

**Standard Nine:  
Financial Resources**

**Overview**

The 1996 NEASC team report was critical of Brandeis’s financial management, and focused on the need to increase financial resources, improve faculty and staff salaries, increase capital spending for student facilities and deferred maintenance, reduce the undergraduate discount rate, and invest in academic and administrative information infrastructure. Table 1 below displays the University resource profile for FY1995 compared to the FY2005 profile. During this decade, the operating budget was balanced, the endowment almost tripled, the endowment draw was reduced to a sustainable five percent, a plan for addressing lower-than-market faculty and staff salaries was implemented, annual spending for deferred maintenance increased, capital expenditures for new academic and student facilities increased, the undergraduate discount rate declined and financial reserves grew.<sup>89</sup>

<b>Table 1: Comparison of Key Indicators, 1995 and 2005</b>		
<b>Indicator</b>	<b>FY1995</b>	<b>FY2005</b>
Operating budget result	\$8.5 million Deficit	Balanced
Endowment	\$195 million	>\$550 million
Endowment draw	8.8%	5.0%
Resource structural deficit (a)	\$20 million	\$3 million
Capital expenditures (All sources)	\$3 million	\$35 million
Undergraduate discount rate	45%	33%
Reserves (b)	\$10 million	\$96 million
Liquid reserves to outstanding debt	11%	66%

This resource improvement has occurred as a result of a number of factors, including a generally robust economy during much of the past ten years and a University management team focused on achieving articulated resource goals. Today, University resources are stable, and there is a sense of optimism about the future. Though many challenges remain, the University is positioned to address these challenges effectively.

<sup>89</sup> See [www.brandeis.edu/evpcoo/](http://www.brandeis.edu/evpcoo/) for more details.

<sup>a</sup> Goals for reducing the structural deficit included deferred maintenance reduction/facility renewal increase, achieving sustainable endowment draw of five percent or less, a facilities condition index of ‘Good’, debt principal payments made when due, and the Arts and Sciences faculty salary catch-up plan.

<sup>b</sup> Reserves represent unrestricted liquid net assets. The University’s goal is to increase unrestricted resources to 100% of the University’s debt.

## **Description and Appraisal**

Over the past ten years, the University has effectively managed its resources through comfortable, as well as difficult economic times. In addition to the positive effects of the economy, six elements have contributed to the University's ability to achieve resource stability:

1. strengthened financial and administrative information systems;
2. new budgeting, accounting, and business-conduct policies and procedures;
3. effective University-wide teamwork and transparency;
4. an integrated resource model and *Integrated Plan*;
5. effective fundraising;
6. a strengthened resource management team.

### **1) Strengthened Financial and Administrative Information Systems**

University budgets, including all sources and uses of funds, are monitored through the University's financial system, PeopleSoft, which became operational in 2001. This system enables efficient management of budgets, as well as increased budget transparency at all levels of the University, including within individual departments. Departments have available to them a summary and detailed report of expenses of the previous month, and the balance available for the remainder of the year. Managers have access to online budget reports, which can be run from the financial system in real time and provide detail on all aspects of the budget, including all revenue sources and all operating expense elements. The University is now working on implementing other processes available through the PeopleSoft system, including integration of the Financial, Human Resource, Student, and Administration systems, which will provide additional data to assist in accurate budget management and projection.

The University's Integrated Resource Planning (IRP) financial model, developed in FY2002, makes it possible to project a range of resource outcomes based on an analysis of budget variables such as annual endowment total, the CPI, and enrollments.<sup>90</sup> The budget process is informed by an analysis of peer institutions' actions and market status. The University tracks, for example, AAU surveys of faculty salaries, local data on staff salaries, peer institutions' publicly announced tuition and fees, and peer institutions' undergraduate admissions performance.

### **2) New Budgeting, Accounting, and Business-Conduct Policies and Procedures**

Each year, the University undergoes a comprehensive, University-wide process to establish and implement its operating and capital budgets. The Office of the Executive Vice President, through its Office of Budget and Planning, leads the budget cycle. All departments, their budget managers, and senior managers,

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<sup>90</sup> See *New Resource Model and Integrated Plan* section, p. X, for a discussion of IRP.

including the President, Provost, Deans and the Faculty Budget Committee, are involved. During the first and second quarters of each fiscal year, the Budget Office and senior administrators discuss key budget elements, including billed charges, endowment draw, salary and fringe expenses, and other key elements of operating and capital budgets. Preliminary projected values for these key budget elements for the coming fiscal year are then previewed at the fall meeting of the Budget and Finance Committee of the Board of Trustees. The Budget Office receives and reviews detailed unit budget requests in December and January. Following consultation with senior officers, the President approves a preliminary budget. The Budget and Finance Committee of the Board of Trustees reviews and submits this budget for approval to the full Board at its March meeting. After the prior-year close and final fall enrollments are available, a final budget is presented for approval at the October meeting of the Board of Trustees. Once the preliminary budget has been approved in March, the Budget Office meets with units to transmit budget allocations. The approved budget is then loaded into the financial system.

In FY2001, the University adopted a Responsibility Center Management (RCM) budget model for the Heller School, the Rabb School, the International Business School, the Rose Art Museum, and all centers and institutes. The goal of this model is a disciplined, strategic approach to budget planning, development, and management that recognizes both direct and indirect costs. In addition to establishing financial performance targets, and providing operating flexibility and incentives, RCM has assisted in the process of setting programmatic direction and academic priorities. Similar to the regular budget process, RCM Budget Managers, Deans, the Provost and Senior Vice Presidents meet by responsibility center to discuss and review annual and multi-year budget plans.

The Office of Financial Affairs and University Treasurer is responsible for the accounting and safeguarding of the University's financial assets, and ensuring compliance with generally accepted accounting principles and federal and state regulations. Since FY1995, there have been significant improvements in the accuracy and timeliness of financial reporting. Recent management letters have focused on management improvements compared to letters in previous years, which focused on management deficiencies. In 2002, the University implemented a program designed to strengthen internal controls in response to the Sarbanes-Oxley Act. Since that time, the Office of the Executive Vice President and the University's General Counsel, working closely with the Audit Committee of the Board of Trustees and the University's auditor, KPMG, have undertaken to maintain and, where possible, surpass accounting and audit goals established for non-profit and academic institutions.<sup>91</sup>

A Business Conduct Policy, which offers a framework to assist members of the Brandeis community in understanding their obligations, was issued in 2003 and subsequently updated in response to the Sarbanes-Oxley Act and Massachusetts legislation incorporating Sarbanes-Oxley ideas. This Business Conduct Policy was enacted to enhance accountability requirements and ensure better

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<sup>91</sup> See Standard 11, Integrity for additional information.

disclosure. Training sessions are currently being offered to provide guidance to the University community on the updated policies.<sup>92</sup>

### ***3) University-Wide Teamwork and Transparency of Resource Management***

The University's financial management and budget and planning processes are designed to encourage close collaboration. The Integrated Planning Committee has achieved an enhanced understanding of the University's resource position, goals, and choices. This has sharpened planning, enhanced Trustee confidence and aided institutional maturation. The Office of Financial Affairs and the Office of Budget and Planning, together with a network of over 30 budget managers across the University's schools and various student and administrative areas, form a web of collaboration and control over the University's resources. Transparency is ensured through shared access to budget and financial information made possible by the University's PeopleSoft system and other outlets, such as resource management websites. In addition, a number of forums are held during the academic year, including Faculty Meetings and informal settings such as Student Union meetings, briefings of faculty and student representatives to the Board of Trustees, regular meetings with student representatives, and informative articles on resource issues, which appear in student publications such as *The Justice* and *The Hoot*. There is also an annual community forum on resources and planning with a presentation by the Executive Vice President and Chief Operating Officer.

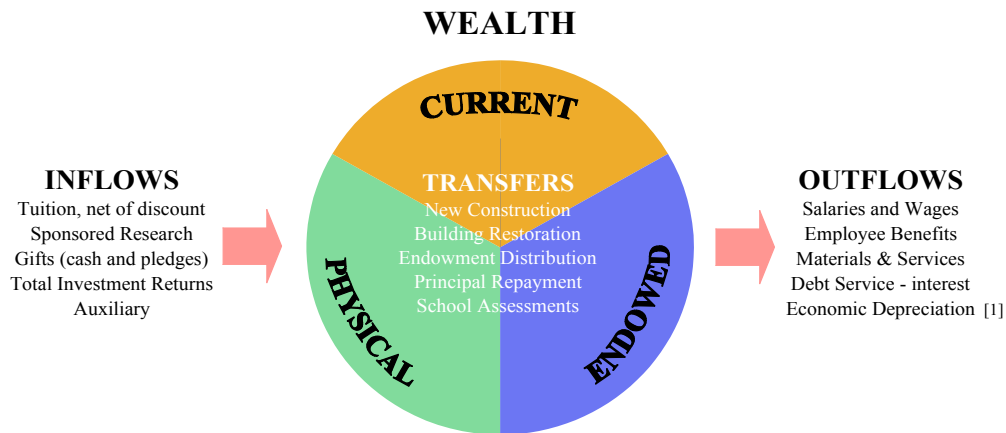
### ***4) New Resource Model and Integrated Plan***

The integrated planning process has made an important contribution to improvement of the University's resources. Launched in 2004, the process produced a comprehensive seven-year (FY2006-FY2012) strategy for the University. Goals include enhancing student quality, creating and sustaining exciting and creative academic programs, increasing external support, and strengthening the University's asset base. With a special focus on the academic enterprise, a number of strategic initiatives and priorities emerged that defined realistic goals, promoted transparent and collaborative decision making processes, and assessed all available, relevant data.

The University's Integrated Resource Planning (IRP) financial model, developed in FY2002, makes possible an integrated analysis of the University's operating and capital budgets, audited financial statements, and financial and physical assets. The methodology is illustrated below.

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<sup>92</sup> See Appendix, p. 8, for additional details on University policies and procedures; see also Standard 11, Integrity for additional information.



[1] Economic depreciation, which is based on replacement value, generally yields better estimates of the physical resource consumed during a year than GAAP depreciation, which is based on historical cost.

The University uses IRP as a key element in its multi-year planning and annual budgeting process. The model assists in developing objectives and monitoring progress toward those objectives. The University has the ability to analyze accurately and manage its resources, ensuring accountability in the context of appropriate quantitative and qualitative measures, thereby providing a clearer picture of all of the institution's resources.

With IRP and other resource management tools, the University has clearly identified the resource framework within which it operates. The University is able to project effectively resources that can potentially be available over time to support various University priorities. As outlined in the *Integrated Plan*, the financial model projects that in each of the next seven years, FY2006-FY2012, additional funds can be available in the operating budget for University priorities, reaching \$20 million annually by FY2012.

Through the integrated planning process, the University has identified \$310 million in capital priorities for funding by FY2012. It is projected that the \$310 million can be funded from \$120 million in gift funding, \$80 million in renewal funds, and \$100 million in new debt. The projected \$11 million in net annual operating costs for these projects by FY2012 is included in the \$20 million available for University priorities in the operating budget, with funding identified in each year that costs are incurred.

The structural deficit is projected to be approximately \$3 million for FY2006, though projections show that the deficit will begin to increase in FY2007 as Infrastructure Renewal Project funds are expended. The structural deficit is expected to be eliminated by FY2012, if funds for deferred maintenance increase as projected in the *Integrated Plan* and plans are carried out to demolish obsolete science buildings and to renovate academic and science facilities.

### ***5) More Effective Fundraising***

The \$470 million Campaign for Brandeis began in July 2000 and was completed six months ahead of schedule in November 2005. The University is now engaged

in a three-year, \$300 million Extended Campaign, which was approved by the Board of Trustees at its May 2005 meeting. The \$300 million goal was determined after detailed analysis of current and past fundraising accomplishments, taking into account inflation and a modest growth in contributions. Scheduled to be complete by FY2009, the Extended Campaign is focused on priorities of the *Integrated Plan*.

Given the small size and overall youth of the University's alumni as a group, Brandeis remains very dependent on friends and, in particular, members of the Jewish community. It was expected that, as the Campaign progressed, giving by friends would begin to decrease. The fact that this has not happened suggests that, despite increased competition, the potential base of support is broader than originally projected. Forty-seven percent of all gifts of \$1 million or more to the Campaign have come from individuals whom the University did not know at the beginning of the Campaign or who it was believed were either unable or not inclined to make such a gift.

In addition to the continuing efforts to reach out to new "Friends," the Office of Development and Alumni Relations has taken a number of concrete steps to strengthen alumni giving in the future. Since 2004, resources have been devoted to strengthening the Senior Class gift program in order to build recognition on the part of students before they graduate of the importance of giving back to the University. An "Emerging Leaders" program gives special recognition to recent alumni (ten or fewer years out), who are building an early track record as consistent donors to the University. In addition to the named program, Emerging Leaders receive preferential invitations to alumni and other special events, as well as increased opportunities to meet with the Senior Vice President for Institutional Advancement and the President of the University. The University is also working closely with the Alumni Board to deepen the members' understanding and commitment to fundraising as a key element of the Board's mission. The Office of Development and Alumni Relations is also working with the Senior Vice President for Students and Enrollment to strengthen services for, and responsiveness to, alumni in the area of career services.

Over time, as the age and size of the alumni population grows, the University anticipates increased alumni giving. Brandeis is witnessing the beginnings of this transition; 24 alumni have made gifts of \$1 million or more to the Campaign. In addition, overall alumni participation in giving is increasing, having risen from 31 percent in FY2001 to 33 percent in FY2006.

Most of the Campaign priorities, which are weighted heavily towards enhancing the financial health of the institution, either met or exceeded their respective goals. The University is very careful to ensure that gifts support its strategic and programmatic directions, and fundraising priorities are set by the President, in consultation with members of the University's senior administration. The Board of Trustees has approved a Gift Acceptance Policy that clearly indicates the conditions and terms under which gifts will be accepted. The Office of Development and Alumni Relations is actively involved in the coordination of all

University fundraising efforts, and printed materials designed to support fundraising activities are matched to institutional priorities. Gift records are subject to external audit to ensure that accurate records are maintained and donors' wishes met.

### **Projection**

The University's financial resources projection derives from a thorough understanding of the University's financial condition. This projection is appropriately conservative, and ongoing monitoring will continue, enabling the University to calibrate projections of progress in meeting established goals with the resources expected to be available.

Brandeis's financial stability has been achieved through a new resource management team; strengthened financial and administrative information systems; new budgeting, accounting, and business-conduct policies and procedures; effective University-wide teamwork and transparency; a new, integrated resource model and related *Integrated Plan*; and more effective and successful fundraising.

Brandeis will continue to exploit opportunities to reallocate resources within schools to meet academic priorities, sharing assets across schools, departments and programs where possible. New initiatives will be evaluated against articulated objectives, and the institution will look strategically for niches that it is well positioned to occupy and in which it can grow. Discussions with the faculty concerning the realignment of academic priorities and resources are an integral part of University-wide resource planning.

The University is well positioned to increase its level of philanthropic support; it is very important to continue to articulate clear mission-based priorities and capital projects that will excite and motivate donors. Following the official close of the Campaign for Brandeis in 2009 and for several years thereafter, the University will need to think in terms of mini-campaigns with very clear and precise, project-related goals, especially considering the University's policy of not proceeding with a capital project unless all funding has been identified and annual operating costs can be supported in future operating budgets. The ultimate decisions regarding these or other options will be made on the basis of the integrated planning process.

It is, of course, impossible to predict that all of the University's *Integrated Plan* priorities will be achieved by the end of the seven-year planning period. Accountability, plan adjustments based on progress and external conditions, and reallocation of resources will be required to enable the University to position itself most effectively to achieve its goals. However, notwithstanding factors the University cannot control (e.g., the state of the economy and actions by competing peer institutions), Brandeis is confident that it has the resource base, management team, management tools, and discipline needed to achieve the goals of the *Integrated Plan*.

### **Institutional Effectiveness**

Brandeis effectively manages its resources and maintains financial integrity through organized, transparent, and collaborative budgeting policies and processes; reliable and efficient financial systems; evaluation and analysis of peers; consultation with external consultants; accumulated financial management expertise within the Office of Budget and Planning and the Office of Financial Affairs and Treasury; and the University's Integrated Resource Planning (IRP) financial model. IRP makes it possible to project a range of resource outcomes for such key budget drivers as annual endowment total, the CPI, and enrollments. The University's IRP model enables an integrated analysis of the operating and capital budgets, audited financial statements, and financial and physical assets. The model assists in developing objectives and monitoring progress toward those objectives.

The University also participates in financial surveys, such as Cambridge Financial Associates, IPEDS, and the NACUBO Tuition Discounting and Endowment Surveys, and uses the results of these surveys to benchmark its own performance. The University regularly compares itself to peer institutions and Moody's A-rated institutions in such areas as debt ratios, tuition dependence, and endowment spending. The University also monitors external factors that affect resource management. In addition to these assessment activities, the creation of a new resource management team, the guidance and oversight of the trustee Budget and Finance Committee and faculty committees, and the enlistment of outside consultants such as Stillwater and SUMit Consulting have helped guide the University in evaluating itself and charting a multi-year direction through integrated planning. Reports to these various committees are provided throughout the year, and presentations and open forums are designed to inform the campus community of, and gain feedback on, current analyses. The University will continue to use external benchmarks and its actual financial results to determine whether plan adjustments and reallocation of resources may be necessary and appropriate to enable the University to achieve its goals.