



BROWN UNIVERSITY

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

Year ended June 30, 2017

BROWN UNIVERSITY

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

Year ended June 30, 2017

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

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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter – Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary schedule of expenditures of federal awards for the year ended June 30, 2017 is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedule of expenditure of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 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 24, 2017, except as to the supplementary schedule of expenditures of federal awards, which is as of February 14, 2018

BROWN UNIVERSITY

Balance Sheets

June 30, 2017 and 2016

(Dollars in thousands)

Assets	2017	2016
Cash and cash equivalents	\$ 78,454	72,414
Accounts receivable and other assets	59,362	55,386
Contributions receivable, net	158,224	170,904
Notes receivable, net	29,031	31,188
Funds held in trust by others	35,530	75,055
Investments	3,909,576	3,530,605
Land, buildings and equipment, net	1,099,743	1,064,631
Total assets	<u>\$ 5,369,920</u>	<u>5,000,183</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 59,761	57,993
Liabilities associated with investments	157,954	74,750
Student deposits and grant advances	65,099	62,769
Federal student loan advances	25,271	24,496
Split-interest obligations	18,986	21,335
Other long-term obligations	82,225	111,883
Bonds, loans and notes payable	773,910	844,676
Total liabilities	<u>1,183,206</u>	<u>1,197,902</u>
Net assets:		
Unrestricted	964,088	891,985
Temporarily restricted	1,708,549	1,471,106
Permanently restricted	1,514,077	1,439,190
Total net assets	<u>4,186,714</u>	<u>3,802,281</u>
Total liabilities and net assets	<u>\$ 5,369,920</u>	<u>5,000,183</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	<u>881,244</u>	<u>21,169</u>	<u>—</u>	<u>902,413</u>
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	<u>881,900</u>	<u>—</u>	<u>—</u>	<u>881,900</u>
Change in net assets from operating activities	<u>(656)</u>	<u>21,169</u>	<u>—</u>	<u>20,513</u>
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	<u>72,759</u>	<u>216,274</u>	<u>74,887</u>	<u>363,920</u>
Change in net assets	72,103	237,443	74,887	384,433
Net assets, beginning of year	<u>891,985</u>	<u>1,471,106</u>	<u>1,439,190</u>	<u>3,802,281</u>
Net assets, end of year	<u>\$ 964,088</u>	<u>1,708,549</u>	<u>1,514,077</u>	<u>4,186,714</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY
Statement of Activities
Year ended June 30, 2016
(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 482,464	—	—	482,464
Less university scholarships	(175,175)	—	—	(175,175)
Net tuition and fees	307,289	—	—	307,289
Grants and contracts – direct	120,594	—	—	120,594
Grants and contracts – indirect	40,432	—	—	40,432
Contributions	63,185	27,099	—	90,284
Endowment return appropriated	152,786	674	—	153,460
Sales and services of auxiliary enterprises	92,655	—	—	92,655
Other income	36,891	—	—	36,891
Net assets released from restrictions	12,086	(12,086)	—	—
Total operating revenues	<u>825,918</u>	<u>15,687</u>	<u>—</u>	<u>841,605</u>
Operating expenses:				
Salaries and wages	337,020	—	—	337,020
Employee benefits	99,605	—	—	99,605
Graduate student support	66,236	—	—	66,236
Purchased services	78,443	—	—	78,443
Supplies and general	126,916	—	—	126,916
Utilities	27,841	—	—	27,841
Interest	29,012	—	—	29,012
Depreciation	73,156	—	—	73,156
Operating expenses	<u>838,229</u>	<u>—</u>	<u>—</u>	<u>838,229</u>
Change in net assets from operating activities	<u>(12,311)</u>	<u>15,687</u>	<u>—</u>	<u>3,376</u>
Nonoperating activities:				
Contributions	2,085	68,602	55,275	125,962
Net investment return	(17,713)	(25,361)	(4,423)	(47,497)
Endowment return appropriated	(26,795)	(126,665)	—	(153,460)
Other changes, net	(45,912)	(5,588)	5,759	(45,741)
Net assets released from restrictions	313	(313)	—	—
Change in net assets from nonoperating activities	<u>(88,022)</u>	<u>(89,325)</u>	<u>56,611</u>	<u>(120,736)</u>
Change in net assets	<u>(100,333)</u>	<u>(73,638)</u>	<u>56,611</u>	<u>(117,360)</u>
Net assets, beginning of year	<u>992,318</u>	<u>1,544,744</u>	<u>1,382,579</u>	<u>3,919,641</u>
Net assets, end of year	<u>\$ 891,985</u>	<u>1,471,106</u>	<u>1,439,190</u>	<u>3,802,281</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 384,433	(117,360)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(396,398)	53,967
Depreciation	73,843	73,156
Amortization of bond premium	(4,066)	(4,066)
Loss from disposals of land, building and equipment	902	2,594
Change in funded status of pension obligation	(12,859)	19,597
Change in fair value of interest rate swap liabilities	(18,474)	21,520
Change in asset retirement obligation	1,675	6
Change in estimate of split-interest obligations	(40)	1,024
Contributions restricted for plant and endowment	(127,117)	(103,941)
Change in accounts receivable and other assets	(3,976)	(9,633)
Change in accounts payable and accrued liabilities	3,363	1,264
Change in contributions receivable, net	12,680	(9,118)
Change in other operating liabilities, net	3,105	(248)
Net cash used in operating activities	<u>(82,929)</u>	<u>(71,238)</u>
Cash flows from investing activities:		
Additions to land, buildings and equipment	(111,452)	(94,053)
Purchases of investments	(816,839)	(2,046,123)
Sales and redemptions of investments	848,674	2,139,249
Purchases of securities sold short	(153,933)	(544,136)
Proceeds from securities sold short	199,079	518,504
Notes repaid by students and others, net	2,157	784
Change in funds held in trust by others, excluding swap collateral	28,625	7,198
Net cash used in investing activities	<u>(3,689)</u>	<u>(18,577)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	127,117	103,941
Proceeds from sale of restricted gifts of securities	23,650	20,030
Payments under split-interest obligations	(2,309)	(2,302)
Payments on long-term debt	(66,700)	(25,955)
Proceeds from issuance of debt, including premium	—	95,000
Payments on commercial paper programs	—	(65,530)
Cash collateral posted under swap agreements	(9,800)	(25,700)
Cash collateral returned under swap agreements	20,700	11,700
Advance from line of credit	—	90,000
Payment of advance from line of credit	—	(90,000)
Bond issuance costs	—	(143)
Net cash provided by financing activities	<u>92,658</u>	<u>111,041</u>
Change in cash and cash equivalents	6,040	21,226
Cash and cash equivalents, beginning of year	<u>72,414</u>	<u>51,188</u>
Cash and cash equivalents, end of year	\$ <u>78,454</u>	\$ <u>72,414</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(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 6,300 undergraduate students and 2,800 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.

(c) Classification of Net Assets

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

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

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

(d) Fair Value Measurements

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

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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

- 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.

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.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(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 \$29,439 and \$39,312 at June 30, 2017 and 2016, 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 \$6,091 and \$35,743 at June 30, 2017 and 2016, 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, 2017 and 2016

(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, 2017 and 2016 include \$148,753 and \$72,456, 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 \$9,201 and \$2,294 entered into in fiscal 2017 and 2016, respectively.

(n) Other Long-Term Obligations

Other long-term obligations include the funded status of the defined benefit pension plan of \$26,362 and \$39,221 at June 30, 2017 and 2016, respectively; interest-rate swap liabilities aggregating \$40,882 and \$59,356 at June 30, 2017 and 2016, respectively; and asset retirement obligations of \$14,981 and \$13,306 at June 30, 2017 and 2016, 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.

(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>2017</u>	<u>2016</u>
Contributions expected to be received in:		
Less than one year	\$ 44,291	80,946
Between one and five years	96,540	87,293
More than five years	<u>45,147</u>	<u>25,030</u>
Gross contributions receivable	185,978	193,269
Unamortized discount (at rates ranging from 0.7% to 4.8%) and allowance for uncollectibles	<u>(27,754)</u>	<u>(22,365)</u>
Contributions receivable, net	<u>\$ 158,224</u>	<u>170,904</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(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, 2017 and 2016, the University had no plans or intentions to sell investments at amounts different from NAV.

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

The following tables summarize the University's investments by strategy type as of June 30, 2017 and 2016:

	2017				Total
	Investments measured at NAV	Investments classified in the fair value hierarchy			
		Level 1	Level 2	Level 3	
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	58,497	13,117	123,170	17,741	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	426,600	—	—	—	426,600
Venture funds	292,382	—	—	1,892	294,274
Real assets:					
Real estate and timber	35,608	1,201	—	32,542	69,351
Commodities, oil and gas	91,715	28,465	—	21,191	141,371
Cash and cash equivalents	—	423,371	—	—	423,371
Total	<u>\$ 3,033,523</u>	<u>672,075</u>	<u>128,771</u>	<u>75,207</u>	<u>3,909,576</u>

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	2016				
	Investments measured at NAV	Investments classified in the fair value hierarchy			Total
		Level 1	Level 2	Level 3	
Investments:					
Equities:					
U.S. equities	\$ 122,028	126,253	—	678	248,959
Non-U.S. equity funds	445,764	59,488	—	—	505,252
Fixed income:					
Domestic	95,357	14,945	78,394	43,201	231,897
U.S. Treasury inflation-protected	14,932	—	—	—	14,932
Hedged strategies:					
General arbitrage funds	418,011	—	—	—	418,011
Distressed funds	6,343	—	—	—	6,343
Global/Non-U.S. funds	883,756	—	—	—	883,756
Private equity:					
Buy-out funds	365,689	—	—	—	365,689
Venture funds	276,836	—	—	2,842	279,678
Real assets:					
Real estate and timber	50,310	1,694	—	30,896	82,900
Commodities, oil and gas	90,803	—	3,374	8,807	102,984
Cash and cash equivalents	—	390,204	—	—	390,204
Total	<u>\$ 2,769,829</u>	<u>592,584</u>	<u>81,768</u>	<u>86,424</u>	<u>3,530,605</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 three to six years.

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The following tables present activities for the years ended June 30, 2017 and 2016 for the University's investments classified in Level 3:

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	2,842	39,703	—	86,424
Acquisitions	—	6,459	—	8,559	1,000	16,018
Dispositions	(100)	(33,423)	—	(5,585)	—	(39,108)
Net realized and unrealized gains (losses)	263	1,504	(950)	11,056	—	11,873
Fair value at June 30, 2017	<u>\$ 841</u>	<u>17,741</u>	<u>1,892</u>	<u>53,733</u>	<u>1,000</u>	<u>75,207</u>

Level 3 roll forward	2016					
	Equities	Fixed income	Private equity	Real assets	Hedged strategies	Total
Fair value as of June 30, 2015	\$ 147	46,295	—	1,036	—	47,478
Acquisitions	—	63,022	—	1,760	—	64,782
Dispositions	—	(72,813)	—	(4,981)	—	(77,794)
Transfers in	607	—	3,397	43,188	—	47,192
Net realized and unrealized gains (losses)	(76)	6,697	(555)	(1,300)	—	4,766
Fair value at June 30, 2016	<u>\$ 678</u>	<u>43,201</u>	<u>2,842</u>	<u>39,703</u>	<u>—</u>	<u>86,424</u>

On June 30, 2016, the University reclassified \$22,185 in commercial real estate from land, building and equipment to investments. The commercial real estate will be held for long-term investment purposes, is carried at fair value, and is classified in Level 3 of the fair value hierarchy. There were no transfers between Levels 1 and 2 and no transfers between Levels 2 and 3 in 2017 and 2016, respectively.

The following summarizes investment return components for the years ended June 30, 2017 and 2016:

	2017	2016
Interest and dividends	\$ 24,577	17,002
Net realized and unrealized gains (losses), net of investment management and advisory expenses	396,398	(53,967)
Investment return	<u>\$ 420,975</u>	<u>(36,965)</u>

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

	2017	2016
Operating:		
Endowment return appropriated	\$ 164,967	153,460
Included in other income	11,630	10,532
Nonoperating activities:		
Net investment return	409,345	(47,497)
Endowment return appropriated	(164,967)	(153,460)
Total return	\$ 420,975	(36,965)

Total investment management and advisory expenses, including internal costs, were \$15,118 and \$18,816 for the years ended June 30, 2017 and 2016, respectively, and have been netted against the total return.

(a) Liquidity

Investment liquidity as of June 30, 2017 and 2016 is aggregated below based on redemption or sale ability:

	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	423,371	—	—	—	—	—	423,371
Total	\$ 821,774	345,171	514,239	308,875	883,251	1,036,266	3,909,576

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	2016						
	Daily	Monthly	Quarterly	Semi-annually to annually	Subject to rolling lock-ups	Illiquid	Total
Equities	\$ 189,306	—	179,255	115,013	264,723	5,914	754,211
Fixed income	122,399	21,980	—	—	45,068	57,382	246,829
Hedged strategies	31,755	259,316	99,558	184,853	709,134	23,494	1,308,110
Private equity	—	—	—	—	—	645,367	645,367
Real assets	5,067	—	—	—	—	180,817	185,884
Cash and cash equivalents	390,204	—	—	—	—	—	390,204
Total	\$ 738,731	281,296	278,813	299,866	1,018,925	912,974	3,530,605

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, 2017 and 2016.

(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, 2017 was \$430,482 and \$101,084 respectively.

(c) Investment Derivatives

The University's investment-related derivative positions, categorized by primary underlying risk, are as follows as of June 30, 2017 and 2016:

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

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	2016		Unrealized gain
	Long notional	Short notional	
Instrument type:			
Total return swaps	\$ 143,320	(44,829)	3,493
Foreign currency forwards	88,979	(96,540)	578
Total	\$ 232,299	(141,369)	4,071

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, 2017 and 2016, the University held certain total return swaps in a net liability position of \$9,201 and \$2,157, respectively, as well as certain total return swaps in a net asset position of \$8,357 and \$5,650, respectively. At June 30, 2017 and 2016, the University held various foreign currency forward contracts in a net liability position of \$105 and \$434, respectively, and in a net asset position of \$1,012 at June 30, 2016. At June 30, 2017, the University held various futures and options contracts in a net liability position of \$124 and in a net asset position of \$7,035.

(4) Endowment

The University's endowment consists of approximately 2,990 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, 2017:

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

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Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (9,098)	1,132,476	1,315,362	2,438,740
Corporation-designated endowment funds	<u>445,275</u>	<u>79,351</u>	<u>—</u>	<u>524,626</u>
Total endowment net assets	\$ <u>436,177</u>	<u>1,211,827</u>	<u>1,315,362</u>	<u>2,963,366</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>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment at June 30, 2015	\$ 475,524	1,347,419	1,250,406	3,073,349
Investment return, net	(14,844)	(28,937)	—	(43,781)
Endowment return appropriated	(26,795)	(126,665)	—	(153,460)
Contributions	433	20,160	63,091	83,684
Reclassifications and other changes	<u>1,859</u>	<u>(150)</u>	<u>1,865</u>	<u>3,574</u>
Endowment at June 30, 2016	\$ <u>436,177</u>	<u>1,211,827</u>	<u>1,315,362</u>	<u>2,963,366</u>

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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 \$1,362 and \$9,098 as of June 30, 2017 and 2016, 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.

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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-designated endowment funds.

(5) Land, Buildings and Equipment

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

	<u>2017</u>	<u>2016</u>
Land	\$ 84,651	83,940
Buildings	642,702	641,432
Improvements	1,046,911	998,343
Equipment	203,800	187,667
Intangible assets	2,633	2,633
Construction in progress	106,105	67,757
	<u>2,086,802</u>	<u>1,981,772</u>
Accumulated depreciation	<u>(987,059)</u>	<u>(917,141)</u>
Land, buildings and equipment, net	<u>\$ 1,099,743</u>	<u>1,064,631</u>

Outstanding commitments on uncompleted construction contracts total \$33,322 at June 30, 2017.

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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	
				2017	2016
Rhode Island Health and Education Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 2003B	0.88 %	Variable	2044	\$ 41,175	41,650
Series 2005A	0.86 %	Variable	2035	85,500	85,500
Series 2007	4.25%–5.00%	Fixed	2038	86,360	88,295
Series 2009	5.00 %	Fixed	2040	70,795	70,795
Series 2011	2.50%–5.00%	Fixed	2033	50,710	55,060
Series 2012	5.00 %	Fixed	2023	118,240	118,240
Series 2013	4.00%–5.00%	Fixed	2044	132,670	135,310
Series 2015	1.07 %	Variable	2046	43,900	45,000
Brown University Taxable Bonds:					
Series 2009	4.57%	Fixed	2020	45,000	100,000
Commercial bank term loan	1.30 %	Variable	2019	48,900	50,000
Promissory note	noninterest bearing	N/A	2030	3,300	3,400
Loans payable – community: Development entities	1.22%	Fixed	2042	13,748	13,748
Total bonds, loans and notes payable before premium				740,298	806,998
Unamortized premium				33,612	37,678
Total bonds, loans and notes payable				\$ 773,910	844,676

(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.

In October 2015, the University issued through RIHEBC tax-exempt direct placement bonds with a total par value of \$45,000 at a variable interest rate, maturing in 2046. The proceeds were used to redeem

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\$17,000 of Series 2005 Taxable bonds and pay down \$14,470 of RIHEBC Tax-exempt commercial paper program, 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 statement of activities.

In addition, the University implemented a Taxable Commercial Paper Program in November 2005. The program provides for the issuance, up to \$50,000, of Taxable Standard Commercial Paper Notes, Series A, and Taxable Extendible Commercial Paper Notes, Series B. The Taxable Commercial Paper Program has a number of individual notes that are issued at various times, amounts and staggered maturity dates. At June 30, 2016 there were no outstanding notes. The agreement allows the University to continue this revolving process until 2036.

In September 2015, the University borrowed \$50,000 through a commercial bank term loan at a variable rate of one-month LIBOR plus 30 basis points, maturing in September 2018. The proceeds were used to pay down \$50,000 outstanding in the Taxable Commercial Paper Program.

The University had also maintained a tax exempt commercial program through RIHEBC. This program was terminated in November 2015. Proceeds from the tax exempt commercial paper program had to be used within 18 months; however, once debt was issued, the University could continue to rollover the tax exempt commercial paper. As of June 30, 2017 and 2016, there was no amount outstanding.

Principal payments of bonds, notes and loans payable as of June 30, 2017 for each of the succeeding five fiscal years ending June 30 and thereafter are as follows:

Fiscal year:		
2018	\$	12,035
2019		59,431
2020		57,098
2021		10,185
2022		68,293
Thereafter		<u>533,256</u>
Total	\$	<u><u>740,298</u></u>

In July 2015, the University established a \$100,000 line of credit, which matured in July 2016 and was subsequently renewed to mature in July 2017. As of June 30, 2017, the full amount of \$100,000 was available at a rate of 1.22%. In July 2017, the line of credit was renewed and increased to \$125,000 and will mature in July 2018. At June 30, 2016, the University also had a revolving line of credit available up to \$40,000. As of June 30, 2016, the full amount of \$40,000 was available at a rate of 1.22%. The line of credit was terminated in January 2017.

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The University has two stand-by bond purchase agreements with financial institutions totaling approximately \$127,000 in the event that the Series 2003B and Series 2005A bonds cannot be remarketed. Financing obtained through these stand-by credit agreements to fund the repurchase of such bonds would bear interest rates different from those associated with the original bond issues. The agreements have various maturity dates between November 2017 and January 2020. There were no amounts outstanding at June 30, 2017 and 2016, respectively, under these agreements.

The University provided self-liquidity for its taxable commercial paper program at June 30, 2017 and 2016, respectively.

(c) Interest Rate Swaps

At June 30, 2017 and 2016, the University had two interest-rate swap agreements in place to effectively convert a portion of its variable-rate debt to fixed rates until maturity of the associated bonds. The notional amounts for the JPMorgan swap and the \$85,500 Goldman Sachs swap match and amortize at the same rate as the associated debt principal.

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

Counterparty	Associated debt	Expiration date	June 30, 2017 remaining notional value	Swap fixed rate	Fair value of liability at June 30	
					2017	2016
JP Morgan	Series 2003B	9/1/2043	\$ 41,175	3.732 %	\$ (13,949)	(19,660)
Goldman Sachs	Series 2005A	5/1/2035	85,500	3.979	(24,520)	(36,019)
Goldman Sachs	None	9/1/2032	14,913	3.891	(2,413)	(3,677)
					<u>\$ (40,882)</u>	<u>(59,356)</u>

The variable rate on the two Goldman Sachs swaps is based on the USD-BMA Municipal Swap Index. The variable rate on the JPMorgan swap is based on 67% of one-month LIBOR-BBA. The Goldman Sachs swaps require posting of collateral by either party at thresholds based on their respective credit ratings. Cash collateral must be posted by the University if the aggregate mark-to-market liability payable by the University exceeds \$25,000. The JPMorgan swap stipulates that if the University meets a minimum credit rating there are no collateral posting requirements. This rating was maintained by the University at June 30, 2017 and 2016. At June 30, 2017, the collateral posting requirement was \$1,933; however, \$4,100 was on deposit as collateral to ensure continuing collateral coverage.

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

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(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 \$26,519 and \$23,255 for the years ended June 30, 2017 and 2016, 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>2017</u>	<u>2016</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 104,293	86,784
Service cost	4,477	3,850
Interest cost	3,488	3,707
Benefits paid	(2,310)	(2,075)
Actuarial (gain) loss	<u>(9,550)</u>	<u>12,027</u>
Projected benefit obligation at end of year	<u>\$ 100,398</u>	<u>104,293</u>

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.79 %	3.48 %
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>2017</u>	<u>2016</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 65,072	67,160
Actual return on plan assets	8,774	(1,513)
Contributions	2,500	1,500
Benefits paid	<u>(2,310)</u>	<u>(2,075)</u>
Fair value of plan assets at end of year	74,036	65,072
Projected benefit obligation at end of year	<u>(100,398)</u>	<u>(104,293)</u>
Funded status included in other long-term obligations	<u>\$ (26,362)</u>	<u>(39,221)</u>
	<u>2017</u>	<u>2016</u>
Net periodic pension cost:		
Service cost	\$ 4,477	3,850
Interest cost	3,487	3,707
Expected return on assets	(4,211)	(4,337)
Amortization of unrecognized loss and prior service cost	<u>1,994</u>	<u>1,150</u>
Net periodic pension cost	<u>\$ 5,747</u>	<u>4,370</u>

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

	<u>2017</u>	<u>2016</u>
Discount rate	3.48 %	4.33 %
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, 2017 and 2016, items not yet recognized as components of net periodic pension cost are unrecognized prior service cost of \$1,014 and \$594, respectively, and a net unrecognized actuarial loss of \$20,519 and \$37,045, respectively. These changes affecting the funded status of the plan are included in other changes, net in nonoperating activities in the statements of activities.

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The plan assets at June 30, 2017 and 2016 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, 2017 and 2016, and the weighted average asset targeted allocation are as follows:

	<u>Target</u>	<u>Actual</u>	
		<u>2017</u>	<u>2016</u>
Equity funds	75 %	75 %	76 %
Fixed income funds	25	25	24
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The University's estimated contribution for 2018 is \$2,500.

Estimated future benefit payments as of June 30, 2017 are as follows:

Fiscal year:		
2018	\$	2,917
2019		3,106
2020		3,335
2021		3,585
2022		3,862
2023–2027		24,211

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2017 and 2016

(Dollars in thousands)

(8) Restricted Net Assets

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

	2017		2016	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Endowment	\$ 1,368,418	1,394,885	1,211,827	1,315,362
Contributions receivable	84,137	74,087	88,330	82,574
Donor-restricted purposes	107,443	45,105	103,771	41,254
Donor-restricted for plant-purposes	135,362	—	54,745	—
Student loans	13,189	—	12,433	—
Total	\$ 1,708,549	1,514,077	1,471,106	1,439,190

(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:

	2017	2016
Instruction and departmental research	\$ 335,115	322,449
Sponsored programs	128,405	116,431
Academic and student support	215,949	204,254
Auxiliary services	100,361	100,594
Institutional support	102,070	94,501
	\$ 881,900	838,229

(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, 2017 and 2016

(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.

(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>2017</u>	<u>2016</u>
Cash paid for interest, including recurring swap settlements, net of capitalized interest of \$480 and \$1,809	\$ 32,439	33,216
Noncash investing activities:		
(Decrease) increase in accounts payable for land, buildings and equipment	\$ (1,595)	4,408
Increase (decrease) in payables for purchases of investments	83,204	(59,377)

(13) Subsequent Events

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 2047. The bonds were sold at a premium of \$19,532, resulting in effective yield of 3.25%. The proceeds were used to refinance \$86,300 of Series 2007 tax-exempt bonds, with remaining proceeds to be used for capital projects.

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 Warrant Alpert Medical School. Under the formation and support agreement, the University is obligated to pay BPI \$25,000 over a 10-year period. In addition, the University authorized a line of credit agreement with BPI, up to \$30,000.

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 24, 2017, and subsequent events have been evaluated through that date.

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

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:				
Department of Agriculture				
Agriculture and Food Research Initiative	10.310	Direct	\$ —	85,732
Department of Agriculture total			—	85,732
Department of Defense:				
Department of Defense – Other research	12.000	Direct	141,994	747,541
Aptima, Inc.	12.000	0866-1693	—	(20)
Cal Poly Pomona Foundation Inc	12.000	Remote Sensing Technology	—	74,063
Deep Springs Technology, LLC	12.000	IST-6126	—	765
ReliaCoat Technologies, LLC	12.000	RCT1021S	—	21,218
UES, Inc.	12.000	S-992-009-004	—	17,803
Women and Infants Hospital	12.000	9607	—	4,864
Subtotal			141,994	866,234
Procurement Technical Assistance For Business Firms	12.002	Direct	—	27,431
Basic and Applied Scientific Research	12.300	Direct	409,462	2,489,651
Boston University	12.300	450002205	—	177,364
Johns Hopkins University	12.300	2003341862	—	278,504
Johns Hopkins University	12.300	2003631376	—	104,125
Lincoln Laboratory	12.300	7000339544	—	6,489
Tufts University	12.300	ONR278	—	314,531
University of California, Berkeley	12.300	00009340	—	74,944
University of California, Los Angeles	12.300	1015GNA134	—	3,902
University of California, Los Angeles	12.300	1015GTA170	—	(24,633)
University of Colorado, Boulder	12.300	1553984	—	246,391
University of Rhode Island	12.300	0005719/08242016	—	28,649
Subtotal			409,462	3,699,917
Basic Scientific Research – Combating Weapons of Mass Destruction	12.351	Direct	46,101	61,421
Military Medical Research and Development	12.420	Direct	—	211,572
Boston University	12.420	9500300580	—	312,130
Rhode Island Hospital	12.420	701-7137164	—	15,633
Vanderbilt University	12.420	VUMC55761	—	(13,936)
Vanderbilt University Medical Center	12.420	VUMC55761	—	70,051
Yale University	12.420	C16-J2326 (J00246)	—	9,900
Yale University	12.420	C16J12287 (J00244)	—	11,607
Yale University	12.420	C15J11982 (J00234)	—	42,257
Subtotal			—	659,214
Basic Scientific Research	12.431	Direct	1,615,004	4,479,388
General Dynamics Land Systems	12.431	PO#40251573	—	58,535
University of Texas, Austin	12.431	UTA14-000870	—	18,735
Subtotal			1,615,004	4,556,658

BROWN UNIVERSITY
 Supplementary Schedule of Expenditures of Federal Awards
 Year ended June 30, 2017

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	\$ —	132,836
Air Force Defense Research Sciences Program	12.800	Direct	1,145,628	2,327,807
Asian Office of Aerospace Research and Development	12.800	FA2386-13-1-4121	—	(4,390)
Subtotal			<u>1,145,628</u>	<u>2,323,417</u>
Research and Technology Development	12.910	Direct	436,560	2,218,363
Defense Advanced Research Projects Agency	12.910	N66001-15-2-4055	—	44,436
Yale University	12.910	C17P12597 (P00407)	—	195,932
Subtotal			<u>436,560</u>	<u>2,458,731</u>
Department of Defense total			<u>3,794,749</u>	<u>14,785,859</u>
Department of Education:				
Pacific Northwest National Laboratory	84.000	214884	—	102,312
Overseas Doctoral Dissertation	84.022	Direct	—	39,412
Graduate Assistance In Areas Of National Need	84.200	Direct	—	224,265
Education Research, Development and Dissemination	84.305	Direct	501,341	879,942
National Professional Development Program	84.365	Direct	—	278,402
BPE	84.411	050115	—	5,370
Department of Education total			<u>501,341</u>	<u>1,529,703</u>
Department of Energy:				
Department of Energy – Other Research	81.000	Direct	—	249,984
Ames Laboratory	81.000	SC-13-390	—	94,878
Fermi National Accelerator Laboratory	81.000	No 614211	—	49,125
Fermi National Accelerator Laboratory	81.000	P.O.615706	—	8,993
Fermi National Accelerator Laboratory	81.000	PO 573783	—	60,989
Fermi National Accelerator Laboratory	81.000	PO610813	—	80,372
Fermi National Accelerator Laboratory	81.000	PO629713	—	98,658
Fermi National Accelerator Laboratory	81.000	PO631508	—	23,496
Fermi National Accelerator Laboratory	81.000	PO635300	—	16,923
Fermi National Accelerator Laboratory	81.000	PO635983	—	107,323
Fermi National Accelerator Laboratory	81.000	PO 625753	—	19,246
Fermi National Accelerator Laboratory	81.000	PO 626045	—	25,416
Fermi National Accelerator Laboratory	81.000	PO 618987	—	138,001
Fermi National Accelerator Laboratory	81.000	PO 618571	—	275,557
Honeywell Federal Manufacturing & Technologies LLC	81.000	N000222771	—	141,135
Honeywell Federal Manufacturing & Technologies LLC	81.000	N000177717	—	97,416
Lawrence Livermore National Laboratory	81.000	B622202	—	12,611
Lawrence Livermore National Laboratory	81.000	B620700	—	10,108
Los Alamos National Laboratory	81.000	Basic 419093, Sub 420101	—	29,333
Oak Ridge National Laboratory	81.000	4000126928	—	148,850
Pacific Northwest National Laboratory	81.000	211278	—	103,881
The Regents of the University of California	81.000	6953356	—	127,606
The Regents of the University of California	81.000	7265413	—	1,089,593
Walter Reed National Military Medical Center	81.000	Advance	—	6,471
Subtotal			<u>—</u>	<u>3,015,965</u>

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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	\$ 431,441	4,447,338
United States Automotive Materials Partnership, LLC	81.086	13-2834-AMP	—	78,009
General Motors Corporation	81.087	TCS69633	—	17,539
General Motors Corporation	81.087	Advance	—	58,640
Subtotal			—	76,179
Advanced Research Projects Agency – Energy	81.135	Direct	88,070	913,376
Department of Energy total			519,511	8,530,867
Federal Emergency Management Agency:				
Brookhaven National Laboratory	83.000	325180		38,788
Subtotal				38,788
Department of Health and Human Services:				
Department of Health and Human Services – Other research	93.000	Direct	651,646	3,330,597
ABT Associates, Inc.	93.000	Sub 45696 – MRAD-CMS-BROWN-17993-1201	—	39,484
Boston University	93.000	4500001305	—	(236)
MOI University	93.000	HHSN268200900031C-Brown	—	20
Subtotal			651,646	3,369,865
Women and Infants Hospital	93.007	9607	—	7,817
University of Pittsburgh	93.007	(blank)	—	181,838
University of Pittsburgh	93.007	9010654 (126580-1)	—	85,999
University of Pittsburgh	93.007	9010655	—	164,383
Subtotal			—	440,037
Family Smoking Prevention and Tobacco Control Aact Regulatory Research	93.077	Direct	—	294,223
Miriam Hospital	93.077	710-9150	—	15,943
University of Vermont	93.077	31678SUB51463	—	505,492
University of Vermont	93.077	SUB51462 BROWN	—	83,280
Subtotal			—	898,938
President and Fellows of Harvard College	93.084	116532-5097266	—	108,055
Model State-supported Area Health Education Centers	93.107	Direct	133,666	173,873
Maternal and Child Health Federal Consolidated Programs	93.110	Direct	38,482	293,182
Biological Response to Environmental Health Hazards	93.113	Direct	766,678	2,801,561
Boston University	93.113	4500002243	—	3,832
Columbia University	93.113	2(GG010656-01)	—	29,672
University of Southern California	93.113	80000762 / P.O. #50504945	—	2,842
Subtotal			766,678	2,837,907
Oral Diseases and Disorders Research	93.121	Direct	—	86,911
Dartmouth Medical School	93.121	1542R01	—	71,681
Subtotal			—	158,592

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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
Lifespan, Inc.	93.136	7137033	\$ —	20,397
Rhode Island Hospital	93.136	7137153	—	22,946
Subtotal			—	43,343
NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	Direct	77,517	2,561,193
Human Genome Research	93.172	Direct	1,396	637,373
Research Related to Deafness and Communication Disorders	93.173	Direct	—	786,051
Massachusetts General Hospital	93.173	221242	—	134,407
Stanford University	93.173	60951264-116469	—	33,579
University of Connecticut	93.173	49674-2	—	49,240
University of Massachusetts Medical Center	93.173	WA00454568/OSP2017013	—	26,700
Subtotal			—	1,029,977
Research and Training in Complementary and Alternative Medicine	93.213	Direct	423,674	886,674
University of Maryland, Baltimore	93.213	020468C / PO SR00002633 / 7527	—	51,823
Subtotal			423,674	938,497
National Research Service Awards Health Services Research Training	93.225	Direct	—	395,472
Research on Healthcare Costs, Quality and Outcomes	93.226	Direct	—	1,403,739
Healthcentric Advisors	93.226	AHRQ Sub – R. Baier	—	11,305
Subtotal			—	1,415,044
University of Rhode Island	93.234	6172/022217	—	2,718
Mental Health Research Grants	93.242	Direct	1,606,194	7,377,088
Ann & Robert H. Lurie Childrens Hospital of Chicago	93.242	901463-Brown	—	7,281
Bradley Hospital	93.242	7127519	—	2,046
Bradley Hospital	93.242	7127518	—	1,318
Bradley Hospital	93.242	712-7477	—	51,578
Butler Hospital	93.242	9272-8328	—	4,343
Butler Hospital	93.242	9269-8328	—	1,308
Butler Hospital	93.242	9234-8328	—	62,909
Butler Hospital	93.242	9232-8328	—	11,810
Chinglu Pharmaceutical Research LLC	93.242	CHL-001	—	6,439
Massachusetts General Hospital	93.242	224840	—	84,799
Michigan State University	93.242	RC105383-Brown	—	701,133
Michigan State University	93.242	RC104649BU	—	102,061
Miriam Hospital	93.242	710-9856 G. Papandonatos	—	(117)
Northeastern University	93.242	500304	—	53,899
Research Foundation of CUNY	93.242	41861-A	—	29,609
Rhode Island Hospital	93.242	7137207	—	70,232
Rhode Island Hospital	93.242	7137225	—	53,142
Rhode Island Hospital	93.242	7137063	—	28,214
University of Alabama, Birmingham	93.242	000388010-062	—	30,823
University of California, Berkeley	93.242	00009418	—	12,574
University of California, Los Angeles	93.242	1560 G TA313	—	40,972
University of Cape Town	93.242	HIV Cascade	—	43,581
University of Maryland, Baltimore	93.242	8639-SR00002907	—	119,237
Subtotal			1,606,194	8,896,279

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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	\$ 214,687	1,149,431
Butler Hospital	93.243	9050-8328	—	61,782
State of Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	93.243	SPF-PFS	—	265,974
University of Missouri – Kansas City	93.243	0074604/00056793	—	3,897
University of Rhode Island	93.243	5442/051816	—	19,558
University of Rhode Island	93.243	5132-071415	—	26,782
Subtotal			<u>214,687</u>	<u>1,527,424</u>
Adult Viral Hepatitis Prevention and Control	93.270	Direct	109,922	762,605
Alcohol Research Programs	93.273	Direct	707,687	4,645,474
Butler Hospital	93.273	9193-8328	—	11,519
Butler Hospital	93.273	9132-8328	—	45,377
Miriam Hospital	93.273	710-9192	—	70,152
Miriam Hospital	93.273	710-9926	—	20,163
Research Foundation of State University of New York	93.273	R543950 (PI Papandonatos)	—	1
Rhode Island Hospital	93.273	Z101035088 / 7011475	—	(37,946)
Rhode Island Hospital	93.273	7017137111-5-RI	—	28,214
Rhode Island Hospital	93.273	701-713-7154	—	9,405
SIMmersion LLC	93.273	SIMmersion GA	—	62,886
University of Connecticut Health Center	93.273	UCHC6-42189694	—	44,810
University of New Mexico	93.273	028328-87T6	—	1,555
University of Rhode Island	93.273	112012-003452	—	69,372
University of Washington	93.273	UWSC9451	—	13,238
University of Washington	93.273	UWSC8758	—	4,941
Subtotal			<u>707,687</u>	<u>4,989,161</u>
Drug Abuse and Addition Research Programs	93.279	Direct	153,848	2,527,043
Butler Hospital	93.279	9016-8328	—	9,978
Butler Hospital	93.279	9116-8328	—	6,661
Columbia University	93.279	7R01DA036894	—	115,339
Miriam Hospital	93.279	7147056	—	8,727
Miriam Hospital	93.279	710-9148	—	37,533
Miriam Hospital	93.279	710-9152	—	35,993
Miriam Hospital	93.279	710-9993	—	40,185
Miriam Hospital	93.279	710-9833-8985	—	(12,395)
Miriam Hospital	93.279	710-9834-8985	—	1,238
Public Health Institute	93.279	00414	—	37,115
Truth Initiative	93.279	7016-Brown	—	16,125
University of British Columbia	93.279	N/A	—	7,614
University of California, San Diego	93.279	68677681	—	11,892
University of California, San Francisco	93.279	9064sc	—	26,143
University of California, San Francisco	93.279	9081sc	—	2,313
University of Colorado, Boulder	93.279	155935 /PO1000392632	—	44,663
University of Washington	93.279	UWSC8007	—	3,125
Women and Infants Hospital	93.279	9567	—	(50)
Subtotal			<u>153,848</u>	<u>2,919,242</u>

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

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	\$ 10,018	145,318
Mental Health National Research Service Awards for Research Training	93.282	Direct	—	14,440
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	Direct	116,130	551,507
Minority Health and Health Disparities Research	93.307	Direct	17,116	216,158
Trans-NIH Research Support	93.310	Direct	21,991	195,700
Johns Hopkins University	93.310	PO 2001392915	—	27,343
Memorial Hospital	93.310	5001311-Braun	—	1,130
Rhode Island Hospital	93.310	701-7137160-02	—	44,313
Sloan-Kettering Institute	93.310	N/A	—	(14,394)
Westat, Inc.	93.310	6366-S02	—	39,700
Subtotal			21,991	293,792
Johns Hopkins University	93.350	5014370-SERV	—	9,253
Nursing Research	93.361	Direct	—	340,293
Butler Hospital	93.361	9241-8328	—	8,723
Butler Hospital	93.361	9074-8328	—	11,789
Rhode Island Hospital	93.361	701-5500-RI	—	15,906
The Regents of the University of California	93.361	201222943-02	—	85,044
Subtotal			—	461,755
National Heart, Lung, and Blood Ins	93.387	Direct	—	20,613
National Center for Research Resources	93.389	Direct	25,160	1,153,980
Rhode Island Hospital	93.389	701-5482-8985	—	6,609
Subtotal			25,160	1,160,589
Cancer Cause and Prevention Research	93.393	Direct	142,792	299,855
Columbia University	93.393	4 (GG011708)	—	23,358
Henry Ford Health System	93.393	B11148BU	—	34,211
Miriam Hospital	93.393	710-9871	—	13,161
Northwestern University	93.393	60038259BU	—	21,282
Pacific Institute for Research and Evaluation	93.393	0828	—	6,159
Truth Initiative	93.393	7015-Brown	—	119,066
Truth Initiative	93.393	7007-Brown	—	51,603
Tufts University	93.393	100805-00001	—	47,859
Tufts University	93.393	100627-00001	—	10,360
University of Texas, Austin	93.393	UTA14-000728	—	93,346
Subtotal			142,792	720,260
Cancer Detection and Diagnosis Research	93.394	Direct	—	43,090
American College of Radiology	93.394	1670	—	93,491
The Regents of the University of California	93.394	1562GTA939	—	8,081
University of Massachusetts, Amherst	93.394	15-008584 A03	—	14,153
University of Massachusetts, Worcester	93.394	WA00522513/OSP2016160	—	11,659
Subtotal			—	170,474
American College of Radiology	93.395	1809	—	15,000
Dana-Farber Cancer Institute	93.395	1227204	—	1,411,119
ECOG-ACRIN Medical Research Foundation, Inc	93.395	5UG1CA189828-03-BRWN3	—	65,141
ECOG-ACRIN Medical Research Foundation, Inc	93.395	5UG1CA189828-03-BRWN4	—	88,644
ECOG-ACRIN Medical Research Foundation, Inc	93.395	1UG1CA189828-01-BRWN2	—	162,688
ECOG-ACRIN Medical Research Foundation, Inc	93.395	1UG1CA189828-01-BRWB1	—	217,618
ECOG-ACRIN Medical Research Foundation, Inc	93.395	U10CA180820-03-BRWN1	—	13,995
University of Louisville	93.395	ULRF141029-01	—	108
Subtotal			—	1,974,313

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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
Cancer Biology Research	93.396	Direct	\$ —	49,519
Indiana University	93.397	IN4687576BU	—	29,591
Indiana University	93.397	IN4687560BRWN	—	6,369
Northwestern University	93.397	60041692BU	—	32,059
Subtotal			—	68,019
Cancer Research Manpower	93.398	Direct	26,411	436,511
North Carolina State University	93.433	2015-3038-01	—	13,088
PPHF National Public Health Improvement Initiative	93.507	Direct	—	27,562
University of Rhode Island	93.624	0005994 / 12022016 – 3491930	—	8,368
State of Rhode Island Department of Health	93.758	3420327	—	65,163
State of Rhode Island Department of Health	93.758	3420327	40,000	40,000
Subtotal			40,000	105,163
ABT Associates, Inc.	93.779	47360	—	16,313
Leading Age South Carolina	93.779	CMP Fund	—	6,355
Subtotal			—	22,668
Heart and Vascular Diseases Research	93.837	Direct	570,835	1,741,680
Butler Hospital	93.837	9273-8328	—	10,260
Butler Hospital	93.837	9261-8328	—	1,205
Columbia University	93.837	512153	—	22,183
Miriam Hospital	93.837	710-7147009	—	57,661
Mount Sinai School of Medicine	93.837	0255-8173-4609	—	26,467
Mount Sinai School of Medicine	93.837	0255-4705-4609	—	15,831
Mount Sinai School of Medicine	93.837	0255-8172-4609	—	55,525
Northern California Institute for Research and Education, Inc.	93.837	1724	—	(6,250)
Ocean State Research Institute	93.837	122202	—	10,764
Rhode Island Hospital	93.837	701-7137199	—	31,462
Rhode Island Hospital	93.837	701-7137112	—	30,573
University of Connecticut	93.837	133693	—	34,563
University of Pittsburgh	93.837	0054665 (129258-2)	—	4,880
Yale University	93.837	C14A11773(A10672)	—	230,423
Yale University	93.837	M15A12096 (A10369)	—	315,409
Subtotal			570,835	2,582,636
Lung Diseases Research	93.838	Direct	75,418	383,563
Rhode Island Hospital	93.838	701-7137089	—	220,590
Weill Cornell Medical College	93.838	16111808-02	—	387,313
Yale University	93.838	M15A12057(A10157)	—	19,243
Subtotal			75,418	1,010,709
Blood Diseases and Resources Research	93.839	Direct	565,625	889,523
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Direct	26,720	840,833
Lifespan, Inc.	93.846	7017137231	—	16,524
Rhode Island Hospital	93.846	701-7137037	—	98,367
Yale University	93.846	M16A12082(A10209)	—	23,196
Subtotal			26,720	978,920
Diabetes, Endocrinology and Metabolism Research	93.847	Direct	8,062	827,949
Augusta University	93.847	30835-4	—	79,771
Miriam Hospital	93.847	710-9906	—	54,197
Miriam Hospital	93.847	710-9176	—	10,506
Rhode Island Hospital	93.847	701-5599	—	77,835
Subtotal			8,062	1,050,258

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Direct	\$ 726,220	5,294,956
Baylor College of Medicine	93.853	7000000370	—	16,782
Central Michigan University	93.853	F63541	—	243,602
Gray Matter Research	93.853	N/A	—	226,053
Massachusetts General Hospital	93.853	227057	—	955,178
Massachusetts General Hospital	93.853	2015D009117	—	97,285
President and Fellows of Harvard College	93.853	148635.376451.0506	—	20,064
Rhode Island Hospital	93.853	701-7137201	—	137,129
University of Pennsylvania	93.853	569028	—	85,602
Subtotal			<u>726,220</u>	<u>7,076,651</u>
Allergy, Immunology and Transplantation Research	93.855	Direct	336,345	3,191,276
Indiana University – Indianapolis	93.855	IN4681945BU	—	33,313
Magee Womens Research Institute	93.855	9431	—	(59)
Miriam Hospital	93.855	710-9912	—	16,868
Miriam Hospital	93.855	7109157	—	35,797
Miriam Hospital	93.855	7109156	—	3,047
Miriam Hospital	93.855	710-9156 – Dunn	—	5,243
Miriam Hospital	93.855	710-9156 – Helfand	—	20,447
Miriam Hospital	93.855	7109159-JH	—	117,695
Miriam Hospital	93.855	710-9156 – IW	—	23,956
Miriam Hospital	93.855	710-9164	—	57,582
Miriam Hospital	93.855	710-9143	—	57,361
Miriam Hospital	93.855	710-9156	—	5,732
Miriam Hospital	93.855	710-9177	—	4,293
Miriam Hospital	93.855	710-9913	—	915
President and Fellows of Harvard College	93.855	160505-1224	—	5,259
Rhode Island Hospital	93.855	7017137175-2	—	84,736
The Miriam Hospital	93.855	7109156-Wray	—	145
The Regents of the University of California – Merced	93.855	E251GUB334	—	2,181
University of California, San Francisco	93.855	9507sc	—	67,413
University of Florida	93.855	UFDSP00010840	—	4,958
Subtotal			<u>336,345</u>	<u>3,738,158</u>
Biomedical Research and Research Training	93.859	Direct	510,281	8,913,628
Emory University	93.859	T648004	—	134,601
Ocean State Research Institute	93.859	312230	—	49,151
Ocean State Research Institute	93.859	312207	—	36,101
Ocean State Research Institute	93.859	312208 (243112)	—	365,477
Ocean State Research Institute	93.859	312217	—	12,034
Rhode Island Hospital	93.859	701-5480	—	98,376
Rhode Island Hospital	93.859	Advance	—	67,472
Rhode Island Hospital	93.859	7017137077-8985	—	35,514
University of Pennsylvania	93.859	560885	—	111,931
University of Rhode Island	93.859	0005697/060316	—	43,999
University of Rhode Island	93.859	0005697/060216	—	32,973
University of Rhode Island	93.859	0005697/112516	—	65,000
University of Rhode Island	93.859	5735/07142016	—	81,250
University of Rhode Island	93.859	5735/070716 PO# 0000108432	—	81,242
University of Rhode Island	93.859	0005697/062316	—	9,435
University of Rhode Island	93.859	0005098/0904115	—	70,121
University of Rhode Island	93.859	0005098/090215	—	52,463
University of Rhode Island	93.859	0004390/111014 PO#84977	—	178
University of Rhode Island	93.859	0005098/081515	—	56,104
University of Vermont	93.859	31681SUB51329	—	16,039
University of Vermont	93.859	268355UB51329	—	1,509
Women and Infants Hospital	93.859	9536	—	54,000
Subtotal			<u>510,281</u>	<u>10,388,598</u>

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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
Population Research	93.864	Direct	\$ —	(3,666)
Child Health and Human Development Extramural Research	93.865	Direct	352,079	3,329,438
Albert Einstein College of Medicine	93.865	310037/PO514449	—	18,896
Butler Hospital	93.865	9221-8328	—	17,507
Butler Hospital	93.865	9276-8328	—	2,404
Indiana University	93.865	IN4688378BU	—	130,433
Memorial Hospital	93.865	5001111-BROWN	—	51,744
Miriam Hospital	93.865	710-9115	—	17,795
Princeton University	93.865	SUB000089	—	32,199
Regents of the University of Michigan	93.865	3003772127	—	45,237
Rhode Island Hospital	93.865	7017137220-RI	—	6,388
Tulane University	93.865	TUL-HSC-554778-16/17	—	9,019
University of California, San Francisco	93.865	9032sc	—	12,938
University of North Carolina, Chapel Hill	93.865	5105605	—	61,107
University of Rhode Island	93.865	5539/061016	—	84,419
University of Rhode Island	93.865	6181/022217	—	36,190
University of Rhode Island	93.865	04052012/0002985	—	18,569
Women and Infants Hospital	93.865	9435	—	68,767
Subtotal			<u>352,079</u>	<u>3,943,050</u>
Aging Research	93.866	Direct	2,933,144	9,723,679
Albert Einstein College of Medicine	93.866	311112	—	18,499
California Pacific Medical Center Research Institute	93.866	2803227-S191	—	137,409
Hebrew SeniorLife	93.866	90068	—	263,262
Hebrew SeniorLife	93.866	10.10.91531	—	30,343
Hebrew SeniorLife	93.866	10.10.90063	—	67,562
Johns Hopkins University	93.866	2002364817	—	19,773
Rhode Island Hospital	93.866	701-7137186	—	23,179
University of Wisconsin, Madison	93.866	697K745	—	34,525
Subtotal			<u>2,933,144</u>	<u>10,318,231</u>
Vision Research	93.867	Direct	—	2,119,251
Central Michigan University	93.867	628761	—	177,173
Subtotal			<u>—</u>	<u>2,296,424</u>
Medical Library Assistance	93.879	Direct	231,680	660,234
University of Texas, Austin	93.879	UTA15-001155	—	38,933
Subtotal			<u>231,680</u>	<u>699,167</u>
Grants for Training in Primary Care Medicine and Dentistry	93.884	Direct	3,021	4,281
International Research and Research Training	93.989	Direct	131,531	401,426
State of Rhode Island Department of Health	93.994	3420327	74,298	84,197
State of Rhode Island Department of Health	93.994	3423017	—	599,830
State of Rhode Island Department of Health	93.994	3420327	2,500	2,500
Subtotal			<u>76,798</u>	<u>686,527</u>
Department of Health and Human Services total			<u>11,832,775</u>	<u>86,929,040</u>
Department of the Interior:				
Earthquake Hazards Research Grants	15.807	Direct	—	(124)
Department of the Interior total			<u>—</u>	<u>(124)</u>
Department of Veterans Affairs:				
Other research	64.000	Direct	—	504,748
Department of Veterans Affairs total			<u>—</u>	<u>504,748</u>

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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 Transportation: Boston University	20.109	450001936	\$ —	16,013
Department of Transportation total			—	16,013
Environmental Protection Agency: Science to Achieve Results (Star) Fellowship Program	66.514	Direct	—	120
Narragansett Bay Estuary Program	66.456	2015-026	—	6,751
Environmental Protection Agency total			—	6,871
General Services Administration High Performance Technologies Inc. (HPTI-PETTT-UCB)	39.000	Direct	—	5,219
General Services Administration total			—	5,219
Library of Congress: Waynesburg University	42.000	GA08C0016	—	830
Library of Congress total			—	830
National Aeronautics and Space Administration: National Aeronautics and Space Administration – Other research	43.000	Direct	—	83,077
Charles River Analytics, Inc.	43.000		—	59,439
Jet Propulsion Laboratory	43.000	1454164	—	1,124
Jet Propulsion Laboratory	43.000	JPL 1488322	—	27,819
Jet Propulsion Laboratory	43.000	1549766	—	80,635
Jet Propulsion Laboratory	43.000	1571156	—	4,736
Jet Propulsion Laboratory	43.000	1244339	—	5,365
Johns Hopkins University Applied Physics Laboratory, LLC.	43.000	110619	—	117,653
University of California, Los Angeles	43.000	2090-S-JB693	—	84,699
University of Maryland – College Park	43.000	23913-Z6927002	—	36,641
Subtotal			—	501,188
Aerospace Education Services Program	43.001	Direct	408,753	1,948,976
Massachusetts Institute of Technology	43.001	5710003400	—	111,815
Ohio University	43.001	UT18767	—	6,836
Planetary Science Institute	43.001	NNX16AK48G	—	8,003
University of Minnesota	43.001	A003457303	—	17,903
Subtotal			408,753	2,093,533
Education	43.008	Direct	166,437	888,743
Space Technology	43.012	Direct	—	67,853
National Aeronautics and Space Administration total			575,190	3,551,317
National Oceanic and Atmospheric Administration Climate and Atmospheric Research	11.431	Direct	—	73,130
National Oceanic and Atmospheric Administration total			—	73,130
National Endowment For The Humanities: Promotion of the Arts Grants to Organizations and Individuals	45.161	Direct	—	50,154
National Endowment for the Humanities total			—	50,154
Intelligence Advanced Research Projects Activity Systems & Technology Research	99.000	2016-1096	—	136,971
Intelligence Advanced Research Projects Activity total			—	136,971

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

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
National Science Foundation:				
National Science Foundation – Other research	47.000	Direct	\$ —	754,615
Engineering Grants	47.041	Direct	156,652	3,898,601
Archived	47.044	Direct	—	6,053
Mathematical and Physical Sciences	47.049	Direct	5,932	8,092,655
Brandeis University	47.049	402430	—	127,380
University of California, Berkeley	47.049	00009384	—	75,871
University of Notre Dame	47.049	N/A	—	3,550
Subtotal			5,932	8,299,456
Geosciences	47.050	Direct	26,923	2,367,597
Consortium for Ocean Leadership	47.050	T346A32	—	(74)
Consortium for Ocean Leadership	47.050	T353B32	—	1,011
Consortium for Ocean Leadership	47.050	T353A32	—	1,721
Consortium for Ocean Leadership	47.050	T353C32	—	7,416
Dartmouth College	47.050	R881	—	21,957
University of Arizona	47.050	124741	—	66,418
University of California, Riverside	47.050	5-000515	—	56,933
University of Colorado, Boulder	47.050	1549574	—	3,742
University of New Hampshire	47.050	14-057	—	40,537
University of Southern California	47.050	32637577 / PO 10002090	—	76,161
Subtotal			26,923	2,643,419
Computer and Information Science and Engineering	47.070	Direct	126,685	4,168,851
Northeastern University	47.070	502268-78052	—	96,966
University of Illinois, Urbana-Champaign	47.070	A4179	—	43,667
Worcester Polytechnic Institute	47.070	12-202680-01	—	3,129
Worcester Polytechnic Institute	47.070	12-202750-01-00	—	8,392
Subtotal			126,685	4,321,005
Biological Sciences	47.074	Direct	9,514	1,563,867
Council on Undergraduate Research	47.074	Subcontract Q03	—	18,042
Subtotal			9,514	1,581,909
Social, Behavioral, and Economic Sciences	47.075	Direct	42,550	1,471,327
University of California, San Diego	47.075	10321074	—	17,087
Subtotal			42,550	1,488,414
Education and Human Resources	47.076	Direct	38,087	2,738,138
President and Fellows of Harvard College (1)	47.076	108124-5080734	—	53,714
Vassar College	47.076	1525691.1	—	166,913
Subtotal			38,087	2,958,765
Polar Programs	47.078	Direct	—	286,667
International Science and Engineering (OISE)	47.079	Direct	403,000	960,942
CRDF Global	47.079	AOISE-17-62967-1	—	6,664
Subtotal			403,000	967,606
University of Rhode Island	47.081	111710/0002748	—	183,911
Dartmouth College	47.083	R896	—	46,177
University of Rochester	47.083	416751-G	—	40,646
Subtotal			—	86,823
National Science Foundation total			809,343	27,477,244
Research and Development Cluster total			18,032,909	143,722,362

BROWN UNIVERSITY
Supplementary Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

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
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	84.038	Direct	—	27,556,537
Federal Pell Grant Program	84.063	Direct	—	4,461,597
Federal Direct Student Loans	84.268	Direct	—	35,757,514
Teacher Education Assistance for College and Higher Education Grant	84.379	Direct	—	25,627
Department of Education total			—	69,933,588
Department of Health and Human Services:				
Health Professions Student Loans, Including Primary Care: Loans/Loans for Disadvantaged Students (note 3)	93.342	Direct	—	682,336
Department of Health and Human Services total			—	682,336
Student Financial Assistance Cluster total			—	70,615,924
Other Program Awards:				
Agency for International Development:				
Indiana University	98.000	MTRH	—	30,919
Institute of International Education	98.001	DFG-24-LAQ2-BU	—	34,979
Agency for International Development total			—	65,898
Corporation for National and Community Service:				
Serve Rhode Island	94.006	16AC180239	—	185,634
Serve Rhode Island	94.006	09ACH RI 001003	—	55,851
Corporation for National and Community Service total			—	241,485
Department of Housing and Urban Development				
City of Providence	14.218	16AC180239	—	4,929
Department of Housing and Urban Development total			—	4,929
Department of Defense:				
Imaging Systems Technology	12.000	IST-6126	—	73,708
Basic Scientific Research	12.431	Direct	111,050	122,886
Air Force Defense Research Sciences Program	12.800	Direct	—	20,720
Mathematical Sciences Grants Program	12.901	Direct	—	19,612
Department of Defense total			111,050	236,926
Department of Education:				
Civil Rights Training and Advisory Services	84.004	Direct	—	171,644
State of Rhode Island Department of Education	84.287	2725-16602-720	—	107,510
State of Rhode Island Department of Education	84.287	2725-16602-730	—	90,565
English Language Acquisition State Grants	84.365	Direct	—	554,308
City of Central Falls School District	84.411	We are a Village	—	660
Department of Education total			—	924,687
Department of Veterans Affairs:				
Department of Veterans Affairs – Other	64.000	Direct	—	68,954
Canandaigua VA Medical Center	64.000	Intrator GEC-DAC – Makineni 1-1-16	—	8,051
Department of Veterans Affairs total			—	77,005
National Aeronautics and Space Administration:				
National Aeronautics and Space Administration – Other	43.000	Direct	—	61,736
Aerospace Education Services Program	43.001	Direct	34,190	55,636
Education	43.008	Direct	66,878	79,970
National Aeronautics and Space Administration total			101,068	197,342

BROWN UNIVERSITY

Supplementary Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

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
National Endowment for the Arts & Humanities:				
Promotion of the Humanities Teaching and Learning Resources and Curriculum Development	45.161	Direct	\$ —	5,666
National Endowment for the Arts & Humanities total			—	5,666
Other Programs total			212,118	1,753,938
Total Expenditures of Federal Awards			\$ 18,245,027	216,092,224

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, 2017

(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, 2017. 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. Negative amounts on the Schedule represent adjustments to expenditures reported in a prior year.

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, 2017

(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, 2016</u>	<u>Loans issued</u>	<u>Payments received and other adjustments</u>	<u>Balance as of June 30, 2017</u>
Perkins Loan Program	84.038	\$ 24,478,690	2,825,315	(4,033,973)	23,270,032
Health Professions Student Loans (HPSL)	93.342	<u>621,836</u>	<u>60,500</u>	<u>(92,266)</u>	<u>590,070</u>
Totals		<u>\$ 25,100,526</u>	<u>2,885,815</u>	<u>(4,126,239)</u>	<u>23,860,102</u>

For the year ended June 30, 2017, the University's recovered an administrative cost allowance of \$252,532 under the Federal Perkins Loan Program.

Federal Direct Loans

Federally-guaranteed loans awarded to students of the University during the year ended June 30, 2017 are summarized as follows:

Subsidized Stafford Loan Program	\$ 5,535,012
Unsubsidized Stafford Loan Program	17,448,373
PLUS Loan Program	<u>12,774,129</u>
Total	<u>\$ 35,757,514</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, 2017.



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, 2017, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 24, 2017.

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 24, 2017



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

Independent Auditors' Reports on Compliance for Major Federal Program and on Internal Control over Compliance 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, 2017. 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* (the 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, 2017.



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 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.

KPMG LLP

February 14, 2018

BROWN UNIVERSITY
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

(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>
Student Financial Assistance	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.