Tufts
UNIVERSITY

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2009

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY 2009

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Tufts UNIVERSITY

TUFTS UNIVERSITY
HIGHLIGHTS

Fiscal years ended June 30, 2009 and 2004 (in thousands)

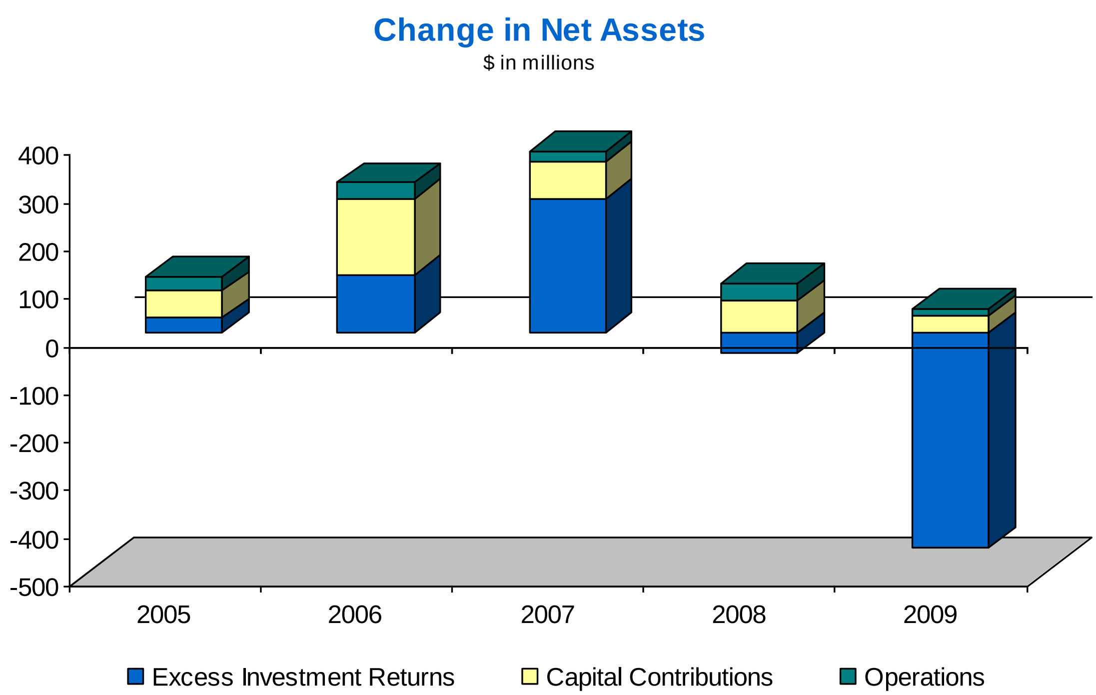
	2009	2004
FINANCIAL		
Total operating revenue	**$671,052**	$495,372
Total net assets	**1,676,491**	1,212,073
Property, plant and equipment, net	**692,502**	435,566
Investments, including receivable for investments sold	**1,340,625**	1,023,276
Bonds and notes payable	**430,432**	228,602
CREDIT RATING		
Standard & Poors	**AA-**	AA-
Moody's	**Aa2**	Aa3
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	**5,025**	4,837
Graduate	**2,448**	2,170
Professional	**1,734**	1,645
Certificate and other	**324**	287
Total full-time equivalent enrollment	**9,531**	8,939
Undergraduate Admission		
Applicants	**15,642**	14,528
Selectivity	**25%**	26%
Yield	**33%**	33%
SAT (mean)	**1,415**	1,333
Total undergraduate student charges (tuition, room, board, mandatory fees)	**$49,358**	$38,269
PERSONNEL		
Faculty	**998**	949
Staff	**2,805**	2,556
Total full-time equivalent	**3,803**	3,505
FACILITIES		
Gross square feet	**4,722,742**	4,432,550

TUFTS UNIVERSITY
2009 FINANCIAL REPORT

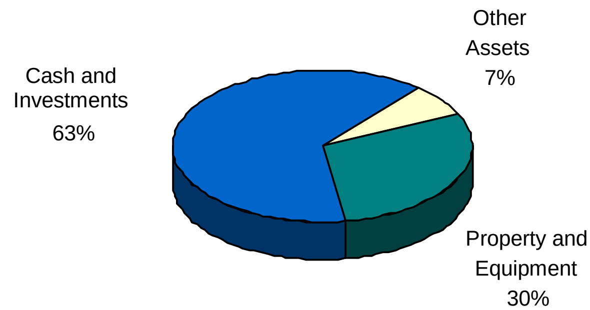
Fiscal year 2009 presented extraordinary challenges to financial markets that affected almost every aspect of the U.S. and world economies. Universities across the country saw endowments plunge precipitously and cash reserves fall. Endowment spending stopped as funds fell below historic dollar values. While certainly challenged by these circumstances, Tufts' financial performance in FY 2009 was stable for operations and responsive to the pressures on our endowment funds. Spending on all underwater funds ceased and only resumed when funds' market values returned to full historic value. Budgetary measures implemented offset the $11 million of forgone endowment spending in FY 2009. Tufts' cash position remained strong and liquidity, while always carefully monitored, posed minimal risk for the University. Donors continued their generous contributions, and operating results were sound. The University also successfully secured $83 million in debt financing for a variety of capital projects. Tufts made great strides in its construction of the Dental Tower addition on the Boston Campus and opened the Regional Biosafety Lab at the Cummings School on the Grafton Campus. The University's highly selective student market position and stable financial position enabled Tufts to continue to attract and retain its outstanding faculty and students.

NET ASSETS

Reflecting the unprecedented decline in investment markets, Tufts' net assets fell 19% to $1.7 billion in fiscal year 2009. A strong donor base delivered $35 million in capital contributions, and unrestricted operating activities added $13 million. Investment returns reflected market conditions and, along with other net asset changes, resulted in a $450 million reduction. Over the last five years, net asset values rose by nearly $464 million and posted a compound annual growth of 6.7%.



ASSETS



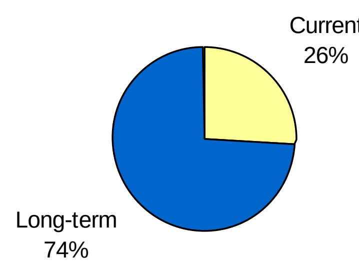
Comprised primarily of cash and investment-related assets at 63.5% and property and equipment at 29.6%, total assets of $2.3 billion declined overall by 12% in one year with a compound five-year average increase of 7.9%.

Investments
Long-term investment and related assets ended the year at $1.3 billion, a $468 million or 25.9% one-year reduction and a five-year compound annual growth rate of 5.6%. Please refer to the next section, <u>2009 Endowment and Investment Report</u>, for additional discussion on the endowment and investments.

Property and Equipment
Representing almost a third of balance sheet assets, Tufts' physical plant assets had a $693 million book value net of depreciation, growing by 13.7% this past year. Total 2009 capital expenditures amounted to $126.2 million with the completion of the New England Regional Biosafety Lab and the Agnes Varis Auditorium on the Grafton campus and the Packard Hall renovation on the Medford campus. Major projects underway included construction of the Dental Tower's five-story vertical expansion and the Sackler Center on the Health Science campus in Boston and construction of the Equine Isolation Ward in Grafton. Adjusting to existing economic conditions, a number of long-term capital projects were placed on hold for the near future.

Renewal
Tufts is committed to preserving and renewing its physical resources, made possible by an increasing commitment of annual operating revenue and the prudent use of debt. A long-term plan to address the University's capital renewal was adopted in 1996. In accordance with the funding plan, the University spent $15 million in 2009 and a cumulative $150 million since inception, improving the condition of the physical plant. Funding in 2010 will continue at a steady pace of $16.1 million.

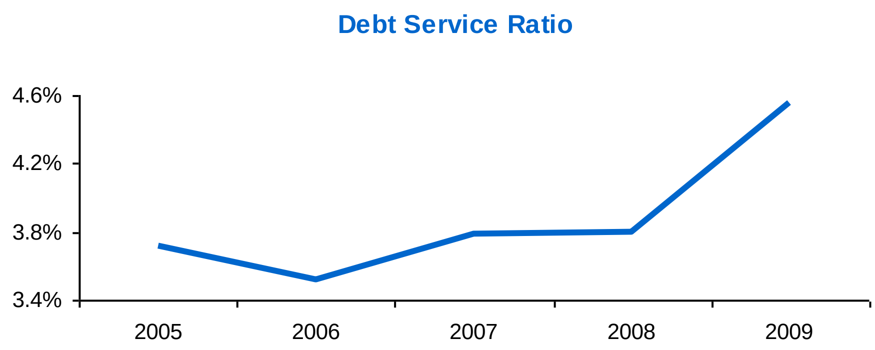
LIABILITIES



Total liabilities reached a level of $666 million, a year-over-year increase of $82 million or 14%. Long-term liabilities include bonds and notes payable, interest rate agreements, and government advances for student loans while current liabilities represent accounts payable, deferred revenue and other liabilities.

Debt
Tufts' outstanding debt totaled $430 million in 2009. The University benefited from rates on its variable rate demand bonds during the fiscal year. Taking advantage of favorable debt markets, Tufts refinanced $64.7 million of outstanding fixed rate debt, capturing savings in annual debt service, and issued new fixed rate debt of $83.4 million. Debt continued to advance the University's academic priorities by financing research facilities and construction and renovation of classroom and office spaces.

The University's overall cost of capital as of June 30, 2009 was 4.67%, a reduction of expense when compared to the June 30, 2004 rate of 5.16%.



The debt service ratio measures the effect of annual debt service on operations. With a 4.5% ratio in 2009, the University continued to perform well within its goal of maintaining debt service levels less than 5% of the operating budget. Over the past several years, the debt ratio ranged between 3.5% and 4.5%, enabling the University to maintain and improve its credit ratings while benefiting from a low cost of capital.

OPERATING RESULTS

In spite of the challenging economic conditions, the increase in unrestricted net assets from operations totaled $13 million in 2009. Schools responded extremely well to reductions in planned endowment spending, producing significant savings to budget and maximizing net revenues where feasible. Revenues of $669 million represented a year-over-year increase of $20 million or 3.1%, the smallest annual growth posted in some time. Expenses climbed $41 million to $656 million, a 6.7% rise. Primary operating categories are highlighted below.

Tuition

Rising to a level of $345 million, tuition, room, board and other fees experienced a 7% growth of almost $23 million. Major factors included planned increases in tuition rates and new degree program enrollments. The Fletcher School's inaugural Masters in International Business and LLM programs opened with highly successful admissions outcomes, while the Medical School's Masters in Biomedical Sciences, new in 2008, achieved its second year enrollment plan.

Financial Aid

One of the University's highest academic priorities, student aid, reached $86 million, a 12.3% increase from the prior year. Components of the $9.5 million increase include a 15% rise in undergraduate aid that funded greater need for existing students and new awards, aid awarded to Fletcher students in new degree programs, an expansion of the need-based one-quarter tuition scholarships to newly admitted MD degree students, and growth in foreign medical student practice fellowships.

Investment Return Utilized

Totaling $74.8 million in 2009, investment return used for operating purposes declined by 4.9% over the prior year, though expanding by a compound five-year average of 10.0% per year. Generally, this revenue line includes investment income distributed per the University's spending rule applied to the Total Return Pool, effectively representing the amount of income planned for and included in the annual operating budget. For fiscal year 2009, however, full distributions did not occur due to underwater endowments. Tufts made operating budget cuts to accommodate the endowment spending decline.

As a percentage of total revenues, this strategically important funding source moved from a level of 9.4% in 2005 to 11.2% in 2009, signifying real growth relative to other more sizeable revenue sources. Over time, strong market returns and corresponding appreciation of the Total Return Pool plus extraordinary gifts of endowment allowed investment returns to garner a larger share of revenue. However, market realities will dictate the growth of this funding source. The University reduced its reliance on this source for the fiscal year 2010 budget to 9.4% of total revenue.

Additional information regarding the Total Return Pool, the University's spending policy and the performance of the University's investments can be found in the next section, 2009 Endowment and Investment Report.

Grants and Contracts
Comprised of government and private sponsored research grants and contracts and the Commonwealth of Massachusetts appropriation for the Cummings School, grant and contract revenue approached $151 million in 2009 rising 3.6% or $5.2 million over the prior year. Due to fiscal constraints, the Commonwealth of Massachusetts did not fund the Cummings School appropriation, a loss of almost $5.9 million from 2008. Offsetting this reduction was a 9% or $9 million growth in the government grant category and a 5% or $1.5 million indirect cost recovery increase. Faculty success in garnering grant funding occurred in Engineering, Arts & Sciences and the Medical Schools comprised of DHHS, Department of Defense, NSF, and USAID agency awards.

Clinical and Other Educational Activities
In 2009 this category's revenue rose more slowly than in the recent past with an annual 3.5% or $3.4 million increase to $100 million. Impacted by the economic crisis, components of this more modest growth included a slow down in patient revenue growth experienced in both the Dental and Veterinary Schools and a reduction in continuing education revenue in several schools. Two other events suppressed revenue growth: the final 2008 graduate medical education payment to the Dental School not repeated in 2009 and the phase-out of the Tufts as Lender program. Two areas produced sizeable revenue expansion: the Medical School's International Office foreign fellow placement fees and Illumina license royalty payments.
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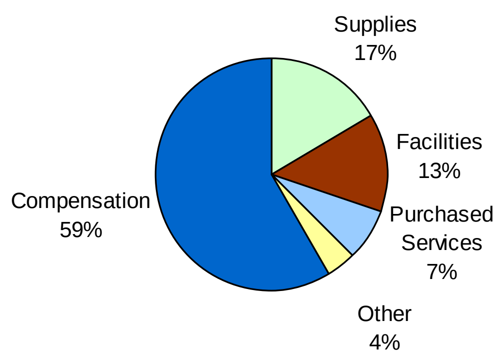
Expenses
Operating expenses of $656 million increased $41 million or 6.7% since 2008. The largest category, compensation, rose to $384 million increasing 5.5%. Driving the overall increase were planned faculty and staff merit increases, salary market adjustments and growth in graduate student stipends. Due to adverse economic conditions, growth in compensation was limited to critical hires supporting clinical, research and teaching settings, providing significant savings to plan. These mission-driven investments demonstrate Tufts' strong commitment to attract and retain outstanding faculty by providing competitive compensation packages and market adjustments and continuing its support of research. Fringe benefit costs grew 7.8% led by a health insurance cost growth of 11%.

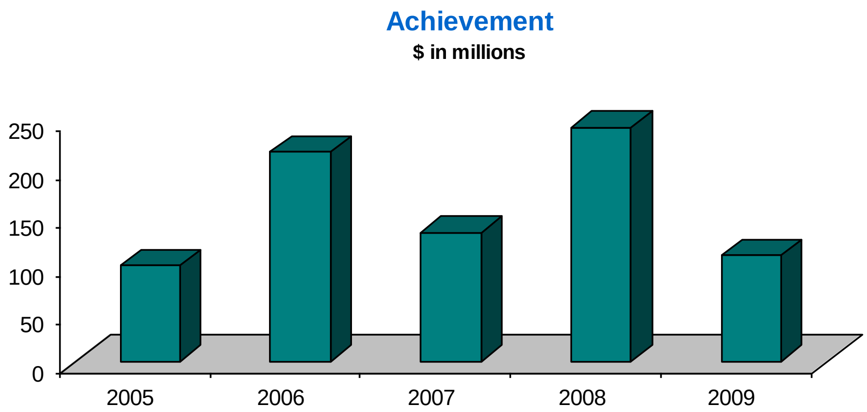
Non-compensation expense of almost $272 million grew $21 million or 8.5% over the prior year, spurred by: the addition of new grants and facilities costs; a write-off of the 2008 state appropriation not funded in 2009; and expense growth related to revenue generating activities. To compensate for the poor economic climate's impact on revenue, discretionary expenses and travel were significantly reduced from plan.

The pie chart displays the major natural classification categories. Over time, the relative share of each category remained stable.



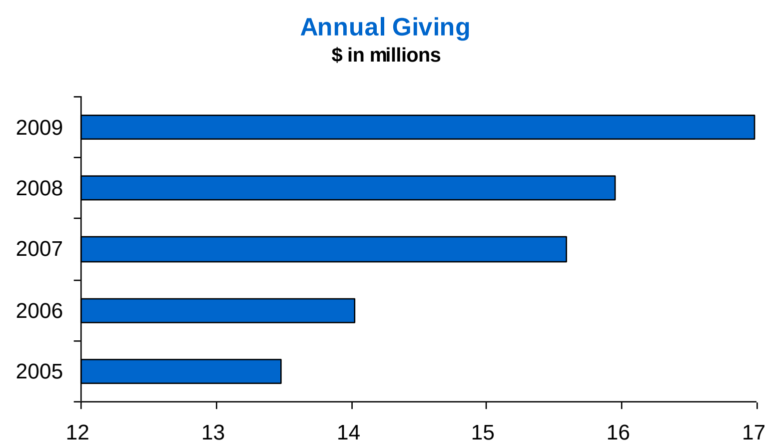
ADVANCEMENT
Despite the global economic downturn, fiscal year 2009 was a successful fundraising year for Advancement at Tufts with achievement[1] of almost $110 million including over $78 million in cash. Achievement for endowment exceeded $55 million during the year. Over 41,000 alumni, friend, parent, student and organizational donors helped achieve this success. Tufts alumni and friends, while no doubt significantly impacted by the downturn in the economy, continued to step forward to provide the University with philanthropic support.

[1] Achievement reflects total gifts credited towards the capital campaign and includes certain pledges which, due to conditions and other terms, have not been recognized in the accompanying financial statements.



The highlight of the year was the pledge of $40 million over ten years to the Engineering School from former trustee Bernard Gordon and the Gordon Foundation. This achievement will support engineering leadership and the strengthening of the Engineering School in many additional ways. Other highlights from 2009 include $10 million from the Jay Pritzker Foundation for scholarship support and $1 million from Dr. Louis Fiore in support of the vertical expansion of the Dental School.

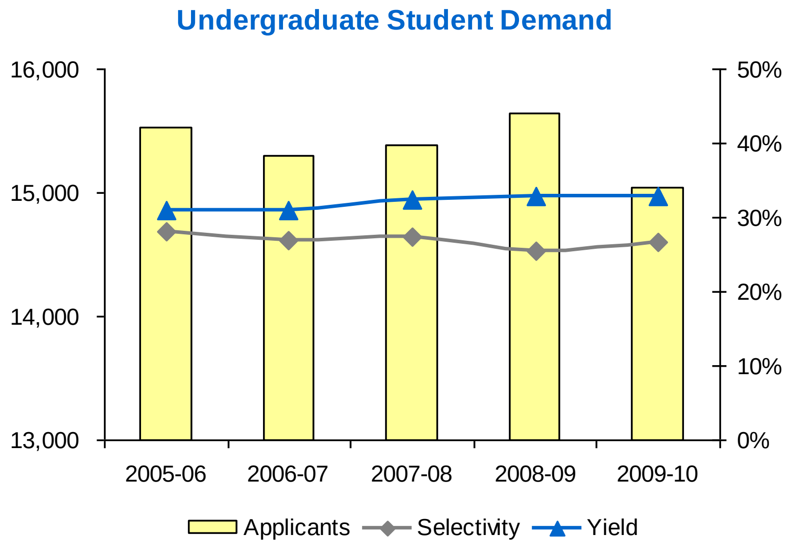
Additionally, gifts to the annual fund exceeded $16.9 million, a 7.4% five-year compound annual increase. Of particular note, numerous donors stepped forward with large annual fund gifts to assist Tufts through the difficult economic downturn. Significant resources were generated in support of financial aid to ensure the continuity of our students' experiences.



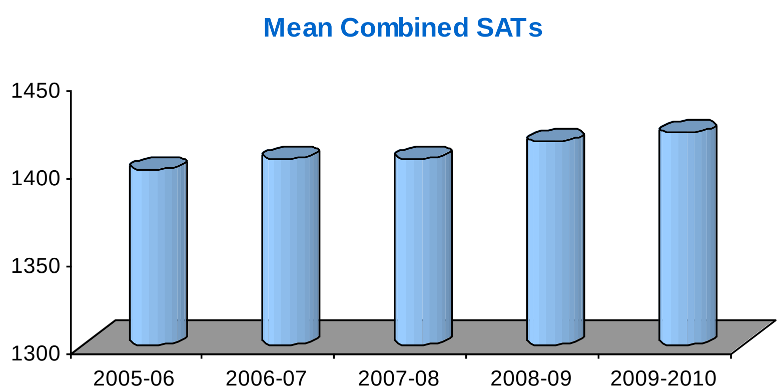
Beyond Boundaries: The Campaign for Tufts continued to show great progress in securing the resources required to attract and retain the best faculty and students, as well as developing the buildings and facilities required to keep them successful. The *Beyond Boundaries* campaign runs through 2011 with a goal of $1.2 billion. As of June 30, 2009, Tufts has raised over $1 billion in the campaign with two fiscal years remaining.

STUDENT DEMAND AND QUALITY

Tufts continues to enjoy strong student demand in 2009-10. While the number of applicants was lower than in recent years after a period of unprecedented growth, Tufts experienced strong and stable percentages of applicants who were accepted (selectivity) and of those accepted who matriculated (yield). The graph below shows these favorable trends for the undergraduate population.



The quality of matriculating undergraduate students simultaneously improved. Mean combined scholastic aptitude test (SAT) scores of Tufts' entering classes were the highest in Tufts' history, reflecting a trend of improving student quality and mirroring highly selective institutions.



SUMMARY

Reflecting the adverse economic and investment outcomes of the recession that began in December 2007, Tufts' investment portfolio experienced an extraordinary decline. This decline followed a period of significant growth due to above average investment returns. The University's investment strategy has recognized the delicate balance between investing for the long-term and maintaining adequate liquidity to ensure ongoing operating support. Tufts ended fiscal year 2009 with positive operating results and in a stable financial position for fiscal year 2010. Strong liquidity, strategic use of debt and budgetary steps enacted offset the loss of endowment spending due to underwater endowments. Donors gave generously to the University, and Tufts continued to realize strong student demand and quality.

The prospects for FY 2010 endowment spending will reflect lower investment values. Fiscally sound policies and planning will continue to ensure stable financial performance, even in trying times, providing the infrastructure for achievement of the University's academic mission and goals.

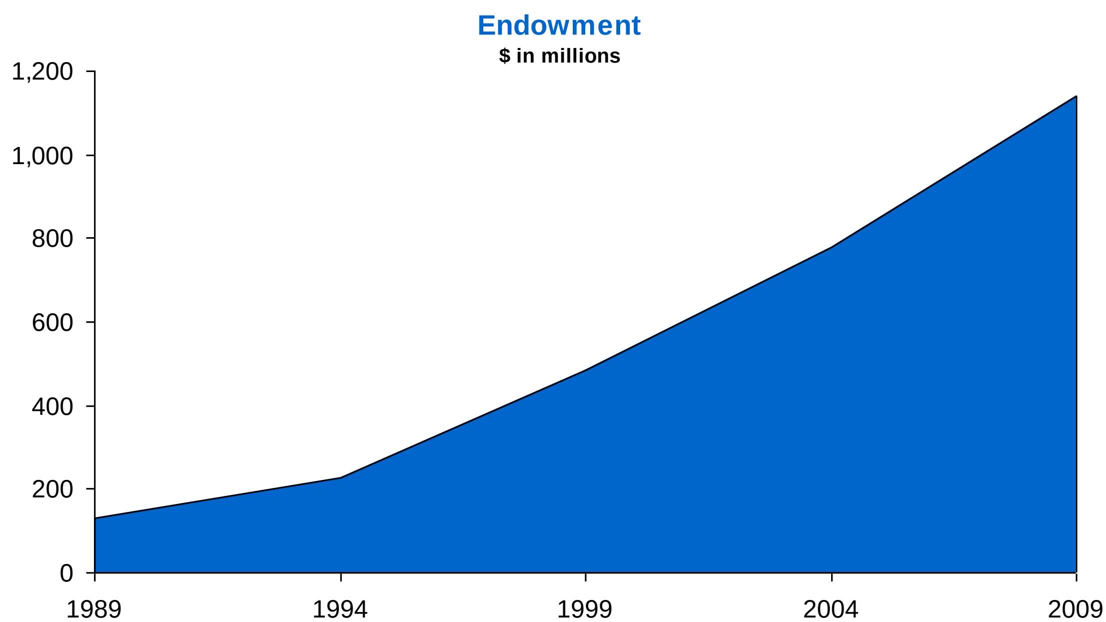
TUFTS UNIVERSITY
2009 ENDOWMENT AND INVESTMENT REPORT

June 2009 brought to a close one of the most challenging twelve month periods in financial history. This period encompassed a worldwide financial crisis that saw the worst shrinkage of the U.S. economy since the Great Depression. In an environment of pervasive uncertainty, diversification across asset classes did not preserve capital as all asset classes, with the exception of government bonds, saw declines in value, with equities providing the poorest returns.

Endowments are managed to perpetual time horizons, with an eye on the long term prosperity of the institution. While each year's returns contribute meaningfully to the long term investment record, no single year will determine the future of the institution. Endowment management efforts remain focused on achieving Tufts' long term goals.

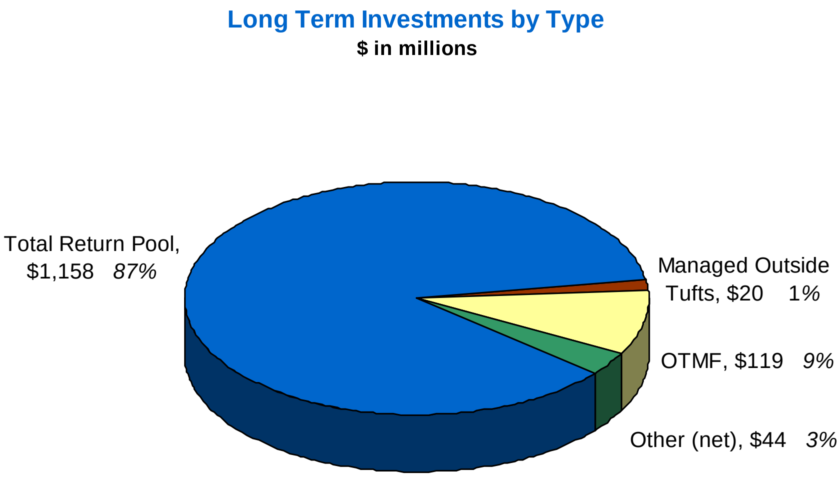
Tufts' Endowment

Tufts endowment grew from $130.7 million at fiscal year end 1989 to $1.1 billion in 2009, an 11.4% twenty-year compound annual rate. In spite of the economic challenges that began in 2007 and persisted through June 30, 2009, the five-year trailing return for the endowment remains positive at 2.5%.



Investments

As of June 30, 2009, the University's long term investments totaled $1.3 billion. These assets are primarily endowment funds established by hundreds of individual donors to support specific purposes within the University's various schools. Together, all these endowment accounts total $1.1 billion in assets. The remainder of these long term assets is comprised of funds earmarked for operating and capital purposes.



The assets in these funds are invested in a variety of ways including life income trusts, separately managed accounts, and the Omidyar Tufts Microfinance Fund ("the Fund"). The Fund is invested largely in private equity assets in fast growing emerging market economies and has produced a trailing three year annualized return of 6.3%, dramatically outperforming the -7.0% return of global equities for the same period.

By far the largest investment is a vehicle the University refers to as the Total Return Pool, or TRP, managed for total return rather than current income. The investment and performance discussion that follows applies to this Total Return Pool.

Investment Objectives

Chief among endowment and investment goals is to provide intergenerational equity, meaning that future generations of students will enjoy the same level of support as the current generation does. To achieve this, the endowment must maintain its purchasing power by earning a long term return that covers current budget support and incorporates growth to keep up with inflation.

The Board of Trustees has established investment objectives for the endowment. First, the Board set an annual target of 5% of the value of the endowment as the amount of investment assets that are to be spent annually from the endowment to support donors' purposes. To maintain the level of support after inflation, the endowment must earn an additional 4%, representing an estimate of the University's long term inflation rate. These returns are measured over long periods, so that over any ten to twenty-year period we endeavor to earn at least a 9% annualized return. Since the absolute level of the endowment determines how well Tufts can compete for students, faculty and other resources, we strive to earn as much as possible, given market conditions and the University's risk tolerance.

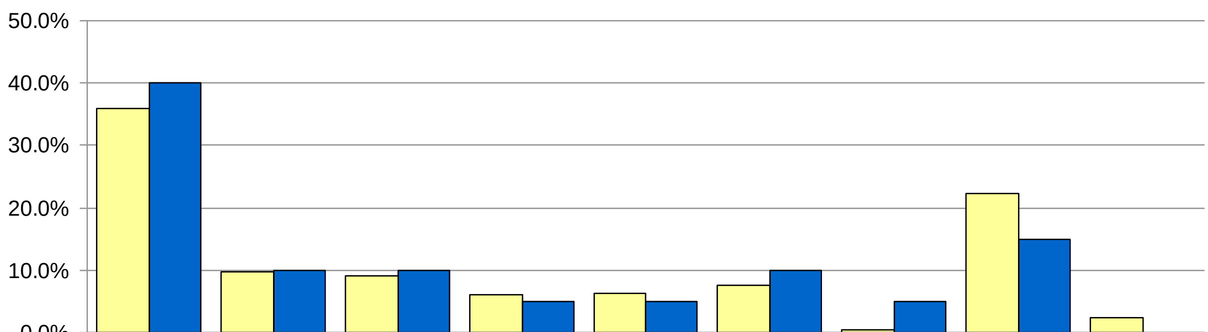
Each year, the endowment provides cash payouts to the University budget. Thanks to a conservative approach to liquidity, the endowment has had no challenges in meeting any of its current obligations or payments to the University.

Asset Allocation

The vehicle through which investment objectives are achieved is a portfolio diversified as broadly as possible over assets that respond differently to various economic conditions. In spite of the failure of diversification in 2009, this approach has worked well over the longer term. The policy portfolio measures what the performance would be if the Total Return Pool were invested exactly in the market index for each asset class. The performance of this policy portfolio is a second baseline (in addition to the 9% target) against which the actual performance of the Total Return Pool is measured over all periods. This allocation is reviewed periodically to ensure that it continues to meet the University's needs.

The target and actual allocations of the portfolio as of fiscal year end 2009 are shown in the chart below.

Target vs Actual Asset Allocation

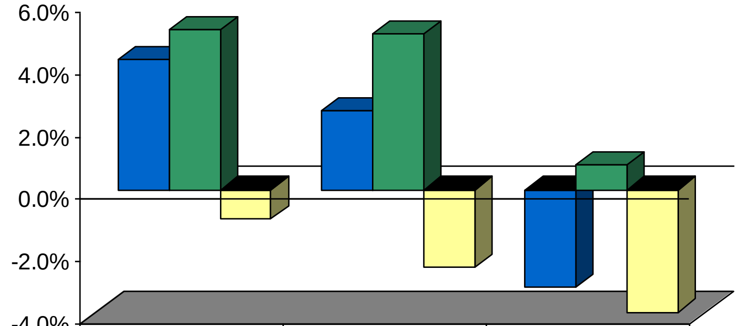


	Global Equity	Private Equity+ Venture +LBO	Core Fixed Income	High Yield	TIPS+ Comm. Overlay	Real Estate	Timber	Absolute Return	Cash + Other
Actual 6/30/09	36.0%	9.7%	9.2%	6.0%	6.3%	7.5%	0.5%	22.3%	2.5%
Target	40.0%	10.0%	10.0%	5.0%	5.0%	10.0%	5.0%	15.0%	0.0%

Performance

During fiscal 2009, the Tufts policy portfolio, the benchmark against which the actual Total Return Pool portfolio is measured, earned a return of -13.9%. This compares favorably to a naïve portfolio comprised of 70% stocks and 30% bonds, which would have earned a return of -17.3% for the year. Over the last five years, the 70/30 portfolio would have produced a 0.45% return, vs. 5.0% for the Tufts policy portfolio.

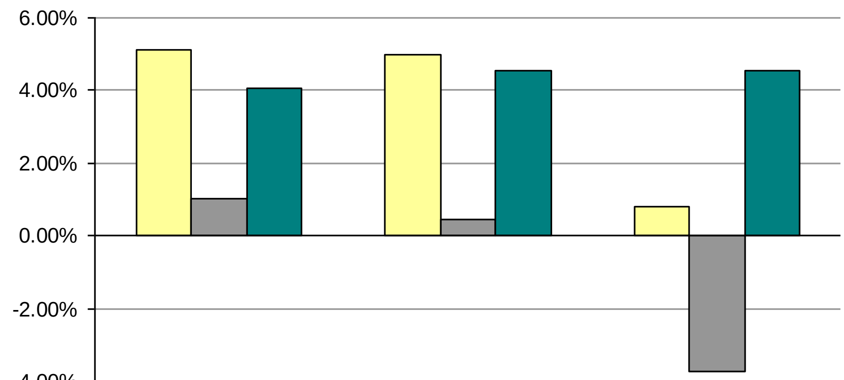
Annualized Returns
as of June 30, 2009



	10 Years	5 Years	3 Years
Tufts Actual	4.19%	2.52%	-3.15%
Tufts Policy	5.12%	5.00%	0.79%
Value Added	-0.93%	-2.48%	-3.94%

The actual portfolio returned -24.6% in fiscal year 2009, reflecting continuing investment in building the private assets portfolio and challenges faced by Tufts' active managers in a changing economic regime. Over the last ten years, on an annualized basis net of all expenses, the portfolio has provided a return of 4.2%.

Annualized Returns
As of June 30,2009



	10 Years	5 Years	3 Years
Tufts Policy	5.12%	5.00%	0.79%
70% Russell 3000/30%LBAGG	1.04%	0.45%	-3.75%
Value Added from Asset Allocation	4.08%	4.55%	4.54%

Over the last several years, the University has been building portfolios in illiquid, private asset classes and in the near term, these portfolios may continue to put downward pressure on the endowment's total returns. However, the private asset classes should evolve into an important contributor to performance over the long term as the allocations come into line and the portfolios mature. The approach has been conservative and prudent so that neither the size of the commitment nor the pace would jeopardize the overall liquidity of the portfolio. In the most difficult market environment in a generation, the endowment has fully met its obligations as an integral part of the University's financial structure in support of the mission of the University.

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Report of Independent Auditors

To the Board of Trustees of
Tufts University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Tufts University and its Subsidiaries (the "University") at June 30, 2009, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2008 consolidated financial statements, and in our report dated September 19, 2008, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the University restated its 2008 financial statements.

PricewaterhouseCoopers LLP

November 6, 2009

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2009, WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2008, AS RESTATED
(In thousands)

	2009	2008 (As Restated)
ASSETS		
Cash and cash equivalents	$ 134,987	$ 57,720
Receivables and other assets, net	39,434	53,150
Contributions receivable, net	69,860	80,422
Note and student loans receivables, net	52,051	51,107
Funds held under bond agreements	12,747	2,163
Receivable for investments sold, net	48,021	-
Investments	1,292,604	1,808,258
Land, buildings, and equipment, net	692,502	609,134
TOTAL ASSETS	$ 2,342,206	$ 2,661,954
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 111,720	$ 120,348
Deferred revenue and deposits	61,358	62,010
Bonds and notes payable	430,432	349,809
Interest rate agreements	37,111	26,923
Government advances for student loans	25,094	24,818
Total liabilities	665,715	583,908
NET ASSETS:		
Unrestricted	831,513	1,060,582
Temporarily restricted	368,060	552,696
Permanently restricted	476,918	464,768
Total net assets	1,676,491	2,078,046
TOTAL LIABILITIES AND NET ASSETS	$ 2,342,206	$ 2,661,954

The accompanying notes are an integral part of these consolidated financial statements.

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2008, AS RESTATED (In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2009	Total 2008 (As Restated)
OPERATIONS:					
REVENUE:					
Tuition and fees	$ 345,289	$ -	$ -	$ 345,289	$ 322,577
Less scholarships and fellowships	(86,120)	-	-	(86,120)	(76,658)
Tuition and fees, net	259,169	-	-	259,169	245,919
Government grants and contracts	121,706	-	-	121,706	116,862
Clinical and other educational activities	100,425	-	-	100,425	97,014
Auxiliary enterprises	48,154	-	-	48,154	47,008
Contributions and grants	46,541	20,256	-	66,797	65,588
Investment return utilized	74,801	-	-	74,801	78,625
Net assets released from restrictions	18,513	(18,513)	-	-	-
Total revenue	669,309	1,743	-	671,052	651,016
EXPENSES:					
Instruction	191,931	-	-	191,931	185,527
Sponsored programs	133,540	-	-	133,540	123,775
Clinical and other educational activities	114,107	-	-	114,107	105,103
Academic and student services	90,730	-	-	90,730	85,607
Auxiliary enterprises	48,964	-	-	48,964	47,243
Institutional support	76,941	-	-	76,941	67,690
Total expenses	656,213	-	-	656,213	614,945
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	13,096	1,743	-	14,839	36,071
NONOPERATING ACTIVITIES:					
Investment return reinvested	(279,980)	(183,265)	(329)	(463,574)	(27,377)
Contributions and grants	24,299	10,562	12,479	47,340	65,585
Net assets released from restrictions for capital and other nonoperating purposes	13,676	(13,676)	-	-	-
Net unrealized and realized (loss) on interest rate agreements	(3,126)	-	-	(3,126)	(17,044)
Gain on sale of real estate development rights	19,891	-	-	19,891	-
Change in funded status of postretirement health care plan	(10,004)	-	-	(10,004)	(1,791)
Other nonoperating activities	(6,921)	-	-	(6,921)	2,861
Increase (decrease) in net assets from from nonoperating activities	(242,165)	(186,379)	12,150	(416,394)	22,234
INCREASE (DECREASE) IN NET ASSETS	(229,069)	(184,636)	12,150	(401,555)	58,305
NET ASSETS—Beginning of year, as restated	1,060,582	552,696	464,768	2,078,046	2,019,741
NET ASSETS—End of year	$ 831,513	$ 368,060	$ 476,918	$ 1,676,491	$ 2,078,046

The accompanying notes are an integral part of these consolidated financial statements.

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2008, AS RESTATED (In thousands)

	2009	2008 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase (decrease) in net assets	$ (401,555)	$ 58,305
Adjustments to reconcile total increase (decrease) in net assets to net cash and cash equivalents provided by operating activities:		
Net realized and unrealized investment (gains) losses	407,305	(15,304)
Depreciation and amortization	43,101	37,612
Forgiveness of debt - real estate development rights	(18,179)	-
Loss on disposal of fixed assets	1,072	408
Gifts of securities, property and equipment	(3,201)	(14,155)
Cash paid for termination of interest rate swap agreements	(25,303)	-
Settlements on interest rate swap agreements, net	3,798	-
Net unrealized and realized loss on interest rate agreements	3,126	17,044
Contributions restricted for long-term investment	(32,508)	(33,676)
Loss on extinguishment of debt	3,049	-
Cash premium received upon issuance of bonds	7,791	-
Changes in operating assets and liabilities:		
Receivables and other assets, net	14,144	(12,884)
Contributions receivable, net	10,562	(6,940)
Accounts payable and accrued expense	8,349	2,150
Deferred revenue and deposits	(652)	8,526
Net cash and cash equivalents provided by operating activities	20,899	41,086
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received in payment of notes receivable	-	382
Student loans granted	(6,102)	(17,661)
Student loans repaid	5,158	5,366
Receivable for investments sold, net	(48,021)	-
Purchases of investments	(495,471)	(1,159,925)
Proceeds from sale of investments	606,345	1,193,728
Changes in funds held under bond agreements	(10,584)	3,716
Additions to land, buildings, and equipment	(126,241)	(65,941)
Net cash and cash equivalents used in investing activities	(74,916)	(40,335)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in government advances for student loans	276	231
Proceeds from issuance of bonds and notes	141,429	140,600
Cash received from replacement of interest rate swap agreements	32,365	-
Cash paid on interest rate swap agreements, net	(3,798)	-
Repayments of bonds and notes	(71,496)	(145,775)
Proceeds from contributions restricted for long-term investment	32,508	33,676
Net cash and cash equivalents provided by financing activities	131,284	28,732
NET INCREASE IN CASH AND CASH EQUIVALENTS	77,267	29,483
CASH AND CASH EQUIVALENTS—Beginning of year	57,720	28,237
CASH AND CASH EQUIVALENTS—End of year	$ 134,987	$ 57,720
SUPPLEMENTAL DATA:		
Cash paid for interest	$ 17,504	$ 17,581
Construction amounts remaining in accounts payable	$ 16,507	$ 15,237
Gifts of securities	$ 2,871	$ 13,950

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION

Tufts University (the “University”), founded in 1852, is a not-for-profit institution committed to education and research. The University is a complex independent nonsectarian university, with approximately 9,500 students and three campuses in Boston, Medford/Somerville and Grafton, Massachusetts. The University provides degree programs at both undergraduate and graduate levels in a variety of liberal arts and professional areas. The University has been granted a tax-exemption as described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared on the accrual basis with net assets and revenues, expenses, gains and losses classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

Permanently Restricted—Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the University. Such net assets consist primarily of donor-restricted endowment funds.

Temporarily Restricted—Net assets subject to donor-imposed stipulations that may be satisfied by actions of the University that expire with the passage of time or the occurrence of specific events.

Unrestricted—Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

Consolidation—The consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated. The University’s investment in Tufts Shared Services, Inc. (“TSS”) has been recorded using the equity method of accounting.

Classifications—Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Contributions and investment return for operating activities subject to donor-imposed stipulations that are met in the same period are reported as unrestricted revenue. Contributions and investment return for operating activities subject to donor-imposed stipulations not utilized in the current period are released from temporarily restricted net assets when spent and are reported as net assets released from restrictions under revenue from operating activities. Expirations of all other temporarily restricted net assets are reported in the non-operating section of the statement of activities.

Contributions—Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions restricted for the acquisition of land, buildings, and equipment are reported as increases in temporarily restricted net assets. These contributions are reclassified to unrestricted net assets as the funds are expended, or in the case of construction, when the related assets are placed in service. Promises to give subject to donor-imposed stipulations that the corpus be maintained in perpetuity are recognized as increases in permanently restricted net assets.

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value at the date of gift. Pledges for contributions scheduled to be received after one year are discounted using a rate of return appropriate for the expected term of the promise to give. Amortization of the discount is recorded as additional contributions in the appropriate net asset class.

Investments—Investments are reported at fair value. Dividends, interest, gains and losses on investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment or loan fund;

- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net gains. The University has relied on the Massachusetts Attorney General's interpretation of relevant state law that unappropriated endowment gains should generally be classified as temporarily restricted; and

- as increases in unrestricted net assets in all other cases.

Investments are comprised of the assets of the University's endowment and nonendowment funds. The majority of these assets are invested in the University's Total Return Pool. The Total Return Pool assets are owned by participating funds based on shares acquired by each fund when it entered the pool. The fair value of the pooled assets is determined each month and the resulting value per share is used to account for funds entering or leaving the pool. The University has established spending policies for endowment and nonendowment investments in the Total Return Pool as follows:

Endowment Spending Policy— The Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. The objective of the policy is to ensure that endowment income available to support operations is stable and predictable, while at the same time increases over time to offset the effects of inflation. Endowment funds receive income distributions equal to the current spending level of all funds in the Total Return Pool. The targeted distribution is 5% of each fund's market value, but may vary with market conditions. The dollar amount is then increased each year by 4%. The policy provides for management to adjust the spending rate as necessary if it does not remain within a range of 4.5% to 5.5% of the pool's market value calculated as of December 31 of the previous year. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

Nonendowment Spending Policy—The nonendowment investments in the Total Return Pool consist of operating and capital funds. These long-term funds, while invested in a similar manner as the endowment, are not intended to be held in perpetuity. For these investments, the University has adopted a fixed annual spending rate equivalent to 6% of the market value calculated as of December 31 of the previous year.

Spending on all investments held outside the Total Return Pool represents the yield earned, unless otherwise prescribed by donor restrictions.

Operations and Non-operating Activities—The consolidated statement of activities reports changes in unrestricted, temporarily restricted, and permanently restricted net assets from operations and non-operating activities. Operations include temporarily restricted contributions that will be released to unrestricted as used for operational purposes. Operations does not include the release from restrictions of contributions restricted to the acquisition of land, buildings, and equipment and other transfers between restriction categories; investment return in excess of the University's operating needs as defined by its spending policy; unrealized gains or losses on interest rate agreements; or unrestricted bequests and gifts of property.

Tuition revenue is reported in the period earned net of the discount attributable to reductions in amounts charged to students, whether as unrestricted University financial aid, distributions from endowment funds, or government aid awarded to students by the University. Revenue associated with research and other grants and contracts is recognized when related expenses are incurred. Indirect cost recovery by the University is recorded as unrestricted revenue of approximately $31,092,000 in 2009 and $29,614,000 in 2008. Revenue from all other sources is recognized in the period earned. Included in operating activities are revenues earned and related expenses incurred for auxiliary enterprises. Auxiliary enterprises include student housing, dining, health fees and other miscellaneous charges.

Interest, depreciation, operations, and maintenance expenses have been allocated to functional expense classifications based on square footage utilized.

Cash and Cash Equivalents**—**Short-term investments with maturities at the dates of purchase of three months or less are classified as cash and cash equivalents. Certain balances meeting the definition of cash equivalents have been classified as investments as a result of the University's intent to segregate funds from cash available for current operations.

Land, Buildings, and Equipment—Land, buildings, and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts. Depreciation is provided using the straight-line method over the assets' estimated useful lives, which range from 15 to 60 years for land improvements, 3 to 60 years for buildings, and 5 to 20 years for equipment and furnishings.

Perpetual Trusts, Life Income, and Annuity Agreements—The University has an interest in various perpetual trusts, irrevocable charitable remainder trusts, and life income and annuity agreements. Assets held in these trusts and agreements, which are administered by the University or third-party trustees, are included in investments and totaled approximately $39,500,000 and $49,200,000 at June 30, 2009 and 2008, respectively. Contributions are recognized at the date the trusts or annuity agreements are established. Liabilities associated with life income and annuity agreements are recorded at the present value of the estimated future payments to be made to the donors and/or other beneficiaries by the University. The liabilities associated with life income and annuity agreements are adjusted during the term of the life income agreement or annuity for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments. The liabilities are included in accounts payable and accrued expenses and totaled approximately $10,300,000 and $13,300,000 at June 30, 2009 and 2008, respectively. The present value of payments is discounted at rates that range from 5.5% to 11.6%.

Use of Estimates**—**The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New Accounting Pronouncements—Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements." Footnote 10 further describes the University's implementation of SFAS 157. In August 2008, the FASB issued FASB Staff Position 117-1 "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds" ("FSP 117-1"). Footnote 11 further describes the University's implementation of FSP 117-1.

In May 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 165 ("SFAS 165"), "Subsequent Events." SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The University adopted SFAS 165 as of June 30 2009. No subsequent events need to be disclosed, and subsequent events have been evaluated through November 6, 2009, the date the financial statements were issued.

Prior Year Summarized Information—The consolidated statement of activities includes certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated statement of activities for the year ended June 30, 2008, from which the summarized information was derived.

3. RESTATEMENT OF FINANCIAL STATEMENTS

In 2009, the University determined that two items required restatement of the 2008 financial statements.

Specifically, at June 30, 2008 the unrestricted net assets were overstated by approximately $157,000,000 and temporarily restricted net assets were understated by the same amount. This was the result of certain unexpended endowment gains and losses being incorrectly classified.

In addition, certain contributions for operations in the amount of approximately $30,000,000 had been incorrectly classified as cash flows from financing activities rather than cash flows from operating activities within the Statement of Cash Flows. As a result, the June 30, 2008 financial statements have been restated to correct for these adjustments.

The following table presents the line items that have been restated (in thousands):

	As Originally Presented	Adjustment	As Restated
June 30, 2008 Financial Statements			
Statement of Financial Position			
Unrestricted Net Assets	$1,217,573	$(156,991)	$1,060,582
Temporarily Restricted Net Assets	395,705	156,991	552,696
Statement of Activities			
Net Assets-Beginning of Year			
Unrestricted Net Assets	1,217,573	(156,991)	1,060,582
Temporarily Restricted Net Assets	395,705	156,991	552,696
Statement of Cash Flow			
Cash Flow from Operating Activities			
Contributions restricted for long-term investment	(63,847)	30,171	(33,676)
Net cash and cash equivalents provided by operating activities	10,915	30,171	41,086
Cash Flow from Financing Activities			
Proceeds from contributions restricted for long-term investment	63,847	(30,171)	33,676
Net cash and cash equivalents provided by financing activities	58,903	(30,171)	28,732

4. RECEIVABLES AND OTHER ASSETS

Receivables represent amounts due from students, grants and contracts, clinic billings, and other sources. Other assets include deferred charges, prepaid expenses, and inventories. The components at June 30, 2009 and 2008 are as follows (in thousands):

	2009	2008
Gross receivables	$ 35,971	$ 40,344
Less allowance for uncollectible amounts	(3,023)	(3,110)
Receivables, net	32,948	37,234
Funded status of post retirement benefit obligation (Note 13)	-	8,491
Other assets	6,486	7,425
Total	$ 39,434	$ 53,150

5. CONTRIBUTIONS RECEIVABLE

Effective July 1, 2008 the University adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements." The University has reflected contributions received during fiscal 2009 at fair value as determined in accordance with SFAS No. 157.

Contributions receivable at June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Unconditional promises scheduled to be collected in:		
Less than one year	$ 38,837	$ 46,735
One year to five years	41,013	49,029
More than five years	1,267	1,232
Gross contributions receivable	81,117	96,996
Less allowance for uncollectible amounts	(8,864)	(12,583)
Less discount to present value	(2,393)	(3,991)
Total	$ 69,860	$ 80,422

Contributions receivable at June 30 were intended for the following purposes (in thousands):

	2009	2008
Endowment for educational and general purposes	$ 31,092	$ 35,028
Construction and modernization of plant	19,589	27,504
Support of current operations	19,179	17,890
Total	$ 69,860	$ 80,422

6. NOTE AND STUDENT LOANS RECEIVABLES

Note and student loans receivables at June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Student loans receivable	$ 54,197	$ 53,253
Less allowance for uncollectible amounts	(2,146)	(2,146)
Total	$ 52,051	$ 51,107

Loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts. Generally, payment on student loans receivable commences upon graduation and can extend up to 20 years. Interest rates range from 2% to 12%.

7. INVESTMENTS

Investments at June 30, 2009 and 2008 consisted of the following categories and are stated at fair value (in thousands):

	2009	2008
Cash and cash equivalents	$ 65,276	$ 41,326
Equity securities	63,309	91,450
Common trust equity index funds	181,512	276,612
Fixed income securities	174,015	308,867
Hedge funds	524,639	778,328
Private equities	174,846	180,725
Real estate	90,173	84,783
Natural resources	9,481	38,526
Other	9,353	7,641
Total	$ 1,292,604	$ 1,808,258

The University invests in alternative investments, consisting of hedge funds, private equities, real estate, natural resources and commingled funds through various limited partnerships and similar vehicles. Alternative investments utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at fair value as estimated by management using values provided by external investment managers. The underlying investments of the hedge funds are principally publicly-priced securities and derivatives. Private equity investments consist of long-term private investment securities and have been valued based on estimates reported by fund managers or securities held directly by the University and valued by management. Estimates of fair value may differ significantly from values that would have been used had a ready market for the investments existed. Real estate consists of investments in privately held and publicly traded REITs and other privately held entities. Natural resources consist of private investments and a total return swap on the commodity index. The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels. The University had unfunded commitments of approximately $227,635,000 and $257,071,000 at June 30, 2009 and 2008 respectively, which can be called through 2018. Alternative investments are valued at approximately $961,227,000 and $1,298,300,000 at June 30, 2009 and 2008, respectively. See footnote 10 for additional information on the fair value of investments.

At June 30, 2007 the University held a beneficial interest in a trust held by others amounting to approximately $86,800,000. During the year ended June 30, 2008, the trust was terminated and the proceeds were distributed to the University. The University recognized approximately $47,600,000 in investment return reinvested in the statement of activities as a result of the sale of Doble Engineering.

The total return on investments for the years ended June 30, 2009 and 2008 is as follows (in thousands):

	2009	2008
Dividends and interest	$ 18,532	$ 35,944
Net realized and unrealized gains (losses)	(407,305)	15,304
Total return on investments	(388,773)	51,248
Investment return utilized	(74,801)	(78,625)
Investment return reinvested	$(463,574)	$ (27,377)

Endowment and non-endowment funds are described in Note 11.

8. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Land and land improvements	$ 39,763	$ 38,388
Buildings	809,828	778,908
Construction in progress	152,069	69,200
Equipment and furnishings	132,310	123,662
	1,133,970	1,010,158
Less accumulated depreciation	(441,468)	(401,024)
Total	$ 692,502	$ 609,134

Depreciation expense charged to operations was approximately $43,354,000 and $37,713,000 in 2009 and 2008, respectively. Net interest cost capitalized in fiscal 2009 and 2008 was $3,322,000 and $1,175,000, respectively.

Equipment and furnishings include assets recorded under capital leases of approximately $1,359,000 in 2009 and $1,221,000 in 2008. Accumulated depreciation on the assets amounted to approximately $792,000 and $705,000 in 2009 and 2008, respectively.

Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts and gains or losses are included in operations on the statement of activities.

Outstanding commitments on construction contracts amounted to approximately $30,100,000 and $99,300,000 at June 30, 2009 and 2008, respectively.

9. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Massachusetts Industrial Finance Agency ("MIFA")—Series H, fixed rate bonds at 5.50%, due through 2013	$ 13,685	$ 81,850
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 4.53% average rate for 2009, due 2024-2026	27,900	30,500
Series I, fixed rate bonds at 5.25-5.50%, due 2029-2036	50,000	50,000
Series J, fixed rate bonds at 3.00-5.50%, due 2010-2018	31,915	32,165
Series M, fixed rate bonds at 5.00-5.50%, due 2014-2028	59,150	-
Series N1, variable rate bonds, 3.55% average rate for 2009 due 2029-2040	86,400	86,400
Series N2, variable rate bonds, 3.25% average rate for 2009, due 2022-2034	54,200	54,200
Series O, fixed rate bonds at 3.50%-5.38% due 2009-2038	83,360	-
United States Department of Education ("DOE"):		
Fixed rate bonds, 3.00-3.625%, due through 2018	2,627	2,878
Fixed rate bonds, 3.00%, due through 2021	1,572	1,704
Citizens Bank		
Note - rate fixed at 5.46% until maturity in 2016	7,500	7,500
Letter of credit at fixed rate of 5.46% until maturity in 2016	1,500	1,500
Southside LLC - Note, rate fixed at 7.19% until maturity in 2016	194	214
Capital Leases—various imputed interest rates, due through 2014	305	247
	420,308	349,158
Net unamortized bond premium	10,124	651
Total bonds and notes payable	$ 430,432	$ 349,809

DOE fixed rate bonds are collateralized by certain dormitories and other buildings.

The average rates reflected above for the variable rate bonds are computed based on the variable interest, fees and related swap interest payments.

Scheduled aggregate principal repayments on bonds and notes payable are as follows at June 30, 2009 (in thousands):

Fiscal Year Ending	Scheduled Principal Maturities
2010	$ 8,922
2011	8,024
2012	8,327
2013	6,066
2014	5,849
Thereafter	383,120
Total	$ 420,308

Included in the University's debt is $168,500,000 of variable rate demand bonds ("VRDBs"). The University has entered into standby bond purchase agreements with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In the event a bond cannot be remarketed, the bond may be "put" to the standby bond purchase agreements providers, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put as of July 1, 2009, aggregate scheduled repayments under the VRDB related standby bond purchase agreements would be as follows: $86,400,000 in 2010, $16,420,000 in 2011, $16,420,000 in 2012, $16,420,000 in 2013, $16,420,000 in 2014, and $16,420,000 thereafter.

The University's debt is stated at cost. The fair value has been calculated by determining the net present value of future cash outlays using an appropriate interest rate based on the length of time to maturity. The rates were based upon market conditions as of June 30, 2009 and 2008. The estimated fair values at June 30, 2009 and 2008 are approximately $442,509,000 and $357,956,000, respectively.

The University issued $83,360,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Tufts University Issue, Series O (2008) in November 2008.

In June 2009, the University refinanced $64,700,000 of Massachusetts Industrial Finance Agency ("MIFA"), Series H into $59,150,000, Massachusetts Health and Educational Facilities Authority Revenue Bonds, Tufts University Issue, Series M. As a result of this refinancing, the University incurred a charge of approximately $3,049,000. This has been reflected as a nonoperating item in the statement of activities. The proceeds of the Series M bonds were deposited to a refunding trust fund under a Refunding Trust dated June 1, 2009. At June 30, 2009, trust funds of approximately $66,012,000 are available to service principal and interest obligations, which were fully repaid on July 13, 2009. Because the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the trust assets are included in the consolidated statement of financial position.

In addition, the University has a $25 million line of credit which expires January 14, 2010. The line of credit has not been drawn at June 30, 2009.

Interest Rate Agreements**—**The University has entered into various long term interest rate exchange agreements to partially hedge variable interest rate exposure on certain debt issues, thereby managing the interest cost and risk associated with its outstanding debt. At June 30, 2009, the University had interest rate exchange agreements with total notional principal of $218,400,000 with expiration dates through 2040. These instruments require the University to make fixed-rate payments on the respective principal amounts. The notional amounts of each interest rate exchange agreement decrease as payments on the underlying obligations are made. The University receives variable rate payments that are expected to approximate interest on the underlying variable rate debt.

During fiscal year 2009, the University terminated three of its swaps and one of its swaptions for which the counterparty was Lehman Brothers Commercial Bank and negotiated with new counterparties to replace and modify them. In connection with these transactions, the University received a net cash payment of $7,062,000. The following summarizes the terms for each of the agreements as of June 30, 2009 and June 30, 2008.

Swap Agreements as of June 30, 2009

Swaps	Forward Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap
Debt Hedged	(Anticipated Series I Refunding)	(Series G and N-1)	(Series N-1)	(Series N-1)	(Series N-2)
Effective Date	February 2011	October 2008	June 2006	October 2008	October 2008
Notional Amount	$50,500,000	$39,900,000	$40,000,000	$34,000,000	$54,000,000
Termination Date	February 15, 2036	August 15, 2033	August 15, 2040	August 15, 2036	August 15, 2034
Rate Paid by University	5.1100% Fixed	4.32% Fixed	3.5175% Fixed	4.292% Fixed	4.069% Fixed
Rate Paid by Counterparty	69% of 1 MO LIBOR	69% of LIBOR	64.40% of 5-YR ISDA Swap Rate	64.36% of 5-YR ISDA Swap Rate	64.18% of 5-YR ISDA Swap Rate
Fair Value June 2009	($12,755,000)	($7,757,000)	($3,020,000)	($6,226,000)	($7,353,000)

Swap Agreements as of June 30, 2008

Swaps	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Swaption
Debt Hedged	Series N-2	Series N-1	Series N-1	Exercise of Option Variable	Series I
Effective Date	June 2006	June 2006	June 2006	January 2008	January 2011
Notional Amount	$54,000,000	$34,000,000	$40,000,000	$65,950,000	$50,500,000
Termination Date	August 15, 2034	August 15, 2036	August 15, 2040	February 15, 2028	February 15, 2036
Rate Paid by University	4.069% Fixed	4.292% Fixed	3.5175% Fixed	4.32% Fixed	5.11% Fixed
Rate Paid by Counterparty	64.18% of 5-YR USD-ISDA-Swap Rate	64.36% of 5-YR USD-ISDA-Swap Rate	64.40% of 5-YR USD-ISDA-Swap Rate	69% of 1-MO USD-LIBOR-BBA	69% of 1-MO USD-LIBOR-BBA
Fair Value June 2008	($4,663,000)	($4,354,000)	($477,000)	($7,706,000)	($9,723,000)

Interest rate agreements are recorded at fair values of $37,111,000 and $26,923,000 at June 30, 2009 and 2008 respectively. The change in fair market value of $10,188,000 and $17,044,000 for the years ended June 30, 2009 and 2008, respectively, is included in nonoperating activities on the statement of activities. The estimated market value of the interest rate exchange agreements at June 30, 2009, was computed by an independent advisor and validated by the University using the net present value of fixed and floating future cash flows, with floating future flows estimated through the use of forward interest rate yield curves. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these interest rate exchange transactions are a diversified group of major financial institutions that meet the University's criteria for financial stability and credit worthiness.

10. FAIR VALUE MEASUREMENT

Effective July 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157"), "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.

- Level 2 - inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.

- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2009, by the SFAS 157 valuation hierarchy defined above (in thousands):

Assets:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Equity securities	$ 50,614	$ -	$ 12,695	$ 63,309
Common trust equity index funds	-	181,512	-	181,512
Fixed income securities	86,571	58,336	29,108	174,015
Hedge funds	-	189,960	334,679	524,639
Private equities	-	-	174,846	174,846
Real estate	21,548	-	68,625	90,173
Natural resources	-	-	9,481	9,481
Other	-	104	9,249	9,353
Total Investments	$ 158,733	$ 429,912	$ 638,683	$1,227,328
Funds held under bond agreements	12,747	-	-	12,747
Total assets at fair value	$ 171,480	$ 429,912	$ 638,683	$1,240,075
Liabilities:				
Interest rate swaps payable	$	$ 37,111	-	$ 37,111

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). The value of certain alternative investments represents the ownership interest in the net asset value ("NAV") of the respective partnership. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. These values are agreed to by management of the University. If no public market exists for the investment securities, the fair value is determined by the general partner or management for securities held directly, taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate swaps, held for investment purposes, are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

Beneficial and perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement and are classified as level 3.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the statement of financial position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above:

	Total Investments
Fair value, July 1, 2008	$ 733,657
Unrealized and realized gains (losses)	(138,574)
Net purchases (sales)	546
Transfers in/(out)	43,054
Fair Value, June 30, 2009	$ 638,683

11. NET ASSETS

Net assets at June 30, 2009 and 2008 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2009 Total	2008 Total
Endowment	$ 411,381	$ 274,503	$ 456,223	$ 1,142,107	$ 1,492,298
Invested in physical plant	267,673	-	-	267,673	260,875
Operating	96,477	50,833	3	147,313	217,486
Building projects	35,845	42,724	2,028	80,597	69,432
Student loans	20,137	-	18,664	38,801	37,955
Total	$ 831,513	$ 368,060	$ 476,918	$ 1,676,491	$ 2,078,046

Endowment consists of resources that have been restricted by the donor, trust, split interest agreement, or designated by the Board of Trustees for investment to provide future resources to support the University's activities. Temporarily restricted endowment includes unappropriated gains of approximately $77,470,000 and $307,861,000 in 2009 and 2008, respectively. Unrestricted operating includes funds that have been internally designated for use by various schools, departments, and programs throughout the University.

The University's endowment consists of approximately 1,800 individual donor restricted endowment funds and 50 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables, split interest agreements, and other net assets. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the University has interpreted the "Uniform Prudent Management of Institutional Funds Act" ("UPMIFA") as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA.

Changes in endowment net assets for the year ended June 30, 2009 consist of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$584,068	$463,825	$444,405	$1,492,298
Investment return:				
Investment income	9,590	7,616	-	17,206
Realized and unrealized losses	(140,359)	(202,476)	(1,243)	(344,078)
Total investment return	(130,769)	(194,860)	(1,243)	(326,872)
Contributions	2,612	586	12,354	15,552
Appropriation of endowment assets for expenditure	(29,639)	(23,537)	-	(53,176)
Net transfers from other unrestricted net assets	13,598	-	-	13,598
Added to principal	-	-	707	707
Transfer to restore underwater endowments	(30,414)	30,414	-	-
Release of restrictions	1,925	(1,925)	-	-
Endowment net assets, end of year	$411,381	$274,503	$456,223	$1,142,107

Description of Endowment Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets

Permanently restricted net assets
The portion of perpetual endowment funds that is required to be retained (in thousands):

Restricted for scholarship support	$180,778
Restricted for faculty support	98,539
Restricted for program support	176,906
Total endowment assets classified as permanently restricted net assets	$456,223

Temporarily restricted net assets
The temporarily restricted funds consist of the following components (in thousands):

Subject to time restriction	$115,738
Restricted for program support	158,765
Total endowment assets classified as temporarily restricted net assets	$274,503

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were $30,414,000 as of June 30, 2009. These deficits resulted from unfavorable market losses.

12. NATURAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statement of activities by functional category. Operating expenses by natural category for the years ended June 30, 2009 and 2008 consisted of the following (in thousands):

	2009	2008
Compensation:		
Staff, student, and other	$ 209,882	$ 201,060
Faculty	103,908	97,780
Benefits	70,552	65,437
Total compensation	384,342	364,277
Materials, supplies, and other	108,652	98,168
Purchased services	48,220	47,242
Depreciation and loss on disposals	43,859	38,093
Maintenance and facilities costs	43,756	36,869
Interest	14,760	16,627
Travel	12,624	13,669
Total expenses	$ 656,213	$ 614,945

13. BENEFIT PLANS

Defined Contribution Plan—The University sponsors a defined contribution retirement plan under Section 401(a) of the Code, which is available to eligible faculty and administrative staff. All retirement benefits are funded by the University and are subject to a vesting schedule. The University's contributions to the plan amounted to approximately $22,518,000 and $20,905,000 in 2009 and 2008, respectively.

The University also offers a supplemental retirement plan under Section 403(b) of the Code, which is fully funded by voluntary employee contributions.

Deferred Compensation Plans—The University maintains two separate plans under Section 457(b) of the Code for eligible officers, faculty and administrative staff. The University funded the Officers' Plan with approximately $88,000 and $81,000 in 2009 and 2008, respectively. Under the terms of the Faculty and Administrative Staff Plan, no contributions are made by the University but are fully funded by voluntary employee contributions. The assets and related liabilities of these plans are recorded in the consolidated financial statements and total approximately $5,074,000 and $5,024,000 in 2009 and 2008, respectively. The University also maintains a plan under Section 457(b) of the Code for eligible faculty and administrative staff that was closed to future participants in 1989. The University funded this plan with approximately $6,500 in 2009 and 2008. The investment assets and related liabilities of these plans, which total approximately $7,555,000 and $8,660,000 in 2009 and 2008, respectively, are recorded in the consolidated financial statements.

Health and Welfare Benefit Plan—The University provides postretirement health care benefits to eligible retired employees and their eligible spouses. Retirees share in the cost of their health care benefits through co-payments and deductibles related to years of service and date of retirement. Employees who were hired after December 31, 1993, must pay for the entire cost of their benefit when they retire. The University established a trust to fund the postretirement health care benefits for most of the eligible employees. The trust qualifies as a "voluntary employees beneficiary association" ("VEBA") under the provisions of Section 501(c)(9) of the Code in order that the trust be exempt from certain taxes.

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2009 and 2008 were as follows (in thousands):

	2009	2008
Benefit obligation—beginning of year	$ 23,527	$ 28,124
Service cost	94	130
Interest cost	1,511	1,405
Benefits paid	(3,180)	(2,928)
Participants' contributions	1,200	1,132
Actuarial (gain) loss	1,752	(4,551)
Employer Part D Subsidy	215	215
Benefit obligation—end of year	$ 25,119	$ 23,527

The funded status of the University's postretirement health care plan and the amounts recognized in the consolidated statements of financial position at June 30, 2009 and 2008 were as follows (in thousands):

	2009	2008
Fair Value of Plan Assets—Beginning of Year	$ 32,018	$ 36,924
Actual return on plan assets	(5,774)	(2,755)
Employer contributions	(5)	(355)
Plan participant contributions	1,200	1,132
Benefits paid	(3,180)	(2,928)
Fair value of plan assets—end of year	$ 24,259	$ 32,018
Funded Status	$ (860)	$ 8,491

Amounts Recognized in the Statement of Financial Position (in thousands)

	2009	2008
Receivables and other assets, net	$ -	$ 8,491
Accounts payable and accrued expenses	(860)	-
Net Amount recognized in the statement of financial position	$ (860)	$ 8,491

Amounts Not Yet Reflected in Net Periodic Benefit Cost and Included in Unrestricted Net Assets (in thousands

	2009	2008
Unamortized net transition obligation/ (asset)	$ 3,261	$ 4,077
Unamortized actuarial loss/(gain)	112	(10,708)
Change to unrestricted net assets	$ 3,373	$ (6,631)

	2009
Amortization of transition obligation/(asset)	$ 816
Amounts to be recognized in the following year	$ 816

The components of net periodic benefit cost are as follows (in thousands):

	2009	2008
Service Cost	$ 94	$ 130
Interest Cost	1,511	1,405
Expected return on plan assets	(2,473)	(2,867)
Amortization of net obligation/(asset) at transition	816	816
Amortization of actuarial loss/(gain)	(821)	(1,536)
Net periodic benefit cost/(income)	$ (873)	$ (2,052)

Other changes recognized in unrestricted net assets in nonoperating activities (in thousands):

	2009	2008
Net Loss/Gain	$ 9,999	$ 1,071
Amortization of Gain/(Loss)	821	1,536
Amortization of Transition (Obligation)/Asset	(816)	(816)
Total changes recognized in unrestricted assets	$ 10,004	$ 1,791
Total changes recognized in net periodic cost and in nonoperating	$ 9,131	$ (261)

Additional Disclosure Information on Assets and Cash Flows

The weighted-average assumptions to determine obligations are as follows:

	2009	2008
Discount rate at end of year	6.40%	6.70%
Rate of compensation increase at end of year	N/A	N/A

The weighted-average assumptions to determine net periodic benefit cost are as follows:

	2009	2008
Discount rate at beginning of year	6.70%	6.25%
Expected return on plan assets during year	8.00%	8.00%

The following were other significant assumptions used in the valuation as of June 30, 2009 and 2008:

Health Care Cost Trend Rate	Fiscal Year Ending	June 30, 2009	June 30, 2008
	2010	7.50%	6.50%
	2011	7.00%	5.50%
	2012	6.50%	5.00%
	2013	6.00%	5.00%
	2014	5.50%	5.00%
	2015+	5.00%	5.00%

Impact of 1% increase in health care cost trend		
on interest cost plus service cost during past year	$	(11,000)
on accumulated postretirement benefit obligation	$	(43,000)

Impact of 1% decrease in health care cost trend		
on interest cost plus service cost during past year	$	5,000
on accumulated postretirement benefit obligation	$	8,000

The expected future benefit payments net of employee contributions are as follows (in thousands):

		Expected Net Benefit Payments*		Expected Medicare Subsidy
Fiscal Year Ending in 2010	$	2,215	$	229
Fiscal Year Ending in 2011		2,280		249
Fiscal Year Ending in 2012		2,316		269
Fiscal Year Ending in 2013		2,338		287
Fiscal Year Ending in 2014		2,356		304
Fiscal Year Ending in 2015 through fiscal year ending 2019	$	11,543	$	1,788

* Excludes expected Medicare Part D subsidy and includes special termination benefits

The estimated University cash contributions for the 2010 fiscal year are as follows:

Key employee amounts	$7,000

VEBA Trust Asset Allocation and Investment Strategy— The weighted-average investment allocation of plan assets by category is as follows:

	2009	2008	Target Allocation
Equity securities	58%	56%	56%
Debt securities	31%	30%	29%
Real estate securities	11%	13%	15%
Other	0%	1%	0%
Total	100%	100%	100%

The Health and Welfare Benefit Plan fiduciaries set the investment policy and strategy for investment of plan assets, including selecting investment managers and setting long-term risk and return objectives. The asset allocations are broadly diversified among asset category and within each category, which lowers the expected volatility of the portfolio's return and may protect against negative market environments.

To determine the expected long-term rate of return on plan assets, the University considers the target asset allocations, and the expected return on assets by category.

14. RELATED ORGANIZATIONS

Walnut Hill Properties Corporation ("Walnut Hill")—Walnut Hill is a not-for-profit corporation established by the University to own and manage certain investment and rental properties. The $7,500,000 bank note described in Note 9, which is an obligation of Walnut Hill, is guaranteed by the University. The accounts of Walnut Hill are included in the accompanying consolidated financial statements of the University.

TUDC, LLC ("TUDC")—TUDC is a single member limited liability company that was created by the University to develop the Tufts International Center (the "Center") with the air rights over South Station in Boston. The Center, when completed, will include office space, a hotel, residential uses, and a parking facility. In October 1997, TUDC entered into a development partnership agreement with Hines Interests Limited Partnership ("Hines") to co-develop the air rights. Original financing for the project included a promissory note payable to the Massachusetts Bay Transportation Authority (the "MBTA") in the amount of $10,000,000, which was the sole responsibility of TUDC. In May 2005, TUDC, Hines and the MBTA executed a letter of intent setting forth revised terms with respect to the development of the South Station air rights owned by the MBTA and the restructuring of the note payable.

In October 2005, the Boston Redevelopment Authority ("BRA"), TUDC and Hines executed a revised letter of intent for the development of the project. Effective April 30, 2007, an amended and restated loan agreement was executed by TUDC and the MBTA, combining the original $10,000,000 principal and accrued interest of approximately $7,400,000 into a new $17,400,000 note. At the same time, TUDC formalized agreements by and among Hines, the BRA and the MBTA, conveying the rights for and setting forth the terms of the project's development. The accounts of TUDC are included in the accompanying consolidated financial statements of the University in investments, accounts payable and accrued expenses, and operating expenses as of June 30, 2008.

On August 10, 2007, TUDC and Hines entered into an Asset Purchase Agreement setting forth provisions for the sale of TUDC's interest in the South Station air rights project to Hines. According to this agreement, Hines would acquire all of TUDC's rights and assets related to the project upon the earlier of initial funding by a third party investor or December 31, 2007. The agreement also sets forth the rights and obligations of TUDC and Hines as co-developers should the asset purchase agreement not close by December 31, 2007.

In February 2008, TUDC and Hines entered into an Amended and Restated Asset Purchase Agreement to allow Hines to purchase the development rights and obligations from TUDC. On January 30, 2009, TUDC finalized the Agreement with Hines for the sale of their interest in the South Station development and air rights project. As part of the Agreement, TUDC is no longer obligated to fund the project for any additional costs. South Union Station, LLC assumed all of TUDC's rights, interests, duties, obligations, undertakings and liabilities, which includes $18,179,000 from the MBTA loan agreement and all accrued interest. Excess reimbursement payments from Hines in the amount of $1,712,000 were received as part of the agreement. These amounts are reflected as a nonoperating item in the statement of activities.

Tufts Veterinary Emergency Treatment & Specialties ("Tufts VETS")—Tufts VETS is a not-for-profit corporation organized by the University to provide emergency and specialty veterinary services in a community environment. It provides postgraduate training in its emergency and critical care training program and training to veterinary students on elective rotations. The accounts of Tufts VETS are included in the accompanying consolidated financial statements of the University.

Tufts Media LLC ("Tufts Media")—Tufts Media is a single member limited liability company created by the University to operate its consumer publishing and media capability. The accounts of Tufts Media are included in the accompanying consolidated financial statements of the University.

JM Holding Corporation ("JM Holdings")—JM Holdings is a for-profit development corporation created by the University to develop 106 acres designated for commercial use at the Cummings School of Veterinary Medicine. At this time, there is no development agreement. The accounts of JM Holdings are included in the accompanying consolidated financial statements of the University.

Omidyar–Tufts Microfinance Fund ("Microfinance Fund") — The Microfinance Fund was organized in October 2005 as a charitable trust to support, benefit and carry out the purposes of public charity beneficiaries, including the University, by engaging in two activities: promoting the relief of the poor and distressed through microfinance investments, and promoting education through grants. The capital assets of the Microfinance Fund were contributed by a third party and, according to the donor's stipulation, are to be invested in microfinance-related ventures. The majority of the Microfinance Fund's trustees are appointed by the University. In 2006, a $100 million contribution to establish the Microfinance Fund was recorded in temporarily restricted net assets. The accounts of the Microfinance Fund are included in the accompanying consolidated financial statements in investments, accrued expenses and net assets of the University.

Tufts Shared Services, Inc. ("TSS")—The University and Tufts Medical Center, Inc. ("Medical Center") jointly formed TSS, a not-for-profit service corporation, to provide the organization and facilities for coordinating certain education and health services activities. The administrative board of TSS includes equal representation from the University and the Medical Center. The cost of services provided by TSS to the University for the years ended June 30, 2009 and 2008 were approximately $8,187,000 and $7,433,000, respectively. The University held a mortgage note receivable at June 30, 2007 amounting to approximately $382,000. During the year ended June 30, 2008, the note was fully repaid by TSS. The University's investment in TSS has been recorded at approximately $5,883,000 at June 30, 2009 and $5,511,000 at June 30, 2008 using the equity method of accounting. The accounts of TSS are included in the accompanying consolidated financial statements of the University using the equity method of accounting, in investments and non-operating revenues.

The assets of any of the organizations included in the consolidated financial statements may not be available to meet the obligations of the other entities.

15. CONTINGENCIES AND COMMITMENTS

There are currently several legal cases pending involving labor relations and other matters related to the normal operation of the University. The University believes that the outcome of these cases will have no significant effect on the financial position or results of operations of the University.

Operating Leases—The University has several noncancelable operating lease commitments at June 30, 2009, with terms in excess of one year for office space. Expenses associated with operating leases totaled approximately $2,058,000 and $1,793,000 for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments under operating leases are as follows (in thousands):

Fiscal Year	
2010	$ 2,132
2011	1,886
2012	1,763
2013	1,527
2014	704
Thereafter	2,390
Total	$10,402

TUFTS UNIVERSITY

The Board of Trustees of Tufts College

AS OF JUNE 30, 2009