



**BROWN UNIVERSITY**

Independent Auditors' Reports as Required by Uniform Guidance  
and *Government Auditing Standards* and Related Information

Year ended June 30, 2018

**BROWN UNIVERSITY**

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and *Government Auditing Standards* and Related Information

Year ended June 30, 2018

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KPMG LLP  
One Financial Plaza, Suite 2300  
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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, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brown University as of June 30, 2018 and 2017, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Brown University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

October 29, 2018

**BROWN UNIVERSITY**

Balance Sheets

June 30, 2018 and 2017

(Dollars in thousands)

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Cash and cash equivalents	\$ 243,241	210,714
Accounts receivable and other assets	62,500	59,362
Contributions receivable, net	217,634	158,224
Notes receivable, net	28,306	29,031
Funds held in trust by others	94,443	35,530
Investments	4,021,114	3,777,316
Land, buildings and equipment, net	1,124,728	1,099,743
Total assets	<u>\$ 5,791,966</u>	<u>5,369,920</u>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 106,288	59,761
Liabilities associated with investments	60,128	157,954
Student deposits and grant advances	65,655	65,099
Federal student loan advances	19,875	25,271
Split-interest obligations	17,019	18,986
Other long-term obligations	66,849	82,225
Bonds, loans and notes payable	819,661	773,910
Total liabilities	<u>1,155,475</u>	<u>1,183,206</u>
Net assets:		
Unrestricted	1,077,926	964,088
Temporarily restricted	1,934,290	1,708,549
Permanently restricted	1,624,275	1,514,077
Total net assets	<u>4,636,491</u>	<u>4,186,714</u>
Total liabilities and net assets	<u>\$ 5,791,966</u>	<u>5,369,920</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2018

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 550,763	—	—	550,763
Less university scholarships	(197,449)	—	—	(197,449)
Net tuition and fees	353,314	—	—	353,314
Grants and contracts – direct	144,228	—	—	144,228
Grants and contracts – indirect	46,002	—	—	46,002
Contributions	65,238	47,250	—	112,488
Endowment return appropriated	149,064	2,577	—	151,641
Sales and services of auxiliary enterprises	100,036	—	—	100,036
Other income	43,975	—	—	43,975
Net assets released from restrictions	15,654	(15,654)	—	—
Total operating revenues	<u>917,511</u>	<u>34,173</u>	<u>—</u>	<u>951,684</u>
Operating expenses:				
Salaries and wages	376,515	—	—	376,515
Employee benefits	108,990	—	—	108,990
Graduate student support	75,640	—	—	75,640
Purchased services	107,452	—	—	107,452
Supplies and general	141,806	—	—	141,806
Utilities	31,153	—	—	31,153
Interest	27,491	—	—	27,491
Depreciation	78,176	—	—	78,176
Operating expenses	<u>947,223</u>	<u>—</u>	<u>—</u>	<u>947,223</u>
Change in net assets from operating activities	<u>(29,712)</u>	<u>34,173</u>	<u>—</u>	<u>4,461</u>
Nonoperating activities:				
Contributions	1,231	62,981	105,068	169,280
Net investment return	93,782	340,802	1,122	435,706
Endowment return appropriated	(25,283)	(126,358)	—	(151,641)
Other changes, net	(5,613)	(6,424)	4,008	(8,029)
Net assets released from restrictions	79,433	(79,433)	—	—
Change in net assets from nonoperating activities	143,550	191,568	110,198	445,316
Change in net assets	<u>113,838</u>	<u>225,741</u>	<u>110,198</u>	<u>449,777</u>
Net assets, beginning of year	<u>964,088</u>	<u>1,708,549</u>	<u>1,514,077</u>	<u>4,186,714</u>
Net assets, end of year	<u>\$ 1,077,926</u>	<u>1,934,290</u>	<u>1,624,275</u>	<u>4,636,491</u>

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statement of Activities

Year ended June 30, 2017

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 514,459	—	—	514,459
Less university scholarships	(187,013)	—	—	(187,013)
Net tuition and fees	327,446	—	—	327,446
Grants and contracts – direct	130,539	—	—	130,539
Grants and contracts – indirect	41,657	—	—	41,657
Contributions	69,673	33,386	—	103,059
Endowment return appropriated	164,085	882	—	164,967
Sales and services of auxiliary enterprises	96,970	—	—	96,970
Other income	37,775	—	—	37,775
Net assets released from restrictions	13,099	(13,099)	—	—
Total operating revenues	881,244	21,169	—	902,413
Operating expenses:				
Salaries and wages	357,895	—	—	357,895
Employee benefits	104,795	—	—	104,795
Graduate student support	68,385	—	—	68,385
Purchased services	89,835	—	—	89,835
Supplies and general	131,123	—	—	131,123
Utilities	26,733	—	—	26,733
Interest	29,291	—	—	29,291
Depreciation	73,843	—	—	73,843
Operating expenses	881,900	—	—	881,900
Change in net assets from operating activities	(656)	21,169	—	20,513
Nonoperating activities:				
Contributions	1,330	43,865	66,130	111,325
Net investment return	93,471	312,110	3,764	409,345
Endowment return appropriated	(28,180)	(136,787)	—	(164,967)
Other changes, net	(276)	3,500	4,993	8,217
Net assets released from restrictions	6,414	(6,414)	—	—
Change in net assets from nonoperating activities	72,759	216,274	74,887	363,920
Change in net assets	72,103	237,443	74,887	384,433
Net assets, beginning of year	891,985	1,471,106	1,439,190	3,802,281
Net assets, end of year	\$ 964,088	1,708,549	1,514,077	4,186,714

See accompanying notes to financial statements.

**BROWN UNIVERSITY**

Statements of Cash Flows

Years ended June 30, 2018 and 2017

(Dollars in thousands)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 449,777	384,433
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(421,118)	(396,398)
Depreciation	78,176	73,843
Amortization of bond premium	(4,663)	(4,066)
Gain on KARING transaction	(13,748)	—
Loss from disposals of land, building and equipment	1,422	902
Change in funded status of pension obligation	(6,533)	(12,859)
Change in fair value of interest rate swap liabilities	(9,125)	(18,474)
Change in asset retirement obligation	282	1,675
Change in estimate of split-interest obligations	242	(40)
Contributions restricted for plant and endowment	(126,462)	(127,117)
Change in accounts receivable and other assets	(3,138)	(3,976)
Change in accounts payable and accrued liabilities	34,086	3,363
Change in contributions receivable, net	(59,410)	12,680
Change in other operating liabilities, net	(4,840)	3,105
Net cash used in operating activities	<u>(85,052)</u>	<u>(82,929)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(92,142)	(111,452)
Purchases of investments	(1,132,366)	(665,839)
Sales and redemptions of investments	1,254,399	751,975
Purchases of securities sold short	(855,901)	(153,933)
Proceeds from securities sold short	792,455	199,079
Notes repaid by students and others, net	725	2,157
Change in funds held in trust by others, excluding swap collateral	(63,013)	28,625
Net cash (used in) provided by investing activities	<u>(95,843)</u>	<u>50,612</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	126,462	127,117
Proceeds from sale of restricted gifts of securities	20,907	23,650
Payments under split-interest obligations	(2,209)	(2,309)
Payments on long-term debt	(96,495)	(66,700)
Proceeds from issuance of debt, including premium	160,657	—
Cash collateral posted under swap agreements	(1,200)	(9,800)
Cash collateral returned under swap agreements	5,300	20,700
Advance from line of credit	55,000	—
Payment of advance from line of credit	(55,000)	—
Net cash provided by financing activities	<u>213,422</u>	<u>92,658</u>
Change in cash and cash equivalents	32,527	60,341
Cash and cash equivalents, beginning of year	<u>210,714</u>	<u>150,373</u>
Cash and cash equivalents, end of year	\$ <u>243,241</u>	<u>210,714</u>

See accompanying notes to financial statements.



## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2018 and 2017

(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 6,670 undergraduate students and 3,000 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; Farview Incorporated, a real estate holding company; KARING, a Rhode Island not-for-profit corporation that holds certain property of the Warren Alpert Medical School; and certain entities established by the University's investment office that holds certain investment funds, are all separate legal entities that are consolidated in the financial statements. Brown University and these consolidated entities are collectively referred to herein as the University. All significant inter-entity transactions and balances have been eliminated.

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

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was enacted. The Act impacts the University in several ways, including the addition of excise taxes on executive compensation and new rules for calculating unrelated business taxable income. While further regulatory guidance is necessary to calculate the tax assets and liabilities under the Act, we do not believe it will be material to 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.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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

#### **(d) Fair Value Measurements**

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

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

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

Investments measured at net asset value as a practical expedient to estimate fair value are not categorized in the fair value hierarchy.

#### **(e) Statements of Activities**

The statements of activities separately report changes in net assets from operating and nonoperating activities. Operating activities consist principally of revenues and expenses related to ongoing educational and research programs, including endowment return appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment return appropriated for operating activities, changes in fair values of interest rate swaps, change in pension plan and other long-term obligations, contributions for long-term purposes, 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, 2018 and 2017

(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. Notes and accounts receivable are presented net of an allowance for uncollectible amounts.

#### **(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.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

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 \$28,827 and \$29,439 at June 30, 2018 and 2017, respectively. The University receives all or a specified portion of the return on the underlying assets of most of the trusts, which is primarily restricted for scholarships. Most of these trust interests are classified in Level 3 in the fair value hierarchy. Other trustee funds of \$65,616 and \$6,091 at June 30, 2018 and 2017, respectively, represent debt proceeds to be utilized for construction projects or otherwise required to be held as collateral or in reserve in accordance with debt or interest rate swap 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) Derivatives**

The University uses derivatives for both debt and investment-related purposes. Interest-rate swaps, as described in note 6 (c), are initially used to manage interest-rate risk by fixing the rate on associated variable-rate debt issuances. In addition, certain of the University's investment strategies utilize various derivative financial instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Positions are expected to create gains or losses which, when combined with the applicable portion of the total investment portfolio, provide an expected result. Among the derivative instruments that may be entered from time to time include total return swaps to manage exposures in equity markets, foreign currency forward contracts to manage currency exposures in the portfolio. The University has established policies and procedures to monitor and manage risks related to these instruments. In connection with its investment derivative activities, the University generally maintains master netting agreements and collateral agreements with its counterparties. The agreements provide the University the right, in the event of default by the counterparty, to net a counterparty's rights and obligations under the agreement and to liquidate and offset collateral against any net amount owed by the counterparty.

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

#### **(m) Liabilities Associated with Investments**

The University may, from time to time, incur liabilities associated with its investments portfolio as a result of securities sold short or other transactions. In order to terminate a short position, the University must acquire and deliver to the lender a security identical to the one it borrowed and sold short, and a realized gain or loss is recognized for the difference between the short sale proceeds and the cost of the identical security acquired. Liabilities reported on the balance sheets at June 30, 2018 and 2017 include \$54,068 and \$148,753, respectively, representing the fair value of identical securities that must be acquired to settle obligations to the lender. The liabilities would be classified as Level 1 in the fair value hierarchy given that they are measured based on quoted market prices. In addition, liabilities associated with investments include the fair value of total return swaps \$6,060 and \$9,201 entered into in fiscal 2018 and 2017, respectively.

#### **(n) Other Long-Term Obligations**

Other long-term obligations include the funded status of the defined benefit pension plan of \$19,829 and \$26,362 at June 30, 2018 and 2017, respectively; interest-rate swap liabilities aggregating \$31,757 and \$40,882 at June 30, 2018 and 2017, respectively; and asset retirement obligations of \$15,263 and \$14,981 at June 30, 2018 and 2017, respectively.

#### **(o) 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.

#### **(p) Recent Accounting Pronouncement**

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The primary changes include revisions to simplify and enhance the presentation of net assets, a requirement to present functional and natural expenses in a single location, and expanded disclosures regarding liquidity and availability of resources. The ASU is effective for the University's fiscal year ending June 30, 2019. The University is evaluating the effects this will have on the presentation of its 2019 financial statements.

ASU 2014-09, *Revenue from Contracts with Customers*, was issued by the FASB in May 2014 and is intended to improve the financial reporting requirements for revenue from contracts with customers. The Standard establishes a five-step model and application guidance for determining the timing and amount of revenue recognition. The related application guidance in the Standard will replace most existing revenue recognition guidance in US GAAP. The ASU is effective for the University's fiscal year ending June 30, 2019. The University is currently evaluating the effects this will have on its 2019 financial statements.

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, was issued by the FASB in June 2018. The new ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU is effective for the University's fiscal year ending June 30, 2019. The University is currently evaluating the effects this will have on its 2019 financial statements.

**(g) Reclassifications**

Certain 2017 financial information has been reclassified to conform to the 2018 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>2018</u>	<u>2017</u>
Contributions expected to be received in:		
Less than one year	\$ 50,066	44,291
Between one and five years	111,168	96,540
More than five years	<u>131,082</u>	<u>45,147</u>
Gross contributions receivable	292,316	185,978
Unamortized discount (at rates ranging from 0.7% to 4.8%) and allowance for uncollectibles	<u>(74,682)</u>	<u>(27,754)</u>
Contributions receivable, net	<u>\$ 217,634</u>	<u>158,224</u>

## BROWN UNIVERSITY

### Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

### (3) Investments

#### *Investment Strategy*

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

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

#### *Basis of Reporting*

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Fair values for shares in registered mutual funds are based on published share prices. The University's 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, 2018 and 2017, 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**

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The following tables summarize the University's investments by strategy type as of June 30, 2018 and 2017:

	<b>2018</b>				
	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investments:					
Equities:					
U.S. equities	\$ 192,076	104,720	42,679	580	340,055
Non-U.S. equity funds	544,063	94,032	—	—	638,095
Fixed income:					
Domestic	58,903	8,553	85,870	32,548	185,874
Hedged strategies:					
General arbitrage funds	580,102	9,837	—	850	590,789
Distressed funds	2,159	—	—	—	2,159
Global/Non-U.S. funds	781,341	67,600	—	—	848,941
Private equity:					
Buy-out funds	580,966	—	—	8,216	589,182
Venture funds	342,917	—	—	12,958	355,875
Real assets:					
Real estate and timber	25,755	710	—	26,001	52,466
Commodities, oil and gas	70	25,546	—	36,490	62,106
Cash and cash equivalents	—	355,572	—	—	355,572
Total	<u>\$ 3,108,352</u>	<u>666,570</u>	<u>128,549</u>	<u>117,643</u>	<u>4,021,114</u>



**BROWN UNIVERSITY**

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	<b>2017</b>				
	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy</b>			<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Investments:					
Equities:					
U.S. equities	\$ 166,476	99,520	5,601	841	272,438
Non-U.S. equity funds	494,035	96,416	—	—	590,451
Fixed income:					
Domestic	46,809	13,117	123,170	29,429	212,525
U.S. Treasury inflation-protected	7,348	—	—	—	7,348
Hedged strategies:					
General arbitrage funds	522,692	9,985	—	1,000	533,677
Distressed funds	2,623	—	—	—	2,623
Global/Non-U.S. funds	935,547	—	—	—	935,547
Private equity:					
Buy-out funds	418,108	—	—	8,492	426,600
Venture funds	289,382	—	—	4,892	294,274
Real assets:					
Real estate and timber	35,608	1,201	—	32,542	69,351
Commodities, oil and gas	68,391	28,465	—	44,515	141,371
Cash and cash equivalents	—	291,111	—	—	291,111
Total	<u>\$ 2,987,019</u>	<u>539,815</u>	<u>128,771</u>	<u>121,711</u>	<u>3,777,316</u>

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

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

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The following tables present activities for the years ended June 30, 2018 and 2017 for the University's investments classified in Level 3:

Level 3 roll forward	2018					
	Equities	Fixed income	Private equity	Real assets	Hedged strategies	Total
Fair value as of June 30, 2017	\$ 841	29,429	13,385	77,056	1,000	121,711
Acquisitions	—	8,400	3,822	—	—	12,222
Dispositions	(276)	(13,872)	—	(14,505)	—	(28,653)
Net realized and unrealized gains	15	8,591	3,967	(60)	(150)	12,363
Fair value at June 30, 2018	<u>\$ 580</u>	<u>32,548</u>	<u>21,174</u>	<u>62,491</u>	<u>850</u>	<u>117,643</u>

  

Level 3 roll forward	2017					
	Equities	Fixed income	Private equity	Real assets	Hedged strategies	Total
Fair value as of June 30, 2016	\$ 678	43,201	12,987	63,294	—	120,160
Acquisitions	—	6,459	—	8,895	1,000	16,354
Dispositions	(100)	(34,486)	—	(6,564)	—	(41,150)
Net realized and unrealized gains	263	14,255	397	11,432	—	26,347
Fair value at June 30, 2017	<u>\$ 841</u>	<u>29,429</u>	<u>13,384</u>	<u>77,057</u>	<u>1,000</u>	<u>121,711</u>

There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2018 and 2017, respectively.

The following summarizes investment return components for the years ended June 30, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 27,198	24,577
Net realized and unrealized gains, net of investment management and advisory expenses	421,118	396,398
Investment return	<u>\$ 448,316</u>	<u>420,975</u>

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

	<b>2018</b>	<b>2017</b>
Operating:		
Endowment return appropriated	\$ 151,641	164,967
Included in other income	12,610	11,630
Nonoperating activities:		
Net investment return	435,706	409,345
Endowment return appropriated	(151,641)	(164,967)
Total return	\$ 448,316	420,975

Total investment management and advisory expenses, including internal costs, were \$13,276 and \$15,118 for the years ended June 30, 2018 and 2017, respectively, and have been netted against the total return.

**(a) Liquidity**

Investment liquidity as of June 30, 2018 and 2017 is aggregated below based on redemption or sale ability:

	2018						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	
Equities	\$ 313,978	—	474,124	139,211	—	50,837	978,150
Fixed income	91,397	—	—	—	12,971	81,506	185,874
Hedged strategies	18,521	253,649	467,647	137,219	541,585	23,268	1,441,889
Private equity	—	47,138	—	—	—	897,919	945,057
Real assets	26,256	—	—	—	—	88,316	114,572
Cash and cash equivalents	355,572	—	—	—	—	—	355,572
Total	\$ 805,724	300,787	941,771	276,430	554,556	1,141,846	4,021,114

**BROWN UNIVERSITY**  
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	2017						
	Daily	Monthly	Quarterly	Semi- annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 201,538	—	251,307	122,382	241,164	46,498	862,889
Fixed income	136,286	—	—	—	7,348	76,239	219,873
Hedged strategies	30,913	319,889	262,932	186,493	634,739	36,881	1,471,847
Private equity	—	25,282	—	—	—	695,592	720,874
Real assets	29,666	—	—	—	—	181,056	210,722
Cash and cash equivalents	291,111	—	—	—	—	—	291,111
Total	<u>\$ 689,514</u>	<u>345,171</u>	<u>514,239</u>	<u>308,875</u>	<u>883,251</u>	<u>1,036,266</u>	<u>3,777,316</u>

Investments with daily liquidity generally do not require advance notice prior to withdrawal. Investments with monthly, quarterly, semi-annual, and annual redemption frequency typically require notice periods, ranging from 5 to 180 days, at June 30, 2018 and 2017.

**(b) Commitments**

Private equity and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real assets as of June 30, 2018 was \$560,373 and \$66,043, respectively.

**(c) Investment Derivatives**

The University's investment-related derivative positions, categorized by primary underlying risk, are as follows as of June 30, 2018 and 2017:

	2018		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized gain (loss)</u>
Instrument type:			
Total return swaps	\$ 298,590	(45,195)	2,242
Futures and options	<u>7,612</u>	<u>(39,772)</u>	<u>(3,547)</u>
Total	<u>\$ 306,202</u>	<u>(84,967)</u>	<u>(1,305)</u>

**BROWN UNIVERSITY**

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	<b>2017</b>		
	<u>Long notional</u>	<u>Short notional</u>	<u>Unrealized gain (loss)</u>
Instrument type:			
Total return swaps	\$ 144,306	(79,887)	(845)
Foreign currency forwards	8,848	—	(105)
Futures and options	<u>6,876</u>	<u>(91,792)</u>	<u>580</u>
Total	<u>\$ 160,030</u>	<u>(171,679)</u>	<u>(370)</u>

Contracts in a net asset position are included in investments on the balance sheets, and contracts in a net liability position are included in liabilities associated with investments on the balance sheets. At June 30, 2018 and 2017, the University held certain total return swaps in a net liability position of \$6,038 and \$9,201, respectively, as well as certain total return swaps in a net asset position of \$6,798 and \$8,357, respectively. At June 30, 2017, the University held various foreign currency forward contracts in a net liability position of \$105. At June 30, 2018 and 2017, the University held various futures and options contracts in a net asset position of \$8,737 and \$7,035, respectively, as well as futures and options contracts in a net liability position of \$124 at June 30, 2017.

**(4) Endowment**

The University's endowment consists of approximately 3,100 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Net assets associated with the endowment are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (184)	1,521,921	1,496,235	3,017,972
Corporation-designated endowment funds	<u>526,150</u>	<u>59,726</u>	<u>—</u>	<u>585,876</u>
Total endowment net assets	<u>\$ 525,966</u>	<u>1,581,647</u>	<u>1,496,235</u>	<u>3,603,848</u>

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Endowment net assets consist of the following at June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,362)	1,306,637	1,394,885	2,700,160
Corporation-designated endowment funds	<u>483,590</u>	<u>61,781</u>	<u>—</u>	<u>545,371</u>
Total endowment net assets	<u>\$ 482,228</u>	<u>1,368,418</u>	<u>1,394,885</u>	<u>3,245,531</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2017	\$ 482,228	1,368,418	1,394,885	3,245,531
Investment return, net	69,221	341,716	—	410,937
Endowment return appropriated	(25,283)	(126,358)	—	(151,641)
Contributions	200	266	98,037	98,503
Reclassifications and other changes	<u>(400)</u>	<u>(2,395)</u>	<u>3,313</u>	<u>518</u>
Endowment at June 30, 2018	<u>\$ 525,966</u>	<u>1,581,647</u>	<u>1,496,235</u>	<u>3,603,848</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2016	\$ 436,177	1,211,827	1,315,362	2,963,366
Investment return, net	73,378	311,037	—	384,415
Endowment return appropriated	(28,180)	(136,787)	—	(164,967)
Contributions	360	230	74,495	75,085
Reclassifications and other changes	<u>493</u>	<u>(17,889)</u>	<u>5,028</u>	<u>(12,368)</u>
Endowment at June 30, 2017	<u>\$ 482,228</u>	<u>1,368,418</u>	<u>1,394,885</u>	<u>3,245,531</u>

## BROWN UNIVERSITY

### Notes to Financial Statements

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#### **(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 \$184 and \$1,362 as of June 30, 2018 and 2017, respectively. These deficiencies resulted principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Corporation. Subsequent gains that restore the fair value of the assets of these endowment funds to their historic dollar value will be classified as increases in unrestricted net assets.

#### **(c) Return Objectives and Risk Parameters**

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

#### **(d) Strategies Employed for Achieving Objectives**

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

**BROWN UNIVERSITY**

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**(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-restricted endowment funds.

**(5) Land, Buildings and Equipment**

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

	<u>2018</u>	<u>2017</u>
Land	\$ 85,882	84,651
Buildings	729,944	642,702
Improvements	1,085,518	1,046,911
Equipment	215,517	203,800
Intangible assets	2,633	2,633
Construction in progress	<u>68,390</u>	<u>106,105</u>
	2,187,884	2,086,802
Accumulated depreciation	<u>(1,063,156)</u>	<u>(987,059)</u>
Land, buildings and equipment, net	<u>\$ 1,124,728</u>	<u>1,099,743</u>

Outstanding commitments on uncompleted construction contracts total \$65,787 at June 30, 2018.



**BROWN UNIVERSITY**

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**(6) Bonds, Loans and Notes Payable**

The University has entered into various agreements primarily for the purpose of financing the acquisition, renovation, and improvement of its facilities. The bonds, loans and notes payable outstanding for these purposes are as follows:

Name of issue	Interest rate(s)	Type of rate	Final maturity	Balance at June 30	
				2018	2017
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	1.50%	Variable	2044	\$ 40,680	41,175
Series 2005A	1.50%	Variable	2035	85,500	85,500
Series 2007	4.25%–5.00%	Fixed	2038	—	86,360
Series 2009	5.00%	Fixed	2040	70,795	70,795
Series 2011	2.50%–5.00%	Fixed	2033	46,160	50,710
Series 2012	5.00%	Fixed	2023	118,240	118,240
Series 2013	4.00%–5.00%	Fixed	2044	129,925	132,670
Series 2015	2.00%	Variable	2046	42,755	43,900
Series 2017A	4.00%–5.00%	Fixed	2048	141,125	—
Brown University Taxable Bonds:					
Series 2009	4.57%	Fixed	2020	45,000	45,000
Commercial bank term loan	2.39%	Variable	2019	47,800	48,900
Promissory note	noninterest bearing	N/A	2030	3,200	3,300
Loans payable – community: Development entities	1.22%	Fixed	2042	—	13,748
Total bonds, loans and notes payable before premium				771,180	740,298
Unamortized premium				48,481	33,612
Total bonds, loans and notes payable				\$ 819,661	773,910

**(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, student housing, academic, research and administrative buildings, and infrastructure.

## BROWN UNIVERSITY

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In July 2017, the University issued through RIHEBC tax-exempt bonds with a total par value of \$141,125 at an interest rate range of 4.00% to 5.00%, maturing in 2048. The bonds were sold at a premium of \$19,532, resulting in effective yield of 3.25%. The proceeds were used to refinance \$86,360 of Series 2007 tax-exempt bonds, with remaining proceeds to be used for capital projects.

#### **(b) Taxable Bonds and Other Debt**

Series 2009 Taxable Bonds were issued to provide liquidity and to protect against a tightening in liquidity markets. In February 2017, the University redeemed \$55,000 of the Series 2009 Taxable Bond. The transaction resulted in a make whole redemption expense of \$3,934, which is included in other changes on the 2017 statement of activities.

The University has a \$50,000 Taxable Commercial Paper Program that allows for the issuance of Standard Commercial Paper Notes, Series A, and Extendible Commercial Paper Notes, Series B. These unsecured, taxable promissory notes can be issued in various amounts with maturities no greater than 270 days. At June 30, 2018 and 2017, there were no outstanding notes.

Principal payments of bonds, notes and loans payable as of June 30, 2018 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2019	\$	57,235
2020		54,795
2021		7,775
2022		65,765
2023		70,100
Thereafter		<u>515,510</u>
Total	\$	<u><u>771,180</u></u>

At June 30, 2018 and 2017, the University had a \$125,000 and \$100,00 line of credit, respectively, which matured in July 2018 and July 2017, respectively. The line of credit was subsequently renewed in July 2018. As of June 30, 2018, the full amount of \$125,000 was available at a rate of one month LIBOR plus 40 basis points.

The University has two stand-by bond purchase agreements with financial institutions totaling approximately \$126,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. The \$85,500 agreement matures November 2020 and the \$40,680 agreement matures January 2020. There were no amounts outstanding at June 30, 2018 and 2017, under these agreements, nor has either agreement ever been called upon.

The University provided self-liquidity for its taxable commercial paper program at June 30, 2018 and 2017.

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During fiscal 2011, the University entered into an agreement with third-party investors to effectively avail itself of certain Federal New Market Tax Credit (NMTC) incentives. By enabling these third parties to capture the NMTC benefits associated with the acquisition and construction of the University's new medical school facility, the University was able to reduce its all-in cost of the facility. Under the arrangement, the University loaned \$58,501 to Providence Richmond Street Investment Fund, LLC (LLC) capitalized by the investors. The LLC in turn provided capital to various community development entities, which then collectively issued \$72,249 of loans to KARING, a special-purpose, wholly owned 501(c) (3) not-for-profit entity consolidated by the University. KARING owns the facility and leased it back to the University during the seven-year period required for the NMTC structure to be effective. As part of the unwind of the NMTC transaction, the University bought the sole member interest in the LLC on October 31, 2017. The sole member interest included a \$72,249 note receivable from KARING. The transaction resulted in a gain of \$13,748, which is reflected in other changes on the statement of activities.

#### (c) Interest Rate Swaps

At June 30, 2018 and 2017, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match the par amounts of the bonds and amortize at the same rate as the associated debt.

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

<u>Counterparty</u>	<u>Associated debt</u>	<u>Expiration date</u>	<u>June 30, 2018</u>		<u>Fair value of liability</u>		
			<u>remaining notional value</u>	<u>Swap fixed rate</u>	<u>at June 30</u>	<u>2018</u>	<u>2017</u>
JP Morgan	Series 2003B	9/1/2043	\$ 40,680	3.732 %	\$	(11,043)	(13,949)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979		(19,008)	(24,520)
Goldman Sachs	None	9/1/2032	14,237	3.891		(1,706)	(2,413)
					\$	<u>(31,757)</u>	<u>(40,882)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. At June 30, 2018, the University had no collateral posting requirements under the agreements.

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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 in 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 \$26,288 and \$26,519 for the years ended June 30, 2018 and 2017, 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>2018</u>	<u>2017</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 100,398	104,293
Service cost	4,185	4,477
Interest cost	3,741	3,488
Benefits paid	(2,478)	(2,310)
Actuarial gain	(6,088)	(9,550)
Projected benefit obligation at end of year	<u>\$ 99,758</u>	<u>100,398</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	4.09 %	3.79 %
Rate of compensation increase	3.00	3.00

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

	<u>2018</u>	<u>2017</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 74,036	65,072
Actual return on plan assets	5,871	8,774
Contributions	2,500	2,500
Benefits paid	<u>(2,478)</u>	<u>(2,310)</u>
Fair value of plan assets at end of year	79,929	74,036
Projected benefit obligation at end of year	<u>(99,758)</u>	<u>(100,398)</u>
Funded status included in other long-term obligations	<u>\$ (19,829)</u>	<u>(26,362)</u>
	<u>2018</u>	<u>2017</u>
Net periodic pension cost:		
Service cost	\$ 4,185	4,477
Interest cost	3,741	3,487
Expected return on assets	(4,819)	(4,211)
Amortization of unrecognized loss and prior service cost	<u>958</u>	<u>1,994</u>
Net periodic pension cost	<u>\$ 4,065</u>	<u>5,747</u>

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

	<u>2018</u>	<u>2017</u>
Discount rate	3.79 %	3.48 %
Rate of compensation increase	3.00	3.00
Expected long-term rate of return	6.50	6.50

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, 2018 and 2017, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$873 and \$1,014, respectively, and a net unrecognized actuarial loss of \$12,562 and \$20,519, 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, 2018 and 2017

(Dollars in thousands)

The plan assets at June 30, 2018 and 2017 consist of variable annuity investments with various equity and fixed income focuses, which are classified as Level 1 in the GAAP fair value hierarchy.

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, 2018 and 2017, and the weighted average asset targeted allocation are as follows:

	<b>Target</b>	<b>Actual</b>	
		<b>2018</b>	<b>2017</b>
Equity funds	75 %	77 %	75 %
Fixed income funds	25	23	25
Total	100 %	100 %	100 %

The University's estimated contribution for 2019 is \$2,500.

Estimated future benefit payments as of June 30, 2018 are as follows:

Fiscal year:		
2019	\$	3,187
2020		3,365
2021		3,616
2022		3,890
2023		4,177
2024–2028		26,013

**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2018 and 2017

(Dollars in thousands)

**(8) Restricted Net Assets**

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

	2018		2017	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,581,647	1,496,235	1,368,418	1,394,885
Contributions receivable	136,759	80,875	84,137	74,087
Donor-restricted purposes	114,351	47,165	107,443	45,105
Donor-restricted for plant-purposes	88,288	—	135,362	—
Student loans	13,245	—	13,189	—
Total	\$ 1,934,290	1,624,275	1,708,549	1,514,077

**(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:

	2018	2017
Instruction and departmental research	\$ 355,006	335,115
Sponsored programs	144,020	128,405
Academic and student support	232,829	215,949
Auxiliary services	114,914	100,361
Institutional support	100,454	102,070
	\$ 947,223	881,900

**(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, 2018 and 2017

(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 that are fair and reasonable to and in the best interest of the University.

Effective July 1, 2017, the University, along with The Neurology Foundation, Inc.; University Emergency Medicine Foundation; University Medicine Foundation; University Surgical Associates, Inc.; Brown Urology, Inc.; and Brown Dermatology, Inc. (collectively the Foundations), joined to create the nonprofit Brown Physicians, Inc. (BPI). BPI is an affiliated clinical practice that will enhance the partnership between the Foundations and the Warren Alpert Medical School. Under the formation and support agreement, the University is obligated to pay BPI \$25,000 over a 10-year period. In 2018, the University paid \$5,000 to BPI, with the remaining \$20,000 included in accounts payable and other liabilities at June 30, 2018. In addition, the University authorized a line of credit agreement with BPI, up to \$30,000. There was no amount outstanding under the line of credit at June 30, 2018.

#### (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>2018</u>	<u>2017</u>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$1,682 and \$480	\$ 23,050	32,439
Noncash investing activities:		
Increase (decrease) in accounts payable for land, buildings and equipment	\$ 12,441	(1,595)
(Decrease) increase in payables for purchases of investments	(97,826)	83,204

#### (13) Subsequent Events

In July 2018, the University borrowed \$75,000 through a commercial bank term loan at a variable rate of one-month LIBOR plus 25 basis points, maturing in 2021. The proceeds were used to repay a maturing \$47,800 commercial bank loan, and the remaining proceeds were used to pay down \$27,200 of the Series 2009 Taxable Bond. University capital was used to retire the remaining 2009 Taxable Bond. The transaction resulted in a make whole redemption expense of \$1,005.

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 October 29, 2018, and subsequent events have been evaluated through that date.



**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Research and Development Cluster:				
Corporation for National and Community Service:				
Corporation for National & Community Service	94.000	Direct	\$ —	26,795
Case Western Reserve University	94.026	RES512162	—	9,932
Corporation for National and Community Service total			—	36,727
Department of Defense:				
Department of Defense – Other research	12.000	Direct	135,947	610,394
Cal Poly Pomona Foundation Inc	12.000	Remote Sensing Technology	—	5,980
Columbia University	12.000	2(GG008732)	—	58,674
Deep Springs Technology, LLC	12.000	IST-6126	—	97,110
ReliaCoat Technologies, LLC	12.000	RCT1021S	—	26,782
Women and Infants Hospital	12.000	9607	—	35,271
Subtotal			135,947	834,211
Procurement Technical Assistance for Business Firms	12.002	Direct	—	91,973
Basic and Applied Scientific Research	12.300	Direct	1,700,945	6,791,705
Boston University	12.300	4500002205	—	321,511
Cornell University	12.300	81825-10893	—	226,746
Johns Hopkins University	12.300	2003341862	—	126,096
Johns Hopkins University	12.300	2003631376	—	72,767
ReliaCoat Technologies, LLC	12.300	GR5220056	—	99,217
Stevens Institute of Technology	12.300	2102747-01	—	170,823
Tufts University	12.300	ONR278	—	159,990
University of California, Berkeley	12.300	00009340	—	169,661
University of Colorado, Boulder	12.300	1553984	—	150,693
University of Rhode Island	12.300	0005719/08242016	—	34,449
Subtotal			1,700,945	8,323,658
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	Direct	—	37,229
Military Medical Research and Development	12.420	Direct	45,752	508,478
Boston University	12.420	9500300580	—	50,770
Rhode Island Hospital	12.420	701-7137164	—	17,325
Vanderbilt University Medical Center	12.420	VUMC55761	—	11,880
Yale University	12.420	C16-J2326 (J00246)	—	43,975
Yale University	12.420	C16J12287 (J00244)	—	32,431
Yale University	12.420	C15J11982 (J00234)	—	26,482
Subtotal			45,752	691,341
Basic Scientific Research	12.431	Direct	1,177,756	3,007,622
General Dynamics Land Systems	12.431	PO #40282276	—	71,778
Subtotal			1,177,756	3,079,400

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
University of Utah	12.630	10028801-BROWN-APP	\$ —	104,431
Air Force Defense Research Sciences Program	12.800	Direct	797,739	1,614,489
Research and Technology Development	12.910	Direct	1,841,118	6,819,475
Charles River Analytics, Inc.	12.910	SC1623302	—	147,106
Defense Advanced Research Projects Agency	12.910	N66001-15-2-4055	—	23,520
University of California, San Diego	12.910	104628989	—	8,426
Yale University	12.910	C17P12597 (P00407)	—	192,238
Subtotal			<u>1,841,118</u>	<u>7,190,765</u>
Department of Defense total			<u>5,699,257</u>	<u>21,967,497</u>
Department of Education:				
Pacific Northwest National Laboratory	84.000	214884	—	26,462
Education Research, Development and Dissemination	84.305A	Direct	—	40,590
Evaluation of State Education Programs and Policies	84.305E	Direct	595,784	761,111
English Language Acquisition State Grants	84.365	Direct	—	506,292
Department of Education total			<u>595,784</u>	<u>1,334,455</u>
Department of Energy:				
Department of Energy – Other Research	81.000	Direct	—	362,536
Ames Laboratory	81.000	SC-13-390	—	(2,145)
Fermi National Accelerator Laboratory	81.000	PO 573783	—	89,398
Fermi National Accelerator Laboratory	81.000	PO610813	—	284
Fermi National Accelerator Laboratory	81.000	PO629713	—	138,498
Fermi National Accelerator Laboratory	81.000	PO631508	—	10,399
Fermi National Accelerator Laboratory	81.000	PO631534	—	110,752
Fermi National Accelerator Laboratory	81.000	PO635300	—	59,954
Fermi National Accelerator Laboratory	81.000	PO635983	—	376,331
Honeywell Federal Manufacturing & Technologies LLC	81.000	Advance	—	212,243
Honeywell Federal Manufacturing & Technologies LLC	81.000	N000177717	—	(11,467)
Honeywell Federal Manufacturing & Technologies LLC	81.000	N000222771	—	50,098
Lawrence Livermore National Laboratory	81.000	B622202	—	27,385
Lawrence Livermore National Laboratory	81.000	B624500	—	59,487
Los Alamos National Laboratory	81.000	Basic 419093, Sub 420101	—	221,224
Oak Ridge National Laboratory	81.000	4000126928	—	132,684
Pacific Northwest National Laboratory	81.000	211278	—	8,544
The Regents of the University of California	81.000	6953356	—	6,569
The Regents of the University of California	81.000	738270	—	1,455
The Regents of the University of California - LBNL	81.000	7265413	—	590,903
Walter Reed National Military Medical Center	81.000	Advance	—	(6,471)
Subtotal			<u>—</u>	<u>2,438,661</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Office of Science Financial Assistance Program	81.049	Direct	\$ 470,980	3,402,295
Oak Ridge National Laboratory	81.049	4000161336	—	10,728
Subtotal			<u>470,980</u>	<u>3,413,023</u>
General Motors Corporation	81.087	Advance	—	123,385
Advanced Research Projects Agency – Energy	81.135	Direct	3,391	1,933
Department of Energy total			<u>474,371</u>	<u>5,977,002</u>
Federal Emergency Management Agency: Brookhaven National Laboratory	83.000	325180	—	134,855
Federal Emergency Management Agency total			<u>—</u>	<u>134,855</u>
Department of Health and Human Services: Department of Health and Human Services – Other research	93.000	Direct	733,181	4,149,778
Center for Disease Control and Prevention	93.000	200-2016-91773-T.O.1	—	47,596
Dartmouth College	93.000	R997	—	59,339
Lynntech, Inc.	93.000	Lynntech	—	16,470
Subtotal			<u>733,181</u>	<u>4,273,183</u>
University of Pittsburgh	93.007	0050933 (129300-2)	—	10,015
University of Pittsburgh	93.007	9010655	—	(339)
University of Pittsburgh	93.007	9012110 (129306-2)	—	63,931
University of Pittsburgh	93.007	9013733 (1293042-2)	—	71,525
Subtotal			<u>—</u>	<u>145,132</u>
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	Direct	—	340,688
University of Pittsburgh	93.077	9010655 (125145-1)	—	(90)
University of Vermont	93.077	31678SUB51463	—	537,360
Wake Forest University	93.077	WFUHS 119438	—	30,377
Wake Forest University	93.077	WFUHS119379	—	225,871
Subtotal			<u>—</u>	<u>1,134,206</u>
President and Fellows of Harvard College	93.084	116532-5097266	—	37,577
Johns Hopkins University - Bloomberg School of Public Health	93.103	PO 2003613758	—	31,890
Model State-supported Area Health Education Centers	93.107	Direct	120,584	174,092
Maternal and Child Health Federal Consolidated Programs	93.110	Direct	40,714	186,581
Biological Response to Environmental Health Hazards	93.113	Direct	734,515	2,648,868
Boston University	93.113	450002243	—	53,706
Columbia University	93.113	2(GG010656-01)	—	1,737
President an Fellows of Harvard College - SPH	93.113	112190-5104406	—	10,532
President an Fellows of Harvard College - SPH	93.113	113130-5105236	—	6,552
University of Cincinnati	93.113	011150-002	—	7,458
University of Southern California	93.113	80000762 / P.O. #50504945	—	73,014
Subtotal			<u>734,515</u>	<u>2,801,867</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Dartmouth Medical School	93.121	1542R01	\$ —	14,146
Lifespan, Inc.	93.136	7137033	—	19,408
Rhode Island Hospital	93.136	7137153	—	22,321
Subtotal			—	41,729
NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	Direct	92,269	2,665,815
Human Genome Research	93.172	Direct	—	227,732
Research Related to Deafness and Communication Disorders	93.173	Direct	—	699,341
Massachusetts General Hospital	93.173	221242	—	(25,075)
Stanford University	93.173	60951264-116469	—	34,839
University of Massachusetts Medical Center	93.173	WA00454568/OSP2017013	—	27,538
Subtotal			—	736,643
Research and Training in Complementary and Integrative Health	93.213	Direct	504,930	1,074,356
University of Maryland, Baltimore	93.213	020468C / PO SR00002633 / 7527	—	3,060
Subtotal			504,930	1,077,416
National Research Service Awards Health Services Research Training	93.225	Direct	—	366,185
Research on Healthcare Costs, Quality and Outcomes	93.226	Direct	12,491	1,687,344
Mental Health Research Grants	93.242	Direct	1,877,126	9,275,145
Bradley Hospital	93.242	7127518	—	13,635
Bradley Hospital	93.242	7127519	—	42,880
Bradley Hospital	93.242	712-7477	—	42,459
Bradley Hospital	93.242	712-7528	—	114,271
Brigham & Women's Hospital	93.242	118193	—	31,387
Butler Hospital	93.242	9232-8328	—	6,966
Butler Hospital	93.242	9234-8328	—	77,785
Butler Hospital	93.242	9272-8328	—	4,852
Massachusetts General Hospital	93.242	224840	—	93,390
Michigan State University	93.242	RC104649BU	—	(1,892)
Michigan State University	93.242	RC105383-Brown	—	886,908
Miriam Hospital	93.242	710-9856 G. Papandonatos	—	49,666
Miriam Hospital	93.242	7147045OG	—	30,526
Miriam Hospital	93.242	7147068AN	—	170,943
Northeastern University	93.242	500304	—	56,941
Princeton University	93.242	SUB0000226	—	49,049
Rhode Island Hospital	93.242	701-5554	—	83,377
Rhode Island Hospital	93.242	701-7137066	—	41,356
Rhode Island Hospital	93.242	701-7137293	—	44,672
Rhode Island Hospital	93.242	7137063	—	39,786
Rhode Island Hospital	93.242	7137207	—	67,204
Rhode Island Hospital	93.242	7137225	—	21,060
Stanford University	93.242	61623543-127696	—	6,415
University of Alabama, Birmingham	93.242	000388010-062	—	4,033
University of California, Berkeley	93.242	00009418	—	214,106
University of California, Los Angeles	93.242	1560 G TA313	—	9,326
University of Cape Town	93.242	IRMA26935	—	65,212
University of Maryland, Baltimore	93.242	8639-SR00002907	—	176,989
Subtotal			1,877,126	11,718,447

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Direct	\$ 382,874	1,352,804
State of Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	93.243	SPF-PFS	—	256,522
University of Rhode Island	93.243	5132-071415	—	35,854
University of Rhode Island	93.243	5442/051816	—	442
University of Rhode Island	93.243	6172/022217	—	51,588
Subtotal			<u>382,874</u>	<u>1,697,210</u>
Adult Viral Hepatitis Prevention and Control	93.270	Direct	119,521	575,048
Alcohol Research Programs	93.273	Direct	618,364	5,226,521
Boston Children's Hospital	93.273	GENFD0001297183	—	24,873
Bradley Hospital	93.273	712-7525	—	125,490
Butler Hospital	93.273	9132-8328	—	50,791
Miriam Hospital	93.273	710-9192	—	62,251
Northeastern University	93.273	500597-78050	—	8,299
Ohio University	93.273	UT19397	—	30,474
Public Health Institute	93.273	1021169	—	8,994
Rhode Island Hospital	93.273	7017137111-5-RI	—	46,321
Rhode Island Hospital	93.273	701-713-7154	—	3,131
Rhode Island Hospital	93.273	7017137290-1	—	55,384
SIMMersion LLC	93.273	SIMMersion GA	—	36,161
University of New Mexico	93.273	028328-87T6	—	881
University of Rhode Island	93.273	112012-003452	—	107,217
University of Southern California	93.273	103132179	—	4,727
University of Washington	93.273	UWSC9451	—	15,022
Subtotal			<u>618,364</u>	<u>5,806,537</u>
Drug Abuse and Addition Research Programs	93.279	Direct	554,746	3,798,568
Columbia University	93.279	1 (GG011497-01) PO# G12396	—	88,948
Emory University	93.279	T856876	—	15,006
Kent State University	93.279	403030-BU	—	14,773
Miriam Hospital	93.279	710-7147067	—	25,749
Miriam Hospital	93.279	710-9148	—	67,024
Miriam Hospital	93.279	710-9152	—	50,223
Miriam Hospital	93.279	710-9833-8985	—	(705)
Miriam Hospital	93.279	710-9993	—	37,512
Miriam Hospital	93.279	7147056	—	139,698
Miriam Hospital	93.279	7147060BM	—	26,583
Public Health Institute	93.279	00414	—	73,329
Truth Initiative	93.279	7016-Brown	—	44,026
University of British Columbia	93.279	20R22505 / 1UO1DA0299996	—	12,918
University of British Columbia	93.279	20R48670	—	11,159
University of California, Davis	93.279	A18-0560-S001	—	8,679
University of California, San Diego	93.279	68677681 - MP Inv #S9001269	—	3,375
University of California, San Francisco	93.279	9064sc	—	44,305
University of California, San Francisco	93.279	9081sc	—	6,820
University of Colorado, Boulder	93.279	155935 /PO1000392632	—	714
University of Texas, Austin	93.279	UTA18-000152	—	11,348
Subtotal			<u>554,746</u>	<u>4,480,052</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Mental Health Research Career/Scientist Development Awards	93.281	Direct	\$ —	28,218
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	Direct	443,966	1,318,724
Minority Health and Health Disparities Research	93.307	Direct	11,291	388,414
Trans-NIH Research Support	93.310	Direct	1,655	137,307
Memorial Hospital	93.310	5001311-Braun	—	101,788
Westat, Inc.	93.310	6366-S02	—	20,172
Subtotal			1,655	259,267
Johns Hopkins University	93.350	5014370-SERV	—	(9,253)
Research Infrastructure Programs	93.351	Direct	—	790,587
Nursing Research	93.361	Direct	294,787	789,591
Butler Hospital	93.361	9074-8328	—	8,005
Butler Hospital	93.361	9241-8328	—	12,431
Butler Hospital	93.361	9452-8328	—	13,914
Rhode Island Hospital	93.361	701-5500-RI	—	31,764
The Regents of the University of California	93.361	201222943-02	—	73,345
Subtotal			294,787	929,050
National Heart, Lung and Blood Ins	93.387	Direct	—	44,663
National Center for Research Resources	93.389	Direct	1,531,346	2,884,723
Rhode Island Hospital	93.389	701-5482-8985	—	(2,489)
Subtotal			1,531,346	2,882,234
Cancer Cause and Prevention Research	93.393	Direct	104,970	474,356
Henry Ford Health System	93.393	B11148BU	—	35,132
Massachusetts General Hospital	93.393	232008	—	23,177
Northeastern Illinois University	93.393	15-069YR3-SUB01	—	15,687
Northwestern University	93.393	60038259BU	—	25,413
Truth Initiative	93.393	7015-Brown	—	32,803
Tufts University	93.393	100627-00001	—	(198)
Tufts University	93.393	100805-00001	—	89,260
University of California, San Diego	93.393	93597220	—	103,389
University of California, San Francisco	93.393	10234sc	—	187,000
University of Florida	93.393	Advance	—	36,066
University of Rhode Island	93.393	000620-092417	—	65,136
University of Texas, Austin	93.393	UTA14-000728	—	(26,352)
Subtotal			104,970	1,060,869
Cancer Detection and Diagnosis Research	93.394	Direct	44,030	305,080
American College of Radiology	93.394	1670	—	82,678
The Regents of the University of California	93.394	1562GTA939	—	24,487
University of Massachusetts, Amherst	93.394	15-008584 A03	—	5,361
University of Massachusetts, Worcester	93.394	WA00522513/OSP2016160	—	12,781
Subtotal			44,030	430,387

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Dana-Farber Cancer Institute	93.395	1227204	\$ —	1,521,020
ECOG-ACRIN Medical Research Foundation, Inc	93.395	1UG1CA189828-01-BRWB1	—	192,253
ECOG-ACRIN Medical Research Foundation, Inc	93.395	1UG1CA189828-01-BRWN2	—	193,105
ECOG-ACRIN Medical Research Foundation, Inc	93.395	5UG1CA189828-03-BRWN3	—	15,553
ECOG-ACRIN Medical Research Foundation, Inc	93.395	5UG1CA189828-03-BRWN4	—	468,667
ECOG-ACRIN Medical Research Foundation, Inc	93.395	U10CA180820-02BRWN1	—	124,127
Subtotal			—	2,514,725
Cancer Biology Research	93.396	Direct	—	199,273
Indiana University	93.397	IN4687576BU	—	6,093
Indiana University	93.397	IN-4687581-BU	—	35,164
Northwestern University	93.397	60041692BU	—	9,734
Subtotal			—	50,991
Cancer Research Manpower	93.398	Direct	44,545	604,019
PPHF National Public Health Improvement Initiative	93.507	Direct	—	26,523
University of Rhode Island	93.624	0005994 / 12022016 - 3491930	—	41,450
Care New England	93.650	100001-1	—	35,172
Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)	93.758	Direct	—	41,580
ABT Associates, Inc.	93.779	47360	—	37,041
Leading Age South Carolina	93.779	CMP Fund	—	12,380
Subtotal			—	49,421
Cell Biology and Biophysics Research	93.821	Direct	—	(324)
Cardiovascular Diseases Research	93.837	Direct	1,048,948	2,370,594
Butler Hospital	93.837	9273-8328	—	10,918
Columbia University	93.837	512153	—	26,817
Miriam Hospital	93.837	710-7147009	—	84,474
Mount Sinai School of Medicine	93.837	0255-4705-4609	—	16,143
Mount Sinai School of Medicine	93.837	0255-8173-4609	—	86,705
Northern California Institute for Research and Education, Inc.	93.837	1724	—	6,250
Ocean State Research Institute	93.837	122202	—	57,410
Rhode Island Hospital	93.837	701-7137112	—	35,090
Rhode Island Hospital	93.837	701-7137199	—	1,680
University of Connecticut	93.837	133693	—	139,259
University of Pittsburgh	93.837	0054665 (129258-2)	—	64,566
Yale University	93.837	C14A11773(A10672)	—	147,918
Yale University	93.837	GR100608 (CON-80001019)	—	378,797
Subtotal			1,048,948	3,426,621
Lung Diseases Research	93.838	Direct	125,400	533,221
Johns Hopkins University	93.838	2003709236	—	20,851
Rhode Island Hospital	93.838	701-7137089	—	320,044
Rhode Island Hospital	93.838	701-7137305	—	106,127
Weill Cornell Medical College	93.838	16111808-02	—	407,778
Yale University	93.838	M15A12057(CON-8000343)	—	19,317
Subtotal			125,400	1,407,338

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Blood Diseases and Resources Research	93.839	Direct	\$ 201,242	365,818
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Direct	59,043	1,124,387
Lifespan, Inc.	93.846	7017137231	—	67,550
Rhode Island Hospital	93.846	701-7137037	—	(21,631)
Yale University	93.846	M16A12082(A10209)	—	—
Subtotal			<u>59,043</u>	<u>1,170,306</u>
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Direct	37,832	1,185,006
Augusta University	93.847	30835-4	—	20,228
Miriam Hospital	93.847	710-9176	—	8,015
Rhode Island Hospital	93.847	701-5599	—	25,877
University of California, Irvine	93.847	2018-3543	—	4,259
University of California, San Diego	93.847	100511936 - PTE 5R01DK106157 - PO S9001907 - PED1898	—	3,915
University of California, San Diego	93.847	100512083 - PO S9001908 - PED6332	—	3,703
University of California, San Diego	93.847	100512437 - PO S9001901 - PED5291	—	2,450
University of Massachusetts, Amherst	93.847	16-009296 E00	—	68,011
University of Massachusetts, Amherst	93.847	17-009438 E00 - PO #A000678129	—	23,239
Subtotal			<u>37,832</u>	<u>1,344,703</u>
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Direct	658,599	4,530,431
Baylor College of Medicine	93.853	7000000370	—	189,726
Central Michigan University	93.853	F63541	—	225,149
Gray Matter Research	93.853	N/A	—	47,816
Massachusetts General Hospital	93.853	2015D009117	—	329,074
Massachusetts General Hospital	93.853	227057	—	104,563
Massachusetts General Hospital	93.853	230484-Thengone	—	31,485
Rhode Island Hospital	93.853	701-7137201	—	147,961
University of Pennsylvania	93.853	569028	—	88,464
Subtotal			<u>658,599</u>	<u>5,694,669</u>
Allergy and Infectious Diseases Research	93.855	Direct	819,784	4,701,878
Case Western Reserve University	93.855	RES512770	—	19,378
Indiana University – Bloomington	93.855	IN4688928BRWN	—	35,377
Indiana University – Indianapolis	93.855	IN4681945BU	—	69,681
Miriam Hospital	93.855	7109155-CK	—	52,566
Miriam Hospital	93.855	7109156	—	6
Miriam Hospital	93.855	710-9156 – Dunn	—	30,206
Miriam Hospital	93.855	710-9156 – Helfand	—	(447)
Miriam Hospital	93.855	710-9156 – IW	—	29,153
Miriam Hospital	93.855	7109157	—	35,706
Miriam Hospital	93.855	7109159-JH	—	78,215
Miriam Hospital	93.855	710-9164	—	1,356
Miriam Hospital	93.855	710-9165	—	(1)
Miriam Hospital	93.855	710-9912	—	1,962
Miriam Hospital	93.855	7147085JH	—	4,576
Rhode Island Hospital	93.855	7017137175-2	—	3,749
Rhode Island Hospital	93.855	7017137175-3	—	123,996
Rhode Island Hospital	93.855	701-7137275	—	31,109
The Miriam Hospital	93.855	7109156-Wray	—	7,837
The Regents of the University of California – Merced	93.855	E251GUB334	—	42,686
University of Alabama, Birmingham	93.855	000516607-002	—	14,115
University of California, San Francisco	93.855	9507sc	—	200,613
Subtotal			<u>819,784</u>	<u>5,483,717</u>



**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Biomedical Research and Research Training	93.859	Direct	\$ 1,004,400	11,069,863
Emory University	93.859	T648004	—	173,498
Lifespan Center for Cancer Research Development	93.859	7017137286	—	50,000
Maine Medical Center Research Institute	93.859	LIAW-111001-1	—	29,662
Ocean State Research Institute	93.859	312207	—	38,137
Ocean State Research Institute	93.859	312208 (243112)	—	227,394
Ocean State Research Institute	93.859	312217	—	11,653
Ocean State Research Institute	93.859	312236	—	49,790
Rhode Island Hospital	93.859	701-5480	—	(766)
Rhode Island Hospital	93.859	701-5480-8985	—	(2,350)
Rhode Island Hospital	93.859	701-7137077-8985	—	45,199
Rhode Island Hospital	93.859	7017137296	—	147,318
Rhode Island Hospital	93.859	7017137300	—	185,093
Rhode Island Hospital	93.859	7017137301	—	181,538
Rhode Island Hospital	93.859	7017137313	—	82,241
Rhode Island Hospital	93.859	701-7137356	—	21,530
Rhode Island Hospital	93.859	701-7137358	—	6,507
Rhode Island Hospital	93.859	Advance	—	6,488
University of Rhode Island	93.859	0004390/111014 PO#84977	—	(298)
University of Rhode Island	93.859	0005697/060216	—	29,993
University of Rhode Island	93.859	0005697/060316	—	27,070
University of Rhode Island	93.859	0006359/091217	—	46,894
University of Rhode Island	93.859	0006359/100517	—	14,353
University of Rhode Island	93.859	0006478/121817	—	18,004
University of Rhode Island	93.859	0006482/121817	—	114,485
University of Vermont	93.859	31681SUB51329	—	20,749
Women and Infants Hospital	93.859	9536	—	(467)
Women and Infants Hospital	93.859	9719	—	19,942
Women and Infants Hospital	93.859	9721	—	19,904
Subtotal			1,004,400	12,633,424
Child Health and Human Development Extramural Research	93.865	Direct	361,821	2,884,008
Albert Einstein College of Medicine	93.865	310037/PO514449	—	(1,353)
Butler Hospital	93.865	9221-8328	—	5,106
Butler Hospital	93.865	9276-8328	—	5,660
Case Western Reserve University	93.865	RES509153	—	(10,050)
Indiana University - Bloomington	93.865	IN4688378BU	—	161,029
Memorial Hospital	93.865	5001111-BROWN	—	(6)
Miriam Hospital	93.865	710-9115	—	24,044
Princeton University	93.865	SUB000089	—	57,072
Regents of the University of Michigan	93.865	3003772127	—	35,118
Rhode Island Hospital	93.865	7017137220-RI	—	16,387
Rhode Island Hospital	93.865	7017137362-1	—	4,037
Tulane University	93.865	TUL-HSC-554778-16/17	—	15,818
Tulane University	93.865	TUL-HSC-555504-17/18	—	87,966
University of California, San Francisco	93.865	9032sc	—	1,348
University of North Carolina, Chapel Hill	93.865	5105605	—	92,544
University of Rhode Island	93.865	04052012/0002985	—	128,788
University of Rhode Island	93.865	3488/121712	—	149
University of Rhode Island	93.865	5539/061016	—	5
University of Rhode Island	93.865	6181/022217	—	(3,744)
University of Texas Center for Large Data Research & Data Sharing in Rehabilitation	93.865	17-071 - Po# UOSPC-0000001548	—	21,921
Women and Infants Hospital	93.865	9435	—	103,805
Subtotal			361,821	3,629,652

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Aging Research	93.866	Direct	\$ 4,061,130	12,329,466
Albert Einstein College of Medicine	93.866	311112	—	27,622
Albert Einstein College of Medicine	93.866	311214	—	44,969
California Pacific Medical Center Research Institute	93.866	2803227-S191	—	(4,746)
Hebrew SeniorLife	93.866	10.10.90063	—	139,349
Hebrew SeniorLife	93.866	10.10.91531	—	89,172
Hebrew SeniorLife	93.866	90068	—	207,539
Hebrew SeniorLife	93.866	90082	—	3,382
Indiana University - Bloomington	93.866	IN4683234BRWN	—	41,119
Johns Hopkins University	93.866	2002364817	—	20,409
Regents of the University of Michigan	93.866	3004822522	—	11,237
Regents of the University of Michigan	93.866	3004832691	—	11,237
Rhode Island Hospital	93.866	701-7137186	—	14,047
University of Washington	93.866	UWSC9787	—	58,323
University of Wisconsin, Madison	93.866	697K745	—	33,173
Subtotal			<u>4,061,130</u>	<u>13,026,298</u>
Vision Research	93.867	Direct	—	2,001,172
Central Michigan University	93.867	628761	—	22,817
Subtotal			<u>—</u>	<u>2,023,989</u>
Medical Library Assistance	93.879	Direct	64,940	131,244
Northeastern University	93.879	500495-78052 - P.O. P1802611	—	72,284
Subtotal			<u>64,940</u>	<u>203,528</u>
Grants for Primary Care Training and Enhancement	93.884	Direct	—	1
International Research and Research Training	93.989	Direct	47,570	426,237
Maternal and Child Health Services Block Grant to the States	93.994	Direct	—	7,500
State of Rhode Island Department of Health	93.994	3420327	—	2,500
State of Rhode Island Department of Health	93.994	3423017	—	712,163
Subtotal			<u>—</u>	<u>722,163</u>
Department of Health and Human Services total			<u>16,758,614</u>	<u>103,123,286</u>
Department of Housing and Urban Development				
General Research and Technology Activity	14.506	Direct	—	11,349
Department of Housing and Urban Development total			<u>—</u>	<u>11,349</u>
Department of Veterans Affairs:				
Department of Veterans Affairs – Other	64.000	Direct	—	522,118
Corporation for National & Community Service	94.000	Direct	—	12,717
Department of Veterans Affairs total			<u>—</u>	<u>534,835</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Environmental Protection Agency:				
Science to Achieve Results (Star) Fellowship Program	66.514	Direct	\$ —	1,650
Environmental Protection Agency total			—	1,650
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration – Other research	43.000	Direct	—	12,266
Jet Propulsion Laboratory	43.000	1549766	—	32,573
Jet Propulsion Laboratory	43.000	1571156	—	9,585
Jet Propulsion Laboratory	43.000	1585019	—	3,617
Jet Propulsion Laboratory	43.000	1244339	—	42,667
Jet Propulsion Laboratory	43.000	JPL 1488322	—	14,751
Johns Hopkins University Applied Physics Laboratory, LLC.	43.000	110619	—	148,314
University of California, Los Angeles	43.000	2090-S-JB693	—	68,184
University of Maryland – College Park	43.000	23913-Z6927002	—	9,566
Subtotal			—	341,523
Science	43.001	Direct	248,812	1,875,932
Massachusetts Institute of Technology	43.001	5710003400	—	44,068
Ohio University	43.001	UT18767	—	25,400
University of Minnesota	43.001	A003457303	—	43,994
Subtotal			248,812	1,989,394
Education	43.008	Direct	394,093	601,907
Space Technology	43.012	Direct	—	164,243
National Aeronautics and Space Administration total			642,905	3,097,067
National Oceanic and Atmospheric Administration				
Climate and Atmospheric Research	11.431	Direct	—	131,131
National Oceanic and Atmospheric Administration total			—	131,131
Intelligence Advanced Research Projects Activity				
Systems & Technology - Other Research	99.000	2016-1096	—	27,495
Intelligence Advanced Research Projects Activity total			—	27,495
National Science Foundation:				
National Science Foundation – Other research	47.000	Direct	—	145,276
Engineering Grants	47.041	Direct	27,660	3,057,464
Archived	47.044	Direct	—	134,459
Mathematical and Physical Sciences	47.049	Direct	419	8,013,931
Brandeis University	47.049	402430	—	122,507
Mathematical Sciences Research Institute	47.049	071615	—	368
Mathematical Sciences Research Institute	47.049	MOU - DMS - 1440140	—	48,492
University of California, Berkeley	47.049	00009384	—	159,886
University of Notre Dame	47.049	N/A	—	1,250
Subtotal			419	8,346,434
Geosciences	47.050	Direct	20,706	2,337,345
Georgia Institute of Technology	47.050	RF069-G1	—	18,074
University of Arizona	47.050	124741	—	14,538
University of California, Riverside	47.050	5-000515	—	6,104

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
University of New Hampshire	47.050	14-057	\$ —	9,161
University of Southern California	47.050	90703474	—	44,380
University of Texas	47.050	UTA17-001150	—	762
Subtotal			<u>20,706</u>	<u>2,430,364</u>
Computer and Information Science and Engineering	47.070	Direct	92,776	3,836,391
Northeastern University	47.070	502268-78052	—	31,623
University of Illinois, Urbana-Champaign	47.070	A4179	—	6,333
Subtotal			<u>92,776</u>	<u>3,874,347</u>
Biological Sciences	47.074	Direct	591,659	2,644,657
Council on Undergraduate Research	47.074	Subcontract Q03	—	(5,102)
University of Colorado, Boulder	47.074	1555726	—	10,063
Subtotal			<u>591,659</u>	<u>2,649,618</u>
Social, Behavioral, and Economic Sciences	47.075	Direct	—	1,077,760
University of California, San Diego	47.075	10321074	—	7,029
Subtotal			<u>—</u>	<u>1,084,789</u>
Education and Human Resources	47.076	Direct	35,287	2,124,263
American Association of Physics Teachers	47.076	MOU - AAPT	—	55,737
Council of Graduate Schools	47.076	1661272	—	4,981
President and Fellows of Harvard College (1)	47.076	108124-5080734	—	17,569
Vassar College	47.076	1525691.1	—	123,861
Subtotal			<u>35,287</u>	<u>2,326,411</u>
Polar Programs	47.078	Direct	—	194,310
Office of International Science and Engineering (OISE)	47.079	Direct	325,918	965,339
CRDF Global	47.079	AOISE-17-62967-1	—	104,816
CRDF Global	47.079	OISE-17-62967-1	—	24,879
Subtotal			<u>325,918</u>	<u>1,095,034</u>
University of Rhode Island	47.081	0005916-101617 - PO# 0000128824	—	289,674
University of Rhode Island	47.081	111710/0002748	—	82,532
Subtotal			<u>—</u>	<u>372,206</u>
Office of Integrative Activities	47.083	Direct	—	59,654
Dartmouth College	47.083	R896	—	316,511
University of Idaho	47.083	IMK400-SB-001	—	196,276
University of Rochester	47.083	416751-G	—	38,043
Subtotal			<u>—</u>	<u>610,484</u>
National Science Foundation total			<u>1,094,425</u>	<u>26,321,196</u>
Research and Development Cluster total			<u>25,265,356</u>	<u>162,698,545</u>
Student Financial Assistance Cluster (note 3):				
Department of Education:				
Federal Supplemental Educational Opportunity Grants	84.007	Direct	—	816,187
Federal Work-Study Program	84.033	Direct	—	1,316,126
Federal Perkins Loan Program (FPL)- Federal Capital Contributions	84.038	Direct	—	26,727,574
Federal Pell Grant Program	84.063	Direct	—	4,704,797
Federal Direct Student Loans	84.268	Direct	—	41,000,472
Teacher Education Assistance for College and Higher Education Grant (TEACH Grants)	84.379	Direct	—	18,620
Department of Education total			<u>—</u>	<u>74,583,776</u>

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care: Loans/Loans for Disadvantaged Students (note 3)	93.342	Direct	\$ —	634,270
Department of Health and Human Services total			—	634,270
Student Financial Assistance Cluster total			—	75,218,046
Other Program Awards:				
Agency for International Development:				
USAID Foreign Assistance for Programs Overseas	98.001	DFG-24-LAQ2-BU	—	14,173
Agency for International Development total			—	14,173
Corporation for National and Community Service:				
Promotion of the Humanities Research	45.161	Direct	—	159,977
Serve Rhode Island	94.006	09ACH RI 001003	—	(42,516)
Serve Rhode Island	94.006	16AC180239	—	(410)
Subtotal			—	(42,926)
Corporation for National and Community Service total			—	117,051
Department of Agriculture:				
Agriculture and Food Research Initiative	10.310	Direct	—	28,396
Department of Agriculture total			—	28,396
Department of Defense:				
Basic and Applied Scientific Research	12.300	Direct	—	21,743
Basic Scientific Research	12.431	Direct	—	8,762
Mathematical Sciences Grants Program	12.901	Direct	—	(1,276)
Department of Defense total			—	29,229
Department of Education:				
Fulbright Hays Doctoral Dissertation Research Abroad	82.022	Direct	—	20,626
Graduate Assistance in Areas of National Need	84.200	Direct	—	189,704
State of Rhode Island Department of Education	84.287	2725-16602-720	—	157,711
State of Rhode Island Department of Education	84.287	2725-16602-730	—	190,671
Subtotal			—	348,382
English Language Acquisition State Grants	84.365	Direct	—	10,935
BPE	84.411C	50115	—	149,420
Department of Education total			—	719,067
Department of Health and Human Services:				
University of Missouri - Kansas City	93.788	0081641/00061663	—	31,287
Department of Health and Human Services total			—	31,287

**BROWN UNIVERSITY**

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Direct award or pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
Department of Housing and Urban Development City of Providence	14.218	CDBG-3807	\$ —	20,000
Department of Housing and Urban Development total			—	20,000
Department of Interior Cultural Resources Management	15.946	Direct	—	25,303
Department of Interior total			—	25,303
Department of Veterans Affairs: Department of Veterans Affairs – Other Research	64.000	Direct	—	53,253
Department of Veterans Affairs total			—	53,253
National Aeronautics and Space Administration: National Aeronautics and Space Administration - Other Aerospace Education Services Program	43.000	Direct	—	56,895
Education	43.008	Direct	—	178,545
Aerospace Education Services Program	43.001	17-PO-400-0000379338	—	562,933
National Aeronautics and Space Administration total			—	756
National Aeronautics and Space Administration total			—	799,129
National Endowment for the Arts & Humanities: Promotion of the Humanities Research	45.161	Direct	—	39,365
National Endowment for the Arts & Humanities total			—	39,365
Other Programs total			—	1,876,253
Total Expenditures of Federal Awards			\$ 25,265,356	239,792,844

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

## BROWN UNIVERSITY

### Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

#### (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 funded by the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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.

For purposes of the Schedule, federal awards include all 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 Schedule also denotes awards passed through from the University to other nonfederal subrecipient organizations.

#### (2) Significant Accounting Policies

For purposes of the Schedule, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles. Under these cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**BROWN UNIVERSITY**

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2018

**(3) Federal Student Financial Assistance**

*Student Loan Programs*

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. Loan activities and balances consist of the following:

	<u>Federal CFDA number</u>	<u>Balance as of June 30, 2017</u>	<u>Loans issued</u>	<u>Payments received and other adjustments</u>	<u>Balance as of June 30, 2018</u>
Perkins Loan Program	84.038	\$ 23,270,032	3,192,488	(4,339,245)	22,123,275
Health Professions Student Loans (HPSL)	93.342	<u>590,070</u>	<u>44,200</u>	<u>(95,790)</u>	<u>538,480</u>
Totals		<u>\$ 23,860,102</u>	<u>3,236,688</u>	<u>(4,435,035)</u>	<u>22,661,755</u>

For the year ended June 30, 2018, the University's recovered an administrative cost allowance of \$265,054 under the Federal Perkins Loan Program. Congress did not renew the Federal Perkins Loan Program after September 2017 and the transition period permitting disbursements ended June 30, 2018. Therefore, no new loans have been awarded after September 2017 and the University will continue to service outstanding loans throughout the repayment period.

*Federal Direct Loans*

Federally-guaranteed loans awarded to students of the University during the year ended June 30, 2018 are summarized as follows:

Subsidized Stafford Loan Program	\$ 6,197,301
Unsubsidized Stafford Loan Program	19,612,096
PLUS Loan Program	<u>15,191,075</u>
Total	<u>\$ 41,000,472</u>

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, 2018.





KPMG LLP  
One Financial Plaza, Suite 2300  
Providence, RI 02903

**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, 2018, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2018.

**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 the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



**Purpose of this Report**

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

KPMG LLP

October 29, 2018



KPMG LLP  
One Financial Plaza, Suite 2300  
Providence, RI 02903

**Independent Auditors' Reports on Compliance for  
Major Federal Program; Report on Internal Control over  
Compliance; and Report on Schedule of Expenditures of Federal Awards  
Required by the Uniform Guidance**

The President and Corporation  
Brown University:

**Report on Compliance for Major Federal Program**

We have audited Brown University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended June 30, 2018. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 University's major federal program. However, our audit does not provide a legal determination of the University's compliance.

*Opinion on Major Federal Program*

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.



## **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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the University as of and for the year ended June 30, 2018, and have issued our report thereon dated October 29, 2018, 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 supplementary schedule of expenditures of federal awards for the year ended June 30, 2018 is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the 2018 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 2018 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 2018 financial statements or to the 2018 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 2018 financial statements as a whole.

*KPMG LLP*

March 5, 2019

**BROWN UNIVERSITY**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2018

**(1) Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on whether financial statements were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

*Federal Awards*

Internal control over major federal program:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified?  yes  none reported

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

Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

*Identification of Major Program*

<u>Name of federal program/cluster</u>	<u>CFDA numbers</u>
Research and Development	Various

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

Auditee qualified as low risk auditee?  yes  no

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

None.

**(3) Findings and Questioned Costs Relating to Federal Awards**

None.