



BRANDEIS UNIVERSITY

Financial Statements

June 30, 2012

(with summarized comparative information for June 30, 2011)

(With Independent Auditors' Report Thereon)



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Board of Trustees
Brandeis University:

We have audited the accompanying balance sheet of Brandeis University (the University) as of June 30, 2012, and the related statements of activities and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements and, in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Brandeis University as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

November 27, 2012

BRANDEIS UNIVERSITY

Balance Sheet

June 30, 2012

(with comparative information as of June 30, 2011)

(In thousands of dollars)

Assets	2012	2011
Cash and cash equivalents	\$ 15,422	16,438
Short-term investments	19,252	21,339
Accounts receivable, net	13,090	11,408
Notes receivable, net	13,448	13,692
Other assets	7,723	6,487
Contributions receivable, net	38,528	44,002
Funds held by bond trustee	1,943	10,041
Investments, at fair value	706,289	736,444
Funds held in trust by others	8,993	9,544
Property, plant and equipment, net	354,398	358,183
Total assets	<u>\$ 1,179,086</u>	<u>1,227,578</u>
Liabilities and Net Assets		
Accounts payable and accrued liabilities	\$ 45,986	49,097
Sponsored program advances and deferred income	16,329	14,527
Long-term debt, net	266,648	275,701
Refundable advances for student loans	6,100	6,122
Total liabilities	<u>335,063</u>	<u>345,447</u>
Net assets:		
Unrestricted	142,540	161,836
Temporarily restricted	170,312	204,160
Permanently restricted	531,171	516,135
Total net assets	<u>844,023</u>	<u>882,131</u>
Total liabilities and net assets	<u>\$ 1,179,086</u>	<u>1,227,578</u>

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Activities

Year ended June 30, 2012

(with summarized comparative information for the year ended June 30, 2011)

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2012</u>	<u>2011</u>
Operating revenues:					
Tuition and fees	\$ 206,971	—	—	206,971	194,121
Residence hall and dining	31,648	—	—	31,648	29,281
Less scholarships and financial aid	(84,235)	—	—	(84,235)	(78,318)
Net tuition, fees, residence hall and dining revenues	154,384	—	—	154,384	145,084
Contributions	8,356	—	—	8,356	8,238
Restricted gifts used in operations	16,887	—	—	16,887	17,483
Sponsored programs, grants and contracts	63,817	—	—	63,817	64,809
Short-term investment earnings	2,044	—	—	2,044	2,565
Investment income from funds held in trust by others	276	—	—	276	258
Endowment return utilized	38,642	—	—	38,642	40,263
Other sources	8,880	—	—	8,880	8,701
Total operating revenues	293,286	—	—	293,286	287,401
Operating expenses:					
Instructional and sponsored programs	179,371	—	—	179,371	173,668
Libraries	12,458	—	—	12,458	12,480
Student services	29,578	—	—	29,578	28,554
Institutional support	38,343	—	—	38,343	41,356
Auxiliary enterprises	34,511	—	—	34,511	33,557
Total operating expenses	294,261	—	—	294,261	289,615
Change in net assets from operating activities	(975)	—	—	(975)	(2,214)
Nonoperating activities:					
Net investment return	(4,161)	(5,236)	177	(9,220)	105,039
Endowment return utilized in operations	(19,872)	(18,770)	—	(38,642)	(40,263)
Net assets released from restrictions	5,897	(5,897)	—	—	—
Contributions	—	13,851	16,259	30,110	19,976
Restricted gifts used in operations	—	(16,887)	—	(16,887)	(17,483)
Change in value of split-interests	(21)	(954)	(627)	(1,602)	(316)
Other changes, net	(164)	45	(773)	(892)	911
Change in net assets from nonoperating activities	(18,321)	(33,848)	15,036	(37,133)	67,864
Change in net assets	(19,296)	(33,848)	15,036	(38,108)	65,650
Net assets at beginning of year	161,836	204,160	516,135	882,131	816,481
Net assets at end of year	\$ 142,540	170,312	531,171	844,023	882,131

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2012

(with comparative information for the year ended June 30, 2011)

(In thousands of dollars)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (38,108)	65,650
Adjustments to reconcile change in net cash used in operating activities:		
Depreciation and amortization, net	21,375	20,069
Net realized and unrealized investment (gain) loss	9,380	(103,157)
Net change from funds held in trust by others	551	(1,133)
Contributions restricted for long-term investment	(21,824)	(24,759)
Change in operating assets, net	2,408	19,066
Change in operating liabilities, net	(969)	1,325
Net cash used in operating activities	<u>(27,187)</u>	<u>(22,939)</u>
Cash flows from investing activities:		
Acquisitions of buildings and equipment	(18,813)	(28,845)
Purchase of investments	(139,208)	(109,836)
Proceeds from sale and maturities of investments	162,070	148,872
Change in notes receivable, net	244	183
Net cash provided by investing activities	<u>4,293</u>	<u>10,374</u>
Cash flows from financing activities:		
Repayments of bonds, notes and leases	(8,044)	(6,576)
Proceeds from issuance of bonds and notes	—	10,000
Capitalized bond issue premium and costs, net	—	(61)
Change in funds held by bond trustee	8,098	(6,784)
Contributions restricted for long-term investment	21,824	24,759
Net cash provided by financing activities	<u>21,878</u>	<u>21,338</u>
Change in cash and cash equivalents	(1,016)	8,773
Cash and cash equivalents, beginning of year	<u>16,438</u>	<u>7,665</u>
Cash and cash equivalents, end of year	\$ <u><u>15,422</u></u>	\$ <u><u>16,438</u></u>
Supplemental data:		
Interest paid	\$ 12,231	12,899
Change in liabilities attributable to fixed assets	(362)	(8,204)

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

(1) Organization

Brandeis University (the University) is a private, nonprofit, nonsectarian, co-educational institution of higher education with approximately 5,300 full-time undergraduate and graduate students. Established in 1948, Brandeis University offers educational programs for undergraduates in liberal arts and sciences, and graduate education and training in the arts and sciences, business, social policy and management.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

Unrestricted – Net assets not subject to donor-imposed restrictions and available for the general operations of the University. Such net assets may be designated by the Board of Trustees for specific purposes, including to function as endowment funds.

Temporarily restricted – Net assets subject to donor-imposed or legal stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. As further described in note 11, the University is subject to the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA), under which donor-restricted endowment funds may be appropriated for expenditure by the Board of Trustees of the University in accordance with the standard of prudence prescribed by UPMIFA. Net assets of such funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by the Board and spent in accordance with the standard of prudence imposed by UPMIFA. Life income trusts and pledges receivable for which the ultimate use is not permanently restricted are also reported as temporarily restricted net assets.

Permanently restricted – Net assets subject to donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University and primarily consist of the historic dollar value of contributions to donor-restricted endowment funds.

The 2012 statement of activities is presented with 2011 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

(b) *Nonoperating Activities*

Nonoperating activities reflect transactions of a long-term investment or capital nature, including contributions to be invested by the University to generate a return that will support future operations, contributions to be received in the future, contributions to be used for and net assets released from restrictions for facilities and equipment, investment return net of the amount the University has appropriated for current operational support in accordance with the University's endowment spending policy, as well as other net asset changes resulting from transactions that do not arise from or currently affect operations.

(c) *Revenue Recognition*

Revenues are reported as an increase in unrestricted net assets, unless their use is limited by donor-imposed restrictions or by law in which case they are reported as increases in temporarily or permanently restricted net assets. Expirations of temporary restrictions are reflected in the statement of activities as restricted gifts used in operations. 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.

Revenues associated with sponsored research and other grants and contracts are recognized when the related allowable 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 as direct costs are incurred. All funds expended in connection with government grants and contracts are subject to audit by the granting agencies. In the opinion of management, any potential liability resulting from these audits will not have a material effect on the University's financial position.

Tuition and fees are reported at established rates, net of financial aid and scholarships provided to students. Student deposits and advance payments for tuition, room, and board for fall and certain summer sessions are deferred and recorded as revenues in the year in which the sessions are provided. Auxiliary enterprise revenues are recognized at the time the goods or services are provided.

(d) *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 increases in temporarily restricted or permanently restricted net assets based on donors' restrictions. Contributions of noncash assets are recorded at fair value on the date of the contribution.

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Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

Unconditional promises to give are recognized as temporarily or permanently restricted revenues in the year the contributions are promised. Contributions receivable are recorded as assets at the present value of the expected cash flow using discount rates of 0.72% to 6.0%, net of an allowance for unfulfillable contributions based upon historical collection experience and other relevant factors. Conditional contributions are not recognized until the stated conditions are met.

(e) Fundraising Expense

Fundraising expense was \$10,788 and \$10,826 for the years ended June 30, 2012 and 2011, respectively, and is classified as institutional support in the statement of activities.

(f) Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents, except those held as short-term investments or in the long-term investment portfolio, consist of money market funds and investments with original maturities of three months or less and are carried at cost, which approximates fair value.

(g) Short-Term Investments

Short-term investments consist of operating funds deposited in cash management accounts with maturities at the time of purchase of more than three months, and are carried at fair value.

(h) Fair Value

Investments and funds held in trust by others are reported at fair value in the University's financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. GAAP establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the University utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. Because the University uses net asset values reported by fund managers as a practical expedient to estimate the fair values of its investments held through limited partnerships and other funds, classification of these investments within the fair value hierarchy is based on the University's ability to timely redeem its interest rather than on inputs used. See note 6 for further discussion.

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Notes to Financial Statements

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(In thousands of dollars)

The estimated fair values of the University's financial instruments not measured at fair value, including cash and cash equivalents, receivables, accounts payable, accrued liabilities and deposits approximated their carrying values based on the generally shorter-term nature of these items as of June 30, 2012 and 2011. Notes receivable consist primarily of loans to students that have significant restrictions and long maturities, and it is not practicable to estimate their fair value. Utilizing available pricing information provided by a third party and other data, management determined that the estimated fair value of the University's long-term debt was approximately \$24,000 more than the aggregate carrying value as of June 30, 2012.

(i) Other Assets

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

(j) 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 the fair value of the trusts are recorded as permanently restricted gains or losses.

(k) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of land improvements (18 years), buildings (60 years), building systems and improvements (18 – 25 years) and equipment and furnishings (5 – 15 years).

Expenses for the repair and maintenance of facilities are recognized during the period incurred; betterments, which add to the value of the related assets or materially extend the lives of the assets, are capitalized. 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, 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. Payments to settle the obligation are charged against the liability, and any difference between the actual settlement cost and the related estimated liability recorded is recognized as a gain or loss in the statement of activities.

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Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

(l) 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 nonoperating expenses in the University's financial statements in the period in which the items are sold or acquired, respectively.

(m) Income Taxes

The University is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the Code), and is generally exempt from income taxes pursuant to Section 501(a) of the Code. The University is required to assess uncertain tax positions and has determined that there were no such positions that would jeopardize its tax-exempt status or have a material effect on the financial statements.

(n) Estimates

The preparation of financial statements in conformity with GAAP 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, and the differences may be material. Significant estimates recorded in these financial statements at June 30, 2012 and 2011 include the valuation of certain investments, useful lives of capital assets, accrued expenses, estimated net realizable value of receivables, asset retirement obligations and the valuation of split-interest agreements.

(o) 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.

(p) Reclassifications

Certain 2011 information has been reclassified to conform to the 2012 presentation.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

(3) Accounts Receivable

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

	<u>2012</u>	<u>2011</u>
Student receivables	\$ 2,779	2,514
Sponsored programs grants receivable	8,979	7,286
Other	2,067	2,251
	<u>13,825</u>	<u>12,051</u>
Less allowance for doubtful accounts	<u>(735)</u>	<u>(643)</u>
Accounts receivable, net	<u>\$ 13,090</u>	<u>11,408</u>

(4) Notes Receivable

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

	<u>2012</u>	<u>2011</u>
Federal Perkins Loan Program	\$ 6,276	6,473
University loan programs	9,903	9,708
	<u>16,179</u>	<u>16,181</u>
Less allowance for doubtful loans	<u>(2,731)</u>	<u>(2,489)</u>
Notes receivable, net	<u>\$ 13,448</u>	<u>13,692</u>

Notes receivable under the Federal Perkins Loan Program (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.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

(5) Contributions Receivable

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

	<u>2012</u>	<u>2011</u>
Amounts due in:		
One year or less	\$ 25,133	24,531
Between one and five years	28,126	28,441
More than five years	2,863	7,602
	<u>56,122</u>	<u>60,574</u>
Gross contributions receivable		
Less:		
Allowance for unfulfilled contributions	(15,590)	(13,387)
Discount, at rates from 0.72% to 6.0%	(2,004)	(3,185)
	<u>38,528</u>	<u>44,002</u>
Contributions receivable, net	\$	

(6) Investments and Fair Value

The investment objective of the University is to invest its assets in a prudent manner to achieve a long-term rate of return sufficient to fund a portion of its spending and to increase investment value after inflation. The University diversifies its investments among asset classes by incorporating several strategies and managers. Major investment decisions are authorized by the University's Trustees Investment Committee that oversees the University's investments.

In addition to equity and fixed income investments, the University may also hold shares or units in institutional funds and alternative investment funds involving hedged and private equity strategies. Hedged strategies involve funds whose managers have the authority to invest in various asset classes at their discretion, including the ability to invest long and short. Funds with hedged strategies generally hold securities or other financial instruments for which a ready market exists, and may include stocks, bonds and securities sold short and often require the estimation of fair values by the fund managers in the absence of readily determinable market values. Because of the inherent uncertainties of valuation, these estimated fair values may differ significantly from values that would have been used had a ready market existed, and the differences could be material. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held.

Investments include gift annuities and charitable remainder trusts. These funds are held 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 \$11,644 and \$11,028 as of June 30, 2012 and 2011, respectively, are included in accounts payable and accrued liabilities in the balance sheet.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

Investments are reported at estimated fair value. If an investment is held directly by the University and an active market with quoted prices exists, the market price of an identical security is used as the reported fair value. Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The University's interests in alternative investment funds are generally reported at the net asset value (NAV) reported by the fund managers and assessed as reasonable by the University, which is used as a practical expedient to estimate the fair value of the University's interest therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2012 and 2011, the University had no plans or intentions to sell investments at amounts different from NAV.

Registered mutual funds are classified in Level 1 of the fair value hierarchy as defined in note 2(h) because their fair values are based on quoted prices for identical securities. The University's fixed income strategy includes directly held U.S. corporate bonds, which although readily marketable are valued using matrix pricing and are classified in Level 2. Most investments classified in Levels 2 and 3 consist of shares or units in nonregistered investment funds as opposed to direct interests in the funds' underlying securities, which may be readily marketable or not difficult to value. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near the balance sheet date. If the interest can be redeemed in the near term, the investment is classified in Level 2. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risks associated with those investments or a reflection of the liquidity of or degree of difficulty in estimating the fair value of each fund's underlying assets and liabilities.

As of June 30, 2012, the University had \$490,111 in endowment investments classified in Level 3 in the fair value hierarchy. Of these Level 3 endowment investments, \$329,878 are redeemable but are subject to time restrictions and are classified as Level 3 investments accordingly. The underlying investments often consist of readily marketable securities for which active markets exist. The remaining Level 3 endowment investments of \$160,233 are comprised of private equity, credit and real asset investments which liquidate over longer periods due to the nature of the underlying investments and holding strategy of the funds.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

The University's assets at June 30, 2012 that are reported at estimated fair value are summarized in the following table by their fair value hierarchy classification:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Investments:						
Endowment investments:						
Global equity	\$ 10,711	58,465	41,047	110,223	[1]	1 – 90
Non-U.S. equity	76	25,388	46,456	71,920	[2]	1 – 60
Private equity	—	—	54,673	54,673	Illiquid	N/A
Hedge fund/credit:						
Credit – marketable	—	—	25,743	25,743	Annual	90
Credit – private	—	—	53,980	53,980	Illiquid	N/A
Hedge funds – long/short	—	—	61,789	61,789	Lock-up	30 – 90
Hedge funds – multi strategy	—	32,180	142,139	174,319	[3]	30 – 180
Real assets:						
Real assets – marketable	—	5,109	12,704	17,813	[4]	60
Real assets – private	—	—	51,580	51,580	Illiquid	N/A
Cash and cash equivalents	408	—	—	408	Daily	1
Treasuries and similar assets	52,074	—	—	52,074	Daily	1
Total endowment investments	63,269	121,142	490,111	674,522		
Other investments:						
Equities	3,230	135	—	3,365	Daily	1 – 90
Hedge funds – multi strategy	419	—	—	419	Daily	1
Cash and cash equivalents	235	—	—	235	Daily	1
Fixed income	—	3,088	—	3,088	Daily	1
Mutual funds	24,660	—	—	24,660	Daily	1
Total other investments	28,544	3,223	—	31,767		
Total investments	\$ 91,813	124,365	490,111	706,289		

- [1] Funds with daily redemption = \$10,711, quarterly redemption = \$58,465 of which \$8,500 has been redeemed and the funds distributed in July 2012, annual redemption = \$25,580 and \$15,467 subject to lock-up terms.
- [2] Funds with daily redemption = \$76, bi-weekly redemption = \$23,305, quarterly redemption = \$2,083 and \$46,456 subject to lock-up terms.
- [3] Funds with quarterly redemption redeemable within 90 days = \$29,859, funds with quarterly redemption redeemable after 90 days = \$1,073, semi-annual redemption redeemable within 90 days = \$2,321, semi-annual redemption redeemable after 90 days = \$6,726, annual redemption = \$79,603, \$19,714 subject to lock-up and \$35,023 invested in side-pockets that are illiquid.
- [4] Funds with quarterly redemption = \$5,109, annual redemption = \$12,704.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Short-term investments	\$ 4,818	14,434	—	19,252	Daily	1
Funds held by bond trustee	—	1,943	—	1,943	N/A	N/A
Funds held in trust by others	—	—	8,993	8,993	N/A	N/A

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Notes to Financial Statements

June 30, 2012

(with comparative information for June 30, 2011)

(In thousands of dollars)

The University's assets at June 30, 2011 that are reported at fair value are summarized in the following table by their fair value hierarchy classification:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Investments:						
Endowment investments:						
Global equity	\$ 15,426	50,610	44,435	110,471	[1]	1 – 90
Non-U.S. equity	27,343	—	52,082	79,425	[2]	1 – 60
Private equity	—	—	53,315	53,315	Illiquid	N/A
Hedge fund/credit:						
Credit – marketable	—	—	46,047	46,047	Annual	90
Credit – private	—	—	57,923	57,923	Illiquid	N/A
Hedge funds – long/short	—	—	50,056	50,056	Lock-up	30 – 90
Hedge funds – multi strategy	—	30,243	135,977	166,220	[3]	45 – 180
Real assets:						
Real assets – marketable	—	—	23,007	23,007	Annual	60
Real assets – private	—	—	43,245	43,245	Illiquid	N/A
Cash and cash equivalents	5,809	—	—	5,809	Daily	1
Treasuries and similar assets	68,148	—	—	68,148	Daily	1
Total endowment investments	<u>116,726</u>	<u>80,853</u>	<u>506,087</u>	<u>703,666</u>		
Other investments:						
Equities	2,762	135	—	2,897	Daily	1 – 90
Hedge funds – multi strategy	1,037	—	—	1,037	Daily	1
Cash and cash equivalents	188	—	—	188	Daily	1
Fixed income	—	3,796	—	3,796	Daily	1
Mutual funds	24,860	—	—	24,860	Daily	1
Total other investments	<u>28,847</u>	<u>3,931</u>	<u>—</u>	<u>32,778</u>		
Total investments	\$ <u>145,573</u>	<u>84,784</u>	<u>506,087</u>	<u>736,444</u>		

[1] Funds with daily redemption = \$15,426, quarterly redemption = \$50,610, annual redemption = \$27,484. \$16,951 is subject to lock-up terms.

[2] Funds with daily redemption = \$27,343. \$52,082 is subject to lock-up terms.

[3] Funds with quarterly redemption = \$30,243, annual redemption = \$93,662, annual to tri-annual = \$22,160. \$20,155 is subject to lock-up terms.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
Short-term investments	\$ 2,544	18,795	—	21,339	Daily	1
Funds held by bond trustee	—	10,041	—	10,041	N/A	N/A
Funds held in trust by others	—	—	9,544	9,544	N/A	N/A

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(with comparative information for June 30, 2011)

(In thousands of dollars)

The following tables present the University's activity for the fiscal years ended June 30, 2012 and 2011 for investments classified in Level 3 of the fair value hierarchy:

	<u>Equities</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Hedge fund/credit</u>	<u>Funds held in trust by others</u>	<u>Total</u>
Balance at June 30, 2011	\$ 96,517	53,315	66,252	290,003	9,544	515,631
Acquisitions	3,000	10,910	11,739	23,722	110	49,481
Dispositions	(1,007)	(4,976)	(3,921)	(26,169)	(331)	(36,404)
Transfers out	(5,000)	—	(4,793)	(892)	—	(10,685)
Realized loss	(561)	(3,859)	(1,024)	(9,956)	(33)	(15,433)
Unrealized gain	(5,446)	(717)	(3,969)	6,943	(297)	(3,486)
Balance at June 30, 2012	<u>\$ 87,503</u>	<u>54,673</u>	<u>64,284</u>	<u>283,651</u>	<u>8,993</u>	<u>499,104</u>

	<u>Equities</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Hedge fund/credit</u>	<u>Funds held in trust by others</u>	<u>Total</u>
Balance at June 30, 2010	\$ 68,060	43,976	48,212	299,312	8,411	467,971
Acquisitions	5,000	12,266	12,469	3,637	192	33,564
Dispositions	—	(6,367)	(2,901)	(18,337)	(289)	(27,894)
Transfers out	—	—	—	(30,243)	—	(30,243)
Realized (loss) gain	—	(4,799)	(1,368)	(3,913)	411	(9,669)
Unrealized gain	23,457	8,239	9,840	39,547	819	81,902
Balance at June 30, 2011	<u>\$ 96,517</u>	<u>53,315</u>	<u>66,252</u>	<u>290,003</u>	<u>9,544</u>	<u>515,631</u>

The University has agreed to make additional capital contributions totaling \$89,954 to various funds. The timing and amounts of the contributions will be determined by the fund managers.

The University has certain investments with a fair value of \$143,427 at June 30, 2012 that have restricted redemptions for lock up periods. Some of the investments with redemption restrictions allow earlier redemption for specified fees. The expiration of redemption lock-up period amounts are summarized in the table below:

	<u>Amount</u>
Fiscal year:	
2013	\$ 46,230
2014	52,892
2015	40,464
Thereafter	<u>3,841</u>
Total	<u>\$ 143,427</u>

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

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 5,278	5,594
Net realized gains	8,783	18,534
Net change in unrealized (depreciation) appreciation	<u>(18,789)</u>	<u>84,605</u>
	(4,728)	108,733
Less management fees	<u>(2,448)</u>	<u>(1,129)</u>
Total investment return	<u>\$ (7,176)</u>	<u>107,604</u>

The following is a reconciliation of amounts presented in the statement of activities to total investment return:

	<u>2012</u>	<u>2011</u>
Operating revenues - short-term investment earnings	\$ 2,044	2,565
Nonoperating revenues - net investment return	<u>(9,220)</u>	<u>105,039</u>
Total investment return	<u>\$ (7,176)</u>	<u>107,604</u>

(7) Property, Plant and Equipment

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

	<u>2012</u>	<u>2011</u>
Land and land improvements	\$ 42,194	41,697
Buildings	178,956	178,956
Building systems and improvements	326,565	318,422
Equipment and furnishings	<u>79,522</u>	<u>72,410</u>
	627,237	611,485
Less accumulated depreciation	(279,024)	(256,796)
Construction in progress	<u>6,185</u>	<u>3,494</u>
Property, plant and equipment, net	<u>\$ 354,398</u>	<u>358,183</u>

Depreciation expense amounted to \$22,236 in 2012 and \$20,909 in 2011. Operation and maintenance expenses amounted to \$32,741 in 2012 and \$36,807 in 2011.

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The University has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities, primarily asbestos removal, at the time of disposal of certain capital assets. As of June 30, 2012 and 2011, the estimated liabilities were \$6,362 and \$6,233, respectively, and are included in accounts payable and accrued liabilities.

(8) Line of Credit

The University had a \$50,000 line of credit with Bank of America which expired on December 31, 2011. There were no amounts outstanding throughout fiscal 2011 or in the six months through December 31, 2011.

On February 21, 2012, a new credit agreement was entered into with JPMorgan Chase Bank, NA. The \$50,000 line of credit has an interest rate of LIBOR plus 55 basis points. As of June 30, 2012, the monthly interest rate was 0.79%. There is an annual commitment fee of 0.1% based on the daily average unused portion of the loan commitment, which is paid quarterly. The maturity date of the credit agreement is March 30, 2015. There have been no borrowings against this line of credit.

(9) Long-Term Debt

Outstanding debt as of June 30 consists of the following:

	<u>2012</u>	<u>2011</u>
Commonwealth of Massachusetts Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2010 Series O-2, at interest rates from 3.0% to 5.0% maturing in annual installments from October 1, 2012 through October 1, 2028	\$ 95,410	95,410
MDFA Revenue Bonds, Brandeis University Issue 2010 Series O-1, at interest rates from 3.0% to 5.0% maturing in annual installments from October 1, 2013 through October 1, 2040	82,325	82,325
MDFA 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	47,500
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	21,265	21,835
MDFA Brandeis University Issue Master Lease, at an interest rate of 2.62%, principal and interest payable through May 10, 2018	8,570	9,891

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	<u>2012</u>	<u>2011</u>
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 through November 2013	\$ 2,414	4,046
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	—	4,273
Various mortgage notes payable at interest rates from 0% to 3.00% maturing in various years through November 1, 2011	—	14
Various capital lease agreements with a financial services corporation with lease payments at interest rates from 4.29% to 5.97% through November 2012	<u>76</u>	<u>310</u>
Long-term debt before premium, net	257,560	265,604
Unamortized premium, net	<u>9,088</u>	<u>10,097</u>
Long-term debt, net	<u>\$ 266,648</u>	<u>275,701</u>

In May 2011, the University entered a seven-year lease agreement with the Massachusetts Development Finance Agency (MDFA Master Lease) in the amount of \$10,000. The proceeds of the lease agreement are being used to finance equipment related to upgrading the campus information network and the Linsey Center pool renovation.

The University's principal payment obligations as of June 30, 2012 are as follows:

Year ending June 30:	
2013	\$ 8,489
2014	9,141
2015	8,685
2016	8,973
2017	9,332
Thereafter	<u>212,940</u>
	<u>\$ 257,560</u>

Interest expense, net of amounts capitalized, for the years ended June 30, 2012 and 2011 was \$10,958 and \$11,371, respectively. Interest costs incurred in association with the MDFA Master Lease and capitalized during 2012 and 2011 were \$254 and \$36, respectively.

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The University leases two office facilities, with the agreements expiring in June 2014 and March 2021. Future minimum lease payments at June 30, 2012 under these agreements are as follows:

	Operating lease payments
Fiscal year:	
2013	\$ 730
2014	748
2015	382
2016	389
2017	397
Thereafter	1,958
	<u>\$ 4,604</u>

Rent expense was \$1,003 and \$902 for the years ended June 30, 2012 and 2011, respectively.

(10) Net Assets

(a) Temporarily Restricted Net Assets

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

	2012	2011
Restricted contributions	\$ 26,551	29,541
Unspent net endowment return and term endowments	111,235	135,158
Student loan funds	566	646
Life income and annuity funds	5,238	6,101
Contributions receivable, net	26,225	30,743
Physical plant and other	497	1,971
Total temporarily restricted net assets	<u>\$ 170,312</u>	<u>204,160</u>

Restricted contributions include gifts received for scholarships, academic support and auxiliary programs.

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(b) Permanently Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
Donor restricted endowment funds	\$ 502,966	485,780
Student loan funds	3,239	3,396
Life income and annuity funds	3,670	4,156
Contributions receivable, net	12,303	13,259
Funds held in trust by others	8,993	9,544
Total permanently restricted net assets	<u>\$ 531,171</u>	<u>516,135</u>

(11) Endowments

The University's endowment is pooled for investment purposes and consists of approximately 1,850 individual funds established for a variety of purposes. The endowment consists of both donor-restricted funds managed in accordance with applicable law and donor intent, as well as funds designated by the University's Board to operate as endowment (quasi-endowment).

If an individual restricted endowment fund balance falls below its original fair value, that fund is considered to be "underwater." The fair value of underwater endowment funds was less than their original corpus by \$12,970 and \$4,424 as of June 30, 2012 and 2011, respectively.

The University adopted the provisions of UPMIFA effective June 30, 2009. State law allows the Board of Trustees to appropriate so much of the endowment fund 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.

Endowment return utilized in operations in 2012 and 2011 amounted to \$38,642 and \$40,263, respectively. The funds are utilized principally for financial aid and support of faculty chairs.

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 University's Trustees Investment Committee has adopted a long-term asset allocation policy.

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

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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.

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, 2012 and 2011:

	2012			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (12,970)	99,992	502,966	589,988
Quasi (Board-designated)	73,291	11,243	—	84,534
Total	<u>\$ 60,321</u>	<u>111,235</u>	<u>502,966</u>	<u>674,522</u>

	2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (4,424)	123,655	485,780	605,011
Quasi (Board-designated)	87,152	11,503	—	98,655
Total	<u>\$ 82,728</u>	<u>135,158</u>	<u>485,780</u>	<u>703,666</u>

Changes in endowment and quasi-endowment funds for the year ended June 30, 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Net assets at June 30, 2011	\$ 82,728	135,158	485,780	703,666
Investment return	(3,644)	(4,853)	8	(8,489)
Contributions	108	—	17,137	17,245
Utilized in operations	(19,872)	(18,770)	—	(38,642)
Transfers	1,001	(300)	41	742
Net assets at June 30, 2012	<u>\$ 60,321</u>	<u>111,235</u>	<u>502,966</u>	<u>674,522</u>

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Changes in endowment and quasi-endowment funds for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2010	\$ 62,901	88,358	468,638	619,897
Investment return	37,194	68,903	(7)	106,090
Contributions	1,039	—	15,606	16,645
Utilized in operations	(18,314)	(21,949)	—	(40,263)
Transfers	(92)	(154)	1,543	1,297
Net assets at June 30, 2011	<u>\$ 82,728</u>	<u>135,158</u>	<u>485,780</u>	<u>703,666</u>

(12) Retirement Plans

The University participates in defined contribution plans providing retirement benefits for substantially all full-time and regular part-time employees. Under the programs, the University makes monthly contributions, currently 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 \$8,714 in 2012 and \$8,198 in 2011.

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. During the year ended June 30, 2012, the University recorded a \$4,300 reduction to the supplemental executive retirement plan. This adjustment is included in the statement of activities as a reduction of institutional support.

(13) Related Party Transactions

The University has an investment in a limited partnership where a University Trustee is a managing member, as well as a general partner in that investment. The fair market value of the investment was \$17,000 and \$18,024 as of June 30, 2012 and 2011, respectively. The University Investment Committee approved and continues to monitor this investment.

(14) Contingencies

The University is involved 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.

(15) Subsequent Events

The University evaluated subsequent events for potential recognition or disclosure through November 27, 2012, the date on which the financial statements were issued.