



BROWN UNIVERSITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2011

BROWN UNIVERSITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2011

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Exhibit I

**Independent Auditors' Report on Compliance with Requirements that
Could Have a Direct and Material Effect on Each Major Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133**

The President and Corporation
Brown University:

Compliance

We have audited the compliance of Brown University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on its major federal program for the year ended June 30, 2011. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.



Exhibit I

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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Corporation, others within the University, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 16, 2012



KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Exhibit II

**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 the financial statements of Brown University (the University) as of and for the year ended June 30, 2011 and have issued our report thereon dated October 26, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Exhibit II

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free of 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 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*.

We noted certain matters that we reported to the University in a separate letter dated October 26, 2011.

This report is intended solely for the information and use of management, the Corporation, others within the University, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 26, 2011

BROWN UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2011

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	yes	<u> x </u> none reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____	yes	<u> x </u> no

Identification of Major Program

Name of federal program or cluster:	Research and Development Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	<u> x </u> yes _____ no

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

No matters are reported.

(3) Findings and Questioned Costs Relating to Federal Awards

No matters are reported.



Exhibit IV

BROWN UNIVERSITY

Financial Statements and Supplementary Information –
Schedule of Expenditures of Federal Awards

Year ended June 30, 2011



KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Exhibit IV

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying statements of financial position of Brown University (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2011 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2011 basic financial statements taken as a whole.

KPMG LLP

October 26, 2011

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KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

BROWN UNIVERSITY

Statements of Financial Position

June 30, 2011 and 2010

(Dollars in thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 86,971	71,368
Receivables for investments sold	45,005	10,047
Accounts receivable and other assets	55,466	49,242
Contributions receivable, net	161,136	194,664
Notes receivable, net	33,190	33,355
Funds held in trust by others	27,943	27,961
Investments	2,877,651	2,522,480
Land, buildings and equipment, net	897,578	820,133
Total assets	<u>\$ 4,184,940</u>	<u>3,729,250</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 98,800	112,104
Liabilities associated with investments	110,523	37,084
Deferred revenues and student deposits	37,139	33,184
Refundable advances	44,687	37,013
Split-interest obligations	20,578	15,816
Asset retirement obligations	12,030	12,556
Bonds, loans and notes payable	629,493	609,160
Total liabilities	<u>953,250</u>	<u>856,917</u>
Net assets:		
Unrestricted	751,671	653,377
Temporarily restricted	1,373,012	1,178,781
Permanently restricted	1,107,007	1,040,175
Total net assets	<u>3,231,690</u>	<u>2,872,333</u>
Total liabilities and net assets	<u>\$ 4,184,940</u>	<u>3,729,250</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2011

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 345,013	—	—	345,013
Less university scholarships	(118,872)	—	—	(118,872)
Net tuition and fees	226,141	—	—	226,141
Grant and contracts – direct	126,865	—	—	126,865
Grant and contracts – indirect	41,648	—	—	41,648
Contributions	50,493	1,719	—	52,212
Endowment income appropriated	104,988	6,455	—	111,443
Sales and services of auxiliary enterprises	82,716	—	—	82,716
Other income	24,251	1,234	—	25,485
Net assets released from restrictions	1,675	(1,675)	—	—
Total operating revenues	<u>658,777</u>	<u>7,733</u>	<u>—</u>	<u>666,510</u>
Operating expenses:				
Salaries and wages	311,588	—	—	311,588
Employee benefits	82,976	—	—	82,976
Purchased services	55,962	—	—	55,962
Supplies and general	77,732	—	—	77,732
Utilities	19,300	—	—	19,300
Other	33,723	—	—	33,723
Total operating expenses before interest and depreciation	581,281	—	—	581,281
Interest	24,977	—	—	24,977
Depreciation and amortization	56,250	—	—	56,250
Total operating expenses	<u>662,508</u>	<u>—</u>	<u>—</u>	<u>662,508</u>
Change in net assets from operating activities	<u>(3,731)</u>	<u>7,733</u>	<u>—</u>	<u>4,002</u>
Nonoperating activities:				
Contributions to long-term assets	4,253	3,764	55,822	63,839
Net investment return	107,164	294,656	7,217	409,037
Endowment income appropriated	(24,666)	(86,777)	—	(111,443)
Other changes, net	(13,564)	3,693	3,793	(6,078)
Net assets released from restrictions	28,838	(28,838)	—	—
Change in net assets from nonoperating activities	<u>102,025</u>	<u>186,498</u>	<u>66,832</u>	<u>355,355</u>
Change in net assets	98,294	194,231	66,832	359,357
Net assets, beginning of year	<u>653,377</u>	<u>1,178,781</u>	<u>1,040,175</u>	<u>2,872,333</u>
Net assets, end of year	<u>\$ 751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>

See accompanying notes to financial statements.

Exhibit IV

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2010

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 320,538	—	—	320,538
Less university scholarships	(106,456)	—	—	(106,456)
Net tuition and fees	214,082	—	—	214,082
Grant and contracts – direct	113,034	—	—	113,034
Grant and contracts – indirect	36,459	—	—	36,459
Contributions	51,652	4,056	—	55,708
Endowment income appropriated	124,181	10,339	—	134,520
Sales and services of auxiliary enterprises	81,927	—	—	81,927
Other income	24,946	709	—	25,655
Net assets released from restrictions	6,195	(6,195)	—	—
Total operating revenues	<u>652,476</u>	<u>8,909</u>	<u>—</u>	<u>661,385</u>
Operating expenses:				
Salaries and wages	315,164	—	—	315,164
Employee benefits	86,966	—	—	86,966
Purchased services	49,189	—	—	49,189
Supplies and general	78,780	—	—	78,780
Utilities	19,412	—	—	19,412
Other	33,511	—	—	33,511
Total operating expenses before interest and depreciation	583,022	—	—	583,022
Interest	23,955	—	—	23,955
Depreciation and amortization	51,814	—	—	51,814
Total operating expenses	<u>658,791</u>	<u>—</u>	<u>—</u>	<u>658,791</u>
Change in net assets from operating activities	<u>(6,315)</u>	<u>8,909</u>	<u>—</u>	<u>2,594</u>
Nonoperating activities:				
Contributions to long-term assets	18,561	10,186	53,912	82,659
Net investment return	52,390	167,038	(1,041)	218,387
Endowment income appropriated	(30,202)	(104,318)	—	(134,520)
Other changes, net	(81,238)	55,967	3,668	(21,603)
Net assets released from restrictions	5,983	(5,983)	—	—
Change in net assets from nonoperating activities	<u>(34,506)</u>	<u>122,890</u>	<u>56,539</u>	<u>144,923</u>
Change in net assets	<u>(40,821)</u>	<u>131,799</u>	<u>56,539</u>	<u>147,517</u>
Net assets, beginning of year	<u>694,198</u>	<u>1,046,982</u>	<u>983,636</u>	<u>2,724,816</u>
Net assets, end of year	<u>\$ 653,377</u>	<u>1,178,781</u>	<u>1,040,175</u>	<u>2,872,333</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2011 and 2010

(Dollars in thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 359,357	147,517
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(415,562)	(228,650)
Depreciation and amortization	56,250	51,814
Loss from disposals of land, building and equipment	10,365	1,954
Change in estimate of split-interest obligations	6,630	1,700
Other changes	—	(4,205)
Contributions restricted for plant and endowment	(72,250)	(77,149)
Change in operating assets, net	27,304	8,013
Change in operating liabilities, net	(3,310)	34,331
Net cash used in operating activities	<u>(31,216)</u>	<u>(64,675)</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(142,951)	(91,205)
Purchases of investments	(2,624,222)	(2,981,813)
Sales of investments	2,643,096	2,898,595
Notes issued	(35,757)	(36,056)
Notes repaid	35,922	35,595
Change in funds held in trust by others	18	(14,768)
Loans issued to Providence Richmond Street Investment Fund, LLC	(58,500)	—
Net cash used in investing activities	<u>(182,394)</u>	<u>(189,652)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	72,250	77,149
Payments under split-interest obligations	(1,868)	(1,871)
Payments under commercial paper program	—	(50,000)
Payments on long-term debt	(11,615)	(4,035)
Proceeds from issuance of debt, including premium in 2010	3,200	175,000
Net proceeds from commercial paper program	15,000	—
Proceeds from secured borrowings for investment purposes	79,998	—
Cash collateral posted under swap agreements	(2,100)	—
Cash collateral returned under swap agreements	2,100	—
Proceeds from loans issued to KARING	72,248	—
Net cash provided by financing activities	<u>229,213</u>	<u>196,243</u>
Change in cash and cash equivalents	15,603	(58,084)
Cash and cash equivalents, beginning of year	<u>71,368</u>	<u>129,452</u>
Cash and cash equivalents, end of year	<u>\$ 86,971</u>	<u>71,368</u>
Supplemental disclosure:		
Cash paid for interest	\$ 25,347	23,525
Change in accounts payable from land, buildings and equipment	1,109	5,157

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(1) Summary of Significant Accounting Policies**(a) Organization**

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 6,000 undergraduate students and 2,400 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

(b) Basis of Presentation and Tax Status

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

The accompanying financial statements include the accounts of the John Nicholas Brown Center for the Study of American Civilization, Fairview Incorporated, a real estate holding company, and KARING, a Rhode Island nonprofit corporation further discussed in note 7, all of which are separate entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated in consolidation.

The 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 pursuant to the Code. The University assesses uncertain tax positions and determined that there were 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 incorporate the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University in accordance with the standard of prudence prescribed by UPMIFA. The University has classified its net assets as follows:

- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

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. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

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

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

(e) Statements of Activities

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

Revenues are derived from various sources, as follows:

- Tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Sales and services of auxiliary enterprises are recognized at the time the services are provided.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

- Contributions, including unconditional promises to give reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Bequest intentions and conditional promises are not recorded in the University's financial statements.
- Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is pursuant to an agreement which provides for a predetermined fixed indirect cost rate.
- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) permanently restricted net assets if the terms of the contributions 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 and Notes Receivable and Other Assets

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

(h) Land, Buildings and Equipment

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

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(i) **Refundable Advances**

The University holds certain amounts advanced by the U.S. government under the Federal Perkins Loan Program and the Health Professions Student Loan Program (the Programs). Such amounts may be re-loaned by the University after collection; however, in the event that the University no longer participates in the Programs, the amounts are generally refunded to the U.S. government. Refundable advances also include amounts received from funding agencies in advance of project activities related to sponsored programs.

(j) **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.

(k) **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.

(l) **Reclassifications**

Certain 2010 financial information has been reclassified to conform to the 2011 presentation.

(2) **Contributions Receivable**

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

	<u>2011</u>	<u>2010</u>
Contributions expected to be received in:		
One year or less	\$ 62,735	57,217
Between one and five years	72,577	109,581
More than five years	<u>51,658</u>	<u>55,248</u>
Gross contributions receivable	186,970	222,046
Unamortized discount (at rates ranging from 1.5% to 6.2%) and allowance for uncollectibles	<u>(25,834)</u>	<u>(27,382)</u>
Contributions receivable, net	<u>\$ 161,136</u>	<u>194,664</u>

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(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 strategies, 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) or commercial real estate, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by the 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 recorded at fair value and liabilities, which are reported as split-interest obligations, are recorded to recognize the present value of estimated future payments to beneficiaries.

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 as reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. 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. As of June 30, 2011 and 2010, 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.

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The following tables summarize the University's investments and other assets within the fair value hierarchy as of June 30, 2011 and 2010 as well as related strategy, liquidity and funding commitments:

	June 30, 2011				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Equities:						
U.S. equities	\$ 16,957	94,765	50,934	162,656	Daily to Annual	1 – 90
Non-U.S. equity index funds	27,217	—	—	27,217	Daily	1
Non-U.S. equity funds	127,599	229,244	99,947	456,790	Daily to illiquid	15 – 120
Fixed income:						
U.S. bonds	17,581	307,854	25,942	351,377	Daily to Annual	1 – 60
U.S. Treasury inflation-protected	—	82,143	21,212	103,355	Daily	1
Hedged strategies:						
General arbitrage funds	—	111,473	54,460	165,933	Monthly to illiquid	5 – 45
Distressed funds	—	5,060	61,527	66,587	Semi-Annual to illiquid	90
Global/non-U.S. funds	—	152,929	416,876	569,805	Monthly to illiquid	30 – 180
Private equity:						
Buy-out funds	—	—	418,388	418,388	Illiquid	N/A
Venture funds	—	—	164,691	164,691	Illiquid	N/A
Real assets:						
Real estate and timber	1,096	1,679	198,350	201,125	Daily to illiquid	N/A
Commodities, oil and gas	—	—	51,791	51,791	Illiquid	N/A
Cash and cash equivalents	137,936	—	—	137,936	Daily	Daily
Total	\$ 328,386	985,147	1,564,118	2,877,651		
Funds held in trust by others	\$ 15,353	—	12,590	27,943	Daily to illiquid	1 – N/A

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	June 30, 2010				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Equities:						
U.S. equities	\$ 15,520	79,738	—	95,258	Daily to quarterly	1 – 60
Non-U.S. equity index funds	87,938	—	—	87,938	Daily	1
Non-U.S. equity funds	2,140	101,573	98,874	202,587	Daily to illiquid	15 – 120
Fixed income:						
U.S. bonds	11,666	333,899	49,894	395,459	Daily to annual	1 – 60
U.S. Treasury inflation-protected	—	97,574	—	97,574	Daily	1
Hedged strategies:						
General arbitrage funds	—	82,063	108,950	191,013	Daily to illiquid	15 – 90
Distressed funds	—	—	68,300	68,300	Biennial to illiquid	90
Global/non-U.S. funds	—	143,351	436,145	579,496	Monthly to illiquid	30 – 180
Private equity:						
Buy-out funds	—	—	330,315	330,315	Illiquid	N/A
Venture funds	—	—	111,456	111,456	Illiquid	N/A
Real assets:						
Real estate and timber	1,203	1,572	166,703	169,478	Daily to illiquid	N/A
Commodities, oil and gas	—	—	43,919	43,919	Illiquid	N/A
Cash and cash equivalents	149,687	—	—	149,687	Daily	1
Total	\$ 268,154	839,770	1,414,556	2,522,480		
Funds held in trust by others	\$ 16,914	—	11,047	27,961	Daily to illiquid	1 – N/A

Registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 1(d) because their fair values are based on quoted prices for identical securities. The University's fixed income strategy includes directly held U.S. corporate bonds, which although readily marketable are valued using matrix pricing and are classified in Level 2. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

Certain hedge funds of funds contain "rolling" lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two or three years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement. Private equity and real assets are held in funds that have initial terms of five to six years

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with extensions of one to three years, and have an average remaining life of approximately six to seven years.

The following tables present the activities for the years ended June 30, 2011 and 2010 for the University's assets classified in Level 3:

		2011					Funds held
Level 3 roll forward	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total Investments	in trust by others
Beginning fair value as of June 30, 2010	\$ 98,874	49,894	613,395	441,771	210,622	1,414,556	11,047
Acquisitions	110,500	20,000	27,411	89,183	41,064	288,158	—
Dispositions	(339)	—	(170,911)	(75,545)	(48,882)	(295,677)	—
Transfers	(92,577)	(25,942)	(5,060)	—	—	(123,579)	—
Net realized and unrealized gains	34,423	3,202	68,028	127,670	47,337	280,660	1,543
Fair value at June 30, 2011	\$ 150,881	47,154	532,863	583,079	250,141	1,564,118	12,590

		2010					Funds held
Level 3 roll forward	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total Investments	in trust by others
Beginning fair value as of June 30, 2009	\$ 108,427	42,463	638,939	371,020	206,277	1,367,126	10,543
Acquisitions	21,000	—	20,000	62,615	37,755	141,370	—
Dispositions	(26,980)	—	(131,209)	(35,640)	(17,729)	(211,558)	—
Transfers	(7,268)	—	(32,945)	—	—	(40,213)	—
Net realized and unrealized gains (losses)	3,695	7,431	118,610	43,776	(15,681)	157,831	504
Fair value at June 30, 2010	\$ 98,874	49,894	613,395	441,771	210,622	1,414,556	11,047

The following summarizes investment return components for the years ended June 30, 2011 and 2010:

	2011	2010
Interest and dividends	\$ 18,495	9,615
Net realized and unrealized gains, net of investment management and advisory expenses	403,036	222,500
Investment return	\$ 421,531	232,115

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Investment returns are included in the statements of activities as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Operating:		
Endowment income appropriated	\$ 111,443	134,520
Included in other income	12,493	13,728
Nonoperating activities:		
Net investment return above endowment income appropriated	<u>297,595</u>	<u>83,867</u>
Investment return	<u>\$ 421,531</u>	<u>232,115</u>

Total investment management and advisory expenses were \$19,436 and \$18,953 for the years ended June 30, 2011 and 2010, respectively.

For purposes of the statements of cash flows, noncash investing activities consisted of an increase in payables for investments purchased of \$73,439 and \$27,003 and in increase in receivables for investments sold of \$34,958 and \$6,384 during the years ended June 30, 2011 and 2010, respectively.

(a) Liquidity

Investment liquidity as of June 30, 2011 is aggregated below based on redemption or sale period:

	<u>Investment fair values</u>
Investment redemption or sale period:	
Pending	\$ 5,058
Daily	707,890
Monthly	249,931
Quarterly	437,233
Semi-annually	47,967
Subject to rolling lock-ups	429,248
Illiquid	<u>1,000,324</u>
Total as of June 30, 2011	<u>\$ 2,877,651</u>

(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.

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As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2011 was \$218,589 and \$79,148, respectively.

(c) Investment Derivatives

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

At June 30, 2011 and 2010, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio with assets fair value of \$18,242 and \$9,241, respectively, at June 30, 2011 and 2010. The University recorded a net unrealized gain (loss) of \$2,001 and \$(3,937) for the years ended June 30, 2011 and 2010, respectively, pertaining to swaption contracts held. The University is obligated to pledge to the appropriate broker, cash or securities to be held as collateral, as determined by margin requirements for swaption contracts held.

The University also participates in a repurchase agreement under which the University periodically borrows funds collateralized with certain of its securities for other investment purposes. These amounts are reflected both as investments and liabilities associated with investments as of June 30, 2011 and amounted to \$79,998. Such borrowings are at a variable rate, which was 0.14% at June 30, 2011.

The University from time to time enters into different types of futures contracts for commodity exposure. At June 30, 2011, contracts were in place representing \$50,700 in nominal exposure.

(d) Funds Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$12,590 and \$11,047 at June 30, 2011 and 2010, respectively. The University receives all or a specified portion of the return on the underlying assets of such trusts, which is primarily restricted for scholarships. The University will never receive the assets held in trust. Other trustee funds of \$15,353 and \$16,914 at June 30, 2011 and 2010, respectively, represent debt proceeds to be utilized for construction projects or required to be held in reserve in accordance with debt or similar agreements, including \$13,748 of restricted cash at June 30, 2011 related to the Medical School facility (see note 7).

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(4) Endowment

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

Endowment net assets consist of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (15,826)	1,170,163	1,025,496	2,179,833
Corporation-designated endowment funds	<u>325,627</u>	<u>55,554</u>	<u>—</u>	<u>381,181</u>
Total endowment net assets	<u>\$ 309,801</u>	<u>1,225,717</u>	<u>1,025,496</u>	<u>2,561,014</u>

Endowment net assets consist of the following at June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (42,835)	955,351	952,028	1,864,544
Corporation-designated endowment funds	<u>292,213</u>	<u>54,446</u>	<u>—</u>	<u>346,659</u>
Total endowment net assets	<u>\$ 249,378</u>	<u>1,009,797</u>	<u>952,028</u>	<u>2,211,203</u>

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ 249,378	1,009,797	952,028	2,211,203
Interest and dividends	14,099	53	—	14,152
Net realized and unrealized gains	71,095	294,651	7,291	373,037
Endowment income appropriated	(24,666)	(86,777)	—	(111,443)
Contributions	725	3,885	62,931	67,541
Reclassifications and other changes	<u>(830)</u>	<u>4,108</u>	<u>3,246</u>	<u>6,524</u>
Endowment net assets June 30, 2011	<u>\$ 309,801</u>	<u>1,225,717</u>	<u>1,025,496</u>	<u>2,561,014</u>

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Changes in endowment net assets for the year ended June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ 307,650	863,531	896,699	2,067,880
Interest and dividends	8,497	567	—	9,064
Net realized and unrealized gains (losses)	28,956	172,805	(2,483)	199,278
Endowment income appropriated	(30,202)	(104,318)	—	(134,520)
Contributions	701	1,924	53,277	55,902
Reclassifications and other changes	(66,224)	75,288	4,535	13,599
Endowment net assets June 30, 2010	<u>\$ 249,378</u>	<u>1,009,797</u>	<u>952,028</u>	<u>2,211,203</u>

(a) Interpretation of Relevant Law

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

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

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$15,826 and \$42,835 as of June 30, 2011 and 2010, 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.

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

(5) Land, Buildings and Equipment

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

	<u>2011</u>	<u>2010</u>
Land	\$ 62,840	56,992
Buildings and improvements	1,211,762	1,124,871
Equipment	105,943	94,847
Construction in progress	138,282	109,843
	<u>1,518,827</u>	<u>1,386,553</u>
Accumulated depreciation	<u>(621,249)</u>	<u>(566,420)</u>
Land, buildings and equipment, net	<u>\$ 897,578</u>	<u>820,133</u>

Outstanding commitments on uncompleted construction contracts total \$64,946 at June 30, 2011.

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(6) Bonds, Loans and Notes Payable

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

Name of issue	Interest rate(s)	Type of rate	Final maturity	Balance at June 30	
				2011	2010
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	0.18% – 0.22%	Fixed	Revolving	\$ 50,000	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	n/a	Fixed	2014	—	7,740
Series 2001A	4.30% – 5.25%	Fixed	2023	27,000	27,595
Series 2001B	0.03% *	Variable	2032	55,340	55,340
Series 2003A	3.30% – 4.85%	Fixed	2037	42,925	43,775
Series 2003B	0.05% *	Variable	2043	43,780	44,160
Series 2004	3.35% – 4.75%	Fixed	2025	18,395	19,280
Series A 2005	0.06% *	Variable	2035	85,500	85,500
Series 2007	4.25% – 5.00%	Fixed	2037	90,010	90,010
Series 2009	5.00%	Fixed	2039	70,795	70,795
Tax-exempt commercial paper, revolving through 2036	.08% – 0.14%	Fixed	Revolving	15,000	—
Brown University Taxable Bonds					
Series 2005	5.09%	Fixed	2015	17,000	17,000
Series 2009	4.57	Fixed	2019	100,000	100,000
Loan payable – U.S. department of education	n/a	Fixed	2021	—	1,165
Loans payable – Community Development Entities				13,748	—
Total bonds, loans and notes payable				\$ 629,493	609,160

* As of June 30, 2011

(a) Tax Exempt Bonds

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

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(b) Taxable Bonds and Other Debt

The University's outstanding debt includes two taxable bond issues. Series 2005 Taxable Bonds were issued to finance a portion of the acquisition cost of an office building. Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets. In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to \$50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B.

In fiscal 2011, the University renewed its tax exempt commercial program issued through RIHEBC. As of June 30, 2011, \$15,000 has been drawn against this program.

Principal payments of bonds and loan payable as of June 30, 2011 for the succeeding five fiscal years ending June 30 are as follows:

2012	\$	4,400
2013		6,190
2014		6,465
2015		6,760
2016		25,770

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party and other data, the University determined that the aggregate carrying value of its debt as of June 30, 2011 and 2010 approximated its fair value.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2011, the full amount of \$40,000 was available at a rate of 0.94%.

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

(c) Interest Rate Swaps

At June 30, 2011, the University had various interest-rate swap agreements in place to effectively convert a portion of its variable-rate bonds to fixed rates until maturity of the bonds. The swaps' notional amounts amortize at the same rate as the related debt principal.

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

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30 asset (liability)	
						2011	2010
JP Morgan	11/06/2003	03/03/2008	09/01/2043	\$ 43,780	3.732%	\$ (7,860)	(9,944)
Goldman Sachs	07/07/2005	10/04/2005	05/01/2035	85,500	3.979	(8,198)	(9,641)
Goldman Sachs	11/15/2006	11/21/2006	09/01/2032	55,340	3.891	(5,345)	(5,870)
						\$ (21,403)	(25,455)

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Based on the University's current credit rating, cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25 million. The JPMorgan swap stipulates that the University maintain a minimum credit rating to avoid collateral posting requirements. No swap collateral was posted as of June 30, 2011 and 2010.

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

(7) New Markets Tax Credit Transaction

In fiscal 2011, the University entered an agreement with third-party investors to effectively avail itself of certain Federal New Markets Tax Credit (NMTC) incentives. By enabling these third parties to capture the NMTC benefits associated with the acquisition and construction of the University's new Warren Alpert Medical School facility (the Facility), the University was able to reduce its all-in cost of the facility. Under the arrangement, the University loaned \$58,500 to Providence Richmond Street Investment Fund, LLC, a limited liability corporation (the LLC) capitalized by the investors. The LLC in turn provided capital to various Community Development Entities (CDEs), which then collectively issued \$72,248 of loans at an interest rate of 1.22% to KARING, a special-purpose, wholly owned 501(c)(3) not-for-profit entity consolidated by the University. KARING will hold the facility and lease it back to the University during the seven-year period required for the NMTC structure to be effective.

After this seven-year period, it is anticipated that the University's net assets will increase to the extent of loans to third parties net of financing and other costs. The Facility, which was dedicated in August 2011, had a total carrying value of \$57,452 as of June 30, 2011 and is included in land, buildings and equipment. The loans payable to the CDEs as of June 30, 2011 are reported net of the loan receivable from the LLC and included in bonds, loans and notes payable.

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(Dollars in thousands)

(8) Retirement Benefits

The University participates in two contributory retirement plans. The plans provide for the purchase of annuities on a compulsory basis by full-time faculty and administrative staff. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$21,048 and \$20,988 for the years ended June 30, 2011 and 2010, respectively.

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

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

	<u>2011</u>	<u>2010</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 53,415	43,579
Service cost	2,390	2,079
Interest cost	2,839	2,684
Benefits paid	(1,751)	(1,456)
Actuarial (gain) loss	(2,796)	6,529
Projected benefit obligation at end of year	<u>\$ 54,097</u>	<u>53,415</u>

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.57%	5.40%
Rate of compensation increase	3.50	4.00

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2011 and 2010
(Dollars in thousands)

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

	<u>2011</u>	<u>2010</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 35,773	29,654
Actual return on plan assets	6,801	3,075
Contributions	—	4,500
Benefits paid	<u>(1,751)</u>	<u>(1,456)</u>
Fair value of plan assets at end of year	40,823	35,773
Projected benefit obligation at end of year	<u>(54,097)</u>	<u>(53,415)</u>
Funded status recorded in accounts payable and accrued liabilities	\$ <u><u>(13,274)</u></u>	\$ <u><u>(17,642)</u></u>

The plan assets at June 30, 2011 and 2010 consist of investments measured at NAV and are classified in Level 2 in the GAAP fair value hierarchy because of the plan's ability to redeem its interests at or near the statement of financial position date.

	<u>2011</u>	<u>2010</u>
Net periodic pension cost:		
Service cost	\$ 2,390	2,079
Interest cost	2,839	2,684
Expected return on assets	(2,612)	(2,191)
Amortization of unrecognized loss and prior service cost	<u>997</u>	<u>723</u>
Net periodic pension cost	\$ <u><u>3,614</u></u>	\$ <u><u>3,295</u></u>

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.40%	6.24%
Rate of compensation increase	4.00	4.00
Expected long-term rate of return	7.50	7.50

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2011 and 2010, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$575 and \$680, respectively, and a net unrecognized actuarial loss of

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

\$8,789 and \$16,667, respectively. These changes affecting the funded status of the plan are included in other changes in nonoperating activities.

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

The actual asset allocation for the pension plan as of June 30, 2011 and 2010, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2011	2010
Equity funds	65%	68%	57%
Fixed funds	35	32	32
Cash and cash equivalents	—	—	11
Total	100%	100%	100%

The University's estimated contribution for 2012 is \$3,000.

Estimated future benefit payments as of June 30, 2011 are as follows:

	Amount
Fiscal year:	
2012	\$ 2,046
2013	2,083
2014	2,187
2015	2,318
2016	2,476
2017 – 2021	15,910

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(9) Net Assets

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

		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:					
Undesignated, departmental funds	\$	30,745	—	—	30,745
University designated		88,916	—	—	88,916
Donor restricted		—	17,827	—	17,827
Net investment in plant		312,238	39,997	—	352,235
Student loans		9,971	—	9,846	19,817
Endowment		309,801	1,225,717	1,025,496	2,561,014
Pledges receivable		—	89,471	71,665	161,136
Total net assets	\$	<u>751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>
2010					
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:					
Undesignated, departmental funds	\$	31,624	—	—	31,624
University designated		64,443	—	—	64,443
Donor restricted		—	11,365	—	11,365
Net investment in plant		298,111	41,740	—	339,851
Student loans		9,821	—	9,362	19,183
Endowment		249,378	1,009,797	952,028	2,211,203
Pledges receivable		—	115,879	78,785	194,664
Total net assets	\$	<u>653,377</u>	<u>1,178,781</u>	<u>1,040,175</u>	<u>2,872,333</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2011 and 2010

(Dollars in thousands)

(10) 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:

	<u>2011</u>	<u>2010</u>
Instruction and departmental research	\$ 242,855	242,426
Sponsored programs	121,224	110,887
Academic and student support	125,221	124,831
Auxiliary services	85,397	87,279
Institutional support	87,811	93,368
	<u>\$ 662,508</u>	<u>658,791</u>

(11) Commitments and Contingencies

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

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

(12) 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 as well as the University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms in the best interest of the University.

(13) Subsequent Events

In August 2011, the University issued tax-exempt bonds with a par amount of \$70,600 through RIHEBC at fixed rates ranging from 2% to 5% at serial maturities beginning September 2012 and a final maturity on September 2032. The bonds were sold at a premium of \$10,030, resulting in effective yields of 0.20% to 3.77%. The proceeds were used to refinance the RIHEBC Series 2001A fixed rate and RIHEBC Series 2001B variable rate bonds.

The University considers events or transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 26, 2011, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures	
Research and Development Cluster: Department of Agriculture	Grants for Agricultural Research		10.206	\$ 1,066	
	Climate and Atmospheric Research	Rutgers University	10.310	1,603	
	Department of Agriculture total			<u>2,669</u>	
Department of Health and Human Services	Innovational in Applied Public Health Research		93.061	10,183	
	Biological Response to Environmental Health Hazards		93.113	2,945,839	
		Silent Spring Institute	93.113	83,783	
		Yale University	93.113	54,103	
	Applied Toxicological Research and Testing		93.114	(1,050)	
	Oral Diseases and Disorders Research		93.121	61,112	
		Transparent Materials, LLC	93.121	12,691	
	NIEHS Superfund Hazardous Substances		93.143	2,907,294	
	Aids Education and Training Centers		93.143	43,881	
		Dartmouth College	93.145	3,841	
		University of Massachusetts, Worcester	93.145	32,586	
	Human Genome Research		93.172	748,392	
	Research Related to Deafness and Communication Disorders		93.173	767,346	
		University of Delaware	93.173	117,974	
	National Research Service Awards		93.225	261,494	
	Research on Healthcare Costs, Quality and Outcomes		93.226	523,263	
	Mental Health Research Grants		93.242	5,210,694	
		Brigham & Women's Hospital	93.242	94,929	
		Butler Hospital	93.242	309,106	
		John Hopkins University	93.242	64,348	
		Lifespan Corporation	93.242	4,764	
		Rhode Island Hospital	93.242	7,370	
		The Miriam Hospital	93.242	47,490	
		University of California, Los Angeles	93.242	23,287	
		University of Missouri, St. Louis	93.242	65,760	
		University of Rochester	93.242	184,073	
		University of California, San Francisco	93.242	54,153	
		Rhode Island Department of Human Services	93.256	963	
	State Planning Grants Health Care Access for the Uninsured				
	Alcohol Research Career Development Awards for Scientists and Clinicians		Children's Mercy Hospital & Clinics	93.271	20,194
	Alcohol National Research Service Awards for Research Training			93.272	545,188
	Alcohol Research Programs			93.273	6,736,576
		Children's Mercy Hospitals & Clinics	93.273	141,241	
		Research Foundation of State University of New York	93.273	7,765	
		Rhode Island Hospital	93.273	19,564	
		University of Georgia	93.273	45,197	
		University of Tennessee - Battelle, LLC.	93.277	108,784	
	Drug Abuse Scientist Development Award			93.279	3,545,694
	Drug Abuse and Addiction Research Programs		Butler Hospital	93.279	51,836
		California Institute of Technology	93.279	(88)	
		Columbia University	93.279	1,787	
		Dartmouth College	93.279	96,662	
		Massachusetts General Hospital	93.279	8,853	
		McGill University	93.279	27,425	
		The Miriam Hospital	93.279	64,637	
		National Jewish Medical and Research Center	93.279	104,425	
		Rhode Island Hospital	93.279	32,751	
		Southern Methodist University	93.279	5,276	
		University of Arkansas for Medical Sciences	93.279	2,762	
		University of Rhode Island	93.279	85,554	
	Mental Health Research Career/Scientist Development Awards		University of California, San Francisco	93.281	675,177
				93.281	2,025
				93.282	380,525
Mental Health National Research Service Awards for Research Training					
Teacher Education Assistance for College and Higher Education Grant - Technical Assistance		Rhode Island Public Institute	93.283	225,310	
			93.283	7,345	
Discovery and Applied Research for Technological Innovations to Improve Human Health			93.286	1,781,122	
Nursing Research		Rhode Island Hospital	93.361	654,652	
			93.361	20,554	
National Center for Research Resources		Millikelvin Technology, Inc.	93.389	847,556	
		Rhode Island Hospital	93.389	17,699	
		Rhode Island Hospital	93.389	252,862	
		Roger Williams Medical Center	93.389	(2,285)	
		University of Rhode Island	93.389	255,101	
		Women & Infants Hospital	93.389	289,395	
Cancer Cause and Prevention Research		Miriam Hospital	93.393	2,373,158	
			93.393	155,758	
Cancer Detection and Diagnosis Research		American College of Radiology	93.394	4,348,377	
		The Miriam Hospital	93.394	215,736	
			93.394	22,569	
Cancer Treatment Research			93.395	(5,345)	
		Nanovis, Inc.	93.395	73,205	
		State University of New York-Environmental Science & Forestry	93.395	39,081	
		The Miriam Hospital	93.395	26,358	
		University of Pennsylvania	93.395	6,852	
Cancer Biology Research			93.396	151,493	
Cancer Research Manpower		The Miriam Hospital	93.398	57,462	
Cancer Control		Butler Hospital	93.399	54,971	
Cell Biology and Biophysics			93.821	316,089	
Heart and Vascular Diseases Research			93.837	2,320,655	
		Butler Hospital	93.837	9,603	
		Millikelvin Technology, LLC	93.837	(1,334)	
		Miriam Hospital	93.837	82,652	
Lung Diseases Research		Rhode Island Hospital	93.838	451,114	
			93.838	33,133	
Blood Diseases and Resource Research			93.839	531,617	
Arthritis, Musculoskeletal and Skin Diseases Research			93.846	585,182	
Diabetes, Endocrinology and Metabolism Research			93.847	973,189	
		Memorial Hospital	93.847	45,272	
		University of Massachusetts, Amherst	93.847	81,681	
		Virginia Polytechnic Institute and State University	93.847	104,266	
			93.848	392,576	
Digestive Diseases and Nutrition Research			93.853	5,757,116	
Extramural Research Programs in the Neurosciences and Neurological Disorders		EIC Laboratories, Inc.	93.853	9,226	
		President and Fellows of Harvard College	93.853	225,167	

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
		Stanford University	93.853	\$ 203,225
		University of Missouri, St. Louis	93.853	107,788
	Allergy, Immunology and Transplantation Research		93.855	1,997,182
		Lifespan	93.855	12,218
		The Miriam Hospital	93.855	154,034
		President and Fellows of Harvard College	93.855	199,358
		Stanford University	93.855	56,767
		Rhode Island Hospital	93.855	(6,557)
		Therapy X, Inc.	93.855	(37)
	Biomedical Research and Research Training		93.859	4,179,673
		Indiana University	93.859	68,407
		Johns Hopkins University	93.859	39,843
		Rhode Island Hospital	93.859	5,752
	Population Research		93.864	738,747
		Princeton University	93.864	44,153
	Child Health and Human Development Extramural Research		93.865	1,944,114
		Boston University	93.865	19,079
		Indiana University	93.865	130,787
	Aging Research		93.866	5,347,666
		Dartmouth College	93.866	27,675
		Johns Hopkins University	93.866	34,263
		Miriam Hospital	93.866	(86)
		Rhode Island Hospital	93.866	71,639
		University of Missouri, Columbia	93.866	91,657
	Vision Research		93.867	2,053,806
	Grants for Training in Primary Care Medicine and Dentistry		93.884	271,445
	International Research and Research Training		93.989	165,322
		Fogarty International Center	93.989	35,180
	Federal Department of Health and Human Services		93.999	146,422
	Other research		93.UNK	2,408,289
		John Hopkins University	93.UNK	114,025
		Quality Partners of Rhode Island	93.UNK	113,346
		Rhode Island Hospital	93.UNK	64,050
		State of Rhode Island Department of Health	93.UNK	37,213
		State of Rhode Island Department of Behavioral Healthcare	93.UNK	52,955
		Virginia Commonwealth University	93.UNK	30,594
	Department of Health and Human Services total			<u>72,012,575</u>
Environmental Protection Agency	Science to Achieve Results (Star) Research Program		66.509	<u>460,463</u>
	Environmental Protection Agency total			<u>460,463</u>
National Aeronautics and Space Administration	NASA/RI Space Grant		43.UNK	4,702,516
		Arizona State University	43.UNK	57,546
		Carnegie Institution of Washington	43.UNK	45,887
		Jet Propulsion Laboratory	43.UNK	71,974
		Johns Hopkins University	43.UNK	122,530
		Planetary Science Institute	43.UNK	1,435
		University of California, Los Angeles	43.UNK	28,282
		University of Maryland	43.UNK	38,779
		University of Minnesota	43.UNK	88,421
		University of Pennsylvania	43.UNK	73,689
	Aerospace Education Services Program		43.001	<u>16,466</u>
	National Aeronautics and Space Administration total			<u>5,247,525</u>
National Endowment for the Humanities	Promotion of the Humanities – Research		45.161	<u>66,539</u>
	National Endowment for the Humanities total			<u>66,539</u>
National Institute of Standards and Technology	Measurement and Engineering Research & Standards Congressionally Identified Projects		11.609	76,330
		University of Rhode Island	11.617	<u>157,810</u>
	National Institute of Standards and Technology total			<u>234,140</u>
National Ocean and Atmospheric Agency	Sea Grant Support		11.417	13,486
	Climate and Atmospheric Research		11.417	260,990
		University of Rhode Island	11.417	44,441
		Rhode Island Sea Grant	11.420	17,201
	Climate and Atmospheric Research		11.478	37,470
	Center for Sponsored Coastal Ocean Research		11.431	<u>46,023</u>
	Climate and Atmospheric Research			
	National Ocean and Atmospheric Agency total			<u>419,611</u>
National Science Foundation	Engineering Grants		47.041	2,388,797
	Mathematical and Physical Sciences		47.041	3,240
		CytoSolv, Inc.	47.049	7,188,727
		Brandeis University	47.049	53,774
		Case Western Reserve University	47.049	68,196
		Johns Hopkins University	47.049	68,002
		University of Maryland – College Park	47.049	64,331
		University of Maryland, Baltimore	47.049	134,522
		University of Southern California	47.049	15,267
		Yale University	47.049	46,432
	Geosciences		47.050	1,654,206
		University of Southern California	47.050	57,162
		Woods Hole Oceanographic Institution	47.050	18,774
	Computer and Information Science and Engineering		47.070	3,146,709
		Miriam Hospital	47.070	1,463
		Southern Methodist University	47.070	49,005
		Computing Research Association	47.070	246,579
		Worcester Polytechnic Institute	47.070	6,616
	Biological Sciences		47.074	2,490,458
		Cornell University	47.074	20,816
		University of Arizona	47.074	124,112
	Social, Behavioral, and Economic Sciences		47.075	1,062,898
	Education and Human Resources		47.076	1,320,337
		American Educational Research Association	47.076	20,362
	Polar Programs		47.078	327,618
	International Science and Engineering (OISE)		47.079	67,359
	Office of Cyberinfrastructure		47.079	65,814
		Johns Hopkins University	47.080	274,580
			47.080	42,532
	Office of Experimental Program to Stimulate Competitive Research Tool		47.081	17,472
		Roger Williams University	47.081	419,284
		University of Rhode Island	47.081	

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Other research	Joint Oceanographic Institution/US Science Support Program	47.UNK	\$ 25,432
		Louisiana State University	47.UNK	48
		Vanderbilt University	47.UNK	5,217
	National Science Foundation total			<u>78,294</u>
Department of Defense	Basic and Applied Scientific Research	Lockheed Martin Corporation	12.300	1,202,205
		North Carolina State University	12.300	15,009
	Basic Scientific Research		12.351	93,509
	Military Medical Research and Development		12.420	269,989
		I2S Micro Implantable Systems, Inc.	12.420	829,664
		Rhode Island Hospital	12.420	288,796
		U.S. Department of Veterans Affairs Medical of Boston Center	12.420	17,763
		Yale University	12.420	135,093
	Basic Scientific Research		12.420	1,944
		Kitware, Inc	12.431	2,671,967
	Basic, Applied and Advanced Research in Science and Engineering		12.431	52,470
	Air Force Defense Research Sciences Program		12.630	258,378
		Marine Biological Laboratory	12.800	4,111,733
		Asian Office of Aerospace Research and Development	12.800	35,590
		Regents of the University of Michigan	12.800	74,432
	Research and Technology Development		12.910	242,063
		International Business Machines Corporation	12.910	464,102
		Object/Video, Inc.	12.910	4,165
		Object Video	12.910	60,967
		University of Southern California	12.910	105,877
	Other research		12.910	139,133
		Aptima, Inc.	12.UNK	420,310
		BAE Systems Information and Electronic Systems Integration Inc.	12.UNK	121,158
		Hypercomp, Inc	12.UNK	26,971
		iRobot Corporation	12.UNK	17,443
		Magnolia Optical Technologies Inc.	12.UNK	45,057
		NextGen Aeronautics	12.UNK	57,361
		Ryon Technologies	12.UNK	40,931
		Stanford University	12.UNK	19,977
		Toyon Research Corporation	12.UNK	2,464,452
		TracLabs, Inc.	12.UNK	18,968
	Department of Defense total			<u>49,999</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	14,357,476
		University of Delaware	81.049	4,960,942
		Woods Hole Oceanographic Institution	81.049	94,508
		Yale University	81.049	(1,113)
	Fossil Energy Research and Development		81.049	105,159
	Other research		81.089	99,735
		Ames Laboratory	81.UNK	163,315
		Argonne National Laboratory	81.UNK	246,084
		Fermi National Accelerator Laboratory	81.UNK	96,643
		Lawrence Livermore National Laboratory	81.UNK	16,844
		Los Alamos National Laboratory	81.UNK	103,344
		Oak Ridge National Laboratory	81.UNK	95,117
		Pacific Northwest National Laboratory	81.UNK	152,057
	FEMA Emergency Management Technology Transfer and Commercialization	The Regents of the University of California	81.UNK	61,199
	Department of Energy total			<u>6,193,834</u>
Department of Veterans Affairs	Other research		64.UNK	204,842
	Diabetes, Endocrinology and Metabolism Research	U.S. Department of VA Medical Center of Providence Memorial Hospital	64.UNK	11,972
	Department of Veterans Affairs total		93.847	<u>381,346</u>
Department of Education	Other research		43.UNK	598,160
	Other research	Boston University	84.UNK	1,144
	Teacher Quality Enhancement Grants	Rhode Island Board of Governors for Higher Education	84.336B	82,716
	Education Research, Development and Dissemination	University of Rhode Island	84.305	34,903
	Overseas Doctoral Dissertation	Council of Great City Schools	84.305	32,897
	Javits Fellowships	Vanderbilt University	84.022A	84,305
	Graduate Assistance in Areas of National Need		84.170B	14,597
			84.200A	42,487
	Department of Education total			<u>217,644</u>
Geological Survey	Earthquake Hazards Reduction Program		15.807	496,393
	Geological Survey total			<u>116,932</u>
Syracuse VA Medical Center	Other research		64.UNK	2,027
	Syracuse VA Medical Center total			<u>2,027</u>
Oak Ridge National Laboratory	Other research	Aptima, Inc.	12.UNK	30,634
	Basic and Applied Scientific Research	University of California, Los Angeles	12.300	95,151
	Oak Ridge National Laboratory Total			<u>125,785</u>
Fermi National Acceleratory Laboratory	Other research	Fermi National Accelerator Laboratory	81.UNK	8,573
	Fermi National Acceleratory Laboratory total			<u>8,573</u>
National Institute of Allergy	Allergy, Immunology and Transplantation Research		93.855	6,282
	National Institute of Allergy total			<u>6,282</u>
American Recovery and Reinvestment Act (ARRA):				
National Science Foundation	Trans-NSF Recovery Act Research Support		47.082	4,271,293
	Trans-NSF Recovery Act Research Support	Banyan Environmental, Inc.	47.082	(6,835)
	National Science Foundation - ARRA total	Serve Rhode Island	47.082	80,393
	Department of Energy			<u>4,344,851</u>
	Office of Science Financial Assistance Program		81.049	122,146
	Department of Energy - ARRA total			<u>122,146</u>
Department of Health and Human Services	Trans-NIH Recovery Act Research Support		93.701	7,950,027
		Columbia University	93.701	39,281
		Dartmouth College	93.701	246,724
		Marine Biological Laboratory	93.701	279,999
		Massachusetts General Hospital	93.701	627,517
		Miriam Hospital	93.701	1,800

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
		President and Fellows of Harvard College	93.701	\$ 175,951
		Tufts University	93.701	10,017
		University of Rochester	93.701	172,712
		Women and Infants Hospital	93.701	128,433
		Binghamton University	93.701	6,943
		Memorial University	93.701	29,493
		American College of Radiology	93.701	263,135
			93.715	77,259
	Recovery Act – Comparative Effectiveness Research – AHRQ			
	Department of Health and Human Services – ARRA total			10,009,291
	Research and Development Cluster total			136,399,707
Student Financial Assistance Cluster:				
Department of Education	Federal Perkins Loan Program (notes 3 and 4)		84.038	3,342,421
	Federal Direct Student Loans (note 4)		84.268	31,032,625
	Federal Work-study Program		84.033	1,316,126
	Federal Pell Grant Program		84.063	4,588,799
	Federal Supplemental Educational Opportunity Grants		84.007	816,187
	Byrd Honors Scholarships		84.185	481,550
	Academic Competitiveness Grant		84.375	300,950
	Mental Health National Research Service Awards for Research Training		84.376	388,000
	Teacher Education Assistance for College and Higher Education Grant		84.379	8,000
	Department of Education total			42,274,658
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (note 4)		93.342	118,200
	Scholarships for Disadvantaged Students		93.925	93,248
	Department of Health and Human Services total			211,448
American Recovery and Reinvestment Act (ARRA):				
Department of Health and Human Services	ARRA – Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students		93.407	56,752
	Department of Health and Human Services - ARRA total			56,752
	Student Financial Assistance Cluster total			42,542,858
Corporation for National and Community Service	AmeriCorps	Miriam Hospital	94.006	(5,981)
			94.006	(2,139)
	Corporation for National and Community Services total			(8,120)
National Aeronautics and Space Administration	Other		43.UNK	333,213
	National Aeronautics and Space Administration total			333,213
National Endowment for the Humanities	Promotion of the Humanities – Division of Preservation and Access		45.149	283,185
	Promotion of the Humanities Research		45.161	24,844
	Promotion of the Humanities Teaching and Learning Resources and Curriculum Development		45.162	12,230
	Promotion of the Humanities – Office of Digital Humanities		45.169	131,559
	Promotion of the Humanities – Federal/State Partnership	Rhode Island Council for the Humanities	45.129	8,980
	National Endowment for the Humanities total			460,598
National Science Foundation	Mathematical and Physical Sciences		47.049	23,620
	Geosciences		47.050	23,322
	Computer and Information Science and Engineering		47.070	11,809
	Biological Sciences		47.074	180
	Social, Behavioral, and Economic Sciences		47.075	136,602
	Education and Human Resources		47.076	1,293,797
		Education Development Center, Inc.	47.076	4,281
		Michigan State University	47.076	14,269
		University of Rhode Island	47.076	333,871
	National Science Foundation total			1,841,751
Department of Defense	Basic and Applied Scientific Research – conference grants	Office of Naval Research Global	12.300	5,968
	Air Force Defense Research Sciences Program – conference grants		12.800	9,447
	Department of Defense total			15,415
Department of Energy	Other	U.S. Department of Energy	81.UNK	(1,550)
	Department of Energy total			(1,550)
Department of Education	Civil Rights Training and Advisory Services		84.004	570,223
	Overseas Doctoral Dissertation		84.022	8,113
	Magnet Schools Assistance	American Education Solutions, Inc	84.165	52,339
	Javits Fellowships		84.170	4,857
	Bilingual Education Professional Development		84.195	1,081,111
	Fund for the Improvement of Education	City of Boston Public Schools	84.215	52,240
	Comprehensive Centers	RMC Research Corporation	84.283	(8,068)
	National Resource Centers and Fellowship Program		84.015A	59,921
	Magnet Schools Assistance	City of New York Department of Education	84.165A	48,366
		County of Guilford Schools	84.165A	18,900
		County of Palm Beach School District	84.165A	55,756
	Javits Fellowships		84.170B	31,188
	Teacher Quality Enhancement Grants	University of Rhode Island	84.336B	13,071
	Other	City of New Haven Board of Education	84.UNK	21,983
		City of Peabody Public Schools	84.UNK	857
		City of Springfield Public Schools	84.UNK	343,987
		Fluidity Software	84.UNK	72,319
		Siate of Rhode Island Department of Education	84.UNK	25,297
	Graduate Assistance in Areas of National Need		84.200A	157,247
	Department of Education total			2,609,707
National Historical Publications and Records Commission	National Historical Publications and Records Grants		89.003	33,440
	National Historical Publications and Records Commission total			33,440
Small Business Administration	U.S. Small Business Administration	Rhode Island School of Design	59.UNK	55,082
	Small Business Administration total			55,082

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures	
Department of Health and Human Services	Other		93.UNK	\$ 234,980	
	Model State-Supported Area Health Education Centers		93.107	704,382	
	Substance Abuse and Mental Health Services – Projects of Regional and National Significance		93.243	624,841	
	National Center Research Resources – Data Acquisition System	University of Missouri – Kansas City	93.243	3,618	
	Heart and Vascular Disease Research – Center of Excellence		93.389	204,765	
	Arthritis, Musculoskeletal and Skin Disease Research – conference grants	MOI University	93.837	99,057	
	Biomedical Research and Research Training – Minority in Science Training		93.846	17,999	
	Grants for Faculty Development in Family Medicine		93.859	563,337	
			93.895	417,240	
	Department of Health and Human Services Total				<u>2,870,219</u>
	Agency for International Development	Cooperative Development Program	Indiana University	98.002	54,740
Agency for International Development total			<u>54,740</u>		
Department of Commerce	Economic Adjustment Assistance	Greater Providence Chamber of Commerce	11.307	10,000	
	Department of Commerce total			<u>10,000</u>	
American Recovery and Reinvestment Act (ARRA): Corporation for National and Community Service	Americorps		94.006	(46)	
	Corporation for National and Community Services - ARRA total			<u>(46)</u>	
	Total expenditures of federal awards			\$ <u>187,217,014</u>	

See accompanying notes to schedule of expenditures of federal awards.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards summarizes the expenditures of Brown University (the University) under programs of the federal government for the year ended June 30, 2011. Negative amounts on the Schedule represent adjustments to expenditures reported in a prior year.

For purposes of the Schedule, federal awards include 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 awards are categorized in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The University's expenditures under federal awards have been clustered, as applicable as follows:

(a) Research and Development

Includes awards for research and development work at the University, primarily funded by the Department of Health and Human Services (DHHS), the Air Force, the Navy, the Advanced Research Projects Agency, the National Science Foundation, the Department of Energy, and the National Aeronautics & Space Administration, among others.

(b) Student Financial Assistance

Includes federally guaranteed loans issued to students of the University under the Federal Direct Loan Program and awards to provide financial assistance to students, primarily under the Federal Work Study, Federal Pell Grant, and Federal Supplemental Educational Opportunity Grant programs of the Department of Education. The University receives awards to make loans to eligible students under certain federal student loan programs. These loans are considered for purposes of determining the total federal expenditures (see note 4).

(2) Summary of Significant Accounting Policies for Federal Awards

For purposes of the Schedule and the basic financial statements, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those 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 allocated to direct costs under negotiated rates agreed to with DHHS, the University's federal cognizant agency.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

(3) Administrative Cost Allowance

For the year ended June 30, 2011, the University recovered an administrative cost allowance of \$272,635 under the Federal Perkins Loan Program.

(4) Federal Student Loan Programs

Loans made by the University to eligible students under federal student loan programs and federally guaranteed loans issued to students by the University during the year ended June 30, 2011 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 3,069,786
Health Professions Student Loan Program (HPSL)	118,200
	<u>3,187,986</u>
Total campus based loans programs	<u>\$ 3,187,986</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 9,566,518
Unsubsidized Stafford Loan Program	10,157,244
PLUS Loan Program	11,308,863
	<u>31,032,625</u>
Total federal direct loan programs	<u>\$ 31,032,625</u>

The Perkins Loan and HPSL programs are administered directly by the University and balances and transactions relating to these programs are included in the University's financial statements. The balances of loans outstanding at June 30, 2011 consist of:

Federal Perkins Loan Program (including income-contingent loans)	\$ 25,722,203
Health Professions Student Loans	554,919
	<u>26,277,122</u>
Total	<u>\$ 26,277,122</u>

(5) Subrecipients

During fiscal year 2011, the University provided \$16,598,737 to subrecipients as part of its research and development program.