BRANDEIS UNIVERSITY

Financial Statements

June 30, 2005 and 2004

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Trustees
Brandeis University:

We have audited the accompanying statements of financial position of Brandeis University (the University) as of June 30, 2005 and 2004, 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. 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 College's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 the University as of June 30, 2005 and 2004 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

September 2, 2005

BRANDEIS UNIVERSITY

Statements of Financial Position

June 30, 2005 and 2004

(Dollars in thousands)

Assets		**2005**	**2004**
Cash and cash equivalents	$	38,287	42,402
Accounts receivable, net (note 2)		12,767	9,560
Notes receivable, net (note 3)		12,989	12,876
Other assets		6,736	5,636
Contributions receivable, net (note 4)		67,955	51,653
Funds held under bond agreement		14,633	22,354
Investments, at fair value (note 5)		561,384	503,952
Funds held in trust by others		9,800	9,508
Property, plant and equipment, net (note 6)		177,180	169,307
Total assets	$	901,731	827,248
Liabilities			
Accounts payable and other accrued liabilities (note 5)	$	29,534	28,543
Sponsored program advances and deferred income		11,367	8,942
Accrued interest payable – capital appreciation bonds (note 7)		16,252	17,350
Long-term debt, net (note 7)		135,329	137,893
Refundable advances for student loans (note 3)		6,368	6,385
Total liabilities		198,850	199,113
Net assets (note 8):			
Unrestricted		136,328	96,923
Temporarily restricted		184,213	177,213
Permanently restricted		382,340	353,999
Total net assets		702,881	628,135
Total liabilities and net assets	$	901,731	827,248

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Activities

Years ended June 30, 2005 and 2004

(Dollars in thousands)

	2005	2004
Changes in unrestricted net assets:		
Revenues and gains:		
Tuition and fees	$ 129,404	122,249
Residence hall and dining income	22,593	22,015
Total tuition, fees, residence hall and dining	151,997	144,264
Less university funded financial aid	(47,648)	(44,643)
Net tuition, fees, residence hall and dining	104,349	99,621
Contributions	8,683	6,202
Sponsored programs, grants and contracts	53,367	50,350
Investment earnings (note 5)	3,449	2,638
Investment income from funds held in trust by others	298	297
Net realized and unrealized investment gains	13,706	5,359
Other sources	6,907	6,145
Total revenues and gains	190,759	170,612
Net assets released from restrictions	65,859	46,851
Total unrestricted revenues, gains and other support	256,618	217,463
Expenses and losses:		
Instructional and sponsored programs	126,303	118,912
Libraries	12,159	11,504
Student services	20,415	16,109
General and administrative	18,634	19,369
University development	11,284	10,201
Auxiliary enterprises	27,139	24,818
Other reductions	1,279	984
Net transfer to record market value decline in donor restricted endowments (notes 5 and 8)	—	(2,595)
Total expenses and losses	217,213	199,302
Increase in unrestricted net assets	39,405	18,161
Changes in temporarily restricted net assets:		
Contributions	38,548	37,188
Investment earnings (note 5)	35,317	56,740
Change in value of split interest agreements	(401)	(637)
Net assets released from restrictions	(66,464)	(47,233)
Net transfer to record market value decline in donor restricted endowments (notes 5 and 8)	—	(2,595)
Increase in temporarily restricted net assets	7,000	43,463
Changes in permanently restricted net assets:		
Contributions	26,572	15,735
Investment earnings (note 5)	1,510	2,224
Change in value of funds held in trust by others	294	492
Change in value of split interest agreements	(491)	(746)
Donors' clarification of intent	456	284
Increase in permanently restricted net assets	28,341	17,989
Change in net assets	74,746	79,613
Net assets at beginning of year	628,135	548,522
Net assets at end of year	$ 702,881	628,135

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2005 and 2004

(Dollars in thousands)

		2005	2004
Cash flows from operating activities:			
Change in net assets	$	74,746	79,613
Adjustments to reconcile change in net cash provided by operating activities:			
Depreciation and amortization		13,846	12,606
Net realized and unrealized investment gains		(40,026)	(54,270)
Net change from funds held in trust by others		(292)	(488)
Loss on the disposal and impairment of property, plant and equipment		7	13
Contributions restricted for long-term investment		(27,186)	(29,021)
Change in other assets		(20,609)	(6,078)
Change in other liabilities		2,301	1,157
Net cash provided by operating activities		2,787	3,532
Cash flows from investing activities:			
Acquisitions of buildings and equipment		(21,609)	(19,759)
Purchase of investments		(167,574)	(169,716)
Proceeds from sale and maturities of investments		150,168	161,130
Change in notes receivable, net		(113)	(171)
Net cash used in investing activities		(39,128)	(28,516)
Cash flows from financing activities:			
Repayments of bonds, notes and leases		(3,672)	(3,347)
Proceeds from issuance of bonds, notes and leases		991	25,559
Change in funds held under bond agreement		7,721	(22,106)
Contributions restricted for long-term investment		27,186	29,021
Net cash provided by financing activities		32,226	29,127
Change in cash and cash equivalents		(4,115)	4,143
Cash and cash equivalents, beginning of year		42,402	38,259
Cash and cash equivalents, end of year	$	38,287	42,402
Supplemental data:			
Interest paid	$	8,982	8,096

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Brandeis University (the University) is a private, coeducational institution of higher learning and research. Founded in 1948 and located in Waltham, Massachusetts, the University is a tax-exempt organization as described in Section (501)(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

(a) Basis of Accounting

The University's financial statements are prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Depreciation, interest, and operation of plant expenses are allocated to functional expense categories on the basis of square feet utilized.

The classification of net assets, revenues, expenses, gains, and losses into three categories is based on the existence or absence of donor-imposed restrictions. The three categories are defined as follows:

Unrestricted – Net assets not subject to donor-imposed restrictions.

Temporarily restricted – Net assets with use limited by law or by donor-imposed restrictions as to purpose or time. Life income trusts and pledges receivable for which the ultimate use is not permanently restricted are reported as temporarily restricted.

Permanently restricted – Net assets subject to donor-imposed restrictions that require the assets to be invested in perpetuity.

(b) Revenue Recognition

Revenues are reported as an increase in unrestricted net assets, unless the use of the related assets is limited by donor-imposed restrictions or by law. Expenses are reported as a decrease in unrestricted net assets. Expiration of temporary restrictions is reflected in the accompanying statements of activities as net assets released from restrictions. Net realized gains (losses) from the sale or other disposition of investments and the change in unrealized appreciation (depreciation) of investments are reported as revenue in unrestricted net assets, unless use of these gains is restricted by donor-imposed stipulations or by law. Realized gains (losses) are computed using the average cost basis of securities sold.

Revenues associated with research and other grants and contracts are recognized when the related expenses are incurred. Indirect cost recovery by the University on federal grants and contracts is based upon a predetermined negotiated rate and is recorded as unrestricted revenue.

Student deposits, along with advance payments for tuition, room, and board for fall and certain summer sessions are deferred and will be recorded as revenues in the year in which the sessions are completed.

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(c) Contributions and Pledges

Contributions are nonreciprocal unconditional transfers of assets or cancellations of liabilities. Contributions received without donor-imposed restrictions are recorded as unrestricted revenue. Contributions received with donor-imposed restrictions are reported as revenue in the temporarily restricted or permanently restricted net asset category according to donors' restrictions. Contributions of noncash assets are recorded at fair market value on the date of the contribution.

Unconditional promises to give are recognized as temporarily or permanently restricted revenues in the year the contributions are received. Contributions are recorded as assets at the present value of the expected cash flow using discount rates of 2.3% to 6.0%, net of an allowance for unfulfilled contributions based upon collection experience and other relevant factors. Conditional contributions are not recognized until the stated conditions are met.

(d) Cash and Cash Equivalents

The University records all liquid investments purchased with an original maturity of three months or less as cash equivalents.

(e) Investments and Funds Held Under Bond Agreements

Investments and funds held under bond agreements are stated at market value as determined by the investment custodians using market quotations or estimates from professional appraisers.

(f) Funds Held in Trust by Others

Funds held in trust by others are held in perpetuity by external trustees, as specified by the donor, and are recorded by the University at market value. Trust income is distributed at least annually to the University in accordance with the terms of the trusts and is recorded as investment income. Changes in market values of the trusts are recorded as permanently restricted gains or losses.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, if contributed, the fair market value on the date of contribution, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (18 years), buildings (35–60 years), building systems and improvements (18–25 years) and equipment and furnishings (3–15 years). Equipment purchased with grant funds is expensed; disposition of grant-funded equipment follows the applicable agency or foundation guidelines.

(h) Sponsored Programs, Grants, and Contracts

Sponsored activities include various research and instructional programs funded by external parties including the federal government, foreign and state governments and private foundations and corporations. Revenues associated with sponsored programs, grants, and contracts are recognized when related costs are incurred. Under the terms of federal grants, periodic audits are required and costs may be questioned and subject to reimbursement. Management believes that the outcome of such audits will not have a material effect on the financial position of the University.

(Continued)

(In thousands)

(i) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Other Assets

Other assets include unamortized debt issuance costs, other prepayments, and inventories.

(k) Reclassification

Certain 2004 balances have been reclassified to conform to the 2005 presentation.

(2) Accounts Receivable

The composition of accounts receivable as of June 30 is as follows:

		2005	**2004**
Student receivables	$	1,870	1,250
Sponsored programs grants receivable		9,287	6,185
Investment income receivable		1,005	1,452
Other		1,093	1,106
		13,255	9,993
Less allowance for doubtful accounts		(488)	(433)
Accounts receivable, net	$	12,767	9,560

(3) Notes Receivable

The composition of the notes receivable as of June 30 is as follows:

		2005	**2004**
Federal Perkins Loan Program	$	6,852	6,831
University loan programs		7,361	7,119
		14,213	13,950
Less allowance for doubtful loans		(1,224)	(1,074)
Notes receivable, net	$	12,989	12,876

Notes receivable include funds advanced to the University by the U.S. government under the Federal Perkins Loan Program (the Program). Notes receivable under the Program are subject to significant

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(In thousands)

restrictions. Such funds are reloaned by the University after collection, but in the event that the University no longer participates in the Program, the amounts are generally refundable to the U.S. government. Accordingly, it is not practicable to determine the fair value of such amounts.

(4) Contributions Receivable

The composition of contributions receivable as of June 30 is as follows:

		2005	2004
Amounts due in:			
One year or less	$	28,119	27,848
Between one and five years		37,389	27,687
More than five years		11,312	5,758
Gross contributions receivable		76,820	61,293
Less:			
Discount		(4,661)	(3,270)
Allowance for unfulfilled contributions		(4,204)	(6,370)
Contributions receivable, net	$	67,955	51,653

Contributions receivable have been discounted to net present value at rates ranging from 2.3% to 6.0%.

(5) Investments

The University's investments comprised the following:

		2005	2004
Cash and cash equivalents	$	45,514	19,659
Fixed income		94,551	111,370
Equities		233,235	212,729
Real estate		10,110	5,218
Alternative investments		177,974	154,976
Investments, at fair value	$	561,384	503,952

The majority of permanently restricted net assets is true endowment and is pooled for investment purposes. Income earned is allocated to the appropriate net asset category, based upon the unit share method.

Investments include gift annuities and charitable remainder trusts. These funds are held in trust for one or more beneficiaries, and generally pay lifetime income to those beneficiaries, after which the principal is made available to the University in accordance with donor intentions. The assets are recorded at fair market value and liabilities are recorded to recognize the present value of estimated future payments due to beneficiaries. The liabilities of $13,403 in 2005 and $13,480 in 2004 are included in accounts payable and other liabilities in the statements of financial position.

(Continued)

(In thousands)

Investments are stated at fair value. The estimated fair value of investments is based on quoted market prices, except for certain alternative investments, principally privately-held equity and hedge funds, limited partnerships, real estate and similar interests, for which quoted market prices are not readily available. The estimated fair value of alternative investments is based on management's evaluation of the underlying investments. Since such investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Approximately 32% and 30% of total investments, as of June 30, 2005 and 2004, respectively, are invested in such alternative investments. Management is responsible for the fair value measurements reported in the financial statements. The University has implemented policies and procedures to assess the reasonableness of the fair values provided and believes that the reported fair values as of the statements of financial position dates are reasonable. The net increase (decrease) in realized and unrealized appreciation (depreciation) in the fair value of such investments has been included in the statements of activities in the appropriate net asset classification.

The University has agreed to make additional capital contributions of up to $26,700 in a private equity fund and up to $5,000 in a private timber fund. The timing and amounts of the contributions will be determined by the general partners.

The following summarizes the investment return for all investments for the years ended June 30:

		2005	2004
Investment income	$	13,956	12,691
Net realized gain		9,703	14,468
		23,659	27,159
Less management fees		(1,628)	(1,455)
		22,031	25,704
Net increase in unrealized appreciation		30,323	39,802
Investment earnings	$	52,354	65,506

The Board of Trustees approved a spending policy, which authorizes the use of a prudent amount of capital appreciation in accordance with provisions of the Massachusetts Uniform Management of Institutional Funds Act. Accumulated capital gains spent in 2005 and 2004 amount to $17,220 and $14,794, respectively. The funds are utilized principally for financial aid and support of faculty chairs. Future utilization of gains is dependent on market performance. Deficiencies in donor-restricted endowment funds, resulting from declines in market value, have been offset by transfers from unrestricted net assets to temporarily restricted net assets. There were no deficiencies at June 30, 2005 and 2004. The allocation of deficiencies is recorded in accordance with FAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In the opinion of counsel, the University is under no obligation to fund this allocation.

(In thousands)

The University has relied upon the Massachusetts Attorney General's interpretation of relevant state law as generally permitting the spending of gains on permanently restricted net assets over a stipulated period of time. State law allows the Board of Trustees to appropriate all of the income and a specified percentage of the net appreciation as is prudent considering the University's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Under the University's spending policy, which is deemed to be within the guidelines specified under state law, a percentage of permanently restricted long-term investments is appropriated annually as determined by the University's Board of Trustees.

(6) Property, Plant and Equipment

The composition of property, plant and equipment as of June 30 is as follows:

		2005	2004
Land and land improvements	$	15,958	14,044
Buildings		82,827	81,520
Building systems and improvements		197,925	180,998
Equipment and furnishings		63,767	63,540
		360,477	340,102
Less accumulated depreciation		(186,537)	(175,054)
Construction in progress		3,240	4,259
Property, plant and equipment, net	$	177,180	169,307

Depreciation expense amounted to $13,729 in 2005 and $12,496 in 2004. Operation and maintenance expenses amounted to $25,446 in 2005 and $22,940 in 2004.

Expenses for the repairs and maintenance of facilities are recorded during the period incurred; betterments, which add to the value of the related assets or materially extend the lives of the assets, are capitalized. At the time of disposition, the cost and associated accumulated depreciation are removed from the related accounts and gains or losses are reported as unrestricted revenue or expense.

The University has commitments to expend approximately $12,600 to complete various construction projects as of June 30, 2005.

(Continued)

(In thousands)

(7) Indebtedness

Outstanding debt as of June 30 consists of the following:

		2005	2004
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Series J Revenue Bonds at an interest rate of 5%, maturing October 1, 2024 through October 1, 2026	$	19,120	19,120
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Series I Revenue Bonds at effective interest rates from 4.67% to 5.125%, maturing October 1, 2012 through October 1, 2028		82,380	82,380
Commonwealth of Massachusetts Industrial Finance Agency (MIFA) Revenue Bonds, Brandeis University Issue 1989 Series C, at interest rates from 6.40% to 6.85%, maturing in annual installments from October 1, 2003 through October 1, 2011		8,426	10,000
Commonwealth of Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2004 Series K, at interest rates from 2.0% to 4.94%, maturing in annual installments from October 2004 through October 1, 2033		24,910	25,385
Capital lease with a financial services corporation as lessor, Massachusetts Health and Education Facilities Authority (MHEFA) as lessee, and Brandeis University as sub-lessee, with semiannual payments at an interest rate of 5.065% through October 1, 2005		252	738
Various capital lease agreements with a financial services corporation with quarterly lease payments at interest rates from 2.57% to 10.25% through January 2006		1,563	1,360
Various mortgage notes payable at interest rates from 0% to 8.50%, maturing in various years through November 1, 2011 (see note 1)		1,273	1,622
Long-term debt before discount		137,924	140,605
Less unamortized discount		(2,595)	(2,712)
Long-term debt, net	$	135,329	137,893

(Continued)

(In thousands)

In January 2004, the University issued Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue, Series K, in the amount of $25,385. The proceeds of the Series K Bonds are being used to finance a major infrastructure renewal project on the University's campus over the next two to three years.

During fiscal years 2005 and 2004 the University obtained lease financing through financial services corporations in the amount of $991 and $560, respectively, for the installation of network wiring and acquisition of computer equipment.

Dining facilities renovations have been financed by loans from a University vendor. The outstanding balance of $898 at June 30, 2005 is included in notes payable and will be repaid in installments through January 2009.

MIFA 1989 Series C capital appreciation bonds require interest to be paid when the principal on the bonds is due. The capital appreciation bonds mature in 2003 through 2011. The University accrues for the capital appreciation interest currently, the balance at June 30, 2005 and 2004 was $16,252 and $17,350, respectively.

The University has a $25,000 line of credit, with a variable rate of interest at prime or a fixed rate at LIBOR plus 1% that is redetermined on a 30 to 90 day basis. There was no amount outstanding as of June 30, 2005 and 2004.

The fair market value of the external debt is estimated to be approximately $13,000 more than the aggregate carrying value at June 30, 2005. The University's payments for debt and lease obligations are as follows:

	Debt	Leases
Year ending June 30:		
2006	$ 2,300	938
2007	2,207	461
2008	2,085	345
2009	1,878	71
2010	1,699	—
Thereafter	125,940	—
	$ 136,109	1,815

Interest expense for the years ended June 30, 2005 and 2004 was $7,873 and $7,547, respectively. Interest costs incurred in association with the Series K bond and capitalized during 2005 and 2004 were $21 and $17, respectively, and will be amortized over the useful lives of the related assets. The bond agreements contain covenants, which among other restrictions include the maintenance of a specific amount of cash and investments not subject to legal restrictions. The University was compliant with these covenants as of June 30, 2005.

(In thousands)

Residence facilities with a book value of $2,129 are pledged as collateral for certain of the mortgage notes payable.

In June 2003, the University contracted to lease a telephone system. The initial lease term is 36 months with options to renew for two consecutive periods of 24 and 12 months. Future minimum operating lease payments under this agreement are as follows:

		Amount
Fiscal year:		
2006	$	819
2007		819
2008		819
2009		819
	$	3,276

(8) Net Assets

(a) Temporarily Restricted Net Assets

Temporarily restricted net assets are gifts and income received with donor stipulations and the realized and unrealized gains on endowment assets. These assets are expendable principally for instruction or financial aid.

The composition of the temporarily restricted net assets as of June 30 is as follows:

		2005	2004
Restricted contributions	$	42,041	52,624
Unexpended endowment income		4,483	4,334
Net realized and unrealized gain on endowment		72,438	65,964
Life income and annuity funds		9,086	8,941
Contributions receivable, net		43,960	35,879
Physical plant and other		12,205	9,471
Total temporarily restricted net assets	$	184,213	177,213

(In thousands)

(b) Permanently Restricted Net Assets

The composition of the permanently restricted net assets as of June 30 is as follows:

		2005	2004
Endowment funds	$	337,451	318,155
Student loan funds		4,459	4,624
Life income and annuity funds		6,634	5,936
Contributions receivable, net		23,996	15,775
Funds held in trust by others		9,800	9,509
Total permanently restricted net assets	$	382,340	353,999

(9) Retirement Programs

The University participates in defined contribution pension programs providing retirement benefits for substantially all full-time and regular part-time employees. Under the programs, the University makes monthly contributions, currently limited to 3%–10% of the annual eligible wages of participants, up to defined limits. Voluntary contributions by participants are made subject to IRS defined limits. Retirement program expenses amounted to $5,852 in 2005 and $5,559 in 2004.

In addition, the University has implemented a supplemental executive retirement plan for certain senior management employees. Benefits are based on the employees' service and earnings. The Plan is a nonqualified plan under the Code and currently has no advanced funding.

(10) Related Party Transactions

The University has invested $5,016 and $6,682 as of June 30, 2005 and 2004, respectively, in a limited partnership for which a University Trustee is a general partner. The University is committed to make additional investments of up to $1,863. The University's Investment Committee approved and continues to monitor this investment.

(11) Contingencies

The University is engaged in legal cases that have arisen in the normal course of its operations. The University believes that the outcome of these cases will not have a material adverse effect on the financial position of the University.