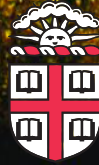


# BROWN UNIVERSITY

Financial Report 2005



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[www.brown.edu](http://www.brown.edu)





**CONTENTS**

From the Executive Vice President for Finance and Administration	1
Selected Statistics	7
Report of Independent Auditors	8
Financial Statements	9
Notes to the Financial Statements	14
Officers of the University	20

**ABOUT THE UNIVERSITY'S FINANCIAL STATEMENTS**

Consistent with the financial accounting standards for not-for-profit organizations, Brown University presents three required financial statements. The *statement of financial position* (page 9) shows the University's total resources and financial obligations at the end of the fiscal year. The *statement of activities* (page 10) presents a summary of operating revenue and expenditures for the year and the results of non-operating activity. Brown's *statement of cash flows* (page 11) analyzes the changes in balance sheet lines that affect the University's cash position. In addition, the University provides a *statement of expenses by function* (page 12), which shows detailed information on the use of operational resources.

The financial statements include prior year totals and are consolidated to include wholly owned subsidiaries. Brown's independent auditors, KPMG, have issued an unqualified opinion on the fiscal year 2005 statements and related footnotes included in this report.

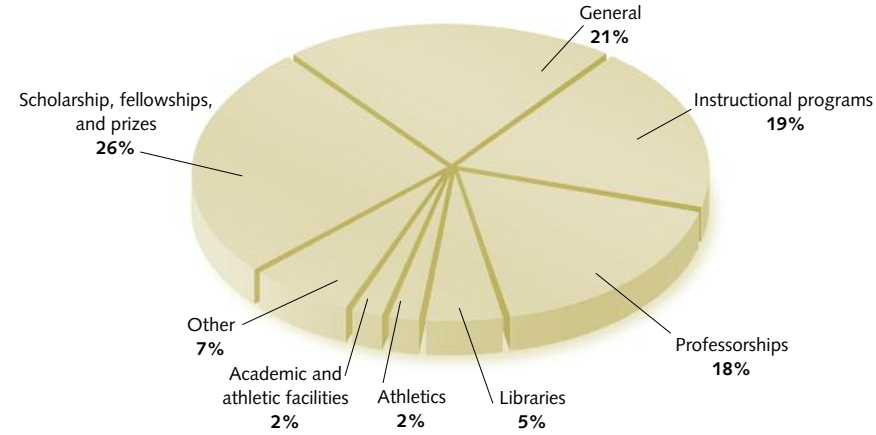
**D**uring fiscal year 2005, Brown University made significant progress on the Plan for Academic Enrichment, the University's strategic plan for its future. The University hired more than 50 new faculty members; expanded its first-year seminar program; recruited extraordinarily talented new undergraduate, graduate, and medical students; significantly expanded laboratory space in the life sciences; renovated academic buildings; upgraded the campus infrastructure; and received unprecedented support from alumni, parents, and friends. The University's plans called for using some accumulated net asset balances to meet its ambitious goals. As a result, Brown's operating expenses, which totaled \$523.4 million, were \$813,000 higher than its operating revenue of \$522.6 million. With strong fundraising results and investment performance, the University was still able to increase its overall net assets by \$243 million, to \$2.5 billion. The Brown

**FINANCIAL STATEMENT HIGHLIGHTS (in thousands)**

	2005	2004	2003
<b>Operating Revenue and Expenses</b>			
Total operating revenue	\$522,631	\$482,997	\$459,280
Total operating expenses	(523,444)	(473,669)	(455,840)
Net operating revenue	(813)	9,328	3,440
<b>Principal Revenue Sources</b>			
Tuition and fees revenue	235,458	220,747	207,836
University scholarships	(63,716)	(61,711)	(57,203)
Net tuition revenue	171,742	159,036	150,633
Grants and contract revenue	134,855	126,375	125,139
Brown Annual Fund gifts	23,898	22,900	19,700
Other gifts for current use	16,850	19,609	16,700
Gifts to endowment and plant	61,075	30,311	30,800
Total gift receipts	101,823	72,820	67,200
Endowment income distributed	77,819	74,320	72,242
<b>Principal Expenses</b>			
Salaries and wages	245,534	229,031	208,559
Employee benefits	68,300	61,145	61,641
Materials and services	154,785	134,534	130,667
Depreciation	32,640	30,386	27,377
Utilities	12,490	10,483	8,994
Interest	9,695	8,090	6,104

*Gift revenue does not include outstanding pledges.*

**Endowment Income Distribution Fiscal Year 2005**



community – faculty, staff, friends, and alumni – has remained focused and committed to achieving its academic enrichment goals.

**OPERATING RESULTS**

The University generated \$522.6 million in operating revenue in fiscal year 2005, up 8.2 percent from fiscal year 2004. Student tuition and fees (not including room and board) represented the largest portion of income, at \$235.5 million. University scholarships for undergraduate and graduate students, which are shown as an offset to tuition and fees, totaled \$63.7 million. In effect, net tuition and fee income increased by 8 percent to \$171.7 million.

Brown received a total of \$134.9 million in direct and indirect support from external sponsors of research grants and training programs, up almost 7 percent from fiscal year 2004. The total included \$28.4 million in reimbursements from sponsors for facilities and administrative costs (also called indirect cost recovery), up almost 6 percent from fiscal year 2004. It is also worth noting that sponsored awards (in dollars) to Brown faculty were up 14 percent in fiscal year 2005, an indication of the success of our faculty in attracting research support. Endowment income distributed for operating support increased 4.7 percent to \$77.8 million. The amount distributed in fiscal year 2005 represented 4.7 percent of the June 30, 2004 market value of the endowment. Gifts for current

use, including the Brown Annual Fund, the Brown Sports Foundation, and an array of restricted gifts, increased by 11.5 percent to a total of \$44 million – exceptional results given the economy. Finally, income from the auxiliary enterprises, primarily residential life and dining services, increased by 7.5 percent to a total of \$65.8 million.

Operating expenditures totaled \$523.4 million in fiscal year 2005, up about 10.5 percent from fiscal year 2004. The increase in instruction and departmental research was 9 percent to \$174.9 million. Academic and student support costs (libraries, computing, student services, and athletics) were up 12 percent while institutional support (administration and advancement) increased by 15.6 percent. From a different perspective, salaries, wages, and benefits increased overall by 8.2 percent, primarily for instruction and University-funded research. Brown spent more than \$39.6 million to operate and maintain its physical plant, an increase of almost 15 percent in part due to the rising costs of utilities and in part due to the net addition of 100,000 square feet to the plant. Interest expense totaled \$9.7 million, an increase of almost 20 percent due to rising short-term interest rates. Variable interest rates remained

at comparatively low levels, however, and the University’s total interest expense was \$4 million below budgeted levels. Finally, plant and equipment depreciation totaled \$32.6 million.

**CHANGES IN NET ASSETS**

The University’s assets primarily consist of investments; land, buildings, and equipment net of depreciation; contributions receivable; other receivables; and cash or cash equivalents. Gross assets increased by \$294 million to \$2.9 billion in fiscal year 2005 from \$2.6 billion in fiscal year 2004, largely due to the solid performance of our investments and further investment in facilities. The total return on the endowment was 13.3 percent. Net of distributions for operating purposes and the receipt of new gifts to endowment, the investment portfolio – the endowment plus short-term investments – increased from \$1.8 billion on June 30, 2004, to \$2.1 billion on June 30, 2005. The value of our land, buildings, and equipment also increased during the year from \$455 million to \$493 million as a result of our building renewal expenditures and new construction. Pledges receivable decreased slightly from \$177 million to \$173.3 million.

Our total debt as of June 30, 2005, was \$249.6 million. The average cost of our debt for the fiscal year was 3.9 percent. Other liabilities include accounts payable, deferred revenues and student deposits, and refundable advances (gifts or grants with obligations). Liabilities at the end of the year totaled \$473 million.

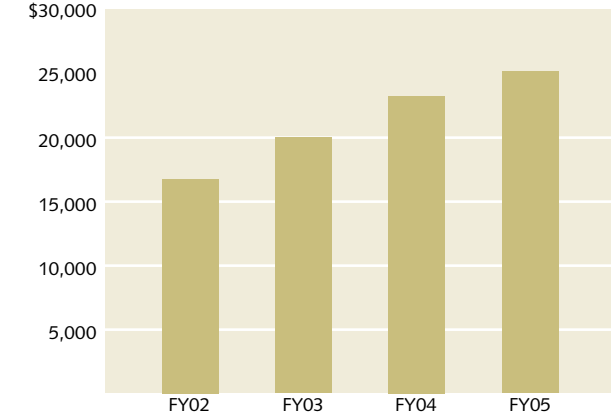
In summary, the total net assets increased from \$2.2 billion to \$2.5 billion in fiscal year 2005, an increase of almost 11 percent.

**FUNDRAISING RESULTS**

Brown’s alumni, parents, and friends showed their continued support for the University and their commitment to the Plan for Academic Enrichment by increasing cash contributions by 65 percent to \$159.4 million. More than 30,200 members of the Brown community contributed a record-setting \$25.1 million to the 2004–2005 Brown Annual Fund, meeting the year’s ambitious goal. Over the last three years the University has experienced exceptional increases in annual giving: the Brown Annual Fund has increased by almost 50 percent, and the number of donors has increased by almost 60 percent. A total of \$49.7 million was received for new endowment, \$11.3 million was received for capital projects, \$16.8 million was generated for restricted current use purposes, and \$7.3 million was received from nonfederal sources for research and training programs.

In the fall of 2004, the University formally accepted the largest single gift pledge in Brown’s history: \$100 million from Sidney

**Brown Annual Fund (in thousands)**



Frank, a member of Brown’s class of 1942.

Mr. Frank’s unparalleled generosity will provide scholarships for the Brown students with the greatest financial need. This endowed fund will transform the lives of many generations of Brown students, allowing them to pursue their academic interests, regardless of their financial circumstances.

Other significant gifts and pledges made during fiscal year 2005 include \$20 million to support the Center for Computational Molecular Biology; \$20 million for a new student life facility, the Nelson Fitness Center; and \$4 million to create the Friedman Study Center in the Sciences Library. In addition, the University received gifts to establish professorships in a number of fields, including pediatrics and computer science; to enhance undergraduate scholarships and graduate fellowships; to renovate important historic buildings, including Pembroke Hall for the Cogut Center for the Humanities and the Pembroke Center; to establish a new Institute for Archaeology and the Ancient World; to support the Harriet Sheridan Center for Teaching and Learning; and to provide funding for other priorities of the University’s Plan for Academic Enrichment.

**CAPITAL INVESTMENTS AND PLANS**

To achieve the objectives of the Plan for Academic Enrichment, particularly with regard to expanding the size of the faculty and establishing new multidisciplinary centers, the University’s plans include a significant investment in facilities and campus infrastructure.

In fiscal year 2005, the University invested \$69 million in its facilities. Less than a year after it acquired a former industrial building in Providence’s Jewelry District, Brown renovated the facility and opened the Laboratories for Molecular Medicine. Significant progress was made on the new Life Sciences Building on College Hill, which will add more than 170,000 square feet of research space when it is completed in 2006. The University opened a new library annex not far from the main campus. A renovation of the first floor of Manning Hall established new exhibition space for the Haffenreffer Museum of Anthropology. In order to accommodate new faculty, centers, or programs, many labs and offices were renovated, including space for Spatial Structures in the Social Sciences, the Taubman Center for Public Policy, religious studies, geological sciences, Italian studies, mathematics,



philosophy, and ecology and evolutionary biology. Brown also undertook a host of projects to improve residence halls, social spaces, and athletic facilities, and to upgrade the campus infrastructure, including sprinklers, fire alarm systems, and underground utilities.

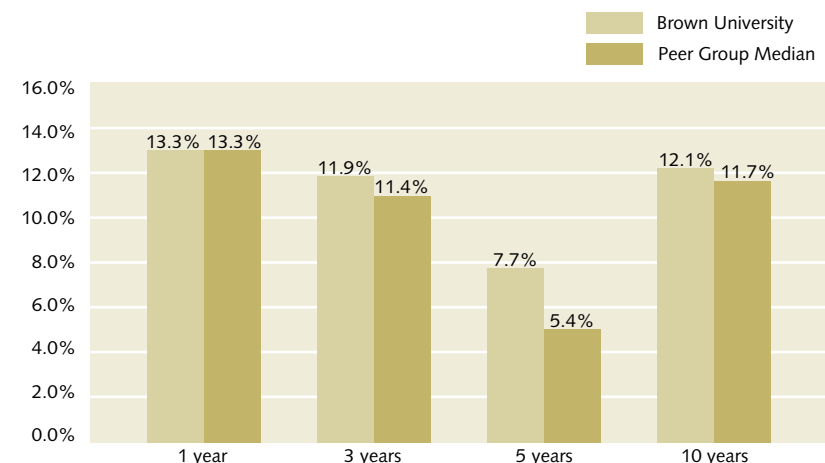
Through fiscal year 2010, Brown expects to undertake close to \$350 million in capital projects. In addition to those listed above, these projects include:

- Sidney E. Frank Hall, a new building for the Department of Cognitive and Linguistic Sciences and the Brain Science Program
- The Friedman Study Center in the Sciences Library, a student study space
- The renovation and expansion of Pembroke Hall for the Cogut Center for the Humanities and the Pembroke Center for Teaching and Research on Women
- Jonathan Nelson Fitness Center, an athletic complex to provide for the fitness and wellness of the Brown community
- The “walk,” a series of interconnected green spaces that will unify the Brown and Pembroke campuses
- Grant Recital Hall renovation to create a first-class performance space for small ensembles and multimedia performance.

#### ENDOWMENT PERFORMANCE

Brown’s endowment provides enduring support for the faculty and for undergraduate, graduate, and medical students. During fiscal year 2005, the University’s endowment

**Brown vs. Peer Institutions Average Annual Compound Returns**  
Periods ending June 30, 2005



returned 13.3 percent, and the market value of the endowment as of June 30, 2005, was \$1.91 billion. In fiscal year 2005, the University’s long-term investment strategy performed as expected, providing Brown with a solid return on its portfolio.

Longer-term performance is especially important given the role of the endowment in supporting Brown in perpetuity. Brown’s diversified asset allocation policy targets 86 percent in equities and 14 percent in fixed income, and as of June 30, 2005, the long-term investment pool had 86 percent invested in equities and 14 percent in fixed income. The equity portfolio is well diversified across

#### Brown University Long-Term Asset Allocation

	Long-term pool policy target	Actual allocation as of June 30, 2005
Public equity	26%	36%
Hedged strategies	28%	36%
Private equity	15%	5%
Real assets	17%	9%
Total equity	86%	86%
Fixed income	14%	14%
Total portfolio	100%	100%

public equity, hedged strategies, private equity, and real assets. As a result, the endowment should outperform in down markets, but as illustrated by the fiscal year 2005 returns, it may trail in markets where common stocks rise dramatically.

The benefits of this strategy have been particularly apparent in the volatile markets of the past few years. The University’s endowment has returned 12.1 percent annually over the last 10 years.

Brown’s endowment performance also compares favorably when measured against the preliminary endowment returns of the 50 largest college and university endowments. As shown in the graph, over the past three, five, and 10 years, Brown has outperformed the return of that peer group, which returned 11.4 percent, 5.4 percent, and 11.7 percent during those periods.

Over a slightly longer time horizon – the past 15 years – with the help of strong investment returns, generous alumni donations, and prudent spending policies, the endowment has increased from \$440.7 million to \$1.91 billion. During that period, Brown earned an average annual return of 11.4 percent, and gifts to endowment totaled \$404 million.

The University’s endowment spending policy balances the need for current income with the equally important goal of preserving the endowment’s value in order to provide funding for future generations at Brown. University policy limits annual spending to between 4.5 percent and 5.5 percent of the average market value over the three prior calendar years. In fiscal year 2005, spending was set at 5.3 percent of the three-year average. Spending as a percentage of current market value is often lower than the rate applied to the three-year average. Over the last decade, Brown’s usage has averaged 4 percent of current market value and was 4.7 percent for fiscal year 2005.

To support Brown’s aspirations and assure its place in American higher education, the University has recently launched a new fundraising campaign, the \$1.4 billion Campaign for Academic Enrichment. With the remarkable support and generous philanthropy of Brown’s faculty, staff, alumni, and friends, we look forward to securing the future for generations of Brown students to come.

*Elizabeth C. Huidekoper*

ELIZABETH C. HUIDEKOPER  
Executive Vice President for Finance and Administration



## SELECTED STATISTICS

	2005	2004	2003	2002	2001
<b>Enrollment</b> (degree candidates only)					
Undergraduates	5,752	5,707	5,774	5,728	5,754
Graduate programs	1,598	1,587	1,502	1,414	1,336
Medical School	330	329	321	319	314
Total enrollment	7,680	7,623	7,597	7,461	7,404
<b>Undergraduate Admissions</b>					
Number of applicants	16,910	15,286	15,157	14,612	16,606
Admit rate	15%	17%	16%	17%	17%
Yield (% accepted who matriculate)	58%	58%	59%	60%	52%
First-year students receiving Univ. scholarship	41%	42%	40%	39%	36%
<b>Graduate Admissions</b>					
Number of applicants	5,737	5,595	6,079	4,855	3,822
Admit rate	18%	17%	18%	21%	27%
Yield (% accepted who matriculate)	42%	44%	41%	41%	42%
<b>Tuition and Fees</b>					
Undergraduate and graduate tuition	\$30,672	\$29,200	\$27,856	\$26,568	\$25,600
Total tuition, fees, room, board	\$39,808	\$37,942	\$36,356	\$34,750	\$33,530
Medical School tuition	\$33,144	\$31,872	\$30,608	\$29,608	\$28,608
<b>Number of Faculty*</b>	628	599	588	574	573
<b>Square Footage of Campus Facilities</b>	6,295,886	6,194,718	6,124,045	6,046,255	6,038,663
<b>Financial Data and Ratios</b> (in thousands)					
Total assets	\$2,935,010	\$2,641,189	\$2,214,894	\$2,185,797	\$2,141,932
Total liabilities	(472,568)	(422,186)	(277,976)	(277,547)	(232,974)
Net assets	\$2,462,442	\$2,219,003	\$1,936,918	\$1,908,250	\$1,908,958
Endowment market value	\$1,912,769	\$1,672,827	\$1,484,294	\$1,436,370	\$1,455,197
Pledges receivable, net	\$173,266	\$176,963	\$94,509	\$117,405	\$101,256
External debt	\$249,636	\$251,876	\$160,284	\$162,456	\$110,991
Facilities, net of depreciation	\$492,384	\$454,750	\$392,522	\$363,790	\$329,518
Total resources to debt	8.7x	7.8x	10.6x	10.3x	15.2x
Expendable resources to debt	4.6x	4.0x	5.4x	5.4x	8.1x
Debt service to operations	2.3%	2.2%	1.9%	2.4%	2.9%

\* Includes all tenured/tenure-track faculty in Biology and Medicine. It does not include 159 research faculty, 447 doctors at affiliated hospitals, and 1,231 doctors in private practice.

## Report of Independent Auditors

To the President and Corporation  
of Brown University:

We have audited the accompanying statement of financial position of Brown University (the University) as of June 30, 2005, and the related statements of activities, expenses by function and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2004 financial statements and, in our report dated September 24, 2004, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statement referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

KPMG LLP

Providence, Rhode Island  
September 27, 2005

## Statement of Financial Position

as of June 30, 2005, with comparative information  
as of June 30, 2004 (thousands of dollars)

	2005	2004
<b>Assets</b>		
Cash and cash equivalents.....	\$9,662	\$49,842
Accounts receivable and other assets.....	54,636	46,224
Notes receivable.....	33,170	33,530
Funds held in trust by others.....	17,308	58,237
Bond proceeds held in refunding trust.....	21,377	22,286
Contributions receivable, net.....	173,266	176,963
Investments at fair value.....	2,133,207	1,799,357
Land, buildings, and equipment, net of depreciation.....	492,384	454,750
<b>Total assets</b> .....	<b>\$2,935,010</b>	<b>\$2,641,189</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities.....	\$73,077	\$71,445
Annuity and other split interest obligations.....	75,797	19,125
Deferred revenues and student deposits.....	15,388	15,491
Refundable advances.....	37,293	41,963
Bonds payable through refunding trust.....	21,377	22,286
Bonds and loan payable.....	249,636	251,876
<b>Total liabilities</b> .....	<b>472,568</b>	<b>422,186</b>
<b>Net Assets</b>		
Unrestricted.....	\$1,271,563	\$1,132,063
Temporarily restricted.....	148,539	146,706
Permanently restricted.....	1,042,340	940,234
<b>Total net assets</b> .....	<b>2,462,442</b>	<b>2,219,003</b>
<b>Total liabilities and net assets</b> .....	<b>\$2,935,010</b>	<b>\$2,641,189</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Activities

for the year ended June 30, 2005, with summarized comparative information  
for the year ended June 30, 2004 (thousands of dollars)

	2005			2004	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>Operating revenues:</b>					
Tuition and fees .....	\$235,458			\$235,458	\$220,747
less University scholarships.....	(63,716)			(63,716)	(61,711)
Grants and contracts – direct .....	106,412			106,412	99,520
Grants and contracts – indirect.....	28,443			28,443	26,855
Contributions for current use .....	37,043	6,929		43,972	39,439
Endowment income distributed.....	71,862	5,957		77,819	74,320
Sales and services of auxiliary enterprises .....	65,787			65,787	61,188
Other income .....	28,044	412		28,456	22,639
Net assets released from restrictions.....	9,729	(9,729)		–	–
<b>Total operating revenues.....</b>	<b>519,062</b>	<b>3,569</b>	<b>–</b>	<b>522,631</b>	<b>482,997</b>
<b>Operating expenses:</b>					
Instruction and departmental research .....	174,910			174,910	160,501
Sponsored programs .....	104,543			104,543	95,877
Academic and student support.....	95,888			95,888	85,644
Institutional support.....	82,043			82,043	70,922
Auxiliary services.....	66,060			66,060	60,725
<b>Total operating expenses.....</b>	<b>523,444</b>	<b>–</b>	<b>–</b>	<b>523,444</b>	<b>473,669</b>
<b>Change in net assets from operating activity.....</b>	<b>(4,382)</b>	<b>3,569</b>	<b>–</b>	<b>(813)</b>	<b>9,328</b>
<b>Non-operating activity:</b>					
Contributions to long-term assets .....	10,727	21,104	81,436	113,267	115,023
Net investment earnings .....	181,475	10,161	28,749	220,385	233,849
Endowment income distributed.....	(71,862)	(5,957)		(77,819)	(74,320)
Other net asset changes .....	(1,327)	(2,175)	(8,079)	(11,581)	(1,795)
Net assets released from restrictions.....	24,869	(24,869)		–	–
<b>Change in net assets from non-operating activity .....</b>	<b>143,882</b>	<b>(1,736)</b>	<b>102,106</b>	<b>244,252</b>	<b>272,757</b>
<b>Total increase in net assets .....</b>	<b>139,500</b>	<b>1,833</b>	<b>102,106</b>	<b>243,439</b>	<b>282,085</b>
Net assets, beginning of year .....	1,132,063	146,706	940,234	2,219,003	1,936,918
<b>Net assets, end of year .....</b>	<b>\$1,271,563</b>	<b>\$148,539</b>	<b>\$1,042,340</b>	<b>\$2,462,442</b>	<b>\$2,219,003</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Cash Flows

for the year ended June 30, 2005, with comparative information  
for the year ended June 30, 2004 (thousands of dollars)

	2005	2004
<b>Cash flows from operating activities:</b>		
Increase in net assets .....	\$243,439	\$282,085
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation .....	32,641	30,386
Net realized and unrealized gains on investments.....	(229,956)	(209,572)
Contributions of property and securities.....	(18,415)	(18,251)
Contributions restricted for long-term investment.....	(49,694)	(16,756)
Loss on advance refunding of debt .....		2,041
Changes in assets and liabilities:		
Accounts receivable and other assets .....	(8,412)	(1,282)
Contributions receivable.....	3,697	(82,454)
Accounts payable and accrued liabilities .....	21,721	(3,418)
Deferred revenues and student deposits.....	(103)	1,131
Refundable advances .....	(4,670)	1,622
<b>Net cash used by operating activities .....</b>	<b>(9,752)</b>	<b>(14,468)</b>
<b>Cash flows from investing activities:</b>		
Purchase of land, buildings, and equipment.....	(69,202)	(89,021)
Purchase of investments .....	(1,972,297)	(1,613,696)
Proceeds from sale of investments .....	1,865,733	1,639,964
Loans issued .....	(32,300)	(28,451)
Loans repaid .....	32,660	27,481
Change in funds held in trust, net.....	40,929	(57,118)
<b>Net cash used by investing activities.....</b>	<b>(134,477)</b>	<b>(120,841)</b>
<b>Cash flows from financing activities:</b>		
Contributions restricted for long-term investment.....	49,694	16,756
Payments of long-term debt .....	(2,240)	(2,133)
Proceeds from issuance of bonds .....		114,260
Loss on advance refunding of debt .....		(2,041)
Change in annuity and other split interest obligations, net.....	56,595	2,361
<b>Net cash provided by financing activities .....</b>	<b>104,049</b>	<b>129,203</b>
Net decrease in cash and cash equivalents .....	(40,180)	(6,106)
Cash and cash equivalents, beginning of year.....	49,842	55,948
<b>Cash and cash equivalents, end of year.....</b>	<b>\$9,662</b>	<b>\$49,842</b>

The accompanying notes are an integral part of the financial statements.

## Statement of Expenses by Function

for the year ended June 30, 2005, with summarized comparative information  
for the year ended June 30, 2004 (thousands of dollars)

	2005									2004	
	Instruction & Departmental Research	Sponsored Programs	Academic and Student Support			Institutional Support			Operation & Maintenance of Plant	Total	Total
			Libraries & Academic Support	Computing & Information Services	Student Services	General & Administrative	Advancement & Univ. Relations	Auxiliary Enterprises			
<b>Expenses</b>											
Salaries and wages.....	\$101,140	\$46,600	\$8,617	\$8,785	\$18,375	\$27,032	\$11,808	\$12,219	\$10,958	<b>\$245,534</b>	\$229,031
Employee benefits.....	26,089	11,567	2,561	2,644	3,994	10,100	3,512	3,172	4,661	<b>68,300</b>	61,145
Purchased services.....	7,128	21,476	510	165	946	13,537	1,131	2,325	3,765	<b>50,983</b>	42,516
Supplies and general.....	10,298	7,469	9,350	3,994	8,962	1,786	1,972	15,257	3,077	<b>62,165</b>	55,364
Utilities.....									12,490	<b>12,490</b>	10,483
Travel.....	2,886	3,553	89	191	2,516	1,339	466	266	65	<b>11,371</b>	9,942
Other expenses.....	6,420	4,321	485	297	5,151	3,346	3,084	2,617	4,545	<b>30,266</b>	26,712
<b>Subtotal</b> .....	153,961	94,986	21,612	16,076	39,944	57,140	21,973	35,856	39,561	<b>481,109</b>	435,193
Interest expense.....	2,493	1,137	1,056	142	934	245	104	3,584		<b>9,695</b>	8,090
Plant expense allocation.....	10,173	4,641	4,310	579	3,809	998	425	14,626	(39,561)	<b>-</b>	-
Depreciation.....	8,283	3,779	3,852	472	3,102	812	346	11,994		<b>32,640</b>	30,386
<b>2005 Total</b> .....	<b>\$174,910</b>	<b>\$104,543</b>	<b>\$30,830</b>	<b>\$17,269</b>	<b>\$47,789</b>	<b>\$59,195</b>	<b>\$22,848</b>	<b>\$66,060</b>	<b>-</b>	<b>\$523,444</b>	
<b>2004 Total</b> .....	\$160,501	\$95,877	\$26,326	\$15,938	\$43,380	\$51,019	\$19,903	\$60,725	-		\$473,669

The accompanying notes are an integral part of the financial statements.

## Notes to the Financial Statements

### 1. Summary of significant accounting policies

**Basis of presentation:** The financial statements of Brown University are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statements include the accounts of the John Nicholas Brown Center for the Study of American Civilization and Farview Incorporated, a real estate holding company, both of which are wholly owned subsidiaries. Brown University and these consolidated entities are collectively referred to herein as the University.

University resources are reported for accounting purposes in separate classes of net assets based upon the existence or absence of donor-imposed restrictions. The net assets are classified as permanently restricted, temporarily restricted, or unrestricted.

Permanently restricted net assets include gifts of cash and other assets that are required to be retained permanently by the University. Generally the donors of these assets permit the University to use all or part of the investment return on these assets. Such assets are primarily included in the University's endowment funds. Pursuant to Rhode Island General Law, these funds include sufficient net appreciation in order to maintain the purchasing power of the original dollar value of the funds.

Temporarily restricted net assets carry specific donor-imposed restrictions on the expenditure or other use of the contributed funds. Temporary restrictions may expire either due to the passage of time or through actions of the University pursuant to stipulations indicated by the donor.

Unrestricted net assets are those not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Corporation or may otherwise be limited by contractual agreements with outside parties.

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as net assets released from restrictions.

The Statement of Activities reports the change in net assets from operating and non-operating activities separately. Operating revenues include tuition and fees, gifts and net assets released from

restrictions for current use, grants and contracts, and the allocation of endowment spending in support of the University's educational programs or research conducted by the academic departments. Operating expenses include the costs of providing University programs and other activities, and are reported by functional categories, after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness, and depreciation. Non-operating activity primarily consists of the excess of long-term investment earnings over amounts utilized in operating activities, contributions, and net assets released from restrictions for endowment and facilities, and other activities not in direct support of the University's annual operations.

**Cash and cash equivalents:** Cash equivalents may consist of money market funds and investments with maturity dates when purchased of less than 90 days, and are carried at cost, which approximates fair value.

The University has transferred certain amounts of operating fund working capital to the long-term investment pool in order to enhance earnings on these funds. These funds are now included in the investments at fair value total.

**Accounts and notes receivable and other assets:** Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory, and prepaid expenses. Notes receivable consist primarily of loans to students. Accounts receivable and notes receivable are carried at cost, which approximates fair value. The balances for accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$764,939 and \$405,648 respectively, at June 30, 2005, and \$802,254 and \$467,472 respectively, at June 30, 2004.

**Investments** (thousands of dollars): Investments are stated at market value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Market value is determined on the following basis: equity and fixed-income investments are valued at the last sale price (if quotations are readily available) or at the closing bid price in the principal market in which such securities are normally traded (if no sale price is available). Nonmarketable securities include alternative investments such as private equity, venture capital, and real estate, which are valued using current estimates of fair value obtained from the investment manager in the absence of readily determinable public market values. Such valuations generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ from the values that would

have been used had a ready market existed. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Certain of the University's investment funds and partnerships use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the University may have exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds. In addition, the University maintains certain directly held derivative financial instruments to hedge its portfolio, including exchange contracts, futures, options, and swap agreements. These instruments are used to cost-effectively add exposures as required to portions of the endowment portfolio. The portfolio is exposed to certain counterparty credit risks associated with these instruments. These risks are controlled by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction, diversifying across a number of counterparties, executing standardized contracts among all parties to the transaction, and monitoring for any change in the credit standing of its counterparty during the life of the transaction.

Investments also include gift annuities and charitable remainder trusts. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the University in accordance with donor intentions. The assets are recorded at fair market value and liabilities, which are included in accounts payable and accrued liabilities, are recorded to recognize the present value of estimated future payments due to beneficiaries.

**Endowment:** 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 contained in the report of the Investment Policy and Procedures Review Committee adopted by the Corporation in February 1979, and amended in May 1988. This policy fixes the spending range of endowment total return between 4.5% and 5.5% of the average fair value of applicable endowment for the three calendar years proceeding the budget year, with the objective being to hold the spending rate to no more than 5% average over time. Applicable endowments include pooled quasi-endowment and true endowment funds, as well as separately invested funds and funds held in trust by others, the income of which accrues to the University. Excluded are funds where the income accrues to others (life income funds) and funds where the income must be added to principal.

**Grants and contracts:** 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.

**Tax exempt status:** The University is a not-for-profit organization as described in section 501 c(3) of the Internal Revenue Code and is exempt from income taxes on related income pursuant to the appropriate sections of the code.

**Contributions** (thousands of dollars): Contributions, including unconditional promises to give, are recognized as revenues or gains in the period received. Contributions received are measured at their fair values and are reported as restricted or unrestricted support based upon the existence or absence of donor-imposed restrictions. Contributions made towards long-lived assets are reported as temporarily restricted until expended. Contributions that are expected to be released from restrictions within the year are classified as increases in unrestricted net assets.

Contributions received in the form of bequest intentions are generally conditional and therefore not recorded in the University's financial statements. Such gifts are identified as conditional pledges until the passage of time or events take place.

The University has recorded unconditional contributions receivable of \$173,266 and \$176,963 as of June 30, 2005 and 2004, respectively. These amounts are presented net of an allowance for uncollectible contributions and a discount to reduce the receivables to present value. Contributions receivable of less than fifty thousand dollars are not recorded in the statement of financial position, as they are not material to the overall financial statements of the University. Conditional contributions, due to uncertainties with regard to their realizability and valuation, are not estimated by management and are recognized as assets if and when the specific conditions are met.

The following summary represents the unconditional contributions receivable recorded as of June 30, 2005 and 2004:

	2005	2004
Contributions expected to be received		
In one year or less	\$78,667	\$72,474
Between one and five years	102,053	108,165
In more than five years	18,279	23,063
Gross contributions receivable	198,999	203,702
Discount	(7,692)	(9,383)
Allowance	(18,041)	(17,356)
Contributions receivable, net	\$173,266	\$176,963

**Funds held in trust by others:** Funds held in trust by others represent funds that are held and administered by an outside trustee. The administration of endowment funds held in trust in perpetuity is at the direction of the donor; the income from these funds inures to the benefit of the University. The plant funds held in trust are bond proceeds, which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures.

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

**Depreciation:** Depreciation is calculated using the straight-line method with estimated useful lives of 30 years for buildings, 20 years for building improvements made since 1987, and 10 years for building equipment. Moveable equipment is depreciated over a range of 3-15 years, depending upon asset class.

Land, buildings, and equipment include the following at June 30, 2005 and 2004 (in thousands of dollars):

	2005	2004
Land	\$23,600	\$18,625
Buildings and improvements	683,472	632,548
Equipment	58,996	49,304
Construction in progress	87,673	83,816
	853,741	784,293
Accumulated depreciation	(361,357)	(329,543)
Land, buildings, and equipment, net	\$492,384	\$454,750

**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.

**Use of estimates:** The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during this period. Actual results could differ from those estimates.

**Prior year financial statements:** While comparative information is not required under GAAP, the University believes that this infor-

mation is useful and has included comparative financial information from the financial statements for 2004. This summarized information is not intended to be a full presentation in conformity with GAAP, which would require certain additional information. Accordingly, such information should be read in conjunction with the University's audited financial statements for the year ended June 30, 2004. In addition, certain 2004 comparative financial information has been reclassified to conform to the 2005 presentation.

## 2. Investments (thousands of dollars)

The fair value of investments held at June 30, 2005 and 2004 comprise the following:

	2005	2004
Cash and short-term investments	\$93,527	\$40,847
Limited liability corporations and partnerships	1,007,847	772,501
Common and preferred stock	236,084	247,527
Bonds	3,410	3,491
Government issues	77,844	71,499
Mutual funds	511,732	527,560
Private equities	102,230	64,665
Real estate	99,996	71,087
Other	537	180
Total	\$2,133,207	\$1,799,357

Limited liability corporations and partnerships in which the University invests are commingled limited partnership and trust entities primarily investing in publicly traded securities.

The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions will be determined by the general partners. As of June 30, 2005, the University has unfunded commitments of \$314,860.

**Long-term pooled investments:** Certain endowment and other investments are pooled on a fair value basis with each participating fund owning shares in the pool. Additions or withdrawals are based on the fair value of the pooled investments. The nominal fair value per share was \$14.7132 and \$13.6203 at June 30, 2005 and 2004, respectively. The investment activity for the pooled investments is summarized as follows for the years ended June 30:

	2005	2004
Net investment income	\$12,122	\$22,770
Net realized gains	120,356	94,637
Net unrealized appreciation	82,430	115,453
Total	\$214,908	\$232,860

The change in the fair value of the long-term pooled funds is shown below:

Fair value at June 30, 2004	\$1,683,214
Amount distributed for operations	(77,819)
Income, net of fees	12,122
Net gains on investments	202,786
New gifts	49,789
Operating funds invested in long-term pool	50,000
Net transfers	8,526
Fair value at June 30, 2005	\$1,928,618

## 3. Long-term debt (thousands of dollars)

The University has entered into various agreements for the purpose of financing the acquisition, renovation, and improvement of its facilities. The bonds and loan payable outstanding for this purpose as of June 30, 2005 and 2004 are as follows:

	2005	2004
Rhode Island Health and Educational Building Corporation (RIHEBC) Higher Education Facilities Bonds:		
▪ Series 1975 Facility Building Bonds, 8.00% final maturity 2005 (effective rate of 3.00% resulting from a HUD subsidy)	\$160	\$310
▪ Series 1995 Facilities Revenue Bonds at a rate of 5.20% with maturities through 2005. All other outstanding 1995 Bonds were advance refunded by Series 2004 Revenue Refunding Bonds with final redemption in 2005	545	1,060
▪ Series 1998 Facilities Revenue Bonds, at rates ranging from 4.75% to 5.00%, with various maturity dates through 2028	47,575	48,615
▪ Series 2001A Facilities Revenue Refunding Bonds, at rates ranging from 3.125% to 5.25%, with various maturity dates through 2023	30,250	30,730
▪ Series 2001B Facilities Revenue Bonds, at a variable rate (2.23% at 6/30/05), with mandatory sinking fund redemption payments annually through 2032 final maturity	55,340	55,340

- Series 2003A Facilities Revenue Bonds, at rates ranging from 2.00% to 4.85%, with various maturity dates through 2037
- Series 2003B Facilities Revenue Bonds, at a variable rate (2.23% at 6/30/05) with mandatory sinking fund redemption payments annually through 2043 final maturity
- Series 2004 Facilities Revenue Refunding Bonds, at rates ranging from 2.00% to 4.75%, with various maturity dates through 2025

Loan payable – U.S. Department of Education loan, 5.50%, due in semiannual payments through 2021	1,506	1,561
Total bonds and loan payable	\$249,636	\$251,876

The RIHEBC series bonds represent obligations under various agreements pursuant to which the University is required to make payments to this state agency sufficient to liquidate the debt. The University is required under certain of its financing agreements to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the properties.

In April 2004, the University issued Facilities Revenue Refunding Bonds to advance refund \$20,535 of the University's 1995 Series Bonds. Proceeds from the refunding bonds were deposited into a refunding trust account to be used to pay interest on the refunded 1995 Bonds through September 1, 2005, and to redeem the bonds on that date at a redemption price of 102%. The transaction resulted in a loss on advance refunding of debt of \$2,041. The trust assets and corresponding amounts payable through the trust are reported on the statement of financial position.

In October 2003, the Series A and B Facilities Revenue Bonds were issued to finance capital projects in a variety of research, academic and administrative buildings, and infrastructure upgrades throughout the University. The Series A Bonds are comprised of both serial and term fixed-rate bonds. The Series B bonds currently bear interest at a variable rate determined weekly and paid to bondholders on a monthly basis.

In conjunction with the issuance of the Series B Bonds, the University entered into an interest rate swap agreement to convert the variable rate on these bonds to a fixed rate without exchanging the underlying principal amount. Under the terms of the agreement, the counterparty pays the University a variable interest rate indexed to LIBOR. The University pays the counterparty a fixed rate of 3.732% on a notional amount of \$45,225. The fair value of the swap at June 30, 2005 and 2004 was \$5,088 and \$497, respectively, which is included in accounts payable and accrued liabilities. The agreement terminates on September 1, 2043, which is the final maturity date of the bonds.

Interest paid in 2005 was \$9,596. Principal payments of bonds and loan payable for the succeeding five fiscal years ending June 30 are:

2006	\$2,501
2007	2,529
2008	3,758
2009	3,891
2010	4,035

The University's bonds and loan payable are stated at cost. The fair value has been calculated by determining the net present values of future cash outlays using an interest rate of 4.3%. This rate is based upon market conditions as of June 30. The total estimated fair values at June 30, 2005 and 2004 are \$239,858 and \$247,218, respectively.

#### 4. Pensions (thousands of dollars)

The University participates in several different 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 \$17,313 and \$16,489 for the years ended June 30, 2005 and 2004, respectively. The University has no liability for unfunded pension costs under these plans.

The Brown University Food Services and Plant Operations Employees' Pension Plan is a noncontributory defined benefit plan, which provides pensions for certain full-time weekly paid employees. The policy of the University is to fund pension costs in accordance with the Employee Retirement Income Security Act of 1974. Information regarding the defined benefit pension plan as of June 30, 2005 and 2004 includes the following:

	2005	2004
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$31,260	\$28,636
Service cost	1,443	1,361
Interest cost	1,827	1,700
Benefits paid	(1,129)	(1,060)
Changes in actuarial assumptions	3,663	623
Projected benefit obligation at end of year	\$37,064	\$31,260

The projected benefit obligation was determined using the following assumptions for the years ended:

	2005	2004
Discount rate	5.25%	6.00%
Rate of compensation increase	4.50%	4.50%

#### Change in plan assets:

Fair value of plan assets at beginning of year	\$24,351	\$21,864
Actual return on plan assets	2,175	2,666
Contributions	1,000	881
Benefits paid	(1,129)	(1,060)
Fair value of plan assets at end of year	\$26,397	\$24,351
Funded status	\$(10,667)	\$(6,910)
Unrecognized prior service cost	1,106	1,335
Unrecognized net loss	7,653	4,416
Accrued pension cost	\$(1,908)	\$(1,159)

#### Net periodic pension cost:

Service cost	\$1,443	\$1,361
Interest cost	1,827	1,700
Expected return on assets	(1,829)	(1,631)
Amortization of unrecognized loss	79	180
Amortization of unrecognized prior service cost	229	219
Net periodic pension cost	\$1,749	\$1,829

The net periodic pension cost was determined using the following assumptions for the years ended:

	2005	2004
Discount rate	6.00%	6.00%
Rate of compensation increase	4.50%	4.50%
Expected long-term rate of return	7.50%	7.50%

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

For the year ended June 30, 2005, the accumulated benefit obligation of \$29,165 exceeded the fair value of the plan assets by \$2,768. As required by FAS No. 87, the University has recorded,

as of June 30, 2005, an intangible asset to the extent of the unrecognized prior service cost of \$1,106. The resulting asset and accrued liability are reflected in the Statement of Financial Position. For the year ended June 30, 2004, the accumulated benefit obligation was \$25,044.

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

The weighted-average asset target allocation for the pension plan as of June 30, 2005 and 2004, by asset category is as follows:

	Target 2005	Actual 2005	Actual 2004
Equity securities	55%	55%	55%
Fixed income securities	33%	34%	33%
Real estate	10%	10%	10%
Cash and cash equivalents	2%	1%	2%
Total asset allocation	100%	100%	100%

Estimated future benefit payments are:

2006	\$1,407
2007	1,459
2008	1,494
2009	1,553
2010	1,596
2011 and beyond	9,414

#### 5. Net assets (thousands of dollars)

The University's net assets as of June 30, 2005 and 2004 are further identified as follows:

	Unrestricted	Temporary Restricted	Permanently Restricted	2005 Total	2004 Total
Operating					
Undesignated, departmental funds	\$53,276			\$53,276	\$57,662
University designated	59,497			59,497	50,307
Donor restricted		42,135		42,135	43,809
Facilities and equipment	257,083	27,092		284,175	261,894
Student loans	8,221		7,219	15,440	15,102
Endowment and life income	893,486	79,312	1,035,121	2,007,919	1,790,229
Total net assets	\$1,271,563	\$148,539	\$1,042,340	\$2,462,442	\$2,219,003

#### 6. Commitments and contingencies (thousands of dollars)

Outstanding commitments on uncompleted construction contracts total \$50,764 at June 30, 2005.

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

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

The University and the City of Providence have entered into an agreement whereby the University will make certain payments to the city. Such payments are voluntary and may be discontinued at any time with prior notice as described in the agreement. The amount due in fiscal year 2006 is approximately \$1,400.

The University has a line of credit available of up to \$40 million. As of June 30, 2005, the full amount of \$40 million was available.

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