



BROWN UNIVERSITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

BROWN UNIVERSITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2013

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Exhibit I

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

The President and Corporation
Brown University:

Report on Compliance for 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 the University's major federal program for the year ended June 30, 2013. The University's major federal program is 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 the University's major federal program 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 consider necessary in the circumstances.

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

Opinion on 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 its major federal program for the year ended June 30, 2013.



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 the University's major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 20, 2014



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Exhibit II

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, 2013, 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 29, 2013.

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.



Exhibit II

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 29, 2013

BROWN UNIVERSITY
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	_____	yes	<u> x </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____	yes	<u> x </u> none reported
Noncompliance material to the financial statements noted?	_____	yes	<u> x </u> no

Federal Awards

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

Identification of Major Program

<u>Name of federal program or cluster:</u>	<u>CFDA Numbers:</u>
Research and Development Cluster	Various

Dollar threshold used to distinguish between type A and type B programs:	\$3,000,000
Auditee qualified as low-risk auditee?	<u> x </u> yes _____ no

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

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.



Exhibit IV

BROWN UNIVERSITY

Financial Statements and Supplementary
Schedule of Expenditures of Federal Awards

Year ended June 30, 2013



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Providence, RI 02903-2321

Exhibit IV

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, 2013 and 2012, 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 organization'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 organization'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, 2013 and 2012, 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

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 for the year ended June 30, 2013 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 2013 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 expenditures 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 29, 2013 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 for the year ended June 30, 2013. 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 29, 2013

BROWN UNIVERSITY

Balance Sheets

June 30, 2013 and 2012

(Dollars in thousands)

Assets	2013	2012
Cash and cash equivalents	\$ 14,009	52,890
Receivables for investments sold	21,287	79,720
Accounts receivable and other assets	38,535	72,168
Contributions receivable, net	146,051	158,784
Notes receivable, net	32,960	32,202
Funds held in trust by others	66,463	17,333
Investments	3,076,163	2,786,235
Land, buildings and equipment, net	1,019,875	953,334
Total assets	<u>\$ 4,415,343</u>	<u>4,152,666</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 46,182	64,384
Liabilities associated with investments	7,276	78,423
Student deposits and grant advances	52,913	50,806
Federal student loan advances	24,590	24,671
Split-interest obligations	26,640	23,143
Other long-term obligations	54,242	88,544
Bonds, loans and notes payable	751,335	660,096
Total liabilities	<u>963,178</u>	<u>990,067</u>
Net assets:		
Unrestricted	934,271	717,741
Temporarily restricted	1,262,860	1,262,796
Permanently restricted	1,255,034	1,182,062
Total net assets	<u>3,452,165</u>	<u>3,162,599</u>
Total liabilities and net assets	<u>\$ 4,415,343</u>	<u>4,152,666</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2013

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 400,020	—	—	400,020
Less university scholarships	(141,914)	—	—	(141,914)
Net tuition and fees	258,106	—	—	258,106
Grants and contracts – direct	121,931	—	—	121,931
Grants and contracts – indirect	40,355	—	—	40,355
Contributions	55,527	14,978	—	70,505
Endowment return appropriated	119,966	5,892	—	125,858
Sales and services of auxiliary enterprises	84,947	—	—	84,947
Other income	30,436	—	—	30,436
Net assets released from restrictions	3,137	(3,137)	—	—
Total operating revenues	<u>714,405</u>	<u>17,733</u>	<u>—</u>	<u>732,138</u>
Operating expenses:				
Salaries and wages	294,674	—	—	294,674
Employee benefits	94,185	—	—	94,185
Graduate student support	58,869	—	—	58,869
Purchased services	59,420	—	—	59,420
Supplies and general	85,086	—	—	85,086
Utilities	17,567	—	—	17,567
Other	30,889	—	—	30,889
Interest	22,495	—	—	22,495
Operating expenses before depreciation	<u>663,185</u>	<u>—</u>	<u>—</u>	<u>663,185</u>
Net change from operating activities before depreciation	51,220	17,733	—	68,953
Depreciation	<u>66,597</u>	<u>—</u>	<u>—</u>	<u>66,597</u>
Change in net assets from operating activities	<u>(15,377)</u>	<u>17,733</u>	<u>—</u>	<u>2,356</u>
Nonoperating activities:				
Contributions	50,966	9,065	64,185	124,216
Net investment return	72,772	212,013	4,592	289,377
Endowment return appropriated	(21,867)	(103,991)	—	(125,858)
Other changes, net	127,425	(132,145)	4,195	(525)
Net assets released from restrictions	2,611	(2,611)	—	—
Change in net assets from nonoperating activities	<u>231,907</u>	<u>(17,669)</u>	<u>72,972</u>	<u>287,210</u>
Change in net assets	216,530	64	72,972	289,566
Net assets, beginning of year	<u>717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</u>
Net assets, end of year	<u>\$ 934,271</u>	<u>1,262,860</u>	<u>1,255,034</u>	<u>3,452,165</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2012

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 360,794	—	—	360,794
Less university scholarships	(122,940)	—	—	(122,940)
Net tuition and fees	237,854	—	—	237,854
Grants and contracts – direct	130,002	—	—	130,002
Grants and contracts – indirect	43,031	—	—	43,031
Contributions	58,539	9,980	—	68,519
Endowment return appropriated	111,937	4,488	—	116,425
Sales and services of auxiliary enterprises	81,583	—	—	81,583
Other income	26,979	459	—	27,438
Net assets released from restrictions	10,323	(10,323)	—	—
Total operating revenues	<u>700,248</u>	<u>4,604</u>	<u>—</u>	<u>704,852</u>
Operating expenses:				
Salaries and wages	281,635	—	—	281,635
Employee benefits	87,954	—	—	87,954
Graduate student support	46,997	—	—	46,997
Purchased services	58,697	—	—	58,697
Supplies and general	86,907	—	—	86,907
Utilities	19,170	—	—	19,170
Other	38,067	—	—	38,067
Interest	25,792	—	—	25,792
Operating expenses before depreciation	<u>645,219</u>	<u>—</u>	<u>—</u>	<u>645,219</u>
Net change from operating activities before depreciation	55,029	4,604	—	59,633
Depreciation	<u>59,601</u>	<u>—</u>	<u>—</u>	<u>59,601</u>
Change in net assets from operating activities	<u>(4,572)</u>	<u>4,604</u>	<u>—</u>	<u>32</u>
Nonoperating activities:				
Contributions	6,618	19,864	68,483	94,965
Net investment return	(1,513)	13,262	(401)	11,348
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Other changes, net	(52,207)	(13,777)	6,973	(59,011)
Net assets released from restrictions	49,992	(49,992)	—	—
Change in net assets from nonoperating activities	<u>(29,358)</u>	<u>(114,820)</u>	<u>75,055</u>	<u>(69,123)</u>
Change in net assets	(33,930)	(110,216)	75,055	(69,091)
Net assets, beginning of year	<u>751,671</u>	<u>1,373,012</u>	<u>1,107,007</u>	<u>3,231,690</u>
Net assets, end of year	<u>\$ 717,741</u>	<u>1,262,796</u>	<u>1,182,062</u>	<u>3,162,599</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2013 and 2012

(Dollars in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 289,566	(69,091)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(294,498)	(19,010)
Realized loss on partial swap termination	2,600	2,767
Depreciation	66,597	59,601
Amortization of bond premium	(3,658)	—
Loss from disposals of land, building and equipment	591	4,056
Change in funded status of pension obligation	(11,109)	11,805
Change in fair value of interest rate swap liabilities	(23,577)	29,989
Change in asset retirement obligation	384	43
Change in estimate of split-interest obligations	5,765	4,817
Contributions restricted for plant and endowment	(72,745)	(77,129)
Change in accounts receivable and other assets	33,633	(16,702)
Change in accounts payable and accrued liabilities	(8,753)	(541)
Change in other operating assets, net	672	15,458
Change in other operating liabilities, net	2,026	(6,349)
Net cash used in operating activities	<u>(12,506)</u>	<u>(60,286)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(143,178)	(119,113)
Purchases of investments	(933,127)	(1,521,797)
Sales and redemptions of investments	979,988	1,590,401
Notes (advanced to) repaid by students and others	(758)	988
Change in funds held in trust by others	(49,130)	10,610
Net cash used in investing activities	<u>(146,205)</u>	<u>(38,911)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	72,745	77,129
Payments under split-interest obligations	(2,268)	(2,252)
Payment for partial swap termination	(2,600)	(2,767)
Payments on long-term debt	(5,910)	(84,525)
Proceeds from issuance of debt, including premium	149,807	80,630
Proceeds from commercial paper programs	9,220	35,000
Payments on commercial paper programs	(58,220)	—
Proceeds from secured borrowings for investment purposes	—	55,005
Payments on secured borrowings for investment purposes	(55,005)	(79,998)
Cash collateral posted under swap agreements	(2,000)	(35,300)
Cash collateral returned under swap agreements	14,500	22,800
Advance from line of credit	—	566
Payment of advance from line of credit	—	(566)
Bond issuance costs	(439)	(606)
Net cash provided by financing activities	<u>119,830</u>	<u>65,116</u>
Change in cash and cash equivalents	(38,881)	(34,081)
Cash and cash equivalents, beginning of year	52,890	86,971
Cash and cash equivalents, end of year	\$ <u>14,009</u>	<u>52,890</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(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 6,400 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; and KARING, a Rhode Island not-for-profit corporation that holds certain property of the Warren Alpert Medical School, 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 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 temporarily restricted net assets until appropriated by the Corporation and spent in accordance with the standard of prudence imposed by UPMIFA.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

- *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. In addition, classification of certain alternative investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than the valuation inputs. 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 also includes alternative investments redeemable on or near the measurement date; and
- Level 3 – Valuation based on unobservable inputs used in situations in which little or no market data is available, and also includes alternative investments not redeemable near the measurement date.

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, or when alternative investments become more or less redeemable because of term or other changes. Transfers between fair value categories are recognized at the end of the reporting period.

(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 of the University (the Corporation) to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, noncapitalized plant expenditures, 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, 2013 and 2012

(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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(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 10 years for equipment. Equipment is depreciated over a range of 3-to-15 years, 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 \$12,848 and \$12,127 at June 30, 2013 and 2012, respectively. The University receives all or a specified portion of the return on the underlying assets of such trusts, which is primarily restricted for scholarships. The University will never receive the assets held in trust. These are classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity. Other trustee funds of \$53,615 and \$5,206 at June 30, 2013 and 2012, 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.

(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 participated in a repurchase agreement under which the University periodically borrowed funds collateralized with certain of its securities for other investment purposes. These amounts are reflected both as investments and liabilities associated with investments as of June 30, 2012, and amounted to \$55,005. The University discontinued this program in fiscal 2013. Liabilities associated with investments also may include payables for securities purchased.

BROWN UNIVERSITY

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(Dollars in thousands)

(m) *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.

(n) *Reclassifications*

Certain 2012 financial information has been reclassified to conform to the 2013 presentation.

(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>2013</u>	<u>2012</u>
Contributions expected to be received in:		
Less than one year	\$ 57,596	50,727
Between one and five years	101,819	120,913
More than five years	9,818	11,006
	<u>169,233</u>	<u>182,646</u>
Gross contributions receivable		
Unamortized discount (at rates ranging from 0.2% to 2.5%) and allowance for uncollectibles	<u>(23,182)</u>	<u>(23,862)</u>
Contributions receivable, net	<u>\$ 146,051</u>	<u>158,784</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.

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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 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. As of June 30, 2013 and 2012, the University had no plans or intentions to sell investments at amounts different from NAV.

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.

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Notes to Financial Statements

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(Dollars in thousands)

The following tables summarize the University's investments within the fair value hierarchy by strategy type as of June 30, 2013 and 2012:

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
U.S. equities	\$ 25,753	110,693	57,103	193,549
Non-U.S. equity funds	167,101	273,744	67,555	508,400
Fixed income:				
Domestic	4,704	136,264	148,010	288,978
U.S. Treasury inflation-protected	72,654	7,577	15,155	95,386
Hedged strategies:				
General arbitrage funds	—	116,620	46,115	162,735
Distressed funds	—	—	47,698	47,698
Global/Non-U.S. funds	—	77,583	502,850	580,433
Private equity:				
Buy-out funds	—	—	408,798	408,798
Venture funds	—	—	188,306	188,306
Real assets:				
Real estate and timber	1,735	1,121	198,726	201,582
Commodities, oil and gas	—	—	59,682	59,682
Cash and cash equivalents	340,616	—	—	340,616
Total	\$ <u>612,563</u>	<u>723,602</u>	<u>1,739,998</u>	<u>3,076,163</u>

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	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
U.S. equities	\$ 16,330	99,700	47,813	163,843
Non-U.S. equity index funds	83,696	—	—	83,696
Non-U.S. equity funds	162,812	201,794	60,989	425,595
Fixed income:				
Domestic	4,907	153,492	82,868	241,267
U.S. Treasury inflation-protected	76,467	8,124	16,248	100,839
Hedged strategies:				
General arbitrage funds	—	117,221	14,449	131,670
Distressed funds	—	—	55,762	55,762
Global/Non-U.S. funds	—	142,324	411,867	554,191
Private equity:				
Buy-out funds	—	—	430,559	430,559
Venture funds	—	—	188,350	188,350
Real assets:				
Real estate and timber	976	1,790	210,741	213,507
Commodities, oil and gas	52	—	48,819	48,871
Cash and cash equivalents	148,085	—	—	148,085
Total	\$ <u>493,325</u>	<u>724,445</u>	<u>1,568,465</u>	<u>2,786,235</u>

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. The University's fixed income strategy includes directly held U.S. corporate bonds, which although readily marketable are valued using matrix pricing and are classified in Level 2. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the balance sheet date. If the interest can be redeemed in the near term, the investment is classified in Level 2. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

Certain hedge funds of 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 seven to eight years with extensions of one to three years, and have an average remaining life of approximately six to seven years.

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The following tables present the activities for the years ended June 30, 2013 and 2012 for the University's investments classified in Level 3:

Level 3 roll forward	2013					
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total
Fair value as of June 30, 2012	\$ 108,802	99,116	482,078	618,909	259,560	1,568,465
Acquisitions	2,000	36,874	104,000	56,298	36,355	235,527
Dispositions	(2,521)	(52)	(92,329)	(167,020)	(43,234)	(305,156)
Net realized and unrealized gains	16,377	27,227	102,914	88,917	5,727	241,162
Fair value at June 30, 2013	\$ 124,658	163,165	596,663	597,104	258,408	1,739,998

Level 3 roll forward	2012					
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total
Fair value as of June 30, 2011	\$ 150,881	47,154	532,863	583,079	250,141	1,564,118
Acquisitions	4,000	49,600	31,089	69,152	27,236	181,077
Dispositions	(11,475)	(32)	(81,703)	(77,992)	(22,903)	(194,105)
Transfers	(25,169)	(8,124)	—	—	—	(33,293)
Net realized and unrealized (losses) gains	(9,435)	10,518	(171)	44,670	5,086	50,668
Fair value at June 30, 2012	\$ 108,802	99,116	482,078	618,909	259,560	1,568,465

Fiscal 2012 transfers of \$33,293 represent the expiration of lock-ups.

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

	2013	2012
Operating:		
Endowment return appropriated	\$ 125,858	116,425
Included in other income	13,883	13,019
Nonoperating activities:		
Net investment return	289,377	11,348
Endowment return appropriated	(125,858)	(116,425)
Total return	\$ 303,260	24,367

Total investment management and advisory expenses, including internal costs, were \$16,817 and \$22,158 for the years ended June 30, 2013 and 2012, respectively, and have been netted against the total return.

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(a) Liquidity

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale period:

	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Semi-annually</u>	<u>Subject to rolling lock-ups</u>	<u>Illiquid</u>	<u>Total</u>
Equities	\$ 186,729	118,252	307,835	20,873	61,551	6,709	701,949
Fixed income	218,708	85,939	—	—	79,717	—	384,364
Hedged strategies	—	154,456	39,747	43,725	445,540	107,398	790,866
Private equity	—	—	—	—	—	597,104	597,104
Real assets	2,856	—	—	—	—	258,408	261,264
Cash and cash equivalents	340,616	—	—	—	—	—	340,616
Total	\$ <u>748,909</u>	<u>358,647</u>	<u>347,582</u>	<u>64,598</u>	<u>586,808</u>	<u>969,619</u>	<u>3,076,163</u>

Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, and semi-annual redemption frequency typically require notice periods ranging from 15 to 90 days.

(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, 2013 was \$173,776 and \$86,504, respectively. Additionally, some marketable investments require capital to be phased in over time. The aggregate amount of unfunded commitments associated with other alternative investments as of June 30, 2013 was \$43,350.

(c) Investment Derivatives

The University's endowment investment portfolio includes derivative financial instruments that have been acquired 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.

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(4) Endowment

The University's endowment consists of approximately 2,600 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. The 2012 endowment information has been reclassified to reflect the removal of \$62,553, consisting of previously appropriated but unspent return on donor-restricted endowments and split-interest agreements outside of the University's long-term pool. In addition, in 2013, upon further analysis of the endowment, \$97,143 associated primarily with accumulated returns on Corporation-designated funds was reclassified from temporarily restricted to unrestricted net assets and is included in other changes, net on the 2013 statement of activities. This change had no impact on total expendable net assets or the total endowment.

Endowment net assets consist of the following at June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (7,126)	1,067,832	1,126,878	2,187,584
Corporation-designated endowment funds	<u>423,905</u>	<u>58,459</u>	<u>—</u>	<u>482,364</u>
Total endowment net assets	\$ <u><u>416,779</u></u>	<u><u>1,126,291</u></u>	<u><u>1,126,878</u></u>	<u><u>2,669,948</u></u>

Endowment net assets consist of the following at June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (22,176)	1,061,044	1,065,141	2,104,009
Corporation-designated endowment funds	<u>300,994</u>	<u>57,535</u>	<u>—</u>	<u>358,529</u>
Total endowment net assets	\$ <u><u>278,818</u></u>	<u><u>1,118,579</u></u>	<u><u>1,065,141</u></u>	<u><u>2,462,538</u></u>

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Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2012	\$ 278,818	1,118,579	1,065,141	2,462,538
Investment return, net	62,797	211,197	—	273,994
Endowment return appropriated	(21,867)	(103,991)	—	(125,858)
Contributions	—	1,669	59,959	61,628
Reclassifications and other changes	97,031	(101,163)	1,778	(2,354)
Endowment at June 30, 2013	<u>\$ 416,779</u>	<u>1,126,291</u>	<u>1,126,878</u>	<u>2,669,948</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2011	\$ 310,069	1,189,438	999,422	2,498,929
Investment return, net	2,260	11,042	—	13,302
Endowment return appropriated	(32,248)	(84,177)	—	(116,425)
Contributions	57	1,154	57,681	58,892
Reclassifications and other changes	(1,320)	1,122	8,038	7,840
Endowment at June 30, 2012	<u>\$ 278,818</u>	<u>1,118,579</u>	<u>1,065,141</u>	<u>2,462,538</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 \$7,126 and \$22,176 as of June 30, 2013 and 2012, 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>2013</u>	<u>2012</u>
Land	\$ 72,241	62,649
Buildings	631,411	623,218
Improvements	808,426	752,617
Equipment	140,142	115,033
Construction in progress	<u>100,305</u>	<u>68,925</u>
	1,752,525	1,622,442
Accumulated depreciation	<u>(732,650)</u>	<u>(669,108)</u>
Land, buildings and equipment, net	<u>\$ 1,019,875</u>	<u>953,334</u>

Outstanding commitments on uncompleted construction contracts total \$43,555 at June 30, 2013.

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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	
				2013	2012
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003A	3.70% – 4.85%	Fixed	2037	\$ 41,145	42,050
Series 2003B	0.04%	Variable	2043	42,975	43,385
Series 2004	3.75% – 4.75%	Fixed	2025	16,535	17,480
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	66,950	70,600
Series 2012	5.00%	Fixed	2022	118,240	—
Tax-exempt commercial paper, revolving through 2042	0.13%	Fixed	Revolving	1,000	50,000
Taxable standard commercial Paper Notes, Series A, revolving through 2036					
	0.14% – 0.18%	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
Loans payable – community:					
Development entities	1.22%	Fixed	2041	13,748	13,748
Total bonds, loans and notes payable before premium				713,898	650,568
Unamortized premium				37,437	9,528
Total bonds, loans and notes payable				\$ 751,335	660,096

(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 Bonds currently outstanding were issued primarily to finance new and ongoing capital projects for research, student housing, academic and administrative buildings, and infrastructure. In July 2012,

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the Series 2012 Facilities Revenue Refunding Bonds were issued in the amount of \$118,240 to refinance \$50,000 of RIHEBC tax-exempt commercial paper and \$8,220 in taxable commercial paper, with the remaining proceeds to be used for capital projects. The Series 2012 Bonds included an original issue premium of \$31,567, 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, 2013 ranged from 0.14% to 0.18%. 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 2012 and as of June 30, 2013, \$1,000 had been drawn and utilized.

Principal payments of bonds, notes and loans payable as of June 30, 2013 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2014	\$	6,125
2015		6,415
2016		25,370
2017		8,910
2018		9,180
Thereafter		657,898
Total	\$	<u>713,898</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, 2013 and 2012 was approximately \$764,000 and \$701,000, respectively. These estimated fair values are based on significant observable inputs categorized in Level 2 of the fair value hierarchy.

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(Dollars in thousands)

The University has a revolving line of credit available up to \$40,000. As of June 30, 2013, the full amount of \$40,000 was available at a rate of 0.94%.

The University provides the initial liquidity for each of its variable rate bond issues and commercial paper programs. Additionally, the University has backup liquidity facilities at two separate banks currently totaling \$150,000 in the event the debt is unable to be remarketed. These facilities are available exclusively for the temporary repayment of debt.

(c) Interest Rate Swaps

At June 30, 2013 and 2012, 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 swaps' notionals for the JPMorgan swap and the \$85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.

In fiscal 2012, the Series 2001B bonds synthetically fixed by the \$17,363 Goldman Sachs swap were refunded with fixed rate debt resulting in an unmatched swap. For economic reasons the University terminated approximately one-third of the original notional value of this swap in each of the years ended June 30, 2013 and 2012. As a result, the University recognized a realized loss on partial swap termination of \$2,600 and \$2,757, in fiscal 2013 and 2012, respectively, which is recorded in nonoperating activities in other changes, net in the statement of activities.

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

Counterparty	Associated debt	Expiration date	June 30, 2013 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2013	2012
JP Morgan	Series 2003B	9/1/2043	\$ 42,975	3.732%	\$ (10,929)	(16,943)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(14,426)	(26,702)
Goldman Sachs	None	9/1/2032	17,363	3.891	(2,460)	(7,747)
					<u>\$ (27,815)</u>	<u>(51,392)</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, 2012 and 2013.

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

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 \$23,278 and \$22,279 for the years ended June 30, 2013 and 2012, 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.

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

	<u>2013</u>	<u>2012</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 71,621	54,097
Service cost	3,286	2,314
Interest cost	2,857	2,954
Benefits paid	(1,889)	(1,837)
Actuarial (gain) loss	(6,668)	14,093
Projected benefit obligation at end of year	<u>\$ 69,207</u>	<u>71,621</u>

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

	<u>2013</u>	<u>2012</u>
Discount rate	4.67%	4.01%
Rate of compensation increase	3.00	3.00

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2013 and 2012
(Dollars in thousands)

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

	2013	2012
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 46,542	40,823
Actual return on plan assets	4,714	1,056
Contributions	5,870	6,500
Benefits paid	(1,889)	(1,837)
Fair value of plan assets at end of year	55,237	46,542
Projected benefit obligation at end of year	(69,207)	(71,621)
Funded status included in other long-term obligations	\$ (13,970)	(25,079)
	2013	2012
Net periodic pension cost:		
Service cost	\$ 3,286	2,314
Interest cost	2,857	2,954
Expected return on assets	(3,540)	(3,312)
Amortization of unrecognized loss and prior service cost	1,637	378
Net periodic pension cost	\$ 4,240	2,334

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

	2013	2012
Discount rate	4.01%	5.57%
Rate of compensation increase	3.00	3.50
Expected long-term rate of return	7.50	7.50

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, 2013 and 2012, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$709 and \$471, respectively, and a net unrecognized actuarial gain of \$15,147 and an actuarial loss of \$24,863, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

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June 30, 2013 and 2012

(Dollars in thousands)

The plan assets at June 30, 2013 and 2012 consist of variable annuity investments with various equity and fixed income focuses measured at NAV and are classified in Level 2 in the GAAP fair value hierarchy because of the plan’s ability to redeem its interests at or near the balance sheet date.

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.

The actual asset allocation for the pension plan as of June 30, 2013 and 2012, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2013	2012
Equity funds	65%	65%	65%
Fixed funds	35	35	35
Total	100%	100%	100%

The University’s estimated contribution for 2014 is \$3,000.

Estimated future benefit payments as of June 30, 2013 are as follows:

Fiscal year:	
2014	\$ 2,271
2015	2,399
2016	2,568
2017	2,758
2018	3,026
2019 – 2023	18,956

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(8) Restricted Net Assets

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

	<u>2013</u>		<u>2012</u>	
	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Endowment	\$ 1,126,291	1,126,878	1,118,579	1,065,141
Contributions receivable	57,401	88,650	77,200	81,584
Donor-restricted purposes	79,168	28,632	67,017	25,009
Student loans	—	10,874	—	10,328
Total	<u>\$ 1,262,860</u>	<u>1,255,034</u>	<u>1,262,796</u>	<u>1,182,062</u>

(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>2013</u>	<u>2012</u>
Instruction and departmental research	\$ 285,170	265,010
Sponsored programs	116,112	124,211
Academic and student support	137,943	134,218
Auxiliary services	85,170	85,831
Institutional support	105,387	95,550
	<u>\$ 729,782</u>	<u>704,820</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2013 and 2012

(Dollars in thousands)

(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.

(12) Supplemental Disclosure of Cash Flow Information

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

	<u>2013</u>	<u>2012</u>
Cash paid for interest, including recurring swap settlements	\$ 30,460	27,962
Noncash investing activities:		
(Decrease) increase in accounts payable for land, buildings and equipment	(9,449)	802
Decrease in payables for purchases of investments	(16,142)	(32,100)
(Decrease) increase in receivables for investments sold	(58,433)	34,715

(13) Subsequent Events

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 29, 2013, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Research and Development Cluster: Department of Agriculture	Agricultural and Rural Economic Research	North Carolina State University	10.310	\$ 22,612
	Agricultural and Rural Economic Research	Rutgers University	10.310	64,578
	Department of Agriculture total			<u>87,190</u>
Department of Health and Human Services	Model – State supported area		93.107	34,651
	Biological Response to Environmental Health Hazards		93.113	2,732,370
		Yale University	93.113	32,209
		President and Fellows of Harvard College	93.113	16,924
		Mount Sinai School of Medicine	93.113	105,808
	Oral Diseases and Disorders Research		93.121	65,215
	NIEHS Superfund Hazardous Substances		93.143	2,595,115
		Dartmouth College	93.143	33,533
	Human Genome Research		93.172	962,407
		Fred Hutchinson Cancer Research Center	93.172	10,357
	Research Related to Deafness and Communication Disorders		93.173	461,670
	Research and Training in Complementary and Alternative Medicine		93.213	133,445
		Miriam Hospital	93.213	19,152
		University of Maryland, Baltimore	93.213	37,894
	Research on Healthcare Costs, Quality and Outcomes		93.226	856,011
		Healthcentric Advisors	93.226	41,304
	Mental Health Research Grants		93.242	6,327,271
		Brigham & Women's Hospital	93.242	66,443
		Butler Hospital	93.242	136,209
		John Hopkins University	93.242	39,114
		Lifespan Corporation	93.242	8,536
		Rhode Island Hospital	93.242	14,547
		The Miriam Hospital	93.242	73,386
		University of California, Los Angeles	93.242	9,063
		University of Missouri, St. Louis	93.242	121,487
		University of Rochester	93.242	282,037
		University of Maryland, Baltimore	93.242	119,569
		Bradley Hospital	93.242	21,863
		University of California, San Francisco	93.242	19,033
	Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243	9,663
	Alcohol Research Programs		93.273	8,107,274
		Children's Mercy Hospitals & Clinics	93.273	63,726
		Research Foundation of State University of New York	93.273	34,257
		Rhode Island Hospital	93.273	68,486
		University of Connecticut	93.273	41,973
		Yale University	93.273	3,573
		Butler Hospital	93.273	15,342
		Dartmouth Medical School	93.273	9,176
		Miriam Hospital	93.273	69,989
		University of Memphis	93.273	13,238
		University of Rhode Island	93.273	49,617
		Miami University	93.273	5,261
Drug Abuse and Addiction Research Programs		93.279	2,804,336	
	Butler Hospital	93.279	29,847	
	Dartmouth College	93.279	177,987	
	The Miriam Hospital	93.279	87,885	
	Tufts University	93.279	13,674	
	Rhode Island Hospital	93.279	41,151	
	University of Pittsburgh	93.279	287,197	
	Women and Infants Hospital	93.279	47,611	
	University of Rhode Island	93.279	33,554	
Mental Health Research Career/Scientist Development Awards		93.281	685,014	
Mental Health National Research Service Awards for Research Training		93.282	59,510	
Centers for Disease Control and Prevention Investigations and				
Technical Assistance				
		93.283	73,542	
	Women's and Infants	93.283	28,575	

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster, cont'd: Department of Health and Human Services	Discovery and Applied Research for Technological Innovations to Improve Human Health Minority Health and Health Disparities Research		93.286	\$ 618,566
			93.310	158,250
	Nursing Research	Johns Hopkins University	93.310	178,490
		Sloan-Kettering Institute	93.310	3,791
		Butler Hospital	93.361	9,027
	National Center for Research Resources	University of California, San Diego	93.361	115,680
		Rhode Island Hospital	93.361	97,622
		The Regents of the University of California	93.361	36,547
			93.389	146,792
			93.389	520,052
	Cancer Cause and Prevention Research	University of Rhode Island	93.389	(2,533)
		Women & Infants Hospital	93.389	178,795
			93.393	1,627,626
		Legacy for Health Foundation	93.393	37,244
		Memorial Hospital	93.393	20,804
	Cancer Detection and Diagnosis Research	Imperial College of London	93.393	49,708
		Butler Hospital	93.393	11,233
		Miriam Hospital	93.393	8,279
			93.394	4,226,178
			93.394	19,576
	Cancer Treatment Research	The Miriam Hospital	93.394	24,089
		Frontier Science and Technology Research Foundation	93.394	15,131
	Cancer Biology Research Heart and Vascular Diseases Research	University of California, San Diego	93.394	13,773
		American College of Radiology	93.395	69,223
		State University of New York-Environmental Science & Forestry	93.395	44,482
			93.396	28,410
			93.837	611,962
	Lung Diseases Research Blood Diseases and Resource Research Arthritis, Musculoskeletal and Skin Diseases Research	Northern California Institute for Research and Education	93.837	43,988
		Butler Hospital	93.837	2,019
			93.838	196,801
			93.839	417,541
			93.846	312,421
	Diabetes, Endocrinology and Metabolism Research	Lifespan, Inc	93.846	39,887
			93.847	1,159,562
		Memorial Hospital	93.847	211,195
		The Miriam Hospital	93.847	136,561
		University of Massachusetts, Amherst	93.847	10,127
	Digestive Diseases and Nutrition Research Extramural Research Programs in the Neurosciences and Neurological Disorders	Tufts University	93.847	22,643
		Virginia Polytechnic Institute and State University	93.847	10,892
			93.848	499
			93.853	5,142,276
			93.853	333,132
	Allergy, Immunology and Transplantation Research	Miriam Hospital	93.853	15,400
		University of Washington	93.853	20,709
		Stanford University	93.853	113,720
		University of Missouri, St. Louis	93.853	197,674
			93.855	1,610,511
	Biomedical Research and Research Training	The Miriam Hospital	93.855	259,615
		President and Fellows of Harvard College	93.855	28,336
		Stanford University	93.855	84,019
Rhode Island Hospital		93.855	77,295	
State University of New York, Buffalo		93.855	18,824	
Population Research		93.859	5,259,308	
	CytoSolv, Inc.	93.859	10,591	
	University of Rhode Island	93.859	48,600	
	University of Pennsylvania	93.859	23,169	
	Johns Hopkins University	93.859	7,100	
	93.859	1,538		
	93.864	279,292		
	93.864	50,439		
	Princeton University			

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures			
Research and Development Cluster, cont'd: Department of Health and Human Services	Child Health and Human Development Extramural Research	Indiana University University of Rhode Island Burnham Institute Johns Hopkins University Regents of University of Michigan University of California, Riverside Albert Einstein College of Medicine University of Missouri, Columbia John Hopkins University Burnham Institute Stanford University Case Western Reserve University ABT Associates Healthcentric Advisors MOI University State of Rhode Island Department of Behavioral Healthcare University of Rhode Island Tufts Medical Center Actuarial Resources Corporation Rand Corporation	93.865	\$ 3,014,610			
			93.865	250,167			
			93.865	53,774			
			93.866	4,396,827			
			93.866	176,215			
			93.866	29,879			
			93.866	32,111			
			93.866	29,617			
			93.866	23,725			
			93.866	2,321			
			93.867	2,321,810			
			93.867	32,376			
			93.886	199,997			
			93.989	35,916			
			93.999	149,693			
			93.399	224,621			
			93.239	14,981			
			93.UNK	1,541,410			
			93.UNK	143,902			
			93.UNK	193,861			
			93.UNK	10,171			
			93.UNK	14,632			
			93.UNK	126,368			
			93.UNK	29,065			
			93.UNK	235,981			
			93.UNK	19,494			
			93.UNK	25,604			
	Department of Health and Human Services total			<u>66,581,690</u>			
Environmental Protection Agency	Science to Achieve Results (Star) Research Program		66.509	350,822			
	Science to Achieve Results (Star) Fellowship Program		66.514	15,154			
	Environmental Protection Agency total			<u>365,976</u>			
Department of Housing and Urban Development	Lead Technical Studies Grants	Providence Plan	14.902	18,541			
	Department of Housing and Urban Development total			<u>18,541</u>			
National Aeronautics and Space Administration	Other Research	Arizona State University Carnegie Institution of Washington Colorado School of Mines Cornell University Jet Propulsion Laboratory Johns Hopkins University Applied Physics Laboratory, LLC Southwest Research Institute University of California, Los Angeles University of Maryland, College Park University of Pennsylvania Arizona State University University of California, Los Angeles University of Minnesota University of Maryland – College Park	43.UNK	3,122,211			
			43.UNK	26,861			
			43.UNK	233,740			
			43.UNK	7,827			
			43.UNK	6,076			
			43.UNK	259,879			
			43.UNK	119,240			
			43.UNK	125,798			
			43.UNK	170,181			
			43.UNK	24,306			
			43.UNK	59,977			
			43.001	1,151,806			
			43.001	18,039			
			43.001	57,491			
			43.001	71,694			
			43.001	10,006			
			43.009	86,543			
			43.008	4,651			
				National Aeronautics and Space Administration total			<u>5,556,326</u>

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Exhibit IV

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Research and Development Cluster, cont'd: National Endowment for the Humanities	Promotion of the Arts Grants to Organizations and Individuals		45.024	\$ 14,589
	National Endowment for the Humanities total			<u>14,589</u>
Department of Commerce: National Institute of Standards and Technology	Measurement and Engineering Research & Standards		11.609	26,821
	Congressionally Identified Projects	Internet 2 University of Rhode Island	11.609 11.617	52,501 <u>25,351</u>
	National Institute of Standards and Technology total			<u>104,673</u>
National Ocean and Atmospheric Agency	Sea Grant Support	Rhode Island Sea Grant	11.417	(1,063)
	Costal Zone Management Estuarine Research Reserves	University of Rhode Island	11.417	64,703
	Center for Sponsored Coastal Ocean Research		11.420	15,596
	Climate and Atmospheric Research	University of Rhode Island	11.478	14,781
			11.431	<u>16,948</u>
	National Ocean and Atmospheric Agency total			<u>110,965</u>
	Department of Commerce total			<u>215,638</u>
Department of State	Program for Study of Eastern Europe and Independent States of the Former Soviet Union	National Council for Eurasian and Eastern European Research	19.300	<u>43,394</u>
	Department of State total			<u>43,394</u>
National Science Foundation	Engineering Grants		47.041	2,206,561
		Learning Sites, Inc	47.041	42,035
		Ohio State University	47.041	80,644
		University of Pennsylvania	47.041	25,878
	Mathematical and Physical Sciences		47.049	8,064,888
		Boston University	47.049	99,744
		Brandeis University	47.049	35,058
		Case Western Reserve University	47.049	431,392
		Johns Hopkins University	47.049	11,248
		Ohio State University	47.049	21,533
		University of Colorado, Boulder	47.049	(26,668)
	Geosciences		47.050	2,295,895
		University of Southern California	47.050	67,109
		University of California, Riverside	47.050	69,949
		University of Colorado, Boulder	47.050	10,298
		Consortium for Ocean Leadership	47.050	48,215
	Computer and Information Science and Engineering		47.070	3,767,008
		Southern Methodist University	47.070	73,149
		National Science Foundation	47.070	42,478
		Washington University in Saint Louis	47.070	630
		Worcester Polytechnic Institute	47.070	26,407
	Biological Sciences		47.074	3,305,254
		University of Arizona	47.074	2,183
	Social, Behavioral, and Economic Sciences		47.075	588,566
		University of California	47.075	61,935
	Education and Human Resources:		47.076	87,157
		Council of Graduate Schools	47.076	27,111
		American Educational Research Association	47.076	3,169
	Education and Human Resources		47.076	2,547,760
		University of Rhode Island	47.076	161,084
	Polar Programs		47.078	477,990
			47.078	13,044
	International Science and Engineering (OISE)		47.079	304,194
	Office of Cyberinfrastructure		47.080	140,037
	Office of Experimental Program to Stimulate Competitive Research Tool		47.081	16,845
		Roger Williams University	47.081	16,845
		University of Rhode Island	47.081	523,253

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Exhibit IV

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster, cont'd: National Science Foundation	Other research	Cosmos Corporation	47.UNK	\$ 147,797
		Vanderbilt University	47.UNK	193
		University of Norte Dame	47.UNK	(6,900)
			47.UNK	1,080
	National Science Foundation total			<u>25,795,203</u>
National Science Foundation	Other Research Engineering Grants Mathematical and Physical Sciences		47.UNK	234,562
			47.041	14,624
			47.049	165,977
		University of Notre Dame	47.049	4,950
		Mathematical Science Research Institute	47.049	33,216
			47.050	82,391
		Geosciences	47.070	28,093
		Computer and Information Science and Engineering	47.074	56,261
		Biological Sciences	47.074	10,057
			Council on Undergraduate research	47.079
	National Science Foundation total			<u>618,076</u>
Department of Defense	Basic and Applied Scientific Research	Navatek, Ltd	12.300	1,811,909
		North Carolina State University	12.300	19,279
		University of California, Los Angeles	12.300	62,184
			12.300	51,254
			12.351	251,737
			12.420	832,942
			12.420	183,763
			12.420	38,358
			12.420	117,911
			12.420	20,860
			12.420	20,326
			12.431	2,210,398
			12.630	156,466
			12.630	191,861
			12.800	4,212,856
			12.800	15,267
			12.800	68,543
			12.800	223,921
			12.910	739,266
			12.910	113,933
			12.910	7,302
			12.910	176
			12.UNK	539,396
	12.UNK	2,088		
	12.UNK	76,120		
	12.UNK	20,211		
	12.UNK	63,334		
	12.UNK	83,722		
	12.UNK	170,805		
	12.UNK	12,766		
	12.UNK	32,946		
	12.UNK	2,619,497		
	Department of Defense total			<u>14,971,397</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	6,130,086
		University of Delaware	81.049	74,004
		Health Research, INC	81.049	47,109
			81.UNK	264,334
		Ames Laboratory	81.UNK	218,404
		Argonne National Laboratory	81.UNK	133,914
		Fermi National Accelerator Laboratory	81.UNK	157,799
		The Regents of the University of California	81.UNK	164,216
		Oak Ridge National Laboratory	81.UNK	45,328
		Pacific Northwest National Laboratory	81.UNK	44,328
	Other research			

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2013

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Fossil Energy Research and Development		81.089	\$ 236,503
	University Coal Research		81.057	51,902
	Advanced Research Projects Agency – Energy		81.135	212,233
	Conservation Research and Development		81.086	25,134
	Department of Energy total			<u>7,805,294</u>
Department of Veterans Affairs	Other research		64.000	<u>383,092</u>
	Department of Veterans Affairs total			<u>383,092</u>
Research and Development Cluster, cont'd:				
Department of Education	Other research	Rhode Island Board of Governors for Higher Education	84.000	102,671
	Graduate Assistance I Areas of National Need		84.200A	98,764
	Javits Fellowships		84.170B	192,826
	Overseas Doctoral Dissertation		84.022A	23,838
	National Institute on Disability and Rehabilitation Research	University of Rhode Island	84.133	5,284
	Department of Education total			<u>423,383</u>
Department of the Interior	Earthquake Hazards Reduction Program		15.807	<u>100,563</u>
	Department of the Interior total			<u>100,563</u>
U.S. Agency for International Development	Biomedical Research and Research Training		98.859	<u>363,885</u>
				<u>363,885</u>
American Recovery and Reinvestment Act (ARRA):				
National Science Foundation	Trans-NSF Recovery Act Research Support		47.082	<u>3,108,956</u>
	National Science Foundation – ARRA total			<u>3,108,956</u>
Department of Health and Human Services	Trans-NIH Recovery Act Research Support		93.701	1,113,452
		Dartmouth College	93.701	194,781
		Massachusetts General Hospital	93.701	2,251
		University of Rochester	93.701	(1,751)
		Women and Infants Hospital	93.701	(12,070)
	Other Research		93.UNK	427,135
	Recovery Act – Comparative Effectiveness Research – AHRQ		93.715	157,176
	Department of Health and Human Services – ARRA total			<u>1,880,974</u>
Student Services				
Department of Education	Graduate Assistance in Areas of National Needs		84.200A	<u>45,649</u>
	Research and Development Cluster total			<u>127,761,740</u>
Student Financial Assistance Cluster:				
Department of Education	Federal Perkins Loan Program (notes 4)		84.038	3,859,937
	Federal Direct Student Loans (note 4)		84.268	29,485,229
	Federal Work-study Program		84.033	1,316,126
	Federal Pell Grant Program		84.063	4,047,582
	Federal Supplemental Educational Opportunity Grants		84.007	816,187
	Teacher Education Assistance for College and Higher Education Grant		84.379	4,000
	Department of Education total			<u>39,529,061</u>
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (note 4)		93.342	<u>106,050</u>
	Department of Health and Human Services total			<u>106,050</u>
	Student Financial Assistance Cluster total			<u>39,635,111</u>
Other Federal Awards:				
Department of Commerce				

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Education Quality Award Ambassadorship		11.013	\$ 3,300
	Department of Commerce Total			<u>3,300</u>
United States Institute of Peace	Annual Senior Fellowship Competition		91.003	49,893
	United States Institute of Peace			<u>49,893</u>
Corporation for National and Community Service	AmeriCorps	Serve Rhode Island	94.006	190,072
Corporation for National and Community Service total				<u>190,072</u>
National Aeronautics and Space	Other		43.UNK	43,965
	National Aeronautics and Space Administration total			<u>43,965</u>
National Endowment for the Humanities	Promotion of the Humanities – Federal/State Partnership	Rhode Island Council for the Humanities	45.129	138
	Promotion of the Humanities Division of Preservation and Access	University of Tulsa	45.149	68,649
	Promotion of the Humanities Research		45.161	42,434
	National Leadership Grants		45.312	111,315
	Promotion of the Humanities – Office of Digital Humanities		45.169	143,808
		University of Maryland-College Park	45.169	7,532
	National Endowment for the Humanities total			<u>373,876</u>
Department of Defense	Civil Defense Architect/Engineer Faculty Development		12.300	18,075
	Basic Scientific Research		12.431	5,115
	Air Force Defense Research Sciences Programs		12.800	17,982
	Department of Defense total			<u>41,172</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	5,088
	Department of Energy total			<u>5,088</u>
Department of Education	Civil Rights Training and Advisory Services		84.004	540,210
	Bilingual Education Professional Development		84.195	466,346
	Fund for the Improvement of Education	City of Boston Public Schools	84.215	7,820
	Byrd Honors Scholarship Grants		84.145	988
	Other	City of Springfield Public Schools	84.UNK	(5,258)
	National Professional Development Program		84.365Z	834,326
	The Investing in Innovation Fund	City of Central Falls School District	84.411C	22,340
	Graduate Assistance in Areas of National Need		84.200A	279,520
	Department of Education total			<u>2,146,292</u>
Department of Health and Human Services	Other		93.UNK	193,069
		MOI University	93.UNK	139,048
		Healthcentric Advisors	93.UNK	55,046
		State of Rhode Island Department of Health	93.UNK	48,704

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
Department of Health and Human Services	Model State-Supported Area		93.107	\$ 122,464
	Biological Response to Environmental Health Hazards		93.113	403,236
	Aids Education and Training Centers	University of Massachusetts Medical Center	93.145	36,300
	National Research Service Awards Health Services Research Training		93.225	250,300
	Mental Health Research Grants		93.242	11,223
	Substance Abuse and Mental Health Services projects of Regional and National Significance		93.243	802,491
	Public Health Training Centers Grants	Yale University	93.249	133,852
	Alcohol Research Programs		93.273	536,787
	Drug Abuse and Addiction Research Programs		93.279	217,956
	Mental Health National Research Service Awards for Research Training		93.389	665,123
	Cell Biology and Biophysics Research		93.821	365,743
	Heart and Vascular Diseases Research		93.847	33,403
	Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	191,593
	Biomedical Research and Research Training		93.859	947,366
	Population Research		93.864	266,101
	Children Health and Human Development Extramural Research	Albert Einstein College of Medicine	93.865	13,206
	Aging Research		93.865	90,298
	Vision Research		93.866	190,611
	Grants for Training in Primary Care Medicine and Dentistry		93.867	130,722
	International Research and Research Training		93.884	668,644
	Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals		93.989	987,768
			93.989	76,905
			93.156	16,058
	Department of Health and Human Services Total			7,594,017
National Archives and Records Administration	National Historical Publications and Records Grants		89.003	38,660
	National Archives and Records Administration total			38,660
U.S. Department of Veteran Affairs	Other		64.UNK	33,922
	U.S. Department of Veterans Affairs Total			33,922
U.S. Agency for International Development	Cooperative Development Program	Indiana University	98.002	35,805
	USAID Development Partnerships for University Cooperation and Development	Higher Education for Development	98.012	511,938
	U.S. Agency for International Development Total			547,743
	Total Other Programs			11,686,076
	Total Expenditures of Federal Awards			\$ 179,082,927

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, 2013

(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, 2013. 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 contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

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

(3) Subrecipients

During fiscal year 2013, the University provided \$12,620,391 to subrecipients under its research and development cluster.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(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, 2013 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 3,565,596
Health Professions Student Loan Program	<u>106,050</u>
Total campus-based loans programs	<u>\$ 3,671,646</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 7,293,828
Unsubsidized Stafford Loan Program	11,788,066
PLUS Loan Program	<u>10,403,335</u>
Total Federal Direct Student Loan programs	<u>\$ 29,485,229</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, 2013 under these programs consist of:

Federal Perkins Loan Program	\$ 25,045,330
Health Professions Student Loans	<u>577,947</u>
Total	<u>\$ 25,623,277</u>

For the year ended June 30, 2013, the University recovered an administrative cost allowance of \$294,341 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, 2013.