cash and cash equivalents	390,204	—	—	—	—	—	390,204
	Total	\$ 738,731	281,296	278,813	299,866	1,018,925	912,974	3,530,605

		<b>2015</b>						
		<b>Daily</b>	<b>Monthly</b>	<b>Quarterly</b>	<b>Semi-annually to annually</b>	<b>Subject to rolling lock-ups</b>	<b>Illiquid</b>	<b>Total</b>
	Equities	\$ 280,672	—	211,639	180,890	202,485	8,024	883,710
	Fixed income	156,497	51,926	—	—	81,048	4,010	293,481
	Hedged strategies	—	198,079	—	134,958	816,975	30,712	1,180,724
	Private equity	—	—	—	—	—	702,474	702,474
	Real assets	2,973	72,145	—	—	—	184,519	259,637
	Cash and cash equivalents	389,262	—	—	—	—	—	389,262
	Total	\$ 829,404	322,150	211,639	315,848	1,100,508	929,739	3,709,288

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Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 5 to 180 days, at June 30, 2016 and 2015.

**(b) Commitments**

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real assets as of June 30, 2016 was \$372,981 and \$101,323, respectively.

**(c) Investment Derivatives**

The University's investment-related derivative positions, categorized by primary underlying risk, are as follows as of June 30, 2016 and 2015:

	<u>2016</u>		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized gain</u>
Instrument type:			
Total return swaps	\$ 143,320	(44,829)	3,493
Foreign currency forwards	88,979	(96,540)	578
Total	<u>\$ 232,299</u>	<u>(141,369)</u>	<u>4,071</u>
	<u>2015</u>		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized loss</u>
Instrument type:			
Total return swaps	\$ 52,331	(28,714)	(1,367)
Foreign currency forwards	340,000	—	(1,535)
Total	<u>\$ 392,331</u>	<u>(28,714)</u>	<u>(2,902)</u>

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Contracts in a net asset position are included in investments on the balance sheets, and contracts in a net liability position are included in liabilities associated with investments on the balance sheets. At June 30, 2016 and 2015, the University held certain total return swaps in a net liability position of \$2,157 and \$1,747, respectively, as well as certain total return swaps in a net asset position of \$5,650 and \$380, respectively. At June 30, 2016, the University held various foreign currency forward contracts in a net liability position of \$434 and in a net asset position of \$1,012. The University did not hold any foreign currency forward contracts as of June 30, 2015. At June 30, 2015, the University held certain credit default swaps in a liability position with a fair value of \$10,511. The University posted collateral on these credit default swaps of \$10,690, which is included in domestic fixed income investments in the 2015 fair value hierarchy table in note 3. In 2016, the credit default swaps were terminated.

**(4) Endowment**

The University's endowment consists of approximately 2,900 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (9,098)	1,132,476	1,315,362	2,438,740
Corporation-designated endowment funds	<u>445,275</u>	<u>79,351</u>	<u>—</u>	<u>524,626</u>
Total endowment net assets	\$ <u>436,177</u>	<u>1,211,827</u>	<u>1,315,362</u>	<u>2,963,366</u>

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,795)	1,288,076	1,250,406	2,536,687
Corporation-designated endowment funds	<u>477,319</u>	<u>59,343</u>	<u>—</u>	<u>536,662</u>
Total endowment net assets	\$ <u>475,524</u>	<u>1,347,419</u>	<u>1,250,406</u>	<u>3,073,349</u>

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Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2015	\$ 475,524	1,347,419	1,250,406	3,073,349
Investment return, net	(14,844)	(28,937)	—	(43,781)
Endowment return appropriated	(26,795)	(126,665)	—	(153,460)
Contributions	433	20,160	63,091	83,684
Reclassifications and other changes	1,859	(150)	1,865	3,574
Endowment at June 30, 2016	\$ <u>436,177</u>	<u>1,211,827</u>	<u>1,315,362</u>	<u>2,963,366</u>

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2014	\$ 473,111	1,336,091	1,190,547	2,999,749
Investment return, net	22,058	124,912	—	146,970
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Contributions	1,213	8,068	51,529	60,810
Reclassifications and other changes	640	(425)	8,330	8,545
Endowment at June 30, 2015	\$ <u>475,524</u>	<u>1,347,419</u>	<u>1,250,406</u>	<u>3,073,349</u>

**(a) Interpretation of Relevant Laws**

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

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

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**(b) *Funds with Deficiencies***

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$9,098 and \$1,795 as of June 30, 2016 and 2015, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in unrestricted net assets.

**(c) *Return Objectives and Risk Parameters***

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

**(d) *Strategies Employed for Achieving Objectives***

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

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

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

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

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

	<u>2016</u>	<u>2015</u>
Land	\$ 83,940	85,110
Buildings	641,432	648,645
Improvements	998,343	966,207
Equipment	187,667	172,197
Intangible assets	2,633	1,988
Construction in progress	<u>67,757</u>	<u>50,056</u>
	1,981,772	1,924,203
Accumulated depreciation	<u>(917,141)</u>	<u>(860,098)</u>
Land, buildings and equipment, net	<u>\$ 1,064,631</u>	<u>1,064,105</u>

Outstanding commitments on uncompleted construction contracts total \$74,744 at June 30, 2016.



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**(6) Bonds, Loans and Notes Payable**

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

Name of issue	Interest rate(s)	Type of rate	Final maturity	Balance at June 30	
				2016	2015
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	0.05%	Variable	2043	\$ 41,650	42,105
Series 2005A	0.04%	Variable	2035	85,500	85,500
Series 2007	4.25%–5.00%	Fixed	2037	88,295	90,010
Series 2009	5.00%	Fixed	2039	70,795	70,795
Series 2011	2.50%–5.00%	Fixed	2032	55,060	59,190
Series 2012	5.00%	Fixed	2022	118,240	118,240
Series 2013	3.00%–5.00%	Fixed	2044	135,310	137,865
Series 2015	0.67%	Variable	2044	45,000	—
Tax-exempt commercial paper	0.05%–0.06%	Fixed	2016	—	15,530
Taxable standard commercial Paper Notes, Series A	0.09%–0.11%	Fixed	2016	—	50,000
Brown University Taxable Bonds:					
Series 2005	5.09%	Fixed	2016	—	17,000
Series 2009	4.57%	Fixed	2019	100,000	100,000
Commercial bank term loan	0.75%	Variable	2019	50,000	—
	non-interest bearing				
Promissory note		N/A	2029	3,400	3,500
Loans payable – community:					
Development entities	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				806,998	803,483
Unamortized premium				37,678	41,744
Total bonds, loans and notes payable				\$ 844,676	845,227

**(a) Tax Exempt Bonds**

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

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In October 2015, the University issued through RIHEBC tax-exempt direct placement bonds with a total par value of \$45,000 at a variable interest rate, maturing in 2046. The proceeds were used to redeem \$17,000 of Series 2005 Taxable bonds and pay down \$14,470 of RIHEBC Tax-exempt commercial paper program, with remaining proceeds to be used for capital projects.

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

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

The University's debt includes two taxable bond issues. Series 2005 Taxable Bonds were issued to finance a portion of the acquisition cost of an office building. The Series 2005 Taxable Bonds were redeemed in 2016 with the issuance of the Series 2015 RIHEBC Facilities Revenue Bonds. Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets.

In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to \$50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B. The Taxable Commercial Paper Program has a number of individual notes that are issued at various times, amounts and staggered maturity dates. At June 30, 2016 there were no outstanding notes. The agreement allows the University to continue this revolving process until 2036.

In September 2015, the University borrowed \$50,000 through a commercial bank term loan at a variable rate of one-month LIBOR plus 30 basis points, maturing in September 2018. The proceeds were used to pay down \$50,000 outstanding in the Taxable Commercial Paper Program.

The University had also maintained a tax exempt commercial program through RIHEBC. This program was terminated in November 2015. Proceeds from the tax exempt commercial paper program had to be used within 18 months; however, once debt was issued, the University could continue to rollover the tax exempt commercial paper. As of June 30, 2016, there was no amount outstanding and as of June 30, 2015, \$15,530 remained outstanding.

Principal payments of bonds, notes and loans payable as of June 30, 2016 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2017	\$	11,700
2018		12,035
2019		59,230
2020		111,895
2021		9,980
Thereafter		602,158
Total	\$	<u>806,998</u>

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The University has a revolving line of credit available up to \$40,000. As of June 30, 2016, the full amount of \$40,000 was available at a rate of 1.22%. In July 2015, the University established an additional \$100,000 line of credit, which matured in July 2016 and was subsequently renewed to mature in July 2017. As of June 30, 2016, the full amount of \$100,000 was available at a rate of 0.87%.

In fiscal 2015, the University entered into two stand-by bond purchase agreements with financial institutions totaling approximately \$127,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. Financing obtained through these stand-by credit agreements to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over a two-to-five year period. The agreements have various maturity dates between November 2017 and January 2020. There were no amounts outstanding at June 30, 2016 and 2015, respectively, under these agreements.

The University provided self-liquidity for its taxable commercial paper program at June 30, 2016 and 2015, respectively.

**(c) Interest Rate Swaps**

At June 30, 2016 and 2015, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.

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

Counterparty	Associated debt	Expiration date	June 30, 2016 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2016	2015
JP Morgan	Series 2003B	9/1/2043	\$ 41,650	3.732%	\$ (19,660)	(13,111)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(36,019)	(21,927)
Goldman Sachs	None	9/1/2032	15,565	3.891	(3,677)	(2,798)
					<u>\$ (59,356)</u>	<u>(37,836)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. This rating was maintained by the University at June 30, 2016 and 2015. At June 30, 2016, the collateral posting requirement was \$14,696; however, \$15,000 was on deposit as collateral to ensure continuing collateral coverage.

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

#### (7) Retirement Benefits

The University participates in two contributory retirement plans. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$23,255 and \$23,417 for the years ended June 30, 2016 and 2015, respectively.

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

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

	<u>2016</u>	<u>2015</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 86,784	78,995
Service cost	3,850	3,539
Interest cost	3,707	3,278
Benefits paid	(2,075)	(1,984)
Actuarial loss	12,027	2,956
Projected benefit obligation at end of year	<u>\$ 104,293</u>	<u>86,784</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.48%	4.33%
Rate of compensation increase	3.00	3.00

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

	<b>2016</b>	<b>2015</b>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 67,160	66,195
Actual return on plan assets	(1,513)	1,449
Contributions	1,500	1,500
Benefits paid	(2,075)	(1,984)
Fair value of plan assets at end of year	65,072	67,160
Projected benefit obligation at end of year	(104,293)	(86,784)
Funded status included in other long-term obligations	\$ (39,221)	(19,624)
	<b>2016</b>	<b>2015</b>
Net periodic pension cost:		
Service cost	\$ 3,850	3,539
Interest cost	3,707	3,278
Expected return on assets	(4,337)	(4,596)
Amortization of unrecognized loss and prior service cost	1,150	744
Net periodic pension cost	\$ 4,370	2,965

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

	<b>2016</b>	<b>2015</b>
Discount rate	4.33%	4.20%
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	6.50	7.00

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2016 and 2015, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$594 and \$721, respectively, and a net unrecognized actuarial loss of \$37,045 and \$20,191, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

The plan assets at June 30, 2016 and 2015 consist of variable annuity investments with various equity and fixed income focuses, which are classified as Level 1 of the GAAP fair value hierarchy.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

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

The actual asset allocation for the pension plan as of June 30, 2016 and 2015, and the weighted average asset targeted allocation are as follows:

	<b>Target</b>	<b>Actual</b>	
		<b>2016</b>	<b>2015</b>
Equity funds	75%	76%	75%
Fixed income funds	25	24	25
Total	100%	100%	100%

The University's estimated contribution for 2017 is \$2,500.

Estimated future benefit payments as of June 30, 2015 are as follows:

Fiscal year:		
2017	\$	2,887
2018		3,147
2019		3,406
2020		3,642
2021		3,944
2022–2026		24,152

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

**(8) Restricted Net Assets**

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

	2016		2015	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,211,827	1,315,362	1,347,419	1,250,406
Contributions receivable	88,330	82,574	61,248	100,538
Donor-restricted purposes	103,771	41,254	95,895	31,635
Donor-restricted for plant-purposes	54,745	—	29,304	—
Student loans	12,433	—	10,878	—
Total	\$ 1,471,106	1,439,190	1,544,744	1,382,579

**(9) Functional Classification of Expenses**

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

	2016	2015
Instruction and departmental research	\$ 322,449	304,074
Sponsored programs	116,431	109,970
Academic and student support	204,254	198,750
Auxiliary services	100,594	101,041
Institutional support	94,501	97,122
	\$ 838,229	810,957

**(10) Commitments and Contingencies**

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

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

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2016 and 2015

(Dollars in thousands)

#### (11) Related-Party Transactions

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

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

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

	<u>2016</u>	<u>2015</u>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$1,809 and \$848	\$ 33,216	34,105
Noncash investing activities:		
Increase (decrease) in accounts payable for land, buildings and equipment	4,408	(1,860)
(Decrease) increase in payables for purchases of investments	(59,377)	126,071
Decrease in receivables for investments sold	—	(12,232)
Noncash financing activities:		
Seller financed note payable	—	3,500

#### (13) Subsequent Events

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued October 28, 2016, and subsequent events have been evaluated through that date.



**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Research and Development Cluster:				
Department of Agriculture:				
Agriculture and Food Research Initiative	10.310	Direct	\$ —	35,873
Rutgers University	10.310	4366 / PO S1500565	—	(2,456)
Department of Agriculture total			—	33,417
Department of Defense:				
Department of Defense – Other research	12.000	Direct	71,315	472,354
Cal Poly Pomona Foundation Inc	12.000	Remote Sensing Technology	—	114,234
Imaging Systems Technology	12.000	IST-6126	—	60,691
Lynntech, Inc.	12.000	Lincoln Laboratory	—	19,212
ObjectVideo, Inc.	12.000	FA8650-12-C-7212_Subcon_Brown_030812	—	(27,126)
ObjectVideo, Inc.	12.000	(Phase2A)	—	25,504
ObjectVideo, Inc.	12.000	(Phase2B)	29,137	93,123
Ryon Technologies	12.000	Research Agreement	—	126,104
Stanford University	12.000	25480040-47135-B	—	1,159
UES, Inc.	12.000	S-992-009-004	—	4,697
Subtotal			100,452	889,952
Procurement Technical Assistance For Business Firms	12.002	Direct	—	60,519
Basic and Applied Scientific Research	12.300	Direct	183,545	2,568,029
John Hopkins University	12.300	2003631376	—	88,792
Lincoln Laboratory	12.300	7000339544	—	28,112
Tufts University	12.300	ONR144	—	297,328
University of California, Los Angeles	12.300	1015 G TA170	—	43,269
University of California, Los Angeles	12.300	1015GNA134	—	73,441
University of Colorado, Boulder	12.300	1551677	—	214,054
Subtotal			183,545	3,313,025
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	Direct	92,825	174,412
Military Medical Research and Development	12.420	Direct	—	51,766
Boston University	12.420	9500300580	—	253,054
Rhode Island Hospital	12.420	7137164	—	21,081
Vanderbilt University	12.420	VUMC55761	—	31,362
Yale University	12.420	C16J12287 (J00244)	—	2,640
Yale University	12.420	C16-J2326 (J00246)	—	84
Yale University	12.420	C15J11982 (J00234)	—	14,778
Subtotal			—	374,765
Basic Scientific Research	12.431	Direct	521,612	2,824,123
General Dynamics Land Systems	12.431	40228388	—	50,000
General Dynamics Land Systems	12.431	PO#40251573	—	1,465
Massachusetts Institute of Technology	12.431	5710004051	—	12,000
University of Texas, Austin	12.431	UTA14-000870	—	4,453
Subtotal			521,612	2,892,041

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Basic, Applied and Advanced Research in Science and Engineering	12.630	Direct	\$ —	12,737
University of Utah	12.630	10028801-BROWN-BPP	—	103,502
University of Utah	12.630	10028801-BROWN	—	46,687
Subtotal			—	162,926
Air Force Defense Research Sciences Program	12.800	Direct	1,239,270	3,301,535
University of Dayton Research Institute	12.800	K75262-4363-7809 / PO# P1500565	—	20,009
Subtotal			1,239,270	3,321,544
Research and Technology Development	12.910	Direct	438,326	1,613,670
University of Southern Carolina	12.910	138809	—	(4,609)
Subtotal			438,326	1,609,061
Department of Defense total			2,576,030	12,798,245
Department of Education:				
Overseas Programs – Doctoral Dissertation Research Abroad	84.022	Direct	—	39,931
North Carolina State University	84.133	2014-0447-01 NCSU	—	3,511
Javits Fellowships	84.170	Direct	—	(4,195)
Graduate Assistance in Areas of National Need	84.200	Direct	—	153,329
Education Research, Development and Dissemination	84.305	Direct	174,281	389,336
Institute of Education Sciences	84.305	R305E150005	94,429	100,732
Subtotal			268,710	490,068
BPE	84.411	050115	—	80,079
Department of Education total			268,710	762,723
Department of Energy:				
Department of Energy – Other research	81.000	Direct	—	1,032,788
Ames Laboratory	81.000	SC-13-390	—	89,238
Fermi National Accelerator Laboratory	81.000	PO 573783	—	36,628
Honeywell Federal Manufacturing & Technologies LLC	81.000	N000177717	—	149,568
Lawrence Livermore National Laboratory	81.000	CK843434	—	17,197
Oak Ridge National Laboratory	81.000	4000126928	—	115,086
Pacific Northwest National Laboratory	81.000	211278	—	112,212
Pacific Northwest National Laboratory	81.000	233511	—	100,224
The Regents of the University of California	81.000	6953356	—	117,410
The Regents of the University of California	81.000	7215583	—	261,266
The Regents of the University of California	81.000	7265413	—	19,177
The Regents of the University of California – LBNL	81.000	6953356	—	91,360
The Regents of the University of California – LBNL	81.000	7265413	—	65,980
Subtotal			—	2,208,134
Office of Science Financial Assistance Program	81.049	Direct	652,834	5,167,330
Argonne National Laboratory	81.049	3F-32601	—	(1,845)
Subtotal			652,834	5,165,485

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
University Coal Research	81.057	Direct	\$ —	(12,734)
United States Automotive Materials Partnership, LLC	81.086	13-2834-AMP	—	170,187
General Motors Corporation	81.087	TCS69633	—	131,198
Advanced Research Projects Agency – Energy	81.135	Direct	190,163	1,110,210
Department of Energy total			<u>842,997</u>	<u>8,772,480</u>
Department of Health and Human Services:				
Department of Health and Human Services – Other Research	93.000	Direct	349,236	2,650,196
ABT Associates, Inc.	93.000	Sub 45696 – MRAD-CMS-BROWN-17993-1201	—	35,097
ABT Associates, Inc.	93.000	Sub 44039 – MRAD-CMS-BROWN-17993-1201	—	44,713
Boston University	93.000	4500001305	—	43,712
Center for Aids Research	93.000	710-9912-8985	—	24
ECOG-ACRIN Medical Research Foundation, Inc	93.000	1UG1CA189828-01-BRWN2	—	161,822
Rand Corporation	93.000	9920140104 – Option Yr 1	—	3,525
Rhode Island Hospital	93.000	701-5494	—	12,191
State of Rhode Island Department of Health	93.000	3168953-1	—	1
University of Colorado, Boulder	93.000	1551935	—	38,072
University of North Carolina at Charlotte	93.000	20140800-01-BRO	—	5,534
University of Rhode Island	93.000	06081/0004834	—	29,162
University of Rhode Island	93.000	0005098/090515 PO#94885	—	155,705
University of Rhode Island	93.000	0005098/081515 PO#0000094872	—	168,749
University of Rhode Island	93.000	0005098/090215 PO#94884	—	174,809
University of Rhode Island	93.000	0005098/0904115 PO#0000095608	—	165,888
Subtotal			<u>349,236</u>	<u>3,689,200</u>
University of Pittsburgh	93.007	9010654 (126580-1)	—	350,138
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	Direct	—	203,155
Miriam Hospital	93.077	710-9127	—	47,517
University of Pittsburgh	93.077	9010655 (125145-1)	—	78,661
University of Vermont	93.077	SUB51462 BROWN	—	517,060
Subtotal			<u>—</u>	<u>846,393</u>
President and Fellows of Harvard College	93.084	116532-5097266	—	40,556
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	Direct	123,975	162,581
Maternal and Child Health Federal Consolidated Programs	93.110	Direct	33,595	227,700
Environmental Health	93.113	Direct	583,529	2,958,130
Geisinger Center for Health Research	93.113	6568522	—	11,076
President and Fellows of Harvard College (1)	93.113	112481-5067791	—	32,148
Subtotal			<u>583,529</u>	<u>3,001,354</u>
Oral Diseases and Disorders Research	93.121	Direct	—	133,422
Dartmouth Medical School	93.121	1542/1357	—	188,734
Dorn Research Institute	93.121	DRI-0002	—	11,407
Subtotal			<u>—</u>	<u>333,563</u>
Lifespan, Inc.	93.136	7137033	—	19,958
Rhode Island Hospital	93.136	7137153	—	14,968
Subtotal			<u>—</u>	<u>34,926</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

<b>Federal grantor/pass-through grantor/program or cluster title</b>	<b>Federal CFDA number</b>	<b>Direct award or pass-through entity identifying number</b>	<b>Passed through to subrecipients</b>	<b>Total federal expenditures</b>
NIEHS Superfund Hazardous Substances – Basic Research and Education	93.143	Direct	\$ 64,244	1,847,946
Human Genome Research	93.172	Direct	71,348	931,574
Columbia University	93.172	2(GG009283)	—	(1,194)
Subtotal			71,348	930,380
Research Related to Deafness and Communication Disorders	93.173	Direct	—	795,167
Massachusetts General Hospital	93.173	221242	—	389,072
Stanford University	93.173	60951264-116469	—	36,158
University of Connecticut	93.173	KFS5619210/RSA49674	—	123,598
Subtotal			—	1,343,995
Research and Training in Complementary and Integrative Health	93.213	Direct	166,732	467,802
University of Maryland, Baltimore	93.213	SR00002633/7527	—	33,401
Subtotal			166,732	501,203
National Research Service Awards – Health Services Research Training	93.225	Direct	—	358,041
Research on Healthcare Costs, Quality and Outcomes	93.226	Direct	—	1,146,036
Healthcentric Advisors	93.226	AHRQ Sub – M. Clark	—	11,908
Healthcentric Advisors	93.226	AHRQ Sub – R. Baier	—	55,731
Subtotal			—	1,213,675
Mental Health Research Grants	93.242	Direct	1,443,347	7,188,561
Ann & Robert H. Lurie Children’s Hospital of Chicago	93.242	901463-Brown	—	41,899
Bradley Hospital	93.242	712-7477	—	73,720
Brigham & Women’s Hospital	93.242	106971	—	287
Butler Hospital	93.242	9232-8328	—	31,981
Butler Hospital	93.242	9064-8328	—	50,176
Butler Hospital	93.242	9234-8328	—	96,627
Butler Hospital	93.242	9269-8328	—	21,967
Lifespan, Inc.	93.242	710.9856	—	13,950
Massachusetts General Hospital	93.242	224840	—	73,116
Michigan State University	93.242	RC104649BU	—	106,622
Michigan State University	93.242	RC105383-Brown	—	314,332
Miriam Hospital	93.242	710-9107-8985	—	2,095
Miriam Hospital	93.242	710-9856 G. Papandonatos	—	33,346
Miriam Hospital	93.242	710-9864	—	(10)
Northeastern University	93.242	500304	—	53,004
Research Foundation of CUNY	93.242	41861-A	—	106,882
Rhode Island Hospital	93.242	7137063	—	56,037
University of California, Los Angeles	93.242	1560 G TA313	—	29,612
University of California, San Francisco	93.242	6235sc	—	2,558
University of Cape Town	93.242	HIV Cascade	—	69,991
University of Maryland, Baltimore	93.242	070093A-SR00002907	—	200,933
University of Missouri, St. Louis	93.242	00024395-2	—	13,330
University of Rochester	93.242	416173-G	—	(24,352)
Subtotal			1,443,347	8,556,664

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	Direct	\$ 102,423	979,247
Butler Hospital	93.243	9050-8328	—	64,518
State of Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	93.243	SPF-PFS	—	231,611
University of Rhode Island	93.243	5132-071415	—	31,940
Subtotal			<u>102,423</u>	<u>1,307,316</u>
Adult Viral Hepatitis Prevention and Control	93.270	Direct	46,072	229,359
Alcohol Research Programs	93.273	Direct	849,309	5,168,734
Butler Hospital	93.273	9132-8328	—	40,765
Butler Hospital	93.273	9193-8328	—	25,478
Miriam Hospital	93.273	701-9926	—	68,687
Miriam Hospital	93.273	710-9192	—	23,170
Public Health Institute	93.273	1021169	—	11,933
Rhode Island Hospital	93.273	701-5475-3-RI	—	28,968
Rhode Island Hospital	93.273	701-5486	—	7,670
Rhode Island Hospital	93.273	701-713-7154	—	12,476
SIMMersion LLC	93.273	SIMMersion GA	—	30,471
University of Connecticut Health Center	93.273	UCHC6-42189694	—	37,649
University of Memphis	93.273	PO109411 / Index 5-40091	—	9,458
University of Memphis	93.273	PO153913	—	2,792
University of New Mexico	93.273	028328-87T6	—	1,460
University of Rhode Island	93.273	112012-003452	—	36,006
University of Washington	93.273	UWSC8758	—	9,540
Subtotal			<u>849,309</u>	<u>5,515,257</u>
Drug Abuse and Addiction Research Programs	93.279	Direct	48,200	2,401,998
Butler Hospital	93.279	9016-8328	—	35,037
Butler Hospital	93.279	9116-8328	—	25,058
Columbia University	93.279	7R01DA036894	—	116,588
Lifespan, Inc.	93.279	701-5545	—	10,269
Miriam Hospital	93.279	710-9833-8985	—	97,517
Miriam Hospital	93.279	710-9834-8985	—	21,046
Miriam Hospital	93.279	710-9865	—	17,667
Miriam Hospital	93.279	710-9993	—	37,558
Rhode Island Hospital	93.279	713-7029	—	3,325
The Fenway Institute	93.279	292-Brown1	—	27,219
University of British Columbia	93.279	Pass-Through Number Not Available	—	816
University of California, San Diego	93.279	68677681	—	12,488
University of California, San Francisco	93.279	9064sc	—	16,302
University of California, San Francisco	93.279	9081sc	—	4,900
University of Pittsburgh	93.279	9007801 (122504-1)	—	(97)
University of Washington	93.279	763901	—	34,693
Subtotal			<u>48,200</u>	<u>2,862,384</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Mental Health Research Career/scientist Development Awards	93.281	Direct	\$ 46,366	300,279
Mental Health National Research Service Awards for Research Training	93.282	Direct	—	363,463
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	Direct	—	220,523
Minority Health and Health Disparities Research	93.307	Direct	28,307	179,024
Trans-NIH Research Support	93.310	Direct	78,675	479,952
Johns Hopkins University	93.310	PO 2001392915	—	83,545
Rhode Island Hospital	93.310	701-7137160	—	51,374
Sloan-Kettering Institute	93.310	Pass-Through Number Not Available	—	9,521
Westat, Inc.	93.310	6366-S02	—	29,629
Subtotal			<u>78,675</u>	<u>654,021</u>
Research Infrastructure Programs	93.351	1G20OD016587-01	—	104,434
Nursing Research	93.361	Direct	—	141,521
Butler Hospital	93.361	9074-8328	—	14,722
Rhode Island Hospital	93.361	701-5500-RI	—	19,955
Rhode Island Hospital	93.361	701-5597-RI	—	17,335
The Regents of the University of California	93.361	201222943-02	—	71,302
Subtotal			<u>—</u>	<u>264,835</u>
National Center for Research Resources	93.389	Direct	108,481	392,538
Rhode Island Hospital	93.389	701-5482-8985	—	64,750
Subtotal			<u>108,481</u>	<u>457,288</u>
Cancer Cause and Prevention Research	93.393	Direct	60,744	361,644
Boston University	93.393	4500001594	—	4,105
Legacy for Health Foundation	93.393	7007-Brown	—	121,888
Legacy for Health Foundation	93.393	7015-Brown	—	51,787
Miriam Hospital	93.393	710-9871	—	33,204
Northwestern University	93.393	60038259BU	—	11,595
Northwestern University	93.393	60041692BU	—	18,494
Tufts University	93.393	100627-00001	—	52,465
Tufts University	93.393	100580-00001	—	44,095
University of Texas, Austin	93.393	UTA14-000728	—	93,699
Subtotal			<u>60,744</u>	<u>792,976</u>
Cancer Detection and Diagnosis Research	93.394	Direct	98,192	368,386
American College of Radiology	93.394	1670	—	129,560
The Regents of the University of California	93.394	1562GTA939	—	31,016
University of California, Irvine	93.394	2015-3159	—	21,060
University of Massachusetts, Amherst	93.394	15-008584 A00	—	19,604
University of Massachusetts, Worcester	93.394	WA00398240/OSP2016160	—	6,150
Subtotal			<u>98,192</u>	<u>575,776</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Dana-Farber Cancer Institute	93.395	1227201	\$ —	1,306,426
Dana-Farber Cancer Institute	93.395	1227202	—	65,009
ECOG-ACRIN Medical Research Foundation, Inc	93.395	1UG1CA189828-01-BRWB1	—	209,023
ECOG-ACRIN Medical Research Foundation, Inc	93.395	U10CA180820-02BRWN1	—	89,694
University of Louisville	93.395	ULRF141029-01	—	27,687
Subtotal			—	1,697,839
Cancer Biology Research	93.396	Direct	—	54,029
Indiana University	93.397	IN-4687555-BRWN	—	6,462
Indiana University	93.397	IN4687560BRWN	—	28,234
Subtotal			—	34,696
Cancer Research Manpower	93.398	Direct	—	54,380
North Carolina State University	93.433	2015-3038-01	—	6,435
PPHF National Public Health Improvement Initiative	93.507	Direct	—	15,086
State of Rhode Island Department of Human Services	93.609	AMQG 14/15-001	—	68,796
Trans-NIH Recovery Act Research Support	93.701	Direct	—	(2,659)
Massachusetts General Hospital	93.701	215031	—	(279)
Subtotal			—	(2,938)
State of Rhode Island Department of Health	93.758	3420327	38,050	87,352
Cell Biology and Biophysics Research	93.821	Direct	—	362
Cardiovascular Diseases Research	93.837	Direct	331,125	1,801,355
Butler Hospital	93.837	9261-8328	—	6,579
Columbia University	93.837	512153	—	23,500
Mount Sinai School of Medicine	93.837	0255-4702-4609	—	47,236
Mount Sinai School of Medicine	93.837	0255-8171-4609	—	85,849
Northern California Institute for Research and Education, Inc.	93.837	1724	—	59,513
Ocean State Research Institute	93.837	122202	—	11,511
Rhode Island Hospital	93.837	701-5506	—	3,217
Rhode Island Hospital	93.837	701-5552	—	51,960
Yale University	93.837	C14A11773 (A10020)	—	263,968
Yale University	93.837	M15A11986 (A10096)	—	16,528
Yale University	93.837	M15A12096 (A10141)	—	718,248
Subtotal			331,125	3,089,464
Lung Diseases Research	93.838	Direct	116,693	920,950
Rhode Island Hospital	93.838	701-7137089	—	136,567
Weill Cornell Medical College	93.838	14030293-2 / 14111600-02	—	342,279
Yale University	93.838	M14A11772 (A08509)	—	7,622
Yale University	93.838	M15A12057(A10157)	—	19,244
Subtotal			116,693	1,426,662

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Blood Diseases and Resources Research	93.839	Direct	\$ 451,884	744,150
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Direct	111,093	1,107,039
Lifespan, Inc.	93.846	701-5401	—	24,446
Rhode Island Hospital	93.846	701-7137037	—	51,223
Yale University	93.846	M16A12082(A10209)	—	23,498
Subtotal			111,093	1,206,206
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Direct	—	518,475
Miriam Hospital	93.847	710-9906	—	60,690
Miriam Hospital	93.847	710-9176	—	8,012
Miriam Hospital	93.847	710-9909	—	2,605
Rhode Island Hospital	93.847	701-5599	—	39,622
Subtotal			—	629,404
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Direct	621,048	5,257,729
Gray Matter Research	93.853	Pass-Through Number Not Available	—	105,644
Massachusetts General Hospital	93.853	227057	—	40,101
Miriam Hospital	93.853	710-9902	—	17,337
President and Fellows of Harvard College (2)	93.853	148635.5033651.0506	—	111,609
Subtotal			621,048	5,532,420
Allergy, Immunology and Transplantation Research	93.855	Direct	329,039	2,498,459
Center for Aids Research	93.855	710-9912-Luo	—	2,327
Indiana University	93.855	IN4688367BU	—	3,381
Magee Womens Research Institute	93.855	9431	—	12,935
Magee Womens Research Institute	93.855	9326	—	4,643
Miriam Hospital	93.855	710-9911-8985	—	155,848
Miriam Hospital	93.855	710-9912-8985	—	68,002
Miriam Hospital	93.855	710-9998-Liu	—	4,331
Miriam Hospital	93.855	710-9142	—	49,163
Miriam Hospital	93.855	710-9143	—	47,291
Miriam Hospital	93.855	710-9177	—	5,594
Miriam Hospital	93.855	710-9912	—	35,432
President and Fellows of Harvard College – HMS	93.855	160505-1224	—	10,736
Rhode Island Hospital	93.855	7017137175	—	54,845
State University of New York- Buffalo	93.855	R732738	—	(1,440)
University of Florida	93.855	UFDSP00010840	—	31,709
Subtotal			329,039	2,983,256



**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Biomedical Research and Research Training	93.859	Direct	\$ 98,639	7,299,687
Ocean State Research Institute	93.859	312213	—	(1,079)
Ocean State Research Institute	93.859	312226	—	42,475
Ocean State Research Institute	93.859	Pass-Through Number Not Available	—	434,141
Rhode Island Hospital	93.859	701-5480	—	183,245
Rhode Island Hospital	93.859	701-5480-8985	—	38,973
Rhode Island Hospital	93.859	7017137077-8985	—	35,940
University of Pennsylvania	93.859	560885	—	138,822
University of Rhode Island	93.859	0004390/0712314	—	74,829
University of Rhode Island	93.859	0004390/111014 PO#84977	—	120
University of Rhode Island	93.859	0005098/012915	—	40,625
University of Vermont	93.859	268355UB51329	—	19,780
Women and Infants Hospital	93.859	9536	—	57,355
Subtotal			98,639	8,364,913
Population Research	93.864	Direct	—	(7,300)
Princeton University	93.864	00001796	—	13,685
Subtotal			—	6,385
Child Health and Human Development Extramural Research	93.865	Direct	149,164	2,740,773
Albert Einstein College of Medicine	93.865	310037/PO043390	—	72,617
Butler Hospital	93.865	9221-8328	—	15,829
Butler Hospital	93.865	9156-8328	—	9,746
Case Western Reserve University	93.865	RES509153	—	75,799
Indiana University	93.865	IN4688378BU	—	102,020
Miriam Hospital	93.865	710-9115	—	17,761
Mount Sinai School of Medicine	93.865	025-6281-4609	—	4,462
Pennsylvania State University	93.865	5006-BU-DHHS-8831	—	6,039
Princeton University	93.865	SUB000089	—	25,962
Regents of the University of Michigan	93.865	3003772127	—	34,067
Tulane University	93.865	TUL-HSC-553817-a5/16	—	22,384
University of California, San Francisco	93.865	9032sc	—	5,277
University of Connecticut	93.865	1RO1HD074560-1A1	—	6,580
University of Rhode Island	93.865	04052012/0002985	—	38,630
University of Rhode Island	93.865	4906-033015 PO#0000087468	—	69,344
Women and Infants Hospital	93.865	9420	—	7,880
Women and Infants Hospital	93.865	9435	—	177,959
Subtotal			149,164	3,433,129
Aging Research	93.866	Direct	1,386,588	6,705,931
Burnham Institute	93.866	56154-11667-BU-04	—	94,089
Hebrew Senior Life	93.866	10.10.90063	—	57,310
Hebrew Senior Life	93.866	10.10.92234	—	29,206
Hebrew Senior Life	93.866	90068	—	334,353
Johns Hopkins University	93.866	2002364817	—	12,889
President and Fellows of Harvard College	93.866	90059	—	9,473
Rhode Island Hospital	93.866	701-7137186	—	27,746
University of California, Riverside	93.866	S-000576	—	(880)
University of Iowa	93.866	P. O. No 1001319423	—	60,082
Subtotal			1,386,588	7,330,199

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Vision Research	93.867	Direct	\$ —	2,153,014
Central Michigan University	93.867	628761	—	43,759
Subtotal			—	2,196,773
Medical Library Assistance	93.879	Direct	149,822	603,140
Grants for Primary Care Training and Enhancement	93.884	Direct	69,396	160,702
Burnham Institute	93.886	56154-11669-BU-04	—	125,737
International Research and Research Training	93.989	Direct	206,124	441,661
State of Rhode Island Department of Health	93.994	3420327	44,000	138,098
State of Rhode Island Department of Health	93.994	3423017	—	614,103
Subtotal			44,000	752,201
Department of Health and Human Services total			8,405,440	78,307,689
Department of the Interior:				
Earthquake Hazards Research Grants	15.807	Direct	—	39,349
Department of the Interior total			—	39,349
Department of State:				
Public Diplomacy Programs	19.040	Direct	—	13,994
Department of State total			—	13,994
Department of Transportation:				
Boston University	20.109	4500001710	—	9,907
Department of Transportation total			—	9,907
Department of Veterans Affairs:				
Department of Veterans Affairs – Other research	64.000	Direct	—	818,886
Canandaigua VA Medical Center	64.000	Medeiros IPA	—	22
Canandaigua VA Medical Center	64.000	Miller IPA	—	16,070
Canandaigua VA Medical Center	64.000	PO 650-D48011 Rajish Makineni IPA	—	14,910
Institute of Medicine	64.000	2000004540	—	3,107
Department of Veterans Affairs total			—	852,995
Environmental Protection Agency:				
Science to Achieve Results (Star) Fellowship Program	66.514	Direct	—	670
Narragansett Bay Estuary Program	66.456	2015-026	—	26,493
Environmental Protection Agency total			—	27,163
Library of Congress:				
Waynesburg University	42.000	GA08C0016	—	9,019
Library of Congress total			—	9,019

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration – Other research	43.000	Direct	\$ —	416,627
Carnegie Institution of Washington	43.000	DTM-3250-05	—	50,254
EPIR Technologies, Inc.	43.000	A28P-SBU-15-0001	—	22,659
Jet Propulsion Laboratory	43.000	1244339	—	27,479
Jet Propulsion Laboratory	43.000	1454164	—	181,823
Jet Propulsion Laboratory	43.000	JPL 1488322	—	22,077
Johns Hopkins University Applied Physics Laboratory, LLC.	43.000	110619	—	42,192
Johns Hopkins University Applied Physics Laboratory, LLC.	43.000	129085	—	30,000
University of California, Los Angeles	43.000	2090-S-JB693	—	84,813
University of Maryland – College Park	43.000	23913-Z6927002	—	26,750
Subtotal			<u>—</u>	<u>904,674</u>
Aerospace Education Service Program Education				
Massachusetts Institute of Technology	43.001	Direct	619,356	2,587,201
Massachusetts Institute of Technology	43.001	5710003400	—	80,760
Massachusetts Institute of Technology	43.001	5710003644	—	10,199
Ohio University	43.001	UT18767	—	27,894
Regents of the University of Minnesota	43.001	A003457303	—	75,893
Subtotal			<u>619,356</u>	<u>2,781,947</u>
Education	43.008	Direct	298,480	794,960
Cross Agency Support	43.009	Direct	—	18,231
National Aeronautics and Space Administration total			<u>917,836</u>	<u>4,499,812</u>
National Council on Disability:				
Northern California Institute for Research and Education, Inc.	92.213	SEAL1805	—	3,074
National Council on Disability total			<u>—</u>	<u>3,074</u>
National Endowment For The Humanities:				
Promotion of the Humanities Research	45.161	Direct	—	91,394
National Endowment for the Humanities total			<u>—</u>	<u>91,394</u>
National Science Foundation:				
National Science Foundation – Other research	47.000	Direct	—	606,687
Engineering Grants	47.041	Direct	261,282	3,854,044
University of Pennsylvania	47.041	560494	—	(6,829)
Subtotal			<u>261,282</u>	<u>3,847,215</u>
Mathematical and Physical Sciences				
Brandeis University	47.049	Direct	89,334	8,768,794
Institute-Computational and Experimental Research in Mathematics (ICERM)	47.049	402430	—	164,239
Mathematical Sciences Research Institute	47.049	AIM REUF MOU 2015	—	21,593
University of Notre Dame	47.049	071615	—	4,132
		Pass-Through Number Not Available	—	2,800
Subtotal			<u>89,334</u>	<u>8,961,558</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Geosciences	47.050	Direct	\$ 81,150	2,347,815
Consortium for Ocean Leadership	47.050	T346A32	—	(118)
Consortium for Ocean Leadership	47.050	T353A32	—	53,860
Consortium for Ocean Leadership	47.050	T353B32	—	78,213
Consortium for Ocean Leadership	47.050	T353C32	—	7,060
University of Arizona	47.050	124741	—	40,480
University of California, Riverside	47.050	5-000515	—	28,285
University of Colorado, Boulder	47.050	1549574	—	16,319
University of New Hampshire	47.050	14-057	—	29,776
University of Southern California	47.050	32637577 / PO 10002090	—	72,148
Subtotal			<u>81,150</u>	<u>2,673,838</u>
Computer and Information Science and Engineering	47.070	Direct	89,998	4,129,555
Northeastern University	47.070	502268-78052	—	98,756
Worcester Polytechnic Institute	47.070	12-202680-01	—	59,753
Worcester Polytechnic Institute	47.070	12-202750-01-00	—	31,001
Subtotal			<u>89,998</u>	<u>4,319,065</u>
Biological Sciences	47.074	Direct	10,000	2,395,201
Council on Undergraduate Research	47.074	Subcontract Q03	—	64,419
University of Texas, Austin	47.074	UTA15-000077	—	63,772
Subtotal			<u>10,000</u>	<u>2,523,392</u>
Social, Behavioral, and Economic Sciences	47.075	Direct	53,982	1,320,529
University of California, San Diego	47.075	10321074-003	—	40,394
Subtotal			<u>53,982</u>	<u>1,360,923</u>
Education and Human Resources	47.076	Direct	46,044	2,950,718
American Educational Research Association	47.076	AERA- Postsecondary Choices	—	64
President and Fellows of Harvard College (1)	47.076	108124-5080734	—	25,881
Vassar College	47.076	1525691	—	16,256
Subtotal			<u>46,044</u>	<u>2,992,919</u>
Polar Programs	47.078	Direct	—	151,014
International Science and Engineering (OISE)	47.079	Direct	182,114	839,403
Roger Williams University	47.081	EPS-1004057	—	(1,639)
University of Rhode Island	47.081	111710/0002748	—	316,193
Subtotal			<u>—</u>	<u>314,554</u>
Trans-NSF Recovery Act Research Support	47.082	Direct	—	(35)
National Science Foundation total			<u>813,904</u>	<u>28,590,533</u>
Vietnam Education Foundation: Fellowship Program	85.802	Direct	—	14,500
Vietnam Education Foundation total			<u>—</u>	<u>14,500</u>
Research and Development Cluster total			<u>13,824,917</u>	<u>134,826,294</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Student Financial Assistance Cluster (note 4):				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	Direct	\$ —	816,187
Federal Work-Study Program	84.033	Direct	—	1,316,126
Federal Perkins Loan Program	84.038	Direct	—	28,829,871
Federal Pell Grant Program	84.063	Direct	—	4,721,497
Federal Direct Student Loans	84.268	Direct	—	33,125,868
Teacher Education Assistance for College and Higher Education Grant	84.379	Direct	—	18,560
Department of Education total			<u>—</u>	<u>68,828,109</u>
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care: Loans/Loans for Disadvantaged Students (note 4)	93.342	Direct	—	701,840
Department of Health and Human Services total			<u>—</u>	<u>701,840</u>
Student Financial Assistance Cluster total			<u>—</u>	<u>69,529,949</u>
Other Program Awards:				
Agency for International Development:				
Indiana University	98.000	MTRH	—	112,552
Agency for International Development total			<u>—</u>	<u>112,552</u>
Corporation for National and Community Service:				
Serve Rhode Island	94.006	09ACH RI 001003	—	175,634
Corporation for National and Community Service total			<u>—</u>	<u>175,634</u>
Department of Defense:				
Mathematical Sciences Grants Program	12.901	Direct	—	5
Department of Defense total			<u>—</u>	<u>5</u>
Department of Education:				
Civil Rights Training and Advisory Services	84.004	Direct	—	604,039
Twenty-First Century Community Learning Centers	84.287	Direct	—	161,408
English Language Acquisition State Grants	84.365	Direct	—	838,302
City of Central Falls School District	84.411	We are a Village	—	59,633
Department of Education total			<u>—</u>	<u>1,663,382</u>
Department of Veterans Affairs:				
Other Research	64.000	Direct	—	23,810
Department of Veterans Affairs total			<u>—</u>	<u>23,810</u>
Other Programs total			<u>—</u>	<u>1,975,383</u>
Total Expenditures of Federal Awards			\$ <u>13,824,917</u>	<u>206,331,626</u>

See accompanying notes to supplementary schedule of expenditures of federal awards.

## **BROWN UNIVERSITY**

### Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

#### **(1) Basis of Presentation**

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) summarizes the expenditures of Brown University (the University) under programs funded by the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University. Negative amounts on the Schedule represent adjustments to expenditures reported in a prior year.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The Schedule also denotes awards passed through from the University to other nonfederal subrecipient organizations.

#### **(2) Significant Accounting Policies**

For purposes of the Schedule, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Expenditures under the research and development cluster include facilities and administrative (F&A) cost recoveries, relating primarily to facilities operation and maintenance; facilities and equipment depreciation; and general, divisional, and departmental administration services, which are charged to applicable federal grants under negotiated rates agreed to with DHHS, the University's federal cognizant agency. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**BROWN UNIVERSITY**

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

**(3) Federal Student Financial Assistance**

*Student Loan Programs*

The Federal Perkins Loan and Health Professional Student Loan programs are administered directly by the University and balances and transactions relating to these programs are included in the University's financial statements. Loan activities and balances consist of the following:

	<b>Federal CFDA number</b>	<b>Balance as of July 1, 2015</b>	<b>Loans issued</b>	<b>Payments received and other adjustments</b>	<b>Balance as of June 30, 2016</b>
Perkins Loan Program	84.038	\$ 24,761,466	3,775,321	(4,058,097)	24,478,690
Health Professions Student Loans (HPSL)	93.342	<u>623,840</u>	<u>78,000</u>	<u>(80,004)</u>	<u>621,836</u>
Totals		<u>\$ 25,385,306</u>	<u>3,853,321</u>	<u>(4,138,101)</u>	<u>25,100,526</u>

For the year ended June 30, 2016, the University's recovered an administrative cost allowance of \$293,084 under the Federal Perkins Loan Program.

*Federal Direct Loans*

Federally-guaranteed loans awarded to students of the University during the year ended June 30, 2016 are summarized as follows:

Subsidized Stafford Loan Program	\$ 5,507,853
Unsubsidized Stafford Loan Program	16,214,051
PLUS Loan Program	<u>11,403,964</u>
Total	<u>\$ 33,125,868</u>

The University is responsible only for the performance of certain administrative duties relating to Federal Direct Loans and, accordingly, these loans are not included in the University's financial statements. It is not practical to determine the balances of loans outstanding to students of the University under this program as of June 30, 2016.



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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

The President and Corporation  
Brown University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Brown University (the University), which comprise the balance sheet as of June 30, 2016, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.





### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**KPMG LLP**

October 28, 2016



**KPMG LLP**  
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## **Independent Auditors' Reports on Compliance for Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

The President and Corporation  
Brown University:

### **Report on Compliance for Major Federal Program**

We have audited Brown University (the University's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2016. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the University's major federal program. However, our audit does not provide a legal determination of the University's compliance.



### ***Opinion on Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

### ***Report on Internal Control Over Compliance***

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**KPMG LLP**

February 16, 2017

**BROWN UNIVERSITY**

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

**(1) Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on whether financial statements were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

*Federal Awards*

Internal control over major federal program:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified?  yes  none reported

Type of auditors' report issued on compliance for major federal program: Unmodified

Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

*Identification of Major Program*

<u>Name of federal program/cluster</u>	<u>CFDA numbers</u>
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low risk auditee?  yes  no

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None.

**(3) Findings and Questioned Costs Relating to Federal Awards**

None.