



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, 2007

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, 2007

Table of Contents

	Page
Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	Exhibit I
Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Exhibit II
Schedule of Findings and Questioned Costs	Exhibit III
Management's Corrective Action Plan – Current Year Findings and Questioned Costs	Exhibit IV
Financial Statements and Supplementary Information – Schedule of Expenditures of Federal Awards	Exhibit V



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Exhibit I

**Auditors' 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, 2007. The University's major federal program is identified in the summary of auditor's 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 on 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2, and 2007-3.



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 such an opinion in the effectiveness of the University's internal control over compliance.

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 entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-1, 2007-2, and 2007-3 to be significant deficiencies.

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 any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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

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 28, 2008



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Exhibit II

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

The President and Corporation
Brown University:

We have audited the financial statements of Brown University (the University) as of June 30, 2007 and for the year then ended, and have issued our report thereon dated October 25, 2007. 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 such 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 management of the University in a separate letter dated October 25, 2007.

This report is intended solely for the information and use of the Board of Trustees, management, 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 25, 2007

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) There were no material weaknesses and no significant deficiencies in internal control were reported by the audit of the financial statements.
- (c) No instance of noncompliance considered material to the University's financial statements was disclosed by the audit.
- (d) No material weakness in internal control over compliance with requirements applicable to the University's major federal award program was identified. However, there were significant deficiencies in internal control over compliance identified.
- (e) The independent auditors' report on compliance with requirements applicable to the University's major federal award program expressed an unqualified opinion.
- (f) The audit disclosed three findings which are required to be reported by OMB Circular A-133.
- (g) The University's major program is the Student Financial Assistance Cluster.
- (h) A threshold of \$3,000,000 was used to distinguish between "Type A" and "Type B" programs as those terms are defined in OMB Circular A-133.
- (i) The University qualified as a "low-risk auditee" as that term is defined in OMB Circular A-133.

(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, 2007

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No.:	2007-1 - Notification Letters
Program Information:	<i>Federal Programs:</i> Federal Direct Student Loans, CFDA No. 84.268 and Federal Perkins Loan Program, CFDA 84.038 <i>Federal Agency:</i> Department of Education <i>Federal Award Year:</i> July 1, 2006 to June 30, 2007
Condition or requirement:	34 CFR section 669.165 stipulates that if an institution credits a student's account with Direct Loan, FPL, or FFEL 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. The requirement on FFEL funds applies only if the funds are disbursed by electronic funds transfer payment or master check.
Condition Found:	During our testwork it was noted that all 30 students selected were not notified when Perkins loans were credited to their account or that they still had the right to cancel. It was also noted that the 30 students selected for testwork were notified when Federal Direct loans were credited to their account and that they still had the right to cancel, however, the University did not maintain the evidence the notification occurred.
Identification of questioned costs:	None
Possible asserted cause and effect:	We were not informed that the file with the copies of notification letters was purged from the system. Therefore, the University had no written documentation that notification occurred.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation: We recommend the University implement policies and procedures to ensure that students are notified when Perkins loans are credited to their account or that they still have the right to cancel. We also recommend that the University maintains the notifications to the students when Federal Direct loans have been credited to their account or that they still have the right to cancel to document the communications.

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

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding No.:	2007-2 – Entrance Interviews
Program Information:	<i>Federal Programs:</i> Federal Direct Student Loans, CFDA No. 84.268 and Federal Perkins Loan Program, CFDA 84.038 <i>Federal Agency:</i> Department of Education <i>Federal Award Year:</i> July 1, 2006 to June 30, 2007
Condition or requirement:	CFR 685.304 stipulates that a school must ensure that the initial counseling is conducted with each Direct Subsidized and Unsubsidized loan student borrower prior to making the first disbursement of the proceeds of the loan to a student borrower unless the student borrower has received a prior Subsidized and Unsubsidized loan. CFR 674.16(a) stipulates that before an institution makes its first disbursement to a student, the student shall sign the promissory note and the institution shall provide the student with additional information generally conducted in a entrance interview.
Condition found:	The University could not locate evidence that an entrance interview was conducted for one of the 30 direct loans tested. There was no evidence of entrance interviews conducted for all 30 Perkins loans tested. The University has a student complete a “Required Personal Information” form before they are allowed to sign the Promissory note; however, since it is not dated, we could not determine if it was completed prior to disbursement.
Identification of questioned costs:	None
Possible asserted cause and effect:	For the student identified, management did not maintain proper documentation. As part of the in person entrance counseling all required information was given regarding Federal Perkins loans, but signed documentation of completion of entrance was not collected, only the promissory note and personal information sheet.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Recommendation: We recommend the University establish policies and procedures to ensure compliance with the Entrance Interviews for Perkins and Direct Loans.

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

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding No.:	2007-3 – Student Status Changes
Program Information:	<i>Federal Programs:</i> Federal Direct Student Loans, CFDA No. 84.268 <i>Federal Agency:</i> Department of Education <i>Federal Award Year:</i> July 1, 2006 to June 30, 2007
Condition or requirement:	34 CFR section 682.610 stipulates that unless the school expects to complete its next Roster File within 60 days, the school must notify NSLDS within 30 days if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis.
Condition found:	We noted that for three of the 30 students selected, status change reports was not transmitted to NSLDS within the required timeframe, and one of those three students was not submitted at all.
Identification of questioned costs:	None
Possible asserted cause and effect:	The University reported to the National Student Clearinghouse timely, however, the NSLDS did not receive the information.
Recommendation:	We recommend the University review its current policies and procedures to ensure that, for students who cease enrollment, the University notifies NSLDS within the required time frame specified in the federal regulations, as well as ensure that the information transmitted is accurate.
View of responsible individuals:	See Management’s Corrective Action Plan at Exhibit IV.

BROWN UNIVERSITY
A-133 Audit Report
Year ended June 30, 2007
Management's Corrective Action Plan

Finding #: Reference # 2007 – 1 –Notification Letters

Award Name: Federal Perkins Loan
Federal Direct Student Loans

CFDA Number: 84.268
84.038

College Response: The Loan Office does not dispute this finding. Disbursement notifications were being sent to Federal Direct Loan borrowers, but not Federal Perkins Loan borrowers. (Note in reference to Finding 2007-1 comment “file with the copies of those notification letters has been purged from the system. Therefore, the University had no written documentation that notification occurred”: Not all notification letters were lost, just a population sent on one specific date. Other Federal Direct Loan notifications were saved)

Corrective Action Plan: The Loan Office has implemented policies and procedures to notify students of Perkins Loan disbursement(s) credited to their student account. With the implementation of the Banner 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. Federal Direct Stafford and PLUS notifications are also sent under the same policy and procedures. As follow-up to the implemented policy and procedure, 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
A-133 Audit Report
Year ended June 30, 2007
Management's Corrective Action Plan

Finding #: Reference # 2007 – 2 – Entrance Interviews

Award Name: Federal Perkins Loan
Federal Direct Student Loans

CFDA Number: 84.268
84.038

College Response: The Loan Office does not dispute this finding. In the past (prior to 2007-2008) all entrance counseling was completed in person and hard copy entrance counseling documents were kept on file for Federal Direct Stafford Loan borrowers. The Loan Office was unable to locate one such documentation as part of the audit, although the student's account (in EdExpress) indicated that the entrance was completed.

As part of in person entrance counseling all required information was given regarding Federal Perkins Loans, but signed documentation of completion of entrance was not collected, only the promissory note and a Personal Information Sheet.

Corrective Action Plan: Beginning in the 2007-2008 academic year, all entrance interviews for Federal Perkins and Federal Direct Loans are conducted on-line. Once students complete the process, the University receives confirmation and the student's record is updated in Banner. Mapping Your Future maintains the database for Federal Perkins Loan entrance counseling and Direct Loan Servicing maintains the database for Federal Direct Loans.

Contact Person: Loan Office Manager

BROWN UNIVERSITY
A-133 Audit Report
Year ended June 30, 2007
Management's Corrective Action Plan

Finding #: Reference # 2007 – 3 – Student Status Changes

Award Name: Federal Direct Student Loans

CFDA Number: 84.268

College Response: The University Registrar does not dispute this finding. In all three cases cited by the Auditor, the University reported the student status changes correctly and timely to the National Student Clearinghouse; however, the status changes were not reflected on the students' NSLDS enrollment detail. In one case, the only federal aid received for the student was a PLUS loan. The PLUS loan was reported correctly through the Direct Student Loan process and the parent has an appropriate and accurate record in NSLDS.

Corrective Action Plan: The Registrar will update the reporting procedures and begin reporting to the National Student Clearinghouse every 30 days verses the 60 submission schedule that now exists. In addition, the Registrar, with the assistance of Senior Associate Registrar and the Loan Manager, will perform periodic reconciliations (a minimum of twice a year) of student data transmitted to NSLDS through the National Student Clearinghouse to ensure proper and timely reporting. The reconciliation will review *individual students reported to the National Student Clearinghouse*

Contact Person: University Registrar

BROWN UNIVERSITY

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

Year ended June 30, 2007



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying statement of financial position of Brown University (the University) as of June 30, 2007, and the related statements of activities, cash flows, and expenses by function 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 2006 financial statements and, in our report dated October 20, 2006, 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 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 supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2007, and the changes in its net assets and its cash flows for the year 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 25, 2007 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 25, 2007

BROWN UNIVERSITY
Statement of Financial Position
June 30, 2007
(with comparative information as of June 30, 2006)
(Thousands of dollars)

Assets	2007	2006
Cash and cash equivalents	\$ 38,311	37,427
Accounts receivable and other assets	51,015	46,692
Notes receivable, net	32,402	31,526
Contributions receivable, net	250,358	226,103
Investments, at fair value	2,931,926	2,392,684
Funds held in trust by others	57,143	43,425
Bond proceeds held in refunding trust	34,231	—
Land, buildings and equipment, net	673,084	582,813
Total assets	<u>\$ 4,068,470</u>	<u>3,360,670</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 111,734	72,532
Annuity and other split-interest obligations	22,404	21,996
Deferred revenues and student deposits	22,109	19,302
Refundable advances	39,432	38,194
Asset retirement obligations	13,478	12,535
Bonds payable through refunding trust	34,231	—
Bonds, loans and notes payable	450,049	365,553
Total liabilities	<u>693,437</u>	<u>530,112</u>
Net assets:		
Unrestricted	1,781,882	1,419,890
Temporarily restricted	264,221	190,915
Permanently restricted	1,328,930	1,219,753
Total net assets	<u>3,375,033</u>	<u>2,830,558</u>
Total liabilities and net assets	<u>\$ 4,068,470</u>	<u>3,360,670</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY
Statement of Activities
Year ended June 30, 2007
(with comparative totals for the year ended June 30, 2006)
(Thousands of dollars)

	2007			Total	2006 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Operating revenues:					
Tuition and fees	\$ 270,763	—	—	270,763	257,496
Less University scholarships	(78,654)	—	—	(78,654)	(71,040)
	192,109	—	—	192,109	186,456
Grants and contracts – direct	99,935	—	—	99,935	104,387
Grants and contracts – indirect	30,158	—	—	30,158	29,288
Contributions for operating use	51,888	38,110	—	89,998	56,120
Endowment income distributed	90,299	7,006	—	97,305	85,826
Sales and services of auxiliary enterprises	76,387	—	—	76,387	70,738
Other income	10,850	550	—	11,400	16,456
Net assets released from restrictions	10,689	(10,689)	—	—	—
Total operating revenues	562,315	34,977	—	597,292	549,271
Operating expenses:					
Instruction and departmental research	200,450	—	—	200,450	189,928
Sponsored programs	98,497	—	—	98,497	99,569
Academic and student support	109,085	—	—	109,085	102,413
Institutional support	80,422	—	—	80,422	76,328
Auxiliary services	82,384	—	—	82,384	72,155
Total operating expenses	570,838	—	—	570,838	540,393
Change in net assets from operating activities	(8,523)	34,977	—	26,454	8,878
Nonoperating activities:					
Contributions to long-term assets	19,139	24,106	58,541	101,786	120,825
Net investment earnings	451,302	17,862	39,739	508,903	271,453
Endowment income distributed	(90,299)	(7,006)	—	(97,305)	(85,826)
Change in value of split interest agreements	(40)	(3,359)	3,826	427	57,441
Other changes, net	(10,170)	6,726	7,071	3,627	7,255
Change in net assets from nonoperating activities	369,932	38,329	109,177	517,438	371,148
Changes in accounting principles	583	—	—	583	(11,910)
Change in net assets	361,992	73,306	109,177	544,475	368,116
Net assets, beginning of year	1,419,890	190,915	1,219,753	2,830,558	2,462,442
Net assets, end of year	\$ 1,781,882	264,221	1,328,930	3,375,033	2,830,558

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2007

(with comparative information for the year ended June 30, 2006)

(Thousands of dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 544,475	368,116
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in accounting principles	(583)	11,910
Depreciation and amortization	42,635	32,552
Net realized and unrealized gains on investments	(505,933)	(279,266)
Contributions of property and securities	(38,867)	(33,567)
Contributions restricted for long-term investment	(78,501)	(42,117)
Changes in assets and liabilities:		
Accounts receivable and other assets	(4,323)	7,944
Contributions receivable, net	(24,255)	(52,837)
Accounts payable and accrued liabilities	16,201	(2,968)
Deferred revenues and student deposits	2,807	3,914
Asset retirement obligations	943	—
Refundable advances	1,238	901
Net cash (used in) provided by operating activities	<u>(44,163)</u>	<u>14,582</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(133,394)	(121,600)
Purchases of investments	(2,961,280)	(2,562,129)
Sales of investments	2,990,910	2,617,152
Notes issued	(32,202)	(32,723)
Notes repaid	31,326	34,367
Change in funds held in trust, net	(13,718)	(26,117)
Net cash used in investing activities	<u>(118,358)</u>	<u>(91,050)</u>
Cash flows from financing activities:		
Contributions restricted for long-term investment	78,501	42,117
Payments of long-term debt	(2,528)	(18,598)
Net proceeds from issuance of bonds	135,667	134,515
Extinguishment of debt	(48,643)	—
Change in annuity and other split-interest obligations	408	(53,801)
Net cash provided by financing activities	<u>163,405</u>	<u>104,233</u>
Change in cash and cash equivalents	884	27,765
Cash and cash equivalents, beginning of year	<u>37,427</u>	<u>9,662</u>
Cash and cash equivalents, end of year	<u>\$ 38,311</u>	<u>37,427</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Expenses by Function

Year ended June 30, 2007

(with summarized comparative information for the year ended June 30, 2006)

(Thousands of dollars)

	2007										2006 Total
	Instruction and Departmental Research	Sponsored Programs	Academic and Student Support			Institutional Support		Auxiliary Services	Operation and Maintenance of Plant	Total	
			Libraries and Acad Support	Computing and Info Services	Student Services	General and Administrative	Advancement and Univ Relations				
Expenses:											
Salaries and wages	\$ 115,370	47,755	10,639	9,020	22,490	28,719	14,017	14,475	11,920	274,405	260,180
Employee benefits	26,437	10,709	3,127	2,714	4,431	10,920	4,227	3,706	5,145	71,416	69,462
Purchased services	8,057	14,905	312	331	1,868	6,486	1,093	4,928	4,224	42,204	39,866
Supplies and general Utilities	10,840	6,442	9,130	3,719	10,111	1,191	2,277	14,483	3,223	61,416	63,043
Travel	3,539	3,522	185	207	3,053	1,597	700	324	55	16,641	17,101
Other expenses	9,807	1,613	793	354	4,839	2,972	2,892	4,082	5,128	13,182	12,432
Subtotal	174,050	84,946	24,186	16,345	46,792	51,885	25,206	41,998	46,336	32,480	32,454
Interest expense	4,138	2,124	1,631	223	1,503	364	158	6,318	—	16,459	13,303
Plant expense allocation	11,650	5,980	4,592	629	4,230	1,025	445	17,785	(46,336)	—	—
Depreciation	10,612	5,447	4,527	573	3,854	934	405	16,283	—	42,635	32,552
2007 total	\$ 200,450	98,497	34,936	17,770	56,379	54,208	26,214	82,384	—	570,838	—
2006 total	\$ 189,928	99,569	32,000	18,232	52,181	50,402	25,926	72,155	—	—	540,393

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 5,900 undergraduate students and 1,850 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.

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 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

The Statement of Activities reports the change in net assets from operating and nonoperating activities separately. 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 by functional categories, after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness and depreciation. Nonoperating activities primarily consist 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 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.

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.

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, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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 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 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 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.

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. 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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 501c (3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to the appropriate sections of the Code.

Contributions

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 making them unconditional take place.

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 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.

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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principles

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (FAS 158), *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under FAS 158, the University is 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 has recorded a decrease in pension liability and an increase in unrestricted net assets in the amount of \$583.

In March 2005, FASB issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations*. Under FIN 47, costs related to the legal obligations to perform certain activities in connection with the retirement, disposal or abandonment of assets are required to be accrued. The University identified asbestos abatement as a conditional asset retirement obligation and calculated the liability using a per square foot estimate based on historical experience. Accordingly, the University adopted FIN 47 effective July 1, 2005, recorded a liability of \$11,910, and recorded as a reduction of unrestricted net assets a cumulative effect of change in accounting principle.

Prior Year Financial Information

While comparative information is not required under GAAP, the University believes that this information is useful and has included comparative financial information from the financial statements for 2006. 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, 2006. In addition, certain 2006 comparative financial information has been reclassified to conform to the 2007 presentation.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

(2) Accounts, Notes and Contributions Receivable

Accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$753 and \$615, respectively, at June 30, 2007, and \$727 and \$594, respectively, at June 30, 2006.

The University has recorded unconditional contributions receivable of \$250,358 and \$226,103 as of June 30, 2007 and 2006, respectively. These amounts are presented net of an allowance for uncollectible contributions and are discounted at risk-free interest rates when the promise is received to record at present value.

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

	<u>2007</u>	<u>2006</u>
Contributions expected to be received:		
In one year or less	\$ 68,026	109,489
Between one and five years	156,411	130,881
In more than five years	<u>77,032</u>	<u>17,471</u>
Gross contributions receivable	301,469	257,841
Discount and allowance for uncollectibles	<u>(51,111)</u>	<u>(31,738)</u>
Contributions receivable, net	<u>\$ 250,358</u>	<u>226,103</u>

(3) Investments

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

	<u>2007</u>	<u>2006</u>
Cash and fixed income	\$ 378,437	387,537
Public equity	1,047,203	805,455
Hedged strategies	895,440	782,974
Private equity	298,122	180,725
Real assets	<u>312,724</u>	<u>235,993</u>
Total investments, at fair value	<u>\$ 2,931,926</u>	<u>2,392,684</u>

Certain investments in public equity and hedged strategies are held through 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, 2007, the University has unfunded commitments of \$512,456.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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 \$18.9035 and \$16.1536 at June 30, 2007 and 2006, respectively. The investment activity for the pooled investments is summarized as follows for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Investment income, net of fees	\$ 7,216	19,183
Net realized gains	162,326	130,150
Net unrealized appreciation	324,437	124,939
Total	<u>\$ 493,979</u>	<u>274,272</u>

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

Fair value at June 30, 2006	\$ 2,291,242
Amount distributed for operations	(97,305)
Investment income, net of fees	7,216
Net gains and unrealized appreciation on investments	486,763
New gifts	86,439
Operating funds invested in long-term pool	1,600
Transfer of gift annuities	(15,012)
Net transfers	841
Fair value at June 30, 2007	<u>\$ 2,761,784</u>

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 \$14,530 and \$12,940 at June 30, 2007 and 2006, 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 \$42,613 and \$30,485 at June 30, 2007 and 2006, respectively, are bond proceeds which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

(4) Land, Buildings and Equipment

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

	<u>2007</u>	<u>2006</u>
Land	\$ 46,827	26,564
Buildings and improvements	916,598	725,640
Equipment	78,369	71,125
Construction in progress	65,442	152,433
	<u>1,107,236</u>	<u>975,762</u>
Accumulated depreciation	<u>(434,152)</u>	<u>(392,949)</u>
Land, buildings and equipment, net	<u>\$ 673,084</u>	<u>582,813</u>

Outstanding commitments on uncompleted construction contracts total \$35,608 at June 30, 2007.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

(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	
				2007	2006
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	5.29%	Fixed	—	\$ 46,800	16,000
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	11,550	46,485
Series 2001A	3.70% - 5.25%	Fixed	2023	29,245	29,755
Series 2001B	3.68%	Variable	2032	55,340	55,340
Series 2003A	2.00% - 4.85%	Fixed	2037	46,200	46,200
Series 2003B	3.73%	Variable	2043	45,225	45,225
Series 2004	2.00% - 4.75%	Fixed	2025	21,800	22,605
Series A 2005	3.73%	Variable	2035	85,500	85,500
Series 2007	4.25% - 5.00%	Fixed	2037	90,010	—
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	1,379	1,443
Total bonds, loans and notes payable				\$ 450,049	365,553

Tax Exempt Bonds

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.

In June 2007, the Series 2007 Facilities Revenue Bonds were issued to refund a substantial portion of the Series 1998 Bonds, 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.

In October 2005, the Series A 2005 Facilities Revenue Bonds were issued to finance work on a variety of new and ongoing capital projects for research, academic and administrative buildings, and infrastructure throughout the University. The bonds currently bear interest at a variable rate determined weekly and paid to bondholders on a monthly basis.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

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.

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:

<u>Trade/effective date</u>	<u>Notional amount</u>	<u>Maturity date</u>	<u>Purpose</u>	<u>Fair value at June 30</u>	
				<u>2007</u>	<u>2006</u>
November 6, 2003	\$ 45,225	September 1, 2043	Swap variable rate on Series 2003B bonds for fixed rate of 3.732%	\$ 159	187
July 7, 2005	85,500	May 1, 2035	Swap variable rate on Series A 2005 bonds for fixed rate of 3.979%	3,540	6,087
November 15, 2006	55,340	September 1, 2032	Swap variable rate on Series 2001B bonds for fixed rate of 3.891%	1,443	—
Total asset recognized				\$ <u>5,142</u>	<u>6,274</u>

Taxable Bonds and Other Debt

In November 2005, 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. As of June 30, 2007, all of the outstanding commercial paper is Taxable Standard Commercial Paper Notes, Series A.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

In December 2006, the University also implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to \$50,000 in notes. As of June 30, 2007, no tax-exempt commercial paper was outstanding.

Interest paid in 2007 and 2006 was \$16,459 and 13,303, respectively. Principal payments of bonds and loan payable as of June 30, 2007 for the succeeding five fiscal years ending June 30 are as follows:

2008	\$	3,758
2009		3,891
2010		4,035
2011		4,185
2012		5,954

The University's bonds, loans and notes payable are stated at face value. Fair value has been calculated for disclosure purposes 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 values at June 30, 2007 and 2006 were \$484,050 and \$377,788, respectively.

The University has a revolving line of credit available of up to \$40,000. As of June 30, 2007, the full amount of \$40,000 was available. The interest rate was 6.07%, at June 30, 2007.

(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 \$18,391 and \$17,953 for the years ended June 30, 2007 and 2006, 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

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

Information regarding the defined benefit pension plan as of June 30 is as follows:

	<u>2007</u>	<u>2006</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 33,189	37,064
Service cost	1,506	1,792
Interest cost	2,081	1,901
Benefits paid	(1,179)	(1,147)
Changes in actuarial assumptions	382	(6,421)
Projected benefit obligation at end of year	<u>\$ 35,979</u>	<u>33,189</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.32%	6.41%
Rate of compensation increase	4.50	4.50

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

	<u>2007</u>	<u>2006</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 28,586	26,397
Actual return on plan assets	4,508	2,266
Contributions	1,200	1,070
Benefits paid	(1,179)	(1,147)
Fair value of plan assets at end of year	<u>\$ 33,115</u>	<u>28,586</u>
Funded status	\$ (2,864)	(4,603)
Unrecognized prior service cost	—	879
Unrecognized net loss	—	672
Accrued pension cost	<u>\$ (2,864)</u>	<u>(3,052)</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

	<u>2007</u>	<u>2006</u>
Net periodic pension cost:		
Service cost	\$ 1,506	1,792
Interest cost	2,081	1,901
Expected return on assets	(2,163)	(1,988)
Amortization of unrecognized net loss	—	281
Amortization of unrecognized prior service cost	171	227
Net periodic pension cost	<u>\$ 1,595</u>	<u>2,213</u>

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

	<u>2007</u>	<u>2006</u>
Discount rate	6.41%	5.25%
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, 2007, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$1,110 and a net unrecognized actuarial gain of \$1,693. The net of these two amounts, \$583, appears on the 2007 statement of activities as the effect of a change in accounting principle increasing unrestricted net assets.

The effects of applying FAS 158 on the University's financial position as of June 30, 2007 were as follows:

	<u>Before FAS 158</u>	<u>After FAS 158</u>
Accrued pension cost	\$ 3,447	\$ 2,864
Total liabilities	\$ 694,020	\$ 693,437
Total net assets	\$ 3,374,450	\$ 3,375,033

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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

The actual asset allocation target for the pension plan as of June 30, 2007 and 2006, and the weighted average asset targeted allocation for 2007 by asset category are as follows:

	Target 2007	Actual	
		2007	2006
Equity securities	65%	67%	57%
Fixed income securities	33%	32%	31
Real estate	—%	—%	11
Cash and cash equivalents	2%	1%	1
Total	100%	100%	100%

Information about the expected cash flows for the Plan follows:

Estimated employer contributions:	
2008	\$ 1,400

Estimated future benefit payments as of June 30, 2007 are as follows:

Fiscal year:	Amount
2008	\$ 1,560
2009	1,585
2010	1,651
2011	1,733
2012	1,815
2013 - 2017	10,938

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2007

(with comparative information as of and for the year ended June 30, 2006)

(Thousands of dollars)

(7) Net Assets

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

	<u>2007</u>			<u>2006</u>	<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>		
Operating:					
Undesignated, departmental funds	\$ 57,304	—	—	57,304	52,867
University designated	98,030	—	—	98,030	68,096
Donor restricted	—	82,955	—	82,955	48,872
Facilities and equipment	263,989	92,437	—	356,426	319,648
Student loans	8,553	—	8,033	16,586	16,048
Endowment and life income	1,354,006	88,829	1,320,897	2,763,732	2,325,027
Total net assets	<u>\$ 1,781,882</u>	<u>264,221</u>	<u>1,328,930</u>	<u>3,375,033</u>	<u>2,830,558</u>

(8) 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.

Schedule I

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2007

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster:				
Advanced Research Projects Agency	Other Research	Adventium Labs	12.000	\$ 3,537
		International Business Machines	12.000	126,473
		VSM Meditech Systems, Inc.	12.000	70,038
	Advanced Research Projects Agency total			<u>200,048</u>
Air Force	Basic, Applied, and Advanced Research in Science and Engineering		12.630	1,725,688
	Air Force Defense Research Sciences Program		12.800	1,301,560
		Ohio State University	12.800	72,260
	Research and Technology Development		12.910	69,360
	Other Research		12.000	120,703
		APTIMA, INC.	12.000	124,678
		Ceramatec	12.000	31,763
		Physical Sciences Inc.	12.000	169,615
	Air Force total			<u>3,615,627</u>
Corporation for National and Community Service	Learn and Serve America Higher Education		94.005	291,212
	Corporation for National and Community Service total			<u>291,212</u>
Defense Advanced Research Projects Agency	Research and Technology Development		12.910	404,153
	Other Research	iRobot Corporation	12.000	9,832
	Defense Advanced Research Projects Agency total			<u>413,985</u>
Department of Agriculture	Grants for Agricultural Research	Columbia University	10.206	3,130
	Department of Agriculture total			<u>3,130</u>
Department of Defense	Basic, Applied, and Advanced Research in Science and Engineering		12.630	267,207
	Department of Defense total			<u>267,207</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	2,421,270
		University of Illinois, Urbana-Champaign	81.049	53,647
		University of Oregon	81.049	22,500
	Conservation Research and Development		81.086	50,075
	Other Research		81.000	159,963
		Argonne National Laboratory	81.000	1,299
		Brookhaven National Laboratory	81.000	34,106
		Fermi Lab	81.000	49,161
		Lawrence Livermore National Laboratory	81.000	7,986
		Los Alamos National Laboratory	81.000	162,736
		Oak Ridge National Laboratory	81.000	63,186
		Radiation Monitoring Devices, Inc.	81.000	10,391
		Sandia National Laboratories	81.000	88,351
		Stanford Linear Accelerator Center	81.000	50,000
	Department of Energy total			<u>3,174,671</u>
Department of Health and Human Services	Maternal and Child Health Federal Consolidated		93.110	253,654
	Biological Response to Environmental Health Hazards		93.113	1,079,815
		Silent Spring Institute	93.113	75,203
			93.114	152,983
	Applied Toxicological Research and Testing		93.115	50,890
	Biometry and Risk Estimation Health Risks from Environmental Exposure		93.121	31,713
	Oral Diseases and Disorders Research	President and Fellows of Harvard College	93.121	3,084,160
	NIEHS Superfund Hazardous Substances	Spire Corporation	93.143	77,812
	Aids Education and Training Centers		93.145	409,054
	Human Genome Research	University of Massachusetts Medical Center	93.172	793,001
	Research Related to Deafness and Communication Disorders		93.173	(64,738)
	National Research Service Awards		93.225	257,912
	Research on Healthcare Costs, Quality and Outcomes		93.226	659,290
	Consolidated Knowledge Development and Application (KD&A) Program		93.230	76,730
	National Center on Sleep Disorders Research		93.233	5,275
	Policy Research and Evaluation Grants		93.239	5,595
	Mental Health Research Grants		93.242	3,667,974
		University of Kentucky Research Foundation	93.242	39,375
		University of Missouri - Columbia	93.242	135,231
		Boston University	93.242	1,349
		Butler Hospital	93.242	37,360
		Miriam Hospital	93.242	
		University of California at Los Angeles	93.242	
	State Planning Grants Health Care Access for the Uninsured		93.256	164,095
	Alcohol Research Career Development Awards for Scientists and Clinicians	Rhode Island Department of Human Services	93.271	255,957
	Alcohol National Research Service Awards for Research Training		93.272	361,711
	Alcohol Research Programs		93.273	4,064,848

Schedule I

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2007

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
		Boston University	93.273	\$ 17,339
		Butler Hospital	93.273	16,855
		Ginier, Inc.	93.273	27,676
		Indiana University	93.273	1,751
		Research Triangle Institute	93.273	15,680
		RI Hospital	93.273	50,955
		Technova Corporation	93.273	20,032
		University of California at Los Angeles	93.273	31,119
	Drug Abuse and Addiction Research Programs		93.279	4,191,193
		Boston University	93.279	18,841
		Butler Hospital	93.279	140,668
		California Institute of Technology	93.279	7,946
		RI Hospital	93.279	13,419
		University of Rhode Island	93.279	76,307
	Mental Health Research Career/Scientist Development Awards		93.281	564,488
	Mental Health National Research Service Awards for Research Training		93.282	439,832
	Centers for Disease Control and Prevention Investigations and Technical Assistance	Association for Prevention Teaching and Research	93.283	10,000
		University of California at Berkeley	93.283	16,385
	Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	561,409
		Marine Biological Laboratory	93.286	74,150
		Texas A & M Research Foundation	93.286	44,122
		Mount Sinai School of Medicine	93.307	15,146
	Minority Health and Health Disparities Research National Center for Research Resources		93.389	2,551,710
		NanoMech, LLC	93.389	53,683
		RMC Research Corporation	93.389	118,248
		Roger Williams Hospital	93.389	(7,619)
		University of Rhode Island	93.389	156,093
		Women & Infants Hospital	93.389	23,219
	Cancer Cause and Prevention Research		93.393	352,985
		Georgetown University	93.393	258,595
	Cancer Detection and Diagnosis Research		93.394	6,519,717
		American College of Radiology	93.394	178,680
	Cancer Treatment Research		93.395	19,416
		Miriam Hospital	93.395	42,891
		University of Louisville	93.396	894,763
	Cancer Biology Research		93.397	15,202
	Cancer Centers Support Grants	University of Washington	93.397	15,202
	Cancer Research Manpower		93.398	63,950
		Boston University	93.398	28,764
		Miriam Hospital	93.398	50,383
	Cancer Control		93.399	326,024
		Butler Hospital	93.399	1,011,925
		RI Hospital	93.399	92,915
	Centers for Medicare and Medicaid Services	Surescripts	93.779	535,341
	Centers for Medicare and Medicaid Services	New England States Consortium Systems	93.799	15,441
	Cell Biology and Biophysics		93.821	243,854
	Basic/Core Area Health Education Centers		93.824	922,902
	Heart and Vascular Diseases Research		93.837	2,322,429
		Miriam Hospital	93.837	133,648
	Lung Diseases Research		93.838	437,888
	Arthritis, Musculoskeletal and Skin Diseases Research		93.846	50,045
		RI Hospital	93.846	111,737
	Diabetes, Endocrinology and Metabolism Research		93.847	555,447
		Tufts University	93.847	13,661
	Digestive Diseases and Nutrition Research		93.848	988,174
		University of North Carolina	93.848	13,285
	Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	3,755,276
		Lifecell Corporation	93.853	444
	Allergy, Immunology and Transplantation Research		93.855	924,384
		Massachusetts General Hospital	93.855	202,862
		Miriam Hospital	93.855	17,344
		President and Fellows of Harvard College	93.855	104,220
	Microbiology and Infectious Diseases Research		93.856	7,816
		EpiVax, Inc.	93.856	7,816
		Miriam Hospital	93.856	271,805
		President and Fellows of Harvard College	93.856	73,174
		RI Hospital	93.856	676
	Biomedical Research and Research Training		93.859	6,321,088
		Indiana University	93.859	60,316
		Intelligent Optical Systems, Inc.	93.859	7,169
	Population Research		93.864	22,573
		Yale University	93.864	(323)
	Child Health and Human Development Extramural Research		93.865	1,664,049
		Columbia University	93.865	4,039
		RI Hospital	93.865	127,981
		University of Iowa	93.865	34,542

Schedule I

BROWN UNIVERSITY
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2007

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Aging Research	Carelink	93.866	\$ 4,430,439
		Hebrew Senior Life	93.866	8,000
		President and Fellows of Harvard College	93.866	113,585
		RI Hospital	93.866	60,161
		Rutgers State University	93.866	22,949
		The Progeria Research Foundation, Inc.	93.866	1,996
		University of Rochester	93.866	(370)
	Vision Research		93.867	43,457
	Grants for Training in Primary Care Medicine and Dentistry		93.884	1,884,403
	Resource and Manpower Development in the Environmental Health Sciences		93.894	288,388
	International Research and Research Training		93.989	345,379
	Drug Abuse and Addiction Research Programs	Miriam Hospital	98.279	84,616
	Other Research		93.000	30,275
		Boston University	93.000	173,703
		Providence VA Medical Center	93.000	9,379
		Butler Hospital	93.000	6,086
		Johns Hopkins University	93.000	40,379
		McLean Hospital	93.000	15,892
		Miriam Hospital	93.000	8,383
		National Bureau of Economic Research	93.000	27,240
		New England Institute of Addiction Studies	93.000	143,062
		President and Fellows of Harvard College	93.000	4,863
		RI Department of Health	93.000	16,363
		RI Hospital	93.000	318,906
		University of Rhode Island	93.000	301
		Women & Infants Hospital	93.000	17,664
		University of Massachusetts Medical Center	93.000	2,885
		Westat, Inc.	93.000	61,604
	Department of Health and Human Services total			15,954
				<u>62,902,335</u>
Department of Housing and Urban Development	HUD Urban Scholars Fellowship Grants		14.518	(1,590)
	Department of Housing and Urban Development total			<u>(1,590)</u>
Department of Justice	National Institute of Justice Research, Evaluation, and Development Project Grants		16.560	309,834
	Department of Justice total			<u>309,834</u>
Department of Veterans' Affairs	Other Research	Providence VA Medical Center	64.000	238,915
		VA New England Healthcare System	64.000	31,697
	Department of Veterans' Affairs total			<u>270,612</u>
Environmental Protection Agency	Other Research		66.500	55,342
	Science to Achieve Results (star) Research Program		66.509	149,718
	Science to Achieve Results (star) Fellowship Program		66.514	21,931
	P3 Award: National Student Design Competition for Sustainability		66.516	911
	Environmental Protection Agency total			<u>227,902</u>
National Aeronautics and Space Administration	Other Research	Carnegie Institution of Washington	43.000	3,457,993
		Jet Propulsion Lab	43.000	63,440
		Johns Hopkins University	43.000	28,559
		Marine Biological Laboratory	43.000	134,992
		National Space Biomedical Research Institute	43.000	162,241
		Northwestern University	43.000	10,708
		University of California at Los Angeles	43.000	18,466
		University of Maryland	43.000	5,477
		University of Minnesota	43.000	309
		University of Pennsylvania	43.000	286,932
		University of Wisconsin	43.000	53,182
	National Aeronautics and Space Administration total			<u>6,910</u>
				<u>4,229,209</u>
National Council for Eurasian and Eastern European Research	Program for Study of Eastern Europe	National Council for Eurasian and Eastern European Research	19.300	9,838
	National Council for Eurasian and Eastern European Research total			<u>9,838</u>
National Endowment for the Arts	Promotion of the Arts - Grants to Organizations and Individuals		45.024	27,947
	Promotion of the Arts - Partnership Agreements		45.025	10,010
	Other Research	New England Foundation for the Arts	45.000	2,501
		State of Rhode Island Council on the Arts	45.000	17,917
	National Endowment for the Arts total			<u>58,375</u>

Schedule I

BROWN UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures	
National Endowment for the Humanities	Promotion of the Humanities - Federal/state Partnership	Rhode Island Council for the Humanities	45.129	\$ 4,233	
	Promotion of the Humanities - Division of Preservation and Access		45.149	72,184	
	Promotion of the Humanities - Research		45.161	93,002	
	Promotion of the Humanities - Professional Development		45.163	17,941	
	Promotion of the Humanities - Public Programs		45.164	930	
	Promotion of the Humanities Extending the Reach				
	Grants to Presidentially Designated Minority Institutions		45.167	45,854	
	National Endowment for the Humanities total			234,144	
National Ocean and Atmospheric Agency	Sea Grant Support	University of Georgia	11.417	90	
		Rhode Island Sea Grant College Program	11.417	50,753	
	Coastal Zone Management Administration Awards	Geosyntec	11.419	(101)	
	Coastal Zone Management Estuarine Research Reserves		11.420	27,517	
	Undersea Research	University of Alaska Fairbanks	11.430	48,439	
	Center for Sponsored Coastal Ocean Research	University of Rhode Island	11.478	55,623	
	National Ocean and Atmospheric Agency total			182,321	
National Science Foundation	Engineering Grants		47.041	2,448,162	
		Angstrom Medica, Inc.	47.041	9,355	
		Fluidity Software	47.041	29,693	
	Mathematical and Physical Sciences	Scientific Solutions, Inc.	47.041	13,687	
		University of Georgia	47.041	94,113	
		University of Minnesota	47.041	61,148	
			47.049	6,100,240	
		U.S. Civilian Research & Development Foundation	47.049	6,000	
	Geosciences	Johns Hopkins University	47.049	257,755	
		Mathematical Association of America	47.049	1,677	
		University of Maryland	47.049	1,404	
		University of Rhode Island	47.049	20,696	
			47.050	1,552,274	
	Computer and Information Science and Engineering	Joint Oceanographic Institutes	47.050	2,196	
		University of Southern California	47.050	67,431	
			47.070	4,078,692	
	Biological Sciences	Johns Hopkins University	47.070	(2,040)	
		National Bureau of Economic Research	47.070	2,845	
		University of Illinois, Urbana -Champaign	47.070	24,566	
			47.074	2,675,962	
		Cornell University	47.074	19,026	
	Social, Behavioral, and Economic Sciences	State University of New York	47.074	22,591	
		University of Georgia	47.074	3,429	
		University of Wyoming	47.074	3,522	
		Washington State University	47.074	14,619	
			47.075	1,213,384	
	Education and Human Resources	Silent Spring Institute	47.075	41,117	
		University of Maryland	47.075	6,237	
		University of Iowa	47.075	537	
			47.076	668,276	
	Polar Programs	American Educational Research Association	47.076	629	
		Counsel of Graduate Studies	47.076	2,724	
		Temple University	47.076	4,313	
		University of Rhode Island	47.076	118,462	
	International Science and Engineering (OISE)		47.078	72,052	
		Boston University	47.078	26,194	
			47.079	75,654	
	Other Research	Johns Hopkins University	47.079	205,899	
			47.000	267,456	
		Cosmos Corporation	47.000	603,279	
		Maricopa County Community College District	47.000	62,779	
		National Bureau of Economic Research	47.000	15,345	
		Vanderbilt University	47.000	4,366	
		National Science Foundation total			20,897,746
	National Security Agency	Mathematical Sciences Grants Program		12.901	27,726
		National Security Agency total			27,726
	U.S. Army Medical Research Activity	Military Medical Research and Development		12.420	290,073
U.S. Army Medical Research Activity total				290,073	
U.S. Army	Military Medical Research and Development		12.420	260,814	
	Basic Scientific Research	University of Wisconsin, Madison	12.431	708,344	
	Other Research	Bae Systems	12.432	151,317	
		CFD Research Corporation	12.000	58,247	
				(13,792)	
	U.S. Army total			1,164,930	
U.S. Army Research and Material Command	Military Medical Research and Development		12.420	581,130	
	U.S. Army Research and Material Command total			581,130	

Schedule I

BROWN UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2007

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures		
U.S. Department of Education	Overseas Doctoral Dissertation Other Research Magnet Schools Assistance Bilingual Education Professional Development Fund for the Improvement of Education Comprehensive Centers Twenty-First Century Community Learning Centers Education Research, Development & Dissemination Research Center on Postsecondary Education Capacity Building for Traditionally Underserved Population Comprehensive School Reform Demonstration Teacher Quality Enhancement Grants Early Childhood Educator Professional Development Arts in Education Early Reading First Grants for Enhanced Assessment Instruments Early Learning Fund National Resource Centers and Fellowship Program Javits Fellowships Graduate Assistance in Areas of National Need Fund for the Improvement of Education Teacher Quality Enhancement Grants Other Research	City of Hudson Public Schools	84.022	\$ 21,778		
		American Education Solutions, Inc	84.125	27,216		
			84.165	527,586		
			84.195	100,755		
		Boston Public Schools	84.215	18,738		
		City of Pemberton Township School District	84.215	11,342		
		City of Syracuse School District	84.215	19,677		
		Clear Creek Independent School District	84.215	20,620		
		Danbury Public Schools	84.215	(15,158)		
		City of Plainfield Board of Education	84.215	9,097		
		Salem State College	84.215	(2,367)		
		Waterbury, City Of	84.215	(83)		
		RMC Research Corporation	84.283	675,834		
		WestEd	84.283	4,193		
		RI Department of Education	84.287	71,053		
		Vanderbilt University	84.305	179,652		
		President and Fellows of Harvard College	84.309	85,847		
		City of Boston Public Schools	84.315	8,740		
			84.332	847,825		
		University of Rhode Island	84.336	47,855		
		Providence Plan	84.349	90,517		
		City of Central Falls School District	84.351	42,707		
		Providence Plan	84.359	34,203		
		Education Development Center	84.368	7,335		
		Providence Plan	93.577	28,248		
			84.105A	165,532		
			84.170B	132,681		
			84.200A	289,386		
		City of Omaha Public Schools	84.215X	104,121		
		University of Rhode Island	84.336B	61,131		
			84.000	581,533		
			84.000	8,828		
			84.000	15,642		
			84.000	5,248		
			84.000	50,016		
			84.000	16,600		
			84.000	36,972		
			84.000	41,903		
			84.000	26,971		
			84.000	24,654		
			84.000	(59)		
			84.000	13,983		
			84.000	8,738		
			84.000	151,385		
			84.000	15,111		
			84.000	24,047		
			84.000	29,216		
			84.000	92,380		
			84.000	106,153		
			84.000	40,379		
			84.000	8,548		
			84.000	5,079		
			84.000	401,804		
			84.000	(2,641)		
				<u>5,318,551</u>		
		U.S. Geological Survey	Earthquake Hazards Reduction Program		15.807	95,970
			U.S. Geological Survey total			<u>95,970</u>
U.S. Institute of Peace	Unsolicited Grant Program		91.001	50,671		
	Other Research		91.000	17,900		
	U.S. Institute of Peace total			<u>68,571</u>		
U.S. Navy	Basic and Applied Scientific Research		12.300	2,547,366		
		Seashell Technology, LLC	12.300	23,358		
		Stanford University	12.300	(18,258)		
		University of Texas, Arlington	12.300	196,368		
	Other Research		12.000	478,113		
	U.S. Navy total			<u>3,226,947</u>		
U.S. Department of Labor	H-1B Job Training Grants	Workforces Partnership of Greater RI, Inc.	17.268	90,000		
	U.S. Department of Labor total			<u>90,000</u>		
	Research and Development Cluster total			<u>108,150,504</u>		
Student Financial Assistance Cluster:						
U.S. Department of Education	Federal Perkins Loan Program (note 4)		84.038	5,935,586		
	Federal Direct Student Loans (note 4)		84.268	24,187,185		
	Federal Work-study Program		84.033	1,316,126		
	Federal Pell Grant Program		84.063	1,853,688		
	Federal Supplemental Educational Opportunity Grants		84.007	816,187		
	Byrd Honors Scholarships		84.185	401,175		
	Academic Competitiveness Grant		84.375	210,475		
	National Science and Mathematics Access to Retain Talent Grant		84.376	242,000		
	Subtotal - U.S. Department of Education - Direct			<u>34,962,422</u>		
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care					
	Loans/loans for Disadvantaged Students (note 4)		93.342	142,421		
	Scholarships for Disadvantaged Students		93.925	96,670		
	Student Financial Assistance Cluster total			<u>35,201,513</u>		
	Total expenditures for Federal Awards for the year ended June 30, 2007			<u>\$ 143,352,017</u>		

See accompanying notes to schedule of expenditures of federal awards.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Award

Year ended June 30, 2007

(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, 2007. 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 (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, 2007 the University recovered an administrative cost allowance of \$340,431 under the Federal Perkins Loan Program.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Award

Year ended June 30, 2007

(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, 2007 are summarized as follows:

Campus based loan programs:	
Federal Perkins Loan Program	\$ 5,595,155
Health Professions Student Loan Program (HPSL)	96,670
Total campus based loans programs	<u>\$ 5,691,825</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 9,035,090
Unsubsidized Stafford Loan Program	6,319,121
PLUS Loan Program	8,832,974
Total Federal Direct Loan Programs	<u>\$ 24,187,185</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, 2007 consist of:

Federal Perkins Loan Program (including income contingent loans)	\$ 25,542,058
Health Professions Student Loans	600,323
Total federal student loans	<u>\$ 26,142,381</u>

(5) Loan Payable

The University has debt payable to the Department of Education amounting to \$1,379,000 as of June 30, 2007 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 2007, the University provided \$12,279,643 to subrecipients as part of its research and development program.