



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, 2014

BROWN UNIVERSITY

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Government Auditing Standards and Related Information

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Table of Contents

	Page
Financial Statements and Schedule of Expenditures of Federal Awards	
Independent Auditors' Report	1
Financial Statements and Related Notes	3
Supplementary Schedule of Expenditures of Federal Awards and Related Notes	29
Reports on Compliance and Internal Control	
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 <i>Government Auditing Standards</i>	38
Independent Auditors' Reports on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i>	40
Findings and Questioned Costs	
Schedule of Findings and Questioned Costs	42



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Independent Auditors' Report

The President and Corporation
Brown University:

Report on the Financial Statements

We have audited the accompanying financial statements of Brown University (the University), which comprise the balance sheets as of June 30, 2014 and 2013, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter – Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2014 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 24, 2014, except as to the supplementary schedule of expenditures of federal awards, which is as of February 20, 2015

BROWN UNIVERSITY

Balance Sheets

June 30, 2014 and 2013

(Dollars in thousands)

Assets	2014	2013
Cash and cash equivalents	\$ 25,546	14,009
Receivables for investments sold	12,232	21,287
Accounts receivable and other assets	47,697	38,535
Contributions receivable, net	159,998	146,051
Notes receivable, net	32,133	32,960
Funds held in trust by others	114,239	66,463
Investments	3,485,789	3,076,163
Land, buildings and equipment, net	1,048,118	1,019,875
Total assets	<u>\$ 4,925,752</u>	<u>4,415,343</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 56,724	46,182
Liabilities associated with investments	8,056	7,276
Student deposits and grant advances	58,767	52,913
Federal student loan advances	24,428	24,590
Split-interest obligations	18,737	26,640
Other long-term obligations	54,205	54,242
Bonds, loans and notes payable	852,088	751,335
Total liabilities	<u>1,073,005</u>	<u>963,178</u>
Net assets:		
Unrestricted	1,002,498	934,271
Temporarily restricted	1,516,971	1,262,860
Permanently restricted	1,333,278	1,255,034
Total net assets	<u>3,852,747</u>	<u>3,452,165</u>
Total liabilities and net assets	<u>\$ 4,925,752</u>	<u>4,415,343</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2014

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 428,890	—	—	428,890
Less university scholarships	(153,424)	—	—	(153,424)
Net tuition and fees	275,466	—	—	275,466
Grants and contracts – direct	110,528	—	—	110,528
Grants and contracts – indirect	36,971	—	—	36,971
Contributions	74,324	18,715	—	93,039
Endowment return appropriated	125,366	10,101	—	135,467
Sales and services of auxiliary enterprises	87,311	—	—	87,311
Other income	32,523	—	—	32,523
Net assets released from restrictions	9,667	(9,667)	—	—
Total operating revenues	<u>752,156</u>	<u>19,149</u>	<u>—</u>	<u>771,305</u>
Operating expenses:				
Salaries and wages	313,076	—	—	313,076
Employee benefits	95,299	—	—	95,299
Graduate student support	62,189	—	—	62,189
Purchased services	67,874	—	—	67,874
Supplies and general	104,857	—	—	104,857
Utilities	18,787	—	—	18,787
Other	18,748	—	—	18,748
Interest	27,093	—	—	27,093
Operating expenses before depreciation	<u>707,923</u>	<u>—</u>	<u>—</u>	<u>707,923</u>
Net change from operating activities before depreciation	44,233	19,149	—	63,382
Depreciation	<u>66,655</u>	<u>—</u>	<u>—</u>	<u>66,655</u>
Change in net assets from operating activities	<u>(22,422)</u>	<u>19,149</u>	<u>—</u>	<u>(3,273)</u>
Nonoperating activities:				
Contributions	5,670	18,786	72,720	97,176
Net investment return	113,036	325,484	6,076	444,596
Endowment return appropriated	(22,255)	(113,212)	—	(135,467)
Other changes, net	(11,151)	9,253	(552)	(2,450)
Net assets released from restrictions	5,349	(5,349)	—	—
Change in net assets from nonoperating activities	<u>90,649</u>	<u>234,962</u>	<u>78,244</u>	<u>403,855</u>
Change in net assets	68,227	254,111	78,244	400,582
Net assets, beginning of year	<u>934,271</u>	<u>1,262,860</u>	<u>1,255,034</u>	<u>3,452,165</u>
Net assets, end of year	<u>\$ 1,002,498</u>	<u>1,516,971</u>	<u>1,333,278</u>	<u>3,852,747</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

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	(138,398)	—	—	(138,398)
Net tuition and fees	261,622	—	—	261,622
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	31,752	—	—	31,752
Net assets released from restrictions	3,137	(3,137)	—	—
Total operating revenues	<u>719,237</u>	<u>17,733</u>	<u>—</u>	<u>736,970</u>
Operating expenses:				
Salaries and wages	297,094	—	—	297,094
Employee benefits	92,268	—	—	92,268
Graduate student support	58,869	—	—	58,869
Purchased services	63,320	—	—	63,320
Supplies and general	95,355	—	—	95,355
Utilities	17,567	—	—	17,567
Other	18,797	—	—	18,797
Interest	22,495	—	—	22,495
Operating expenses before depreciation	<u>665,765</u>	<u>—</u>	<u>—</u>	<u>665,765</u>
Net change from operating activities before depreciation	53,472	17,733	—	71,205
Depreciation	<u>66,597</u>	<u>—</u>	<u>—</u>	<u>66,597</u>
Change in net assets from operating activities	<u>(13,125)</u>	<u>17,733</u>	<u>—</u>	<u>4,608</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	125,173	(132,145)	4,195	(2,777)
Net assets released from restrictions	2,611	(2,611)	—	—
Change in net assets from nonoperating activities	<u>229,655</u>	<u>(17,669)</u>	<u>72,972</u>	<u>284,958</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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

(Dollars in thousands)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 400,582	289,566
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(430,041)	(268,053)
Realized loss on partial swap termination	—	2,600
Depreciation	66,655	66,597
Amortization of bond premium	(3,862)	(3,658)
Loss from disposals of land, building and equipment	3,373	591
Change in funded status of pension obligation	(1,170)	(11,109)
Change in fair value of interest rate swap liabilities	1,355	(23,577)
Change in asset retirement obligation	(222)	384
Change in estimate of split-interest obligations	(5,501)	5,765
Contributions restricted for plant and endowment	(88,164)	(72,745)
Change in accounts receivable and other assets	(9,162)	33,633
Change in accounts payable and accrued liabilities	6,386	(8,753)
Change in other operating assets, net	(13,535)	672
Change in other operating liabilities, net	5,692	2,026
Net cash (used in) provided by operating activities	<u>(67,614)</u>	<u>13,939</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(94,115)	(143,178)
Purchases of investments	(1,313,061)	(933,127)
Sales and redemptions of investments	1,329,048	953,543
Notes repaid by (advanced to) students and others, net	827	(758)
Change in funds held in trust by others	(47,776)	(49,130)
Net cash used in investing activities	<u>(125,077)</u>	<u>(172,650)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	88,164	72,745
Proceeds from sale of restricted gifts of securities	14,263	—
Payments under split-interest obligations	(2,402)	(2,268)
Payments on long-term debt	(46,335)	(5,910)
Proceeds from issuance of debt, including premium	150,950	149,807
Proceeds from commercial paper programs	14,750	9,220
Payments on commercial paper programs	(14,750)	(58,220)
Bond issuance costs	(412)	(439)
Payment for partial swap termination	—	(2,600)
Payments on secured borrowings for investment purposes	—	(55,005)
Cash collateral posted under swap agreements	—	(2,000)
Cash collateral returned under swap agreements	—	14,500
Net cash provided by financing activities	<u>204,228</u>	<u>119,830</u>
Change in cash and cash equivalents	11,537	(38,881)
Cash and cash equivalents, beginning of year	<u>14,009</u>	<u>52,890</u>
Cash and cash equivalents, end of year	\$ <u>25,546</u>	<u>14,009</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(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; KARING, a Rhode Island not-for-profit corporation that holds certain property of the Warren Alpert Medical School; and Brown Cayman I, a Cayman Islands corporation that holds certain investment funds, are all separate legal entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated.

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

(c) Classification of Net Assets

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

- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor-imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as 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, 2014 and 2013

(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 to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, changes in fair values of interest rate swaps and early termination thereof, change in pension plan and other long-term obligations, contributions for long-term purposes and other programs, net assets released from donor restrictions for property placed in service, and other activities not in direct support of annual operations.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(h) Land, Buildings and Equipment

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

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

(i) Fund Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees, including perpetual trusts established by donors of \$13,988 and \$12,848 at June 30, 2014 and 2013, 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 \$100,251 and \$53,615 at June 30, 2014 and 2013, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held in reserve in accordance with debt or similar agreements. These are classified in Level 1 in the fair value hierarchy because the underlying securities held by the trustee are based on quoted market prices.

(j) Federal Student Loan Advances

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

(k) Collections

The University's collections include works of art, historical treasures, and artifacts that are maintained in the University's libraries and museums. These collections are protected and preserved for education and research purposes. The collections are not recognized as assets in the financial statements of the University.

(l) Liabilities Associated with Investments

Liabilities associated with investments include the fair value of credit default swaps in 2014 and payables for securities purchased in 2013.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(m) *Other Long-Term Obligations*

Other long-term obligations include the funded status of the defined benefit pension plan of \$12,800 and \$13,970 at June 30, 2014 and 2013, respectively; the interest-rate swap liability of \$29,170 and \$27,815 at June 30, 2014 and 2013, respectively; and the asset retirement obligation of \$12,235 and \$12,457 at June 30, 2014 and 2013, respectively.

(n) *Use of Estimates*

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

(o) *Reclassifications*

Certain 2013 financial information has been reclassified to conform to the 2014 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>2014</u>	<u>2013</u>
Contributions expected to be received in:		
Less than one year	\$ 50,689	57,596
Between one and five years	122,448	101,819
More than five years	9,665	9,818
Gross contributions receivable	182,802	169,233
Unamortized discount (at rates ranging from 0.1% to 2.5%) and allowance for uncollectibles	(22,804)	(23,182)
Contributions receivable, net	\$ <u>159,998</u>	<u>146,051</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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

investments in turn-around situations. Real asset funds generally hold interests in public real estate investment trusts (REITs), commercial properties or commodities, or oil and gas, generally through commingled funds. Private equity and real asset strategies therefore often require the estimation of fair values by fund managers in the absence of readily determinable market values.

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

Basis of Reporting

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. At June 30, 2014, the sale of 21 private real assets fund interests was in negotiation. The purchase and sale agreement was signed on July 29, 2014 to sell the interests at a price other than NAV. Accordingly, at June 30, 2014, the fair value of such funds has been reflected at the final negotiated sale price. As of June 30, 2013, 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

The following tables summarize the University's investments within the fair value hierarchy by strategy type as of June 30, 2014 and 2013:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments:				
Equities:				
U.S. equities	\$ 27,025	135,321	70,485	232,831
Non-U.S. equity funds	210,933	243,301	7,719	461,953
Fixed income:				
Domestic	6,427	131,517	196,754	334,698
U.S. Treasury inflation-protected	—	7,546	15,093	22,639
Hedged strategies:				
General arbitrage funds	39,629	125,636	80,951	246,216
Distressed funds	—	—	18,675	18,675
Global/Non-U.S. funds	—	48,534	714,316	762,850
Private equity:				
Buy-out funds	—	—	419,697	419,697
Venture funds	—	—	245,296	245,296
Real assets:				
Real estate and timber	1,806	92,232	102,547	196,585
Commodities, oil and gas	—	86,079	87,021	173,100
Cash and cash equivalents	371,249	—	—	371,249
Total	\$ <u>657,069</u>	<u>870,166</u>	<u>1,958,554</u>	<u>3,485,789</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

	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	\$ 612,563	723,602	1,739,998	3,076,163

Registered mutual funds and directly held equity securities are classified in Level 1 of the fair value hierarchy. 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 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.

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2014 and 2013
(Dollars in thousands)

The following tables present the activities for the years ended June 30, 2014 and 2013 for the University's investments classified in Level 3:

Level 3 roll forward	2014					
	Equities	Fixed income	Hedged strategies	Private equity	Real assets	Total
Fair value as of June 30, 2013	\$ 124,658	163,165	596,663	597,104	258,408	1,739,998
Acquisitions	—	13,254	206,620	63,479	43,517	326,870
Dispositions	(69,576)	(60,601)	(84,431)	(131,130)	(52,993)	(398,731)
Transfers	—	—	—	—	(90,861)	(90,861)
Net realized and unrealized gains	23,122	96,029	95,090	135,540	31,497	381,278
Fair value at June 30, 2014	\$ 78,204	211,847	813,942	664,993	189,568	1,958,554

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

Transfers in 2014 from Level 3 to Level 2 are the result of the pending sale of 21 private real estate funds at June 30, 2014. There were no transfers between Levels 1 and 2 in 2014 and 2013.

The following summarizes investment return components for the years ended June 30, 2014 and 2013:

	2014	2013
Interest and dividends	\$ 25,642	35,207
Net realized and unrealized gains, net of investment management and advisory fees	430,041	268,053
Investment return	\$ 455,683	303,260

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2014 and 2013
(Dollars in thousands)

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

	2014	2013
Operating:		
Endowment return appropriated	\$ 135,467	125,858
Included in other income	11,087	13,883
Nonoperating activities:		
Net investment return	444,596	289,377
Endowment return appropriated	(135,467)	(125,858)
Total return	\$ 455,683	303,260

Total investment management and advisory expenses, including internal costs, were \$17,324 and \$16,817 for the years ended June 30, 2014 and 2013, respectively, and have been netted against the total return.

(a) Liquidity

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

	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 244,665	—	233,620	69,957	138,295	8,247	694,784
Fixed income	129,627	117,207	—	—	78,402	32,101	357,337
Hedged strategies	39,629	166,813	—	184,337	557,600	79,362	1,027,741
Private equity	—	—	—	—	—	664,993	664,993
Real assets	3,177	86,079	90,861	—	—	189,568	369,685
Cash and cash equivalents	371,249	—	—	—	—	—	371,249
Total	\$ 788,347	370,099	324,481	254,294	774,297	974,271	3,485,789

Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 7 to 180 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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

private equity and real asset investments as of June 30, 2014 was \$215,780 and \$76,420, respectively.

(c) *Investment Derivatives*

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

At June 30, 2014 and 2013, the University held swaption contracts principally as hedges against market concentration risks in certain segments of its investment portfolio. These contracts had total asset fair values of \$814 and \$5,036 at June 30, 2014 and 2013, respectively. The University recognized a net unrealized (loss) gain of (\$4,222) and \$240 for the years ended June 30, 2014 and 2013, respectively, pertaining to swaption contracts held. The University is obligated to pledge to the appropriate broker cash or securities to be held as collateral, as determined by margin requirements for swaption contracts held. The University was not required to post any collateral at June 30, 2014 and 2013.

Beginning in fiscal 2014, credit default swaps were entered to simulate long or short positions or to reduce credit risk where exposure exists. The buyer of a credit default swap is obligated to pay to the seller a periodic stream of payments over the term of the contract in return for a contingent payment upon occurrence of a contracted credit event. As of June 30, 2014, the total notional amount of credit default swap contracts for buyer protection was \$210,000. The fair value of these contracts as of June 30, 2014 was \$8,056 and is included in investments in liabilities associated with investments on the balance sheet. The unrealized loss on these contracts as of June 30, 2014 was \$362 and is included in net investment return on the statement of activities. The University had posted collateral of \$7,924 as of June 30, 2014, which is included in domestic fixed income investments in the 2014 fair value hierarchy table in note 3.

(4) *Endowment*

The University's endowment consists of approximately 2,700 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. 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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

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

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>\$ 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, 2014 are as follows:

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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>

(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

(b) *Funds with Deficiencies*

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the fund's historic dollar value. Deficiencies of this nature, which are reported in unrestricted net assets, aggregated \$1,515 and \$7,126 as of June 30, 2014 and 2013, 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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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.

(5) Land, Buildings and Equipment

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

	<u>2014</u>	<u>2013</u>
Land	\$ 72,571	72,241
Buildings	635,624	631,411
Improvements	924,222	808,426
Equipment	156,248	140,142
Construction in progress	50,024	100,305
	<u>1,838,689</u>	<u>1,752,525</u>
Accumulated depreciation	<u>(790,571)</u>	<u>(732,650)</u>
Land, buildings and equipment, net	<u>\$ 1,048,118</u>	<u>1,019,875</u>

Outstanding commitments on uncompleted construction contracts total \$21,688 at June 30, 2014.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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	
				2014	2013
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003A	3.85% – 4.85%	Fixed	2037	\$ —	41,145
Series 2003B	0.03%	Variable	2043	42,550	42,975
Series 2004	3.875% – 4.75%	Fixed	2025	15,550	16,535
Series 2005A	0.05%	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	63,170	66,950
Series 2012	5.00%	Fixed	2022	118,240	118,240
Series 2013	3.00% – 5.00%	Fixed	2044	138,715	—
Tax-exempt commercial paper, revolving through 2042	0.07%	Fixed	Revolving	1,000	1,000
Taxable standard commercial Paper Notes, Series A, revolving through 2036	0.08% – 0.10%	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				806,278	713,898
Unamortized premium				45,810	37,437
Total bonds, loans and notes payable				\$ 852,088	751,335

(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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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

In addition, in July 2012, 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, 2014 ranged from 0.08% to 0.10%. 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, 2014 and 2013, \$1,000 remained outstanding.

Principal payments of bonds, notes and loans payable as of June 30, 2014 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2015	\$	6,295
2016		26,915
2017		10,500
2018		10,835
2019		11,330
Thereafter		740,403
Total	\$	<u>806,278</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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, 2014 and 2013 was approximately \$893,000 and \$764,000, respectively. These estimated fair values are based on significant observable inputs categorized in Level 2 of the fair value hierarchy.

The University has a revolving line of credit available up to \$40,000. As of June 30, 2014, the full amount of \$40,000 was available at a rate of 0.91%.

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, 2014 and 2013, 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 the year ended June 30, 2013. As a result, the University recognized a realized loss on partial swap termination of \$2,600, which is recorded in nonoperating activities in other changes, net in the 2013 statement of activities.

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

Counterparty	Associated debt	Expiration date	June 30, 2014 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2014	2013
JP Morgan	Series 2003B	9/1/2043	\$ 42,550	3.732%	\$ (11,346)	(10,929)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(15,390)	(14,426)
Goldman Sachs	None	9/1/2032	16,788	3.891	(2,434)	(2,460)
					<u>\$ (29,170)</u>	<u>(27,815)</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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

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, 2014 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 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 \$24,290 and \$23,278 for the years ended June 30, 2014 and 2013, 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>2014</u>	<u>2013</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 69,207	71,621
Service cost	3,070	3,286
Interest cost	3,186	2,857
Benefits paid	(1,939)	(1,889)
Actuarial loss (gain)	5,471	(6,668)
Projected benefit obligation at end of year	<u>\$ 78,995</u>	<u>69,207</u>

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

	<u>2014</u>	<u>2013</u>
Discount rate	4.20%	4.67%
Rate of compensation increase	3.00	3.00

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2014 and 2013
(Dollars in thousands)

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

	2014	2013
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 55,237	46,542
Actual return on plan assets	8,897	4,714
Contributions	4,000	5,870
Benefits paid	(1,939)	(1,889)
Fair value of plan assets at end of year	66,195	55,237
Projected benefit obligation at end of year	(78,995)	(69,207)
Funded status included in other long-term obligations	\$ (12,800)	(13,970)
	2014	2013
Net periodic pension cost:		
Service cost	\$ 3,070	3,286
Interest cost	3,186	2,857
Expected return on assets	(3,940)	(3,540)
Amortization of unrecognized loss and prior service cost	817	1,637
Net periodic pension cost	\$ 3,133	4,240

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

	2014	2013
Discount rate	4.67%	4.01%
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	7.00	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, 2014 and 2013, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$854 and \$709, respectively, and a net unrecognized actuarial gain of \$14,700 and an actuarial loss of \$15,147, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

The plan assets at June 30, 2014 and 2013 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, 2014 and 2013, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2014	2013
Equity funds	75%	77%	65%
Fixed income funds	25	23	35
Total	100%	100%	100%

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

Estimated future benefit payments as of June 30, 2014 are as follows:

Fiscal year:	
2015	\$ 2,445
2016	2,612
2017	2,789
2018	3,046
2019	3,283
2020 – 2024	20,371

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(8) Restricted Net Assets

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

	2014		2013	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,336,091	1,190,547	1,126,291	1,126,878
Contributions receivable	60,765	99,233	57,401	88,650
Donor-restricted purposes	120,115	32,651	79,168	28,632
Student loans	—	10,847	—	10,874
Total	\$ 1,516,971	1,333,278	1,262,860	1,255,034

(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:

	2014	2013
Instruction and departmental research	\$ 301,096	282,245
Sponsored programs	103,773	117,624
Academic and student support	171,910	155,821
Auxiliary services	99,866	89,254
Institutional support	97,933	87,418
	\$ 774,578	732,362

(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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2014 and 2013

(Dollars in thousands)

(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>2014</u>	<u>2013</u>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$3,094 and \$4,867	\$ 29,096	25,593
Noncash investing activities:		
Increase (decrease) in accounts payable for land, buildings and equipment	4,156	(9,449)
Increase (decrease) in payables for purchases of investments	780	(16,142)
Decrease in receivables for investments sold	(9,055)	(58,433)

(13) Subsequent Events

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

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 24, 2014, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster:				
Department of Agriculture	Agricultural and Rural Economic Research	North Carolina State University	10.310	\$ 6,032
		Rutgers University	10.310	38,960
		University of Wisconsin, Madison	10.255	19,051
	Department of Agriculture total			64,043
Department of Health and Human Services	Other Research		93.000	1,712,978
		ABT Associates, Inc.	93.000	284,642
		Actuarial Resources Corporation	93.000	8,821
		Boston University	93.000	258,707
		Case Western Reserve University	93.000	101,112
		MOI University	93.000	23,824
		Rand Corporation	93.000	64,302
		State of Rhode Island Department of Behavioral Healthcare	93.000	59,354
		Tufts Medical Center	93.000	45,243
	Family Smoking Prevention and Tobacco Control Act Regulatory Research		93.077	82,282
	Biological Response to Environmental Health Hazards		93.113	3,605,850
		President and Fellows of Harvard College	93.113	32,046
		Mount Sinai School of Medicine	93.113	28,624
		Geisinger Center for Health Research	93.113	6,445
	Oral Diseases and Disorders Research		93.121	82,887
		Dartmouth Medical School	93.121	8,357
	NIEHS Superfund Hazardous Substances		93.143	2,316,772
	Human Genome Research		93.172	482,538
		Fred Hutchinson Cancer Research Center	93.172	25,396
	Research Related to Deafness and Communication Disorders		93.173	366,876
		Massachusetts General Hospital	93.173	497,989
		University of Connecticut	93.173	2,980
	Research and Training in Complementary and Alternative Medicine		93.213	174,068
		University of Maryland, Baltimore	93.213	118,999
		Northern California Institute for Research and Education, Inc.	93.213	3,433
	Research on Healthcare Costs, Quality and Outcomes		93.226	363,524
		Healthcentric Advisors	93.226	100,341
		University of Pennsylvania	93.226	28,420
	Research on Healthcare Costs, Quality and Outcomes Mental Health Research Grants		93.242	6,308,522
		Brigham & Women's Hospital	93.242	56,452
		Butler Hospital	93.242	175,053
		Lifespan Corporation	93.242	8,646
		University of Missouri, St. Louis	93.242	74,165
		University of Rochester	93.242	209,273
		University of Maryland, Baltimore	93.242	(5,542)
		Bradley Hospital	93.242	3,176
		University of California, San Francisco	93.242	36,163
		Miriam Hospital	93.242	134,536
		Northeastern University	93.242	54,042
	Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243	28,476
	Alcohol Research Programs		93.273	7,422,413
		Butler Hospital	93.273	88,558
		Children's Mercy Hospitals & Clinics	93.273	4,620
		Miami University	93.273	20,047
		Miriam Hospital	93.273	121,200
		Research Foundation of State University of New York	93.273	89,071
		Rhode Island Hospital	93.273	101,238
		University of Connecticut	93.273	18,124
		University of Memphis	93.273	13,733
		University of Rhode Island	93.273	33,996
		Yale University	93.273	11,049

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster (cont'd): Department of Health and Human Services (cont'd)	Drug Abuse and Addiction Research Programs		93.279	\$ 2,058,230
		Bradley Hospital	93.279	4,522
		Butler Hospital	93.279	56,430
		Dartmouth College	93.279	139,896
		The Miriam Hospital	93.279	108,621
		Tufts University	93.279	14,142
		Rhode Island Hospital	93.279	109,847
		University of California, San Francisco	93.279	130,905
		University of Pittsburgh	93.279	567,224
		University of Rhode Island	93.279	62,694
		Women and Infants Hospital	93.279	49,133
	Mental Health Research Career/Scientist Development Awards		93.281	557,084
	Mental Health National Research Service Awards for Research Training		93.282	41,983
	Centers for Disease Control and Prevention Investigations and Technical Assistance	Women's and Infants	93.283	33,138
	Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	86,084
	Trans-NIH Research Support		93.310	357,439
		Johns Hopkins University	93.310	158,125
		Sloan-Kettering Institute	93.310	14,138
	Nursing Research	Butler Hospital	93.361	25,463
		Rhode Island Hospital	93.361	(75)
		The Regents of the University of California	93.361	94,538
	National Center for Research Resources		93.389	360,230
		Rhode Island Hospital	93.389	297,493
		Women & Infants Hospital	93.389	10,256
	Cancer Cause and Prevention Research		93.393	1,219,183
		Legacy for Health Foundation	93.393	39,594
		Miriam Hospital	93.393	8,532
	Cancer Detection and Diagnosis Research		93.394	4,185,767
		The Miriam Hospital	93.394	16,185
		University of California, San Diego	93.394	13,343
		American College of Radiology	93.395	(1)
		State University of New York-Environmental Science & Forestry	93.395	14,212
	Cancer Biology Research		93.396	70,082
	Cancer Control		93.399	404,317
		Drexel University	93.399	(36,228)
	The Affordable Care Act - Medicaid Adult Quality Grants		93.609	64,258
	Heart and Vascular Diseases Research		93.837	957,587
		Rhode Island Hospital	93.837	55,142
		Columbia University	93.837	17,164
		Mount Sinai School of Medicine	93.837	45,469
		Yale University	93.837	180,730
	Lung Diseases Research		93.838	308,038
	Blood Diseases and Resource Research		93.839	690,676
	Arthritis, Musculoskeletal and Skin Diseases Research		93.846	865,721
		University of Washington	93.846	41,720
		Lifespan, Inc.	93.846	72,520
	Diabetes, Endocrinology and Metabolism Research		93.847	361,317
		Memorial Hospital	93.847	228,211
		The Miriam Hospital	93.847	175,837
		Virginia Polytechnic Institute and State University	93.847	2,852
		University of California, Los Angeles	93.847	9,223
	Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	3,875,926
		President and Fellows of Harvard College	93.853	403,949
		Miriam Hospital	93.853	12,984
		University of Washington	93.853	20,641
		Stanford University	93.853	4,439
		University of Missouri, St. Louis	93.853	112,300

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

<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): Department of Health and Human Services (cont'd)	Allergy, Immunology and Transplantation Research		93.855	\$ 1,504,362			
			93.855	285,136			
			93.855	12,272			
			93.855	65,584			
			93.855	577			
			93.855	2,089			
			93.859	6,216,752			
			93.859	150,819			
			93.859	28,837			
			93.859	237			
			93.864	66,082			
			93.864	27,649			
			93.865	2,464,734			
			93.865	57,862			
			93.865	76,304			
			93.865	640			
			93.865	57,221			
			93.865	23,181			
			93.865	4,337			
			93.866	3,228,329			
			93.866	158,526			
			93.866	23,407			
			93.866	51,158			
			93.866	15,000			
			93.866	938			
			93.866	237,334			
			93.867	1,447,573			
			93.867	102,076			
			93.886	29,689			
			93.886	223,501			
			93.989	(298)			
			93.999	(20,007)			
			Department of Health and Human Services total		<u>62,214,952</u>		
		Environmental Protection Agency	Rhode Island Natural History Survey		66.456	26,891	
			Science to Achieve Results (Star) Research Program		66.509	111,362	
			Science to Achieve Results (Star) Fellowship Program		66.514	15,689	
			Environmental Protection Agency total			<u>153,942</u>	
		Department of Housing and Urban Development	Lead Technical Studies Grants	Providence Plan	14.902	14,356	
			Department of Housing and Urban Development total			<u>14,356</u>	
		National Aeronautics and Space Administration	Other Research		43.000	1,573,432	
					43.000	175,928	
					43.000	122,613	
					43.000	53,886	
					43.000	99,080	
					43.000	151,034	
					43.001	1,868,396	
					43.008	388,598	
					43.009	89,936	
					National Aeronautics and Space Administration total		<u>4,522,903</u>
				National Endowment For The Humanities	Promotion of the Arts Grants to Organizations and Individuals		45.024
		National Endowment for the Humanities total				<u>414</u>	

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

<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):				
Department of Commerce				
National Institute of Standards and Technology	Education Quality Award Ambassadorship		11.013	\$ 13,578
	Measurement and Engineering Research & Standards		11.609	8,602
		Internet 2	11.609	82,223
	National Institute of Standards and Technology total			<u>104,403</u>
National Ocean and Atmospheric	Costal Zone Management Estuarine Research Reserves		11.420	7,524
	Center for Sponsored Coastal Ocean Research	University of Rhode Island	11.478	12,828
	National Ocean and Atmospheric Agency total			<u>20,352</u>
	Department of Commerce total			<u>124,755</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	9,379
	Department of State total			<u>9,379</u>
National Science Foundation	Other Research		47.000	165,715
		University of Notre Dame	47.000	19,620
		University of Georgia	47.024	3,048
	Engineering Grants		47.041	2,460,462
		Learning Sites, Inc.	47.041	7,370
		Ohio State University	47.041	(28,690)
		University of Pennsylvania	47.041	38,777
	Mathematical and Physical Sciences		47.049	8,511,514
		University of Notre Dame	47.049	4,000
		Johns Hopkins University	47.049	22,265
		Case Western Reserve University	47.049	74,190
		Boston University	47.049	110,273
		Brandeis University	47.049	35,139
	Geosciences		47.050	2,513,608
		Consortium for Ocean Leadership	47.050	49,194
		University of Southern California	47.050	45,238
		University of California, Riverside	47.050	51,804
		University of Colorado, Boulder	47.050	19,160
		University of Arizona	47.050	3,754
	Computer and Information Science and Engineering		47.070	3,549,605
		Southern Methodist University	47.070	25,401
		Washington University in Saint Louis	47.070	5,290
		Worcester Polytechnic Institute	47.070	161,348
	Biological Sciences		47.074	3,086,182
	Social, Behavioral, and Economic Sciences		47.075	803,115
		University of California	47.075	65,767
	Education and Human Resources:		47.076	2,732,238
		Council of Graduate Schools	47.076	2,297
		National Science Foundation	47.076	13,957
		University of Rhode Island	47.076	147,791
	Polar Programs		47.078	385,084
		Boston University	47.078	16,951
	International Science and Engineering (OISE)		47.079	312,784
	Office of Cyberinfrastructure		47.080	20,595
	Office of Experimental Program to Stimulate Competitive Research Tool	Roger Williams University	47.081	880,798
		University of Rhode Island	47.081	5,104
	National Science Foundation total			<u>26,320,748</u>
Department of Defense	Basic and Applied Scientific Research		12.300	2,376,069
		University of California - Los Angeles	12.300	90,025
		North Carolina State University	12.300	19,193
	Basic Scientific Research		12.351	403,960
	Military Medical Research and Development		12.420	496,955
		I2S Micro Implantable Systems, Inc.	12.420	(5,964)
		Boston University	12.420	161,616
		Yale University	12.420	16,861

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster (cont'd): Department of Defense (cont'd)	Basic Scientific Research		12.431	\$ 2,107,375
	Basic, Applied and Advanced Research in Science and Engineering		12.630	98,556
		University of Utah	12.630	141,141
	Air Force Defense Research Sciences Program		12.800	5,437,907
		Marine Biological Laboratory	12.800	9,760
	Research and Technology Development		12.910	832,878
		Kitware, Inc.	12.910	5,004
		ObjectVideo, Inc.	12.910	(140)
	Other research		12.000	205,357
		Stanford University	12.000	2,614,558
		Aptima, Inc.	12.000	109,742
		Cal Poly Pomona Foundation Inc.	12.000	88,544
		Hypercomp, Inc.	12.000	22,692
		MaXentric Technologies, LLC	12.000	18,717
		ObjectVideo, Inc.	12.000	165,570
		Ryon Technologies	12.000	71,172
		Science Applications International Corporation	12.000	46,421
		Soar Technology, Inc.	12.000	(343)
		UES, Inc.	12.000	40,001
	Department of Defense total			15,573,627
Department of Energy	Office of Science Financial Assistance Program		81.049	5,186,215
		University of Delaware	81.049	10,989
		Argonne National Laboratory	81.049	20,268
	Other research		81.000	552,557
		Fermi National Accelerator Laboratory	81.000	141,087
		Argonne National Laboratory	81.000	93,197
		Lifespan, Inc.	81.000	23,418
		The Regents of the University of California	81.000	135,508
		Pacific Northwest National Laboratory	81.000	210,360
		Ames Laboratory	81.000	13,983
	University Coal Research		81.057	148,856
	Advanced Research Projects Agency – Energy		81.135	464,218
	Conservation Research and Development		81.086	158,964
	Other research	United States Automotive Materials Partnership, LLC	81.087	117,968
Fossil Energy Research and Development	General Motors Corporation	81.089	49,405	
Department of Energy total			7,326,993	
Department of Veterans Affairs	Other research		64.000	376,387
		Canandaigua VA Medical Center	64.000	41,671
		VA Pittsburgh Healthcare System	64.000	16,497
Department of Veterans Affairs total			434,555	
Department of Education	Other research	Rhode Island Board of Governors for Higher Education	84.000	90,372
			84.022A	38,926
		National Institute on Disability and Rehabilitation Research	84.133G	33,710
		Javits Fellowships	84.170B	33,471
		Graduate Assistance in Areas of National Need	84.200A	84,889
Department of Education total			281,368	
Department of the Interior	Earthquake Hazards Reduction Program		15.807	44,576
		Department of the Interior total		44,576
American Recovery and Reinvestment Act (ARRA): National Science Foundation	Trans-NSF Recovery Act Research Support		47.082	431,306
		National Science Foundation – ARRA total		431,306
Department of Education	Independent Living – Centers		84.396	50,890
		Department of Education - ARRA total		50,890

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

<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):				
American Recovery and Reinvestment Act (ARRA) (cont'd):				
Department of Health and Human Services	Other Research - ARRA	America College of Radiology	93.000	\$ 158,178
	Trans-NIH Recovery Act Research Support		93.701	225,614
		Dartmouth College	93.701	1
		Massachusetts General Hospital	93.701	178
	Recovery Act – Comparative Effectiveness Research – AHRQ		93.715	12,537
	Department of Health and Human Services – ARRA total			<u>396,508</u>
	Research and Development Cluster total			<u>117,965,315</u>
Student Financial Assistance Cluster:				
Department of Education	Federal Perkins Loan Program (note 4)		84.038	3,876,150
	Federal Direct Student Loans (note 4)		84.268	29,283,382
	Federal Work-study Program		84.033	1,316,126
	Federal Pell Grant Program		84.063	4,503,237
	Federal Supplemental Educational Opportunity Grants		84.007	816,187
	Department of Education total			<u>39,795,082</u>
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care		93.342	59,700
	Loans/Loans for Disadvantaged Students (note 4)			<u>59,700</u>
	Department of Health and Human Services total			<u>59,700</u>
	Student Financial Assistance Cluster total			<u>39,854,782</u>
Other Federal Awards:				
United States Institute of Peace	Annual Senior Fellowship Competition		91.003	(80)
	United States Institute of Peace total			<u>(80)</u>
Department of Defense	Basic and Applied Scientific Research - Other		12.300	5,104
	Basic Scientific Research - Other		12.431	13,239
	Air Force Defense Research Sciences Program - Other		12.800	(2,982)
	Mathematical Sciences Grants Program		12.901	27,787
	Department of Defense total			<u>43,148</u>
National Aeronautics and Space Administration	Other Research		43.000	62,970
	National Aeronautics and Space Administration total			<u>62,970</u>
National Endowment For The Humanities	Promotion of the Arts Grants to Organizations and Individuals		45.024	9,999
	Promotion of the Humanities - Federal/State Partnership	Rhode Island Council for the Humanities	45.129	4,816
	Promotion of the Humanities - Division of Preservation and Access	University of Tulsa	45.149	53,571
	Promotion of the Humanities - Office of Digital Humanities	University of Maryland - College Park	45.169	1,524
	National Leadership Grants		45.312	47,119
	National Endowment For The Humanities total			<u>117,029</u>
National Science Foundation	Engineering Grants		47.041	18,226
	Mathematical and Physical Sciences		47.049	357,511
		American Institute of Mathematics	47.049	15,478
		Mathematical Sciences Research Institute	47.049	38,127
	Geosciences		47.050	56,822
	Computer and Information Science and Engineering		47.070	36,272
	Biological Sciences		47.074	28,041
	Education and Human Resources	Council on Undergraduate Research	47.076	4,963
	National Science Foundation total			<u>555,440</u>
U.S. Department of Veterans Affairs	Other Research		64.000	12,046
		Canandaigua VA Medical Center	64.000	111,914
	U.S. Department of Veterans Affairs total			<u>123,960</u>
Corporation for National and Community Service	AmeriCorps	Serve Rhode Island	94.006	188,539
	Corporation for National and Community total			<u>188,539</u>

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2014

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Other Federal Awards (cont'd):				
Department of Education	Other	Northwest Regional Educational Laboratory	84.UNK	\$ 9,521
	Civil Rights Training and Advisory Services		84.004	501,627
	Other		84.165A	231,538
	Bilingual Education Professional Development		84.195	11,638
	National Professional Development Program		84.365Z	1,287,450
	The Investing in Innovation Fund	City of Central Falls School District	84.411C	105,722
	Graduate Assistance in Areas of National Need		84.200A	16,043
	Department of Education total			<u>2,163,539</u>
Department of Health and Human Services	Other		93.UNK	187,280
		Healthcentric Advisors	93.UNK	5,005
		MOI University	93.UNK	146,672
		State of Rhode Island Department of Health	93.UNK	8,139
	Model – State supported area		93.107	223,057
	Biological Response to Environmental Health Hazards		93.113	382,426
	Aids Education and Training Centers	University of Massachusetts Medical Center	93.145	1,512
		Butler Hospital	93.156	12,321
	National Research Service Awards Health Services Research Training		93.225	330,905
	Mental Health Research Grants - Instruction	Miriam Hospital	93.242	47,062
	Substance Abuse and Mental Health Services Projects of Regional and National Significance		93.243	568,032
	Public Health Training Centers Grants	Yale University	93.249	28,825
	Alcohol Research Programs - Instruction		93.273	618,539
	Drug Abuse and Addiction Research Programs - Instruction		93.279	205,116
	Mental Health National Research Service Awards for Research Training - Instruction		93.282	520,337
	Mental Health and Health Disparities Research - Instruction		93.307	112,332
	Research Infrastructure Programs		93.351	637,098
	Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	Office of Research Infrastructure Programs	93.351	13,078
	Cell Biology and Biophysics Research - Instruction		93.821	367,778
	Heart and Vascular Diseases Research - Instruction		93.837	30,264
	Extramural Research Programs in the Neurosciences - Instruction		93.853	19,829
	Biomedical Research and Research Training - Instruction		93.859	1,143,608
	Population Research - Instruction		93.864	19,315
	Child Health and Human Development Extramural Research - Instruction		93.865	238,525
		Albert Einstein College of Medicine	93.865	72,605
	Aging Research - Instruction		93.866	302,284
	Vision Research - Instruction		93.867	136,287
	Grants for Training in Primary Care Medicine and Dentistry - Instruction		93.884	638,571
	International Research and Research Training - Instruction		93.989	786,865
	Department of Health and Human Services Total			<u>7,803,667</u>
U.S. Agency for International Development	USAID Foreign Assistance for programs Overseas Development	Indiana University	98.000	126,999
	USAID Development Partnerships for University Cooperation	Higher Education for Development	98.012	23,091
	U.S. Agency for International Development Total			<u>150,090</u>
	Total Other Programs			<u>11,208,302</u>
	Total Expenditures of Federal Awards			<u>\$ 169,028,399</u>

BROWN UNIVERSITY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(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, 2014. 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 charged to applicable federal grants under negotiated rates agreed to with DHHS, the University's federal cognizant agency.

(3) Subrecipients

During fiscal year 2014, the University provided \$12,999,834 to subrecipients under its research and development cluster and \$1,071,032 to subrecipients under other programs.

BROWN UNIVERSITY

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(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, 2014 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 3,569,966
Health Professions Student Loan Program	<u>59,700</u>
Total campus-based loans programs	<u>\$ 3,629,666</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 5,659,611
Unsubsidized Stafford Loan Program	13,431,550
PLUS Loan Program	<u>10,192,221</u>
Total Federal Direct Student Loan programs	<u>\$ 29,283,382</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, 2014 under these programs consist of:

Federal Perkins Loan Program	\$ 24,893,525
Health Professions Student Loans	<u>619,043</u>
Total	<u>\$ 25,512,568</u>

For the year ended June 30, 2014, the University recovered an administrative cost allowance of \$306,184 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, 2014.



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**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, 2014, 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 24, 2014.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

October 24, 2014



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

The President and Corporation
Brown University:

Report on Compliance for Each Major Federal Program

We have audited Brown University's (the University's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2014. Brown 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 considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2014.



Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University as of and for the year ended June 30, 2014, and have issued our report thereon dated October 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

February 20, 2015

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

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

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x 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 x no

Identification of Major Program

Name of federal program or cluster: **CFDA Numbers:**
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? x 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.