



BROWN UNIVERSITY

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

Year ended June 30, 2006

(With Independent Auditors' Reports Thereon)

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, 2006

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BROWN UNIVERSITY

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

Year ended June 30, 2006



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, 2006, 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 2005 financial statements and, in our report dated September 27, 2005, 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, 2006, 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 20, 2006 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 20, 2006

BROWN UNIVERSITY

Statement of Financial Position

June 30, 2006

(with comparative information as of June 30, 2005)

(Thousands of dollars)

Assets	2006	2005
Cash and cash equivalents	\$ 37,427	\$ 9,662
Accounts receivable and other assets	46,692	54,636
Notes receivable	31,526	33,170
Contributions receivable, net	226,103	173,266
Investments, at fair value	2,392,684	2,133,207
Funds held in trust by others	43,425	17,308
Bond proceeds held in refunding trust	—	21,377
Land, buildings and equipment, net	582,813	492,384
Total assets	<u>\$ 3,360,670</u>	<u>\$ 2,935,010</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 72,532	\$ 73,077
Annuity and other split interest obligations	21,996	75,797
Deferred revenues and student deposits	19,302	15,388
Refundable advances	38,194	37,293
Asset retirement obligations	12,535	—
Bonds payable through refunding trust	—	21,377
Bonds, loans and notes payable	365,553	249,636
Total liabilities	<u>530,112</u>	<u>472,568</u>
Net assets:		
Unrestricted	1,419,890	1,271,563
Temporarily restricted	190,915	148,539
Permanently restricted	1,219,753	1,042,340
Total net assets	<u>2,830,558</u>	<u>2,462,442</u>
Total liabilities and net assets	<u>\$ 3,360,670</u>	<u>\$ 2,935,010</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY
Statement of Activities
Year ended June 30, 2006
(with comparative totals for the year ended June 30, 2005)
(Thousands of dollars)

	2006			2005	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Operating revenues:					
Tuition and fees	\$ 257,496			\$ 257,496	\$ 235,458
Less University scholarships	(71,040)			(71,040)	(63,716)
	<u>186,456</u>	—	—	<u>186,456</u>	<u>171,742</u>
Grants and contracts – direct	104,387			104,387	106,412
Grants and contracts – indirect	29,288			29,288	28,443
Contributions for current use	43,762	12,358		56,120	43,972
Endowment income distributed	79,247	6,579		85,826	77,819
Sales and services of auxiliary enterprises	70,738			70,738	65,787
Other income	29,506	692		30,198	28,456
Net assets released from restrictions	10,938	(10,938)		—	—
Total operating revenues	<u>554,322</u>	<u>8,691</u>	<u>—</u>	<u>563,013</u>	<u>522,631</u>
Operating expenses:					
Instruction and departmental research	189,928			189,928	174,910
Sponsored programs	99,569			99,569	104,543
Academic and student support	102,413			102,413	95,888
Institutional support	90,070			90,070	82,043
Auxiliary services	72,155			72,155	66,060
Total operating expenses	<u>554,135</u>	<u>—</u>	<u>—</u>	<u>554,135</u>	<u>523,444</u>
Change in net assets from operating activities	<u>187</u>	<u>8,691</u>	<u>—</u>	<u>8,878</u>	<u>(813)</u>
Nonoperating activities:					
Contributions to long-term assets	13,722	30,218	76,885	120,825	113,267
Net investment earnings	220,861	12,134	38,458	271,453	220,385
Endowment income distributed	(79,247)	(6,579)		(85,826)	(77,819)
Change in value of split interest agreements	106	548	56,787	57,441	(9,884)
Other net asset changes	3,568	(1,596)	5,283	7,255	(1,697)
Net assets released from restrictions	1,040	(1,040)	—	—	—
Change in net assets from nonoperating activities	<u>160,050</u>	<u>33,685</u>	<u>177,413</u>	<u>371,148</u>	<u>244,252</u>
Cumulative effect of change in accounting principle	(11,910)			(11,910)	—
Change in net assets	<u>148,327</u>	<u>42,376</u>	<u>177,413</u>	<u>368,116</u>	<u>243,439</u>
Net assets, beginning of year	<u>1,271,563</u>	<u>148,539</u>	<u>1,042,340</u>	<u>2,462,442</u>	<u>2,219,003</u>
Net assets, end of year	<u>\$ 1,419,890</u>	<u>\$ 190,915</u>	<u>\$ 1,219,753</u>	<u>\$ 2,830,558</u>	<u>\$ 2,462,442</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY
Statement of Cash Flows
Year ended June 30, 2006
(with comparative information for the year ended June 30, 2005)
(Thousands of dollars)

	2006	2005
Cash flows from operating activities:		
Change in net assets	\$ 368,116	\$ 243,439
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Cumulative effect of change in accounting principle	11,910	—
Depreciation	32,552	32,641
Net realized and unrealized gains on investments	(279,266)	(229,956)
Contributions of property and securities	(33,567)	(18,415)
Contributions restricted for long-term investment	(42,117)	(49,694)
Changes in assets and liabilities:		
Accounts receivable and other assets	7,944	(8,412)
Contributions receivable, net	(52,837)	3,697
Accounts payable and accrued liabilities	(2,968)	21,721
Deferred revenues and student deposits	3,914	(103)
Refundable advances	901	(4,670)
Net cash provided by (used in) operating activities	14,582	(9,752)
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(121,600)	(69,202)
Purchases of investments	(2,562,129)	(1,972,297)
Sales of investments	2,617,152	1,865,733
Loans issued	(32,723)	(32,300)
Loans repaid	34,367	32,660
Change in funds held in trust, net	(26,117)	40,929
Net cash used in investing activities	(91,050)	(134,477)
Cash flows from financing activities:		
Contributions restricted for long-term investment	42,117	49,694
Payments of long-term debt	(18,598)	(2,240)
Proceeds from issuance of bonds	134,515	—
Change in annuity and other split interest obligations	(53,801)	56,595
Net cash provided by financing activities	104,233	104,049
Change in cash and cash equivalents	27,765	(40,180)
Cash and cash equivalents, beginning of year	9,662	49,842
Cash and cash equivalents, end of year	\$ 37,427	\$ 9,662

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Expenses by Function

Year ended June 30, 2006

(with summarized comparative information for the year ended June 30, 2005

(Thousands of dollars)

	2006										2005
	Instruction and Departmental Research	Academic and Student Support				Institutional Support			Operation and Maintenance of Plant	Total	Total
		Sponsored Programs	Libraries and Acad Support	Computing and Info Services	Student Services	General and Administrative	Advancement and Univ Relations	Auxiliary Services			
Expenses:											
Salaries and wages	\$ 110,872	\$ 46,965	\$ 9,169	\$ 9,000	\$ 20,372	\$ 27,810	\$ 13,234	\$ 13,655	\$ 11,361	\$ 262,438	\$ 245,534
Employee benefits	25,921	10,976	2,715	2,739	4,316	11,004	4,002	3,492	4,938	70,103	68,300
Purchased services	7,640	17,070	273	234	766	14,674	1,293	3,479	4,863	50,292	50,983
Supplies and general Utilities	10,938	6,706	9,042	4,291	9,729	2,686	2,440	14,692	2,936	63,460	62,165
Travel	3,186	3,667	132	237	2,887	1,286	589	382	17,101	17,101	12,490
Other expenses	8,116	3,573	472	407	5,402	4,402	3,396	2,932	66	12,432	11,371
Subtotal	166,673	88,957	21,803	16,908	43,472	61,862	24,954	38,632	45,019	508,280	481,109
Interest expense	3,420	1,561	1,449	195	1,281	336	143	4,918		13,303	9,695
Plant expense allocation	11,575	5,282	4,905	659	4,335	1,136	484	16,643	(45,019)	—	—
Depreciation	8,260	3,769	3,843	470	3,093	810	345	11,962	—	32,552	32,640
2006 total	\$ 189,928	\$ 99,569	\$ 32,000	\$ 18,232	\$ 52,181	\$ 64,144	\$ 25,926	\$ 72,155	\$ —	\$ 554,135	
2005 total	\$ 174,910	\$ 104,543	\$ 30,830	\$ 17,269	\$ 47,789	\$ 59,195	\$ 22,848	\$ 66,060	\$ —	\$ —	\$ 523,444

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(1) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

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

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

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

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

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

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

The Statement of Activities reports the change in net assets from operating and nonoperating activities separately. Operating revenues include tuition and fees, gifts and net assets released from restrictions for current use, grants and contracts, and the allocation of endowment spending in support of the University's educational programs or research conducted by the academic departments. Operating expenses include the costs of providing University programs and other activities, and are reported by functional categories, after allocating, on a square footage basis, expenses for operation and maintenance of plant, interest on indebtedness and depreciation. 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(b) *Cash and Cash Equivalents*

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

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

(c) *Accounts and Notes Receivable and Other Assets*

Accounts receivable and other assets include amounts due from students, reimbursements due from sponsors of externally funded research, accrued income on investments, inventory and prepaid expenses. Notes receivable consist primarily of loans to students. Accounts receivable and notes receivable are carried at cost, which approximates fair value. The balances for accounts receivable and notes receivable are presented net of allowances for uncollectibles of \$727 and \$594, respectively, at June 30, 2006, and \$765 and \$406, respectively, at June 30, 2005.

(d) *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 generally reflect discounts for liquidity and consider variables such as financial performance of investments, including comparison of comparable companies' earning multiples, cash flow analysis, recent sales prices of investments, and other pertinent information. Because of the inherent uncertainty of valuation for these investments, the investment manager's estimate may differ from the values that would have been used had a ready market existed. The University believes the carrying amount of these financial instruments is a reasonable estimate of fair value.

Certain of the University's investment funds and partnerships use derivative instruments to hedge against market risk and to enhance investment returns. At any point during the year, the University may have exposure to derivatives primarily through limited liability vehicles such as limited partnerships and commingled investment funds. In addition, the University maintains certain directly held derivative financial instruments to hedge its portfolio, including exchange contracts, futures, options, and swap agreements. 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

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.

(e) 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 proceeding the budget year, with the objective being to hold the spending rate to no more than 5% average over time. Applicable endowments include pooled quasi-endowment and true endowment funds, as well as separately invested funds and funds held in trust by others, the income of which accrues to the University. Excluded are funds where the income accrues to others (life income funds) and funds where the income must be added to principal.

(f) 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.

(g) Tax Exempt Status

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

(h) 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 take place.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

The University has recorded unconditional contributions receivable of \$226,103 and \$173,266 as of June 30, 2006 and 2005, respectively. These amounts are presented net of an allowance for uncollectible contributions and a discount to reduce the receivables to present value. Contributions receivable of less than fifty thousand dollars are not recorded in the statement of financial position, as they are not material to the overall financial statements of the University. Conditional contributions, due to uncertainties with regard to their realizability and valuation, are not estimated by management and are recognized as assets if and when the specific conditions are met.

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

	<u>2006</u>	<u>2005</u>
Contributions expected to be received:		
In one year or less	\$ 109,489	\$ 78,667
Between one and five years	130,881	102,053
In more than five years	<u>17,471</u>	<u>18,279</u>
Gross contributions receivable	257,841	198,999
Discount	(10,135)	(7,692)
Allowance	<u>(21,603)</u>	<u>(18,041)</u>
Contributions receivable, net	<u>\$ 226,103</u>	<u>\$ 173,266</u>

(i) ***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 \$12,940 and \$12,207 at June 30, 2006 and 2005, 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 \$30,485 and \$5,101 at June 30, 2006 and 2005, respectively, are bond proceeds which will be utilized for construction projects in accordance with provisions contained within the respective bond indentures.

(j) ***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.

(k) ***Depreciation***

Depreciation is calculated using the straight-line method with estimated useful lives of 30 years for buildings, 20 years for building improvements made since 1987, and 10 years for building

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

equipment. Moveable equipment is depreciated over a range of 3 to 15 years, depending upon asset class.

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

	<u>2006</u>	<u>2005</u>
Land	\$ 26,564	\$ 23,600
Buildings and improvements	725,640	683,472
Equipment	71,125	58,996
Construction in progress	152,433	87,673
	<u>975,762</u>	<u>853,741</u>
Accumulated depreciation	<u>(392,949)</u>	<u>(361,357)</u>
Land, buildings and equipment, net	<u>\$ 582,813</u>	<u>\$ 492,384</u>

(l) 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.

(m) Use of Estimates

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

(n) Change in Accounting Principle

In March 2005, the Financial Accounting Standards Board 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 is 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(o) *Prior Year Financial Statements*

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 2005. 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, 2005. In addition, certain 2005 comparative financial information has been reclassified to conform to the 2006 presentation.

(2) **Investments**

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

	<u>2006</u>	<u>2005</u>
Cash and short-term investments	\$ 82,240	\$ 93,527
Limited liability corporations and partnerships	1,186,950	994,953
Common and preferred stock	233,091	236,084
Bonds	2,919	3,410
Government issues	7,082	77,844
Mutual funds	531,033	511,732
Private equities	166,668	90,227
Real assets	182,236	124,893
Other	465	537
Total investments, at fair value	<u>\$ 2,392,684</u>	<u>\$ 2,133,207</u>

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

The University is obligated, under certain limited partnership agreements, to make additional capital contributions up to contractual levels. The timing and amounts of the contributions will be determined by the general partners. As of June 30, 2006, the University has unfunded commitments of \$519,400.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(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 \$16.1538 and \$14.7132 at June 30, 2006 and 2005, respectively. The investment activity for the pooled investments is summarized as follows for the years ended June 30:

	<u>2006</u>	<u>2005</u>
Investment income, net of fees	\$ 19,183	\$ 12,122
Net realized gains	130,150	120,356
Net unrealized appreciation	124,939	82,430
Total	<u>\$ 274,272</u>	<u>\$ 214,908</u>

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

Fair value at June 30, 2005	\$ 1,928,618
Amount distributed for operations	(85,826)
Investment income, net of fees	19,183
Net gains and unrealized appreciation on investments	255,089
Expired split interest agreement	99,634
New gifts	45,562
Operating funds invested in long-term pool	25,000
Net transfers	3,982
Fair value at June 30, 2006	<u>\$ 2,291,242</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(3) 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 this purpose as of June 30 are as follows:

	<u>2006</u>		<u>2005</u>
Taxable Standard Commercial Paper Notes, Series A, with rates of 5.06% to 5.07%, maturing July 3 to July 7, 2006	\$ 16,000	\$	—
Rhode Island Health and Educational Building Corporation (RIHEBC) Higher Education Facilities Bonds:			
Series 1975 Facility Building Bonds, 8.00% final maturity 2005 (effective rate of 3.00% resulting from a HUD subsidy)	—		160
Series 1995 Facilities Revenue Bonds at a rate of 5.20% with maturities through 2005. All other outstanding 1995 Bonds were advance refunded by Series 2004 Revenue Refunding Bonds with final redemption in 2005	—		545
Series 1998 Facilities Revenue Bonds, at rates ranging from 4.75% to 5.00%, with various maturity dates through 2028	46,485		47,575
Series 2001A Facilities Revenue Refunding Bonds, at rates ranging from 3.375% to 5.25%, with various maturity dates through 2023	29,755		30,250
Series 2001B Facilities Revenue Bonds, at a variable rate (3.90% at June 30, 2006), with mandatory sinking fund redemption payments annually through 2032 final maturity	55,340		55,340
Series 2003A Facilities Revenue Bonds, at rates ranging from 2.00% to 4.85%, with various maturity dates through 2037	46,200		46,200
Series 2003B Facilities Revenue Bonds, at a variable rate (3.97% at June 30, 2006), with mandatory sinking fund redemption payments annually through 2043 final maturity	45,225		45,225
Series 2004 Facilities Revenue Refunding Bonds, at rates ranging from 2.00% to 4.75%, with various maturity dates through 2025	22,605		22,835

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

	<u>2006</u>	<u>2005</u>
Series A 2005 Facilities Revenue Bonds, at a variable rate (3.97% at June 30, 2006), maturing on May 31, 2035	\$ 85,500	\$ —
Brown University Taxable Bonds Series 2005, at a fixed rate of 5.09%, maturing on November 1, 2015	17,000	—
Loan payable – U.S. Department of Education loan, 5.50%, due in semiannual payments through 2021	<u>1,443</u>	<u>1,506</u>
Total bonds, loans and notes payable	<u>\$ 365,553</u>	<u>\$ 249,636</u>

Tax Exempt Bonds:

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

In October 2005, the Series A 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.

In conjunction with the issuance of the 2005 Series A Bonds, the University entered into an interest rate swap agreement to convert the variable rate on these bonds to a fixed rate without exchanging the underlying principal amount. Under the terms of the agreement, the counterparty pays the University a variable interest rate indexed to the USD-BMA Municipal Swap Index. The University pays the counterparty a fixed rate of 3.979% on a notional amount of \$85,500. The agreement terminates on May 1, 2035, which is the maturity date of the bonds.

In April 2004, the University issued Facilities Revenue Refunding Bonds to advance refund \$20,535 of the University's 1995 Series Bonds. Proceeds from the refunding bonds were deposited into a refunding trust account to be used to pay interest on the refunded 1995 Bonds through September 1, 2005, and to redeem the bonds on that date at a redemption price of 102%. The transaction resulted in a loss on advance refunding of debt of \$2,041. The trust assets and corresponding amounts payable through the trust are reported on the statement of financial position as of June 30, 2005.

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

In conjunction with the issuance of the Series B Bonds, the University entered into an interest rate swap agreement to convert the variable rate on these bonds to a fixed rate without exchanging the underlying principal amount. Under the terms of the agreement, the counterparty pays the University a variable interest rate indexed to LIBOR. The University pays the counterparty a fixed rate of 3.732% on a notional amount of \$45,225. The fair value of the swap at June 30, 2006 was a net receivable of \$187, which is included in accounts receivable and other assets, and the fair value of the swap at June 30, 2005 was a net payable of \$5,088, which is included in accounts payable and accrued liabilities. The change in fair value of the swap has been included in nonoperating activities as an unrestricted other net asset change. The agreement terminates on September 1, 2043, which is the final maturity date of the bonds.

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 enables the University to issue up to \$50,000 in Notes with \$16,000 currently authorized by the University Corporation. The program provides for the issuance of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B. As of June 30, 2006, all of the outstanding commercial paper is Taxable Standard Commercial Paper Notes, Series A.

Interest paid in 2006 was \$13,302. Principal payments of bonds and loan payable for the succeeding five fiscal years ending June 30 are as follows:

2007	\$	2,529
2008		3,758
2009		3,891
2010		4,035
2011		4,185

The University's bonds, loans and notes payable are stated at cost. The fair value has been calculated by determining the net present values of future cash outlays using an interest rate of 4.3%. This rate is based upon market conditions as of June 30. The total estimated fair values at June 30, 2006 and 2005 are \$377,788 and \$239,858, respectively.

The University has a line of credit available of up to \$40,000. As of June 30, 2006, the full amount of \$40,000 was available.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(4) Pensions

The University participates in several different contributory retirement plans. The plans provide for the purchase of annuities on a compulsory basis by full-time faculty and administrative staff. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$17,953 and \$17,313 for the years ended June 30, 2006 and 2005, respectively. The University has no liability for unfunded pension costs under these plans.

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

	<u>2006</u>	<u>2005</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 37,064	31,260
Service cost	1,792	1,443
Interest cost	1,901	1,827
Benefits paid	(1,147)	(1,129)
Changes in actuarial assumptions	<u>(6,421)</u>	<u>3,663</u>
Projected benefit obligation at end of year	\$ <u>33,189</u>	<u>37,064</u>

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

	<u>2006</u>		<u>2005</u>
Discount rate	6.41%		5.25%
Rate of compensation increase	4.50		4.50
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 26,397	\$	24,351
Actual return on plan assets	2,266		2,175
Contributions	1,070		1,000
Benefits paid	<u>(1,147)</u>		<u>(1,129)</u>
Fair value of plan assets at end of year	\$ <u>28,586</u>	\$	<u>26,397</u>
Funded status	\$ (4,603)		(10,667)
Unrecognized prior service cost	879		1,106
Unrecognized net loss	<u>672</u>		<u>7,653</u>
Accrued pension cost	\$ <u>(3,052)</u>	\$	<u>(1,908)</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

	<u>2006</u>	<u>2005</u>
Net periodic pension cost:		
Service cost	\$ 1,792	\$ 1,443
Interest cost	1,901	1,827
Expected return on assets	(1,988)	(1,829)
Amortization of unrecognized loss	281	79
Amortization of unrecognized prior service cost	227	229
Net periodic pension cost	<u>\$ 2,213</u>	<u>\$ 1,749</u>

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

	<u>2006</u>	<u>2005</u>
Discount rate	5.25%	6.00%
Rate of compensation increase	4.50	4.50
Expected long term rate of return	7.50	7.50

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

For the year ended June 30, 2006, the accumulated benefit obligation was \$26,746. For the year ended June 30, 2005, the accumulated benefit obligation of \$29,165 exceeded the fair value of the plan assets by \$2,768. As required by FAS No. 87, the University recorded, as of June 30, 2005, an intangible asset to the extent of the unrecognized prior service cost of \$1,106. The resulting asset and accrued liability are reflected in the statement of financial position.

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, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

The actual asset allocation target for the pension plan as of June 30, 2006 and 2005, and the weighted average asset target allocation for 2006 by asset category are as follows:

	Target 2006	Actual	
		2006	2005
Equity securities	55%	57%	55%
Fixed income securities	33	31	34
Real estate	10	11	10
Cash and cash equivalents	2	1	1
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Information about the expected cash flows for the Plan follows:

Estimated employer contributions:

2007 \$ 1,200

Estimated future benefit payments are as follows:

2007 \$ 1,484
 2008 1,515
 2009 1,554
 2010 1,622
 2011 1,705
 2012 and beyond 10,212

(5) Net Assets

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

	2006			2005 Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Operating:				
Undesignated, departmental funds	\$ 52,867			\$ 52,867
University designated	68,096			68,096
Donor restricted		\$ 48,872		48,872
Facilities and equipment	262,409	57,239		319,648
Student loans	8,364		\$ 7,684	16,048
Endowment and life income	1,028,154	84,804	1,212,069	2,325,027
Total net assets	<u>\$ 1,419,890</u>	<u>\$ 190,915</u>	<u>\$ 1,219,753</u>	<u>\$ 2,830,558</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2006

(with comparative information as of and for the Year Ended June 30, 2005)

(Thousands of dollars)

(6) Commitments and Contingencies

Outstanding commitments on uncompleted construction contracts total \$42,317 at June 30, 2006.

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

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

The University and the City of Providence (the City) have entered into an agreement whereby the University will make certain payments to the City. Such payments are voluntary and may be discontinued at any time with prior notice as described in the agreement. The amount expected to be paid in fiscal year 2007 is approximately \$1,440.

BROWN UNIVERSITY OFFICE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Schedule I

Federal grantor	Program title	Pass-through grantor	Funding identification number	CFDA number	Federal expenditures
Research and Development					
Air Force	Basic, Applied, and Advanced Research in Science and Engineering			12.630	\$ 1,266,153
	Air Force Defense Research Sciences Program			12.800	1,439,887
		Ohio State University	RF01004029_746628	12.800	51,283
	Research and Technology Developmen			12.910	120,935
		Johns Hopkins University	8207-53705	12.910	44,685
	Other Research			12.000	179,018
		Ceramtec	P.O. #38975	12.000	82,660
		Physical Sciences Inc	PSI P.O. #35205	12.000	32,699
				12.000	(382)
	Air Force total				3,216,938
Centers for Disease Control and Prevention	Other Research	RI Dept. of Health	75H00336309-2	93.000	151,470
	Centers for Disease Control and Prevention total				151,470
Corporation for National and Community Service	Learn and Serve America Higher Education			94.005	477,197
	Corporation for National and Community Service total				477,197
Defense Advanced Research Projects Agency	Research and Technology Developmen			12.910	840,163
	Other Research	Adventium Labs	C2006-06-009	12.000	80,616
		International Business Machines	W0550433	12.000	141,020
		Pennsylvania State University	S04-15	12.000	121,334
		VSM Medtech Systems, Inc		12.000	189,866
	Defense Advanced Research Projects Agency total				1,372,999
Department of Agriculture	Agricultural and Rural Economic Research	University of California, Davis	K-981834-16	10.250	3,038
	Department of Agriculture total				3,038
Department of Energy	Office of Science Financial Assistance Program			81.049	3,764,591
	Conservation Research and Developmen			81.086	365,910
	Other Research			81.000	14,109
		Argonne National Laboratory	5F-00536	81.000	48,121
		Brookhaven National Laboratory	95452	81.000	31,868
		Fermi Lab	PO 566727	81.000	51,051
		Lawrence Livermore National Laboratory	B527302	81.000	221,221
		Los Alamos National Laboratory	08337-001-05	81.000	101,423
		Oak Ridge National Laboratory	4000023957	81.000	57,107
		Sandia National Laboratories	579503	81.000	3,570
			301120	81.000	5,732
			PO 180832	81.000	112,918
			SNL #301120	81.000	7,997
		Stanford Linear Accelerator Centei	SLAC-55080	81.000	4,650
	Department of Energy total				4,790,268
Department of Health and Human Services	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (sed)	Department of Children, Youth and Families	1079.20401072/79A001596	93.104	53,718
	Biological Response to Environmental Health Hazard:			93.113	591,316
		Silent Spring Institute	R25 ES013258	93.113	71,410
	Applied Toxicological Research and Testing			93.114	2,807,406
	Oral Diseases and Disorders Research	Spire Corporation	PO #217998	93.121	18,187
	Aids Education and Training Centers	University of Massachusetts, Worcester	6056503/OCP 14	93.145	75,795
	Human Genome Research			93.172	501,211
	Research Related to Deafness and Communication Disorder Disorders			93.173	1,046,630
	National Research Service Awards_health Services			93.225	(41,195)
	Research Training			93.226	589,534
	Research on Healthcare Costs, Quality and Outcome: Consolidated Knowledge Development and Applicator (KD&A) Program			93.230	614,174
	National Center on Sleep Disorders Research	University of Kentucky Research Foundation	46832-05-412	93.233	394,024
	Policy Research and Evaluation Grants	University of Missouri - Columbia	GC005179-6	93.239	14,725
				93.239	24,309
	Mental Health Research Grants			93.242	3,516,974
		Boston University	MC-187899-N-CM	93.242	69,076
		Butler Hospital	910-068	93.242	152,383
			925-068	93.242	19,237
		Miriam Hospital	M904582/TMH710-7355	93.242	(30,811)
		University of California at Los Angeles	2000 G GN235	93.242	217,964
		University of North Carolina	5-32585	93.242	14,248
	State Planning Grants Health Care Access for the Uninsured for the Uninsured	Rhode Island Dept. of Human Service:	69B00301090	93.256	66,767
			RIHS 69B00296171	93.256	131,432
			RIHS 69B00296171-4	93.256	47,686
	Alcohol Research Career Development Awards for Scientists and Clinicians			93.271	307,386
	Alcohol National Research Service Awards for Research Training			93.272	525,441
	Alcohol Research Programs			93.273	3,639,666
		Boston University	6938-5 MC-505350-BAJ	93.273	27,834
			MC-426497-D-JW	93.273	7,337
		Butler Hospital	903-068	93.273	16,052
		Indiana University	AA12696/39210-0041	93.273	37,815
		Research Triangle Institute	4-48U-7901	93.273	40,560
		RI Hospital	Z1031030 R01_AA013709	93.273	31,160
			Z1051041/ TMH 701-9237	93.273	6,354
		University of California at Los Angeles:	2000 G FG392	93.273	60,754

BROWN UNIVERSITY OFFICE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Schedule I

Federal grantor	Program title	Pass-through grantor	Funding identification number	CFDA number	Federal expenditures
	Drug Abuse and Addiction Research Programs			93.279	\$ 4,694,775
		Boston University	7024-5 (MC514931-B-A	93.279	19,965
		Butler Hospital	902-068	93.279	27,268
			902-1-068	93.279	12,231
			945-068	93.279	26,796
			945-5-068	93.279	50,693
			961-068	93.279	69,114
		Miriam Hospital	M1202578/7109215	93.279	34,063
			M857111/TMH7 10-7333	93.279	16,224
		RI Hospital	Z1051044/TMH 701-9232	93.279	6,354
			Z1071343/TMH 701-7553	93.279	17,010
			Z1150966/RIH7019292	93.279	10,574
	Mental Health Research Career/scientist Development Awards			93.281	548,434
	Mental Health National Research Service Awards: for Research Training			93.282	499,786
	Centers for Disease Control and Prevention, investigations and Technical Assistant	University of California at Berkeley	SA3774PG/P715873	93.283	(967)
	Discovery and Applied Research for Technological Innovations to Improve Human Health			93.286	363,429
		Marine Biological Laboratory	MBL24628	93.286	14,086
		Texas A & M Research Foundation	35021	93.286	25,096
	National Center for Research Resource:			93.389	6,552,667
		RMC Research Corporation	G070833	93.389	23,430
		Roger Williams Hospital	G031091	93.389	(323)
			G043181	93.389	115,989
			G058257	93.389	148,502
		University of Rhode Island	072505/0000764	93.389	32,069
			072505/0000765	93.389	154,287
			090804/0000406	93.389	4,839
			100505/0000904	93.389	5,489
			100605/0000892	93.389	23,250
			061706/0001097	93.389	13,212
		Women & Infants Hospital	9580	93.389	46,537
	Cancer Cause and Prevention Research	Miriam Hospital	TMH7305 /Core B+PROJECT2	93.393	941,166 (80,160)
	Cancer Detection and Diagnosis Research			93.394	5,587,993
		American College of Radiology	ACRN 6666	93.394	181,733
			CA94032	93.394	48,440
	Cancer Treatment Research	Boston Medical Center	LAWSON #0156601	93.395	(23,693)
		Miriam Hospital	Z1122983/TMH 710-7236	93.395	25,963
		University of Louisville	04-1050	93.395	47,044
	Cancer Biology Research			93.396	521,031
		Boston University	MC-425526-D-JW	93.396	25,691
	Cancer Centers Support Grants			93.397	34,660
		University of Wyoming	924000	93.397	(20)
	Cancer Research Manpower			93.398	177,947
		Miriam Hospital	M1181891/ 710-7335	93.398	17,354
			M959766 TMH710-7335	93.398	1,858
	Cancer Control			93.399	678,692
		Butler Hospital	950-2-068	93.399	786,712
		Dartmouth College	5-30333.5700	93.399	2,793
		Miriam Hospital	860492 TMH710 7335	93.399	7,420
			950-3-068 (7P50	93.399	83,625
			CA084719-07		
			950-7-068	93.399	11,457
		RI Hospital	Z1117784	93.399	207,357
			RIH7019278		
			CA106592-2		
			5R01		
	Early Learning Fund	The Providence Plan	READY TO LEARN	93.577	60,667
	Medical Assistance Program	Surescripts		93.779	252,195
	Basic/core Area Health Education Center:			93.824	894,939
	Heart and Vascular Diseases Research			93.837	2,544,369
		Miriam Hospital	M1122985/TMH-7107222	93.837	32,470
			M1128784/TMH710-7228	93.837	25,786
			PO M1188234 /	93.837	10,205
			TMH 710-7218		
			TMH 710-7649/Z981201	93.837	55,161
		The Progeria Research Foundation, Inc	PROGERIA DATABASE	93.837	384
	Lung Diseases Research			93.838	319,407
	Arthritis, Musculoskeletal and Skin Diseases Research			93.846	47,564
		RI Hospital	Z880769	93.846	111,971
	Diabetes, Endocrinology and Metabolism Research			93.847	336,614
		Tufts University	R01-DK047940	93.847	52,472
	Digestive Diseases and Nutrition Research			93.848	470,897
		University of North Carolina	5-33197	93.848	49,698
	Extramural Research Programs in the Neurosciences and Neurological Disorders			93.853	2,617,251
		LifeCell Corporation	4R44 NS04532-02	93.853	64,113
		National Institute of Neurological Disorders and Stroke	4 R37 NS025074-18	93.853	479,283
	Biological Basis Research in Neuroscience: Allergy, Immunology and Transplantation Research			93.855	56
		Massachusetts General Hospital	219061	93.855	827,069
	Microbiology and Infectious Diseases Research			93.856	54,261
		Epivax, Inc.		93.856	1,263,265
		Miriam Hospital		93.856	120,167
			7107634-8985	93.856	17,545
			M963176/TMH-710-7634	93.856	82,860
			TMH-7107634/M9630 52	93.856	3,985
			Z1049570/#710-7663	93.856	63,493
		RI Hospital	POZ1242454 #7019640	93.856	58,841
			POZ1242538 #7019640	93.856	1,944

BROWN UNIVERSITY OFFICE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Schedule I

Federal grantor	Program title	Pass-through grantor	Funding identification number	CFDA number	Federal expenditures
	Biomedical Research and Research Training			93.859	\$ 5,582,951
	Population Research	Yale University	Y-06-0011	93.864	105,233
	Child Health and Human Development				
	Extramural Research				
		Columbia University	5R01 HD041724-04 #2	93.865	2,010,829
		Emory University	NIH-HIRSCHE 0001	93.865	112,937
		University of Iowa	PO 4000529445	93.865	(71,851)
		Women & Infants Hospital	9553	93.865	36,308
				93.866	(3,157)
	Aging Research				
		Hebrew Rehabilitation Center for Agec	R01 AG024091	93.866	3,913,935
		Memorial Hospital	5 R01AG16335-04	93.866	46,475
			PAPADONATOS G	93.866	10,558
		Rutgers State University	2177/4-27403 10208	93.866	30,228
		The Progeria Research Foundation, Inc	PROGERIA	93.866	150
		University of Rochester	412868-G	93.866	15,749
				93.867	39,163
	Vision Research				
	Grants for Training in Primary Care Medicine and Dentistry			93.884	2,126,275
	Resource and Manpower Development in the Environmental Health Science:				
	International Research and Research Training				
	Other Research				
		American Medical Student Association Foundatio	230-03-0015	93.000	348,452
		Boston VA Medical Center	IPA AGREEMENT	93.000	393,507
			AL01A	93.000	890,387
			IPA AGREEMENT_-	93.000	12,149
			AL01A	93.000	15,444
			IPA AGREEMENT-		
			JAMIE SKREKAS	93.000	1,825
		Giner, Inc.		93.000	2,100
		Johns Hopkins University	8512-51849-2	93.000	9,030
		Johnson, Bassin & Shaw, Inc	263-01-D-0158 #172	93.000	21,041
		Massachusetts General Hospital	STEP-BD	93.000	7,400
		McLean Hospital	DA015831-04 5U10	93.000	20,734
		National Bureau of Economic Research	40-4094	93.000	8,033
		President and Fellows of Harvard College	148988-0464	93.000	219,025
		Quality Partners of Rhode Islanc	WFR-PCC	93.000	9,574
		Research Triangle Institute	13-46U-7897	93.000	20
		Rhode Island Quality Partners, Inc	QPRI	93.000	29,900
		RI Dept. of Health	75D00347863	93.000	4,208
				93.000	21,662
				93.000	49,885
				93.000	22,693
		University of Pennsylvani	PO 1521646 537569	93.000	64,037
		University of Rhode Island	061606/0001094	93.000	16,512
		Vanderbilt University	VUMC30443-R 5R01 A10	93.000	21,554
		Women & Infants Hospital	9569	93.000	8,672
		Zeneca, Inc.	PLNDP2005	93.000	14,984
	Department of Health and Human Services total				65,869,649
Department of Justice	National Institute of Justice Research, Evaluation, and Development Project Grants			16.560	443,684
	Department of Justice total				443,684
Department of Veterans' Affairs	Other Research	U.S. Dept of VA Medical Center of Providence	IPA Donoghue	64.000	2,169
			IPA-Briant and Clifton	64.000	34,870
			IPA-LYSAGHT,MORGAN,	64.000	80,710
			V00241P-00445	64.000	14,499
			V650P-3944	64.000	75
			V650P-3954	64.000	53,117
		VA New England Healthcare System	IPA AGREEMENT	64.000	25,716
	Department of Veterans' Affairs total				211,156
Environmental Protection Agency	Other Research			66.500	64,513
	Science to Achieve Results (star) Research Program			66.509	93,590
	Science to Achieve Results (star) Fellowship Program			66.514	21,780
	P3 Award: National Student Design Competition for Sustainability			66.516	2,267
	Environmental Protection Agency total				182,150
Joint Adl Co-laboratory	Other Research			12.000	26,293
	Joint Adl Co-laboratory total				26,293
National Aeronautics and Space Administration	Other Research			43.000	7,988,294
		Carnegie Institution of Washington	DTM-3250-05	43.000	56,459
		Jet Propulsion Lab	1244339	43.000	52,447
			1268782	43.000	53,308
			1270360	43.000	64,198
			JPL 1237163	43.000	58,285
			JPL 1262664	43.000	15,028
		Johns Hopkins Applied Physics Laboratory	852950	43.000	207,162
		Marine Biological Laboratory	MBL 21180	43.000	35,217
		National Space Biomedical Research Institut	NBPF00406	43.000	241,602
		Northwestern University	0720-300-J446-1186	43.000	14,887
		Scientific Solutions, Inc	NNG05 CA95	43.000	20,835
		Smithsonian Institution Astrophysical Observator	G05-6138B	43.000	10,779
		University of California at Los Angeles:	2090 G FC198	43.000	58,709
		University of Maryland	Z667703	43.000	156,244
		University of Minnesota	X5336524201	43.000	15,173
		University of Wyoming	G072063	43.000	13,090
	National Aeronautics and Space Administration total				9,061,717
National Endowment for the Arts	Promotion of the Arts_grants to Organizations and Individuals			45.024	32,844
	Other Research	Massachusetts Cultural Council	FY06-TI-NS-0694	45.000	40,000
		RI State Council on the Arts	RISCA 05-06		17,917
	National Endowment for the Arts total				90,761

BROWN UNIVERSITY OFFICE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Schedule I

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>Funding identification number</u>	<u>CFDA number</u>	<u>Federal expenditures</u>	
National Endowment for the Humanities	Promotion of the Humanities_federal/state Partnership	RI Committee for the Humanities	04ERG21	45.129	\$ 1,797	
			50ERG02	45.129	760	
			06PPG07	45.129	283	
	Promotion of the Humanities_division of Preservation and Access			45.149	60,996	
	Promotion of the Humanities_research			45.161	56,246	
	Promotion of the Humanities_teaching and Learning Resources and Curriculum Developmen			45.162	(4,080)	
	Promotion of the Humanities Extending the Reach Grants to Presidentially designated Minority Institution			45.167	88,572	
	Other Research	RI Committee for the Humanities	055DG01	45.000	3,483	
	National Endowment for the Humanities total				208,057	
	National Geospatial-intelligence Agency	Basic, Applied, and Advanced Research in Science and Engineering			12.630	276,551
National Geospatial-intelligence Agency total					276,551	
National Ocean and Atmospheric Agency	Sea Grant Support	University of Georgia	RR746- 013/7876877	11.417	41,465	
		University of Rhode Island	279	11.417	80,072	
			102305/0000271	11.417	5,500	
		Geosyntec	SMART CICEET	11.419	42,858	
	Coastal Zone Management Administration Award			11.420	42,291	
	Coastal Zone Management Estuarine Research Reserves			11.430	22,948	
	Undersea Research	University of Alaska Fairbanks	UAF 05-0146 FP600127	11.000	77,653	
	Other Research	University of Rhode Island	020606/0000848			
	National Ocean and Atmospheric Agency total				312,787	
	National Science Foundation	Engineering Grants			47.041	2,068,861
		Scientific Solutions, Inc	011-5339657	47.041	16,313	
		University of Georgia	RR185-313/7877477	47.041	68,331	
		University of Minnesota	V5186683101	47.041	31,669	
Mathematical and Physical Science:				47.049	5,835,251	
		Johns Hopkins University	8503-86888	47.049	107,154	
			8510-37911	47.049	64,452	
			8510-53738	47.049	34,924	
		University of Kansas Center for Research	FY2002-008	47.049	31,136	
		University of Maryland	Z422702	47.049	41,341	
Geosciences				47.050	1,425,573	
		Joint Oceanographic Institute	JSC3-01	47.050	(53,277)	
			T302A32	47.050	14,762	
		University of Southern Californiic	76546	47.050	44,531	
		Woods Hole Oceanographic Institutior	A100322	47.050	6,585	
Computer and Information Science and Engineerin,				47.070	3,991,902	
		Carnegie Mellon University	1120-190-136531	47.070	46,092	
		Johns Hopkins University	8102-16729	47.070	46,329	
			8602-55015	47.070	34,736	
		National Bureau of Economic Research	25-3387-01-0-79-265-	47.070	24,434	
Biological Sciences:				47.074	1,897,329	
		Cornell University	34356-6019	47.074	14,132	
		State University of New York	28104	47.074	47,670	
		University of Georgia	RR187-185/787557	47.074	60,161	
		University of Wyoming	NSF-44253BRWN	47.074	17,129	
		Washington State University	G001593/OGRD #101070	47.074	18,011	
Social, Behavioral, and Economic Science				47.075	2,990,358	
		Civilian Research & Development Foundation	RM1-2324-NO-02	47.075	1,469	
		Silent Spring Insitute	SES-0450837	47.075	51,642	
Education and Human Resources:				47.076	942,226	
		American Educational Research Associatio	AERA	47.076	10,682	
		Temple University	33-2460-101	47.076	24,791	
Polar Programs				47.078	69,640	
		Boston University	GC185850NGA	47.078	4,966	
International Science and Engineering (OISE)		Johns Hopkins University	8602-37915	47.079	13,023	
Other Research				47.000	505,994	
		Cosmos Corporation	S-2005-005	47.000	137,261	
		Maricopa County Community College Distric	PO 281783	47.000	22,054	
		National Bureau of Economic Research	25-3387-00-0-79 265-	47.000	42,656	
		University of Louisville	A6118 2005-06198-08	47.000	75,433	
	University of Rhode Island	EPSCOR	47.000	496,873		
National Science Foundation total				21,324,599		
National Security Agency	Mathematical Sciences Grants Program			12.901	1,485	
	National Security Agency total				1,485	
U.S. Army Medical Research Activity	Military Medical Research and Development			12.420	124,302	
	U.S. Army Medical Research Activity total				124,302	
U.S. Dept. of Interior	Other Research			15.000	84,652	
	U.S. Dept. of Interior total				84,652	
U.S. Army	Military Medical Research and Development			12.420	406,008	
	Basic Scientific Research:			12.431	519,272	
	Basic Scientific Research:	University of Wyoming	R170096	12.432	87,523	
	Other Research	Bae Systems	04062-6896	12.000	105,891	
		CFD Research Corporation	05-111	12.000	7,474	
			CFDR 04-368	12.000	195,473	
			P.O. #06-118	12.000	13,000	
	U.S. Army total				1,334,641	
	U.S. Army Research and Material Command	Military Medical Research and Development			12.420	90,785
		U.S. Army Research and Material Command total				90,785

BROWN UNIVERSITY OFFICE
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Schedule I

Federal grantor	Program title	Pass-through grantor	Funding identification number	CFDA number	Federal expenditures	
U.S. Department of Education	Civil Rights Training and Advisory Services	City of Hudson Public Schools	S215X020247	84.004	\$ 484,644	
				84.125	229,652	
	Other Research	City of Hudson Public Schools	S215X020247	84.133	84.165	34,377
					84.165	12,952
	National Institute on Disability and Rehabilitation Research	American Education Solutions, Inc	AES Basic	AES RIGOROUS	84.165	564,323
					84.215	59,312
	Magnet Schools Assistance	Boston Public Schools	City of Syracuse School District	320515	84.215	30,322
					84.215	120,330
	Fund for the Improvement of Education	Clear Creek Independent School District	Danbury Public Schools	NOTTINGHAM	84.215	60,950
					84.215	10,791
		East Hartford Public Schools	Manchester School District	CLEAR CREEK	84.215	5,740
					84.215	48,374
		Plainfield Public Schools	Port Chester-Rye Union Free School District	MANCHESTER 529787	84.215	4,015
					84.215	36,317
		Salem State College	Salem State College	PO 41210	84.215	33,480
					84.215	1,558
	Comprehensive School Reform Demonstration	Waterbury, City Of	Waterbury, City Of	WATERBURY PO 18042	84.215	631,316
					84.332	34,236
	Arts in Education	Woonsocket, City Of	City of Central Falls School District	WOONSOCKET	84.331	182,770
					84.367	17,014
	Improving Teacher Quality State Grants	Eastconn	Education Development Center	U351D030157	84.368	2,576
					84.368	42,487
	Grants for Enhanced Assessment Instruments	Education Development Center, Inc	Education Development Center, Inc	6460 5368A030014	84.004D	9,775
					84.170B	110,633
	Civil Rights Training and Advisory Service:	Javits Fellowships	Bilingual Education Professional Development	Bilingual Education Professional Development	84.195A	28,839
					84.195E	300,493
	Graduate Assistance in Areas of National Need	Fund for the Improvement of Education	Comprehensive Centers	Pemberton Township Board of Education	84.200A	185,574
					84.215L	13,409
	Comprehensive Centers	RMC Research Corporation	RMC Research Corporation	PEMBERTON SLC M56229	84.283B	178,934
					84.283B	266,146
	Twenty-first Century Community Learning Centers	Regional Technology in Education Consortia	Education Research, Development and Dissemination	Vanderbilt University	72A0327636	95,557
					84.302A	11,862
	National Institute on Postsecondary Education, Libraries, and Lifelong Learning	Capacity Building for Traditionally Underserved Populations	Teacher Quality Enhancement Grants	University of Rhode Island	R305A040043	5,376
					R309B960002	84.309B
	Early Learning Fund	Other Research	Providence Plan	EARLY READING FIRST	84.315D	37,757
					84.336B	8,802
		Bristol Community College	Bristol Community College	BRISTOL COMMUNITY CO	84.336B	51,011
					84.000	81,962
		Central Falls School District	Central Falls School District	CENTRAL FALLS	84.000	5,079,806
					84.000	(6,674)
		City of Central Falls School District	City of Central Falls School District	CENTRAL FALLS ARTS LITERACY	84.000	23,841
					84.000	4,658
		City of Hartford	City of Pittsfield Middle High School	HARTFORD	84.000	99,156
					84.000	96,251
		City of Pittsfield Middle High School	East Hartford Public Schools	PITTSFIELD 301142	84.000	15,822
					84.000	5,521
		East Hartford Public Schools	East Haven Public Schools	053841_EAST HARTFORD	84.000	3,793
					84.000	(922)
		East Haven Public Schools	Fall River Public Schools	PO 072613	84.000	33,399
					84.000	10,366
		Fall River Public Schools	Hezel Associates	PO 368032 EAST HAVEN	84.000	19,554
					84.000	(39,845)
		Hezel Associates	Hillsboro-Deering High School	FALL RIVER	84.000	8,490
					84.000	59,602
		Hillsboro-Deering High School	Jamestown Board of Education	R286A000003	84.000	7,376
					84.000	141
		Jamestown Board of Education	Nashua, New Hampshire	SAU # 34 -	16210_HILLSBORO	63,375
					84.000	41,390
		Nashua, New Hampshire	New Haven Public Schools	JAMESTOWN PO 165441	84.000	28,178
					84.000	9,799
		New Haven Public Schools	New Rochelle High School	M57723 NASHUA	84.000	28,550
					84.000	(1,619)
		New Rochelle High School	New York City	9563862	84.000	4,810
					84.000	20,499
		New Rochelle High School	Newton Public Schools	95678853	84.000	42,637
					84.000	87,968
		New York City	Northwest Regional Educational Laboratory	663 NEW ROCHELLE	84.000	39,484
					84.000	12,072
		Newton Public Schools	Northwest Regional Educational Laboratory	9301154 PO3V85737	84.000	3,620
					84.000	5,980
		Northwest Regional Educational Laboratory	Omaha Public Schools	NPSG-0506	84.000	52,839
					84.000	30,001
		Omaha Public Schools	Peabody Public Schools	NPSG-0603	84.000	30,785
					84.000	25,560
		Peabody Public Schools	Pemberton Township Board of Education	NWREL_ED-04-CO-0123	84.000	24,250
					84.000	241,068
		Pemberton Township Board of Education	Plymouth Public Schools	NWREL_1149-001	84.000	8,000
					84.000	81,629
		Plymouth Public Schools	Princeton Regional Schools	advance	84.000	88,784
					84.000	90
		Princeton Regional Schools	Puerto Rico	PEABODY	84.000	(6,421)
					84.000	
		Puerto Rico	Rhode Island College	M342609_PEMBERTON	84.000	
					84.000	
		Rhode Island College	RI Dept. of Education	M453822_PEMBERTON	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	PEMBERTON	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	31299 PLYMOUTH	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	PLYMOUTH 05-06	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	PRINCETON SCHOOL	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	2006-AF0253	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	PUERTO RICO	84.000	
					84.000	
		RI Dept. of Education	RI Dept. of Education	RIC 2666A	84.000	
					84.000	
	RI Dept. of Education	RI Dept. of Education	1440-51000-601	84.000		
				84.000		
	RI Dept. of Education	RI Dept. of Education	1440-51000-602	84.000		
				84.000		
	RI Dept. of Education	RI Dept. of Education	5-140-51000-207-01	84.000		
				84.000		
	RI Dept. of Education	RI Dept. of Education	5-1440-51000-501	84.000		
				84.000		

BROWN UNIVERSITY OFFICE

Schedule I

Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

Federal grantor	Program title	Pass-through grantor	Funding identification number	CFDA number	Federal expenditures
		Salem High School	00093306-00	84.000	\$ (1,428)
			SALEM PS	84.000	10,776
		Soliloquy Learning	S7509	84.000	42,814
		Stamford Public Schools	STAMFORD 123299	84.000	21,452
		State of Vermont	8407	84.000	11,702
			VERMONT	84.000	(2,370)
		Temple University	31-1992-701	84.000	61,465
		University of the Virgin Islands	U. VIRGIN ISLANDS	84.000	241,437
		West Hartford	PO DP024769	84.000	40,360
		William Floyd School Distric	WILLIAM FLOYD	84.000	50,000
		Yonkers Public Schools	YONKERS 311-01	84.000	131,055
	U.S. Department of Education total				<u>11,048,204</u>
U.S. Department of State	Other Research			19.000	6,600
	U.S. Department of State total				<u>6,600</u>
U.S. Geological Survey	Earthquake Hazards Reduction Program			15.807	48,442
	U.S. Geological Survey total				<u>48,442</u>
U.S. Institute of Peace	Unsolicited Grant Program			91.001	47,003
	Other Research			91.000	51,519
	U.S. Institute of Peace total				<u>98,522</u>
U.S. Navy	Basic and Applied Scientific Research			12.300	2,280,867
		Stanford University	1407662-26739-A	12.300	213,489
		University of Texas, Arlington	26-0601-10-62	12.300	183,225
	Other Research			12.000	1,861,253
	U.S. Navy total				<u>4,538,834</u>
	Research and Development total				<u>125,395,781</u>
Student Financial Aid Cluster					
U.S. Department of Education	Federal Perkins Loan Program (note 4)			84.038	5,606,748
	Federal Direct Student Loans (note 4)			84.268	26,099,186
	Federal Work-study Program			84.033	1,316,126
	Federal Pell Grant Program			84.063	1,835,841
	Federal Supplemental Educational Opportunity Grant:			84.007	816,187
	Subtotal – U.S. Department of Education – Direct				<u>35,674,088</u>
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care			93.342	142,421
	Loans/loans for Disadvantaged Students (note 4)			93.925	98,390
	Scholarships for Disadvantaged Students				
	Student Financial Aid total				<u>35,914,899</u>
	Total expenditures for Federal Awards for the year ended June 30, 2006				<u>\$ 161,310,680</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, 2006

(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, 2006. Negative amounts on the Schedule represent adjustments to expenditures reported in the 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 Aid*

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 for awards (other than student financial aid) 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.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(3) Facilities and Administrative Cost Recoveries

During fiscal year 2006, the University recovered F&A costs associated with research and development award programs pursuant to an arrangement negotiated with DHHS, the federal cognizant agency for F&A costs. The recovery of F&A costs is pursuant to an agreement which provides predetermined rates for fiscal year 2006.

The University also recovered an administrative cost allowance from the Federal Perkins Loan Program of \$330,903 for the year ended June 30, 2006.

(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, 2006 are summarized as follows:

Campus based loan programs:	
Federal Perkins Loan Program	\$ 5,275,845
Health Professions Student Loan Program (HPSL)	142,421
Total campus based loans programs	<u>\$ 5,418,266</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 10,453,774
Unsubsidized Stafford Loan Program	6,225,507
PLUS Loan Program	9,419,905
Total federal direct loan programs	<u>\$ 26,099,186</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, 2006 consist of:

Federal Perkins Loan Program (including income contingent loans)	\$ 25,183,049
HPSL	604,774
Total federal student loans	<u>\$ 25,787,823</u>

(5) Loan Payable

The University has debt payable to the Department of Education amounting to \$1,443,000 as of June 30, 2006 which is not included on the Schedule. Details of the debt, maturity, and other related information are included in note 3 to the basic financial statements of the University.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(6) Subrecipients

During fiscal year 2006, the University provided \$13,496,206 to subrecipients as part of its research and development program.



KPMG LLP
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Providence, RI 02903

**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, 2006 and for the year then ended, and have issued our report thereon dated October 20, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 20, 2006.

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

October 20, 2006



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

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* that are applicable to its major federal program for the year ended June 30, 2006. 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, 2006.

Internal Control over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited



may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 21, 2007

