



BROWN UNIVERSITY

Independent 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, 2015

BROWN UNIVERSITY

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Independent Auditors' Report

The President and Corporation
Brown University:

Report on the Financial Statements

We have audited the accompanying financial statements of Brown University (the University), which comprise the balance sheets as of June 30, 2015 and 2014, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 23, 2015, except as to the supplementary
schedule of expenditures of federal awards,
which is as of February 12, 2016

BROWN UNIVERSITY

Balance Sheets

June 30, 2015 and 2014

(Dollars in thousands)

Assets	2015	2014
Cash and cash equivalents	\$ 51,188	25,546
Receivables for investments sold	—	12,232
Accounts receivable and other assets	45,610	47,697
Contributions receivable, net	161,786	150,393
Notes receivable, net	31,972	32,133
Funds held in trust by others	68,253	123,844
Investments	3,709,288	3,485,789
Land, buildings and equipment, net	1,064,105	1,048,118
Total assets	<u>\$ 5,132,202</u>	<u>4,925,752</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 52,321	56,724
Liabilities associated with investments	134,127	8,056
Student deposits and grant advances	63,097	58,767
Federal student loan advances	24,416	24,428
Split-interest obligations	22,613	18,737
Other long-term obligations	70,760	54,205
Bonds, loans and notes payable	845,227	852,088
Total liabilities	<u>1,212,561</u>	<u>1,073,005</u>
Net assets:		
Unrestricted	992,318	1,002,498
Temporarily restricted	1,544,744	1,516,971
Permanently restricted	1,382,579	1,333,278
Total net assets	<u>3,919,641</u>	<u>3,852,747</u>
Total liabilities and net assets	<u>\$ 5,132,202</u>	<u>4,925,752</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2015

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 450,532	—	—	450,532
Less university scholarships	(161,460)	—	—	(161,460)
Net tuition and fees	289,072	—	—	289,072
Grants and contracts – direct	113,033	—	—	113,033
Grants and contracts – indirect	38,425	—	—	38,425
Contributions	68,760	29,932	—	98,692
Endowment return appropriated	136,878	5,847	—	142,725
Sales and services of auxiliary enterprises	90,022	—	—	90,022
Other income	36,696	—	—	36,696
Net assets released from restrictions	15,799	(15,799)	—	—
Total operating revenues	<u>788,685</u>	<u>19,980</u>	<u>—</u>	<u>808,665</u>
Operating expenses:				
Salaries and wages	322,533	—	—	322,533
Employee benefits	93,351	—	—	93,351
Graduate student support	64,600	—	—	64,600
Purchased services	71,696	—	—	71,696
Supplies and general	110,511	—	—	110,511
Utilities	29,624	—	—	29,624
Other	16,584	—	—	16,584
Interest	30,634	—	—	30,634
Operating expenses before depreciation	<u>739,533</u>	<u>—</u>	<u>—</u>	<u>739,533</u>
Net change from operating activities before depreciation	49,152	19,980	—	69,132
Depreciation	<u>71,424</u>	<u>—</u>	<u>—</u>	<u>71,424</u>
Change in net assets from operating activities	<u>(22,272)</u>	<u>19,980</u>	<u>—</u>	<u>(2,292)</u>
Nonoperating activities:				
Contributions	1,213	29,228	55,890	86,331
Net investment return	28,555	124,013	318	152,886
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Other changes, net	(6,299)	(14,100)	(6,907)	(27,306)
Net assets released from restrictions	10,121	(10,121)	—	—
Change in net assets from nonoperating activities	<u>12,092</u>	<u>7,793</u>	<u>49,301</u>	<u>69,186</u>
Change in net assets	(10,180)	27,773	49,301	66,894
Net assets, beginning of year	<u>1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>
Net assets, end of year	<u>\$ 992,318</u>	<u>1,544,744</u>	<u>1,382,579</u>	<u>3,919,641</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 428,890	—	—	428,890
Less university scholarships	(153,424)	—	—	(153,424)
Net tuition and fees	275,466	—	—	275,466
Grants and contracts – direct	110,528	—	—	110,528
Grants and contracts – indirect	36,971	—	—	36,971
Contributions	74,324	18,715	—	93,039
Endowment return appropriated	125,366	10,101	—	135,467
Sales and services of auxiliary enterprises	87,311	—	—	87,311
Other income	32,523	—	—	32,523
Net assets released from restrictions	9,667	(9,667)	—	—
Total operating revenues	<u>752,156</u>	<u>19,149</u>	<u>—</u>	<u>771,305</u>
Operating expenses:				
Salaries and wages	313,076	—	—	313,076
Employee benefits	95,299	—	—	95,299
Graduate student support	62,189	—	—	62,189
Purchased services	67,874	—	—	67,874
Supplies and general	104,883	—	—	104,883
Utilities	27,265	—	—	27,265
Other	10,244	—	—	10,244
Interest	27,093	—	—	27,093
Operating expenses before depreciation	<u>707,923</u>	<u>—</u>	<u>—</u>	<u>707,923</u>
Net change from operating activities before depreciation	44,233	19,149	—	63,382
Depreciation	<u>66,655</u>	<u>—</u>	<u>—</u>	<u>66,655</u>
Change in net assets from operating activities	<u>(22,422)</u>	<u>19,149</u>	<u>—</u>	<u>(3,273)</u>
Nonoperating activities:				
Contributions	5,670	18,786	72,720	97,176
Net investment return	113,036	325,484	6,076	444,596
Endowment return appropriated	(22,255)	(113,212)	—	(135,467)
Other changes, net	(11,151)	9,253	(552)	(2,450)
Net assets released from restrictions	5,349	(5,349)	—	—
Change in net assets from nonoperating activities	<u>90,649</u>	<u>234,962</u>	<u>78,244</u>	<u>403,855</u>
Change in net assets	68,227	254,111	78,244	400,582
Net assets, beginning of year	<u>934,271</u>	<u>1,262,860</u>	<u>1,255,034</u>	<u>3,452,165</u>
Net assets, end of year	<u>\$ 1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2015 and 2014

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 66,894	400,582
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(147,624)	(430,041)
Depreciation	71,424	66,655
Amortization of bond premium	(4,066)	(3,862)
Loss from disposals of land, building and equipment	1,804	3,373
Change in funded status of pension obligation	6,824	(1,170)
Change in fair value of interest rate swap liabilities	8,666	1,355
Change in asset retirement obligation	1,065	(222)
Change in estimate of split-interest obligations	6,207	(5,501)
Contributions restricted for plant and endowment	(76,976)	(88,164)
Change in accounts receivable and other assets	2,087	(8,750)
Change in accounts payable and accrued liabilities	(2,543)	6,386
Change in contributions receivable	(11,393)	(13,947)
Change in other operating liabilities, net	4,318	5,692
Net cash used in by operating activities	<u>(73,313)</u>	<u>(67,614)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(87,575)	(94,115)
Purchases of investments	(1,345,394)	(1,313,061)
Sales and redemptions of investments	1,273,390	1,329,048
Purchases of securities sold short	(33,365)	—
Proceeds from securities sold short	147,403	—
Notes repaid by students and others, net	161	827
Change in funds held in trust by others	54,591	(47,776)
Net cash provided by (used in) investing activities	<u>9,211</u>	<u>(125,077)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	76,976	88,164
Proceeds from sale of restricted gifts of securities	20,394	14,263
Payments under split-interest obligations	(2,331)	(2,402)
Payments on long-term debt	(20,825)	(46,335)
Proceeds from issuance of debt, including premium	—	150,950
Proceeds from commercial paper programs	14,530	14,750
Payments on commercial paper programs	—	(14,750)
Cash collateral posted under swap agreements	16,100	—
Cash collateral returned under swap agreements	(15,100)	—
Bond issuance costs	—	(412)
Net cash provided by financing activities	<u>89,744</u>	<u>204,228</u>
Change in cash and cash equivalents	25,642	11,537
Cash and cash equivalents, beginning of year	<u>25,546</u>	<u>14,009</u>
Cash and cash equivalents, end of year	\$ <u>51,188</u>	\$ <u>25,546</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(1) Summary of Significant Accounting Policies

(a) Organization

Brown University is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 6,200 undergraduate students and 2,400 graduate and medical students. Established in 1764, Brown University offers educational programs for undergraduates in liberal arts and engineering, professional training for students pursuing a career in medicine, and graduate education and training in the arts and sciences, engineering and medicine.

(b) Basis of Presentation and Tax Status

The accompanying financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP) and present balances and transactions according to the existence or absence of donor-imposed restrictions.

The John Nicholas Brown Center for the Study of American Civilization; Fairview Incorporated, a real estate holding company; KARING, a Rhode Island not-for-profit corporation that holds certain property of the Warren Alpert Medical School; and certain limited liability partnerships established by the University's investment office that holds certain investment funds, are all separate legal entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated.

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended, and is generally exempt from income taxes. The University assesses uncertain tax positions and determined that there are no such positions that have a material effect on the financial statements.

(c) Classification of Net Assets

The University is incorporated in and subject to the laws of Rhode Island, which contain the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Under UPMIFA, the net assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University (the Corporation) in accordance with the standard of prudence prescribed by UPMIFA. The University has classified its net assets as follows:

- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.

- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of the University. Such net assets may be designated by the Corporation for specific purposes, including to function as endowment funds.

(d) *Fair Value Measurements*

Investments, funds held in trust by others, and interest rate swaps are reported at fair value in the University's financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. The University uses a three-tiered hierarchy to categorize those assets and liabilities based on the valuation methodologies employed. The hierarchy is defined as follows:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – Valuations based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Transfers between categories occur when there is an event that changes the inputs used to measure the fair value of an asset or liability. Transfers between fair value categories are recognized at the end of the reporting period.

As described in note 1(o), investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy.

(e) *Statements of Activities*

The statements of activities separately report changes in net assets from operating and nonoperating activities. Operating activities consist principally of revenues and expenses related to ongoing educational and research programs, including endowment return appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, changes in fair values of interest rate swaps and early termination thereof, change in pension plan and other long-term obligations, contributions for long-term purposes and other programs, net assets released from donor restrictions for property placed in service, and other activities not in direct support of annual operations.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

Revenues are derived from various sources, as follows:

- Tuition and fees are recognized at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Deposits and other advance payments are reported as a liability. Sales and services of auxiliary enterprises are recognized at the time the services are provided.
- Contributions, including unconditional promises from donors reported as contributions receivable, are recognized at fair value in the period received and are classified based upon the existence or absence of donor-imposed restrictions. Expirations of donor-imposed restrictions are reported as net assets released from restrictions. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted revenue. Bequest intentions and conditional promises are not recorded in the University's financial statements.
- Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct and indirect costs as direct costs are incurred. The recovery of indirect costs is pursuant to an agreement which provides for a predetermined fixed indirect cost rate. Payments received in advance of grant and contract expenditures are reported as a liability.
- Dividends, interest and realized and unrealized gains (losses) on investments are reported as increases (decreases) in (1) permanently restricted net assets if the terms of the contributions require them to be added to principal; (2) temporarily restricted net assets if the terms of the related contributions impose restrictions on their availability or use; or (3) unrestricted net assets in all other cases. Investment return attributable to donor-restricted endowment funds is reported as temporarily restricted to the extent not appropriated and spent.

Expenses are reported as decreases in unrestricted net assets.

(f) *Cash Equivalents*

For purposes of the statements of cash flows, cash equivalents, except for those held by investment managers, consist of money market funds and investments with original maturities of three months or less and are carried at cost, which approximates fair value.

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

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

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(h) Land, Buildings and Equipment

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

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

(i) Fund Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$22,411 and \$23,592 at June 30, 2015 and 2014, respectively. The University receives all or a specified portion of the return on the underlying assets of most of the trusts, which is primarily restricted for scholarships. Most of the investments held in the trusts are classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity or are considered illiquid. Other trustee funds of \$44,313 and \$100,251 at June 30, 2015 and 2014, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held in reserve in accordance with debt or similar agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

(j) Federal Student Loan Advances

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

(k) 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.

(l) Liabilities Associated with Investments

The University may, from time to time, incur liabilities associated with its investments portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a realized gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheet at June 30, 2015 include \$121,869 representing the fair value of the identical securities that must be acquired to settle the obligation to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

given that they are measured based on quoted market prices. In addition, liabilities associated with investments include the fair value of credit default swaps of \$10,511 and \$8,056 respectively, at June 30, 2015 and 2014 as well as \$1,747 related to the fair value of total return swaps entered into in fiscal 2015.

(m) Other Long-Term Obligations

Other long-term obligations include the funded status of the defined benefit pension plan of \$19,624 and \$12,800 at June 30, 2015 and 2014, respectively; the interest-rate swap liability of \$37,836 and \$29,170 at June 30, 2015 and 2014, respectively; and the asset retirement obligation of \$13,300 and \$12,235 at June 30, 2015 and 2014, respectively.

(n) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(o) Recent Accounting Pronouncement

Effective in fiscal 2015, the University retrospectively adopted the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to classify within the fair value hierarchy table in Levels 2 or 3 investments in certain funds measured at NAV as a practical expedient to estimate fair value. The ASU also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that total investments can be reconciled to the balance sheet. As a result of the adoption, the June 30, 2014 fair value hierarchy table was restated to reflect the removal of NAV-measured investments of \$766,531 previously classified in Level 2 and \$1,907,325 in Level 3. In addition, the June 30, 2013 opening balance in the Level 3 roll forward was restated to reflect the removal of NAV-measured investments aggregating \$1,705,321, as well as all NAV-measured activity in fiscal 2014. See note 3 for further information.

(p) Reclassifications

Certain 2014 financial information has been reclassified to conform to the 2015 presentation.

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(2) Contributions Receivable

The University's contributions receivable are recognized net of discounts at rates commensurate with the risks involved and after allowance for uncollectibles are reported at net realizable value, which approximates fair value. Contributions receivable were as follows at June 30:

	<u>2015</u>	<u>2014</u>
Contributions expected to be received in:		
Less than one year	\$ 39,350	50,689
Between one and five years	121,186	120,582
More than five years	24,598	1,926
Gross contributions receivable	185,134	173,197
Unamortized discount (at rates ranging from 0.7% to 4.8%) and allowance for uncollectibles	<u>(23,348)</u>	<u>(22,804)</u>
Contributions receivable, net	<u>\$ 161,786</u>	<u>150,393</u>

(3) Investments

Investment Strategy

In addition to traditional stocks and fixed-income securities, the University may also hold shares or units in institutional funds as well as in alternative investment funds involving hedged, private equity and real asset strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists and may include stocks, bonds, put or call options, swaps, currency hedges and other instruments, and are valued accordingly. Private equity funds employ buyout and venture capital strategies and may focus on investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs), commercial properties or commodities, or oil and gas, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by fund managers in the absence of readily determinable market values.

Investments also include assets related to donor annuities, pooled income funds, and charitable remainder trusts. Certain of these funds are held in trust by the University for one or more beneficiaries who are generally paid lifetime income, after which the principal is made available to the University in accordance with donor restrictions, if any. The assets are reported at fair value and related liabilities, which are reported as split-interest obligations, represent the present value of estimated future payments to beneficiaries.

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's

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Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2015, the University had no plans or intentions to sell investments at amounts different from NAV. At June 30, 2014, the sale of 21 private real assets fund interests was in negotiation. In July 2014, the investments were sold at a price other than NAV. Accordingly, at June 30, 2014, the fair value of such funds has been reflected at the sale price.

Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The following tables summarize the University's investments by strategy type as of June 30, 2015 and 2014:

	2015				
	Investments Classified in the Fair Value Hierarchy				
	Investments Measured at NAV	Level 1	Level 2	Level 3	Total
Investments:					
Equities:					
U.S. equities	\$ 180,916	134,385	6,849	147	322,297
Non-U.S. equity funds	425,504	135,909	—	—	561,413
Fixed income:					
Domestic	110,367	5,566	108,645	46,295	270,873
U.S. Treasury inflation-protected	22,608	—	—	—	22,608
Hedged strategies:					
General arbitrage funds	259,778	—	—	—	259,778
Distressed funds	7,412	—	—	—	7,412
Global/Non-U.S. funds	913,534	—	—	—	913,534
Private equity:					
Buy-out funds	415,881	—	—	—	415,881
Venture funds	286,593	—	—	—	286,593
Real assets:					
Real estate and timber	84,203	1,742	1,231	1,036	88,212
Commodities, oil and gas	171,425	—	—	—	171,425
Cash and cash equivalents	—	389,262	—	—	389,262
Total	\$ 2,878,221	666,864	116,725	47,478	3,709,288

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2014					
	Investments Measured at NAV	Investments Classified in the Fair Value Hierarchy			Total
		Level 1	Level 2	Level 3	
Investments:					
Equities:					
U.S. equities	\$ 205,278	27,025	—	528	232,831
Non-U.S. equity funds	396,291	210,933	—	—	607,224
Fixed income:					
Domestic	174,971	6,427	103,635	49,665	334,698
U.S. Treasury inflation-protected	22,639	—	—	—	22,639
Hedged strategies:					
General arbitrage funds	206,587	39,629	—	—	246,216
Distressed funds	18,675	—	—	—	18,675
Global/Non-U.S. funds	617,579	—	—	—	617,579
Private equity:					
Buy-out funds	419,697	—	—	—	419,697
Venture funds	245,296	—	—	—	245,296
Real assets:					
Real estate and timber	193,743	1,806	—	1,036	196,585
Commodities, oil and gas	173,100	—	—	—	173,100
Cash and cash equivalents	—	371,249	—	—	371,249
Total	\$ 2,673,856	657,069	103,635	51,229	3,485,789

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. Investments classified in Level 2 and 3 consist of directly held investments that have valuations based on inputs other than quoted prices.

Certain funds contain “rolling” lock-up provisions. Under such provisions, tranches of the investment are available for redemption once every two or three years, if the University makes a redemption request prior to the next available withdrawal date in accordance with the notification terms of the agreement. Private equity and real assets are held in funds that have initial terms of ten to twelve years with extensions of one to three years, and have an average remaining life of approximately three to five years.

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The following tables present activities for the years ended June 30, 2015 and 2014 for the University's investments classified in Level 3:

Level 3 roll forward	2015			
	Equities	Fixed income	Real assets	Total
Fair value as of June 30, 2014	\$ 528	49,665	1,036	51,229
Acquisitions	—	30,941	—	30,941
Dispositions	—	(37,283)	—	(37,283)
Net realized and unrealized gains	(381)	2,972	—	2,591
Fair value at June 30, 2015	\$ 147	46,295	1,036	47,478

Level 3 roll forward	2014			
	Equities	Fixed income	Real assets	Total
Fair value as of June 30, 2013	\$ 12	33,629	1,036	34,677
Acquisitions	260	37,991	—	38,251
Dispositions	—	(26,782)	—	(26,782)
Net realized and unrealized gains	256	4,827	—	5,083
Fair value at June 30, 2014	\$ 528	49,665	1,036	51,229

There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2015 and 2014, respectively.

The following summarizes investment return components for the years ended June 30, 2015 and 2014:

	2015	2014
Interest and dividends	\$ 13,535	25,642
Net realized and unrealized gains, net of investment management and advisory expenses	147,624	430,041
Investment return	\$ 161,159	455,683

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

	2015	2014
Operating:		
Endowment return appropriated	\$ 142,725	135,467
Included in other income	8,273	11,087
Nonoperating activities:		
Net investment return	152,886	444,596
Endowment return appropriated	(142,725)	(135,467)
Total return	\$ 161,159	455,683

Total investment management and advisory expenses, including internal costs, were \$21,942 and \$17,324 for the years ended June 30, 2015 and 2014, respectively, and have been netted against the total return.

(a) Liquidity

Investment liquidity as of June 30, 2015 and 2014 is aggregated below based on redemption or sale ability:

		2015						
		Daily	Monthly	Quarterly	Semi-annually to annually	Subject to rolling lock-ups	Illiquid	Total
	Equities	\$ 280,672	—	211,639	180,890	202,485	8,024	883,710
	Fixed income	156,497	51,926	—	—	81,048	4,010	293,481
	Hedged strategies	—	198,079	—	134,958	816,975	30,712	1,180,724
	Private equity	—	—	—	—	—	702,474	702,474
	Real assets	2,973	72,145	—	—	—	184,519	259,637
	Cash and cash equivalents	389,262	—	—	—	—	—	389,262
	Total	\$ 829,404	322,150	211,639	315,848	1,100,508	929,739	3,709,288

		2014						
		Daily	Monthly	Quarterly	Semi-annually to annually	Subject to rolling lock-ups	Illiquid	Total
	Equities	\$ 244,665	—	233,620	186,181	167,342	8,247	840,055
	Fixed income	129,627	117,207	—	—	78,402	32,101	357,337
	Hedged strategies	39,629	166,813	—	68,113	528,553	79,362	882,470
	Private equity	—	—	—	—	—	664,993	664,993
	Real assets	3,177	86,079	90,861	—	—	189,568	369,685
	Cash and cash equivalents	371,249	—	—	—	—	—	371,249
	Total	\$ 788,347	370,099	324,481	254,294	774,297	974,271	3,485,789

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Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 5 to 180 days, at June 30, 2015 and 2014.

(b) Commitments

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2015 was \$254,141 and \$108,663, respectively.

(c) Investment Derivatives

The University's endowment investment portfolio includes derivative financial instruments that have been entered to reduce overall portfolio risk by hedging exposure to certain assets held in the portfolio. The endowment also employs certain derivative financial instruments to replicate long or short asset positions more cost effectively than through purchases or sales of the underlying assets. The University has established policies, procedures, and internal controls governing the use of derivatives.

In fiscal year 2015, the University entered into total return swap contracts for investment purposes and to manage exposure in equity markets. These swaps involve commitments to pay interest in exchange for a market return, based on notional amounts. To the extent the total return of the security or index underlying the transaction exceeds or falls short of the offsetting interest rate obligation, the University will receive a payment from or make a payment to the related counterparty. Realized gains and losses associated with these contracts are recorded in the statement of operations as periodic payments are received or paid. At June 30, 2015, the University held two swaps in a net liability position of \$1,747, with a total notional value of \$47,307, and one swap in a net asset position of \$380, with a total notional value of \$33,738.

At June 30, 2015 and 2014, the University held credit default swaps to simulate long or short positions or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2015 and 2014, the total notional amount of credit default swap contracts for buyer protection was \$340,000 and \$210,000, respectively. The fair value of these contracts as of June 30, 2015 and 2014 was \$10,511 and \$8,056, respectively, and is included in liabilities associated with investments on the balance sheets. The unrealized loss on these contracts as of June 30, 2015 and 2014 was \$1,535 and \$362,

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respectively, and is included in net investment return on the statements of activities. The University had posted collateral of \$10,690 and \$7,924 as of June 30, 2015 and 2014, respectively, which is included in domestic fixed income investments in the 2015 and 2014 fair value hierarchy tables in note 3.

At June 30, 2014, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. These contracts had total asset fair values of \$814 at June 30, 2014, respectively. The University recognized a net unrealized loss of \$4,222 for the year ended June 30, 2014, pertaining to swaption contracts held. The University is obligated to pledge to the appropriate broker cash or securities to be held as collateral, as determined by margin requirements for swaption contracts held. The University was not required to post any collateral at June 30, 2014. In 2015, the swaption contracts were terminated.

(4) Endowment

The University's endowment consists of approximately 2,900 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,795)	1,288,076	1,250,406	2,536,687
Corporation-designated endowment funds	<u>477,319</u>	<u>59,343</u>	<u>—</u>	<u>536,662</u>
Total endowment net assets	<u>\$ 475,524</u>	<u>1,347,419</u>	<u>1,250,406</u>	<u>3,073,349</u>

Endowment net assets consist of the following at June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,515)	1,278,188	1,190,547	2,467,220
Corporation-designated endowment funds	<u>474,626</u>	<u>57,903</u>	<u>—</u>	<u>532,529</u>
Total endowment net assets	<u>\$ 473,111</u>	<u>1,336,091</u>	<u>1,190,547</u>	<u>2,999,749</u>

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Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2014	\$ 473,111	1,336,091	1,190,547	2,999,749
Investment return, net	22,058	124,912	—	146,970
Endowment return appropriated	(21,498)	(121,227)	—	(142,725)
Contributions	1,213	8,068	51,529	60,810
Reclassifications and other changes	640	(425)	8,330	8,545
Endowment at June 30, 2015	\$ <u>475,524</u>	<u>1,347,419</u>	<u>1,250,406</u>	<u>3,073,349</u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2013	\$ 416,779	1,126,291	1,126,878	2,669,948
Investment return, net	76,415	323,596	—	400,011
Endowment return appropriated	(22,255)	(113,212)	—	(135,467)
Contributions	166	302	61,739	62,207
Reclassifications and other changes	2,006	(886)	1,930	3,050
Endowment at June 30, 2014	\$ <u>473,111</u>	<u>1,336,091</u>	<u>1,190,547</u>	<u>2,999,749</u>

(a) Interpretation of Relevant Laws

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

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

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(b) *Funds with Deficiencies*

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$1,795 and \$1,515 as of June 30, 2015 and 2014, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in unrestricted net assets.

(c) *Return Objectives and Risk Parameters*

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and designated funds. The long-term investment return objective is formulated to maintain purchasing power after accounting for both inflation and spending. The Corporation has set a long-term return goal at 5.5% above the higher education price index. Actual returns in any given year or period of years may vary from this amount.

(d) *Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

(e) *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The University invests its endowment funds and allocates the related return for expenditure in accordance with the total return concept. The endowment utilization is determined in accordance with the policy adopted by the Corporation. This policy fixes the spending range between 4.5% and 5.5% of the average fair value of applicable endowments over the prior twelve quarters, with the objective being to hold the spending rate to no more than a 5% average over time. Applicable endowments include Corporation-designated and donor-designated endowment funds.

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(5) Land, Buildings and Equipment

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

	<u>2015</u>	<u>2014</u>
Land	\$ 85,110	72,571
Buildings	648,645	635,624
Improvements	966,207	924,222
Equipment	172,197	156,248
Intangible asset	1,988	—
Construction in progress	50,056	50,024
	<u>1,924,203</u>	<u>1,838,689</u>
Accumulated depreciation	<u>(860,098)</u>	<u>(790,571)</u>
Land, buildings and equipment, net	<u>\$ 1,064,105</u>	<u>1,048,118</u>

Outstanding commitments on uncompleted construction contracts total \$21,649 at June 30, 2015.

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(6) Bonds, Loans and Notes Payable

The University has entered into various agreements primarily 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	
				2015	2014
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	0.05%	Variable	2043	42,105	42,550
Series 2004	3.875% – 4.75%	Fixed	2025	—	15,550
Series 2005A	0.04%	Variable	2035	85,500	85,500
Series 2007	4.25% – 5.00%	Fixed	2037	90,010	90,010
Series 2009	5.00%	Fixed	2039	70,795	70,795
Series 2011	2.50% – 5.00%	Fixed	2032	59,190	63,170
Series 2012	5.00%	Fixed	2022	118,240	118,240
Series 2013	3.00% – 5.00%	Fixed	2044	137,865	138,715
Tax-exempt commercial paper, revolving through 2042	0.05% - 0.06%	Fixed	Revolving	15,530	1,000
Taxable standard commercial Paper Notes, Series A, revolving through 2036	0.09% – 0.11%	Fixed	Revolving	50,000	50,000
Brown University Taxable Bonds:					
Series 2005	5.09%	Fixed	2016	17,000	17,000
Series 2009	4.57%	Fixed	2019	100,000	100,000
Promissory note	non-interest bearing	N/A	2029	3,500	—
Loans payable – community:					
Development entities	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				803,483	806,278
Unamortized premium				41,744	45,810
Total bonds, loans and notes payable				\$ 845,227	852,088

(a) Tax Exempt Bonds

The University's tax exempt debt, primarily Facilities Revenue Bonds, is issued through RIHEBC, a state agency serving as a conduit issuer of tax exempt debt. The University is required under certain of its financing agreements with RIHEBC to appropriate funds from operating and other net assets for payment of principal and interest and for maintenance of the related properties. The Revenue

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Bonds currently outstanding were issued primarily to finance new and ongoing capital projects, student housing, academic, research and administrative buildings, and infrastructure.

In September 2014, the University refinanced \$14,530 of its 2004 RIHEBC Facilities Revenue Bonds. The current refunding was financed by the issuance of \$14,530 tax exempt commercial paper under its RIHEBC tax exempt commercial paper program.

In December 2013, the Series 2013 Facilities Revenue Bonds were issued in the amount of \$138,715 to refund \$25,460 of the Series 2003A RIHEBC bonds and \$14,750 of RIHEBC tax-exempt commercial paper, with the remaining proceeds to be used for capital projects. The Series 2013 Bonds included an original issue premium of \$12,235, which will be amortized over the life of the debt.

(b) Taxable Bonds and Other Debt

The University's outstanding debt includes two taxable bond issues. Series 2005 Taxable Bonds were issued to finance a portion of the acquisition cost of an office building. Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets. In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to \$50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B. The Taxable Commercial Paper Program has a number of individual notes that are issued at various times, amounts and staggered maturity dates. The notes are issued at market prices, which at June 30, 2015 ranged from 0.09% to 0.11%. During the life of the note, 1 day to 270 days, the rate is fixed. As an individual note matures, new notes are issued to pay for the maturing notes. The agreement allows the University to continue this revolving process until 2036.

The University also maintains a tax exempt commercial program through RIHEBC. Proceeds from the tax exempt commercial paper program must be used within 18 months; however, once debt is issued, the University can continue to rollover the tax exempt commercial paper until the end of the program in 2042. The issuance of new money requires renewal by RIHEBC every three years. The program was renewed in 2013 and, as of June 30, 2015 and 2014, \$15,530 and \$1,000, respectively, remained outstanding.

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Principal payments of bonds, notes and loans payable as of June 30, 2015 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2016	\$	25,955
2017		9,500
2018		9,790
2019		10,235
2020		110,650
Thereafter		<u>637,353</u>
Total	\$	<u><u>803,483</u></u>

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party, the University determined that the aggregate estimated fair value of its debt as of June 30, 2015 and 2014 was approximately \$878,000 and \$893,000, respectively. These estimated fair values are based on significant observable inputs categorized in Level 2 of the fair value hierarchy.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2015, the full amount of \$40,000 was available at a rate of 0.93%.

In fiscal 2015, the University entered into two stand-by bond purchase agreements with financial institutions totaling approximately \$127,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. Financing obtained through these stand-by credit agreements to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues, and mature over a two to five year period. The agreements have various maturity dates between November 2017 and January 2020. There were no amounts outstanding at June 30, 2015 under these agreements. In fiscal 2014, the University provided self-liquidity for the Series 2003B and 2005A bonds totaling approximately \$128,000.

The University provided self-liquidity for its taxable commercial paper program at June 30, 2015 and 2014, respectively.

(c) ***Interest Rate Swaps***

At June 30, 2015 and 2014, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.

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

Counterparty	Associated debt	Expiration date	June 30, 2015 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2015	2014
JP Morgan	Series 2003B	9/1/2043	\$ 42,105	3.732%	\$ (13,111)	(11,346)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(21,927)	(15,390)
Goldman Sachs	None	9/1/2032	16,188	3.891	(2,798)	(2,434)
					<u>\$ (37,836)</u>	<u>(29,170)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. This rating was maintained by the University at June 30, 2015 and 2014. At June 30, 2015, the collateral posting requirement was \$987; however, \$1,000 was on deposit as collateral to ensure continuing collateral coverage.

Interest rate volatility, remaining outstanding notional value and time to maturity will affect each swap's fair value at subsequent reporting dates. To the extent the University holds a swap through its expiration date, the swap's fair value will reach zero. Because the swap fair values are based predominantly on observable inputs corroborated by market data, they are classified in Level 2 of the GAAP fair value hierarchy.

(7) Retirement Benefits

The University participates in two contributory retirement plans. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$23,417 and \$24,290 for the years ended June 30, 2015 and 2014, respectively.

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

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

	<u>2015</u>	<u>2014</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 78,995	69,207
Service cost	3,539	3,070
Interest cost	3,278	3,186
Benefits paid	(1,984)	(1,939)
Actuarial loss	2,956	5,471
Projected benefit obligation at end of year	<u>\$ 86,784</u>	<u>78,995</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.33%	4.20%
Rate of compensation increase	3.00	3.00

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

	<u>2015</u>	<u>2014</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 66,195	55,237
Actual return on plan assets	1,449	8,897
Contributions	1,500	4,000
Benefits paid	(1,984)	(1,939)
Fair value of plan assets at end of year	67,160	66,195
Projected benefit obligation at end of year	<u>(86,784)</u>	<u>(78,995)</u>
Funded status included in other long-term obligations	<u>\$ (19,624)</u>	<u>(12,800)</u>

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	<u>2015</u>	<u>2014</u>
Net periodic pension cost:		
Service cost	\$ 3,539	3,070
Interest cost	3,278	3,186
Expected return on assets	(4,596)	(3,940)
Amortization of unrecognized loss and prior service cost	744	817
Net periodic pension cost	<u>\$ 2,965</u>	<u>3,133</u>

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.20%	4.67%
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	7.00	7.00

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

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2015 and 2014, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$721 and \$854, respectively, and a net unrecognized actuarial gain of \$20,191 and an actuarial loss of \$14,700, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

The plan assets at June 30, 2015 and 2014 consist of variable annuity investments with various equity and fixed income focuses measured at NAV.

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

The actual asset allocation for the pension plan as of June 30, 2015 and 2014, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2015	2014
Equity funds	75%	75%	77%
Fixed income funds	25	25	23
Total	100%	100%	100%

The University's estimated contribution for 2016 is \$1,500.

Estimated future benefit payments as of June 30, 2015 are as follows:

Fiscal year:	
2016	\$ 2,648
2017	2,833
2018	3,092
2019	3,340
2020	3,566
2021 – 2025	22,306

(8) Restricted Net Assets

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

	2015		2014	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,347,419	1,250,406	1,336,091	1,190,547
Contributions receivable	61,248	100,538	53,261	97,132
Donor-restricted purposes	125,199	31,635	127,619	34,752
Student loans	10,878	—	—	10,847
Total	\$ 1,544,744	1,382,579	1,516,971	1,333,278

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2015 and 2014

(Dollars in thousands)

(9) Functional Classification of Expenses

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

	<u>2015</u>	<u>2014</u>
Instruction and departmental research	\$ 304,074	301,096
Sponsored programs	109,970	103,773
Academic and student support	198,750	171,910
Auxiliary services	101,041	99,866
Institutional support	97,122	97,933
	<u>\$ 810,957</u>	<u>774,578</u>

(10) 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 in the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that the ultimate unrecognized liability, if any, will not have a material effect on the University's financial position.

(11) Related-Party Transactions

Members of the Corporation and senior management may, from time to time, be associated either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires annual reporting by each Corporation member and University senior management. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, based on terms in the best interest of the University.

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2015 and 2014
(Dollars in thousands)

(12) Supplemental Disclosure of Cash Flow Information

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

	2015	2014
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$848 and \$3,094	\$ 34,105	29,096
Noncash investing activities:		
Increase in accounts payable for land, buildings and equipment	1,860	4,156
Increase in payables for purchases of investments	126,071	780
Decrease in receivables for investments sold	(12,232)	(9,055)
Noncash financing activities:		
Seller financed note payable	3,500	—

(13) Subsequent Events

In July 2015, the University established a \$100,000 line of credit with a maturity in July 2016, with the option to renew and interest rate of LIBOR plus an interest rate margin. The University may use the line of credit for University working capital, capital expenditures, and general corporate purposes.

In September 2015, the University borrowed \$50,000 through a taxable direct placement at a variable rate of one-month LIBOR plus 30 basis points, maturing in September 2018. The proceeds will be used to pay down the current \$50,000 outstanding in the Taxable Commercial Paper Program.

In October 2015, the University issued through RIHEBC tax-exempt direct placement bonds with a total par value of \$45,000 at an interest rate of 0.50%, maturing in 2046. The proceeds were used to refinance \$17,000 of Series 2005 Taxable bonds and \$14,470 of RIHEBC Tax-exempt commercial paper program, with remaining proceeds to be used for capital projects.

The University considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on October 23, 2015, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA number	Federal expenditures
Research and Development Cluster:		
Direct Awards:		
Department of Commerce:		
Education Quality Award Ambassadorship	11.013	\$ 7
Coastal Zone Management Estuarine Research Reserves	11.420	93
Department of Commerce total		100
Department of Defense:		
Other research	12.000	43,906
Procurement Technical Assistance For Business Firms	12.002	20,037
Basic and Applied Scientific Research	12.300	2,834,003
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	212,235
Military Medical Research and Development	12.420	(11,377)
Basic Scientific Research	12.431	1,685,670
Basic, Applied and Advanced Research in Science and Engineering	12.630	131,532
Air Force Defense Research Sciences Program	12.800	4,528,720
Research and Technology Development	12.910	930,731
Department of Defense total		10,375,457
Department of Education:		
Overseas Programs – Doctoral Dissertation Research Abroad	84.022A	25,491
Javits Fellowships	84.170B	29,781
Graduate Assistance in Areas of National Need	84.200A	196,898
Department of Education total		252,170
Department of Energy:		
Other research	81.000	330,447
Office of Science Financial Assistance Program	81.049	5,420,592
University Coal Research	81.057	111,826
Advanced Research Projects Agency – Energy	81.135	623,213
Department of Energy total		6,486,078
Department of Health and Human Services:		
Other Research	93.000	1,707,111
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	132,487
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	234,524
Maternal and Child Health Federal Consolidated Programs	93.110	45,993
Environmental Health	93.113	3,319,908
Oral Diseases and Disorders Research	93.121	153,699
NIEHS Superfund Hazardous Substances – Basic Research and Education	93.143	477,757
Human Genome Research	93.172	764,708
Research Related to Deafness and Communication Disorders	93.173	963,282
Research and Training in Complementary and Alternative Medicine	93.213	139,936
National Research Service Awards – Health Services Research Training	93.225	339,499
Research on Healthcare Costs, Quality and Outcomes	93.226	777,043
Mental Health Research Grants	93.242	6,150,406
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243	732,392
Alcohol Research Programs	93.273	7,609,119
Drug Abuse and Addiction Research Programs	93.279	1,933,919
Mental Health Research Career/scientist Development Awards	93.281	381,317
Mental Health National Research Service Awards for Research Training	93.282	389,796
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	(43,403)
Minority Health and Health Disparities Research	93.307	155,948
Trans-nih Research Support	93.310	424,615
Research Infrastructure Programs	93.351	(37,500)
Nursing Research	93.361	84,742
National Center for Research Resources	93.389	256,953
Cancer Cause and Prevention Research	93.393	930,200
Cancer Detection and Diagnosis Research	93.394	1,428,054
Cancer Biology Research	93.396	47,079
Cancer Research Manpower	93.398	49,598
Cell Biology and Biophysics Research	93.821	352,942
Cardiovascular Diseases Research	93.837	1,363,307
Lung Diseases Research	93.838	1,399,293
Blood Diseases and Resources Research	93.839	732,153
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	1,254,005
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	336,072
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	5,628,915
Allergy, Immunology and Transplantation Research	93.855	1,844,932
Biomedical Research and Research Training	93.859	7,661,247
Population Research	93.864	160,037

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Child Health and Human Development Extramural Research	93.865	\$ 2,725,614
Aging Research	93.866	5,045,444
Vision Research	93.867	1,960,388
Grants for Primary Care Training and Enhancement	93.884	550,131
International Research and Research Training	93.989	627,007
Department of Health and Human Services total		<u>61,190,669</u>
Department of the Interior:		
Earthquake Hazards Research Grants	15.807	64,099
Department of the Interior total		<u>64,099</u>
Department of Veterans Affairs:		
Child Health and Human Development Extramural Research	64.000	82,062
Other research	64.000	428,048
Department of Veterans Affairs total		<u>510,110</u>
Environmental Protection Agency:		
Science to Achieve Results (Star) Fellowship Program	66.514	24,247
Environmental Protection Agency total		<u>24,247</u>
National Aeronautics and Space Administration:		
Other research	43.000	711,507
Aerospace Education Service Program Education	43.001	2,378,645
Other research	43.001	9,147
Education	43.008	564,916
Cross Agency Support	43.009	69,071
National Aeronautics and Space Administration total		<u>3,733,286</u>
National Endowment For The Humanities:		
Promotion of the Arts Grants to Organizations and Individuals	45.024	(39)
National Endowment for the Humanities total		<u>(39)</u>
National Science Foundation:		
Social, Behavioral, and Economic Sciences	40.075	60,770
Other research	47.000	80,002
Engineering Grants	47.041	2,957,176
Mathematical and Physical Sciences	47.049	8,835,889
Geosciences	47.050	2,381,234
Computer and Information Science and Engineering	47.070	4,303,025
Biological Sciences	47.074	2,975,144
Social, Behavioral, and Economic Sciences	47.075	1,356,606
Education and Human Resources:	47.076	2,948,566
Polar Programs	47.078	221,661
International Science and Engineering (OISE)	47.079	367,796
National Science Foundation total		<u>26,487,869</u>
Vietnam Education Foundation:		
Fellowship Program	85.802	28,491
Vietnam Education Foundation total		<u>28,491</u>
American Recovery and Reinvestment Act (ARRA):		
National Science Foundation:		
Trans-NSF Recovery Act Research Support	47.082	819,881
National Science Foundation – ARRA total		<u>819,881</u>
Department of Health and Human Services:		
Recovery Act – Comparative Effectiveness Research – Agency for Healthcare Research and Quality	93.715	(12)
Department of Health and Human Services – ARRA total:		<u>(12)</u>
Research and Development Cluster Direct Awards total		<u>109,972,406</u>

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA number	Pass-through number	Federal expenditures
Research and Development Cluster:			
Pass-through Awards			
Department of Agriculture:			
Rutgers University	10.310	4366 / PO S1500565	\$ 21,993
University of Wisconsin, Madison	10.255	394K321	12,948
Department of Agriculture total			<u>34,941</u>
Department of Commerce:			
University of Rhode Island	11.478	0003087	6,379
Department of Commerce total			<u>6,379</u>
Department of Defense:			
Aptima, Inc.	12.000	0866-1693	51,630
Asian Office of Aerospace Research and Development	12.800	FA2386-13-1-3002	(668)
Asian Office of Aerospace Research and Development	12.800	FA2386-13-1-4121	150,931
Boston University	12.420	9500300580	142,003
Cal Poly Pomona Foundation Inc	12.000	Remote Sensing Technology	45,527
Deep Springs Technology, LLC	12.000	DST-2936	(1,330)
Lincoln Laboratory	12.000	PO 7000261604	8,812
Lynntech, Inc.	12.000	Lincoln Laboratory	112,629
Massachusetts Institute of Technology	12.431	5710003610	64,749
Navatek, Ltd	12.000	SCN08140 / 00-K368-600200	(29)
ObjectVideo, Inc.	12.000	FA8650-12-C-7212_Subcon_Brown_030812	5,463
ObjectVideo, Inc.	12.000	(Phase2A)	154,240
ObjectVideo, Inc.	12.000	(Phase2B)	851
Ryon Technologies	12.000	Research Agreement	52,794
Soar Technology, Inc.	12.000	10216.02	1
Stanford University	12.000	25480040-47135-B	494,459
Tufts University	12.300	ONR144	293,117
University of California, Los Angeles	12.300	1015GNA134	114,821
University of Colorado, Boulder	12.300	1551677	211,080
University of Dayton Research Institute	12.800	K75262-4363-7809 / PO# P1500565	6,055
University of Texas, Austin	12.431	UTA14-000870	28,204
University of Utah	12.630	10028801-BROWN-BPP	133,871
Yale University	12.420	C15J11982 (J00234)	16,107
Department of Defense total			<u>2,085,317</u>
Department of Education:			
North Carolina State University	84.133G	2014-0447-01 NCSU	37,869
Department of Education total			<u>37,869</u>
Department of Energy:			
Ames Laboratory	81.000	SC-13-390	98,832
Argonne National Laboratory	81.000	0F-33082	(7,370)
Argonne National Laboratory	81.000	2F-32881	43,086
Argonne National Laboratory	81.049	3F-32601	79,148
Fermi National Accelerator Laboratory	81.000	Fermi-PO 580815	29,497
Fermi National Accelerator Laboratory	81.000	No 614211	83,861
Fermi National Accelerator Laboratory	81.000	P.O.614786	22,191
Fermi National Accelerator Laboratory	81.000	P.O.615706	53,307
Fermi National Accelerator Laboratory	81.000	PO 573783	21,634
Fermi National Accelerator Laboratory	81.000	PO 618571	54,745
Fermi National Accelerator Laboratory	81.000	PO 618987	139,577
Fermi National Accelerator Laboratory	81.000	PO 619827	28,980
Fermi National Accelerator Laboratory	81.000	PO# 582703	10,946
Fermi National Accelerator Laboratory	81.000	PO610813	156,890
General Motors Corporation	81.087	TCS69633	140,774
Oak Ridge National Laboratory	81.000	4000126928	56,991
Pacific Northwest National Laboratory	81.000	211278	93,420
Pacific Northwest National Laboratory	81.000	233511	101,448
The Regents of the University of California	81.000	6953356	115,981
University of Delaware	81.049	24443	(26,823)
United States Automotive Materials Partnership, LLC	81.086	13-2834-AMP	180,414
Department of Energy total			<u>1,477,529</u>
Department of Health and Human Services:			
ABT Associates, Inc.	93.000	Sub 44039 – MRAD-CMS-BROWN-17993-1201	109,207
Albert Einstein College of Medicine	93.865	310037/PO043390	93,594
American College of Radiology	93.000	1658	80,528
American College of Radiology	93.000	ACRIN 4701: Rescue	54
American College of Radiology	93.395	1668	75,613
American College of Radiology	93.395	1188	(1)
Boston University	93.000	4500001305	222,452
Boston University	93.143	4500001782	4,813
Boston University	93.393	4500001594	24,124
Bradley Hospital	93.242	712-7477	173,573
Brigham & Women's Hospital	93.242	106971	52,260
Burnham Institute	93.866	56154-11667-BU-04	117,656
Burnham Institute	93.886	56154-11669-BU-04	263,625
Butler Hospital	93.156	9213-8328	55
Butler Hospital	93.242	9032-8328	7,375
Butler Hospital	93.242	9064-8328	49,720
Butler Hospital	93.242	9234-8328	77,384
Butler Hospital	93.242	9269-8328	51,359
Butler Hospital	93.242	9204-8328	973
Butler Hospital	93.242	9209-8328	(15,240)
Butler Hospital	93.243	9050-8328	55,711
Butler Hospital	93.273	9053-8328	51,622
Butler Hospital	93.273	9132-8328	16,573
Butler Hospital	93.273	9193-8328	29,832
Butler Hospital	93.279	9016-8328	38,183
Butler Hospital	93.279	9116-8328	29,231
Butler Hospital	93.279	9216-8328	1,550
Butler Hospital	93.361	9074-8328	8,436

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA number	Pass-through number	Federal expenditures
Butler Hospital	93.865	9156-8328	10,986
Butler Hospital	93.242	9179-8328	24,722
Case Western Reserve University	93.000	RES506534	(12,022)
Case Western Reserve University	93.865	RES509153	65,791
Center for Aids Research	93.000	710-9912-8985	22,023
Center for Aids Research	93.855	710-9912-Luo	35,582
Columbia University	93.172	2(GG009283)	86,194
Columbia University	93.837	512153	31,283
Dana-Farber Cancer Institute	93.395	1227201	1,606,441
Dartmouth College	93.279	739	2,287
Dartmouth College	93.121	1542/1357	117,193
Dorn Research Institute	93.121	DRI-0002	14,091
Drexel University	93.399	232559	(470)
Drexel University	93.399	232592Brown	71,684
ECOG-ACRIN Medical Research Foundation, Inc	93.000	Advance	127,822
Fogarty International Center	93.989	7D43TW000237-19	10,770
Fogarty International Center	93.989	7D43TW008323-06	6,515
Geisinger Center for Health Research	93.113	6568522	24,512
Gray Matter Research	93.853	Gray Matter Research	63,821
Healthcentric Advisors	93.000	R. Bedine MD Agreement	5,001
Healthcentric Advisors	93.226	AHRQ Sub – M. Clark	71,230
Healthcentric Advisors	93.226	AHRQ Sub – R. Baier	26,171
Hebrew Senior Life	93.866	10.10.90063	113,141
Hebrew Senior Life	93.866	10.10.92234	85,394
Hebrew Senior Life	93.866	10.10.92274	59,613
Hebrew Senior Life	93.866	90068	167,476
Indiana University	93.397	IN-4687555-BRWN	25,294
Indiana University	93.855	IN4688367BU	47,039
Indiana University	93.865	4683649/PO 707052	24,542
Johns Hopkins University	93.310	PO 2001392915	124,957
Johns Hopkins University	93.866	2002364817	14,388
Johns Hopkins University	93.866	Po #2000525037	4,414
Johns Hopkins University	93.867	2,001.831,161	571
Legacy for Health Foundation	93.393	7007-Brown	139,912
Legacy for Health Foundation	93.393	7015-Brown	12,585
Lifespan, Inc.	93.136	7137033	13,172
Lifespan, Inc.	93.242	710.9856	10,958
Lifespan, Inc.	93.279	701-5545	12,288
Lifespan, Inc.	93.846	701-5401	91,721
Massachusetts General Hospital	93.173	221242	528,613
Memorial Hospital	93.847	108-864GANS	(4,089)
Miami University	93.273	G02250	11,542
Michigan State University	93.242	RC104649BU	30,528
Miriam Hospital	93.077	710-9127	16,654
Miriam Hospital	93.242	1100029354/710-9621	15,968
Miriam Hospital	93.242	710-9107-8985	51,618
Miriam Hospital	93.242	710-9856 G. Papandonatos	29,182
Miriam Hospital	93.242	710-9864	57,499
Miriam Hospital	93.273	701-9926	41,870
Miriam Hospital	93.273	710-9908	(23)
Miriam Hospital	93.279	710-9833-8985	75,804
Miriam Hospital	93.279	710-9834-8985	73,707
Miriam Hospital	93.279	710-9865	23,834
Miriam Hospital	93.393	710-9871	8,369
Miriam Hospital	93.394	710-9801	21,483
Miriam Hospital	93.847	710-9699	5,626
Miriam Hospital	93.847	710-9820	44,738
Miriam Hospital	93.847	710-9840	(336)
Miriam Hospital	93.847	710-9851	37,269
Miriam Hospital	93.847	710-9906	16,853
Miriam Hospital	93.853	710-9902	18,546
Miriam Hospital	93.855	710-9911-8985	148,241
Miriam Hospital	93.855	710-9912-8985	43,175
Miriam Hospital	93.855	710-9998-Liu	48,225
Miriam Hospital	93.855	710-9613-8985	(150)
Miriam Hospital	93.865	710-9115	14,529
MOI University	93.000	HHSN268200900031C-Brown	44,462
MOI University	93.000	HHSN268200900031C-Wellenius	(61)
Mount Sinai School of Medicine	93.837	0255-4702-4609	44,388
Mount Sinai School of Medicine	93.837	0255-8171-4609	6,842
Mount Sinai School of Medicine	93.865	025-6281-4609	37,363
National Development and Research Institutes, Inc.	93.279	R01DA01336 – NDRI Project #081	18,938
Northeastern University	93.242	500304	52,807
Northern California Institute for Research and Education, Inc.	93.837	1724	137,362
Northwestern University	93.393	60038259BU	14,911
Ocean State Research Institute	93.859	312212	30,000
Ocean State Research Institute	93.859	312213	20,746
Ocean State Research Institute	93.859	Ocean State Research Institute	430,039
Ocean State Research Institute	93.859	Ocean State Research Inst.	64,503
Office of Research Infrastructure Programs	93.351	1G20OD016587-01	151,584
Pennsylvania State University	93.865	5006-BU-DHHS-8831	11,971
President and Fellows of Harvard College	93.805	116340-5086704	23,530
President and Fellows of Harvard College	93.866	90059	20,038
President and Fellows of Harvard College (1)	93.113	112481-5067791	31,748
President and Fellows of Harvard College (2)	93.853	148635.5033651.0408	12,100
President and Fellows of Harvard College (2)	93.853	148635.5033651.0506	145,805
Princeton University	93.864	00001796	34,996
Rand Corporation	93.000	9920130017	786
Rand Corporation	93.000	9920140104	21,297
Rand Corporation	93.000	9920140104 – Option Yr 1	6,798
Research Foundation of CUNY	93.242	41861-A	112,781
Research Foundation of State University of New York	93.273	R543950 (PI Papandonatos)	17,835
Rhode Island Hospital	93.000	701-5494	11,319
Rhode Island Hospital	93.242	7137063	11,748
Rhode Island Hospital	93.273	701-5475-3-RI	37,777

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA number	Pass-through number	Federal expenditures
Rhode Island Hospital	93.273	701-5486	\$ 34,488
Rhode Island Hospital	93.279	713-7029	16,091
Rhode Island Hospital	93.279	Z101136501 (701-1551)	6,274
Rhode Island Hospital	93.361	701-5500-RI	41,946
Rhode Island Hospital	93.361	701-5597-RI	85,447
Rhode Island Hospital	93.389	701-1960	1,377
Rhode Island Hospital	93.389	701-5482-8985	59,146
Rhode Island Hospital	93.837	701-5506	36,091
Rhode Island Hospital	93.837	701-5552	12,741
Rhode Island Hospital	93.846	701-7137037	8,388
Rhode Island Hospital	93.847	701-5599	89,850
Rhode Island Hospital	93.855	701-5454	(214)
Rhode Island Hospital	93.859	701-1560	32,436
Rhode Island Hospital	93.859	701-5480	16,954
Rhode Island Hospital	93.859	701-5480-8985	110,980
Rhode Island Hospital	93.859	7017137077-8985	5,260
SIMmersion LLC	93.273	SIMmersion GA	32,248
Sloan-Kettering Institute	93.310	Sloan-Kettering Institute	14,827
Stanford University	93.173	60951264-116469	4,567
State of Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	93.243	SPF-PFS	124,999
State of Rhode Island Department of Health	93.000	3168953-1	129
State of Rhode Island Department of Human Services	93.609	AMQG 14/15-001	166,946
State of Rhode Island Department of Human Services	93.758	3420327	10,494
State University of New York-Environmental Science&Forestry	93.395	R701964	975
The Regents of the University of California	93.361	201222943-02	95,588
Tufts University	93.279	HS2719	16,187
Tufts University	93.393	100627-00001	35,814
Tufts University	93.393	100580-00001	15,910
University of California, Los Angeles	93.847	1900 G QC360	9,193
University of California, Riverside	93.866	S-000576	78,034
University of California, San Diego	93.394	PO# 10322318 -- SUB	1,126
University of California, San Francisco	93.242	6235sc	29,968
University of California, San Francisco	93.279	7803sc	18,590
University of Cape Town	93.242	HIV Cascade	13,048
University of Colorado, Boulder	93.000	1551935	27,290
University of Colorado, Boulder	93.866	1547264	7,411
University of Connecticut	93.173	KFS5619210-RSA49674	104,820
University of Connecticut	93.865	IRO1HD074560-1A1	20,224
University of Connecticut Health Center	93.273	UCHC6-42189694	31,785
University of Iowa	93.866	P. O. No 1001319423	73,328
University of Louisville	93.395	ULRF141029-01	11,489
University of Maryland, Baltimore	93.213	SR00002633/7527	66,535
University of Maryland, Baltimore	93.213	SR00002980	11,912
University of Maryland, Baltimore	93.242	070093A-SR00002907	98,470
University of Memphis	93.273	PO109411 / Index 5-40091	13,726
University of Memphis	93.273	PO153913	11,357
University of Missouri, St. Louis	93.242	00024395-2	97,071
University of Missouri, St. Louis	93.853	00016197-3	1,582
University of Pennsylvania	93.226	560660	10,919
University of Pennsylvania	93.859	560885	151,847
University of Pittsburgh	93.077	9010655 (125145-1)	336,781
University of Pittsburgh	93.279	9007801 (122504-1)	80,780
University of Rhode Island	93.000	Advance	18,327
University of Rhode Island	93.273	112012-003452	35,166
University of Rhode Island	93.859	0004390/0711314	54,915
University of Rhode Island	93.859	0004390/0712314	90,886
University of Rhode Island	93.859	0004390/111014 PO#84977	48,738
University of Rhode Island	93.859	073014/4441 P.O.0000080517	81,250
University of Rhode Island	93.865	04052012/0002985	36,277
University of Rhode Island	93.865	3903/04012014	57,871
University of Rhode Island	93.865	3488/121712	(1,629)
University of Rochester	93.242	416173-G	(5,634)
University of Rochester	93.242	416208-001-G	14,107
University of Rochester	93.866	416242	33,552
University of Southern California	93.838	45721573	27,500
University of Southern California	93.838	45721573 / PO10146426	62,618
University of Texas, Austin	93.393	UTA14-000728	114,131
University of Vermont	93.077	SUB51462 BROWN	384,519
University of Vermont	93.859	268355UB51329	15,503
University of Washington	93.279	763901	32,945
University of Washington	93.846	755354	4,386
University of Washington	93.853	WU-12-315	8,131
Virginia Polytechnic Institute and State University	93.847	431586-19283	9,668
Weill Cornell Medical College	93.838	14030293-2 / 14111600-02	566,061
Women and Infants Hospital	93.279	9567	25,187
Women and Infants Hospital	93.283	9344	9,006
Women and Infants Hospital	93.865	9420	67,496
Women and Infants Hospital	93.865	9435	107,089
Yale University	93.273	M12A11313 (A08602)	667
Yale University	93.837	C14A11773 (A10020)	186,024
Yale University	93.837	M15A11986 (A10096)	43,885
Yale University	93.837	M15A12096 (A10141)	634,548
Yale University	93.838	M14A11772 (A08509)	8,728
Yale University	93.838	M15A12057(A10157)	9,600
Yale University	93.846	M16A12082(A10209)	3,874
Department of Health and Human Services total			<u>13,061,659</u>
Department of Transportation: Boston University	20.109	4500001710	<u>6,408</u>
Department of Transportation total			<u>6,408</u>

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program or Cluster Title	CFDA number	Pass-through number	Federal expenditures
Department of Veterans Affairs:			
Canandaigua VA Medical Center	64.000	Lancaster IPA	\$ 2,410
Canandaigua VA Medical Center	64.000	Medeiros IPA	3,190
Canandaigua VA Medical Center	64.000	Miller IPA	13,919
Canandaigua VA Medical Center	64.000	PO 650-D48011 Rajish Makineni IPA	42,192
Institute of Medicine	64.000	2000004540	80,858
Department of Veterans Affairs total			<u>142,569</u>
Environmental Protection Agency:			
Rhode Island Natural History Survey	66.456	CE-96165401-0	3,104
Environmental Protection Agency total			<u>3,104</u>
Library of Congress:			
Waynesburg University	42.000	GA08C0016	8,002
Library of Congress total			<u>8,002</u>
National Aeronautics and Space Administration:			
Carnegie Institution of Washington	43.000	DTM-3250-05	30,668
Jet Propulsion Laboratory	43.000	1244339	5,721
Jet Propulsion Laboratory	43.000	1454164	196,438
Jet Propulsion Laboratory	43.000	JPL 1488322	116,299
Johns Hopkins University Applied Physics Laboratory, LLC.	43.000	110619	110,058
Massachusetts Institute of Technology	43.001	5710003400	119,149
Massachusetts Institute of Technology	43.001	5710003644	389,391
Regents of the University of Minnesota	43.001	A003457303	39,642
University of California, Los Angeles	43.000	2090-S-JB693	65,813
University of Pennsylvania	43.000	2309327/551649	(355)
University of Maryland – College Park	43.000	23913-Z6927002	735
National Aeronautics and Space Administration total			<u>1,073,559</u>
National Science Foundation:			
Boston University	47.049	4500001210	14,586
Brandeis University	47.049	4-01390	5,727
Brandeis University	47.049	402430	41,843
Case Western Reserve University	47.049	RES504473	5,146
Consortium for Ocean Leadership	47.050	BA-32	1,973
Consortium for Ocean Leadership	47.050	T346A32	13,410
Consortium for Ocean Leadership	47.050	T353A32	25,663
Consortium for Ocean Leadership	47.050	T353B32	38,557
Council on Undergraduate Research	47.074	Subcontract Q03	29,131
Mathematical Sciences Research Institute	47.049	Mathematical Sciences Research Institute	(9)
Northeastern University	47.070	50184778052	(559)
Ohio State University	47.041	60020184/GRT00014977	7,987
President and Fellows of Harvard College (1)	47.076	108124-5080734	17,775
Roger Williams University	47.081	EPS-1004057	(140)
University of Arizona	47.050	124741	1,231
University of California, Davis	47.047	201402675-01	23,047
University of California, Riverside	47.050	5-000515	29,426
University of California, San Diego	47.075	10321074-003	58,199
University of Colorado, Boulder	47.050	1549574	17,055
University of Georgia	47.024	RR551-550/4945066	5,535
University of Maryland – College Park	47.074	Z3707001/P.O. 9520	23,236
University of New Hampshire	47.050	14-057	38,087
University of Notre Dame	47.000	201940-Narain	7,200
University of Notre Dame	47.049	University of Notre Dame	5,300
University of Notre Dame	47.049	201940-Piperov	2,817
University of Pennsylvania	47.041	560494	22,174
University of Rhode Island	47.076	11908/0001964	2,813
University of Rhode Island	47.081	111710/0002748	819,792
University of Southern California	47.050	32637577 / PO 10002090	21,664
University of Texas, Austin	47.074	UTA15-000077	79,353
Worcester Polytechnic Institute	47.070	11-202610-01	(2,647)
Worcester Polytechnic Institute	47.070	12-202680-01	45,856
Worcester Polytechnic Institute	47.070	12-202750-01-00	16,006
National Science Foundation total			<u>1,417,234</u>
National Council on Disability:			
Northern California Institute for Research and Education, Inc.	92.213	SEAL1805	7,159
National Council on Disability total			<u>7,159</u>
Research and Development Cluster Pass-through Awards total			<u>19,361,729</u>
Research and Development Cluster total			<u>129,334,135</u>

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Federal expenditures</u>
Student Financial Assistance Cluster (note 4):			
Department of Education:			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 816,187
Federal Work-study Program	84.033		1,316,126
Federal Perkins Loan Program	84.038		29,062,633
Federal Pell Grant Program	84.063		4,850,233
Federal Direct Student Loans	84.268		31,700,359
Teacher Education Assistance for College and Higher Education Grant	84.379		23,784
Department of Education total			<u>67,769,322</u>
Department of Health and Human Services:			
Health Professions Student Loans, Including Primary Care: Loans/Loans for Disadvantaged Students (note 4)	93.342		696,043
Department of Health and Human Services total			<u>696,043</u>
Student Financial Assistance Cluster total			<u>68,465,365</u>
Other Program Awards:			
Direct Programs:			
Department of Defense:			
Basic and Applied Scientific Research	12.300		(4,708)
Mathematical Sciences Grants Program	12.901		26,768
Department of Defense total			<u>22,060</u>
Department of Education:			
Civil Rights Training and Advisory Services	84.004		455,345
Twenty-First Century Community Learning Centers	84.287		123,420
English Language Acquisition State Grants	84.365		1,116,960
Department of Education total			<u>1,695,725</u>
Department of Veterans Affairs:			
Other Research	64.000		38,677
Department of Veterans Affairs total			<u>38,677</u>
National Aeronautics and Space Administration:			
Other Research	43.000		99,954
National Aeronautics and Space Administration total			<u>99,954</u>
National Endowment For The Humanities:			
Promotion of the Humanities – Office of Digital Humanities	45.169		3,455
National Leadership Grants	45.312		78,114
National Endowment For The Humanities total			<u>81,569</u>
Other Programs Direct Awards total			<u>1,937,985</u>
Other Program Awards:			
Pass-through Awards			
Agency for International Development:			
Higher Education for Development	98.012	HED132-9747-GHA-11-01	(587)
Indiana University	98.000	MTRH	60,402
Agency for International Development total			<u>59,815</u>
Corporation for National and Community Service:			
Serve Rhode Island	94.006	09ACH RI 001003	182,229
Corporation for National and Community Service total			<u>182,229</u>
Department of Education:			
City of Central Falls School District	84.411C	We are a Village	113,387
Department of Education total			<u>113,387</u>
National Endowment for the Humanities:			
American Library Association	45.164	Changing America	1,674
University of Tulsa	45.149	14-2-1012220-94802	4,936
National Endowment for the Humanities total			<u>6,610</u>
Other Programs Pass-through Awards total			<u>362,041</u>
Other Programs total			<u>2,300,026</u>
Total Expenditures of Federal Awards			\$ <u>200,099,526</u>

See accompanying notes to supplementary schedule of expenditures of federal awards.

BROWN UNIVERSITY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Basis of Presentation

The accompanying supplementary 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, 2015. 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*. Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets or cash flows of the University.

(2) Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles. Under these 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 charged to applicable federal grants under negotiated rates agreed to with DHHS, the University's federal cognizant agency.

(3) Subrecipients

During fiscal year 2015, the University provided \$13,889,208 to subrecipients under its Research and Development Cluster and \$9,833 to subrecipients under other programs.

BROWN UNIVERSITY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(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, 2015 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 3,862,743
Health Professions Student Loans	<u>77,000</u>
Total campus-based loans programs	<u>\$ 3,939,743</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 5,734,783
Unsubsidized Stafford Loan Program	15,235,587
PLUS Loan Program	<u>10,729,989</u>
Total Federal Direct Student Loan programs	<u>\$ 31,700,359</u>

The Federal Perkins Loan and Health Professional Student Loan 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, 2015 under these programs consist of:

Federal Perkins Loan Program	\$ 24,761,466
Health Professions Student Loans	<u>623,840</u>
Total	<u>\$ 25,385,306</u>

For the year ended June 30, 2015, the University recovered an administrative cost allowance of \$306,365 under the Federal Perkins Loan Program.

The University is responsible only for the performance of certain administrative duties relating to Federal Direct Loans and, accordingly, these loans are not included in the University's financial statements. It is not practical to determine the balances of loans outstanding to students of the University under this program as of June 30, 2015.



KPMG LLP
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100 Westminster Street
Providence, RI 02903-2321

Independent 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, in accordance with the 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, the financial statements of Brown University (the University), which comprise the balance sheet as of June 30, 2015, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 23, 2015



KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Reports on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The President and Corporation
Brown University:

Report on Compliance for Each Major Federal Program

We have audited Brown University's (the University's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2015. Brown University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.



Other Matter

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each of the University's major federal programs is not modified with respect to this matter.

The University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-001, that we consider to be a significant deficiency.

The University's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

KPMG LLP

February 12, 2016

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? x yes _____ none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? x yes _____ no

Identification of Major Program

Name of federal program or cluster	CFDA numbers
Research and Development Cluster	Various
Student Financial Assistance Cluster	Various

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? x yes _____ no

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

None.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

- (3) **Finding Number:** 2015 - 001
Federal Agency: U.S. Department of Education
Program: Student Financial Assistance Cluster
CFDA #: 84.268 Federal Direct Student Loans
Award Number: Various
Award Year: 7/1/14 – 6/30/15
Finding: Disbursement Notification Letters

Criteria

If an institution credits a student's account at the institution with Direct Loan, FPL, TEACH or FFEL funds, the institution must notify the student, or parent in writing 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 or the TEACH Grant payments returned to ED; and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, TEACH Grant, or TEACH Grant disbursement. Institutions that implement an affirmative confirmation process (as described in 34 CFR section 668.165 (a)(6)(i)) must make this notification to the student or parent no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the institution with Direct Loan, FPL, or TEACH Grants. Institutions that do not implement an affirmative confirmation process must notify a student no earlier than 30 days before, but no later than 7 days after, crediting the student's account and must give the student 30 days (instead of 14) to cancel all or part of the loan.

Condition

While examining 40 students for disbursement notifications, we noted that two students received their disbursement notifications after the required 30 days. These two students were sent their notifications 62 days and 171 days, respectively, after the loan amounts were disbursed.

Cause and Effect

Notifications are set up to automatically generate upon disbursement based on addresses entered into the system. Due to incomplete or missing addresses for these students, notifications were not sent timely until the issue was identified by management.

Questioned Costs

None

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Recommendation

We recommend establishing and implementing additional controls to ensure the University sends disbursement notification letters within 30 days before or after crediting a student's account for Federal aid.

Auditee Corrective Plan

Contact Person Wynette Zuppari

Management's Response

Since December 2015, the Loan Office has been performing an internal audit to compare the notices sent to the disbursement detail report in order to ensure that borrowers are receiving notice for each and every disbursement. The issue of additional address codes within the system causes notice to fail. The Loan Office is in the process of evaluating alternative methods of sending notifications so that all disbursements are captured in the process.

Anticipated Completion Date

Management plans to fully implement the process by March 31, 2016.