



BROWN UNIVERSITY

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

Year ended June 30, 2009

BROWN UNIVERSITY

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

Year ended June 30, 2009

Table of Contents

	Page
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	Exhibit I
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Exhibit II
Schedule of Findings and Questioned Costs	Exhibit III
Management's Corrective Action Plan	Exhibit IV
Financial Statements and Supplementary Information – Schedule of Expenditures of Federal Awards	Exhibit V



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Exhibit I

**Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133**

The President and Corporation
Brown University:

Compliance

We have audited the compliance of Brown University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* (Compliance Supplement) that are applicable to its major federal programs for the year ended June 30, 2009. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2009-1, 2009-2, and 2009-3.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2009-1, 2009-2, and 2009-3 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Corporation and management of the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Exhibit II

**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 the financial statements of Brown University (the University) as of and for the year ended June 30, 2009 and for the year then ended, and have issued our report thereon dated October 26, 2009. Our report refers to the University's adoption of the provisions of Financial Accounting Standards Board Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, and Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, in 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the University in a separate letter dated October 26, 2009.

This report is intended solely for the information and use of the Corporation and management of the University and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 26, 2009

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported
- Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

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

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

Unqualified

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

Identification of Major Programs

Name of federal program or clusters:

- Student Financial Assistance Cluster
- Research and Development Cluster

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 Financial Statements and Findings Reported in Accordance with *Government Auditing Standards*

No matters are reported.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No.:	2009-1 – Cost Accounting Standards Board (CASB) DS-2
Program Information:	<i>Federal Programs:</i> Research and Development Cluster <i>Federal Agencies:</i> All
Condition or requirement	Compliance Supplement, Section B, Indirect Costs Compliance b(4) stipulates that if accounting changes have occurred, the auditor should determine if they were approved by the cognizant Federal agency. If accounting changes have not been approved and the accounting changes impact costs charged to federally funded awards, this should be considered a reportable finding (A-21, section C.14 and CAS, as applicable).
Condition Found:	The University’s voluntary cost share certification requirements policy was changed, but the CASB DS-2 had not been updated to reflect those changes.
Identification of questioned costs:	None
Possible asserted cause and effect:	The University did not have internal controls or policies and procedures in place to ensure the timely update of the CASB DS-2.
Recommendation:	We recommend the University implement policies and procedures to ensure that the CASB DS-2 is updated timely to reflect changes in University accounting policies in order to ensure compliance with federal regulations.
View of responsible individuals:	See Management’s Corrective Action Plan at Exhibit IV.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Finding No.:	2009-2 – Subrecipient Monitoring
Program Information:	<i>Federal Programs:</i> Research and Development Cluster <i>Federal Agencies:</i> All
Condition or requirement:	<p>Compliance Supplement, Section M, Compliance 5a stipulates that for subrecipients that are not required to submit a copy of the reporting package to a pass-through entity because there were “no audit findings” (i.e., because the schedule of findings and questioned costs did not disclose audit findings relating to the Federal awards that the pass-through entity provided and the summary schedule of prior audit findings did not report the status of audit findings relating to Federal awards that the pass-through entity provided, as prescribed in OMB Circular A-133 §__320(e)), the pass-through entity may use the information in the Federal Audit Clearinghouse (FAC) database (available on the Internet at http://harvester.census.gov/sac) as evidence to verify that the subrecipient had “no audit findings” and that the required audit was performed. This FAC verification would be in lieu of reviewing submissions by the subrecipient to the pass-through entity when there are no audit findings.</p> <p>Compliance Supplement, Section M, Compliance 3 stipulates that an entity must review the pass-through entity’s documentation of during-the-award monitoring to ascertain if the pass-through entity’s monitoring provided reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.</p>
Condition Found:	For subrecipients who report "no audit findings", the University does not obtain other evidence (e.g., A-133 report, Clearinghouse report, etc.) to verify that the subrecipient had an audit and no audit findings. For the 25 subrecipients selected for subrecipient monitoring testwork, we noted that 11 of the subrecipients did not have appropriate evidence to verify that the subrecipients had no audit findings and that the required audit was performed. Additionally, for the same 11 subrecipients, the University was unable to verify that the reports were issued within federal guidelines.
Identification of questioned costs:	None

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Possible asserted cause and effect: The University did not have internal controls or policies and procedures in place to properly monitor subrecipients.

Recommendation: We recommend the University implement policies and procedures to ensure that subrecipients with no audit findings are appropriately monitored. Documentation of support should be maintained.

View of responsible individuals: See Management's Corrective Action Plan at Exhibit IV.

BROWN UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

Finding No.:	2009-3 – Certification of Salaries and Wages
Program Information:	<i>Federal Programs:</i> Research and Development Cluster <i>Federal Agencies:</i> All
Condition or requirement:	Compliance Supplement, Compliance Requirements A-21, Allowable Costs – Direct Costs, Section 4j stipulates that salaries and wages charged to Federal awards are allowable to the extent that total compensation to the individual employee conforms to established policies of the institution, are consistently applied.
Condition Found:	For the 39 effort certifications selected for testwork, we noted that 34 of the effort certifications were signed but not dated. University policy states that departments and/or principal investigators are required to return the appropriately signed effort reports to OSP (BMFS for Bio Med reports) within 45 days of receipt of the forms by the Department. Because there were no dates on the effort certifications, the University was unable to support that the 45-day limit policy is followed.
Identification of questioned costs:	None
Possible asserted cause and effect:	The University did not have internal controls or policies and procedures in place to ensure that the 45-day limit policy was being met.
Recommendation:	We recommend the University implement policies and procedures to ensure that proper support for meeting the 45-day limit for effort certifications is obtained.
View of responsible individuals:	See Management’s Corrective Action Plan at Exhibit IV.

BROWN UNIVERSITY
Management's Corrective Action Plan
Year ended June 30, 2009

Finding No.: **2009-1 – Cost of Standards Board (CASB)
DS-2**

Federal Agencies: All

Federal Program: Research and Development Cluster

CFDA Numbers: All

University Response: The University agrees with the finding and has implemented the steps outlined below.

Corrective Action Plan: We have begun the process of updating the University Disclosure Statement and when complete, will make it available on a University web page. Although the DS-2 was not updated, the modifications were approved by our cognizant federal agency. We will ensure all such modifications are reflected in an updated DS-2.

Contact Person: Assistant Vice President & University Controller

BROWN UNIVERSITY

Management's Corrective Action Plan

Year ended June 30, 2009

Finding No.:	2009-2 – Subrecipient Monitoring
Federal Agencies:	All
Federal Program:	Research and Development Cluster
CFDA Numbers:	All
University Response:	The University agrees with the findings and has implemented the steps outlined below.
Corrective Action Plan:	<p>One of the requirements of subrecipient monitoring is that the pass-through entity (University) verifies that the subrecipients are not required to submit a copy of the reporting package to the University because there were no audit findings and that the required audit was performed.</p> <p>In order to comply with this requirement, the Office of Sponsored Projects has modified its subrecipient monitoring procedures as follows:</p> <ol style="list-style-type: none">1. The University is a participant in the Federal Demonstration Subrecipient Monitoring Pilot Project. In cases where the subrecipient is a member of the Federal Demonstration Project, the University will obtain information from the Federal Demonstration Pilot Project database as evidence to verify that the subrecipient had no audit findings and that the required audit was performed.2. For those subrecipients that are not participating in the Federal Demonstration Pilot Project, the University will use the information in the Federal Audit Clearinghouse database as evidence to verify that the subrecipient had no audit findings and that the required audit was performed. <p>In addition, the Office of Sponsored Projects will obtain the required documentation for all 2008 and future subrecipients from either the Federal Demonstration Pilot Project Database or the Federal Audit Clearinghouse.</p>
Contact Person:	Office of Sponsored Projects, Associate Director, Post Award Administration

BROWN UNIVERSITY

Management's Corrective Action Plan

Year ended June 30, 2009

Finding No.: **2009-3 – Certification of Salaries and Wages**

Federal Agencies: All

Federal Program: Research and Development Cluster

CFDA Numbers: All

University Response: The University agrees with the finding and has implemented the steps outlined below.

Corrective Action Plan: The Office of Sponsored Projects had modified its Effort Reporting Procedures to ensure all effort reports are date stamped when received from the departments in order to adequately document that the effort reports were returned within the required 45-day period. In addition, if extensions are granted due to extenuating circumstances the justification and approval is clearly documented and kept on file with the returned effort report.

Contact Person: Office of Sponsored Projects,
Associate Director, Post Award Administration

BROWN UNIVERSITY

Financial Statements and Supplementary Information –
Schedule of Expenditures of Federal Awards

Year ended June 30, 2009



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The President and Corporation
Brown University:

We have audited the accompanying statements of financial position of Brown University (the University) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 1 to the financial statements, the University adopted the provisions of Financial Accounting Standards Board Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, and Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, as amended, in 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Exhibit V

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2009 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2009 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2009 basic financial statements taken as a whole.

KPMG LLP

October 26, 2009

BROWN UNIVERSITY
 Statements of Financial Position
 June 30, 2009 and 2008
 (Dollars in thousands)

Assets	2009	2008
Cash and cash equivalents	\$ 129,452	59,485
Accounts receivable and other assets	47,575	47,853
Contributions receivable, net	208,007	225,582
Notes receivable, net	32,894	32,921
Funds held in trust by others	13,193	65,783
Investments	2,189,993	3,202,668
Land, buildings and equipment, net	777,539	733,643
Total assets	<u>\$ 3,398,653</u>	<u>4,367,935</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 78,027	69,952
Deferred revenues and student deposits	25,666	21,752
Liabilities associated with investments	10,081	213,401
Refundable advances	39,258	40,221
Split-interest obligations	15,987	22,936
Asset retirement obligations	12,418	12,708
Bonds, loans and notes payable	492,400	496,292
Total liabilities	<u>673,837</u>	<u>877,262</u>
Net assets:		
Unrestricted	694,198	1,853,085
Temporarily restricted	1,046,982	272,350
Permanently restricted	983,636	1,365,238
Total net assets	<u>2,724,816</u>	<u>3,490,673</u>
Total liabilities and net assets	<u>\$ 3,398,653</u>	<u>4,367,935</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2009

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 302,018	—	—	302,018
Less university scholarships	(100,181)	—	—	(100,181)
Net tuition and fees	201,837	—	—	201,837
Grant and contracts – direct	103,149	—	—	103,149
Grant and contracts – indirect	30,698	—	—	30,698
Contributions	48,038	1,867	—	49,905
Endowment income appropriated	122,992	10,038	—	133,030
Sales and services of auxiliary enterprises	80,682	—	—	80,682
Other income	23,620	966	—	24,586
Net assets released from restrictions	11,746	(11,746)	—	—
Total operating revenues	<u>622,762</u>	<u>1,125</u>	<u>—</u>	<u>623,887</u>
Operating expenses:				
Salaries and wages	301,192	—	—	301,192
Employee benefits	83,639	—	—	83,639
Purchased services	48,447	—	—	48,447
Supplies and general	77,787	—	—	77,787
Utilities	21,495	—	—	21,495
Other	34,110	—	—	34,110
Total operating expenses before interest and depreciation	566,670	—	—	566,670
Interest	18,635	—	—	18,635
Depreciation and amortization	51,242	—	—	51,242
Total operating expenses	<u>636,547</u>	<u>—</u>	<u>—</u>	<u>636,547</u>
Change in net assets from operating activities	<u>(13,785)</u>	<u>1,125</u>	<u>—</u>	<u>(12,660)</u>
Nonoperating activities:				
Contributions to long-term assets	41,633	10,030	54,793	106,456
Net investment return	(688,093)	(11,123)	(12,436)	(711,652)
Endowment income appropriated	(122,992)	(10,038)	—	(133,030)
Other changes, net	(12,733)	(14,542)	12,304	(14,971)
Change in net assets from nonoperating activities	<u>(782,185)</u>	<u>(25,673)</u>	<u>54,661</u>	<u>(753,197)</u>
Adjustments required under Rhode Island's enacted version of UPMIFA and FSP 117-1	<u>(362,917)</u>	<u>799,180</u>	<u>(436,263)</u>	<u>—</u>
Change in net assets	<u>(1,158,887)</u>	<u>774,632</u>	<u>(381,602)</u>	<u>(765,857)</u>
Net assets, beginning of year	<u>1,853,085</u>	<u>272,350</u>	<u>1,365,238</u>	<u>3,490,673</u>
Net assets, end of year	<u>\$ 694,198</u>	<u>1,046,982</u>	<u>983,636</u>	<u>2,724,816</u>

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statement of Activities

Year ended June 30, 2008

(Dollars in thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Operating revenues:				
Tuition and fees	\$ 284,224	—	—	284,224
Less university scholarships	(83,546)	—	—	(83,546)
Net tuition and fees	200,678	—	—	200,678
Grant and contracts – direct	102,142	—	—	102,142
Grant and contracts – indirect	31,089	—	—	31,089
Contributions	54,512	3,753	—	58,265
Endowment income appropriated	96,647	8,027	—	104,674
Sales and services of auxiliary enterprises	80,746	—	—	80,746
Other income	22,985	956	—	23,941
Net assets released from restrictions	10,343	(10,343)	—	—
Total operating revenues	599,142	2,393	—	601,535
Operating expenses:				
Salaries and wages	291,136	—	—	291,136
Employee benefits	77,147	—	—	77,147
Purchased services	45,169	—	—	45,169
Supplies and general	77,210	—	—	77,210
Utilities	18,301	—	—	18,301
Other	32,630	—	—	32,630
Total operating expenses before interest and depreciation	541,593	—	—	541,593
Interest	19,599	—	—	19,599
Depreciation and amortization	45,080	—	—	45,080
Total operating expenses	606,272	—	—	606,272
Change in net assets from operating activities	(7,130)	2,393	—	(4,737)
Nonoperating activities:				
Contributions to long-term assets	47,539	15,438	22,000	84,977
Net investment return	132,198	9,511	17,663	159,372
Endowment income appropriated	(96,647)	(8,027)	—	(104,674)
Other changes, net	(4,757)	(11,186)	(3,355)	(19,298)
Change in net assets from nonoperating activities	78,333	5,736	36,308	120,377
Change in net assets	71,203	8,129	36,308	115,640
Net assets, beginning of year	1,781,882	264,221	1,328,930	3,375,033
Net assets, end of year	\$ 1,853,085	272,350	1,365,238	3,490,673

See accompanying notes to financial statements.

BROWN UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Dollars in thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (765,857)	115,640
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	51,242	45,080
Net realized and unrealized losses (gains) on investments	710,255	(145,799)
Change in estimate of split-interest obligations	(4,920)	3,803
Contributions restricted for plant and endowment	(101,543)	(75,393)
Decrease in operating assets, net	17,853	27,938
Increase in operating liabilities, net	17,762	14,058
Net cash used in operating activities	<u>(75,208)</u>	<u>(14,673)</u>
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(102,164)	(99,195)
Purchases of investments from sales and other sources	(3,294,102)	(5,804,193)
Sales of investments	3,393,202	5,829,846
Notes issued	(31,021)	(32,804)
Notes repaid	31,048	32,285
Change in funds held in trust by others	52,590	(8,640)
Net cash provided by (used in) investing activities	<u>49,553</u>	<u>(82,701)</u>
Cash flows from financing activities:		
Contributions restricted for plant and endowment	101,543	75,393
Payments under split-interest obligations	(2,029)	(3,088)
Payments on long-term debt	(3,892)	(3,757)
Net proceeds from issuance of debt	—	50,000
Cash collateral posted under swap agreements	(13,600)	—
Cash collateral returned under swap agreements	13,600	—
Net cash provided by financing activities	<u>95,622</u>	<u>118,548</u>
Change in cash and cash equivalents	69,967	21,174
Cash and cash equivalents, beginning of year	<u>59,485</u>	<u>38,311</u>
Cash and cash equivalents, end of year	<u>\$ 129,452</u>	<u>59,485</u>
Supplemental disclosure:		
Cash paid for interest	\$ 18,294	17,573
Change in accounts payable from land, buildings and equipment	(7,026)	6,444

See accompanying notes to financial statements.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(1) Summary of Significant Accounting Policies**(a) Organization**

Brown University is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 5,800 undergraduate students and 2,200 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.

Brown University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to the Code.

(b) Basis of Presentation

The accompanying financial statements include the accounts of the John Nicholas Brown Center for the Study of American Civilization and Farview Incorporated, a real estate holding company, both of which are separate 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 in consolidation.

The financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and have been prepared to focus on the University as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(c) Classification of Net Assets

In 2009, the University adopted the provisions of Financial Accounting Standards Board (FASB) Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

The University is incorporated in and subject to the laws of Rhode Island, which effective as of June 30, 2009 adopted UPMIFA. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Corporation of the University in accordance with the standard of prudence prescribed by UPMIFA. As a result of this new law and the adoption of FSP 117-1, the University has classified its June 30, 2009 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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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.
- *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.

Prior to 2009, the University was subject to the Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required the University to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, the University annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA and, accordingly, in 2009 the University reclassified the \$436,263 cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. In addition, the adoption of FSP 117-1 in 2009 resulted in the reclassification within donor-restricted endowment funds of \$362,917 from unrestricted net assets to temporarily restricted net assets to reflect the unappropriated and unspent balance above historic dollar value. See note 4 for more information about the University's endowment.

(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.

Effective July 1, 2008, the University adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. 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. SFAS 157 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

- Level 3 – unobservable inputs are used when 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. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because the University uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than on inputs used. See (h) below and note 3 for further discussion.

(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 income appropriated by the Corporation to support those programs. Nonoperating activities consist of net investment return, an offset for endowment income appropriated in operating activities, noncapitalized plant expenditures, changes in swap fair values and the funded status of the pension plan, contributions and net assets released from restrictions for plant, and other activities not in direct support of annual operations.

Revenues are derived from various sources, as follows:

- Tuition and fees are recorded at established rates, net of financial aid and scholarships provided directly to students, in the period in which the sessions are primarily provided. Sales and services of auxiliary enterprises are recognized at the time the services are provided.
- Contributions, including unconditional promises to give 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 and investment return 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.
- 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 (or, prior to fiscal 2009, relevant state law) 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. As UPMIFA became effective on June 30, 2009, beginning in fiscal 2010 investment return attributable to

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

donor-restricted endowment funds will be 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 and Notes Receivable and Other Assets

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

(h) Investments

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 University reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The University also holds shares or units in traditional institutional funds as well as in alternative investment funds involving hedge strategies, private equity and real asset strategies. Hedge strategies involve funds whose managers have the authority to invest in multiple asset classes at their discretion, including the ability to invest long and short in the markets. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and are priced accordingly. Private equity and real asset funds generally hold assets which require the estimation of fair values in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, the estimated fair values may differ significantly from the value that would have been used had a ready market for the investment existed and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

The University has applied the accounting guidance in Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of net asset value (NAV) or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the University's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore possible that if the University were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

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 recorded at fair value and liabilities, which are reported as split-interest obligations, are recorded to recognize the present value of estimated future payments to beneficiaries.

(i) Land, Buildings and Equipment

Land, buildings and equipment are stated at cost of acquisition or construction (including capitalized interest) or, if 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, repairs, and library books are charged to operating net assets as incurred.

Depreciation is calculated using the straight-line method with estimated useful lives of 30 years for buildings, 20 years for building improvements, and 10 years for building equipment. Moveable equipment is depreciated over a range of 3 to 15 years, depending upon asset class.

(j) Refundable 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 refunded to the U.S. government. Refundable advances also include amounts received from funding agencies in advance of project activities related to sponsored programs.

(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) 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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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.

(m) Reclassifications

Certain 2008 financial information has been reclassified to conform to the 2009 presentation.

(2) Contributions Receivable

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

	<u>2009</u>	<u>2008</u>
Contributions expected to be received in:		
One year or less	\$ 48,928	50,421
Between one and five years	182,465	197,608
More than five years	<u>10,133</u>	<u>20,778</u>
Gross contributions receivable	241,526	268,807
Unamortized discount (at rates ranging from 2.1% to 6.3%) and allowance for uncollectibles	<u>(33,519)</u>	<u>(43,225)</u>
Contributions receivable, net	<u>\$ 208,007</u>	<u>225,582</u>

(3) Investments

The following table summarizes the University's investments and funds held in trust by others in the SFAS 157 fair value hierarchy as of June 30, 2009, with comparative totals as of June 30, 2008:

	<u>2009</u>				<u>2008</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Total</u>
Investments					
Cash	\$ 174,228	—	—	174,228	177,375
Fixed income	303,300	81,026	42,463	426,789	296,487
Public equity	9,273	138,774	115,996	264,043	1,058,361
Hedged strategies	—	113,990	621,240	735,230	902,042
Private equity	—	—	381,766	381,766	419,516
Real assets	<u>885</u>	<u>1,391</u>	<u>205,661</u>	<u>207,937</u>	<u>348,887</u>
Total	<u>\$ 487,686</u>	<u>335,181</u>	<u>1,367,126</u>	<u>2,189,993</u>	<u>3,202,668</u>
Funds held in trust by others	<u>\$ 2,650</u>	<u>—</u>	<u>10,543</u>	<u>13,193</u>	<u>65,783</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the date of the statement of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents the University's activity for the fiscal year ended June 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS 157:

	<u>Fixed income</u>	<u>Public equity</u>	<u>Hedge strategies</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Funds held in trust</u>	<u>Total</u>
Fair value at July 1, 2008	\$ 53,735	184,908	897,380	424,278	344,139	13,249	1,917,689
Purchases	10,071	10,000	62,400	70,882	52,382	—	205,735
Distributions	(30,122)	(30,305)	(152,378)	(11,214)	(69,524)	—	(293,543)
Net realized and unrealized gains (losses)	8,779	(48,607)	(159,791)	(102,180)	(121,336)	(2,706)	(425,841)
Transfers to Level 2	—	—	(26,371)	—	—	—	(26,371)
Fair value at June 30, 2009	\$ <u>42,463</u>	<u>115,996</u>	<u>621,240</u>	<u>381,766</u>	<u>205,661</u>	<u>10,543</u>	<u>1,377,669</u>

Total investment return consisted of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 26,162	40,162
Net realized and unrealized (losses) gains, net of investment fees	(726,752)	128,013
Total	\$ <u>(700,590)</u>	<u>168,175</u>

Total investment management fees for the years ended June 30, 2009 and 2008 were \$16,497 and \$17,786, respectively, and are netted with net realized and unrealized (losses) gains.

EXHIBIT V**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Following is a reconciliation of total investment return to amounts reported in the statements of activities for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Endowment income appropriated – operating	\$ 133,030	104,674
Investment income included in other income – operating	11,062	8,803
Net investment return (below) above endowment income appropriated – nonoperating	<u>(844,682)</u>	<u>54,698</u>
Total return	<u>\$ (700,590)</u>	<u>168,175</u>

(a) Liquidity

Investments as of June 30, 2009 are summarized below based on when they may be redeemed or sold:

	<u>Fair values</u>
Investment redemption period or sale:	
Daily	\$ 584,468
Monthly	43,405
Quarterly	165,085
Semi-annually	42,970
Annually	79,710
Two-to-five years	369,825
Temporarily illiquid	158,529
Locked-up until liquidation	<u>746,001</u>
Total	<u>\$ 2,189,993</u>

Temporarily illiquid includes lock-ups with indefinite expiration dates, restricted shares, and gates that vary based on the occurrence of events that are uncertain. Locked-up until liquidation includes side pockets, funds in liquidation which have suspended normal liquidity terms, and private equity and real assets where the University has no liquidity terms until the investments are sold by the fund manager.

(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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The University cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with private equity and real asset investments as of June 30, 2009 was \$492,551.

(c) Collateralized Borrowing

The University participates in a repurchase agreement under which the University periodically borrows funds collateralized with certain of its securities for other investment purposes. There were no repurchase agreements in effect at June 30, 2009. The balance of such repurchase agreements was \$185,316 as of June 30, 2008, and was included in liabilities associated with investments on the 2008 statement of financial position.

(d) Funds 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 \$10,542 and \$13,249 at June 30, 2009 and 2008, respectively. The University receives all or a specified portion of the return on the underlying assets of such trusts, which is primarily restricted for scholarships. The University will never receive the assets held in trust. Other trustee funds of \$2,651 and \$52,534 at June 30, 2009 and 2008, respectively, include bond proceeds to be utilized for construction projects in accordance with bond covenants as well as amounts held in reserve.

(4) Endowment

The University's endowment consists of approximately 2,500 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 endowment funds, including funds designated by the Corporation to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (49,306)	785,047	974,861	1,710,602
Corporation-designated endowment funds	356,956	78,484	—	435,440
Total endowment net assets	<u>\$ 307,650</u>	<u>863,531</u>	<u>974,861</u>	<u>2,146,042</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Endowment net assets consist of the following at June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 856,638	7,115	1,356,705	2,220,458
Corporation-designated endowment funds	<u>537,009</u>	<u>85,614</u>	<u>—</u>	<u>622,623</u>
Total endowment net assets	<u>\$ 1,393,647</u>	<u>92,729</u>	<u>1,356,705</u>	<u>2,843,081</u>

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2008	\$ 1,393,647	92,729	1,356,705	2,843,081
Interest and dividends	22,960	—	—	22,960
Net realized and unrealized	(647,315)	(10,370)	(12,107)	(669,792)
Endowment income appropriated	(122,992)	(10,038)	—	(133,030)
Contributions	2,716	287	54,791	57,794
Transfers in	28,741	—	—	28,741
Reclassifications and other changes	(7,190)	(8,257)	11,735	(3,712)
Reclassification from adoption of UPMIFA	—	436,263	(436,263)	—
Reclassification under FSP 117-1	<u>(362,917)</u>	<u>362,917</u>	<u>—</u>	<u>—</u>
Endowment net assets, June 30, 2009	<u>\$ 307,650</u>	<u>863,531</u>	<u>974,861</u>	<u>2,146,042</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Changes in endowment net assets for the year ended June 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2007	\$ 1,354,006	88,829	1,320,897	2,763,732
Interest and dividends	34,409	—	—	34,409
Net realized and unrealized gains	107,019	9,913	17,614	134,546
Endowment income appropriated	(96,647)	(8,027)	—	(104,674)
Contributions	6,658	9	21,998	28,665
Reclassifications and other changes	(11,798)	2,005	(3,804)	(13,597)
Endowment net assets, June 30, 2008	<u>\$ 1,393,647</u>	<u>92,729</u>	<u>1,356,705</u>	<u>2,843,081</u>

(a) Interpretation of Relevant Law

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 \$49,306 as of June 30, 2009. 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 the required level will be classified as increases in unrestricted net assets. There were no such deficiencies as of June 30, 2008.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(c) *Return Objectives and Risk Parameters*

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and designated funds. Under this policy, as approved by the Corporation, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 25% of the Barclays Capital Government/Credit Bond Index and 75% of the MSCI All Country World Index while assuming a moderate level of investment risk. The University expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5.5% annually. 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 that places emphasis on investments in public equity, hedge funds, private equity, real assets and fixed income to achieve its long-term return objectives within prudent risk constraints.

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

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

BROWN UNIVERSITY
Notes to Financial Statements
June 30, 2009 and 2008
(Dollars in thousands)

(5) Land, Buildings and Equipment

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

	<u>2009</u>	<u>2008</u>
Land	\$ 53,448	47,214
Buildings and improvements	1,081,829	990,627
Equipment	87,635	79,342
Construction in progress	71,440	84,860
	<u>1,294,352</u>	<u>1,202,043</u>
Accumulated depreciation	<u>(516,813)</u>	<u>(468,400)</u>
Land, buildings and equipment, net	<u>\$ 777,539</u>	<u>733,643</u>

Outstanding commitments on uncompleted construction contracts total \$26,697 at June 30, 2009.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(6) Bonds, Loans and Notes Payable

The University has entered into various agreements 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	
				2009	2008
Taxable Standard Commercial Paper Notes, Series A, revolving through 2036	0.20% – 0.67%	Fixed	Revolving	\$ 46,800	46,800
Rhode Island Health and Educational Building Corporation (RIHEBC) Facilities Revenue Bonds:					
Series 1998	4.75%	Fixed	2014	9,075	10,345
Series 2001A	3.90% – 5.25%	Fixed	2023	28,165	28,715
Series 2001B	0.18% *	Variable	2032	55,340	55,340
Series 2003A	2.70% – 4.85%	Fixed	2037	44,600	45,410
Series 2003B	0.17% *	Variable	2043	44,530	44,880
Series 2004	2.75% – 4.75%	Fixed	2025	20,140	20,980
Series A 2005	0.30% *	Variable	2035	85,500	85,500
Series 2007	4.25% – 5.00%	Fixed	2037	90,010	90,010
Tax-Exempt Commercial Paper, revolving through 2036	0.33% – 0.40%	Fixed	Revolving	50,000	50,000
Brown University Taxable Bonds Series 2005	5.09%	Fixed	2015	17,000	17,000
Loan payable – U.S. Department of Education	5.50%	Fixed	2021	1,240	1,312
Total bonds, loans and notes payable				\$ 492,400	496,292

* As of June 30, 2009

(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 properties. The Revenue Bonds currently outstanding were issued primarily to finance new and on-going capital projects for research, student housing, academic and administrative buildings, and infrastructure throughout the University.

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(b) Taxable Bonds and Other Debt

The Brown University Taxable Bonds, Series 2005 were issued to finance a portion of the acquisition cost of an office building. 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.

In 2006, the University implemented a Tax Exempt Commercial Paper Program. The program enables the University to issue up to \$50,000 in revolving commercial paper.

Principal payments of bonds and loan payable as of June 30, 2009 for the succeeding five fiscal years ending June 30 are as follows:

2010	\$	4,035
2011		4,185
2012		5,954
2013		7,814
2014		8,184

The University's bonds, loans and notes payable are stated at face value. The University's bonds trade periodically in a limited market. Utilizing available market pricing information provided by a third-party and other data, the University determined that the aggregate carrying value of its debt as of June 30, 2009 and 2008 approximated its fair value.

The University has a revolving line of credit available up to \$20,000. As of June 30, 2009, the full amount of \$20,000 was available at a rate of 1.07%.

(c) Interest Rate Swaps

At June 30, 2009, the University had in place various interest-rate swap agreements to effectively convert its variable-rate bonds to fixed rates until maturity of the bonds. The swaps' notional amounts amortize at the same rate as the related debt principal.

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

Counterparty	Issue date	Effective date	Expiration date	Remaining notional amount	Swap fixed rate	Fair value at June 30	
						asset	(liability)
						2009	2008
JP Morgan (formally Bear Stearns)	11/6/2003	3/3/2008	9/1/2043	\$ 44,530	3.732%	\$ (7,361)	(3,433)
Goldman Sachs	7/7/2005	10/4/2005	5/1/2035	85,500	3.979	(4,373)	(1,363)
Goldman Sachs	11/15/2006	11/21/2006	9/1/2032	55,340	3.891	(3,007)	(1,174)
						\$ (14,741)	(5,970)

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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. Based on the University's current credit rating, cash collateral must be posted by the University if the mark-to-market liability payable by the University exceeds \$25 million. The JPMorgan swap stipulates that the University maintain its current credit rating to avoid collateral posting requirements. The counterparties are required to maintain a minimum credit rating based on provisions contained in the individual swap agreements, which were at or above the minimum thresholds contained in the agreements as of June 30, 2009 and 2008.

Interest rate volatility, remaining outstanding principal 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 categorized as Level 2 for purposes of valuation disclosure under SFAS 157.

(7) Retirement Benefits

The University participates in two contributory retirement plans. The plans provide for the purchase of annuities on a compulsory basis by full-time faculty and administrative staff. The expense to the University, representing its contributions to the accounts of faculty and staff, was \$19,437 and \$19,942 for the years ended June 30, 2009 and 2008, respectively. The University has no liability for unfunded pension costs under these plans.

The Brown University Food Services and Plant Operations Employees' Pension Plan is a 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.

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

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 38,291	35,979
Service cost	1,806	1,728
Interest cost	2,541	2,228
Benefits paid	(1,326)	(1,253)
Actuarial loss (gain)	2,267	(391)
Projected benefit obligation at end of year	<u>\$ 43,579</u>	<u>38,291</u>

EXHIBIT V**BROWN UNIVERSITY**

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

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

	<u>2009</u>	<u>2008</u>
Discount rate	6.24%	6.82%
Rate of compensation increase	4.00	4.50

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

	<u>2009</u>	<u>2008</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 32,398	33,115
Actual return on plan assets	(5,668)	(839)
Contributions	4,250	1,375
Benefits paid	(1,326)	(1,253)
Fair value of plan assets at end of year	29,654	32,398
Projected benefit obligation at end of year	(43,579)	(38,291)
Funded status recorded in accounts payable and accrued liabilities	\$ (13,925)	(5,893)
	<u>2009</u>	<u>2008</u>
Net periodic pension cost:		
Service cost	\$ 1,806	1,728
Interest cost	2,541	2,228
Expected return on assets	(2,426)	(2,494)
Amortization of unrecognized prior service cost	149	149
Net periodic pension cost	\$ 2,070	1,611

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

	<u>2009</u>	<u>2008</u>
Discount rate	6.82%	6.32%
Rate of compensation increase	4.50	4.50
Expected long-term rate of return	7.50	7.50

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

Net periodic pension cost is reflected in operating activities on the statements of activities. As of June 30, 2009 and 2008, the items not yet recognized as components of net periodic pension cost are an unrecognized prior service cost of \$812 and \$961, respectively, and a net unrecognized actuarial loss of \$11,611 and \$1,250, respectively. These changes affecting the funded status of the plan are included in other changes in nonoperating activities.

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 serve to reduce administrative costs.

The actual asset allocation for the pension plan as of June 30, 2009 and 2008, and the weighted average asset targeted allocation are as follows:

	Target	Actual	
		2009	2008
Equity securities	65%	59%	63%
Fixed income securities	33	30	36
Cash and cash equivalents	2	11	1
Total	100%	100%	100%

The estimated employer contribution for 2010 is \$3,000.

Estimated future benefit payments as of June 30, 2009 are as follows:

	Amount
Fiscal year:	
2010	\$ 1,787
2011	1,881
2012	1,962
2013	2,060
2014	2,193
2015 – 2019	13,752

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(8) Net Assets

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

	2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Undesignated, departmental funds	\$ 38,008	—	—	38,008
University designated Donor restricted	47,011	—	—	47,011
Facilities and equipment	—	89,170	—	89,170
Student loans	291,971	94,281	—	386,252
Endowment	9,558	—	8,775	18,333
	307,650	863,531	974,861	2,146,042
Total net assets	<u>\$ 694,198</u>	<u>1,046,982</u>	<u>983,636</u>	<u>2,724,816</u>
	2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating:				
Undesignated, departmental funds	\$ 59,624	—	—	59,624
University designated Donor restricted	106,534	—	—	106,534
Facilities and equipment	—	78,057	—	78,057
Student loans	284,574	101,564	—	386,138
Endowment	8,706	—	8,533	17,239
	1,393,647	92,729	1,356,705	2,843,081
Total net assets	<u>\$ 1,853,085</u>	<u>272,350</u>	<u>1,365,238</u>	<u>3,490,673</u>

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(9) Functional Classification of Expenses

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

	<u>2009</u>	<u>2008</u>
Instruction and departmental research	\$ 236,373	218,781
Sponsored programs	103,988	101,264
Academic and student support	116,727	111,015
Auxiliary services	92,957	86,229
Institutional support	86,502	88,983
	<u>\$ 636,547</u>	<u>606,272</u>

(10) Commitments and Contingencies

All funds expended in conjunction with government grants and contracts are subject to audit by governmental agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

The University is a defendant in various legal actions arising out of the normal course of its operations. Although the final outcome of such actions cannot currently be determined, the University believes that eventual liability, if any, will not have a material effect on the University's financial position.

(11) Related-Party Transactions

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

BROWN UNIVERSITY

Notes to Financial Statements

June 30, 2009 and 2008

(Dollars in thousands)

(12) Subsequent Events

In August 2009, the University issued taxable bonds with a par value of \$100,000 at a fixed rate of 4.57%, maturing September 1, 2019. No principal payments are required on the bonds until their maturity. The bonds are for general University purposes. In September 2009, the University issued \$70,795 in tax-exempt bonds through RIHEBC at a fixed rate of 5%, maturing September 1, 2039. The bonds were sold at a premium, resulting in a yield to the first optional call date by the University (September 1, 2019) of 4.15%. No principal payments are required on the bonds until their maturity. The bonds are being used to refund \$50,000 of taxable commercial paper and to finance various capital projects.

For purposes of determining the effects of subsequent events on these financial statements, management has evaluated events subsequent to June 30, 2009 and through October 26, 2009, the date on which the financial statements were issued.

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
Research and Development Cluster: Corporation for National and Community Service	Learn and Serve America Higher Education AmeriCorps	Rhode Island Campus Compact	94.005 94.006	\$ 6,998 180,629
	Corporation for National and Community Service total			<u>187,627</u>
	Department of Agriculture	Grants for Agricultural Research Forestry Research Environmental Quality Incentives Program	10.206 10.652 10.912	55,493 10,537 (5,475)
	Department of Agriculture total			<u>60,555</u>
Department of Health and Human Services	Model State-Supported Ara Health Education Maternal and Child Health Federal Consolidated Biological Response to Environmental Health Hazards		93.107 93.110 93.113	1,022,460 1,551 1,455,730
		Silent Spring Institute Yale University	93.113 93.113 93.114 93.121	2,660 25,641 (572) 21,748
	Applied Toxicological Research and Testing Oral Diseases and Disorders Research Injury Prevention and Control Research and State Community Based Programs NIEHS Superfund Hazardous Substances	Boston University	93.136 93.143 93.143 93.143	7,331 2,675,522 41,073
	Aids Education and Training Centers	Dartmouth College University of Massachusetts Medical Center	93.145 93.145	14,041 62,349
	Human Genome Research	University of Massachusetts, Worcester	93.145	229,360
	Research Related to Deafness and Communication Disorders	Nabsys, Inc.	93.172 93.172	52,963
	National Research Service Awards Research on Healthcare Costs, Quality and Outcomes Policy Research and Evaluation Grants	University of Delaware	93.173 93.173 93.225 93.226	705,158 128,749 303,971 151,355
	Mental Health Research Grants	Rural Poverty Research Center University of Washington	93.239 93.239	24 (79)
		Boston University Brigham & Women's Hospital Butler Hospital The Miriam Hospital University of Alabama, Birmingham University of California, Los Angeles University of Texas, Austin	93.242 93.242 93.242 93.242 93.242 93.242 93.242 93.243	1,488,320 (16,902) 103,808 135,844 80,662 9,442 13,556 31,012 560,344
	Substance Abuse and Mental Health Services State Planning Grants Health Care Access for the Uninsured Alcohol Research Career Development Awards for Scientists and Clinicians	Rhode Island Department of Human Services	93.256	110,116
	Alcohol National Research Service Awards for Research Training Alcohol Research Programs	Children's Mercy Hospital & Clinics	93.271 93.271	167,486 29,140
		Boston University Butler Hospital Ginier, Inc. Research Foundation of State University of New York Rhode Island Hospital University of Tennessee – Battelle, LLC.	93.272 93.273 93.273 93.273 93.273 93.273 93.273	413,300 4,519,651 6,181 2,090 92,104 8,397 39,372 18,480
	Drug-Free Communities Support Program Grants Drug Abuse Scientist Development Award Drug Abuse and Addiction Research Programs	University of Tennessee – Battelle, LLC.	93.276 93.277 93.279	391,088 110,332 4,412,627
		Boston University Butler Hospital California Institute of Technology Columbia University McGill University McLean Hospital The Miriam Hospital National Jewish Medical and Research Center Rhode Island Hospital University of Arkansas for Medical Sciences University of Rhode Island	93.279 93.279 93.279 93.279 93.279 93.279 93.279 93.279 93.279 93.279 93.279	21,798 41,074 14,778 12,049 12,578 1,708 128,847 55,605 27,951 30,273 94,476
	Mental Health Research Career/Scientist Development Awards Mental Health National Research Service Awards for Research Training Centers for Disease Control and Prevention Investigations and Technical Assistance		93.281 93.282 93.283 93.283 93.283	787,615 397,066 301,696 3,767 11,280
	Discovery and Applied Research for Technological Innovations to Improve Human Health	Boston University Rhode Island Public Institute	93.283 93.283	3,767 11,280
	Minority Health and Health Disparities Research Nursing Research	Marine Biological Laboratory Texas A & M Research Foundation Mount Sinai School of Medicine Rhode Island Hospital	93.286 93.286 93.286 93.307 93.361 93.361	2,472,309 31,062 27,455 1,261 187,328 10,892

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	National Center for Research Resources		93.389	\$ 3,162,624
		Lifespan Corporation	93.389	19,899
		NanoMech, LLC	93.389	258
		Rhode Island Hospital	93.389	73,670
		University of Rhode Island	93.389	145,737
		Women & Infants Hospital	93.389	226,318
	Cancer Cause and Prevention Research		93.393	2,013,916
		Georgetown University	93.393	93,171
		University of Connecticut	93.393	(1,638)
	Cancer Detection and Diagnosis Research		93.394	4,278,325
		American College of Radiology	93.394	38,099
		The Miriam Hospital	93.394	12,004
	Cancer Treatment Research		93.395	147,779
		The Miriam Hospital	93.395	6,745
		State University of New York, Buffalo	93.395	52,838
	Cancer Biology Research		93.396	216,370
	Cancer Centers Support Grants	University of Washington	93.397	31,726
	Cancer Research Manpower		93.398	27,403
		The Miriam Hospital	93.398	70,405
	Cancer Control		93.399	17,177
		Butler Hospital	93.399	774,551
		Rhode Island Hospital	93.399	(3,572)
		University of Colorado, Boulder	93.399	122,839
	Cell Biology and Biophysics		93.821	(111,348)
	Heart and Vascular Diseases Research		93.837	1,651,219
		Butler Hospital	93.837	18,733
		Health Partners Research Foundation	93.837	6,826
		The Miriam Hospital	93.837	108,183
	Lung Diseases Research		93.838	780,391
		Rhode Island Hospital	93.838	47,047
	Blood Diseases and Resource Research	University of Rochester	93.839	1,700
	Arthritis, Musculoskeletal and Skin Diseases Research		93.846	243,447
		G3 Technology Innovations, LLC.	93.846	49,500
	Diabetes, Endocrinology and Metabolism Research		93.847	972,146
		University of Massachusetts, Amherst	93.847	66,803
	Digestive Diseases and Nutrition Research		93.848	1,089,817
	Extramural Research Programs in the Neurosciences and Neurological Disorders		93.853	3,852,125
		Tufts University	93.853	42,825
		University of Missouri, St. Louis	93.853	96,936
	Allergy, Immunology and Transplantation Research		93.855	700,616
		Joslin Diabetes Center	93.855	71,890
		Massachusetts General Hospital	93.855	(9,226)
		The Miriam Hospital	93.855	175,417
		President and Fellows of Harvard College	93.855	27,521
		Rhode Island Hospital	93.855	110,684
		Therapy X, Inc.	93.855	157
	Microbiology and Infectious Diseases Research	The Miriam Hospital	93.856	5,430
		President and Fellows of Harvard College	93.856	498
	Biomedical Research and Research Training		93.859	5,707,694
		Indiana University	93.859	40,418
		Intelligent Optical Systems, Inc.	93.859	1,177
		Johns Hopkins University	93.859	65,537
	Population Research		93.864	848,562
	Child Health and Human Development Extramural Research		93.865	1,639,773
		Indiana University	93.865	23,348
		Rhode Island Hospital	93.865	158,237
	Aging Research		93.866	4,764,537
		Berkeley Analytics, Inc.	93.866	29,101
		Dartmouth College	93.866	27,930
		Hebrew Senior Life	93.866	85,477
		Johns Hopkins University	93.866	32,137
		President and Fellows of Harvard College	93.866	41,088
		Rhode Island Hospital	93.866	103,578
		University of Connecticut	93.866	6,516
		University of Missouri, Columbia	93.866	29,416
	Vision Research		93.867	1,870,918
	Resource and Manpower Development in the Environmental Health Sciences		93.894	(20,625)
	Grants for Faculty Development in Family Medicine		93.895	239,844
	International Research and Research Training		93.989	61,910
	Other Research		93.000	1,438,304
		ABT Associates, Inc.	93.000	14,130
		Angstrom Medica, Inc.	93.000	2,079
		National Bureau of Economic Research, Inc.	93.000	130,346
		National Postdoctoral Association	93.000	1,000
		Stroke	93.000	
		Rhode Island Hospital	93.000	23,439
		State of Rhode Island Department of Health	93.000	133,064
		University of Rhode Island	93.000	(6,069)
		Virginia Commonwealth University	93.000	21,666
		Westat, Inc.	93.000	(8)
	Department of Health and Human Services total			<u>63,340,858</u>

BROWN UNIVERSITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>CFDA number</u>	<u>Federal expenditures</u>		
Environmental Protection Agency	Science to Achieve Results (Star) Research Program		66.509	\$ 51,471		
	Science to Achieve Results (Star) Fellowship Program		66.514	2,686		
	Environmental Protection Agency total			<u>54,157</u>		
Homeland Security Advanced Research Projects Agency	Homeland Security Research, Testing, Evaluation and Demonstration of Technologies Related to Nuclear Detection	State University of New York, Stony Brook	97.077	<u>77,341</u>		
	Homeland Security Advanced Research Projects Agency total			<u>77,341</u>		
Institute of Museum & Library Services	National Leadership Grants		45.312	<u>13,916</u>		
	Institute of Museum & Library Services total			<u>13,916</u>		
National Aeronautics and Space Administration	Other Research		43.000	4,053,908		
		Arizona State University	43.000	40,637		
		Boston University	43.000	57,269		
		Carnegie Institution of Washington	43.000	56,265		
		Jacobs Technology, Inc. – ESTS Group	43.000	1,792		
		Jet Propulsion Laboratory	43.000	247,568		
		Johns Hopkins University	43.000	215,638		
		Marine Biological Laboratory	43.000	9,926		
		National Space Biomedical Research Institute	43.000	85,128		
		Teledyne Brown Engineering, Inc.	43.000	14,302		
		University of California, Los Angeles	43.000	9,479		
		University of Minnesota	43.000	158,404		
		University of Pennsylvania	43.000	116,346		
			43.001	19,890		
		National Aeronautics and Space Administration total			<u>5,086,552</u>	
		National Endowment for the Arts	Promotion of the Arts – Partnership Agreements	State of Rhode Island Council on the Arts	45.025	<u>2,000</u>
			National Endowment for the Arts total			<u>2,000</u>
National Endowment for the Humanities	Promotion of the Humanities – Division of Preservation and Access		45.149	282,869		
			45.161	15,874		
			45.162	51,770		
			45.169	44,871		
		National Endowment for the Humanities total			<u>395,384</u>	
National Highway Traffic Safety Administration	National Highway Transportation Safety Administration		20.614	<u>67,465</u>		
	National Highway Traffic Safety Administration total			<u>67,465</u>		
National Institute of Standards and Technology	Measurement and Engineering Research & Standards Advanced Technology Program		11.609	64,204		
		QD Vision	11.612	137,958		
		National Institute of Standards and Technology total			<u>202,162</u>	
National Ocean and Atmospheric Agency	Sea Grant Support	University of Rhode Island	11.417	75,122		
	Coastal Zone Management Estuarine Research Reserves		11.420	41,641		
	Center for Sponsored Coastal Ocean Research	University of Rhode Island	11.478	29,988		
	National Ocean and Atmospheric Agency total			<u>146,751</u>		
National Science Foundation	Engineering Grants		47.041	1,939,131		
		University of Georgia	47.041	2,002		
			47.049	6,596,784		
	Mathematical and Physical Sciences	Association of Universities for Research in Astronomy, Inc.	47.049	25,730		
		Johns Hopkins University	47.049	159,789		
		University of Maryland – College Park	47.049	24,207		
		University of Rhode Island	47.049	44,307		
		University of Southern California	47.049	23,771		
		Yale University	47.049	35,855		
			47.050	1,387,240		
	Geosciences	University of Southern California	47.050	71,299		
		Woods Hole Oceanographic Institution	47.050	27,695		
			47.070	3,197,651		
	Computer and Information Science and Engineering		47.074	2,557,711		
			47.074	26,479		
	Biological Sciences	Cornell University	47.075	1,545,485		
			47.075	19,613		
		New York University	47.075	21,558		
		Silent Spring Institute	47.075	6,181		
		University of Maryland – College Park	47.075	7,020		
		University of Iowa	47.076	1,673,765		
			47.076	(187)		
	Social, Behavioral, and Economic Sciences	Education Development Center, Inc.	47.076	9,420		
		Michigan State University	47.076	35,141		
		University of Rhode Island	47.076	528,997		
			47.078	175,649		
	Education and Human Resources		47.076	(187)		
		47.076	9,420			
Polar Programs		47.076	35,141			
		47.076	528,997			

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

<u>Federal grantor</u>	<u>Program title</u>	<u>Pass-through grantor</u>	<u>CFDA number</u>	<u>Federal expenditures</u>
	International Science and Engineering (OISE)		47.079	\$ 68,601
		Johns Hopkins University	47.079	91,690
	Office of Cyberinfrastructure		47.080	29,890
		University of California, Irvine	47.080	61,141
	Other Research		47.000	284,262
		Cosmos Corporation	47.000	129,514
		Joint Oceanographic Institution/US Science Support Program	47.000	46
		Louisiana State University	47.000	1,477
		National Bureau of Economic Research	47.000	41,619
		Vanderbilt University	47.000	83,666
	National Science Foundation total			<u>20,934,199</u>
Department of Defense	Basic and Applied Scientific Research		12.300	1,626,746
		Lockheed Martin Corporation	12.300	5,876
		Office of Naval Research Global	12.300	5,000
		University of Texas, Arlington	12.300	168,543
	Military Medical Research and Development		12.420	1,396,343
		Butler Hospital	12.420	22,278
	Basic Scientific Research		12.431	2,185,881
	Basic Scientific Research	University of Wisconsin, Madison	12.432	84,751
	Basic, Applied and Advanced Research in Science and Engineering		12.630	303,179
	Air Force Defense Research Sciences Program		12.800	2,350,877
		Ohio State University	12.800	75,775
		University of Michigan	12.800	205,893
	Mathematical Sciences Grant Program		12.901	(198)
	Research and Technology Development		12.910	317,391
	Other Research		12.000	141,693
		Aptima, Inc.	12.000	30,261
		iRobot Corporation	12.000	64,161
		Magnolia Optical Technologies Inc.	12.000	9,682
		NexiGen Aeronautics	12.000	7,256
		Physical Sciences, Inc.	12.000	(3)
		Pittsburgh Materials Technology, Inc.	12.000	185
		Ryon Technologies	12.000	111,216
	Department of Defense total			<u>9,112,786</u>
Department of Energy	Office of Science Financial Assistance Program		81.049	3,046,663
		University of Delaware	81.049	97,840
		Woods Hole Oceanographic Institution	81.049	26,640
		Yale University	81.049	105,760
	Other Research		81.000	499,850
		Brookhaven National Laboratory	81.000	36,555
		Fermi National Accelerator Laboratory	81.000	137,368
		Lawrence Livermore National Laboratory	81.000	82,791
		Los Alamos National Laboratory	81.000	7,923
		Oak Ridge National Laboratory	81.000	(3,795)
		Radiation Monitoring Devices, Inc.	81.000	44,837
		Sandia National Laboratories	81.000	113,098
		Stanford Linear Accelerator Center	81.000	(4,930)
	Department of Energy total			<u>4,190,600</u>
Department of State	Program for Study of Eastern Europe and the Independent States of the Former Soviet Union		19.300	4,354
	Academic Exchange Programs – Graduate Students	National council for Eurasian and Eastern European Research	19.400	48,165
		Institute of International Education		
	Department of State total			<u>52,519</u>
Department of Veterans Affairs	Other Research		64.000	96,530
		U.S. Department of VA Medical Center of Providence	64.000	(2,363)
	Department of Veterans Affairs total			<u>94,167</u>
Department of Education	Civil Rights Training and Advisory Services		84.004	368,721
	Overseas Doctoral Dissertation		84.022	11,662
	Magnet Schools Assistance	American Education Solutions, Inc	84.165	111,958
	Javits Fellowships		84.170	43,462
	Bilingual Education Professional Development		84.195	958,700
	Fund for the Improvement of Education	City of Boston Public Schools	84.215	32,702
		City of New York Department of Education	84.215	8,159
	Comprehensive Centers	RMC Research Corporation	84.283	589,730
	Education Research, Development & Dissemination	Council of Great City Schools	84.305	20,809
		Vanderbilt University	84.305	163,439
	Comprehensive School Reform Demonstration		84.332	167,473
	National Resource Centers and Fellowship Program		84.015A	203,948
	Overseas Doctoral Dissertation		84.022A	108,794
	Magnet Schools Assistance	City of New York Department of Education	84.165A	135,205
		County of Gilford Schools	84.165A	181,284
		County of Palm Beach School District	84.165A	160,419

BROWN UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

Federal grantor	Program title	Pass-through grantor	CFDA number	Federal expenditures
	Javits Fellowships		84.170B	\$ 94,617
	Graduate Assistance in Areas of National Need		84.200A	242,571
	Teacher Quality Enhancement Grants	University of Rhode Island	84.336B	23,130
	Teacher Quality Enhancement Grants	State of Rhode Island Department of Education	84.336C	94,690
	Other Research		84.000	203,814
		City of Jamestown Public Schools	84.000	25,586
		City of New Haven Board of Education	84.000	163,516
		City of Peabody Public Schools	84.000	20,862
		City of Springfield Public Schools	84.000	447,633
		Commonwealth of Puerto Rico Department of Education	84.000	(8,943)
		Essex National Heritage Commission	84.000	18,967
		Fluidity Software	84.000	27,933
		Hezel Associates	84.000	29,860
	Department of Education total			<u>4,650,701</u>
Geological Survey	Earthquake Hazards Reduction Program		15.807	<u>126,456</u>
	Geological Survey total			<u>126,456</u>
American Recovery and Reinvestment Act:				
National Science Foundation	Trans-NSF Recovery Act Research Support		47.082	<u>22,753</u>
	National Science Foundation total			<u>22,753</u>
Department of Health and Human Services	Trans-NIH Recovery Act Research Support		93.701	<u>38,388</u>
	Department of Health and Human Services total			<u>38,388</u>
	Research and Development Cluster total			<u>108,857,337</u>
Student Financial Assistance Cluster: Department of Education	Federal Perkins Loan Program (note 4)		84.038	3,648,413
	Federal Direct Student Loans (note 4)		84.268	26,855,270
	Federal Work-study Program		84.033	1,316,126
	Federal Pell Grant Program		84.063	2,591,691
	Federal Supplemental Educational Opportunity Grants		84.007	816,187
	Byrd Honors Scholarships		84.185	448,500
	Academic Competitiveness Grant		84.375	238,275
	National Science and Mathematics Access to Retain Talent Grant		84.376	212,000
	Department of Education total			<u>36,126,462</u>
Department of Health and Human Services	Health Professions Student Loans, Including Primary Care Loans/loans for Disadvantaged Students (note 4)		93.342	92,660
	Scholarships for Disadvantaged Students		93.925	103,445
	Department of Health and Human Services total			<u>196,105</u>
	Student Financial Assistance Cluster total			<u>36,322,567</u>
	Total expenditures of Federal Awards for the year ended June 30, 2009			<u>\$ 145,179,904</u>

See accompanying notes to schedule of expenditures of federal awards.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards summarizes the expenditures of Brown University (the University) under programs of the federal government for the year ended June 30, 2009. Negative amounts on the Schedule represent adjustments to expenditures reported in a prior year.

For purposes of the Schedule, federal awards include grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The awards are categorized in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The University's expenditures under federal awards have been clustered as follows:

(a) *Research and Development*

Includes awards for research and development work at the University, primarily funded by the Department of Health and Human Services (DHHS), the Air Force, the Navy, the Advanced Research Projects Agency, the National Science Foundation, the Department of Energy, and the National Aeronautics & Space Administration, among others.

(b) *Student Financial Assistance*

Includes federally guaranteed loans issued to students of the University under the Federal Direct Loan Program and awards to provide financial assistance to students, primarily under the Federal Work Study, Federal Pell Grant, and Federal Supplemental Educational Opportunity Grant programs of the Department of Education. The University receives awards to make loans to eligible students under certain federal student loan programs. These loans are considered for purposes of determining the total federal expenditures (see note 4).

(2) Summary of Significant Accounting Policies for Federal Awards

For purposes of the Schedule and the basic financial statements, expenditures for federal award programs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

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

(3) Administrative Cost Allowance

For the year ended June 30, 2009, the University recovered an administrative cost allowance of \$193,827 under the Federal Perkins Loan Program.

BROWN UNIVERSITY

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

(4) Federal Student Loan Programs

Loans made by the University to eligible students under federal student loan programs and federally guaranteed loans issued to students by the University during the year ended June 30, 2009 are summarized as follows:

Campus-based loan programs:	
Federal Perkins Loan Program	\$ 2,025,860
Health Professions Student Loan Program (HPSL)	92,660
Total campus based loans programs	<u>\$ 2,118,520</u>
Federal Direct Student Loans:	
Subsidized Stafford Loan Program	\$ 8,731,151
Unsubsidized Stafford Loan Program	9,225,259
PLUS Loan Program	8,898,860
Total federal direct loan programs	<u>\$ 26,855,270</u>

The Perkins Loan and HPSL programs are administered directly by the University and balances and transactions relating to these programs are included in the University's financial statements. The balances of loans outstanding at June 30, 2009 consist of:

Federal Perkins Loan Program (including income-contingent loans)	\$ 22,575,396
Health Professions Student Loans	550,682
Total federal student loans	<u>\$ 23,126,078</u>

(5) Loan Payable

The University has debt payable to the Department of Education amounting to \$1,240,000 as of June 30, 2009 which is not included on the Schedule. Details of the debt, maturity, and other related information are included in note 6 to the basic financial statements of the University.

(6) Subrecipients

During fiscal year 2009, the University provided \$12,040,680 to subrecipients as part of its research and development program.