Tufts University

Consolidated Financial Statements for the Years Ended June 30, 2003 and 2002 and Independent Auditors' Report

TUFTS UNIVERSITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2003 AND 2002:	
Statements of Financial Position	2
Statements of Unrestricted Activities	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-16

Deloitte & Touche LLP
200 Berkeley Street
Boston, Massachusetts 02116-5022

Tel: (617) 437-2000
Fax: (617) 437-2111
www.us.deloitte.com

Deloitte.

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Tufts University:

We have audited the accompanying consolidated statements of financial position of Tufts University (the "University") as of June 30, 2003 and 2002 and the related consolidated statements of unrestricted activities, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 29, 2003

Deloitte
Touche
Tohmatsu

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2003 AND 2002
(In thousands)

ASSETS	2003	2002
Cash and cash equivalents	$ 67,684	$ 32,625
Receivables—net and other assets (Note 3)	23,014	22,017
Contributions receivable—net (Note 4)	38,013	31,883
Notes and student loans receivable—net (Note 11)	39,635	41,454
Funds held under bond agreements (Note 7)	3,636	51,255
Investments—at market value (Note 5)	907,167	868,487
Land, buildings and equipment—net (Note 6)	417,638	396,824
TOTAL ASSETS	$1,496,787	$1,444,545
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 87,246	$ 83,864
Current portion of long-term debt (Note 7)	7,894	40,170
Deferred revenue and deposits	39,416	31,809
Government advances for student loans	24,002	23,061
Long-term debt—net of current portion (Note 7)	228,528	236,168
Total liabilities	387,086	415,072
NET ASSETS (Note 8):		
Unrestricted	613,504	581,163
Temporarily restricted	230,289	194,669
Permanently restricted	265,908	253,641
Total net assets	1,109,701	1,029,473
TOTAL LIABILITIES AND NET ASSETS	$1,496,787	$1,444,545

See notes to consolidated financial statements.

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF UNRESTRICTED ACTIVITIES
YEARS ENDED JUNE 30, 2003 AND 2002
(In thousands)

	2003	2002
OPERATIONS:		
Revenues:		
Tuition and fees	$ 242,427	$ 222,349
Less scholarships and fellowships	(54,091)	(49,167)
Net tuition and fees	188,336	173,182
Government grants and contracts	97,281	91,394
Clinical and other educational activities	59,222	48,485
Auxiliary enterprises	37,533	35,759
Contributions and grants	39,814	35,625
Investment return utilized (Note 5)	45,473	42,232
Total revenues	467,659	426,677
EXPENSES (Note 9):		
Instruction	132,127	120,296
Sponsored programs	97,474	91,502
Clinical and other educational activities	72,165	62,538
Academic and student services	61,391	56,886
Auxiliary enterprises	35,107	33,959
Institutional support	49,982	46,155
Total expenses	448,246	411,336
INCREASE IN UNRESTRICTED NET ASSETS FROM OPERATIONS	19,413	15,341
NONOPERATING ACTIVITIES:		
Investment return reinvested (Note 5)	4,367	(17,133)
Net assets released from restrictions for capital and other purposes	5,586	10,215
Other nonoperating activities	2,975	6,034
Increase (decrease) in unrestricted net assets from nonoperating activities	12,928	(884)
INCREASE IN UNRESTRICTED NET ASSETS	$ 32,341	$ 14,457

See notes to consolidated financial statements.

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002
(In thousands)

	2003	2002
UNRESTRICTED NET ASSETS:		
Total revenues from operations	$ 467,659	$ 426,677
Total expenses from operations	(448,246)	(411,336)
Nonoperating activities—net	12,928	(884)
Increase in unrestricted net assets	32,341	14,457
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	36,127	2,660
Investment return reinvested (Note 5)	7,250	(23,389)
Net assets released from restrictions due to investment return utilized	(2,171)	(2,851)
Net assets released from restrictions for capital and other purposes	(5,586)	(10,215)
Increase (decrease) in temporarily restricted net assets	35,620	(33,795)
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	11,301	29,294
Investment return reinvested (Note 5)	966	622
Increase in permanently restricted net assets	12,267	29,916
INCREASE IN TOTAL NET ASSETS	80,228	10,578
NET ASSETS—Beginning of year	1,029,473	1,018,895
NET ASSETS—End of year	$ 1,109,701	$ 1,029,473

See notes to consolidated financial statements.

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002
(In thousands)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in total net assets	$ 80,228	$ 10,578
Adjustments to reconcile increase in total net assets to net cash provided by operating activities:		
Net realized and unrealized investment (gains) losses	(17,890)	31,948
Depreciation and other noncash transactions	27,099	26,207
Net change in working capital assets and liabilities	1,916	22,581
Decrease in contributions receivable for long-term purposes	2,227	18,937
Contributions received for long-term investments	(41,331)	(54,443)
Investment income restricted for long-term investments	(12,841)	(3,111)
Net cash provided by operating activities	39,408	52,697
CASH FLOWS FROM INVESTING ACTIVITIES:		
Student loans granted	(5,216)	(5,463)
Student loans repaid	6,829	5,449
Purchases of investments	(836,108)	(894,662)
Proceeds from sale of investments	815,319	796,005
Additions to land, buildings and equipment	(48,093)	(61,218)
Net cash used by investing activities	(67,269)	(159,889)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in government advances for student loans	942	438
Proceeds from issuance of notes and bonds	393	35,988
Repayments of notes and bonds	(40,207)	(4,021)
Changes in funds held under bond agreements	47,620	4,180
Contributions received for long-term investments	41,331	54,443
Investment income restricted for long-term investments	12,841	3,111
Net cash provided by financing activities	62,920	94,139
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	35,059	(13,053)
CASH AND CASH EQUIVALENTS—Beginning of year	32,625	45,678
CASH AND CASH EQUIVALENTS—End of year	$ 67,684	$ 32,625
SUPPLEMENTAL DATA:		
Interest paid	$ 11,488	$ 11,241
Gifts of property	$ 1,339	$ 351

See notes to 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 of high quality, with approximately 8,800 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 is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

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 subsidiaries. Intercompany accounts and transactions have been eliminated.

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 revenues. Investment return subject to donor-imposed stipulations not utilized in the current period are released from temporarily restricted net assets when spent and shown as investment return utilized. Expirations of all other temporarily restricted net assets are reported as reclassifications between the applicable classes of net assets.

Contributions—Contributions, including unconditional promises to give, are recognized as revenues 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. 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. Contributions scheduled to be received after one year are discounted at a rate commensurate with the risk involved. Amortization of the discount is recorded as additional contributions in the appropriate net asset class.

Student Loans Receivable—Student loans receivable are reported net of management's estimated allowance for uncollectible receivables of $2,114,000 and $2,213,000 at June 30, 2003 and 2002, respectively.

Investments—Investments are reported at fair value. Dividends, interest and net gains 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 ($157,414,000 in 2003 and $166,176,000 in 2002) should generally be classified as temporarily restricted; and

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

Operations and Nonoperating Activities—The statements of unrestricted activities report changes in unrestricted net assets from operations and nonoperating activities. Operations does not include the release from restrictions of contributions restricted to the acquisition of land, buildings and equipment; investment return in excess of the University's operating needs as defined by its spending policy; or unrestricted bequests and gifts of property. The University's current spending policy on investments in the Total Return Pool for endowment and funds functioning as endowment provides for an annual increase in spending of 5%, adjusted for additions and withdrawals. For other investments, the spending policy represents the yield earned.

Tuition revenues are reported 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.

Revenues associated with research and other grants and contracts are recognized when related expenses are incurred. Indirect cost recovery by the University is recorded as unrestricted revenues of $25,756,000 in 2003 and $23,228,000 in 2002.

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

Cash and Cash Equivalents—For purposes of the statements of cash flows, short-term investments with maturities at the dates of purchase of three months or less are classified as cash and cash equivalents.

Financial Instruments—The University has estimated, where practicable, the fair values of its financial instruments by using appropriate valuation methodologies. Except where otherwise noted, the University determined that the differences between the carrying values and the estimated fair values of its other financial assets and liabilities are not material.

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 20 years for land improvements, 5 to 50 years for buildings and 3 to 25 years for equipment and furnishings.

Life Income and Annuity Agreements—Life income agreements with donors consist primarily of irrevocable charitable remainder trusts. Assets held in these trusts and annuities are included in investments. Contribution revenues are recognized at the date the trusts or annuity funds are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the trusts or annuities for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments.

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

2002 Presentation—Certain 2002 amounts have been reclassified to conform with the 2003 presentation.

3. 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 are as follows (in thousands):

	2003	2002
Gross receivables	$21,514	$19,454
Less allowance for uncollectible amounts	(2,652)	(2,193)
Receivables—net	18,862	17,261
Other assets	4,152	4,756
Total	$23,014	$22,017

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following at June 30 (in thousands):

	2003	2002
Unconditional promises scheduled to be collected in:		
Less than one year	$23,708	$ 7,204
One year to five years	16,956	28,283
More than five years	3,807	3,586
Less allowance for uncollectible amounts	(4,132)	(3,100)
Less unamortized discount to present value	(2,326)	(4,090)
Total	$38,013	$31,883

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

	2003	2002
Endowment for educational and general purposes	$19,038	$18,720
Construction and modernization of plant	15,104	13,163
Support of current operations	3,871	
Total	$38,013	$31,883

5. INVESTMENTS

Investments included commingled assets from the various net asset classes and consisted of the following market values at June 30 (in thousands):

	2003	2002
Cash and cash equivalents	$ 23,603	$ 35,063
Equity securities	300,654	277,255
Fixed income securities	249,023	236,796
Hedge funds	316,209	304,049
Private equities	18,120	18,787
Receivable for unsettled trades	6,312	1,072
Payable for unsettled trades	(6,754)	(4,535)
Total	$907,167	$868,487

Fair values for marketable equity securities and fixed income securities are based on published market values. Approximately $20,000,000 of equity securities are not readily marketable and are valued at management's estimate of fair value. The University invests in hedge funds and private equity investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at fair value. Private equity investments consist of long-term private investment securities and have been valued based on estimates reported by fund managers. Such estimates may differ significantly from values that would have been used had a ready market for the investments existed.

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

	2003			2002		
	Endowment and Funds Functioning as Endowment	Other Funds	Total	Endowment and Funds Functioning as Endowment	Other Funds	Total
Dividends and interest	$26,331	$13,835	$40,166	$ 17,749	$16,531	$ 34,280
Net realized and unrealized gains (losses)	11,604	6,286	17,890	(29,234)	(2,714)	(31,948)
Total return on investments	37,935	20,121	58,056	(11,485)	13,817	2,332
Investment return utilized	(31,944)	(13,529)	(45,473)	(26,133)	(16,099)	(42,232)
Investment return reinvested	$ 5,991	$ 6,592	$12,583	$(37,618)	$ (2,282)	$(39,900)

At June 30, 2003 and 2002, the aggregate market value of identified endowment gifts with market values less than their original book values totaled $3,927,000 and $2,530,000, respectively. The investment earnings related to these gifts have been segregated between actual interest and dividends and appreciation. The annual spending amounts applicable to these funds will be monitored against the actual interest and dividends and any excess spending will be funded by the unrestricted endowment with the intent that such amounts will be repaid in the future. At June 30, 2003, a loan in the amount of $3,085,000 has been approved from the unrestricted endowment to the endowment funds that have declined in value below their statutory level due to insufficient investment earnings to meet annual spending. Such amount was charged to unrestricted nonoperating activities with a corresponding credit to temporarily restricted net assets. This loan will be repaid when future investment returns are realized.

6. LAND, BUILDINGS AND EQUIPMENT

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

	2003	**2002**
Land and land improvements	$ 27,178	$ 26,058
Buildings	515,850	440,558
Construction in progress	34,676	73,368
Equipment and furnishings	121,756	115,086
	699,460	655,070
Less accumulated depreciation	(281,822)	(258,246)
Total	$417,638	$396,824

As of June 30, 2003, equipment and furnishings includes $393,000 in assets recorded under capital leases.

Depreciation expense charged to operations was $27,303,000 and $23,991,000 in 2003 and 2002, respectively. Net capitalized interest cost included in construction in progress was $652,000 and $1,689,000 in 2003 and 2002, respectively.

7. LONG-TERM DEBT

Long-term debt consisted of the following at June 30 (in thousands):

	2003	2002
Massachusetts Industrial Finance Agency ("MIFA")—Series H, fixed rate bonds at 4.75%-5.50%, due through 2028	$ 95,980	$ 98,360
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 1.57% average rate for 2003, due 2024-2026	40,100	43,200
Series F, fixed rate bonds at 5.15%-5.95%, due through 2018		34,200
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 2003-2018	33,280	33,280
United States Department of Education ("DOE"):		
Fixed rate bonds, 3.00%-3.625%, due through 2018	4,274	4,604
Fixed rate bonds, 3.00%, due through 2021	2,309	2,420
Secured note, 5.50%, due through 2020	1,466	1,515
Citizens Bank—Note		
Rate fixed at 6.135% until 2005; rate at 7-year Eurodollar rate plus 1.00% from 2005 to maturity in 2006	7,500	7,500
First American Commercial Bancorp—Capital lease, imputed interest at 4.52%, due through 2007	356	
	235,265	275,079
Plus net unamortized bond premium	1,157	1,259
Less current portion	(7,894)	(40,170)
Long-term debt—net of current portion	$228,528	$236,168

The University issued $50,000,000 of Revenue Bonds, Series I, on April 3, 2001 and $25,000,000 of Revenue Bonds, Series G, Tranche Two, on June 7, 2001. The proceeds of both issues were used to finance the construction and renovation of various educational facilities. As of June 30, 2003, all of the proceeds from these issues have been expended. As of June 30, 2002, $11,469,000 of unexpended bond proceeds are included in funds held under bond agreements in the accompanying consolidated statements of financial position.

On May 21, 2002, the University issued $33,280,000 of Series J Revenue Bonds. The proceeds of this issue, which were included in funds held under bond agreements at June 30, 2002, were used to retire the outstanding MHEFA Series F bonds on August 15, 2002.

The DOE secured note is collateralized by funds held under bond agreements. The MHEFA Series F bonds, retired in 2003, were collateralized by pledged tuition revenues.

Scheduled aggregate principal repayments on long-term indebtedness are as follows (in thousands):

Fiscal Year	
2004	$ 7,894
2005	3,501
2006	3,545
2007	11,322
2008	3,828
Thereafter	205,175
Total	$235,265

A refunding trust was established in 1989 to retire Series A bonds. Trust funds will be applied to outstanding principal and interest through 2008. Because the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the irrevocable trust assets are included in the consolidated statements of financial position.

Interest expense charged to operations was $9,327,000 and $8,540,000 in 2003 and 2002, respectively.

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, 2003 and 2002. The estimated fair value at June 30, 2003 and 2002 is $253,321,000 and $282,888,000, respectively.

8. NET ASSETS

Net assets consisted of the following at June 30 (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2003 Total	2002 Total
Endowment and funds functioning as endowment	$269,089	$177,394	$250,758	$ 697,241	$ 677,298
Invested in physical plant	187,139			187,139	172,739
Donor restricted		52,895	15,150	68,045	32,958
Operating	157,276			157,276	146,478
Total	$613,504	$230,289	$265,908	$1,109,701	$1,029,473

Unrestricted operating includes $45,246,000 in funds committed to support a variety of capital projects and student loan programs. Temporarily restricted donor funds of $52,895,000 primarily include capital gifts and challenge grants. Permanently restricted donor funds of $15,150,000 consist of funds held for student loans.

9. NATURAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statements of unrestricted activities by functional category. Operating expenses by natural category consisted of the following at June 30 (in thousands):

	2003	2002
Compensation:		
Staff, student and other	$147,318	$136,278
Faculty	73,123	67,383
Benefits	46,928	43,370
Total compensation	267,369	247,031
Materials, supplies and other	80,364	71,500
Purchased services	30,321	29,574
Depreciation and disposals	28,610	26,587
Maintenance and facilities costs	23,090	20,093
Interest	9,327	8,540
Travel	9,165	8,011
Total expense	$448,246	$411,336

10. 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 $15,497,000 and $14,548,000 in 2003 and 2002, respectively.

Deferred Compensation Plans—In 2003, the University implemented 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 $56,000. 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 $1,300,000. 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 $13,000 and $11,000 in 2003 and 2002, respectively. The investment assets and related liabilities of these plans, which total approximately $9,889,000 and $9,341,000 in 2003 and 2002, respectively, are recorded in the consolidated financial statements.

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

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 has established a trust to fund the postretirement benefits for most of the eligible employees. The trust qualifies as a "voluntary employees' beneficiary association" under the provisions of Section 501(c)(9) of the Code in order that the trust be exempt from certain taxes. The University funded the trust with $2,833,000 and $1,768,000 in 2003 and 2002, respectively.

Following is the change in the University's postretirement benefit obligation for the years ended June 30 (in thousands):

Change in Benefit Obligation	**2003**	**2002**
Benefit obligation—beginning of year	$29,833	$28,114
Service cost	654	314
Interest cost	2,630	2,081
Benefits paid	(2,190)	(2,062)
Participants' contributions	404	252
Actuarial loss	11,067	1,134
Benefit obligation—end of year	$42,398	$29,833

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

Change in Plan Assets	**2003**	**2002**
Fair value of plan assets—beginning of year	$20,918	$ 20,651
Actual return on plan assets	528	309
Employer contributions	2,833	1,768
Plan participant contributions	404	252
Benefits paid	(2,190)	(2,062)
Fair value of plan assets—end of year	$22,493	$ 20,918
Funded status	$19,905	$ 8,915
Unrecognized transition obligation	(12,580)	(13,840)
Unrecognized actuarial (loss) gain	(7,104)	5,136
Accrued liability recognized	$ 221	$ 211

The 2003 and 2002 postretirement benefit expense included the following components (in thousands):

	2003	2002
Interest cost	$ 2,630	$ 2,081
Service cost	654	314
Amortization of transition obligation over 20 years	1,260	1,260
Expected return on plan assets	(1,701)	(1,587)
Amortization of gain		(281)
Net periodic benefit cost	$ 2,843	$ 1,787

The 2003 and 2002 postretirement benefit obligation amounts were determined using a weighted-average discount rate of 6.25% and 7.25%, respectively. For 2003, health care costs were assumed to increase 12%, grading down to 5.5% in year 2009 and thereafter. For 2002, health care costs were assumed to increase 10.5%, grading down to 6% in year 2007 and thereafter. The health care cost trend rate has a significant effect on the amounts reported. A 1% increase in the health care cost trend would have increased the expense and the accumulated postretirement benefit obligation for 2003 by $206,000 and $2,459,000, respectively. A 1% decrease in the health care cost trend would have decreased the expense and the accumulated postretirement benefit obligation for 2003 by $192,000 and $2,305,000, respectively.

The expected return on plan assets was assumed to be 8% per year for 2003 and 2002.

11. 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 accounts of Walnut Hill are included in the accompanying consolidated financial statements of the University.

TUDC, Inc. ("TUDC")—TUDC is a for-profit real estate corporation 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 an office tower, hotel and conference facilities, retail space and a parking facility. In October 1997, TUDC entered into a development partnership agreement with Hines Interests Limited Partnership to co-develop the air rights. This arrangement was approved by the Boston Redevelopment Authority in July 1998. TUDC has a promissory note payable to the Massachusetts Bay Transportation Authority in the amount of $10,000,000. The University has no legal liability for the promissory note. The accounts of TUDC are included in the accompanying consolidated financial statements of the University.

Tufts Veterinary Emergency Treatment Services, Inc. ("TVETS")—TVETS is a not-for-profit corporation organized by the University to provide emergency veterinary services. The veterinary clinic offers animal emergency stabilization and treatment and provides an intern program for residents in the Emergency Treatment program at the University's veterinary school. The accounts of TVETS 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.

Tufts Biotechnology Corporation ("TBC")—TBC is a for-profit development corporation created by the University to develop 106 acres designated for commercial use on the veterinary school campus. At this time, there is no development agreement. The accounts of TBC are included in the accompanying consolidated financial statements of the University.

Tufts-New England Medical Center, Inc. ("T-NEMC")—The University and New England Medical Center (the "Medical Center") jointly formed T-NEMC, a service corporation. T-NEMC provides parking, laboratory animal housing, and educational media services to the University and the Medical Center. The costs of these services to the University for the years ended June 30, 2003 and 2002 were $4,676,000 and $4,086,000, respectively. The administrative board of T-NEMC includes equal representation from the University and the Medical Center. The University holds a mortgage note receivable that bears interest at rates varying from 5.9% to 7%, with principal and interest payable semiannually. The balances of the note at June 30, 2003 and 2002 were $1,694,000 and $1,974,000, respectively, and are included in notes and student loans receivable in the consolidated statements of financial position. The accounts of T-NEMC are not included in the accompanying consolidated financial statements of the University.

12. CONTINGENCIES AND COMMITMENTS

There are currently several 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, 2003 with terms in excess of one year for equipment and office space. Future minimum lease payments under operating leases are as follows (in thousands):

Fiscal Year	
2004	$ 644
2005	487
2006	382
2007	381
2008	254
Thereafter	49
Total	$2,197

* * * * * *