BRANDEIS UNIVERSITY

Financial Statements

June 30, 2008 and 2007

(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, 2008 and 2007, 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 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 the University as of June 30, 2008 and 2007 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.

KPMG LLP

October 24, 2008

BRANDEIS UNIVERSITY

Statements of Financial Position

June 30, 2008 and 2007

(Dollars in thousands)

Assets		**2008**	**2007**
Cash and cash equivalents	$	40,953	50,557
Accounts receivable, net (note 2)		10,482	9,650
Notes receivable, net (note 3)		13,096	12,958
Other assets		8,169	9,419
Contributions receivable, net (note 4)		114,252	90,452
Funds held by bond trustee		1,048	55,671
Investments, at fair value (note 5)		753,095	734,709
Funds held in trust by others		9,471	10,687
Property, plant and equipment, net (notes 6, 7, and 12)		293,332	223,707
Total assets	$	1,243,898	1,197,810
Liabilities and Net Assets			
Accounts payable and other accrued liabilities (notes 5 and 12)	$	67,496	51,742
Sponsored program advances and deferred income		13,731	13,062
Long-term debt, net (note 7)		210,728	214,681
Refundable advances for student loans (note 3)		6,191	6,264
Total liabilities		298,146	285,749
Net assets (note 8):			
Unrestricted		163,292	169,346
Temporarily restricted		298,903	286,464
Permanently restricted		483,557	456,251
Total net assets		945,752	912,061
Total liabilities and net assets	$	1,243,898	1,197,810

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Activities

Years ended June 30, 2008 and 2007

(Dollars in thousands)

		2008	2007
Changes in unrestricted net assets:			
Revenues and gains:			
Tuition and fees	$	155,922	149,256
Residence hall and dining income		24,414	24,736
Less university-funded financial aid		(61,730)	(58,025)
Net tuition, fees, residence hall and dining		118,606	115,967
Contributions		8,300	8,962
Sponsored programs, grants and contracts		52,473	53,425
Investment earnings (note 5)		5,296	6,294
Investment income from funds held in trust by others		330	761
Net realized and unrealized investment gains (losses) (note 5)		1,920	18,575
Other sources		9,793	10,093
Net assets released from restrictions		61,814	60,493
Total unrestricted revenues, gains and other support		258,532	274,570
Expenses and losses:			
Instructional and sponsored programs		148,855	140,414
Libraries		14,389	13,436
Student services		25,839	23,426
Institutional support		40,705	38,104
Auxiliary enterprises		31,578	29,970
Loss on change in value of swap (note 7)		5,392	199
Loss on refinancing (note 7)		1,106	—
Loss on disposals and retirement of property, plant and equipment		1,079	10
Other reductions		377	650
Net transfers to record market value decline in donor restricted endowments		342	—
Total expenses and losses		269,662	246,209
Increase (decrease) in unrestricted net assets before sale of art collection items not capitalized		(11,130)	28,361
Gain on sale of art related to collection items not capitalized		5,076	—
Increase (decrease) in unrestricted net assets		(6,054)	28,361
Changes in temporarily restricted net assets:			
Contributions		60,164	31,982
Investment earnings (note 5)		13,828	91,847
Change in value of split interest agreements		(209)	(653)
Net transfers to record market value decline in donor restricted endowments		342	—
Net assets released from restrictions		(61,814)	(60,493)
Donors' clarification of intent		248	(176)
Other reductions		(120)	—
Increase in temporarily restricted net assets		12,439	62,507
Changes in permanently restricted net assets:			
Contributions		29,840	31,767
Investment earnings (note 5)		346	2,088
Change in value of funds held in trust by others		(1,915)	599
Change in value of split interest agreements		(300)	(753)
Donors' clarification of intent		(248)	176
Other reductions		(417)	(103)
Increase in permanently restricted net assets		27,306	33,774
Change in net assets		33,691	124,642
Net assets at beginning of year		912,061	787,419
Net assets at end of year	$	945,752	912,061

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2008 and 2007

(Dollars in thousands)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	33,691	124,642
Adjustments to reconcile change in net cash provided by operating activities:			
Depreciation and amortization		15,574	14,386
Net realized and unrealized investment gains		(9,793)	(101,571)
Net change from funds held in trust by others		1,216	(596)
Loss on change in value of swap		5,392	199
Loss on refinancing		1,106	—
Loss on the disposal and retirement of property, plant and equipment		1,079	10
Contributions restricted for long-term investment		(44,519)	(43,432)
Change in other assets		(25,754)	1,193
Change in other liabilities		4,594	5,755
Net cash provided by operating activities		(17,414)	586
Cash flows from investing activities:			
Acquisitions of buildings and equipment		(78,544)	(40,447)
Purchase of investments		(236,830)	(128,015)
Proceeds from sale and maturities of investments		228,237	111,136
Change in notes receivable, net		(138)	40
Net cash used in investing activities		(87,275)	(57,286)
Cash flows from financing activities:			
Repayments of bonds, notes and leases		(67,197)	(5,040)
Proceeds from issuance of bonds, notes and leases		63,140	70,506
Change in funds held by bond trustee		54,623	(49,331)
Contributions restricted for long-term investment		44,519	43,432
Net cash provided by financing activities		95,085	59,567
Change in cash and cash equivalents		(9,604)	2,867
Cash and cash equivalents, beginning of year		50,557	47,690
Cash and cash equivalents, end of year	$	40,953	50,557
Supplemental data:			
Interest paid	$	10,270	8,471

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 U.S. generally accepted accounting principles.

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. Donor restricted gifts that are received and spent within the same fiscal year are reported as temporarily restricted revenue with a subsequent release of restrictions. 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 held.

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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 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 a 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) Fundraising Expense

Fundraising expense was $11,292 and $11,088 for the years ended June 30, 2008 and 2007, respectively, and is classified as institutional support in the accompanying statement of activities.

(e) Cash and Cash Equivalents

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

(f) Investments and Funds Held by Bond Trustee

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

(g) 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 fair 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.

(h) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost or, if contributed, the fair 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.

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 recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred, in accordance with Statement of Financial Accounting Standards (SFAS) No. 143 and Interpretation No. 47 (FIN 47) *Accounting for Conditional Asset Retirement Obligations,* if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long lived asset. The liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of operations.

(i) 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.

(j) Collections

Collections at Brandeis University are protected and preserved for public exhibition, education, research and the furtherance of public service. Collections are not capitalized; sales of collection items are recorded as revenue and purchases of collection items are recorded as operating expenses in the University's financial statements in the period in which the items are sold or acquired.

(k) 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. Estimates recorded at June 30, 2008 and 2007 include non-readily marketable investments, the collectibility of accounts, loans and contributions receivable, and the valuation of split interest agreements.

(l) Other Assets

Other assets include unamortized debt issuance costs, other prepayments, interest rate swap receivables, and inventories.

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(m) Uncertainty for Income Taxes (FIN 48)

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income tax recognized in an entity's financial statements. FIN 48 requires entities to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement, and classification of income tax uncertainties, along with any related interest or penalties. A tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN 48 had no impact on the University's financial statements.

(n) Reclassification

Certain 2007 balances have been reclassified to conform to the 2008 presentation.

(o) New Accounting Pronouncements

In September 2006, the Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (SFAS 157), was issued and is effective for fiscal years beginning after November 15, 2007. This standard expands the disclosure that is required for the use of fair value to measure assets and liabilities. The new disclosure will focus on the inputs used to measure fair value and the effect, if any, on the measurement of changes in net assets for the period. The University will adopt this standard in its financial statements for the year ended June 30, 2009.

In February 2007, Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, was issued and is effective for fiscal years beginning after November 15, 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The University will adopt this standard in its financial statements for the year ending June 30, 2009.

In August 2008, FASB Staff Position No. 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), was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of that FSP that pertains to the University is a requirement for expanded disclosures for all endowment funds. The University will adopt this standard in its financial statements for the year ended June 30, 2009.

(Dollars in thousands)

(2) Accounts Receivable

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

		2008	2007
Student receivables	$	1,841	1,877
Sponsored programs grants receivable		5,719	6,813
Other		1,869	1,481
Sale of art receivable		910	—
Bequest receivable		706	—
		11,045	10,171
Less allowance for doubtful accounts		(563)	(521)
Accounts receivable, net	$	10,482	9,650

(3) Notes Receivable

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

		2008	2007
Federal Perkins Loan Program	$	7,058	6,856
University loan programs		7,849	7,585
		14,907	14,441
Less allowance for doubtful loans		(1,811)	(1,483)
Notes receivable, net	$	13,096	12,958

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 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.

(Dollars in thousands)

(4) Contributions Receivable

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

		2008	2007
Amounts due in:			
One year or less	$	44,205	23,196
Between one and five years		61,461	60,296
More than five years		23,909	21,578
Gross contributions receivable		129,575	105,070
Less:			
Discount		(10,330)	(10,793)
Allowance for unfulfilled contributions		(4,993)	(3,825)
Contributions receivable, net	$	114,252	90,452

Contributions receivable have been discounted to net present value at rates ranging from 2.3% to 6%.

(5) Investments

The University's investments comprised the following as of June 30:

		2008	2007
Cash and cash equivalents	$	5,782	8,345
Fixed income		113,705	124,401
Equities		144,829	220,835
Real estate		14,292	7,885
Alternative investments		474,487	373,243
Investments, at fair value	$	753,095	734,709

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 value and liabilities are recorded to recognize the present value of estimated future payments due to beneficiaries. The liabilities of $16,858 in 2008 and $16,069 in 2007 are included in accounts payable and other liabilities in the statements of financial position.

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

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(Dollars in thousands)

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 63% and 51% of total investments, as of June 30, 2008 and 2007, 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.

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. Theses deficiencies total $342 at June 30, 2008. As the market value of the portfolio increases, the deficiency is reduced. The allocation of deficiencies is recorded in accordance with FAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.

The University has agreed to make additional capital contributions totaling $148,077 to various funds. The timing and amounts of the contributions will be determined by the fund managers.

At June 30, 2008, of the University investments, approximately $487,692 have restricted redemptions for lock up periods. Some of the investments with redemption restrictions allow early redemption for specified fees. The expiration of redemption lock up period amounts for the next five years are summarized in the table below:

	Amount
Fiscal year:	
2009	$ 22,837
2010	71,183
2011	61,122
2012	4,569
2013	8,605
Total	$ 168,316

(Dollars in thousands)

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

		2008	2007
Investment income	$	11,597	17,233
Net realized gain		55,305	34,726
		66,902	51,959
Less management fees		(2,344)	(2,080)
		64,558	49,879
Net increase (decrease) in unrealized appreciation		(45,512)	66,845
Investment earnings	$	19,046	116,724

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 2008 and 2007 amount to $27,597 and $18,062, respectively. The funds are utilized principally for financial aid and support of faculty chairs. Future utilization of gains is dependent on market performance.

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:

		2008	2007
Land and land improvements	$	23,059	22,579
Buildings		89,079	89,304
Building systems and improvements		248,955	233,871
Equipment and furnishings		63,584	57,724
		424,677	403,478
Less accumulated depreciation		(218,028)	(205,171)
Construction in progress		86,683	25,400
Property, plant and equipment, net	$	293,332	223,707

(Continued)

Depreciation expense amounted to $15,311 in 2008 and $14,275 in 2007. Operation and maintenance expenses amounted to $31,993 in 2008 and $33,053 in 2007.

The University has commitments to expend approximately $72,681 to complete various construction projects as of June 30, 2008. The University anticipates additional expenditures of approximately $45,755 to complete the construction projects.

(Dollars in thousands)

(7) Indebtedness

Outstanding debt as of June 30 consists of the following:

		2008	2007
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 Development Finance Agency Revenue Bonds, Brandeis University Issue 2008 Series M Variable Rate Demand Bond Maturing in annual installments from October 1, 2008 through October 1, 2037		62,505	—
Commonwealth of Massachusetts Development Finance Agency Revenue Bonds, Brandeis University Issue 2007 Series L Select Auction Variable Rate Securities maturing in annual installments from October 1, 2008 through October 1, 2037		—	61,975
Commonwealth of Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2004 Series K, at interest rates from 3.0% to 4.94%, maturing in annual installments through October 1, 2033		23,435	23,940
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 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 through October 1, 2011		15,503	18,771
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Master Lease, at an interest rate of 3.6% with interest only in fiscal years 2007 and 2008, principal and interest payable in fiscal year 2009 through November 2015		8,000	8,000
Various capital lease agreements with a financial services corporation with lease payments at interest rates from 2.57% to 8.36% through December 2011		1,692	2,161
Various mortgage notes payable at interest rates from 0% to 3.00% maturing in various years through November 1, 2011		356	702
Long-term debt before discount		212,991	217,049
Less unamortized discount		(2,263)	(2,368)
	$	210,728	214,681

In April 2008, the University issued Massachusetts Development Finance Agency Revenue Bonds, Brandeis University Issue, Series M, Variable Rate Demand Bonds Securities, in the amount of $62,505.

(Dollars in thousands)

The proceeds of the Series M Bonds were used to refinance the Series L Bonds. The proceeds of the Series L Bonds were used to finance the construction of a new science center and a new residence hall. As a result of this refinance the University expensed $1,106 of unamortized Series L issuance costs.

During fiscal years 2008 and 2007 the University obtained lease financing through financial services corporations in the amount of $635 and $368, 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 $189 at June 30, 2008 is included in notes payable and will be repaid in installments through September 2010.

The University has a $50,000 line of credit, with a variable rate of interest at prime or a fixed rate at LIBOR plus 50 basis points that is redetermined on a 30, 60 and 90 day basis. There was no amount outstanding as of June 30, 2008 and 2007.

The fair market value of the external debt is estimated to be approximately $5,500 more than the aggregate carrying value at June 30, 2008.

The University's payments for debt and lease obligations are as follows:

		Debt	Leases
Year ending June 30:			
2009	$	6,409	888
2010		7,409	550
2011		7,210	167
2012		7,062	87
2013		7,581	—
Thereafter		175,628	—
	$	211,299	1,692

Interest expense for the years ended June 30, 2008 and 2007 was $7,251 and $7,496, respectively. Interest costs incurred in association with the Series L and Series M bonds, and MHEFA Master Lease and capitalized during 2008 and 2007 were $3,605 and $1,008, respectively, and will be amortized over the useful lives of the related assets.

The University has a $62,505 letter of credit associated with the Series M bond. The letter of credit agreement contains two financial covenants. The University was compliant with these covenants as of June 30, 2008.

(Dollars in thousands)

The University is party to two interest rate swap transactions designed to manage the University's interest costs and risks associated with variable rate debt. In January 2006, the University entered into two interest rate swap agreements, which expire in October 2036 and October 2039, effectively to convert $60,000 and $40,000, respectively, of the variable rate exposure to a fixed rate. The estimated fair value of this agreement, based on various factors related to the underlying debt facility and interest rates, represents an unrealized loss of $4,281 and unrealized gain of $1,110 at June 30, 2008 and June 30, 2007, respectively. This is included in account payable and other liabilities and in other assets in the Statement of Financial Position at June 30, 2008 and June 30, 2007, respectively. See note 13 for additional information related to the $40,000 swap agreement. These financial instruments involve counter-party credit exposure. The counter-party for these swap transactions, Lehman Brothers Commercial Bank, is a major financial institution that meets the University's criteria for financial stability and creditworthiness.

Subsequent to June 30, 2008, the financial markets in the United States have experienced significant turmoil. The University has, as part of its management of debt, entered into a swap agreement as previously discussed. The continued effectiveness of the remaining swap will be contingent upon the ability of the counterparty to meet its contractual obligations under these agreements.

On October 1, 2008, the counterparty to the University's interest rate swap agreement failed to meet its contractual obligation under the agreement. Management continues to monitor the effectiveness of the swap agreement and the viability of the counterparty.

Residence facilities with a book value of $1,937 are pledged as collateral for certain of the mortgage notes payable.

The University leases two office facilities, with the agreements expiring in June, 2014 and March, 2021. The University also has a contract to lease a telephone system expiring in June 2009. Future minimum lease payments at June 30, 2008 under these agreements are as follows:

		Operating lease payments
Fiscal year:		
2009	$	1,480
2010		678
2011		695
2012		713
2013		730
Thereafter		3,873
	$	8,169

(Dollars in thousands)

(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:

		2008	2007
Restricted contributions	$	45,003	41,220
Unexpended endowment income		3,042	4,836
Net realized and unrealized gains on endowment		141,509	153,552
Life income and annuity funds		6,324	8,402
Contributions receivable, net		87,288	57,090
Physical plant and other		15,737	21,364
Total temporarily restricted net assets	$	298,903	286,464

(b) Permanently Restricted Net Assets

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

		2008	2007
Endowment funds	$	435,215	398,662
Student loan funds		3,919	4,298
Life income and annuity funds		7,990	9,242
Contributions receivable, net		26,964	33,362
Funds held in trust by others		9,469	10,687
Total permanently restricted net assets	$	483,557	456,251

(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 $7,460 in 2008 and $6,764 in 2007.

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 $27,538 and $30,892 as of June 30, 2008 and 2007, respectively, in investments with related parties. The related parties are a University Trustee who is a managing member of a partnership and a University Trustee who was a general partner in an investment. The University Investment Committee approved and continues to monitor these investments.

(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.

(12) Asset Retirement Obligation

In March 2005, the Financial Accounting Standards Board (FASB) issued FIN 47. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an assets retirement activity, however, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity.

In 2008 the liability was adjusted to reflect an estimated cost increase of 4.3% and reduced by the actual cost of abatement work performed. In 2008, the University incurred accretion and depreciation costs of $290 and performed $56 of abatement. As of June 2008 and 2007, the estimated liabilities were $6,863 and $6,612, respectively.

Substantially all of the impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos.

(13) Subsequent Events

On August 6, 2008, the University issued Series N bonds for $47,500. The interest rates are fixed, with rates between 3.25% to 5.00% and the bonds mature between October 2012 to October 2029 and October 2039. The purpose of the issuance is for construction of buildings.

On August 6, 2008, the University terminated the $40,000 forward cancelable swap agreement for a cost of $799. As of June 30, 2008, the University had a liability recorded for $989 included in accounts payable and other accrued liabilities.