



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, 2008

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, 2008

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Exhibit I

**Report on Compliance with Requirements Applicable to 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 are applicable to its major federal program for the year ended June 30, 2008. 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 A133, *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 are applicable to its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2008-1.

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, but not for the purpose of expressing an opinion in 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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 it.

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

KPMG LLP

March 18, 2009



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

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 June 30, 2008 and for the year then ended, and have issued our report thereon dated October 8, 2008. 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

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 an 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

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

We noted certain matters that we reported to the University in a separate letter dated October 8, 2008.

This report is intended solely for the information and use of the Corporation and management of the University and 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 8, 2008

BROWN UNIVERSITY
 Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(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 weaknesses?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	_____ 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?	<u> x </u>	yes	_____ no

Identification of Major Programs

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

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

No matters are reported.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No.:	2008-1 – Notification Letters
Program Information:	<i>Federal Programs:</i> Federal Direct Student Loans (Direct Loan), CFDA No. 84.268 and Federal Perkins Loan Program (FPL), CFDA 84.038 <i>Federal Agency:</i> Department of Education <i>Federal Award Year:</i> July 1, 2007 to June 30, 2008
Condition or requirement:	34 CFR section 669.165 stipulates that if an institution credits a student's account with Direct Loan or FPL funds, no earlier than 30 days before and no later than 30 days after crediting the student's account the institution must notify the student or student's parent of (1) the date and amount of the disbursement, and (2) the student's right, or parent's right, to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan.
Condition Found:	For the 27 students and 95 disbursements selected for notification testwork, we noted that there were no notifications for 81 disbursements. Of the 14 notifications which were sent, 7 notifications were sent 5 to 36 days late.
Identification of questioned costs:	None
Possible asserted cause and effect:	The University did not have internal controls or policies and procedures in place to notify students of loan disbursement.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Recommendation: We recommend the University implement policies and procedures to ensure that students are notified timely that Perkins or Federal Direct loans have been credited to their account and that they still have the right to cancel. Documentation of such notifications should be maintained.

View of responsible individuals: See Management's Corrective Action Plan at Exhibit IV.

BROWN UNIVERSITY

A-133 Audit Report

Year ended June 30, 2008

Management's Corrective Action Plan

Finding #:	Reference # 2008 – 1 – Notification Letters
Award Name:	Federal Perkins Loan Federal Direct Student Loans
CFDA Number:	84.268 84.038
University Response:	The University's Loan Office agrees with this finding, and has implemented the steps outlined below to remedy the condition cited.
Corrective Action Plan:	The University's Loan Office has implemented policies and procedures to notify students of loan disbursement. As of July 1, 2008, corrective action has been taken to notify all Federal Direct Loan borrowers of disbursements and as of January 1, 2009, corrective action has been taken to notify all Federal Perkins Loan borrowers of disbursements within the required timeframe. With the implementation of the new student information system, all communications are tracked with date and type and files are saved on a shared drive which is backed up on a daily basis. The Loan Office Manager will review disbursements on a periodic basis to ensure proper notification is sent to loan borrowers.
Contact Person:	Loan Office Manager

BROWN UNIVERSITY

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

Year ended June 30, 2008



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

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, 2008 and 2007, 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 effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence reporting 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 the University as of June 30, 2008 and 2007, 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 8, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Exhibit V

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 (Schedule I) 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 2008 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2008 basic financial statements taken as a whole.

KPMG LLP

October 8, 2008

BROWN UNIVERSITY
 Statements of Financial Position
 June 30, 2008 and 2007
 (Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Assets		
Cash and cash equivalents	\$ 59,485	38,311
Accounts receivable and other assets	47,853	51,015
Contributions receivable, net	225,582	250,358
Notes receivable, net	32,921	32,402
Funds held in trust by others	65,783	57,143
Bond proceeds held in refunding trust	—	34,231
Investments, at fair value	3,202,668	2,907,460
Land, buildings and equipment, net	733,643	673,084
Total assets	<u>\$ 4,367,935</u>	<u>4,044,004</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 69,952	49,112
Annuity and other split-interest obligations	22,936	22,221
Deferred revenues and student deposits	21,752	22,109
Refundable advances	40,221	39,432
Liabilities associated with investments	213,401	38,339
Bond proceeds payable through refunding trust	—	34,231
Asset retirement obligations	12,708	13,478
Bonds, loans and notes payable	496,292	450,049
Total liabilities	<u>877,262</u>	<u>668,971</u>
Net assets:		
Unrestricted	1,853,085	1,781,882
Temporarily restricted	272,350	264,221
Permanently restricted	1,365,238	1,328,930
Total net assets	<u>3,490,673</u>	<u>3,375,033</u>
Total liabilities and net assets	<u>\$ 4,367,935</u>	<u>4,044,004</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2008

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Tuition and fees	\$ 284,224	—	—	284,224
Less: University scholarships	(83,546)	—	—	(83,546)
Net tuition and fees	200,678	—	—	200,678
Grant and contracts – direct	102,142	—	—	102,142
Grant and contracts – indirect	31,089	—	—	31,089
Contributions	54,512	3,753	—	58,265
Endowment income distributed	102,217	8,027	—	110,244
Sales and services of auxiliary enterprises	80,746	—	—	80,746
Other income	22,985	956	—	23,941
Net assets released from restrictions	10,343	(10,343)	—	—
Total operating revenues	604,712	2,393	—	607,105
Operating expenses:				
Salaries and wages	291,136	—	—	291,136
Employee benefits	77,147	—	—	77,147
Purchased services	45,169	—	—	45,169
Supplies and general	77,210	—	—	77,210
Utilities	18,301	—	—	18,301
Other	32,630	—	—	32,630
Total operating expenses before interest and depreciation	541,593	—	—	541,593
Interest	19,599	—	—	19,599
Depreciation	45,080	—	—	45,080
Total operating expenses	606,272	—	—	606,272
Change in net assets from operating activities	(1,560)	2,393	—	833
Nonoperating activities:				
Contributions to long-term assets	47,539	15,438	22,000	84,977
Net investment earnings	132,198	9,511	17,663	159,372
Endowment income distributed	(102,217)	(8,027)	—	(110,244)
Other changes, net	(4,757)	(11,186)	(3,355)	(19,298)
Change in net assets from nonoperating activities	72,763	5,736	36,308	114,807
Change in accounting principle	—	—	—	—
Change in net assets	71,203	8,129	36,308	115,640
Net assets, beginning of year	1,781,882	264,221	1,328,930	3,375,033
Net assets, end of year	\$ 1,853,085	272,350	1,365,238	3,490,673

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2007

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 270,763	—	—	270,763
Less: University scholarships	(78,654)	—	—	(78,654)
Net tuition and fees	192,109	—	—	192,109
Grant and contracts – direct	99,935	—	—	99,935
Grant and contracts – indirect	30,158	—	—	30,158
Contributions	51,888	38,110	—	89,998
Endowment income distributed	90,299	7,006	—	97,305
Sales and services of auxiliary enterprises	76,387	—	—	76,387
Other income	21,418	550	—	21,968
Net assets released from restrictions	10,689	(10,689)	—	—
Total operating revenues	<u>572,883</u>	<u>34,977</u>	<u>—</u>	<u>607,860</u>
Operating expenses:				
Salaries and wages	274,405	—	—	274,405
Employee benefits	71,416	—	—	71,416
Purchased services	42,204	—	—	42,204
Supplies and general	74,598	—	—	74,598
Utilities	16,641	—	—	16,641
Other	32,480	—	—	32,480
Total operating expenses before interest and depreciation	511,744	—	—	511,744
Interest	16,459	—	—	16,459
Depreciation	42,635	—	—	42,635
Total operating expenses	<u>570,838</u>	<u>—</u>	<u>—</u>	<u>570,838</u>
Change in net assets from operating activities	<u>2,045</u>	<u>34,977</u>	<u>—</u>	<u>37,022</u>
Nonoperating activities:				
Contributions to long-term assets	19,139	24,106	58,541	101,786
Net investment earnings	440,734	17,862	39,739	498,335
Endowment income distributed	(90,299)	(7,006)	—	(97,305)
Other changes, net	(10,210)	3,367	10,897	4,054
Change in net assets from nonoperating activities	<u>359,364</u>	<u>38,329</u>	<u>109,177</u>	<u>506,870</u>
Change in accounting principle	<u>583</u>	<u>—</u>	<u>—</u>	<u>583</u>
Change in net assets	361,992	73,306	109,177	544,475
Net assets, beginning of year	<u>1,419,890</u>	<u>190,915</u>	<u>1,219,753</u>	<u>2,830,558</u>
Net assets, end of year	<u>\$ 1,781,882</u>	<u>264,221</u>	<u>1,328,930</u>	<u>3,375,033</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ 115,640	544,475
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in accounting principle	—	(583)
Depreciation and amortization	45,080	42,635
Net realized and unrealized gains on investments	(121,757)	(505,933)
Contributions of property and securities	(33,951)	(38,867)
Contributions restricted for long-term investment	(75,393)	(78,501)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	3,162	(4,323)
Contributions receivable, net	24,776	(24,255)
Accounts payable and accrued liabilities	14,396	16,201
Deferred revenues and student deposits	(357)	2,807
Asset retirement obligations	(770)	943
Refundable advances	789	1,238
Net cash used in operating activities	<u>(28,385)</u>	<u>(44,163)</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(99,195)	(133,394)
Purchases from the sale of investments and other sources	(5,804,193)	(2,961,280)
Sales of investments	5,839,755	2,990,910
Notes issued	(32,804)	(32,202)
Notes repaid	32,285	31,326
Change in funds held in trust by others, net	(8,640)	(13,718)
Net cash used in investing activities	<u>(72,792)</u>	<u>(118,358)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	75,393	78,501
Payments of long-term debt	(3,757)	(2,528)
Net proceeds from issuance of debt	50,000	135,667
Extinguishment of debt	—	(48,643)
Change in annuity and other split-interest obligations	715	408
Net cash provided by financing activities	<u>122,351</u>	<u>163,405</u>
Change in cash and cash equivalents	21,174	884
Cash and cash equivalents, beginning of year	<u>38,311</u>	<u>37,427</u>
Cash and cash equivalents, end of year	<u>\$ 59,485</u>	<u>38,311</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

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

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 6,500 undergraduate students and 2,200 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates interested 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.

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.

(b) Basis of Presentation

The financial statements of the University are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

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, and subject to the provisions of the Uniform Management of Institutional Funds Act, these funds include sufficient net appreciation in order to maintain the purchasing power of the historical dollar value of the contribution.

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 University 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

The statements of activities report the change in net assets from operating and nonoperating activities separately. Significant operating revenues include tuition and fees, gifts and net assets released from restrictions for operating 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 based on the nature of the expense incurred. Nonoperating activities primarily consist of the excess (deficiency) 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.

(c) 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.

(d) 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. Accounts receivable and other assets are carried at net realizable value, which approximates fair value. Notes receivable consist primarily of loans to students. Such loans may have significant restrictions and long maturities, and it is not practicable to estimate their fair value.

(e) Investments

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Fair 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 may reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earnings 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 materially 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

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. The portfolio is exposed to certain counterparty credit risks associated with these instruments. These risks are managed 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 the counterparty during the term of the transaction. Based on its review, the University does not believe its counterparty exposures would have material adverse effect on the financial statements.

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 on the 2008 statement of financial position. Borrowings are at a variable rate, which was 2.12% at June 30, 2008.

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 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.

(f) 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 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 applicable endowment for the three calendar years preceding 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.

(g) Split-Interest Agreements

Charitable gift annuity agreements reflect transfers of assets by donors to the University in exchange for a promise to receive payments over a period specified in the agreement. At the time of the agreement, discount rates and actuarial assumptions are determined by management and used to calculate the present value of the future payments (annuity liability). The difference between the assets transferred from the donor and the related annuity liability is recognized as a contribution.

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Liabilities are adjusted over the term of the agreements for changes in actuarial assumptions and, as applicable, asset values.

The University is also a beneficiary of certain irrevocable perpetual trusts. The funds in the trusts are managed by trustees other than the University. The University is entitled to receive all or a specified percentage of the annual net income earned from the assets of the trusts, which primarily are restricted for scholarships. The University, however, will never receive the assets held in the trust.

(h) 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.

(i) 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 generally exempt from income taxes pursuant to the appropriate sections of the Code.

(j) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions received are measured at their fair values and are reported as restricted or unrestricted revenues based upon the existence or absence of donor-imposed restrictions. Bequest intentions and conditional promises are not recorded in the University's financial statements.

(k) Land, Buildings and Equipment

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

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

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(l) Refundable Advances

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

(m) 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.

(n) 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, 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.

(o) Changes in Accounting Principles

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). Under FAS 158, the University was required, effective June 30, 2007, to recognize the funded status of its defined benefit pension plan, measured as the difference between the fair value of the plan assets and the projected benefit obligation, in its statement of financial position. Accordingly, the University recorded a decrease in its pension liability and an increase in unrestricted net assets in the amount of \$583.

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. A tax position is measured at the largest amount of benefit that is greater than a 50% likely of being realized upon settlement. The adoption of FIN 48 did not materially affect the University's financial statements.

(p) Reclassifications

Certain 2007 financial information has been reclassified to conform to the 2008 presentation.

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2008 and 2007
(Dollars in thousands)

(2) Accounts, Notes and Contributions Receivable

Accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$721 and \$649, respectively, at June 30, 2008, and \$753 and \$615, respectively, at June 30, 2007.

The University has recorded unconditional contributions receivable of \$225,582 and \$250,358 as of June 30, 2008 and 2007, respectively. These amounts are presented net of an allowance for uncollectible contributions and are discounted at risk-free interest rates based on when the promise is expected to be received to reflect present value.

The following summary represents the unconditional contributions receivable recorded as of June 30:

	<u>2008</u>	<u>2007</u>
Contributions expected to be received:		
In one year or less	\$ 50,421	68,026
Between one and five years	197,608	156,411
In more than five years	<u>20,778</u>	<u>77,032</u>
Gross contributions receivable	268,807	301,469
Discount and allowance for uncollectibles	<u>(43,225)</u>	<u>(51,111)</u>
Contributions receivable, net	<u>\$ 225,582</u>	<u>250,358</u>

(3) Investments

The fair values of investments held as of June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 473,862	378,160
Public equity	1,058,361	1,047,203
Hedged strategies	902,042	879,634
Private equity	419,516	289,740
Real assets	<u>348,887</u>	<u>312,723</u>
Total investments, at fair value	<u>\$ 3,202,668</u>	<u>2,907,460</u>

Certain investments in public equity and hedged strategies are held through commingled limited partnership and trust entities primarily investing in publicly traded securities.

BROWN UNIVERSITY

Notes to Financial Statements

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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, 2008, the University has unfunded commitments of \$689,701.

(a) 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 investment activity for the pooled investments is summarized as follows for the years ended June 30:

	<u>2008</u>	<u>2007</u>
Investment income, net of fees	\$ 16,526	7,216
Net realized gains	368,525	186,792
Net unrealized (depreciation) appreciation	<u>(217,033)</u>	<u>299,971</u>
Total	<u>\$ 168,018</u>	<u>493,979</u>

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

Fair value at June 30, 2007	\$ 2,761,784
Amount distributed for operations	(110,244)
Investment income, net of fees	16,526
Net realized and unrealized appreciation on investments	151,492
New gifts	61,794
Operating funds invested in long-term pool	52,067
Net transfers	<u>(799)</u>
Fair value at June 30, 2008	<u>\$ 2,932,620</u>

(b) Funds Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees. The administration of endowment funds held in trust in perpetuity of \$13,249 and \$14,530 at June 30, 2008 and 2007, respectively, 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 of \$52,534 and \$42,613 at June 30, 2008 and 2007, respectively, are bond proceeds which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures and amounts held in reserve.

BROWN UNIVERSITY
Notes to Financial Statements
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(Dollars in thousands)

(4) Land, Buildings and Equipment

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

	2008	2007
Land	\$ 47,214	46,827
Buildings and improvements	990,627	916,598
Equipment	79,342	78,369
Construction in progress	84,860	65,442
	1,202,043	1,107,236
Accumulated depreciation	(468,400)	(434,152)
Land, buildings and equipment, net	\$ 733,643	673,084

Outstanding commitments on uncompleted construction contracts total \$45,348 at June 30, 2008.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

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(5) 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	
				2008	2007
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	2.17 – 2.40%	Fixed	revolving	\$ 46,800	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	10,345	11,550
Series 2001A	3.90% – 5.25%	Fixed	2023	28,715	29,245
Series 2001B	1.20% *	Variable	2032	55,340	55,340
Series 2003A	2.35% – 4.85%	Fixed	2037	45,410	46,200
Series 2003B	1.45% *	Variable	2043	44,880	45,225
Series 2004	2.50% – 4.75%	Fixed	2025	20,980	21,800
Series A 2005	1.45% *	Variable	2035	85,500	85,500
Series 2007	4.25% – 5.00%	Fixed	2037	90,010	90,010
Tax-Exempt Commercial Paper, revolving through 2036	1.70% – 1.80%	Fixed	revolving	50,000	—
Brown University Taxable Bonds Series 2005	5.09%	Fixed	2015	17,000	17,000
Loan payable – U.S. Department of Education	5.50%	Fixed	2021	1,312	1,379
Total bonds, loans and notes payable				\$ 496,292	450,049

* As of June 30, 2008

Tax Exempt Bonds

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

The Series 2007 Facilities Revenue Bonds were issued to refund a substantial portion of the Series 1998 Bonds, and all of the outstanding \$15,000 Tax Exempt Commercial Paper issued earlier in the year, and to finance various infrastructure improvements throughout the University. The Series 2007 bonds are comprised of both serial and term fixed rate bonds, with final maturity on September 1, 2037.

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Notes to Financial Statements

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Taxable Bonds and Other Debt

The Brown University Taxable Bonds, Series 2005 were issued to finance a portion of the acquisition cost of an office building. 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 2006, the University implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to \$50,000 in revolving commercial paper.

Interest paid in 2008 and 2007 was \$17,573 and \$16,314, respectively. Principal payments of bonds and loan payable as of June 30, 2008 for the succeeding five fiscal years ending June 30 are as follows:

2009	\$	3,891
2010		4,035
2011		4,185
2012		5,954
2013		7,814

The University's bonds, loans and notes payable are stated at face value. Fair value has been calculated by determining the net present values of future cash outlays under such debt agreements using appropriate market interest rates, comparable debt and other assumptions. The total estimated fair value of the University's bonds, loans and notes payable approximated carrying value at June 30, 2008 and 2007.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2008, the full amount of \$40,000 was available. The interest rate was 3.21% at June 30, 2008.

Interest Rate Swaps

The University utilizes interest-rate swap agreements with counterparties to effectively convert a portion of its total variable-rate debt to fixed rates and for other hedging purposes. Changes in the swaps' fair value are recognized as nonoperating activities. Differences between fixed and variable rates in effect at each interest due date are settled net under each swap, increasing or decreasing interest expense in operations. The fair value of the swap instruments represents the estimated benefit or cost to cancel the agreements as of the reporting dates, and is based on option pricing models that consider interest rates and other market factors.

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(Dollars in thousands)

Following is a summary of interest rate swaps (variable rate based on USD-BMA Municipal Swap Index) with financial institution counterparties issued in conjunction with the University's long-term debt:

Trade/effective date	Notional amount	Maturity date	Purpose	Fair value at June 30	
				2008	2007
November 6, 2003	\$ 44,880	September 1, 2043	Swap variable rate on Series 2003B bonds for fixed rate of 3.732%	\$ (3,433)	159
July 7, 2005	85,500	May 1, 2035	Swap variable rate on Series A 2005 bonds for fixed rate of 3.979%	(1,363)	3,540
November 15, 2006	55,340	September 1, 2032	Swap variable rate on Series 2001B bonds for fixed rate of 3.891%	(1,174)	1,443
Total (liability) asset recognized				\$ (5,970)	5,142

(6) Retirement Benefits

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 \$19,942 and \$18,391 for the years ended June 30, 2008 and 2007, 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.

As discussed in note 1, effective June 30, 2007, the University adopted FAS No. 158.

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

	2008	2007
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 35,979	33,189
Service cost	1,728	1,506
Interest cost	2,228	2,081
Benefits paid	(1,253)	(1,179)
Actuarial (gain) loss	(391)	382
Projected benefit obligation at end of year	\$ 38,291	35,979

The projected benefit obligation was determined using the following assumptions for the years ended June 30:

	2008	2007
Discount rate	6.82%	6.32%
Rate of compensation increase	4.50	4.50

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

	2008	2007
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 33,115	28,586
Actual return on plan assets	(839)	4,508
Contributions	1,375	1,200
Benefits paid	(1,253)	(1,179)
Fair value of plan assets at end of year	\$ 32,398	33,115
Funded status recorded in accounts payable and accrued liabilities	\$ (5,893)	(2,864)

	2008	2007
Net periodic pension cost:		
Service cost	\$ 1,728	1,506
Interest cost	2,228	2,081
Expected return on assets	(2,494)	(2,163)
Amortization of unrecognized prior service cost	149	171
Net periodic pension cost	\$ 1,611	1,595

BROWN UNIVERSITY

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June 30, 2008 and 2007

(Dollars in thousands)

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

	<u>2008</u>	<u>2007</u>
Discount rate	6.32%	6.41%
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.

As of June 30, 2008, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$961 and a net unrecognized actuarial loss of \$1,250.

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 actual asset allocation target for the pension plan as of June 30, 2008 and 2007, and the weighted average asset targeted allocation for 2008 by asset category are as follows:

	<u>Target</u> <u>2008</u>	<u>Actual</u>	
		<u>2008</u>	<u>2007</u>
Equity securities	65%	63%	67%
Fixed income securities	33	36	32
Cash and cash equivalents	2	1	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The estimated employer contribution for 2009 is \$1,500.

BROWN UNIVERSITY

Notes to Financial Statements

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(Dollars in thousands)

Estimated future benefit payments as of June 30, 2008 are as follows:

Fiscal year:	<u>Amount</u>
2009	\$ 1,644
2010	1,729
2011	1,824
2012	1,908
2013	2,008
2014 – 2018	12,643

(7) Net Assets

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

	<u>2008</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	
Operating:				
Undesignated, departmental funds	\$ 59,624	—	—	59,624
University designated	106,534	—	—	106,534
Donor restricted	—	78,057	—	78,057
Facilities and equipment	284,574	101,564	—	386,138
Student loans	8,706	—	8,533	17,239
Endowment and life income	1,393,647	92,729	1,356,705	2,843,081
Total net assets	<u>\$ 1,853,085</u>	<u>272,350</u>	<u>1,365,238</u>	<u>3,490,673</u>
	<u>2007</u>			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating:				
Undesignated, departmental funds	\$ 57,304	—	—	57,304
University designated	98,030	—	—	98,030
Donor restricted	—	82,955	—	82,955
Facilities and equipment	263,989	92,437	—	356,426
Student loans	8,553	—	8,033	16,586
Endowment and life income	1,354,006	88,829	1,320,897	2,763,732
Total net assets	<u>\$ 1,781,882</u>	<u>264,221</u>	<u>1,328,930</u>	<u>3,375,033</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2008 and 2007

(Dollars in thousands)

(8) Functional Classification of Expenses

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

	<u>2008</u>	<u>2007</u>
Instruction and departmental research	\$ 218,781	200,450
Sponsored programs	101,264	98,497
Academic and student support	111,015	109,085
Auxiliary services	86,229	82,384
Institutional support	88,983	80,422
	<u>\$ 606,272</u>	<u>570,838</u>

(9) Commitments and Contingencies

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

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

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2008

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster: Advanced Research Projects Agency	Other Research	International Business Machines	12.000	\$ 148,607
	Advanced Research Projects Agency total			148,607
Corporation for National and Community Service	Learn and Serve America Higher Education		94.005	(1,668)
	Americorps	Rhode Island Campus Compact	94.005	10,508
	Corporation for National and Community Service total	Americorps	94.006	77,305
				86,145
Defense Advanced Research Projects Agency	Research and Technology Development		12.910	243,784
	Other Research	iRobot Corporation	12.000	17,354
	Defense Advanced Research Projects Agency total			261,138
Department of Agriculture	Grants for Agricultural Research		10.206	40,652
	Forestry Research	Columbia University	10.206	46,870
	Environmental Quality Incentives Program		10.652	45,389
	Environmental Quality Incentives Program		10.206	30,185
	Department of Agriculture total			163,096
Department of Defense	Basic, Applied, and Advanced Research in Science and Engineering		12.630	180,599
	Other Research		12.000	93,773
	Department of Defense total			274,372
Department of Health and Human Services	Model State-Supported Ara Health Education		93.107	619,413
	Maternal and Child Health Federal Consolidated		93.110	138,825
	Biological Response to Environmental Health Hazards		93.113	1,644,715
	Applied Toxicological Research and Testing	Silent Spring Institute	93.113	64,900
	Biometry and Risk Estimation Health Risks from Environmental Exposure		93.114	168,195
	NIEHS Superfund Hazardous Substances	President and Fellows of Harvard College	93.115	23,596
	Aids Education and Training Centers	University of Massachusetts Medical Center	93.143	2,857,748
	Human Genome Research		93.145	73,993
	Research Related to Deafness and Communication Disorders	Nabsys, Inc.	93.172	711,730
			93.172	13,895
	Research on Healthcare Costs, Quality and Outcomes Consolidated Knowledge Development and Application (KD&A) Program	University of Delaware	93.173	915,941
	Policy Research and Evaluation Grants		93.173	68,793
	Mental Health Research Grants		93.226	567,446
			93.230	228,269
		University of Washington	93.239	15,079
			93.242	2,420,191
		Boston University	93.242	41,603
		Brigham & Women's Hospital	93.242	96,608
		Butler Hospital	93.242	134,900
		The Miriam Hospital	93.242	38,373
		University of Alabama, Birmingham	93.242	52,685
		University of Texas, Austin	93.242	29,399
	Substance Abuse and Mental Health Services State Planning Grants Health Care Access for the Uninsured		93.243	364,156
	Alcohol Research Career Development Awards for Scientists and Clinicians	Rhode Island Department of Human Services	93.256	103,292
	Alcohol National Research Service Awards for Research Training		93.271	223,790
	Alcohol Research Programs		93.272	472,026
			93.273	4,284,385
		Boston University	93.273	41,224
		Butler Hospital	93.273	46,083
		Ginier, Inc.	93.273	68,030
		Rhode Island Hospital	93.273	8,212
		Technova Corporation	93.273	6,753
	Drug-Free Communities Support Program Grants		93.276	176,545
	Drug Abuse Scientist Development Award		93.277	14,325
	Drug Abuse and Addiction Research Programs		93.279	3,601,732
		Boston University	93.279	49,963
		Butler Hospital	93.279	87,247
		California Institute of Technology	93.279	15,616
		McLean Hospital	93.279	8,021
		The Miriam Hospital	93.279	94,352
		National Jewish Medical and Research Center	93.279	53,053
		Rhode Island Hospital	93.279	39,562
		University of Rhode Island	93.279	114,805
	Mental Health Research Career/Scientist Development Awards		93.281	745,992
	Mental Health National Research Service Awards for Research Training		93.282	327,548
	Centers for Disease Control and Prevention Investigations and Technical Assistance		93.283	63,985
		Boston University	93.283	16,756

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2008

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures		
Department of Health and Human Services (continued)	Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	\$ 1,801,674		
		Marine Biological Laboratory	93.286	36,899		
		Texas A & M Research Foundation	93.286	39,036		
		Minority Health and Health Disparities Research	Mount Sinai School of Medicine	93.307	16,640	
		Nursing Research	Rhode Island Hospital	93.361	9,531	
		National Center for Research Resources	NanoMech, LLC	93.389	2,734,497	
			Rhode Island Hospital	93.389	96,044	
			Rhode Island Hospital	93.389	10,294	
			Roger Williams Hospital	93.389	(1,658)	
			University of Rhode Island	93.389	96,969	
			Women & Infants Hospital	93.389	41,342	
			Cancer Cause and Prevention Research		93.393	780,980
			Georgetown University	93.393	84,925	
			University of Connecticut	93.393	29,539	
			Cancer Detection and Diagnosis Research		93.394	4,541,185
		American College of Radiology	93.394	185,937		
		Cancer Treatment Research		93.395	96,068	
			The Miriam Hospital	93.395	11,358	
			State University of New York, Buffalo	93.395	28,565	
		University of Louisville	93.395	(54)		
		Cancer Biology Research		93.396	738,207	
		Cancer Centers Support Grants	University of Washington	93.397	38,699	
		Cancer Research Manpower		93.398	34,871	
		Cancer Control	Boston University	93.398	(1)	
			The Miriam Hospital	93.398	50,750	
		Butler Hospital		93.399	163,461	
			Rhode Island Hospital	93.399	1,051,085	
				93.399	96,839	
		Cell Biology and Biophysics		93.821	430,562	
		Basic/Core Area Health Education Centers		93.824	121,954	
		Heart and Vascular Diseases Research		93.837	1,928,495	
			Butler Hospital	93.837	15,943	
			The Miriam Hospital	93.837	118,960	
			University of Massachusetts Medical Center	93.837	32,447	
				93.838	683,790	
		Lung Diseases Research	Rhode Island Hospital	93.838	38,471	
			University of Rochester	93.839	24,572	
		Blood Diseases and Resource Research		93.846	52,521	
		Arthritis, Musculoskeletal and Skin Diseases Research	Rhode Island Hospital	93.846	29,811	
		Diabetes, Endocrinology and Metabolism Research		93.847	922,410	
			University of Massachusetts, Amherst	93.847	83,937	
		Digestive Diseases and Nutrition Research		93.848	1,001,446	
		Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	3,409,941	
			University of Missouri, St. Louis	93.853	28,897	
				93.855	722,733	
			Allergy, Immunology and Transplantation Research		93.855	30,565
			Joslin Diabetes Center	93.855	94,810	
			Massachusetts General Hospital	93.855	202,301	
			The Miriam Hospital	93.855	154,320	
			President and Fellows of Harvard College	93.855	2,740	
			Rhode Island Hospital	93.856	47,809	
			The Miriam Hospital	93.856	(12,055)	
		Microbiology and Infectious Diseases Research	President and Fellows of Harvard College	93.859	6,329,269	
				93.859	111,820	
			Indiana University	93.859	7,092	
		Biomedical Research and Research Training	Intelligent Optical Systems, Inc.	93.864	445,996	
		Population Research		93.865	1,825,683	
			Rhode Island Hospital	93.865	89,201	
		Child Health and Human Development		93.866	5,020,739	
		Extramural Research		93.866	157	
			Aging Research	Dartmouth College	93.866	129,168
			Hebrew Senior Life	93.866	79,365	
			President and Fellows of Harvard College	93.866	55,800	
			Rhode Island Hospital	93.866	49,880	
			University of Connecticut	93.866	(2)	
			University of Rochester	93.867	2,155,047	
			Vision Research		93.884	115,667
			Grants for Training in Primary Care Medicine and Dentistry		93.894	17,965
			Resource and Manpower Development in the Environmental Health Sciences		93.895	30,080
		Grants for Faculty Development in Family Medicine		93.000	28,715	
		Population Research	Johns Hopkins University	93.000	829,651	
		Other Research		93.000	12,902	
			Angstrom Medica, Inc.	93.000	1,259	
			McLean Hospital		93.000	56,948
			National Institute of Neurological Disorder and Stroke		93.000	29,830
			Rhode Island Hospital		93.000	252,932
			State of Rhode Island Department of Health		93.000	147,708
			University of Rhode Island		93.000	27,459
			Westat, Inc.			
			Department of Health and Human Services total			<u>62,785,143</u>
			Department of Justice	National Institute of Justice Research, Evaluation, and Development Project Grants		16,560
		Department of Justice total			<u>53,681</u>	

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2008

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Department of Veterans' Affairs	Other Research	Providence VA Medical Center	64.000	\$ 88,187
	Department of Veterans' Affairs total			88,187
Environmental Protection Agency	Science to Achieve Results (star) Research Program		66.509	29,958
	Science to Achieve Results (star) Fellowship Program		66.514	15,545
	Environmental Protection Agency total			45,503
Institute of Museum & Library Services	National Leadership Grants		45.312	7,752
	Institute of Museum & Library Services total			7,752
National Aeronautics and Space Administration	Other Research		43.000	3,916,120
		Arizona State University	43.000	52,100
		Boston University	43.000	51,505
		Carnegie Institution of Washington	43.000	41,621
		Jet Propulsion Lab	43.000	121,960
		Johns Hopkins University	43.000	77,541
		National Space Biomedical Research Institute	43.000	243,953
		The Universities Space Research Association	43.000	10,000
		University of California at Los Angeles	43.000	37,198
		University of Minnesota	43.000	91,681
		University of Pennsylvania	43.000	133,148
	Aerospace Education Services Program		43.001	27,687
	International Research and Research Training	Carnegie Institution of Washington	93.989	51,006
	National Aeronautics and Space Administration total			4,855,520
National Council for Eurasian and Eastern European Research	Program for Study of Eastern Europe	National Council for Eurasian and Eastern European Research	19.300	24,408
	National Council for Eurasian and Eastern European Research total			24,408
National Endowment for the Arts	Promotion of the Arts – Grants to Organizations and Individuals		45.024	2,502
	Promotion of the Arts – Partnership Agreements		45.025	(10)
	Other Research	State of Rhode Island Council on the Arts	45.000	10,000
	National Endowment for the Arts total			12,492
National Endowment for the Humanities	Promotion of the Humanities – Federal/state Partnership	Rhode Island Council for the Humanities	45.129	3,000
	Promotion of the Humanities – Division of Preservation and Access		45.149	261,506
	Promotion of the Humanities – Research		45.161	123,444
	Promotion of the Humanities – Teaching & Learning	National Endowment for the Humanities	45.162	8,447
	Promotion of the Humanities – Office of Digital		45.169	47
	National Endowment for the Humanities total			396,444
National Highway Traffic Safety Administration	National Highway Transportation Safety Administration		20.614	138,852
	National Highway Traffic Safety Administration total			138,852
National Institute of Standards and Technology	Advanced Technology Program	Phoenix Biosystem, Inc.	11.612	11,449
	National Institute of Standards and Technology Total			11,449
National Ocean and Atmospheric Agency	Sea Grant Support	Rhode Island Sea Grant College Program	11.417	43,623
		University of Rhode Island	11.417	12,113
	Coastal Zone Management Estuarine Research Reserves		11.420	24,089
	Undersea Research	University of Alaska Fairbanks	11.430	6,046
	Center for Sponsored Coastal Ocean Research	University of Rhode Island	11.478	94,325
	National Ocean and Atmospheric Agency total			180,196
National Science Foundation	Engineering Grants		47.041	1,449,765
		Angstrom Medica, Inc.	47.041	10,074
		Fluidity Software	47.041	307
		University of Georgia	47.041	72,305
		University of Minnesota	47.041	2,833
	Mathematical and Physical Sciences		47.049	6,098,754
		Association of Universities for Research in Astronomy, Inc.	47.049	12,406
		Johns Hopkins University	47.049	261,136
		Mathematical Association of America	47.049	1,323
		University of Rhode Island	47.049	77,980
		Yale University	47.049	33,051
	Geosciences		47.050	1,607,268
		University of Southern California	47.050	5,551
	Computer and Information Science and Engineering		47.070	3,585,910
		National Bureau of Economic Research	47.070	15,113
		University of Southern California	47.070	13,500
	Biological Sciences		47.074	2,798,852
		Cornell University	47.074	48,614
		State University of New York, Syracuse	47.074	(9,131)
		University of Georgia	47.074	780
		Washington State University	47.074	33,002

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures		
National Science Foundation (continued)	Social, Behavioral, and Economic Sciences		47.075	\$ 1,573,678		
		Silent Spring Institute	47.075	(78)		
			47.075	73,613		
			47.075	26,373		
		Education and Human Resources		47.076	751,936	
				47.076	5,896	
			Counsel of Graduate Studies	47.076	6,252	
			Education Development Center, Inc.	47.076	21,474	
			Michigan State University	47.076	422,357	
		Polar Programs		47.078	152,825	
				47.078	31,172	
		International Science and Engineering (OISE)		47.079	77,975	
				47.079	171,163	
		Office of Cyberinfrastructure		47.080	17,945	
				47.000	399,303	
		Other Research		47.000	389,787	
				47.000	19,006	
				47.000	16,979	
				47.000	23,669	
				47.000	44,178	
			National Science Foundation total			20,344,896
U.S. Air Force	Basic, Applied and Advanced Research Air Force Defense Research Sciences Programs		12.630	1,132,902		
			12.800	2,382,856		
		Ohio State University	12.800	78,098		
			12.910	72,006		
		Research and Technology Development	12.000	(900)		
			12.000	65,322		
		Other Research	12.000	112,690		
			12.000	26,800		
			U.S. Air Force total			3,869,774
		U.S. Army	Military Medical Research and Development		12.420	1,314,951
	12.420			15,842		
Butler Hospital	12.431			1,308,144		
	12.432			107,117		
University of Wisconsin, Madison	12.000			8,896		
	12.000			30,000		
	U.S. Army total			2,784,950		
U.S. Department of Energy	Office of Science Financial Assistance Program		81.049	2,716,294		
			81.049	45,000		
			81.049	50,303		
			81.049	27,210		
			81.049	6,019		
			81.049	62,522		
		Conservation Research and Development		81.086	2	
				81.000	302,187	
		Other Research		81.000	32,539	
				81.000	35,317	
				81.000	39,723	
				81.000	123,313	
				81.000	(3,157)	
				81.000	114,176	
				81.000	34,772	
				81.000	129,699	
			Department of Energy total			3,715,919
		U.S. Department of VA Medical Center of Providence	Other Research		64.000	62,095
			U.S. Department of VA Medical Center of Providence total			62,095
U.S. Department of Education	Overseas Doctoral Dissertation Magnet Schools Assistance Javits Fellowships Bilingual Education Professional Development Fund for the Improvement of Education		84.022	50,400		
			84.165	546,848		
			84.170	52,410		
			84.195	911,328		
		City of Boston Public Schools	84.215	56,205		
			84.215	11,196		
			84.215	19,840		
			84.215	5,269		
			84.215	594,994		
		Comprehensive Centers		84.287	(2,546)	
				84.305	78,017	
		Twenty-First Century Community Learning Centers		84.309	(57)	
		Education Research, Development & Dissemination				
		Research Center on Postsecondary Education				
		Capacity Building for Traditionally Underserved Population				
		Comprehensive School Reform Demonstration		84.315	12,309	
				84.332	999,108	
		Teacher Quality Enhancement Grants		84.336	3,344	
				93.577	19,819	
		Early Learning Fund		84.002A	(43)	
				84.015A	231,916	
		Adult Education – Basic Grants to States		84.165A	1,322	
				84.165A	1,322	
National Resource Centers and Fellowship Program		84.170B	85,254			
		84.200A	204,353			
Magnet Schools Assistance		84.215X	24,601			
Javits Fellowships						
Graduate Assistance in Areas of National Need						
Fund for the Improvement of Education						

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures	
U.S. Department of Education (continued)	Comprehensive Centers	Wested	84.283B	\$ (1,193)	
	Teacher Quality Enhancement Grants	University of Rhode Island	84.336B	41,685	
	Teacher Quality Enhancement Grants	State of Rhode Island Department of Education	84.336C	88,190	
	Early Childhood Educator Professional Development	Providence Plan	84.349A	154,717	
	Early Learning Fund	Providence Plan	84.359B	38,942	
	Other Research		84.000	564,318	
		City of Hartford Public Schools	84.000	15,846	
		City of Jamestown Public Schools	84.000	38,458	
		City of Newton Public Schools	84.000	12,878	
		City of Peabody Public Schools	84.000	15,056	
		City of Pemberton Township School District	84.000	5,516	
		City of Princeton Regional Schools	84.000	15,183	
		City of Springfield Public Schools	84.000	319,511	
		Essex National Heritage Commission	84.000	33,386	
		Hezel Associates	84.000	50,681	
		Northwest Regional Educational Laboratory	84.000	50,271	
		State of Vermont Department of Education	84.000	3,762	
		U.S. Department of Education total			<u>5,354,416</u>
	U.S. Geological Survey	Earthquake Hazards Reduction Program		15.807	<u>71,403</u>
		U.S. Geological Survey total			<u>71,403</u>
U.S. Institute of Peace	Unsolicited Grant Program		91.001	11,557	
	Other Research		91.000	20,100	
	U.S. Institute of Peace total			<u>31,657</u>	
U.S. Navy	Basic and Applied Scientific Research		12.300	3,092,218	
		University of Texas, Arlington	12.300	122,704	
	Other Research		12.000	68,772	
		iRobot Corporation	12.000	38,501	
	U.S. Navy total			<u>3,322,195</u>	
	Research and Development Cluster total			<u>109,090,290</u>	
Student Financial Assistance Cluster:					
U.S. Department of Education	Federal Perkins Loan Program (note 4)		84.038	3,648,413	
	Federal Direct Student Loans (note 4)		84.268	27,151,065	
	Federal Work-study Program		84.033	1,316,126	
	Federal Pell Grant Program		84.063	2,237,320	
	Federal Supplemental Educational Opportunity Grants		84.007	816,187	
	Byrd Honors Scholarships		84.185	408,000	
	Academic Competitiveness Grant		84.375	131,875	
	National Science and Mathematics Access to Retain Talent Grant		84.376	122,000	
		Subtotal – U.S. Department of Education – Direct			<u>35,830,986</u>
	Department of Health and Human Services	Health Professions Student Loans, Including Primary Care		93.342	33,880
		Loans/loans for Disadvantaged Students (note 4)		93.925	49,500
Scholarships for Disadvantaged Students					
	Student Financial Assistance Cluster total			<u>35,914,366</u>	
	Total expenditures of Federal Awards for the year ended June 30, 2008			<u>\$ 145,004,656</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, 2008

(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, 2008. 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 follows:

(a) Research and Development

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

(b) Student Financial Assistance

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

(2) Summary of Significant Accounting Policies for Federal Awards

For purposes of the Schedule and the basic financial statements, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Expenditures under the research and development cluster include facilities and administrative (F&A) cost recoveries, relating primarily to facilities operation and maintenance; facilities and equipment depreciation; and general, divisional and departmental administration services, which are allocated to direct costs under negotiated rates agreed to with DHHS, the University's federal cognizant agency.

(3) Administrative Cost Allowance

For the year ended June 30, 2008 the University recovered an administrative cost allowance of \$248,468 under the Federal Perkins Loan Program.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(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, 2008 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 3,399,945
Health Professions Student Loan Program (HPSL)	<u>33,880</u>
Total campus based loans programs	<u>\$ 3,433,825</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 11,035,212
Unsubsidized Stafford Loan Program	8,209,971
PLUS Loan Program	<u>7,905,882</u>
Total federal direct loan programs	<u>\$ 27,151,065</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, 2008 consist of:

Federal Perkins Loan Program (including income-contingent loans)	\$ 25,986,489
Health Professions Student Loans	<u>513,765</u>
Total federal student loans	<u>\$ 26,500,254</u>

(5) Loan Payable

The University has debt payable to the Department of Education amounting to \$1,312,000 as of June 30, 2008 which is not included on the Schedule. Details of the debt, maturity, and other related information are included in note 5 to the basic financial statements of the University.

(6) Subrecipients

During fiscal year 2008, the University provided \$12,451,154 to subrecipients as part of its research and development program.