



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, 2012

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, 2012

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KPMG LLP
6th Floor, Suite A
100 Westminster Street
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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, 2012. 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, 2012.

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 President and 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 6, 2013



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, 2012, and have issued our report thereon dated October 29, 2012. 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. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency that is described in the accompanying schedule of findings and questioned costs as 2012-1. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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*.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the President and 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 29, 2012

BROWN UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2012

(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)?	<u> x </u>	yes	_____ 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: Student Financial Assistance Cluster	CFDA number: Various
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

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

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

Finding 2012-1: Year-end financial reporting

The University's legacy accounting system is augmented manually by staff in order to produce financial statements in accordance with U.S. generally accepted accounting principles (GAAP). In fiscal 2012, the annual closing process—including the preparation of the external financial statements and account analysis in certain areas—was adversely impacted by the ongoing implementation of new human resources and financial reporting information systems, which required significant involvement by the University's accounting staff. As a result, certain postclosing entries were identified in the audit and several accounts and disclosures were adjusted late in the process.

Views of Responsible Officials

The replacement of our legacy administrative systems did place a greater impact on our resources than had been anticipated, causing some delay in posting year-end entries. The University has taken immediate action to remedy this situation by hiring additional accounting resources at the professional level with specific focus on GAAP reporting. We fully expect that this action will more than adequately provide improvements to the annual closing process, and assist in the ongoing implementation of our new financial system.

(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, 2012



KPMG LLP
6th Floor, Suite A
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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, 2012 and 2011, 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, 2012 and 2011, 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 29, 2012 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 audits.



Exhibit IV

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2012 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2012 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

KPMG LLP

October 29, 2012

BROWN UNIVERSITY

Statements of Financial Position

June 30, 2012 and 2011

(Dollars in thousands)

Assets	2012	2011
Cash and cash equivalents	\$ 52,890	86,971
Receivables for investments sold	79,720	45,005
Accounts receivable and other assets	72,168	55,466
Contributions receivable, net	158,784	161,136
Notes receivable, net	32,202	33,190
Funds held in trust by others	17,333	27,943
Investments	2,786,235	2,877,651
Land, buildings and equipment, net	953,334	897,578
Total assets	<u>\$ 4,152,666</u>	<u>4,184,940</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 64,384	64,123
Liabilities associated with investments	78,423	110,523
Deferred revenues and student deposits	50,806	57,210
Federal student loan advances	24,671	24,616
Split-interest obligations	23,143	20,578
Other long-term obligations	88,544	46,707
Bonds, loans and notes payable	660,096	629,493
Total liabilities	<u>990,067</u>	<u>953,250</u>
Net assets:		
Unrestricted	717,741	751,671
Temporarily restricted	1,262,796	1,373,012
Permanently restricted	1,182,062	1,107,007
Total net assets	<u>3,162,599</u>	<u>3,231,690</u>
Total liabilities and net assets	<u>\$ 4,152,666</u>	<u>4,184,940</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 360,794	—	—	360,794
Less university scholarships	(122,940)	—	—	(122,940)
Net tuition and fees	237,854	—	—	237,854
Grants and contracts – direct	130,002	—	—	130,002
Grants and contracts – indirect	43,031	—	—	43,031
Contributions	58,539	9,980	—	68,519
Endowment return appropriated	111,937	4,488	—	116,425
Sales and services of auxiliary enterprises	81,583	—	—	81,583
Other income	26,979	459	—	27,438
Net assets released from restrictions	10,323	(10,323)	—	—
Total operating revenues	<u>700,248</u>	<u>4,604</u>	<u>—</u>	<u>704,852</u>
Operating expenses:				
Salaries and wages	328,632	—	—	328,632
Employee benefits	87,954	—	—	87,954
Purchased services	58,697	—	—	58,697
Supplies and general	86,907	—	—	86,907
Utilities	19,170	—	—	19,170
Other	38,067	—	—	38,067
Interest	25,792	—	—	25,792
Total operating expenses before depreciation	645,219	—	—	645,219
Depreciation and amortization	59,601	—	—	59,601
Total operating expenses	<u>704,820</u>	<u>—</u>	<u>—</u>	<u>704,820</u>
Change in net assets from operating activities	<u>(4,572)</u>	<u>4,604</u>	<u>—</u>	<u>32</u>
Nonoperating activities:				
Contributions to long-term assets	6,618	19,864	68,483	94,965
Net investment return	(1,513)	13,262	(401)	11,348
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Other changes, net	(52,207)	(13,777)	6,973	(59,011)
Net assets released from restrictions	49,992	(49,992)	—	—
Change in net assets from nonoperating activities	<u>(29,358)</u>	<u>(114,820)</u>	<u>75,055</u>	<u>(69,123)</u>
Change in net assets	<u>(33,930)</u>	<u>(110,216)</u>	<u>75,055</u>	<u>(69,091)</u>
Net assets, beginning of year	<u>751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>
Net assets, end of year	<u>\$ 717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</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
Grants and contracts – direct	126,865	—	—	126,865
Grants and contracts – indirect	41,648	—	—	41,648
Contributions	50,493	1,719	—	52,212
Endowment return 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
Interest	24,977	—	—	24,977
Total operating expenses before depreciation	606,258	—	—	606,258
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 return 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.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

(Dollars in thousands)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (69,091)	359,357
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(19,010)	(415,562)
Realized loss on partial swap termination	2,767	—
Depreciation and amortization	59,601	56,250
Loss from disposals of land, building and equipment	4,056	10,365
Change in funded status of pension obligation	11,805	(4,368)
Change in fair value of interest rate swap liabilities	29,989	(4,052)
Change in asset retirement obligation	43	(526)
Change in estimate of split-interest obligations	4,817	6,630
Contributions restricted for plant and endowment	(77,129)	(72,250)
Change in operating assets, net	(1,244)	27,304
Change in operating liabilities, net	(6,890)	5,636
Net cash used in operating activities	<u>(60,286)</u>	<u>(31,216)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(119,113)	(142,951)
Purchases of investments	(1,521,797)	(2,624,222)
Sales and redemptions of investments	1,590,401	2,643,096
Notes issued	(35,643)	(35,757)
Notes repaid	36,631	35,922
Change in funds held in trust by others	10,610	18
Loans issued to Providence Richmond Street Investment Fund, LLC	—	(58,500)
Net cash used in investing activities	<u>(38,911)</u>	<u>(182,394)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	77,129	72,250
Payments under split-interest obligations	(2,252)	(1,868)
Payment for partial swap termination	(2,767)	—
Payments on long-term debt	(84,525)	(11,615)
Proceeds from issuance of debt, including premium	80,630	3,200
Net proceeds from commercial paper program	35,000	15,000
Proceeds from secured borrowings for investment purposes	55,005	79,998
Payments on secured borrowings for investment purposes	(79,998)	—
Cash collateral posted under swap agreements	(35,300)	(2,100)
Cash collateral returned under swap agreements	22,800	2,100
Advance from line of credit	566	—
Payment of advance from line of credit	(566)	—
Bond issuance costs	(606)	—
Proceeds from loans issued to KARING	—	72,248
Net cash provided by financing activities	<u>65,116</u>	<u>229,213</u>
Change in cash and cash equivalents	(34,081)	15,603
Cash and cash equivalents, beginning of year	<u>86,971</u>	<u>71,368</u>
Cash and cash equivalents, end of year	<u>\$ 52,890</u>	<u>86,971</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

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

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

(b) Basis of Presentation and Tax Status

The 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 not-for-profit 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 net 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, 2012 and 2011

(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 return appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, noncapitalized plant expenditures, changes in fair values of interest rate swaps and early termination thereof, change in pension plan and other long-term obligations, contributions to long-term assets, net assets released from restrictions for property placed in service, and other activities not in direct support of annual operations.

Revenues are derived from various sources, as follows:

- Tuition and fees are 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, 2012 and 2011

(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 Receivable and Other Assets and Notes Receivable*

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

(h) *Land, Buildings and Equipment*

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

Depreciation is calculated using the straight-line method with estimated useful lives of 30-to-40 years for buildings, 20-to-30 years for building improvements, and 10 years for building equipment. Equipment is depreciated over a range of 3-to-15 years, depending upon asset class.

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(i) Federal Student Loan Advances

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

(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 2011 financial information has been reclassified to conform to the 2012 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>2012</u>	<u>2011</u>
Contributions expected to be received in:		
One year or less	\$ 50,727	62,735
Between one and five years	120,913	72,577
More than five years	<u>11,006</u>	<u>51,658</u>
Gross contributions receivable	182,646	186,970
Unamortized discount (at rates ranging from 0.7% to 6.2%) and allowance for uncollectibles	<u>(23,862)</u>	<u>(25,834)</u>
Contributions receivable, net	<u>\$ 158,784</u>	<u>161,136</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, 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, 2012 and 2011, 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, 2012 and 2011 as well as related strategy, liquidity and funding commitments:

	June 30, 2012				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
Investments:						
Equities:						
U.S. equities	\$ 16,330	99,700	47,813	163,843	Daily to Annual	1 – 90
Non-U.S. equity index funds	83,696	—	—	83,696	Daily	1
Non-U.S. equity funds	162,812	201,794	60,989	425,595	Daily to illiquid	15 – N/A
Fixed income:						
Domestic	4,907	153,492	82,868	241,267	Daily to Annual	1 – 60
U.S. Treasury inflation-protected	76,467	8,124	16,248	100,839	Daily to Annual	1 – 90
Hedged strategies:						
General arbitrage funds	—	117,221	14,449	131,670	Monthly to illiquid	5 – N/A
Distressed funds	—	—	55,762	55,762	Semi-Annual to illiquid	90 – N/A
Global/Non-U.S. funds	—	142,324	411,867	554,191	Monthly to illiquid	30 – N/A
Private equity:						
Buy-out funds	—	—	430,559	430,559	Illiquid	N/A
Venture funds	—	—	188,350	188,350	Illiquid	N/A
Real assets:						
Real estate and timber	976	1,790	210,741	213,507	Daily to illiquid	1 – N/A
Commodities, oil and gas	52	—	48,819	48,871	Daily to Illiquid	1 – N/A
Cash and cash equivalents	148,085	—	—	148,085	Daily	1
Total	<u>\$ 493,325</u>	<u>724,445</u>	<u>1,568,465</u>	<u>2,786,235</u>		
Funds held in trust by others	\$ 5,206	—	12,127	17,333	Daily to illiquid	1 – N/A
	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	<u>\$ 328,386</u>	<u>985,147</u>	<u>1,564,118</u>	<u>2,877,651</u>		
Funds held in trust by others	\$ 15,353	—	12,590	27,943	Daily to illiquid	1 – N/A

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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 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, 2012 and 2011 for the University's assets classified in Level 3:

Level 3 roll forward	2012						Funds held in trust by others
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total investments	
Beginning fair value as of June 30, 2011	\$ 150,881	47,154	532,863	583,079	250,141	1,564,118	12,590
Acquisitions	4,000	49,600	31,089	69,152	27,236	181,077	—
Dispositions	(11,475)	(32)	(81,703)	(77,992)	(22,903)	(194,105)	—
Transfers	(25,169)	(8,124)	—	—	—	(33,293)	—
Net realized and unrealized (losses) gains	(9,435)	10,518	(171)	44,670	5,086	50,668	(463)
Fair value at June 30, 2012	\$ 108,802	99,116	482,078	618,909	259,560	1,568,465	12,127
Level 3 roll forward	2011						Funds held in trust by others
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total investments	
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

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Fiscal 2012 and 2011 transfers of \$33,293 and \$123,579, respectively, represent the expiration of lock-ups.

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

	<u>2012</u>	<u>2011</u>
Operating:		
Endowment return appropriated	\$ 116,425	111,443
Included in other income	13,019	12,493
Nonoperating activities:		
Net investment return	11,348	409,037
Endowment return appropriated	(116,425)	(111,443)
Total return	<u>\$ 24,367</u>	<u>421,530</u>

Total investment management and advisory expenses were \$22,158 and \$21,356 for the years ended June 30, 2012 and 2011, respectively, and have been netted against the total return.

(a) Liquidity

Investment liquidity as of June 30, 2012 is aggregated below based on redemption or sale period:

	<u>Investment fair values</u>
Investment redemption or sale period:	
Pending	\$ 10,000
Daily	674,540
Monthly	303,193
Quarterly	376,361
Semi-annually	53,719
Subject to rolling lock-ups	362,316
Illiquid	<u>1,006,106</u>
Total as of June 30, 2012	<u>\$ 2,786,235</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. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any

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particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2012 was \$210,564 and \$97,926, respectively. Additionally, some marketable investments require capital to be phased in over time. The aggregate amount of unfunded commitments associated with marketable investments as of June 30, 2012 was \$52,900.

(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, 2012 and 2011, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio with asset fair values of \$4,796 and \$18,242, respectively, at June 30, 2012 and 2011. The University recorded a net unrealized (loss) gain of \$(13,446) and \$2,001 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, and amounted to \$55,005 and \$79,998, respectively. Such borrowings are at a variable rate, which was 0.3% at June 30, 2012.

From time to time, the University enters into different types of futures contracts for commodity exposure. At June 30, 2012 and 2011, contracts were in place representing \$50,259 and \$50,700, respectively, in notional value.

(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 \$12,127 and \$12,590 at June 30, 2012 and 2011, 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 \$5,206 and \$15,353 at June 30, 2012 and 2011, 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 \$3,601 and \$13,748 of restricted cash at June 30, 2012 and 2011, respectively, related to the Medical School facility (see note 7).

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June 30, 2012 and 2011

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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 upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,176)	1,098,856	1,090,150	2,166,830
Corporation-designated endowment funds	300,726	57,535	—	358,261
Total endowment net assets	<u>\$ 278,550</u>	<u>1,156,391</u>	<u>1,090,150</u>	<u>2,525,091</u>

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	325,627	55,554	—	381,181
Total endowment net assets	<u>\$ 309,801</u>	<u>1,225,717</u>	<u>1,025,496</u>	<u>2,561,014</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets June 30, 2011	\$ 309,801	1,225,717	1,025,496	2,561,014
Investment return, net	2,305	13,063	—	15,368
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Contributions	57	1,867	58,552	60,476
Reclassifications and other changes	(1,365)	(79)	6,102	4,658
Endowment net assets June 30, 2012	<u>\$ 278,550</u>	<u>1,156,391</u>	<u>1,090,150</u>	<u>2,525,091</u>

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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
Investment return, net	85,194	294,704	7,291	387,189
Endowment return appropriated	(24,666)	(86,777)	—	(111,443)
Contributions	725	3,885	62,931	67,541
Reclassifications and other changes	(830)	4,108	3,246	6,524
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>

(a) Interpretation of Relevant Laws

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

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

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$22,176 and \$15,826 as of June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Land	\$ 62,649	62,840
Buildings	623,218	576,012
Improvements	752,617	635,750
Equipment	115,033	105,943
Construction in progress	68,925	138,282
	<u>1,622,442</u>	<u>1,518,827</u>
Accumulated depreciation	<u>(669,108)</u>	<u>(621,249)</u>
Land, buildings and equipment, net	<u>\$ 953,334</u>	<u>897,578</u>

Outstanding commitments on uncompleted construction contracts total \$85,576 at June 30, 2012.

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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	
				2012	2011
Taxable Standard Commercial					
Paper Notes, Series A, revolving through 2036	0.15% – 0.17%	Fixed	Revolving	\$ 50,000	50,000
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2001A	n/a	Fixed	2023	—	27,000
Series 2001B	n/a *	Variable	2032	—	55,340
Series 2003A	3.60% – 4.85%	Fixed	2037	42,050	42,925
Series 2003B	0.14% *	Variable	2043	43,385	43,780
Series 2004	3.60% – 4.75%	Fixed	2025	17,480	18,395
Series 2005A	0.11% *	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
Series 2011	2.00% – 5.00%	Fixed	2032	70,600	—
Tax-exempt commercial paper, revolving through 2036					
	.15% – 0.21%	Fixed	Revolving	50,000	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
Loans payable – Community: Development Entities					
	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				650,568	629,493
Unamortized premium				9,528	—
Total bonds, loans and notes payable				\$ 660,096	629,493

(a) Tax Exempt Bonds

The University's tax exempt debt, primarily Facilities Revenue Bonds, is issued through RIHEBC, a state agency serving as a conduit issuer of tax exempt debt. The University is required under certain of its financing agreements with RIHEBC to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the related properties. The Revenue Bonds currently outstanding were issued primarily to finance new and ongoing capital projects for research, student housing, academic and administrative buildings, and infrastructure. In August 2011, the Series 2011 Facilities Revenue Refunding Bonds were issued in the amount of \$70,600 to currently refund the Series 2001A and Series 2001B Bonds. The Refunding Bonds included an original issue premium of \$10,030.

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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, 2012, \$50,000 has been drawn against this program.

Principal payments of bonds, notes and loans payable as of June 30, 2012 for the succeeding five fiscal years ending June 30 are as follows:

2013	\$ 5,910
2014	6,125
2015	6,415
2016	25,370
2017	8,910

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the University determined that the aggregate estimated fair value of its debt as of June 30, 2012 and 2011 was approximately \$701,000 and \$647,000, respectively.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2012, the full amount of \$40,000 was available at a rate of 0.98975%.

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

(c) Interest Rate Swaps

At June 30, 2012, 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' notionals for the JPMorgan swap and the \$85,500 Goldman Sachs swap amortize at the same rate as the related debt principal.

In fiscal 2012, the Series 2001B corresponding variable-rate debt, for the \$35,833 Goldman Sachs swap was refunded with fixed rate debt. Additionally, for economic reasons the University terminated one-third of the Goldman Sachs 2006 swap. As a result, the University recognized a

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realized loss on partial swap termination of \$2,757, which is recorded in nonoperating activities in other changes, net in the 2012 statement of activities.

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

Counterparty	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30 liability	
					2012	2011
JP Morgan	3/3/2008	9/1/2043	\$ 43,385	3.732%	\$ (16,943)	(7,860)
Goldman Sachs	10/4/2005	5/1/2035	85,500	3.979	(26,702)	(8,198)
Goldman Sachs	11/21/2006	9/1/2032	35,833	3.891	(7,747)	(5,345)
					<u>\$ (51,392)</u>	<u>(21,403)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that the University maintain a minimum credit rating to avoid collateral posting requirements. At June 30, 2012, the collateral requirement was \$9,448; however, \$12,500 was on deposit as collateral to ensure continuing collateral coverage.

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, during 2011, 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 \$66,784 and \$57,452 as of June 30, 2012 and 2011, respectively, and is included in land, buildings and equipment. The loans payable to the CDEs as of June 30, 2012 and 2011 are reported net of the loan receivable from the LLC and are included in bonds, loans and notes payable.

BROWN UNIVERSITY

Notes to Financial Statements

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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 \$22,279 and \$21,048 for the years ended June 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 54,097	53,415
Service cost	2,314	2,390
Interest cost	2,954	2,839
Benefits paid	(1,837)	(1,751)
Actuarial loss (gain)	14,093	(2,796)
Projected benefit obligation at end of year	<u>\$ 71,621</u>	<u>54,097</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	4.01%	5.57%
Rate of compensation increase	3.00	3.50

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2012 and 2011
(Dollars in thousands)

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

	<u>2012</u>	<u>2011</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 40,823	35,773
Actual return on plan assets	1,056	6,801
Contributions	6,500	—
Benefits paid	<u>(1,837)</u>	<u>(1,751)</u>
Fair value of plan assets at end of year	46,542	40,823
Projected benefit obligation at end of year	<u>(71,621)</u>	<u>(54,097)</u>
Funded status recorded in other long-term obligations	<u>\$ (25,079)</u>	<u>(13,274)</u>

The plan assets at June 30, 2012 and 2011 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>2012</u>	<u>2011</u>
Net periodic pension cost:		
Service cost	\$ 2,314	2,390
Interest cost	2,954	2,839
Expected return on assets	(3,312)	(2,612)
Amortization of unrecognized loss and prior service cost	<u>378</u>	<u>997</u>
Net periodic pension cost	<u>\$ 2,334</u>	<u>3,614</u>

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

	<u>2012</u>	<u>2011</u>
Discount rate	5.57%	5.40%
Rate of compensation increase	3.50	4.00
Expected long-term rate of return	7.50	7.50

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2012 and 2011, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$471 and \$575, respectively, and a net unrecognized actuarial loss of

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

\$24,863 and \$8,789, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statement of 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, 2012 and 2011, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2012	2011
Equity funds	65%	65%	68%
Fixed funds	35	35	32
Total	100%	100%	100%

The University's estimated contribution for 2013 is \$5,000.

Estimated future benefit payments as of June 30, 2012 are as follows:

Fiscal year:	
2013	\$ 2,159
2014	2,231
2015	2,364
2016	2,524
2017	2,704
2018 – 2022	17,260

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Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(9) Net Assets

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

		2012			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating	\$	129,244	—	—	129,244
Donor-restricted purposes		—	24,721	—	24,721
Net investment in plant		300,048	4,484	—	304,532
Student loans		9,899	—	10,328	20,227
Endowment		278,550	1,156,391	1,090,150	2,525,091
Contributions receivable		—	77,200	81,584	158,784
Total net assets	\$	<u>717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</u>
		2011			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating	\$	119,661	—	—	119,661
Donor-restricted purposes		—	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
Contributions 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>

(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:

	2012	2011
Instruction and departmental research	\$ 265,010	242,855
Sponsored programs	124,211	121,224
Academic and student support	134,218	125,221
Auxiliary services	85,831	85,397
Institutional support	95,550	87,811
	<u>\$ 704,820</u>	<u>662,508</u>

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Notes to Financial Statements

June 30, 2012 and 2011

(Dollars in thousands)

(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 the 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) Supplemental Disclosure of Cash Flow Information

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

	<u>2012</u>	<u>2011</u>
Cash paid for interest, including recurring swap settlements	\$ 27,962	25,347
Noncash investing activities:		
Increase in accounts payable for land, buildings and equipment	802	1,109
(Decrease) increase in payables for purchases of investments	(32,100)	74,439
Increase in receivables for investments sold	34,715	34,958

(14) Subsequent Events

In July 2012, the University issued tax-exempt bonds with a total par value of \$118,240 through RIHEBC at a fixed rate of 5.00%, maturing in September 2021 and September 2022. The bonds were sold at a premium of \$31,567, resulting in effective yields of 1.87% and 2.01% at the respective maturity dates. The proceeds were used to refinance \$50,000 of RIHEBC Tax-exempt commercial paper and \$8,220 in taxable commercial paper, with the remaining proceeds to be used for capital projects.

The 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 29, 2012, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster: Department of Agriculture	Agricultural and Rural Economic Research	North Carolina State University	10.310	\$ 17,395
	Agricultural and Rural Economic Research	Rutgers University	10.310	35,322
	Department of Agriculture total			52,717
Department of Health and Human Services	Area Health Education Centers Point of Service Maintenance and Enhancement Awards		93.107	120,330
	Biological Response to Environmental Health Hazards		93.113	2,324,667
		Yale University	93.113	36,933
		Silent Spring Institute	93.113	79,002
	Oral Diseases and Disorders Research		93.121	6,781
		Transparent Materials, LLC	93.121	17,329
	NIEHS Superfund Hazardous Substances		93.143	2,965,494
		Dartmouth College	93.143	48,460
	Human Genome Research		93.172	736,193
	Research Related to Deafness and Communication Disorders		93.173	723,128
		University of Delaware	93.173	69,180
	Research and Training in Complementary and Alternative Medicine		93.213	109,656
	Research on Healthcare Costs, Quality and Outcomes		93.226	647,064
	Mental Health Research Grants		93.242	6,204,254
		Brigham & Women's Hospital	93.242	101,683
		Butler Hospital	93.242	231,649
		John Hopkins University	93.242	126,603
		Lifespan Corporation	93.242	10,334
		Rhode Island Hospital	93.242	17,527
		The Miriam Hospital	93.242	88,224
		University of California, Los Angeles	93.242	20,915
		University of Missouri, St. Louis	93.242	59,050
		University of Rochester	93.242	223,989
		University of California, San Francisco	93.242	30,140
	Alcohol Research Programs		93.273	8,653,561
		Children's Mercy Hospitals & Clinics	93.273	142,595
		Research Foundation of State University of New York	93.273	10,177
		Rhode Island Hospital	93.273	54,229
		University of Georgia	93.273	290
		University of Connecticut	93.273	44,301
		Yale University	93.273	3,601
		Palo Alto Institute for Research & Education	93.273	4,892
	University of Tennessee, Knoxville	93.273	9,944	
Drug Abuse and Addiction Research Programs		93.279	2,852,176	
	Butler Hospital	93.279	22,870	
	Dartmouth College	93.279	138,186	
	Massachusetts General Hospital	93.279	5,735	
	The Miriam Hospital	93.279	39,903	
	Rhode Island Hospital	93.279	35,860	
	University of Pittsburgh	93.279	198,168	
	Women and Infants Hospital	93.279	33,759	
	University of Rhode Island	93.279	67,979	
Mental Health Research Career/Scientist Development Awards		93.281	632,600	
Mental Health National Research Service Awards for Research Training		93.282	398,230	
Centers for Disease Control and Prevention Investigations and Technical Assistance		93.283	358,412	
	Rhode Island Public Health Institute	93.283	7,201	

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	\$ 1,291,903
	Minority Health and Health Disparities Research	Johns Hopkins University	93.310	174,766
	Nursing Research		93.361	3,503
		University of California, San Diego	93.361	343,266
		Rhode Island Hospital	93.361	32,539
	National Center for Research Resources		93.389	284,553
		Millikelvin Technology, Inc.	93.389	4,041
		Rhode Island Hospital	93.389	468,341
		University of Rhode Island	93.389	140,497
		Women & Infants Hospital	93.389	200,684
	Cancer Cause and Prevention Research		93.393	2,104,071
		Legacy for Health Foundation	93.393	16,960
		Memorial Hospital	93.393	25,608
		Imperial College of London	93.393	265,136
		Miriam Hospital	93.393	35,729
	Cancer Detection and Diagnosis Research		93.394	4,176,992
		American College of Radiology	93.394	167,124
		The Miriam Hospital	93.394	22,149
		University of California, San Diego	93.394	24,959
	Cancer Treatment Research		93.395	3,795
		Nanovis, Inc.	93.395	42,507
		State University of New York-Environmental Science & Forestry	93.395	132,488
	Cancer Biology Research		93.396	132,488
	Cancer Research Manpower	The Miriam Hospital	93.398	16,508
	Cell Biology and Biophysics Research		93.821	345,153
	Heart and Vascular Diseases Research		93.837	1,095,366
		Butler Hospital	93.837	14,384
	Lung Diseases Research		93.838	311,634
		Rhode Island Hospital	93.838	14,688
	Blood Diseases and Resource Research		93.839	597,197
	Arthritis, Musculoskeletal and Skin Diseases Research		93.846	608,673
		Lifespan, Inc	93.846	129,918
	Diabetes, Endocrinology and Metabolism Research		93.847	1,202,570
		Memorial Hospital	93.847	364,932
		The Miriam Hospital	93.847	180,641
		University of Massachusetts, Amherst	93.847	88,954
		Virginia Polytechnic Institute and State University	93.847	16,827
	Digestive Diseases and Nutrition Research		93.848	168,498
	Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	5,991,328
		EIC Laboratories, Inc.	93.853	43,685
		President and Fellows of Harvard College	93.853	330,836
		Stanford University	93.853	150,504
		University of Missouri, St. Louis	93.853	50,943
	Allergy, Immunology and Transplantation Research		93.855	1,985,979
		Lifespan	93.855	534
		The Miriam Hospital	93.855	268,421
		President and Fellows of Harvard College	93.855	127,586
		Stanford University	93.855	69,393
		Massachusetts General Hospital	93.855	623
		State University of New York, Buffalo	93.855	22,039
	Microbiology and Infectious Diseases Research		93.856	(5,430)
	Biomedical Research and Research Training		93.859	6,175,987
		The Miriam Hospital	93.859	3,114
		CytoSolv, Inc.	93.859	(212)
		Indiana University	93.859	55,000
		Johns Hopkins University	93.859	4,690
		Rhode Island Hospital	93.859	4,690
	Population Research		93.864	426,611
		Princeton University	93.864	42,522

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 Schedule of Expenditures of Federal Awards
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Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Child Health and Human Development Extramural Research		93.865	\$ 1,769,910
		Boston University	93.865	2,582
		Indiana University	93.865	106,039
		University of Rhode Island	93.865	14,443
	Aging Research		93.866	5,298,451
		Burnham Institute	93.866	109,086
		Johns Hopkins University	93.866	47,316
		Rhode Island Hospital	93.866	17,139
		Albert Einstein College of Medicine	93.866	23,435
		University of Missouri, Columbia	93.866	48,175
	Vision Research		93.867	1,626,672
	Grants for Primary Care Training and Enhancement	Burnham Institute	93.884	173,686
	International Research and Research Training	Fogarty International Center	93.989	119,330
	Other research		93.UNK	2,321,174
		Case Western Reserve University	93.UNK	78,986
		ABT Associates	93.UNK	719
		Healthcentric Advisors	93.UNK	119,647
		Medicaid and CHIP Payment and Access Commission	93.UNK	18,789
		State of Rhode Island Department of Behavioral Healthcare	93.UNK	117,716
				71,588,256
Environmental Protection Agency	Science to Achieve Results (Star) Research Program		66.509	375,637
	Environmental Protection Agency total			375,637
Department of Housing and Urban Development	Lead Technical Studies Grants	Providence Plan	14.902	11,389
	Department of Housing and Urban Development total			11,389
National Aeronautics and Space Administration	NASA/RI Space Grant		43.UNK	4,757,577
		Arizona State University	43.UNK	64,627
		Carnegie Institution of Washington	43.UNK	122,891
		Jet Propulsion Laboratory	43.UNK	54,786
		Johns Hopkins University Applied Physics Laboratory, LLC	43.UNK	109,136
		University of California, Los Angeles	43.UNK	154,158
		University of Maryland, College Park	43.UNK	60,888
		University of Minnesota	43.UNK	17,693
		Colorado School of Mines	43.UNK	53,322
		Cornell University	43.UNK	68,912
		University of Pennsylvania	43.UNK	96,825
	Aerospace Education Services Program		43.001	435,828
		University of California, Los Angeles	43.001	43,994
		University of Minnesota	43.001	19,861
	Cross Agency Support		43.009	43,398
	National Aeronautics and Space Administration total			6,103,896
National Endowment for the Humanities	Promotion of the Humanities – Federal/State Partnership	Rhode Island Council for the Humanities	45.129	2,000
	National Endowment for the Humanities total			2,000
Department of Commerce: National Institute of Standards and Technology	Measurement and Engineering Research & Standards Congressionally Identified Projects		11.609	88,884
		University of Rhode Island	11.617	441,839
	National Institute of Standards and Technology total			530,723

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
National Ocean and Atmospheric Agency	Sea Grant Support	Rhode Island Sea Grant	11.417	\$ 126,151
		University of Rhode Island	11.417	48,965
	Costal Zone Management Estuarine Research Reserves		11.420	19,493
	Center for Sponsored Coastal Ocean Research	University of Rhode Island	11.478	12,990
	Climate and Atmospheric Research		11.431	109,441
	National Ocean and Atmospheric Agency total			317,040
	Department of Commerce total			847,763
National Science Foundation	Engineering Grants		47.041	3,091,040
		CytoSolv, Inc.	47.041	7,018
	Mathematical and Physical Sciences		47.049	8,064,924
		Brandeis University	47.049	60,009
		Case Western Reserve University	47.049	104,894
		Johns Hopkins University	47.049	58,532
		University of Notre Dame	47.049	3,400
		University of Maryland, Baltimore	47.049	74,244
		Ohio State University	47.049	37,565
		University of Colorado, Boulder	47.049	62,653
	Geosciences		47.050	1,758,719
		University of Southern California	47.050	116,017
		Consortium for Ocean Leadership	47.050	32,643
	Computer and Information Science and Engineering		47.070	3,606,132
		Southern Methodist University	47.070	30,296
		Computing Research Association	47.070	139,587
		Worcester Polytechnic Institute	47.070	21,604
		Hampton University	47.070	8,750
	Biological Sciences		47.074	3,003,676
		Cornell University	47.074	477
		University of Arizona	47.074	111,391
	Social, Behavioral, and Economic Sciences		47.075	1,051,640
		University of California	47.075	1,893
	Education and Human Resources:		47.076	358,733
		University of Rhode Island	47.076	3,269,396
		American Educational Research Association	47.076	469
	Polar Programs		47.078	365,872
	International Science and Engineering (OISE)		47.079	153,030
		Johns Hopkins University	47.079	14,434
	Office of Cyberinfrastructure		47.080	129,897
		University of California, Irvine	47.080	27,362
	Office of Experimental Program to Stimulate Competitive Research Tool		47.081	31,915
	Roger Williams University	47.081	990,380	
Other research		47.UNK	116,744	
	Cosmos Corporation	47.UNK	2,686	
	Joint Oceanographic Institution/U.S. Science Support Program	47.UNK	(71)	
	Louisiana State University	47.UNK	(48)	
	Vanderbilt University	47.UNK	108,280	
	National Science Foundation total			27,016,183
Department of Defense	Basic and Applied Scientific Research		12.300	1,246,691
	Basic Scientific Research		12.351	421,106
	Military Medical Research and Development		12.420	817,286
		I2S Micro Implantable Systems, Inc.	12.420	(3,544)
		Rhode Island Hospital	12.420	174,409
		Boston University	12.420	71,925
		Yale University	12.420	11,123

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Basic Scientific Research		12.431	\$ 1,397,558
		Kitware, Inc	12.431	507
	Basic, Applied and Advanced Research in Science and Engineering		12.630	143,841
	Air Force Defense Research Sciences Program		12.800	4,695,771
		Marine Biological Laboratory	12.800	30,435
		Asian Office of Aerospace Research and Development	12.800	126,970
		Regents of the University of Michigan	12.800	333,439
	Research and Technology Development		12.910	511,687
		Kitware, Inc.	12.910	125,796
		ObjectVideo, Inc.	12.910	205,965
		University of Southern California	12.910	254,479
	Other research		12.UNK	356,664
		Aptima, Inc.	12.UNK	100,466
		BAE Systems Information and Electronic Systems Integration Inc.	12.UNK	116,910
		Hypercomp, Inc	12.UNK	17,328
		Science Applications International Corp	12.UNK	113,721
		Soar Technology, Inc.	12.UNK	36,115
		NextGen Aeronautics	12.UNK	25,085
		ObjectVideo, Inc.	12.UNK	26,827
		Stanford University	12.UNK	4,042,748
	Department of Defense total			<u>15,401,308</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	5,161,292
		University of Delaware	81.049	89,226
		Woods Hole Oceanographic Institution	81.049	(34)
		Yale University	81.049	11,596
	Fossil Energy Research and Development	National Energy Technology Laboratory	81.089	231,513
	Other research	Ames Laboratory	81.UNK	208,582
		Argonne National Laboratory	81.UNK	210,323
		Fermi National Accelerator Laboratory	81.UNK	228,141
		The Regents of the University of California	81.UNK	263,237
		Los Alamos National Laboratory	81.UNK	51,420
		Oak Ridge National Laboratory	81.UNK	87,376
		Ryon Technologies	81.UNK	30,039
		Pacific Northwest National Laboratory	81.UNK	141,199
	Department of Energy total			<u>6,713,910</u>
Department of Veterans Affairs	Other research		64.UNK	289,026
	Department of Veterans Affairs total			<u>289,026</u>
Department of Education	Other research	Rhode Island Board of Governors for Higher Education	84.UNK	50,498
	Education Research, Development and Dissemination	Council of Great City Schools	84.305	21,682
		Vanderbilt University	84.305	(188)
	Teacher Quality Partnership Grants	University of Rhode Island	84.336	136
	Enhancing Education through Technology	School & Main Institute	84.386	8,441
	Department of Education total			<u>80,569</u>
Department of the Interior	Earthquake Hazards Reduction Program		15.807	59,490
	Department of the Interior total			<u>59,490</u>
U.S. Agency for International Development	Other research		98.859	79,164
				<u>79,164</u>

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
American Recovery and Reinvestment Act (ARRA):				
National Science Foundation	Trans-NSF Recovery Act Research Support		47.082	\$ 4,277,630
	National Science Foundation – ARRA total			<u>4,277,630</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	22,641
	Department of Energy – ARRA total			<u>22,641</u>
Department of Health and Human Services	Trans-NIH Recovery Act Research Support		93.701	5,223,612
		Dartmouth College	93.701	263,031
		Marine Biological Laboratory	93.701	14,155
		Miriam Hospital	93.701	11,727
		President and Fellows of Harvard College	93.701	13,507
		University of Rochester	93.701	5,054
		Women and Infants Hospital	93.701	56,010
		Memorial Hospital	93.701	2,023
	Other Research		93 UNK	480,358
	Recovery Act – Comparative Effectiveness Research – AHRQ	Women and Infants Hospital	93 UNK	3,609
	Department of Health and Human Services – ARRA total		93.715	<u>223,625</u>
	Research and Development Cluster total			<u>6,296,711</u>
				<u>139,218,290</u>
Student Financial Assistance Cluster:				
Department of Education	Federal Perkins Loan Program (notes 3 and 4)		84.038	3,457,461
	Federal Direct Student Loans (note 4)		84.268	31,566,524
	Federal Work-study Program		84.033	1,316,126
	Federal Pell Grant Program		84.063	3,984,194
	Federal Supplemental Educational Opportunity Grants		84.007	816,187
	Teacher Education Assistance for College and Higher Education Grant		84.379	36,000
	Department of Education total			<u>41,176,492</u>
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (note 4)		93.342	76,170
	Scholarships for Disadvantaged Students		93.925	150,000
	Department of Health and Human Services total			<u>226,170</u>
	Student Financial Assistance Cluster total			<u>41,402,662</u>
Other Federal Awards:				
American Recovery and Reinvestment Act (ARRA):				
Department of Education	ARRA-Special Education Grants to States	International Charter School	84.391	34,563
	ARRA-Title I Grants to Local Educational Agencies	International Charter School	84.389	8,512
	Department of Education – ARRA total			<u>43,075</u>
Corporation for National and Community Service	ARRA – AmeriCorps	Serve Rhode Island	94.006	(866)
	Corporation for National and Community Service – ARRA total			<u>(866)</u>
Corporation for National and Community Service	AmeriCorps	Serve Rhode Island	94.006	185,614
		AmeriCorps/CNCS	94.006	(3,891)
	Corporation for National and Community Service total			<u>181,723</u>
National Aeronautics and Space				

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Other		43.UNK	\$ 67,402
	National Aeronautics and Space Administration total			<u>67,402</u>
National Endowment for the	Promotion of the Humanities – Division of Preservation and Access		45.149	28,027
	Promotion of the Humanities Research		45.161	51,375
	National Leadership Grants		45.312	12,958
	Promotion of the Humanities – Office of Digital Humanities		45.169	43,586
	Promotion of the Humanities – Federal/State Partnership	Rhode Island Council for the Humanities	45.129	9,795
	National Endowment for the Humanities total			<u>145,741</u>
National Science Foundation	Engineering Grants		47.041	26,702
	Mathematical and Physical Sciences		47.049	27,102
	Geosciences		47.050	38,608
	Computer and Information Science and Engineering		47.070	50,031
	Social, Behavioral, and Economic Sciences		47.075	44,404
	International Science and Engineering		47.079	26,874
	National Science Foundation total			<u>213,721</u>
Department of Defense	Civil Defense_Architect/Engineer Faculty Development		12.300	9,612
	Department of Defense total			<u>9,612</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	30,000
	Department of Energy total			<u>30,000</u>
Department of Education	Civil Rights Training and Advisory Services		84.004	586,510
	Overseas Doctoral Dissertation		84.022A	6,394
	Bilingual Education Professional Development		84.195	870,670
	Fund for the Improvement of Education	City of Boston Public Schools	84.215	36,818
	Javits Fellowships		84.170B	140,007
	Byrd Honors Scholarships		84.185	110,640
	Other	City of Springfield Public Schools	84.UNK	88,695
		Fluidity Software	84.UNK	7,089
		State of Rhode Island Department of Education	84.UNK	43,990
	English Language Acquisition Grants		84.365	319,218
	Graduate Assistance in Areas of National Need		84.200A	575,690
	Mathematics and Science Partnerships		84.366	(136)
	Department of Education total			<u>2,785,585</u>
Department of the Interior	National Center for Preservation Technology and Training		15.923	24,256
	Department of the Interior total			<u>24,256</u>
United States Institute for Peace	Annual Senior Fellowship Competition		91.003	56,673
	United States Institute for Peace total			<u>56,673</u>
National Historical Publications and Records Commission	National Historical Publications and Records Grants		89.003	69,355
	National Historical Publications and Records Commission total			<u>69,355</u>
Small Business Administration	U.S. Small Business Administration	Rhode Island School of Design	59.UNK	19,918
	Small Business Administration total			<u>19,918</u>
U.S. Agency for International Development	Cooperative Development Program	Indiana University	98.002	120,761
	USAID Development Partnerships for University Cooperation and Development	Higher Education for Development	98.012	401,542
				<u>522,303</u>

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2012

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Department of Veterans Affairs	Other		64.UNK	\$ 16,507
	Department of Veterans Affairs total			<u>16,507</u>
Department of Health and Human Services	Area Health Education Centers Point of Service Maintenance and Enhancement Awards		93.107	96,049
	Biological Response to Environmental Health Hazards		93.113	384,928
	AIDS Education and Training Centers	University of Massachusetts Medical Center	93.145	82,512
	National Research Service Awards Health Services Research Training		93.225	258,117
	Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243	585,187
	Public Health Training Centers Program	University of Missouri – Kansas City	93.243	3,812
	Alcohol National Research Service Awards for Research Training	Yale University	93.249	29,214
	Alcohol Research Programs		93.272	(626)
	Drug Abuse Research Programs		93.279	534,181
	Mental Health National Research Service Awards for Research Training		93.282	238,528
	Research Centers in Minority Institutions		93.282	412,516
	Heart and Vascular Diseases Research		93.389	47,734
	Lung Diseases Research		93.837	51,579
	Clinical Research Related to Neurological Disorders		93.838	68,015
	Pharmacology, Physiology and Biological Chemistry Research		93.853	144,949
	Population Research		93.859	667,756
	Child Health and Human Development Extramural Research	Albert Einstein College of Medicine	93.864	244,324
	Aging Research		93.865	85,734
	Vision Research		93.866	890
	Grants for Primary Care Training and Enhancement		93.867	115,400
	Specially Selected Health Projects		93.884	507,016
	Grants for Faculty Development in Family Medicine		93.888	114,840
	International Research and Research Training		93.895	363,208
	Geriatric Training for Physicians, Dentists, and Behavioral/Mental Health Professionals	Fogarty International Center	93.989	573,769
	Other	Vanderbilt University	93.989	1,357
		Butler Hospital	93.156	23,022
		MOI University	93.UNK	147,354
			93.UNK	123,246
	Department of Health and Human Services total			<u>5,916,133</u>
	Other Federal Awards			<u>10,101,138</u>
	Total Expenditures of Federal Awards			\$ <u>190,722,090</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, 2012

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) summarizes the expenditures of Brown University (the University) under programs of the federal government for the year ended June 30, 2012. 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 National Science Foundation, the Department of Defense, the Department of Energy, and the National Aeronautics and 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 (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 UNIVERSITYNotes to Schedule of Expenditures of Federal Awards
Year ended June 30, 2012**(3) Administrative Cost Allowance**

For the year ended June 30, 2012, the University recovered an administrative cost allowance of \$277,180 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, 2012 are summarized as follows:

Federal Perkins Loan Program	\$ 3,180,281
Health Professions Student Loan Program (HPSL)	<u>76,170</u>
Total campus-based loans programs	<u><u>\$ 3,256,451</u></u>
Federal Direct Loans:	
Subsidized Stafford Loan Program	\$ 10,061,034
Unsubsidized Stafford Loan Program	10,398,532
PLUS Loan Program	<u>11,106,958</u>
Total Federal Direct Loan programs	<u><u>\$ 31,566,524</u></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, 2012 under these programs consist of:

Federal Perkins Loan Program (including income-contingent loans)	\$ 25,477,280
Health Professions Student Loans	<u>721,923</u>
Total	<u><u>\$ 26,199,203</u></u>

The University is responsible only for the performance of certain administrative duties relating to Federal Direct Loans and, accordingly, these loans are not included in the University's financial statements. It is not practical to determine the balances of loans outstanding to students of the University under this program as of June 30, 2012.

(5) Subrecipients

During fiscal year 2012, the University provided \$16,080,174 to subrecipients under its research and development cluster.