BRANDEIS UNIVERSITY

Financial Statements

June 30, 2009 and 2008

(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, 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. 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, 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.

KPMG LLP

October 22, 2009

BRANDEIS UNIVERSITY

Statements of Financial Position

June 30, 2009 and 2008

(In thousands of dollars)

Assets		**2009**	**2008**
Cash and cash equivalents	$	74,388	40,953
Short term investments		16,391	—
Accounts receivable, net (note 2)		10,336	10,482
Notes receivable, net (note 3)		13,917	13,096
Other assets		6,952	8,169
Contributions receivable, net (note 4)		88,299	114,252
Funds held by bond trustee		5,728	1,048
Investments, at fair value (note 5)		588,116	753,095
Funds held in trust by others		7,960	9,471
Property, plant and equipment, net (notes 6, 8, and 14)		343,640	293,332
Total assets	$	1,155,727	1,243,898
Liabilities and Net Assets			
Accounts payable and other accrued liabilities (notes 5, 8, and 14)	$	59,344	67,496
Bank loan (note 7)		50,000	—
Sponsored program advances and deferred income		15,429	13,731
Long-term debt, net (note 8)		252,950	210,728
Refundable advances for student loans (note 3)		6,202	6,191
Total liabilities		383,925	298,146
Net assets (notes 9 and 10):			
Unrestricted		97,641	163,292
Temporarily restricted		183,899	298,903
Permanently restricted		490,262	483,557
Total net assets		771,802	945,752
Total liabilities and net assets	$	1,155,727	1,243,898

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Activities

Years ended June 30, 2009 and 2008

(In thousands of dollars)

		2009	2008
Changes in unrestricted net assets:			
Revenues and gains:			
Tuition and fees	$	165,161	155,922
Residence hall and dining income		25,300	24,414
Less financial aid		(68,411)	(61,730)
Net tuition, fees, residence hall and dining		122,050	118,606
Contributions		13,429	8,300
Sponsored programs, grants and contracts		55,905	52,473
Investment earnings (note 5)		2,080	5,296
Investment income from funds held in trust by others		292	330
Net realized and unrealized investment (losses) gains (note 5)		(29,243)	1,920
Other sources		7,877	9,793
Net assets released from restrictions		76,220	61,814
Total unrestricted revenues, gains and other support		248,610	258,532
Expenses and losses:			
Instructional and sponsored programs		156,477	148,855
Libraries		14,646	14,389
Student services		27,548	25,839
Institutional support		37,808	40,705
Auxiliary enterprises		33,149	31,578
Loss on change in value of interest rate swap (note 8)		2,009	5,392
Loss on refinancing (note 8)		—	1,106
Loss on disposals and retirement of property, plant and equipment		3,084	1,079
Other reductions		563	377
Net transfers to record market value decline in donor restricted endowments		38,977	342
Total expenses and losses		314,261	269,662
Decrease in unrestricted net assets before sale of art collection items not capitalized		(65,651)	(11,130)
Gain on sale of art related to collection items not capitalized		—	5,076
Decrease in unrestricted net assets		(65,651)	(6,054)
Changes in temporarily restricted net assets:			
Contributions		15,035	60,164
Investment (losses) earnings (note 5)		(95,227)	13,828
Change in value of split interest agreements		1,081	(209)
Net transfers to record market value decline in donor restricted endowments		38,977	342
Net assets released from restrictions		(76,220)	(61,814)
Donors' clarification of intent		1,323	248
Other changes		27	(120)
(Decrease) increase in temporarily restricted net assets		(115,004)	12,439
Changes in permanently restricted net assets:			
Contributions		9,964	29,840
Investment (losses) earnings (note 5)		(2,452)	346
Change in value of funds held in trust by others		(1,501)	(1,915)
Change in value of split interest agreements		2,299	(300)
Donors' clarification of intent		(1,323)	(248)
Other changes		(282)	(417)
Increase in permanently restricted net assets		6,705	27,306
Change in total net assets		(173,950)	33,691
Net assets at beginning of year		945,752	912,061
Net assets at end of year	$	771,802	945,752

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statements of Cash Flows

Years ended June 30, 2009 and 2008

(In thousands of dollars)

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(173,950)	33,691
Adjustments to reconcile change in net cash used in operating activities:			
Depreciation and amortization		17,717	15,574
Net realized and unrealized investment losses (gains)		130,506	(9,793)
Net change in funds held in trust by others		1,511	1,216
Net unrealized loss on change in value of swap		2,009	5,392
Loss on refinancing		—	1,106
Loss on the disposal and retirement of property, plant and equipment		3,084	1,079
Contributions restricted for long-term investment		(29,047)	(44,519)
Change in other assets		28,065	(25,754)
Change in other liabilities		160	4,594
Net cash used in operating activities		(19,945)	(17,414)
Cash flows from investing activities:			
Acquisitions of buildings and equipment		(79,096)	(78,544)
Purchase of investments		(175,265)	(236,830)
Proceeds from sale and maturities of investments		193,347	228,237
Change in notes receivable, net		(821)	(138)
Net cash used in investing activities		(61,835)	(87,275)
Cash flows from financing activities:			
Repayments of bonds, notes and leases		(6,580)	(67,197)
Proceeds from bank loan		50,000	—
Proceeds from issuance of bonds and notes		47,500	63,140
Capitalized bond issue premium and costs, net		(72)	—
Change in funds held by bond trustee		(4,680)	54,623
Contributions restricted for long-term investment		29,047	44,519
Net cash provided by financing activities		115,215	95,085
Change in cash and cash equivalents		33,435	(9,604)
Cash and cash equivalents, beginning of year		40,953	50,557
Cash and cash equivalents, end of year	$	74,388	40,953
Supplemental data:			
Interest paid	$	11,078	10,270

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 Presentation

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

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.

(Continued)

(c) Contributions

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 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 $10,886 and $11,292 for the years ended June 30, 2009 and 2008, 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) 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 may differ from those estimates. Estimates recorded in these financial statements at June 30, 2009 and 2008 are primarily comprised of certain investments, estimated net realizable value of receivables, asset retirement obligations, the valuation of split interest agreements, and the valuation of the interest rate swap agreement. The current economic environment increases the uncertainty of those estimates.

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(l) Other Assets

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

(m) Allocation of Expenses

The statement of activities presents expenses by functional classification. Depreciation, amortization, interest, and operation of plant expenses are allocated to functional expense categories on the basis of square feet utilized.

(n) Reclassifications

Certain 2008 balances have been reclassified to conform to the 2009 presentation.

(o) Recently Issued Accounting Standards

Fair Value Measurements **(Statement 157)**

Effective July 1, 2008, the University adopted Financial Accounting Standards Board (FASB) Statement No. 157. Statement 157 defines fair value and requires expanded disclosures about fair value measurements and establishes a three-level hierarchy for fair value measurements based on the observable inputs to the valuation of an asset or liability at the measurement date. Fair value is defined as the price that the University would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). See note 15.

In connection with the adoption of Statement 157, the University adopted the provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent),* to its alternative investments. This standard amends Statement 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent as a practical expedient.

Subsequent Events **(FASB Statement 165)**

Effective June 30, 2009, the University adopted FASB Statement No. 165. Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles. The University evaluated events subsequent to June 30, 2009 and through October 22, 2009, the date on which the financial statements were issued. The adoption of Statement 165 had no impact on the University’s financial statements.

(Continued)

(In thousands of dollars)

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)**

Effective July 1, 2008, the University adopted FASB Staff Position No. 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 of 2006 (UPMIFA), and requires disclosures about endowment funds, both donor restricted endowment funds and board-designated (quasi) endowment funds. As of June 30, 2009, the University adopted the provisions of UPMIFA and, accordingly, the impact of FSP 117-1 has been limited to additional disclosures regarding the University's endowment funds. See note 10.

Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109 **(FIN 48)**

Effective July 1, 2007, the University adopted Financial Accounting Standards Board (FASB) Interpretation No. 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.

(2) Accounts Receivable

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

	2009	2008
Student receivables	$ 2,014	1,841
Sponsored programs grants receivable	5,816	5,719
Other	2,471	1,869
Sale of art receivable	—	910
Bequest receivable	600	706
	10,901	11,045
Less allowance for doubtful accounts	(565)	(563)
Accounts receivable, net	$ 10,336	10,482

(In thousands of dollars)

(3) Notes Receivable

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

		2009	2008
Federal Perkins Loan Program	$	7,050	7,058
University loan programs		8,962	7,849
		16,012	14,907
Less allowance for doubtful loans		(2,095)	(1,811)
Notes receivable, net	$	13,917	13,096

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.

(4) Contributions Receivable

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

		2009	2008
Amounts due in:			
One year or less	$	39,919	44,205
Between one and five years		44,811	61,461
More than five years		20,161	23,909
Gross contributions receivable		104,891	129,575
Less:			
Discount		(8,129)	(10,330)
Allowance for unfulfilled contributions		(8,463)	(4,993)
Contributions receivable, net	$	88,299	114,252

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

(In thousands of dollars)

(5) Investments

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

		2009	2008
Cash and cash equivalents	$	41,262	5,782
Fixed income		98,432	113,705
Equities		97,305	144,829
Real estate		44,587	14,292
Private investments		79,505	74,668
Marketable and nonmarketable alternative investments		227,025	399,819
Total	$	588,116	753,095

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 $12,365 in 2009 and $16,858 in 2008 are included in accounts payable and other liabilities in the statements of financial position.

Investments are stated at fair value. The fair value of investments is reported within the three investment valuation measurement categories identified in note 15. As described in note 1(o), the University utilized the NAV reported by the alternative investments as a practical expedient for fair values in the accompanying financial statements in accordance with Accounting Standards Update 2009-12. 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. 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 totaling $82,845 to various funds. The timing and amounts of the contributions will be determined by the fund managers.

(Continued)

(In thousands of dollars)

The University has certain investments with a fair value of $192,933 at June 30, 2009 that 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 four years are summarized in the table below:

		Amount
Fiscal year:		
2010	$	54,878
2011		79,689
2012		22,309
2013		6,149
Total	$	163,025

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

		2009	2008
Investment income	$	5,664	11,597
Net realized (loss) gain		(4,617)	55,305
		1,047	66,902
Less management fees		(1,649)	(2,344)
		(602)	64,558
Net decrease in unrealized appreciation		(125,889)	(45,512)
Investment (loss) earnings	$	(126,491)	19,046

On July 2, 2009, Massachusetts enacted the provisions and statutes of UPMIFA and made it effective for not-for-profits as of June 30, 2009. The University adopted the provisions of UPMIFA effective June 30, 2009. State law allowed 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, a percentage of permanently restricted long term investments is appropriated annually as determined by the University’s Board of Trustees. Accumulated capital gains spent in 2009 and 2008 amount to $44,200 and $27,597, respectively. The funds are utilized principally for financial aid and support of faculty chairs.

(In thousands of dollars)

(6) Property, Plant and Equipment

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

		2009	2008
Land and land improvements	$	32,158	23,059
Buildings		159,643	89,079
Building systems and improvements		299,019	248,955
Equipment and furnishings		60,151	63,584
		550,971	424,677
Less accumulated depreciation		(225,213)	(218,028)
Construction in progress		17,882	86,683
Property, plant and equipment, net	$	343,640	293,332

Depreciation expense amounted to $17,629 in 2009 and $15,311 in 2008. Operation and maintenance expenses amounted to $31,320 in 2009 and $31,993 in 2008.

The University has commitments to expend approximately $33,937 to complete various construction projects as of June 30, 2009. In addition, the University anticipates expenditures of approximately $7,048 to complete the construction projects.

(7) Bank Loan

The University has a $50,000 line of credit with a rate of interest at LIBOR plus 50 basis points that is re-determined on a 30, 60 and 90 day basis. During June 2009, the University borrowed $50,000 from the line of credit, which was outstanding as of June 30, 2009. The monthly interest rate at June 30, 2009 was 0.805%. The line of credit expires on October 30, 2009. There was no amount outstanding as of June 30, 2008. (see note 16)

(In thousands of dollars)

(8) Indebtedness

Outstanding debt as of June 30 consists of the following:

		2009	2008
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Series I Revenue Bonds at effective interest rates from 4.75% to 5.25% 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		61,960	62,505
Commonwealth of Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2004 Series K, at interest rates from 2.0% to 4.75%, maturing in annual installments through October 1, 2033		22,920	23,435
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 6.25% to 6.80%, maturing in annual installments through October 1, 2011		12,006	15,503
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Master Lease, at an interest rate of 3.6% with interest only through fiscal year 2008, principal and interest payable from fiscal year 2009 through November 2013		7,139	8,000
Commonwealth of Massachusetts Development Finance Agency Revenue Bonds, Brandeis University Issue 2008 Series N at interest rates from 3.25% to 5.0% maturing in annual installments from October 1, 2012 through October 1, 2039		47,500	—
Various mortgage notes payable at interest rates from 0% to 3.00% maturing in various years through November 1, 2011		143	356
Various capital lease agreements with a financial services corporation with lease payments at interest rates from 4.25% to 7.62% through November 2012		1,296	1,692
Long-term debt before discount		254,464	212,991
Less unamortized discount		(1,514)	(2,263)
	$	252,950	210,728

(In thousands of dollars)

In August 2008, the University issued Massachusetts Development Finance Agency Revenue Bonds, Brandeis University Issue, Series N, in the amount of $47,500. The proceeds of the Series N Bonds were used for the construction of buildings. As a result of this bond issue, the University capitalized bond issue costs of $541 and a bond premium of $660 to be amortized over the life of the bond.

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. 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 2008.

During fiscal years 2009 and 2008 the University obtained lease financing through financial services corporations in the amount of $553 and $635, 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 $51 at June 30, 2009 is included in notes payable and will be repaid in installments through September 2010.

The fair market value of the external debt is estimated to be approximately $5,400 more than the aggregate carrying value at June 30, 2009.

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

		Debt	Leases
Year ending June 30:			
2010	$	7,150	680
2011		7,471	305
2012		7,839	234
2013		8,421	77
2014		7,743	—
Thereafter		214,544	—
	$	253,168	1,296

Interest expense, net of amounts capitalized, for the years ended June 30, 2009 and 2008 was $7,253 and $7,251, respectively. Interest costs incurred in association with the Series L, Series N and Series M bonds, and MHEFA Master Lease and capitalized during 2009 and 2008 were $4,333 and $3,605, respectively, and will be amortized over the useful lives of the related assets.

The University has a $61,960 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, 2009.

(In thousands of dollars)

The University is party to interest rate swap transactions designed to manage the University's interest costs and risks associated with variable rate debt. In January 2006, the University initially 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. During August 2008, the University terminated the $40,000 forward cancelable swap agreement for a cost of $799. In November 2008, the University changed counterparties for the interest rate swap, which was converted from $60,000 to $58,000. The estimated fair value of the remaining agreement, based on various factors related to the underlying debt facility and interest rates, represents an unrealized loss of $6,290 at June 30, 2009 and for both agreements this amounted to $4,281 at June 30, 2008. This is included in accounts payable and other liabilities and in other assets in the statement of financial position at June 30, 2009 and 2008, respectively. These financial instruments involve counter-party credit exposure. The counter-party for the remaining swap transaction, Deutsche Bank, is a major financial institution that meets the University's criteria for financial stability and creditworthiness.

Residence facilities with a book value of $1,704 are pledged as collateral for certain mortgage notes payable.

The University leases two office facilities, with the agreements expiring in June 2014 and March 2021. Future minimum lease payments at June 30, 2009 under these agreements are as follows:

	Operating lease payments
Fiscal year:	
2010	$ 678
2011	695
2012	713
2013	730
2014	748
Thereafter	3,125
	$ 6,689

(9) 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 plant, instruction, or financial aid.

(In thousands of dollars)

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

		2009	2008
Restricted contributions	$	50,325	45,003
Endowment income		20,208	144,209
Life income and annuity funds		5,108	6,324
Contributions receivable, net		64,613	87,288
Physical plant and other		4,326	15,737
		144,580	298,561
Underwater endowment accounts		39,319	342
Total temporarily restricted net assets	$	183,899	298,903

(b) Permanently Restricted Net Assets

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

		2009	2008
Endowment investment funds	$	451,250	434,902
Life insurance cash surrender value		322	329
Student loan funds		3,653	3,901
Life income and annuity funds		3,391	7,990
Contributions receivable, net		23,686	26,964
Funds held in trust by others		7,960	9,471
Total permanently restricted net assets	$	490,262	483,557

(10) Endowments

The University's endowment and quasi-endowment consists of approximately 1,773 individual endowment accounts established for a variety of purposes in accordance with the applicable law and donor intent and funds designated by the University's Board to operate as endowment (quasi-endowment). If an individual restricted endowment fund amount is determined to fall below the market value for that fund, that fund is considered to be "underwater". 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 value of underwater endowment accounts was less than their original fair value by $39,319 and $342 as of June 30, 2009 and 2008, respectively.

FSP 117-1 prescribes new disclosures to enable users of financial statements to understand the net asset classifications and composition, changes in net asset composition, spending policy, and related investment policy to its endowment funds (both donor-restricted and board designated) and for expenditures of a donor restricted endowment fund. Massachusetts enacted the provisions and statutes of UPMIFA and made it effective for not-for-profits as of June 30, 2009. The University adopted the provisions of UPMIFA effective June 30, 2009.

(In thousands of dollars)

The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment; (b) the original value of subsequent gifts to the permanent endowment, and; (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund less a percentage of permanently restricted net assets as approved by the Board of Trustees.

The endowment investment objectives are to maximize risk-adjusted returns over a long-term horizon and to achieve its objectives by having a strategy of investing in multiple asset classes. In order to meet the primary investment goals for endowment funds, the average annual net total return over an extended period, after adjusting for inflation, is deemed sufficient to support the spending rate as determined by the University's Board of Trustees. To have a reasonable probability of achieving the Fund's primary investment goal at an acceptable risk level, the Board of Trustees has adopted a long-term asset allocation policy.

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. Donor restricted amounts reported below include term endowments and appreciation, net of underwater funds and are reported as temporarily restricted net assets.

Endowment and quasi-endowment funds consist of the following at June 30, 2009 and 2008:

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor restricted	$ (39,319)	76,428	451,250	488,359
Quasi (Board-designated)	70,157	—	—	70,157
Total	$ 30,838	76,428	451,250	558,516

	2008			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor restricted	$ (342)	164,867	434,902	599,427
Quasi (Board-designated)	112,705	—	—	112,705
Total	$ 112,363	164,867	434,902	712,132

(Continued)

(In thousands of dollars)

Changes in endowment and quasi-endowment funds for the year ended June 30, 2009 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets June 30, 2008	$	112,363	164,867	434,902	712,132
Investment income		29	52	21	102
Realized and unrealized losses		(66,227)	(60,788)	—	(127,015)
Contributions		957	—	13,232	14,189
Distributions		(16,497)	(27,703)	—	(44,200)
Transfers		213	—	3,095	3,308
June 30, 2009	$	30,838	76,428	451,250	558,516

Changes in endowment and quasi-endowment funds for the year ended June 30, 2008 are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets June 30, 2007	$	115,772	176,936	398,350	691,058
Investment income		40	80	39	159
Realized and unrealized gains		(416)	8,065	—	7,649
Contributions		4	—	36,147	36,151
Distributions		(6,325)	(21,272)	—	(27,597)
Transfers		3,288	1,058	366	4,712
June 30, 2008	$	112,363	164,867	434,902	712,132

The unrestricted deficit in donor restricted net assets of $39,319 in 2009 and $342 in 2008 represents the decline in market values of certain permanently restricted endowments below the amount of their original gifts in accordance with FAS 124.

(11) 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 6%–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 $7,779 in 2009 and $7,460 in 2008.

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.

(12) Related Party Transactions

The University has invested $13,535 and $27,538 as of June 30, 2009 and 2008, 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.

(13) 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.

(14) 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 2009 the liability was reduced $57 to reflect an estimated cost decrease of 0.85%. The liability was also reduced by the actual cost of abatement work performed in the amount of $117. As of June 2009 and 2008, the estimated liabilities were $6,689 and $6,863, respectively, included in accounts payable and other accrued liabilities.

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

(15) Fair Value

At June 30, 2009 and 2008, the carrying values of the University's cash and cash equivalents, receivables, accounts payable, and deposits approximated their fair values based on their maturities. An approximate estimate of the fair values of student loan receivables administered by the University under federal government loan programs is not practical because the receivables can only be assigned to the U.S. government or its designees.

Under Statement 157, which prioritizes the inputs to valuation techniques used to measure fair value, the three levels of the fair value hierarchy are as follows:

> *Level 1* – inputs are quoted prices (unadjusted) in active markets for identical investments that the University has the ability to access at measurement date.
>
> *Level 2* – inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the investments.
>
> *Level 3* – inputs are unobservable inputs for investments.

(In thousands of dollars)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The University's assets and liabilities at June 30, 2009 that are reported at fair value are summarized in the following table by their fair value hierarchy:

	June 30, 2009	(Level 1)	(Level 2)	(Level 3)
Assets:				
Endowment investments:				
Cash and cash equivalents	$ 41,262	41,262	—	—
Fixed income	75,395	43,247	—	32,148
Equities	90,742	66	34,235	56,441
Real estate	44,587	—	—	44,587
Private investments	79,505	—	—	79,505
Marketable alternatives	227,025	—	6,924	220,101
Total endowment investments	558,516	84,575	41,159	432,782
Other investments:				
Fixed income	23,037	21,566	1,471	—
Equities	6,563	5,618	340	605
Total other investments	29,600	27,184	1,811	605
Total investments	588,116	111,759	42,970	433,387
Other assets:				
Short-term investments	16,391	16,391	—	—
Life insurance cash surrender value	322	—	322	—
Funds held by bond trustee	5,728	5,728	—	—
Funds held in trust by others	7,960	—	—	7,960
Total other assets	30,401	22,119	322	7,960
Total assets	$ 618,517	133,878	43,292	441,347
Liabilities:				
Interest rate swap agreement	$ 6,290	—	6,290	—

(In thousands of dollars)

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 Statement 157:

		Fixed income	Global equity	Private investments	Real estate	Marketable alternatives	Other	Total
Balance at June 30, 2008	$	74,446	63,390	112,391	59,625	200,639	9,947	520,438
Acquisitions		—	7,500	25,939	10,793	48,000	1,235	93,467
Dispositions		(35,042)	—	—	(593)	(11,682)	(768)	(48,085)
Realized gain		5,285	—	15,043	9	2,700	(338)	22,699
Unrealized loss		(12,541)	(14,449)	(73,868)	(25,247)	(19,556)	(1,511)	(147,172)
Balance at June 30, 2009	$	32,148	56,441	79,505	44,587	220,101	8,565	441,347

(16) Subsequent Event

On July 29, 2009, the University repaid the $50,000 line of credit. There are currently no amounts outstanding.