



BRANDEIS UNIVERSITY

Financial Statements

June 30, 2014

(with summarized comparative information for June 30, 2013)

(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 financial statements of Brandeis University (the University), which comprise the balance sheet as of June 30, 2014, the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brandeis University as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Report on Summarized Comparative Information

We have previously audited the University's 2013 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated October 31, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 29, 2014

BRANDEIS UNIVERSITY

Balance Sheet

June 30, 2014

(with comparative information as of June 30, 2013)

(In thousands of dollars)

Assets	2014	2013
Cash and cash equivalents	\$ 42,392	26,033
Short-term investments	2,113	3,064
Accounts receivable, net	14,844	11,265
Notes receivable, net	14,761	14,317
Contributions receivable, net	32,485	33,091
Long-term investments	887,722	796,496
Funds held in trust by others and other assets	28,865	19,183
Property, plant and equipment, net	341,789	344,975
Total assets	<u>\$ 1,364,971</u>	<u>1,248,424</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 30,920	21,463
Sponsored program advances and deferred revenue	25,454	16,277
Other long-term liabilities	28,422	31,634
Long-term debt, net	263,677	257,172
Total liabilities	<u>348,473</u>	<u>326,546</u>
Net assets:		
Unrestricted	159,610	158,201
Temporarily restricted	296,809	217,865
Permanently restricted	560,079	545,812
Total net assets	<u>1,016,498</u>	<u>921,878</u>
Total liabilities and net assets	<u>\$ 1,364,971</u>	<u>1,248,424</u>

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Activities

Year ended June 30, 2014

(with summarized comparative information for the year ended June 30, 2013)

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2014</u>	<u>2013</u>
Operating revenues and other support:					
Tuition and fees	\$ 228,754	—	—	228,754	217,613
Residence hall and dining	33,913	—	—	33,913	32,765
Less scholarships and financial aid	<u>(89,110)</u>	—	—	<u>(89,110)</u>	<u>(85,138)</u>
Net tuition, fees, residence hall and dining revenues	173,557	—	—	173,557	165,240
Contributions	14,204	—	—	14,204	15,183
Net assets released from restrictions	11,956	—	—	11,956	14,008
Sponsored programs – direct	47,386	—	—	47,386	48,794
Sponsored programs – indirect	14,158	—	—	14,158	13,409
Other investment income	1,650	—	—	1,650	999
Investment income from funds held in trust by others	283	—	—	283	270
Endowment return utilized	40,022	—	—	40,022	38,229
Other sources	<u>10,752</u>	—	—	<u>10,752</u>	<u>9,376</u>
Total operating revenues and other support	<u>313,968</u>	—	—	<u>313,968</u>	<u>305,508</u>
Operating expenses:					
Instruction	103,141	—	—	103,141	100,361
Sponsored programs	52,790	—	—	52,790	53,685
Academic support	47,203	—	—	47,203	43,846
Student services	30,969	—	—	30,969	30,691
Institutional support	47,060	—	—	47,060	46,226
Auxiliary enterprises	<u>33,914</u>	—	—	<u>33,914</u>	<u>34,685</u>
Total operating expenses	<u>315,077</u>	—	—	<u>315,077</u>	<u>309,494</u>
Change in net assets from operating activities	<u>(1,109)</u>	—	—	<u>(1,109)</u>	<u>(3,986)</u>
Nonoperating activities:					
Net investment return	20,707	108,353	940	130,000	116,608
Endowment return utilized in operations	(11,184)	(28,838)	—	(40,022)	(38,229)
Net assets released from restrictions	28	(11,984)	—	(11,956)	(14,008)
Contributions	43	12,254	14,587	26,884	18,455
Loss on refinancing	(712)	—	—	(712)	—
Other changes, net	<u>(6,364)</u>	<u>(841)</u>	<u>(1,260)</u>	<u>(8,465)</u>	<u>(985)</u>
Change in net assets from nonoperating activities	<u>2,518</u>	<u>78,944</u>	<u>14,267</u>	<u>95,729</u>	<u>81,841</u>
Change in net assets	1,409	78,944	14,267	94,620	77,855
Net assets at beginning of year	158,201	217,865	545,812	921,878	844,023
Net assets at end of year	\$ <u>159,610</u>	<u>296,809</u>	<u>560,079</u>	<u>1,016,498</u>	<u>921,878</u>

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2014

(with comparative information for the year ended June 30, 2013)

(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 94,620	77,855
Adjustments to reconcile change in net cash used in operating activities:		
Depreciation and amortization, net	24,171	24,198
Net realized and unrealized investment gains	(130,944)	(115,717)
Net change from funds held in trust by others	(784)	(400)
Contributions restricted for long-term investment	(18,477)	(17,297)
Loss on refinancing	712	—
Change in operating assets, net	(4,044)	6,469
Change in operating liabilities, net	14,495	(231)
Net cash used in operating activities	<u>(20,251)</u>	<u>(25,123)</u>
Cash flows from investing activities:		
Acquisition and construction of property, plant and equipment	(20,893)	(14,423)
Purchases of investments	(209,219)	(263,867)
Proceeds from sales and maturities of investments	228,268	305,565
Notes receivable issued	(2,761)	(3,148)
Notes receivable repaid	2,317	2,279
Net cash (used in) provided by investing activities	<u>(2,288)</u>	<u>26,406</u>
Cash flows from financing activities:		
Repayments of bonds, notes and leases	(29,306)	(8,489)
Proceeds from issuance of bonds and notes	36,500	—
Cost of issuance of bonds and notes	(188)	(216)
Advances from line of credit	20,000	25,000
Payments on line of credit	(20,000)	(25,000)
Change in funds held by bond trustee	(8,205)	736
Proceeds from sale of donated securities	21,620	—
Contributions restricted for long-term investment	18,477	17,297
Net cash provided by financing activities	<u>38,898</u>	<u>9,328</u>
Change in cash and cash equivalents	16,359	10,611
Cash and cash equivalents, beginning of year	<u>26,033</u>	<u>15,422</u>
Cash and cash equivalents, end of year	\$ <u><u>42,392</u></u>	\$ <u><u>26,033</u></u>
Supplemental data:		
Interest paid	\$ 12,064	12,000
Increase (decrease) in accrued liabilities attributable to fixed assets	927	(1,191)

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2014

(with summarized comparative information for June 30, 2013)

(In thousands of dollars)

(1) Organization

Brandeis University (the University) is a private, not-for-profit, nonsectarian, co-educational institution of higher education with approximately 5,400 full-time undergraduate and graduate students. Established in 1948, the 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.

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 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. These primarily consist of the historic dollar value of contributions to donor-restricted endowment funds.

For comparison purposes, the 2014 statement of activities has been presented with 2013 summarized comparative information in total but not by net asset class. By design, this summarized 2013 information is not intended to and does not include sufficient detail to constitute a complete presentation of changes in net assets in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

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Notes to Financial Statements

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(with summarized comparative information for June 30, 2013)

(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 scheduled to be received in the future; contributions to be used for and net assets released from restrictions for capitalized property and equipment; investment return net of appropriations for current operational support in accordance with the University's endowment spending policy; and 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 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.

Revenues associated with sponsored research and other grants and contracts are recognized when the related allowable expenditures 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 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. 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 without donor-imposed restrictions or with donor-imposed restrictions met by the University in the same year as received 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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Unconditional promises (contributions receivable) are recognized at fair value, considering the time value of money and collectability, as temporarily or permanently restricted revenues in the year promised. Thereafter, contributions receivable are reported at the present value of expected cash flows using the same discount rates as initially applied net of an allowance for uncollectable 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 \$11,658 and \$11,588 for the years ended June 30, 2014 and 2013, respectively, and is classified as institutional support in the statement of activities.

(f) 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 less than one year, 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. In addition, Level 2 includes investments reported at net asset value (NAV) as a practical expedient that are redeemable in the near term; and
- Level 3 – unobservable inputs are used when little or no market data is available. In addition, Level 3 includes investments reported at NAV that are not redeemable in the near term.

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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.

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, 2014 and 2013. 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 inputs that would be classified in Level 2 of the fair value hierarchy, management determined that the estimated fair value of the University's long-term debt was \$23,717 and \$12,000 more than their aggregate carrying values as of June 30, 2014 and 2013, respectively.

(i) Funds Held in Trust by Others and Other Assets

Funds held in trust by others (FHITBO) are held in perpetuity by external trustees, as specified by the donors, and are reported 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 increases or decreases to permanently restricted net assets. The University had \$10,176 and \$9,392 of FHITBO as of June 30, 2014 and June 30, 2013, respectively. These are all classified in Level 3 in the fair value hierarchy because they are held by the trustees in perpetuity. Other assets include funds held by bond trustee; unamortized debt issuance costs; prepayments; and inventories.

(j) 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), equipment and furnishings (5 – 15 years), and software (5 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 estimated fair value of a liability for legal obligations associated with asset retirements in the period in which the obligation is incurred. When the liability is initially recorded, the University capitalizes the cost of the 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 is depreciated over the asset's useful life. Payments to settle the obligation are

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Notes to Financial Statements

June 30, 2014

(with summarized comparative information for June 30, 2013)

(In thousands of dollars)

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.

(k) Other Long-Term Liabilities

The University is bound by trust agreements that 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 presented within long-term investments, and liabilities are recorded to recognize the present value of estimated future payments due to beneficiaries. The liabilities are \$13,689 and \$12,812 as of June 30, 2014 and 2013, respectively. The University also has asset retirement obligations arising from regulatory requirements to perform certain asset retirement activities, primarily asbestos removal, at or prior to disposal of certain property. As of June 30, 2014 and 2013, the estimated liabilities were \$6,458 and \$6,399, respectively. In addition, the University carries a liability related to refundable advances received under the Federal Perkins Loan Program as discussed in note 4. As of June 30, 2014 and 2013, those liabilities were \$6,082 and \$6,057, respectively.

(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 and purchases of collection items are reported as nonoperating revenue and 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 are material to 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, 2014 and 2013 include the valuation of certain investments, accrued expenses, receivables, asset retirement obligations, and split-interest agreements; and determination of the useful lives of property and equipment.

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Notes to Financial Statements

June 30, 2014

(with summarized comparative information for June 30, 2013)

(In thousands of dollars)

(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) Voluntary Early Retirement Incentive Program

The University offered a voluntary early retirement incentive program and approximately 80 University-funded staff members age 60 and above who had completed 10 or more years of service at the University as of April 1, 2014 took advantage of this program. Employees who chose this program received 12 months of severance at their regular base pay and a transition allowance. The total amount of expense resulting from this program was \$6,445, which has been reflected in "Other changes, net" in nonoperating activities on the 2014 statement of activities.

(q) Reclassifications

Certain 2013 information has been reclassified to conform to the 2014 presentation.

(3) Accounts Receivable

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

	<u>2014</u>	<u>2013</u>
Student receivables	\$ 2,141	2,727
Sponsored program receivables	11,045	6,678
Other	2,596	2,201
	<u>15,782</u>	<u>11,606</u>
Less allowance for doubtful accounts	(938)	(341)
Accounts receivable, net	<u>\$ 14,844</u>	<u>11,265</u>

(4) Notes Receivable

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

	<u>2014</u>	<u>2013</u>
Federal Perkins loan program	\$ 7,612	7,062
University student loan programs	10,384	10,217
	<u>17,996</u>	<u>17,279</u>
Less allowance for doubtful loans	(3,235)	(2,962)
Notes receivable, net	<u>\$ 14,761</u>	<u>14,317</u>

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Notes to Financial Statements

June 30, 2014

(with summarized comparative information for June 30, 2013)

(In thousands of dollars)

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.

(5) Contributions Receivable

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

	<u>2014</u>	<u>2013</u>
Amounts due in:		
Less than one year	\$ 18,570	17,165
Between one and five years	19,812	22,507
More than five years	611	952
Gross contributions receivable	<u>38,993</u>	<u>40,624</u>
Less:		
Allowance for unfulfilled contributions	(5,715)	(6,082)
Discount, at rates from 0.72% to 6.0%	(793)	(1,451)
Contributions receivable, net	<u>\$ 32,485</u>	<u>33,091</u>

(6) Long-term Investments

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 Trustee 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. Long-term investments also include assets associated with gift annuities and charitable remainder trusts.

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(with summarized comparative information for June 30, 2013)

(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 net asset values (NAV) reported by fund managers, which are used as a practical expedient to estimate the fair value of the University's interests 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, 2014 and 2013, 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. 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 interests 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, 2014, the University had \$571,962 in endowment investments classified in Level 3 in the fair value hierarchy, which are not redeemable at or near the balance sheet date. Of these Level 3 endowment investments, \$198,690 is not redeemable at or near the balance sheet date and is classified in Level 3 accordingly. The underlying investments often consist of readily marketable securities for which active markets exist. The remaining Level 3 endowment investments of \$373,272 are primarily 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.

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June 30, 2014

(with summarized comparative information for June 30, 2013)

(In thousands of dollars)

The University's long-term investments at June 30, 2014 are summarized in the following table by strategy and their fair value hierarchy classification:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment investments:				
Global equity	\$ 21	77,379	61,763	139,163
Non-U.S. equity	102	44,575	55,476	100,153
Private equity	—	—	71,561	71,561
Hedge fund/credit:				
Credit – private	—	—	30,436	30,436
Hedge funds – long/short	—	—	119,188	119,188
Hedge funds – multi strategy	—	36,710	153,868	190,578
Real assets:				
Real assets – marketable	1,582	15,316	1,102	18,000
Real assets – private	—	—	64,684	64,684
Cash and cash equivalents	1,061	—	—	1,061
Fixed income fund	—	13,884	13,884	27,768
Treasuries and similar assets	43,721	—	—	43,721
Receivable for investments sold	54,839	—	—	54,839
	<u>101,326</u>	<u>187,864</u>	<u>571,962</u>	<u>861,152</u>
Total endowment investments				
Other investments:				
Equities	50	135	—	185
Hedge funds – multi strategy	—	—	120	120
Cash and cash equivalents	140	—	—	140
Fixed income	—	154	—	154
Mutual funds	25,971	—	—	25,971
	<u>26,161</u>	<u>289</u>	<u>120</u>	<u>26,570</u>
Total other investments				
Total long-term investments	\$ <u>127,487</u>	<u>188,153</u>	<u>572,082</u>	<u>887,722</u>

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The University's long-term investments at June 30, 2013 are summarized in the following table by strategy and their fair value hierarchy classification:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Endowment investments:				
Global equity	\$ 18	51,280	70,475	121,773
Non-U.S. equity	10,385	41,299	29,382	81,066
Private equity	—	—	54,932	54,932
Hedge fund/credit:				
Credit – marketable	—	—	24,980	24,980
Credit – private	—	—	47,615	47,615
Hedge funds – long/short	—	—	61,624	61,624
Hedge funds – multi strategy	—	39,087	155,567	194,654
Real assets:				
Real assets – marketable	—	—	19,327	19,327
Real assets – private	—	—	93,677	93,677
Cash and cash equivalents	3,140	—	—	3,140
Fixed income fund	—	1,196	29,202	30,398
Treasuries and similar assets	33,019	—	—	33,019
	<u>46,562</u>	<u>132,862</u>	<u>586,781</u>	<u>766,205</u>
Total endowment investments				
Other investments:				
Equities	1,502	135	—	1,637
Hedge funds – multi strategy	70	—	121	191
Cash and cash equivalents	745	—	—	745
Fixed income	—	1,732	—	1,732
Mutual funds	25,986	—	—	25,986
	<u>28,303</u>	<u>1,867</u>	<u>121</u>	<u>30,291</u>
Total other investments				
Total long-term investments	\$ <u>74,865</u>	<u>134,729</u>	<u>586,902</u>	<u>796,496</u>

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The following tables present activity for the fiscal years ended June 30, 2014 and 2013 for long-term 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>Fixed Income</u>	<u>Total</u>
June 30, 2013	\$ 99,857	54,932	113,004	289,907	29,202	586,902
Acquisitions	51,598	13,935	12,208	43,468	—	121,209
Dispositions	(23,632)	(9,045)	(43,755)	(62,809)	(1,196)	(140,437)
Transfers out	(29,029)	5,727	(16,897)	(5,727)	(13,884)	(59,810)
Realized gain (loss)	2,940	2,282	23,575	11,321	(17)	40,101
Unrealized gain (loss)	15,505	3,730	(22,349)	27,452	(221)	24,117
June 30, 2014	<u>\$ 117,239</u>	<u>71,561</u>	<u>65,786</u>	<u>303,612</u>	<u>13,884</u>	<u>572,082</u>

	<u>Equities</u>	<u>Private equity</u>	<u>Real assets</u>	<u>Hedge fund/credit</u>	<u>Fixed Income</u>	<u>Total</u>
June 30, 2012	\$ 87,503	54,673	64,284	283,651	—	490,111
Acquisitions	73,401	6,263	38,765	21,873	29,202	169,504
Dispositions	(80,738)	(7,758)	(18,463)	(35,749)	—	(142,708)
Transfers out	(1,195)	—	—	—	—	(1,195)
Realized loss	(1,430)	(4,118)	(2,664)	(2,558)	—	(10,770)
Unrealized gain	22,316	5,872	31,082	22,690	—	81,960
June 30, 2013	<u>\$ 99,857</u>	<u>54,932</u>	<u>113,004</u>	<u>289,907</u>	<u>29,202</u>	<u>586,902</u>

Transfers from Level 3 for the year ended June 30, 2014 include \$42,913 of conclusion of lock-ups and \$15,315 of conversion of real estate assets to marketable securities. In addition, \$1,582 was transferred from Level 3 due to an option being exercised on a real estate asset. Transfers from Level 3 for the year ended June 30, 2013 represent \$1,195 of conclusion of lock-ups. For the years ended June 30, 2014 and 2013, there were no transfers between Level 1 and Level 2.

(a) Commitments

Private credit, private equity, and real asset investments are generally made through limited partnerships. Under the terms of these agreements, the University is obligated to remit additional funding periodically as capital are exercised by the manager. These partnerships have a limited existence, generally between ten and fifteen years, and provide for annual one year extensions for the purpose of disposing portfolio positions and returning capital to the investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend or reduce the term of a fund from that which was originally anticipated. As a result, the timing and amount of future capital calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with global equities, private credit, private equity, and real asset investments as of June 30, 2014 was \$13,115, \$395, \$50,049, and \$66,538, respectively.

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(b) Liquidity

Hedge funds, global equity, and fixed income investments are redeemable at NAV under the terms of subscription agreements and/or partnership agreements. Investments with daily liquidity generally do not require any notice prior to withdrawal. Investments with monthly, quarterly or annual redemption frequency typically require notice periods ranging from 30 to 180 days. The following tables present the University's long-term investments by their redemption frequency as of June 30, 2014 and 2013:

		June 30, 2014					
		<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total</u>
Cash equivalents	\$	1,201	—	—	—	—	1,201
Receivable from investments sold		54,839	—	—	—	—	54,839
Fixed income		68,203	—	13,884	—	15,527	97,614
Equities		173	44,575	78,706	—	187,608	311,062
Hedge funds		—	—	46,823	146,670	146,829	340,322
Real assets		1,582	—	15,316	—	65,786	82,684
Total	\$	<u>125,998</u>	<u>44,575</u>	<u>154,729</u>	<u>146,670</u>	<u>415,750</u>	<u>887,722</u>

		June 30, 2013					
		<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Illiquid</u>	<u>Total</u>
Cash equivalents	\$	36,904	—	—	—	—	36,904
Fixed income		26,162	—	1,196	—	30,893	58,251
Equities		11,770	39,054	53,525	450	154,474	259,273
Hedge funds		—	—	41,627	149,114	138,323	329,064
Real assets		—	—	—	—	113,004	113,004
Total	\$	<u>74,836</u>	<u>39,054</u>	<u>96,348</u>	<u>149,564</u>	<u>436,694</u>	<u>796,496</u>

Investments categorized as illiquid include lock ups with definite expiration dates, restricted shares, side pockets, or private equity and real asset funds where the University has no liquidity.

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The University has certain investments with a fair value of \$272,072 at June 30, 2014 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:	
2015	\$ 127,073
2016	73,968
2017	53,249
2018	<u>17,782</u>
Total	<u>\$ 272,072</u>

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

	<u>2014</u>	<u>2013</u>
Investment income	\$ 5,137	3,761
Net realized gains	64,498	38,955
Net change in unrealized appreciation	<u>66,446</u>	<u>78,024</u>
	136,081	120,740
Less management fees	<u>(4,148)</u>	<u>(2,863)</u>
Total investment return	<u>\$ 131,933</u>	<u>117,877</u>

The following is a reconciliation of amounts presented in the statement of activities to total investment return for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Operating revenues – investment income	\$ 1,933	1,269
Operating revenues – endowment return utilized	40,022	38,229
Nonoperating revenues – investment return, net of endowment return utilized	<u>89,978</u>	<u>78,379</u>
Total investment return	<u>\$ 131,933</u>	<u>117,877</u>

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(In thousands of dollars)

(7) Property, Plant and Equipment

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

	<u>2014</u>	<u>2013</u>
Land and land improvements	\$ 44,032	43,299
Buildings	181,434	181,434
Building systems and improvements	336,457	333,548
Equipment, furnishings, and software	<u>96,264</u>	<u>87,529</u>
	658,187	645,810
Less accumulated depreciation	(326,644)	(301,711)
Construction in progress	<u>10,246</u>	<u>876</u>
Property, plant and equipment, net	<u>\$ 341,789</u>	<u>344,975</u>

Depreciation expense amounted to \$25,006 in 2014 and \$23,960 in 2013. Operation and maintenance expenses amounted to \$29,139 in 2014 and \$31,833 in 2013.

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(8) Long-Term Debt

Long-term debt outstanding as of June 30 consists of the following:

	<u>2014</u>	<u>2013</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	\$ 87,420	91,475
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	80,835	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	45,795	46,660
MDFA Revenue Bonds, Brandeis University Issue 2013 Series P-1, at interest rates of 3.48% maturing in annual installments from October 1, 2017 through April 1, 2043	15,205	—
MDFA Revenue Bonds, Brandeis University Issue 2013 Series P-2, at interest rates of 3.04% maturing in annual installments from October 1, 2013 through July 1, 2033	21,190	—
MDFA Brandeis University Issue Master Lease, at an interest rate of 2.62%, principal and interest payable through May 10, 2018	5,820	7,213
MDFA Revenue Bonds, Brandeis University Issue 2004 Series K, at interest rates from 2.0% to 4.75%,	—	20,675
Commonwealth of Massachusetts Health and Educational Facilities Authority (MHEFA) Brandeis University Issue Master Lease, at an interest rate of 3.6%.	—	723
	<u>256,265</u>	<u>249,071</u>
Total		
Unamortized premium, net	<u>7,412</u>	<u>8,101</u>
Long-term debt, net	<u>\$ 263,677</u>	<u>257,172</u>

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The University's principal payment obligations as of June 30, 2014 are as follows:

Year ending June 30:		
2015	\$	8,055
2016		8,408
2017		9,532
2018		10,134
2019		9,118
Thereafter		<u>211,018</u>
	\$	<u><u>256,265</u></u>

Interest expense, net of amounts capitalized, for the years ended June 30, 2014 and 2013 was \$10,641 and \$10,789, respectively. Interest costs incurred and capitalized during 2014 and 2013 were \$483 and \$177, respectively.

A new \$36,500 bond was issued in two series on July 18, 2013 through the Massachusetts Development Finance Agency. The first series, P-1, is in the amount of \$15,205 and the proceeds will be used for major capital projects. The P-1 series has a fixed interest rate of 3.48% and a maturity date of April 1, 2043. The second series, P-2, is in the amount of \$21,295 and the proceeds were used on October 1, 2013 for the refunding of an existing bond, MDFA Series K. The P-2 series has a fixed interest rate of 3.04% and a maturity date of July 1, 2033. For both series, payments are due April 1 and October 1 and commenced October 1, 2013. Until October 1, 2017, all payments on the P-1 series will be interest only. Thereafter, payments will include both principal and interest.

(9) Line of Credit

The University has a \$50,000 line of credit with JPMorgan Chase Bank, N.A. at an interest rate of LIBOR plus 55 basis points. As of June 30, 2014, the interest rate was 0.70%. 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. As of June 30, 2014 and 2013, there were no outstanding borrowings against this line of credit.

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(10) Net Assets

(a) Temporarily Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Restricted contributions	\$ 27,516	26,942
Unspent net endowment return and term endowments	237,870	162,139
Student loan funds	456	508
Life income and annuity funds	6,830	5,954
Contributions receivable, net	20,656	21,837
Physical plant and other	3,481	485
Total temporarily restricted net assets	<u>\$ 296,809</u>	<u>217,865</u>

Restricted contributions include gifts received for scholarships, academic support and auxiliary programs. Net assets were released from temporary donor restrictions by incurring expenses satisfying the restricted purposes including scholarships, instruction, research, and other operational purposes or by the occurrence of events specified by the donors or the passage of time and amounted to \$11,956 and \$14,008 for the years ended June 30, 2014 and 2013, respectively.

(b) Permanently Restricted Net Assets

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

	<u>2014</u>	<u>2013</u>
Donor-restricted endowment funds	\$ 530,830	518,060
Student loan funds	2,929	3,050
Life income and annuity funds	4,315	3,881
Contributions receivable, net	11,829	11,429
Funds held in trust by others	10,176	9,392
Total permanently restricted net assets	<u>\$ 560,079</u>	<u>545,812</u>

(11) Endowments

The University's endowment is pooled for investment purposes and consists of approximately 1,900 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).

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If an individual donor restricted endowment fund balance falls below its original fair value, that fund is considered to be “underwater.” The aggregate fair value of underwater endowment funds was less than their original corpus by \$96 and \$4,718 as of June 30, 2014 and 2013, respectively.

The University follows the provisions of UPMIFA. 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 2014 and 2013 amounted to \$40,022 and \$38,229, respectively. The funds are utilized principally for student 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 and (b) the original value of subsequent gifts to the permanent endowment.

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, which are reported as unrestricted net assets.

Endowment and quasi-endowment funds consist of the following at June 30, 2014 and 2013:

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (96)	229,675	530,830	760,409
Quasi (Board-designated)	92,548	8,195	—	100,743
Total	\$ 92,452	237,870	530,830	861,152

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	2013			
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor restricted	\$ (4,718)	153,944	518,060	667,286
Quasi (Board-designated)	90,724	8,195	—	98,919
Total	<u>\$ 86,006</u>	<u>162,139</u>	<u>518,060</u>	<u>766,205</u>

Changes in endowment and quasi-endowment funds for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2013	\$ 86,006	162,139	518,060	766,205
Net investment return	18,983	106,139	—	125,122
Contributions	3	—	14,167	14,170
Utilized in operations	(11,184)	(28,838)	—	(40,022)
Transfers	(1,356)	(1,570)	(1,397)	(4,323)
Net assets at June 30, 2014	<u>\$ 92,452</u>	<u>237,870</u>	<u>530,830</u>	<u>861,152</u>

Changes in endowment and quasi-endowment funds for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2012	\$ 60,321	111,235	502,966	674,522
Net investment return	30,591	79,795	(69)	110,317
Contributions	1,002	—	12,844	13,846
Utilized in operations	(15,075)	(23,154)	—	(38,229)
Transfers	9,167	(5,737)	2,319	5,749
Net assets at June 30, 2013	<u>\$ 86,006</u>	<u>162,139</u>	<u>518,060</u>	<u>766,205</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 statutory limits. The University's contribution to the plans totaled \$9,220 in 2014 and \$8,917 in 2013.

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(13) Related Party Transactions

The University has an investment in a limited partnership where a University Trustee is a managing member and a general partner in that investment. The fair value of the investment was \$21,960 and \$20,396 as of June 30, 2014 and 2013, 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 October 29, 2014, the date on which the financial statements were issued.