



BRANDEIS UNIVERSITY

Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(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, 2018, 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 entity'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 entity'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, 2018, 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 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 26, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KPMG LLP

October 26, 2018

BRANDEIS UNIVERSITY

Balance Sheet

June 30, 2018

(with comparative information as of June 30, 2017)

(In thousands of dollars)

Assets	2018	2017
Cash and cash equivalents	\$ 28,989	30,159
Accounts receivable, net	13,994	11,181
Notes receivable, net	10,460	11,980
Contributions receivable, net	10,350	14,395
Long-term investments	1,069,924	1,001,202
Funds held by bond trustee	11,124	46,431
Funds held in trust by others and other assets	21,971	17,992
Property, plant and equipment, net	363,367	340,786
Total assets	\$ <u>1,530,179</u>	<u>1,474,126</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 30,530	28,907
Sponsored program advances and deferred revenue	22,159	23,491
Other long-term liabilities	22,155	24,245
Long-term debt, net	271,546	283,138
Total liabilities	<u>346,390</u>	<u>359,781</u>
Net assets:		
Unrestricted	184,615	184,153
Temporarily restricted	322,408	273,863
Permanently restricted	676,766	656,329
Total net assets	<u>1,183,789</u>	<u>1,114,345</u>
Total liabilities and net assets	\$ <u>1,530,179</u>	<u>1,474,126</u>

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Activities

Year ended June 30, 2018

(with summarized comparative information for the year ended June 30, 2017)

(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2018</u>	<u>2017</u>
Operating revenues and other support:					
Tuition and fees	\$ 263,421	—	—	263,421	252,145
Residence hall and dining	40,668	—	—	40,668	40,946
Less scholarships and financial aid	<u>(99,873)</u>	—	—	<u>(99,873)</u>	<u>(98,069)</u>
Net tuition, fees, residence hall and dining revenues	204,216	—	—	204,216	195,022
Contributions	5,357	—	—	5,357	6,271
Net assets released from restrictions	15,935	—	—	15,935	18,757
Sponsored programs – direct	43,029	—	—	43,029	46,958
Sponsored programs – indirect	13,027	—	—	13,027	14,321
Other investment income	885	—	—	885	582
Investment income from funds held in trust by others	315	—	—	315	297
Endowment return utilized	49,637	—	—	49,637	48,655
Other auxiliary enterprises	4,135	—	—	4,135	3,883
Other sources	<u>9,244</u>	—	—	<u>9,244</u>	<u>9,284</u>
Total operating revenues and other support	<u>345,780</u>	—	—	<u>345,780</u>	<u>344,030</u>
Operating expenses:					
Instruction	126,791	—	—	126,791	126,300
Sponsored programs	50,064	—	—	50,064	53,896
Academic support	47,215	—	—	47,215	46,031
Student services	36,216	—	—	36,216	36,081
Institutional support	46,532	—	—	46,532	44,047
Auxiliary enterprises	<u>36,093</u>	—	—	<u>36,093</u>	<u>36,505</u>
Total operating expenses	<u>342,911</u>	—	—	<u>342,911</u>	<u>342,860</u>
Change in net assets from operating activities	<u>2,869</u>	—	—	<u>2,869</u>	<u>1,170</u>
Nonoperating activities:					
Net investment return	12,293	83,008	617	95,918	96,044
Endowment return utilized in operations	(11,258)	(38,379)	—	(49,637)	(48,655)
Net assets released from restrictions	147	(16,082)	—	(15,935)	(18,757)
Contributions	—	19,445	20,432	39,877	73,669
Other changes, net	<u>(3,589)</u>	<u>553</u>	<u>(612)</u>	<u>(3,648)</u>	<u>(1,620)</u>
Change in net assets from nonoperating activities	<u>(2,407)</u>	<u>48,545</u>	<u>20,437</u>	<u>66,575</u>	<u>100,681</u>
Change in net assets	462	48,545	20,437	69,444	101,851
Net assets at beginning of year	<u>184,153</u>	<u>273,863</u>	<u>656,329</u>	<u>1,114,345</u>	<u>1,012,494</u>
Net assets at end of year	<u>\$ 184,615</u>	<u>322,408</u>	<u>676,766</u>	<u>1,183,789</u>	<u>1,114,345</u>

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Statement of Cash Flows

Year ended June 30, 2018

(with comparative information for the year ended June 30, 2017)

(In thousands of dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 69,444	101,851
Adjustments to reconcile change in net cash used in operating activities:		
Depreciation and amortization, net	27,643	27,469
Net realized and unrealized investment gains	(88,873)	(90,860)
Net change from funds held in trust by others	(175)	(417)
Contributions restricted for long-term investment	(25,148)	(65,229)
Change in operating assets, net	(2,572)	6,036
Change in operating liabilities, net	(5,681)	3,229
Net cash used in operating activities	<u>(25,362)</u>	<u>(17,921)</u>
Cash flows from investing activities:		
Acquisition and construction of property, plant and equipment	(46,950)	(22,034)
Purchases of investments	(207,889)	(279,763)
Proceeds from sales and maturities of investments	228,040	259,661
Notes receivable issued	(892)	(1,051)
Notes receivable repaid	2,412	2,141
Net cash used in investing activities	<u>(25,279)</u>	<u>(41,046)</u>
Cash flows from financing activities:		
Repayments of bonds, notes and leases	(10,984)	(9,532)
Proceeds from issuance of bonds and notes	—	50,000
Cost of issuance of bonds and notes	—	(215)
Change in funds held by bond trustee	35,307	(46,431)
Contributions restricted for long-term investment	25,148	65,229
Net cash provided by financing activities	<u>49,471</u>	<u>59,051</u>
Change in cash and cash equivalents	(1,170)	84
Cash and cash equivalents, beginning of year	<u>30,159</u>	<u>30,075</u>
Cash and cash equivalents, end of year	\$ <u><u>28,989</u></u>	\$ <u><u>30,159</u></u>
Supplemental data:		
Interest paid	\$ 12,193	11,053
Increase in accrued liabilities attributable to property, plant, and equipment	3,882	67

See accompanying notes to financial statements.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(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 5,300 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). The financial statements 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 on their intended purpose. 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 2018 statement of activities has been presented with 2017 summarized comparative information in total but not by net asset class. This summarized 2017 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, 2017, from which the summarized information was derived.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(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 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 or other contractual provisions have been met. Indirect cost recovery by the University on grants and contracts is based upon 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 would 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 unconditional transfers of assets or cancellations of liabilities. Contributions 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.

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.

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

(e) Fundraising Expense

Fundraising expense was \$10,204 and \$10,122 for the years ended June 30, 2018 and 2017, 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 and cash equivalents, except those held as short-term investments or in the long-term investment portfolio, consist of bank deposits, money market funds and investments with original maturities of three months or less and are carried at cost, which approximates fair value.

(g) 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. Certain investments are reported at their net asset values (NAV), which are used as a practical expedient to estimate their fair values, and these investments are not categorized in the fair value hierarchy.

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

Funds held in trust by others (FHITBO) are perpetual trusts 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 \$10,271 and \$10,096 of FHITBO as of June 30, 2018 and 2017, respectively. Other assets include funds held by bond trustee, prepayments, inventories, and deferral of cloud computing arrangement implementation costs.

(i) 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 (18–30 years), equipment and furnishings (5–15 years), software (5 years), and leases (3–5 years).

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Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

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 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.

(j) Other Long-Term Liabilities

The University is bound by certain donor 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 \$10,669 and \$11,535 as of June 30, 2018 and 2017, 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, 2018 and 2017, the estimated liabilities were \$5,502 and \$5,719, 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, 2018 and 2017, those liabilities were \$5,113 and \$5,995, respectively.

(k) Collections

Collections at Brandeis University are protected and preserved for public exhibition, education, research and the furtherance of public service. Collections are not capitalized and contributions of collections are not recognized as contribution revenue. 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.

(l) 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.

(m) 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

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

June 30, 2018 and 2017 include the valuation of certain investments and certain long-term obligations; and determination of the useful lives of property and equipment.

(n) 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.

(o) Recently Issued Accounting Standard

Effective in 2018, the University adopted the provisions of ASU No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract* (ASU 2018-15). ASU 2018-15 requires that implementation costs of a cloud computing arrangement are deferred or expensed in accordance with Subtopic 350-40, *Internal-Use Software*. ASU 2018-15 also requires the deferred implementation costs to be expensed over the term of the hosting arrangement, which is the non-cancellable period of the cloud computing arrangement and any optional renewal periods that are reasonably certain to be exercised by the customer or for which exercise of the option is controlled by the vendor. The adoption resulted in the deferral of cloud computing arrangement implementation costs of \$2,936, which include license fees during the implementation period, for the year ended June 30, 2018. The deferral has been included in other assets on the balance sheet and will be expensed over ten years upon the completion of the implementation. There were no implementation costs associated with a cloud computing arrangement for the year ended June 30, 2017.

(p) Related-Party Transactions

Members of the University's Board of Trustees may, from time to time, be associated either directly or indirectly with companies doing business with the University. The University has a written conflict of interest policy that requires each Trustee to certify compliance with such policy on an annual basis as well as disclose any potential related-party transactions. When such a relationship exists, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arms' length, with terms that are fair and reasonable to and for the benefit of the University.

BRANDEIS UNIVERSITY
Notes to Financial Statements
June 30, 2018
(with summarized comparative information for June 30, 2017)
(In thousands of dollars)

(3) Accounts Receivable

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

	<u>2018</u>	<u>2017</u>
Student receivables	\$ 1,978	2,263
Sponsored program receivables	10,150	7,340
Other	<u>3,267</u>	<u>2,771</u>
	15,395	12,374
Less allowance for doubtful accounts	<u>(1,401)</u>	<u>(1,193)</u>
Accounts receivable, net	<u>\$ 13,994</u>	<u>11,181</u>

(4) Notes Receivable

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

	<u>2018</u>	<u>2017</u>
Federal Perkins loan program	\$ 4,885	5,794
University student loan programs	<u>9,495</u>	<u>9,791</u>
	14,380	15,585
Less allowance for doubtful loans	<u>(3,920)</u>	<u>(3,605)</u>
Notes receivable, net	<u>\$ 10,460</u>	<u>11,980</u>

Notes receivable under the Federal Perkins Loan Program (the Program) are funded by the U.S. government and University funds and are subject to significant restrictions. Through 2017, funds may have been 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.

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Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

(5) Contributions Receivable

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

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 5,970	7,520
Between one and five years	5,955	8,996
More than five years	<u>100</u>	<u>60</u>
Gross contributions receivable	12,025	16,576
Less:		
Allowance for unfulfilled contributions	(1,462)	(1,969)
Discount, at rates from 1.01% to 3.72%	<u>(213)</u>	<u>(212)</u>
Contributions receivable, net	<u>\$ 10,350</u>	<u>14,395</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.

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 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

BRANDEIS UNIVERSITY

Notes to Financial Statements

June 30, 2018

(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

investment will be sold for an amount different from NAV. As of June 30, 2018 and 2017, 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 long-term investments at June 30, 2018 are summarized in the following table by strategy and, as applicable, their fair value hierarchy classification:

	Investments Measured at NAV	Investments Classified in Fair Value Hierarchy			Total
		Level 1	Level 2	Level 3	
Endowment investments:					
Global equity	\$ 82,041	—	—	—	82,041
Non-U.S. equity	99,913	133	—	—	100,046
Private equity	167,006	—	—	—	167,006
Hedge fund/credit:					
Credit – private	2,562	—	—	—	2,562
Hedge funds – long/short	211,068	—	—	—	211,068
Hedge funds – multi strategy	248,160	—	—	—	248,160
Real assets – Private	42,656	—	—	53,597	96,253
Cash and cash equivalents	—	13,501	—	—	13,501
Treasuries and fixed income	—	106,023	—	892	106,915
Receivable for investments sold	—	18,834	—	—	18,834
Total endowment investments	853,406	138,491	—	54,489	1,046,386
Other investments:					
Cash and cash equivalents	—	56	—	—	56
Fixed income	—	—	11	—	11
Mutual funds	—	23,471	—	—	23,471
Total other investments	—	23,527	11	—	23,538
Total long-term investments	\$ 853,406	162,018	11	54,489	1,069,924

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Notes to Financial Statements

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(with summarized comparative information for June 30, 2017)

(In thousands of dollars)

The University's long-term investments at June 30, 2017 are summarized in the following table by strategy and, as applicable, their fair value hierarchy classification:

	Investments Measured at NAV	Investments Classified in Fair Value Hierarchy			Total
		Level 1	Level 2	Level 3	
Endowment investments:					
Global equity	\$ 59,697	—	—	—	59,697
Non-U.S. equity	103,106	118	—	—	103,224
Private equity	132,337	—	—	—	132,337
Hedge fund/credit:					
Credit – private	5,347	—	—	—	5,347
Hedge funds – long/short	143,552	—	—	—	143,552
Hedge funds – multi strategy	254,533	—	—	—	254,533
Real assets – Private	33,956	—	—	32,232	66,188
Cash and cash equivalents	—	6,158	—	—	6,158
Treasuries and fixed income	—	177,817	—	862	178,679
Receivable for investments sold	—	17,996	9,176	—	27,172
Total endowment investments	732,528	202,089	9,176	33,094	976,887
Other investments:					
Equities	—	94	135	—	229
Cash and cash equivalents	—	4	—	—	4
Fixed income	—	—	55	—	55
Mutual funds	—	24,027	—	—	24,027
Total other investments	—	24,125	190	—	24,315
Total long-term investments	\$ 732,528	226,214	9,366	33,094	1,001,202

The following table presents activity for the fiscal year ended June 30, 2018 for long-term investments classified in Level 3 of the fair value hierarchy:

	June 30, 2017	Acquisitions	Dispositions	Transfers	Gains	June 30, 2018
Real Assets	\$ 32,232	11,442	(4,514)	54	14,383	53,597
Treasuries and fixed income	862	—	—	—	30	892
	\$ 33,094	11,442	(4,514)	54	14,413	54,489

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

	<u>2018</u>	<u>2017</u>
Investment income	\$ 11,427	9,821
Net realized gains	6,415	63,326
Net change in unrealized appreciation	<u>82,458</u>	<u>27,534</u>
	100,300	100,681
Less management fees	<u>(3,737)</u>	<u>(3,758)</u>
Total investment return	<u>\$ 96,563</u>	<u>96,923</u>

Components of the investment return are presented in both the operating and nonoperating sections of the statement of activities.

(a) 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 table presents the University's long-term investments by their availability for the next twelve months following June 30, 2018 and June 30, 2017:

	<u>June 30, 2018</u>					<u>Total</u>
	<u>Daily</u>	<u>Monthly</u>	<u>Quarterly</u>	<u>Annual</u>	<u>Illiquid</u>	
Cash equivalents	\$ 13,557	—	—	—	—	13,557
Receivable from investments sold	—	18,834	—	—	—	18,834
Fixed income and mutual funds	129,369	—	—	—	1,028	130,397
Equities	134	29,326	18,028	49,236	252,369	349,093
Hedge funds	—	—	134,703	169,516	157,571	461,790
Real assets	—	—	—	—	96,253	96,253
Total	<u>\$ 143,060</u>	<u>48,160</u>	<u>152,731</u>	<u>218,752</u>	<u>507,221</u>	<u>1,069,924</u>

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	June 30, 2017					
	Daily	Monthly	Quarterly	Annual	Illiquid	Total
Cash equivalents	\$ 6,162	—	—	—	—	6,162
Receivable from investments sold	—	24,924	171	266	1,811	27,172
Fixed income and mutual funds	201,766	—	—	—	995	202,761
Equities	212	28,704	20,357	28,036	218,178	295,487
Hedge funds	—	—	113,463	188,444	101,525	403,432
Real assets	—	—	—	—	66,188	66,188
Total	\$ 208,140	53,628	133,991	216,746	388,697	1,001,202

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.

The University has certain investments with a fair value of \$101,257 at June 30, 2018 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:	
2019	\$ 23,230
2020	53,157
2021	<u>24,870</u>
Total	\$ <u>101,257</u>

(b) 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 called by the manager. These partnerships have a limited existence, generally between ten and fifteen years, and provide for annual one year extensions after the initial contract period for the purpose of systematically liquidating 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, non-US equities, private equity, and real assets investments as of June 30, 2018 was \$31,000, \$20,000, \$75,964, and \$57,365, respectively.

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(7) Property, Plant and Equipment

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

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 45,111	44,904
Buildings	184,884	184,884
Building systems and improvements	385,329	379,847
Equipment, furnishings, and software	126,872	118,560
Construction in progress	<u>53,518</u>	<u>16,695</u>
	795,714	744,890
Less accumulated depreciation	<u>(432,347)</u>	<u>(404,104)</u>
Property, plant and equipment, net	<u>\$ 363,367</u>	<u>340,786</u>

Depreciation expense amounted to \$28,251 in 2018 and \$28,173 in 2017. Operation and maintenance expenses amounted to \$29,508 in 2018 and \$29,621 in 2017.

(8) Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
Commonwealth of MA Develop Finance Agency Revenue Bonds, Brandeis University Issue, 2017 Series Q, at interest rate of 2.58% maturing in annual installments from October 1, 2017 through April 1, 2032 at which time a principal payment of \$13,200 will be due.	\$ 19,700	20,000
TD Bank note at interest rate of 3.68% maturing in annual installments from October 1, 2017 through June 1, 2032 at which time a principal payment of \$19,125 will be due.	29,450	30,000
Commonwealth of MA Development Finance Agency (MDFA) Revenue Bonds, Brandeis University Issue 2010 Series Series O-2, at interest rates from 3.0% to 5.0%, maturing in annual installments from October 1, 2012 through October 1, 2028	69,745	74,420
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	74,365	76,075

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	<u>2018</u>	<u>2017</u>
M DFA 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, 2040	\$ 41,935	42,970
M DFA 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	14,817	15,205
M DFA 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	19,275	20,185
M DFA Brandeis University Issue Master Lease, at an interest rate of 2.62%, principal and interest payable through May 10, 2018	—	1,416
Total	<u>269,287</u>	<u>280,271</u>
Unamortized premium, net	4,095	4,825
Unamortized issuance costs	<u>(1,836)</u>	<u>(1,958)</u>
Long-term debt, net	<u>\$ 271,546</u>	<u>283,138</u>

The University's principal payment obligations as of June 30, 2018 are as follows:

Year ending June 30:	
2019	\$ 10,018
2020	10,505
2021	11,020
2022	11,549
2023	12,104
Thereafter	<u>214,091</u>
	<u>\$ 269,287</u>

Interest expense, net of amounts capitalized, for the years ended June 30, 2018 and 2017 was \$10,940 and \$10,239, respectively. Interest costs incurred and capitalized during 2018 were \$479. There were no capitalized interest costs in 2017.

Bond indentures require the maintenance of certain financial covenants which, among other restrictions, require the University to maintain an annual debt service coverage ratio of not less than 1.2 to 1.0 and a liquidity ratio of not less than 50%. The University was in compliance with all such covenants at June 30, 2018 and 2017.

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On August 21, 2018, the University issued Series R bonds for \$35,500 through the Massachusetts Development Finance Agency (MDFA). Substantially all of the proceeds of Series R will be used on October 1, 2018 for the refunding of existing bonds, MDFA Series N. The Series R bonds have a fixed interest rate of 5.00% and mature in annual installments from October 1, 2019 and October 1, 2039.

(9) Line of Credit

The University has a \$30,000 line of credit with JPMorgan Chase Bank, N.A. at an interest rate of LIBOR plus 55 basis points if funds are drawn. As of June 30, 2018, the interest rate was 2.64%. 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 29, 2019. During the fiscal years ended June 30, 2018 and 2017, there were no borrowings against this line of credit.

(10) Net Assets

Detail of net assets	2018		2017	
	Temporarily restricted	Permanently restricted	Temporarily restricted	Permanently restricted
Restricted contributions	\$ 25,419	—	22,525	—
Contributions receivable, net	6,017	4,333	5,587	8,808
Endowment	282,578	655,190	237,574	630,357
Student loans	265	2,629	316	2,890
Life income and annuity funds	7,452	4,343	7,347	4,178
Funds held in trust by others	—	10,271	—	10,096
Physical plant and other	677	—	514	—
	<u>\$ 322,408</u>	<u>676,766</u>	<u>273,863</u>	<u>656,329</u>

Net assets with donor-imposed restrictions provide support for instruction, scholarships, auxiliary Programs, library, research, capital, and their programmatic purposes.

(11) Endowments

The University's endowment is pooled for investment purposes and consists of approximately 1,950 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 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 \$481 and \$897 as of June 30, 2018 and 2017, respectively.

The University follows the provisions of UPMIFA. State law allows the Board of Trustees to appropriate the endowment funds as is prudent taking into consideration 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.

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Endowment return utilized in operations in 2018 and 2017 amounted to \$49,637 and \$48,655, 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, 2018 and 2017:

2018				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (481)	272,883	655,190	927,592
Quasi (Board designated)	109,099	9,695	—	118,794
Total	<u>\$ 108,618</u>	<u>282,578</u>	<u>655,190</u>	<u>1,046,386</u>

2017				
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor restricted	\$ (897)	227,879	630,357	857,339
Quasi (Board designated)	109,853	9,695	—	119,548
Total	<u>\$ 108,956</u>	<u>237,574</u>	<u>630,357</u>	<u>976,887</u>

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Changes in endowment and quasi-endowment funds for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2017	\$ 108,956	237,574	630,357	976,887
Net investment return	11,759	83,383	30	95,172
Contributions	19	—	24,799	24,818
Utilized in operations	(11,258)	(38,379)	—	(49,637)
Transfers	(858)	—	4	(854)
Net assets at June 30, 2018	<u>\$ 108,618</u>	<u>282,578</u>	<u>655,190</u>	<u>1,046,386</u>

Changes in endowment and quasi-endowment funds for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at June 30, 2016	\$ 106,604	191,101	569,072	866,777
Net investment return	16,706	79,170	(7)	95,869
Contributions	129	—	61,267	61,396
Utilized in operations	(14,483)	(34,172)	—	(48,655)
Transfers	—	1,475	25	1,500
Net assets at June 30, 2017	<u>\$ 108,956</u>	<u>237,574</u>	<u>630,357</u>	<u>976,887</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. University contributions are subject to the participants meeting the minimum employee contributions, age, and service requirements. Additional voluntary contributions by participants are made subject to statutory limits. The University's contribution to the plans totaled \$10,944 in 2018 and \$10,098 in 2017.

(13) 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.

(14) Subsequent Events

The University evaluated subsequent events for potential recognition or disclosure through October 26, 2018, the date on which the financial statements were issued. The only material item is the new bond issuance, which is explained in note 8, Long-Term Debt.