Tufts
UNIVERSITY

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2008

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2008

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UNIVERSITY

TUFTS UNIVERSITY
HIGHLIGHTS

Fiscal years ended June 30, 2008 and 2003 (in thousands)

	2008	2003
FINANCIAL		
Total operating revenue	**$651,016**	$467,659
Total net assets	**2,078,046**	1,109,701
Property, plant and equipment, net	**609,134**	417,638
Investments	**1,807,912**	907,167
Bonds and notes payable	**349,809**	236,422
CREDIT RATING		
Standard & Poors	**AA-**	AA-
Moody's	**Aa2**	Aa3
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	**4,996**	4,857
Graduate	**2,338**	2,039
Professional	**1,706**	1,662
Certificate and other	**315**	280
Total full-time equivalent enrollment	**9,355**	8,838
Undergraduate Admission		
Applicants	**15,387**	14,308
Selectivity	**28%**	27%
Yield	**32%**	34%
SAT (mean)	**1,405**	1,336
Total undergraduate student charges (tuition, room, board, and mandatory fees)	**$46,860**	$36,465
PERSONNEL		
Faculty	**996**	935
Staff	**2,689**	2,497
Total full-time equivalent	**3,685**	3,432
FACILITIES		
Gross square feet	**4,577,718**	4,341,658

TUFTS UNIVERSITY
2008 FINANCIAL REPORT

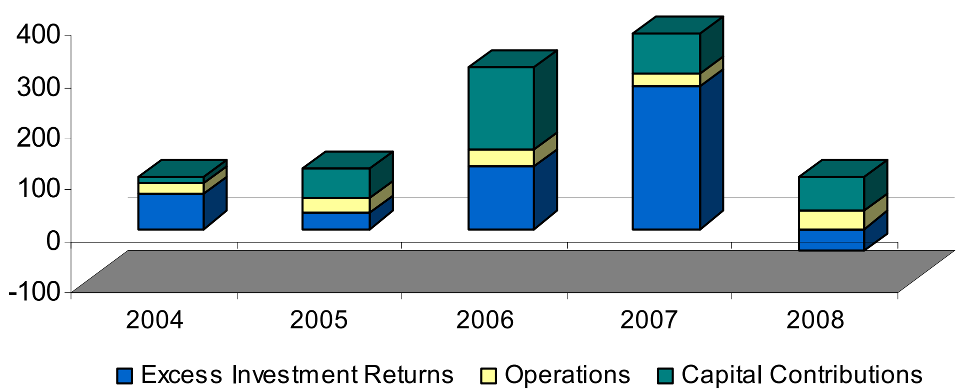
Tufts' fiscal year 2008 financial results were comfortingly stable in a period fraught with market turbulence. Generous contributions and steadfast operating results offset a slightly negative investment performance, leaving Tufts positioned well when market conditions rebound. Successes on the financial front and the University's highly selective student market position enable Tufts to further enhance its academic priorities of attracting and retaining outstanding faculty and students.

NET ASSETS

In a difficult year for investment markets, Tufts' net assets grew 3% to $2.1 billion in fiscal year 2008. A strong donor base delivered $67 million in capital contributions and unrestricted operating activities added $34 million, while investment returns and other net asset changes declined by $43 million. Over the last five years, net asset values rose by nearly $1 billion and posted a compound annual growth of 13.4%.

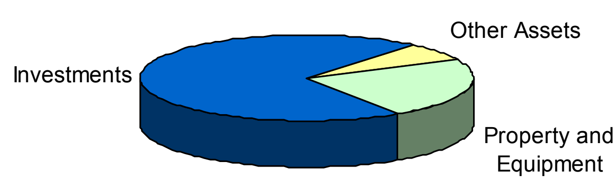
Change in Net Assets

$ in millions



ASSETS

Comprised primarily of investments at 70% of the total and property and equipment at 23%, total assets of $2.7 billion grew overall by 3.4% in one year with a compound five-year average increase of 12.2%.



Investments

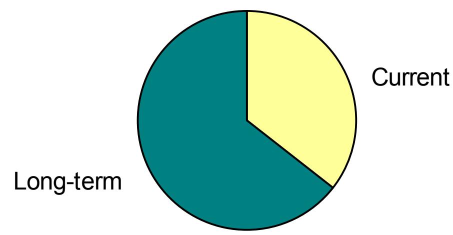
Investment assets remained essentially at the prior year's total of $1.8 billion, a 0.3% one-year reduction and a five-year compound annual growth rate of 14.8%. Despite generous gifts to the University, realization of the Doble Trusts and strong operating results, market returns were negative. The next section, 2008 Endowment and Investment Report, presents additional discussion on the endowment and investments.

Property and Equipment
Representing almost a quarter of balance sheet assets, Tufts' physical plant assets had a $609 million book value net of depreciation, growing by 6.2% this past year. Total 2008 capital expenditures amounted to $72 million with the completion of the Interfaith Center and the Dame School, major improvements to dining facilities and the Arnold Building, and construction of the Regional Biosafety Laboratory and the Agnes Varis Campus Center at the Cummings School of Veterinary Medicine. Following its long term strategy, the University will continue to invest in its physical plant with major projects underway including a clinical skills and medical simulation center, the Dental Tower five story vertical expansion, a Health Sciences campus center, and expansion and renovation of Packard Hall.

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 $14 million in 2008 and a cumulative $135 million since inception, improving the condition of the physical plant. Funding in 2009 will continue at the steady pace of $15 million.

LIABILITIES

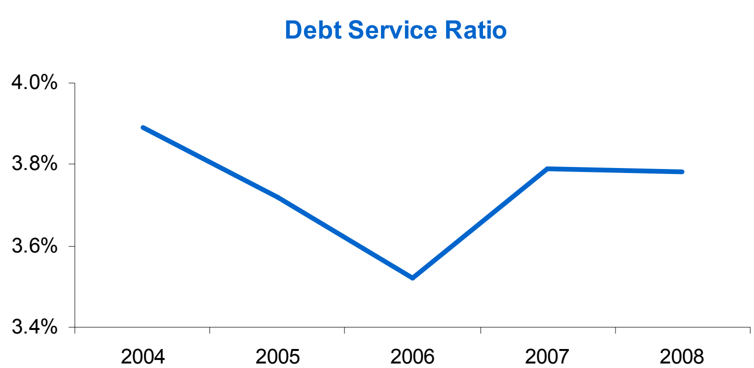
Total liabilities reached a level of $584 million, a year-over-year increase of $30 million or 5.4%. Long-term liabilities include bonds and notes payable and interest rate agreements, while current liabilities represent accounts payable, deferred revenue and other liabilities.



Debt
Tufts' outstanding debt totaled $350 million in 2008. Debt advances the University's academic priorities by financing research facilities, new building construction, and strategic property purchases.

Fiscal year 2008 brought broad confusion and turmoil to the auction rate securities market. The crisis in subprime debt wreaked havoc with financial markets and impacted Tufts' auctions for Series K, L and G. Further disrupting this market were the perceived credit risk and potential defaults of monoline insurers in the credit market. The net result was an exodus of investors for these auctions. In March 2008, Tufts changed the mode for Series G and refinanced Series K and L (now Series N) to weekly variable rate demand bonds. Tufts immediately saw the cost of debt fall significantly since the conversion and refinancing of these series.

The University's overall cost of capital as of June 30, 2008 was 4.30%, a reduction of expense when compared to the June 30, 2003 rate of 4.92%.



The debt service ratio measures the effect of annual debt service on operations. With a 3.8% ratio in 2008, 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 3.9%, enabling the University to maintain and improve its credit ratings while benefiting from a low cost of capital.

OPERATING RESULTS

The increase in unrestricted net assets from operations totaled $34 million in 2008, building on the excellent results from the past three years of $23, $33 and $31 million, respectively. Tufts' operating activities were an important source of asset growth as all major operating units performed ahead of or on budget. Revenues of $649 million represented a year-over-year increase of $47 million, rising 7.9%. Expenses rose $36 million to $615 million, a 6.2% growth. Primary operating categories are highlighted below.

Tuition

Net tuition, room, board and other fees experienced growth of $15 million or 6.6%, rising to a level of $246 million. Major drivers included an increase in tuition rates and modest growth in undergraduate and professional program enrollments. One of the University's highest academic priorities, student aid, reached an all time high of $77 million, a 7.6% increase from the prior year.

Investment Return Utilized

Totaling $87 million in 2008, investment return used for operating purposes rose 23.9% over the prior year, expanding by a compound five-year average 13.9% per year. 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.

As a percentage of total revenues, this strategically important funding source moved from a level of 9.3% in 2004 to 13.4% in 2008, 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. In 2008, the endowment income distribution increased 12.7%, maintaining spending within the 4.5% – 5.5% range of market value according to the University's spending policy. The Omidyar-Tufts Microfinance Fund's 12% return plus endowed gifts for financial aid, the Cummings School's animal hospitals, and faculty professorships and development also contributed to this increase.

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, 2008 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 reached $145 million in 2008 rising 5.6% over the prior year. An 11.3% growth in the private grant category augmented a 3.9% federal grant and contract increase. Continued faculty success in garnering support from new private grants occurred broadly across several of Tufts' schools, and federal revenue growth reflected increased activity with DHHS, Department of Defense, USDA and AID awards.

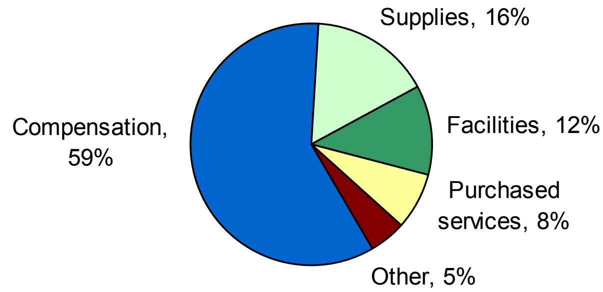
Clinical and Other Educational Activities

In 2008 this category's revenue increased by an annual 7% or $6.4 million to $97 million, with a 10.4% compound five-year growth. Clinical operational improvements, caseload expansion, patient fee increases, volume increases in both professional continuing education and in international office activity, and royalty and patent activity were the major contributors.

Expenses

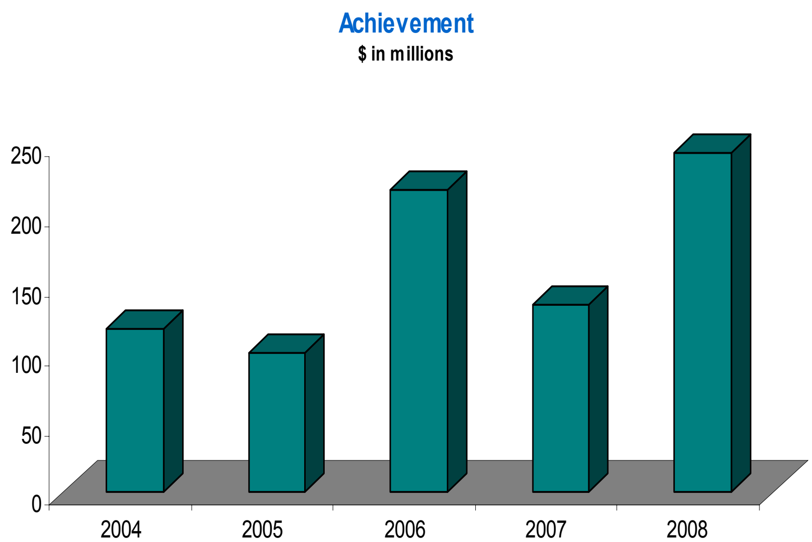
Operating expenses of $615 million increased $36 million or 6.2% since 2007. The largest category, compensation, rose to $364 million increasing 7.3%. Driving the increase were new faculty hires, faculty salary market adjustments, and growth in graduate student stipends. These investments demonstrate Tufts' strong commitment to attract and retain outstanding faculty by providing increasingly competitive compensation packages and market adjustments and continuing its support of research. Additions to staff occurred in clinical revenue producing operations, Advancement, libraries, and research. Spurred by clinical revenue growth, new programs, higher utility costs (7.8%) and the addition of new faculty, new grants, programs and facilities, non-compensation expense of $251 million grew 4.7% over the prior year.

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



ADVANCEMENT

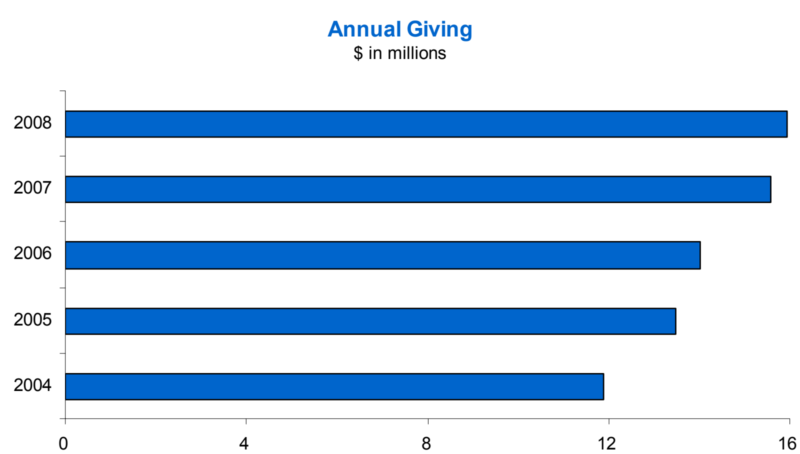
Fiscal year 2008 was the best fundraising year ever for Advancement at Tufts, with achievement of almost $243 million, including over $225 million in cash. Gifts to the endowment exceeded $165 million during the year. Over 42,000 alumni, friend, parent, student and organizational donors helped achieve this success, the largest number of donors ever.



The highlight of the year was the recognition of funds received via trusts established by Frank C. Doble, E11 totaling $136 million in cash. Inclusive of past distributions from the trusts, Mr. Doble's philanthropic contributions to Tufts over the past few decades exceed $175 million. Other highlights from 2008 include $15 million from the Jaharis Family Foundation and $10 million from the Richard and Susan Smith Family Foundation.

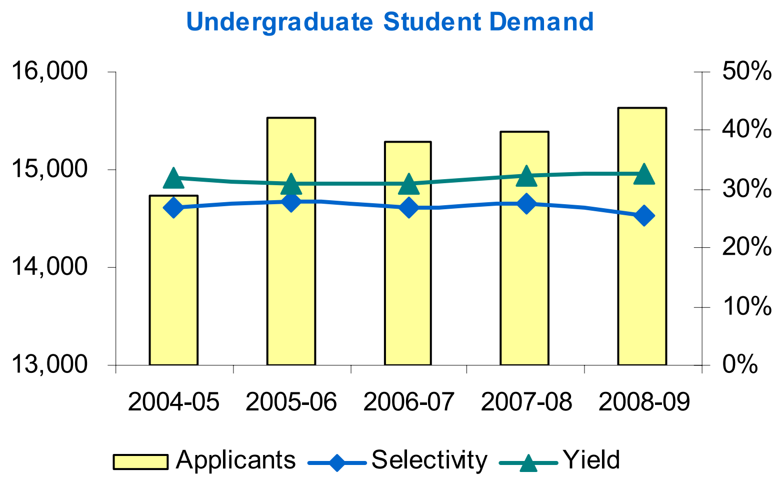
Additionally, gifts to the annual fund exceeded $15.9 million, a 6.7% five-year compound annual increase. Of particular note, the Cummings School exceeded its annual fund goal by $240,000 (19%) and the Fletcher School grew by 12.1% over fiscal year 2007 results.

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 fiscal year 2011 with a goal of $1.2 billion. As of June 30, 2008, Tufts has raised over $903 million in the campaign with three fiscal years remaining.

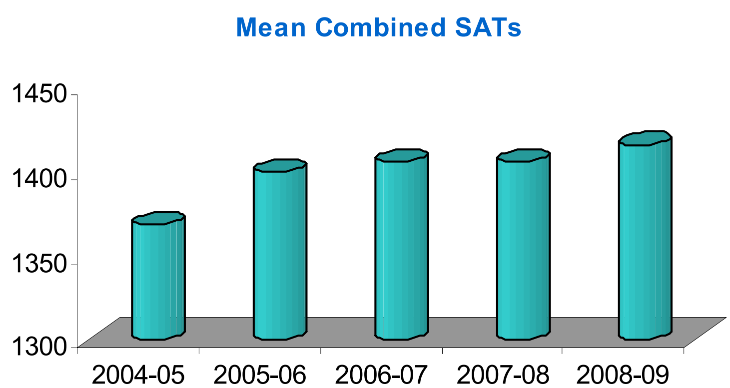


STUDENT DEMAND AND QUALITY

Tufts continues to enjoy strong student demand in 2008-09 as evidenced by the largest volume of applicants in Tufts' history and the 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 was the highest in Tufts' history, reflecting a trend of improving student quality and mirroring highly selective institutions.



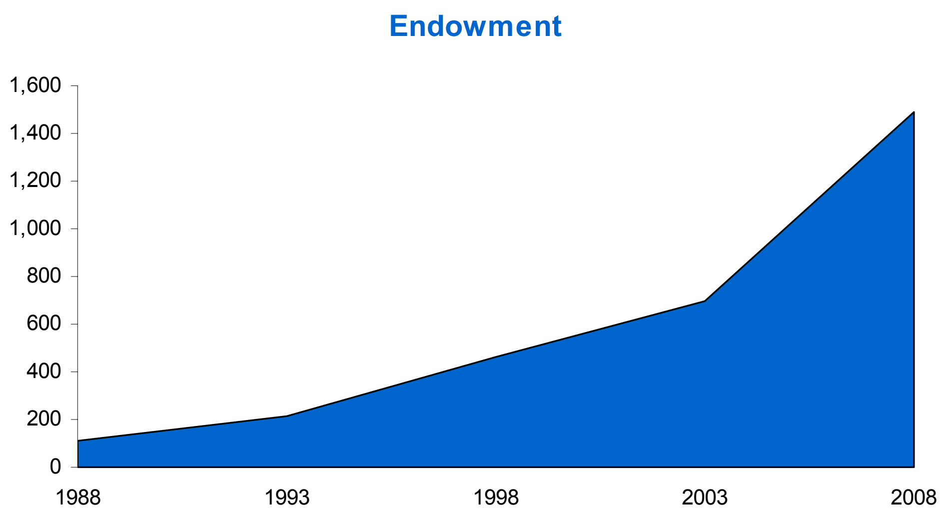
SUMMARY

Despite a challenging investment market and adverse external economic conditions, Tufts ended fiscal year 2008 with solid growth in assets, gifts and net revenue sources; a diversified, prudently managed investment portfolio; sound management of physical plant assets; and continued strong student demand and quality. Fiscally sound policies and planning continue to secure strong financial performances which bode well for the achievement of the University's academic mission and goals.

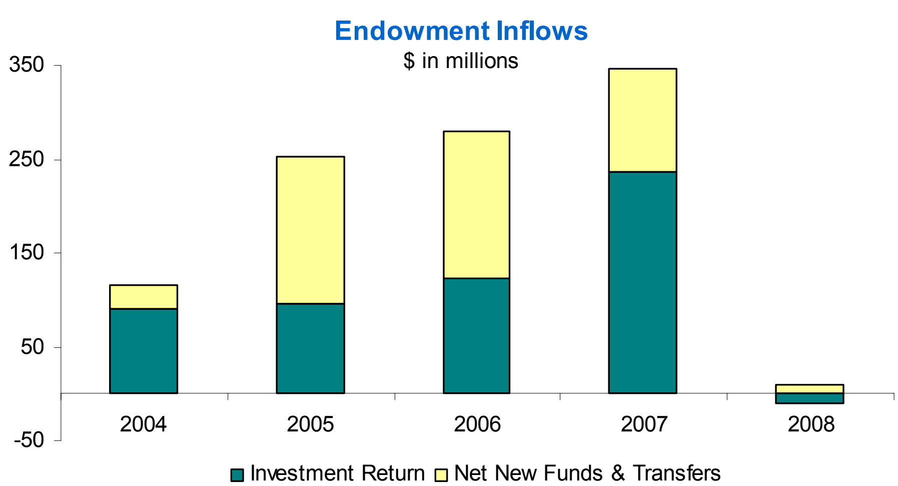
TUFTS UNIVERSITY
2008 ENDOWMENT AND INVESTMENT REPORT

TUFTS' ENDOWMENT

Combining strategic management with fundraising, the endowment grew from $112 million at fiscal year end 1988 to $1.5 billion in 2008, a 13.8% twenty year compound annual rate and a 16.4% rate in the past five years. This extraordinary growth in the University's financial bedrock is credit to the visionary philanthropy of the University's donors and friends and to Tufts' focus on responsibly seeking the highest risk-adjusted return on its assets.



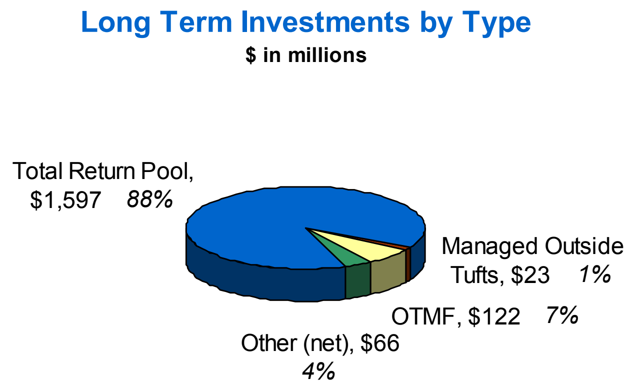
During the past five years, steady growth in endowment has been achieved through gifts and investment returns.



INVESTMENTS

As of June 30, 2008, the University's long term investments totaled $1.8 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 $1.5 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. 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

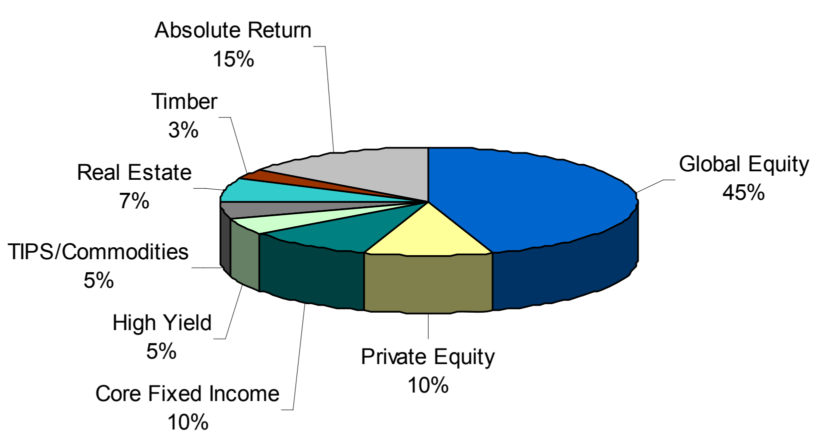
Chief among endowment and investment goals is to provide intergenerational equity, meaning that future generations of students will enjoy the same level of support as the current generation does. To achieve this, the endowment must maintain its purchasing power by earning a long term return that covers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

The Board of Trustees 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 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, which may enable us in some years to exceed the 9% target.

Asset Allocation

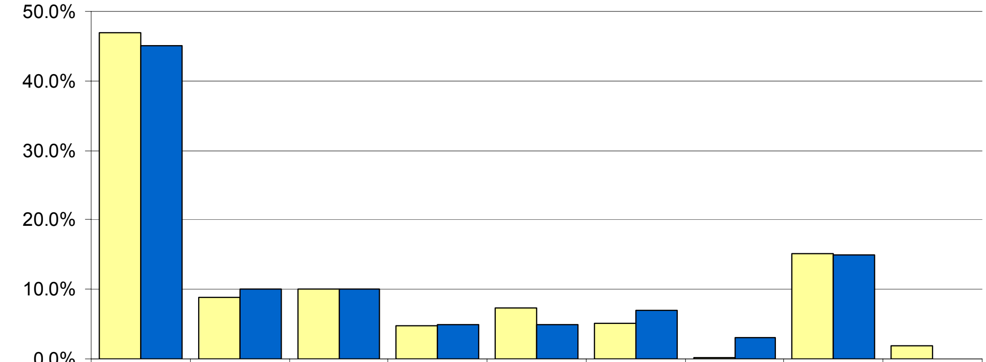
The vehicle through which investment objectives are achieved is a portfolio diversified as broadly as possible over assets that respond differently to various economic conditions. The policy portfolio measures what the performance would be if the Total Return Pool were invested exactly in the market 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 Asset Allocation as of fiscal year end 2008 is shown below.



Over the last several years, the University has been working to build portfolios in certain asset classes. The following chart shows that the portfolio remains underinvested relative to target in private equity and real estate. This underinvestment, as well as the upfront costs of building these portfolios, may put downward pressure on the endowment's total returns, depending on market conditions.

Target vs Actual Asset Allocation

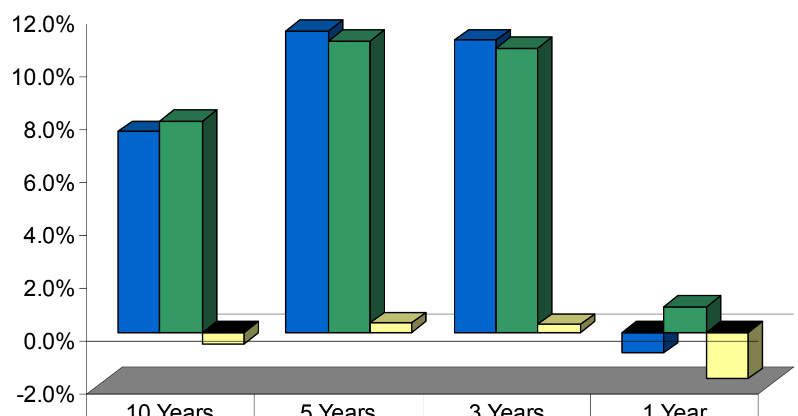


	Global Equity	Private Equity/ Venture/	Core Fixed Income	High Yield	TIPS+ Comm. Overlay	Real Estate	Timber	Absolute Return	Cash + Other
Actual	46.9%	8.9%	10.0%	4.7%	7.3%	5.1%	0.2%	15.1%	1.8%
Target	45.0%	10.0%	10.0%	5.0%	5.0%	7.0%	3.0%	15.0%	0.0%

Performance

With global financial markets in turmoil throughout most of fiscal 2008, Tufts' strategy of broad diversification supported the goal of capital preservation in difficult markets. During fiscal 2008, the Tufts policy portfolio, the benchmark against which the actual Total Return Pool portfolio is measured, earned a return of just under 1%. This compares favorably to a naïve portfolio consisting 70% of stocks and 30% of bonds, which would have lost almost 7% for the year. The actual portfolio returned (0.77%), reflecting the continuing investment in building the private assets portfolio as well as the challenges faced by Tufts' active managers in a changing economic regime. Over the last ten years, on an annualized basis, the portfolio has provided a return of 7.6%.

Annualized Returns
as of June 30, 2008



	10 Years	5 Years	3 Years	1 Year
Tufts Actual	7.64%	11.46%	11.10%	-0.77%
Tufts Policy	8.05%	11.09%	10.79%	0.98%
Value Added	-0.41%	0.37%	0.31%	-1.75%

PRICEWATERHOUSECOOPERS

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Boston MA 02110
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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 at June 30, 2008, and the changes in its net assets and its 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 Tufts 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 Tufts University's 2007 financial statements, and in our report dated September 26, 2007, 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 11 to the consolidated financial statements, the University changed the manner in which it accounts for its postretirement health care plan in 2007.

PricewaterhouseCoopers LLP

September 19, 2008

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2008, WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2007
(In thousands)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 57,720	$ 28,237
Receivables and other assets, net	53,150	40,266
Contributions receivable, net	80,422	73,482
Note and student loans receivables, net	51,107	39,194
Funds held under bond agreements	2,163	5,879
Investments	1,807,912	1,812,461
Land, buildings, and equipment, net	609,134	573,769
TOTAL ASSETS	$ 2,661,608	$ 2,573,288
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 120,002	$ 110,512
Deferred revenue and deposits	62,010	53,484
Bonds and notes payable	349,809	355,085
Interest rate agreements	26,923	9,879
Government advances for student loans	24,818	24,587
Total liabilities	583,562	553,547
NET ASSETS:		
Unrestricted	1,217,573	1,042,462
Temporarily restricted	395,705	546,982
Permanently restricted	464,768	430,297
Total net assets	2,078,046	2,019,741
TOTAL LIABILITIES AND NET ASSETS	$ 2,661,608	$ 2,573,288

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
OPERATIONS:					
REVENUE:					
Tuition and fees	$ 322,577	$ -	$ -	$ 322,577	$ 301,916
Less scholarships and fellowships	(76,658)	-	-	(76,658)	(71,247)
Tuition and fees, net	245,919	-	-	245,919	230,669
Government grants and contracts	116,862	-	-	116,862	112,089
Clinical and other educational activities	97,014	-	-	97,014	90,663
Auxiliary enterprises	47,008	-	-	47,008	44,328
Contributions and grants	44,830	20,758	-	65,588	59,442
Investment return utilized	78,625	-	-	78,625	66,734
Net assets released from restrictions	19,093	(19,093)	-	-	-
Total revenue	649,351	1,665	-	651,016	603,925
EXPENSES:					
Instruction	185,527	-	-	185,527	174,695
Sponsored programs	123,775	-	-	123,775	114,793
Clinical and other educational activities	105,103	-	-	105,103	100,023
Academic and student services	85,607	-	-	85,607	79,061
Auxiliary enterprises	47,243	-	-	47,243	44,331
Institutional support	67,690	-	-	67,690	66,157
Total expenses	614,945	-	-	614,945	579,060
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	34,406	1,665	-	36,071	24,865
NONOPERATING ACTIVITIES:					
Investment return reinvested	4,789	(32,877)	711	(27,377)	270,859
Contributions and grants	9,854	21,971	33,760	65,585	73,818
Net assets released from restrictions for capital and other nonoperating purposes	142,036	(142,036)	-	-	-
Net unrealized gain (loss) on interest rate agreements	(17,044)	-	-	(17,044)	941
Other nonoperating activities	1,070	-	-	1,070	(49)
Increase (decrease) in net assets from from nonoperating activities	140,705	(152,942)	34,471	22,234	345,569
INCREASE (DECREASE) IN NET ASSETS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	175,111	(151,277)	34,471	58,305	370,434
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (N	-	-	-	-	8,422
INCREASE (DECREASE) IN NET ASSETS	175,111	(151,277)	34,471	58,305	378,856
NET ASSETS—Beginning of year	1,042,462	546,982	430,297	2,019,741	1,640,885
NET ASSETS—End of year	$ 1,217,573	$ 395,705	$ 464,768	$ 2,078,046	$ 2,019,741

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, 2008, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2007
(In thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase in net assets	$ 58,305	$ 378,856
Adjustments to reconcile total increase in net assets to net cash provided by operating activities:		
Net realized and unrealized investment gains	(15,304)	(297,691)
Depreciation and amortization	37,612	35,266
Loss on disposal of fixed assets	408	1,566
Gifts of securities, property and equipment	(14,155)	(70)
Net unrealized (gain) loss on interest rate agreements	17,044	(941)
Contributions and investment income restricted for long-term investment	(63,847)	(69,982)
Changes in operating assets and liabilities:		
Receivables and other assets, net	(12,884)	(8,357)
Contributions receivable, net	(6,940)	(23,193)
Accounts payable and accrued expense	2,150	6,718
Deferred revenue and deposits	8,526	6,193
Net cash provided by operating activities	10,915	28,365
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash received in payment of notes receivable	382	358
Student loans granted	(17,661)	(7,997)
Student loans repaid	5,366	5,896
Purchases of investments	(1,159,925)	(1,069,440)
Proceeds from sale of investments	1,193,728	1,012,789
Changes in funds held under bond agreements	3,716	21,597
Additions to land, buildings, and equipment	(65,941)	(70,889)
Net cash used in investing activities	(40,335)	(107,686)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (decrease) in government advances for student loans	231	(95)
Proceeds from issuance of bonds and notes	140,600	2,086
Repayments of bonds and notes	(145,775)	(5,162)
Proceeds from contributions and investment income restricted for long-term investment	63,847	69,982
Net cash provided by financing activities	58,903	66,811
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,483	(12,510)
CASH AND CASH EQUIVALENTS—Beginning of year	28,237	40,747
CASH AND CASH EQUIVALENTS—End of year	$ 57,720	$ 28,237
SUPPLEMENTAL DATA:		
Cash paid for interest, net	$ 17,581	$ 16,781
Construction amounts remaining in accounts payable	$ 15,237	$ 7,897

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 9,400 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-New England Medical Center, Inc. (T-NEMC) 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 nonoperating 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 risk-free 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 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.

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 Nonoperating Activities—The consolidated statement of activities reports changes in unrestricted, temporarily restricted, and permanently restricted net assets from operations and nonoperating 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 $29,614,000 in 2008 and $28,611,000 in 2007. 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—For purposes of the consolidated statement 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. 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 $49,200,000 and $141,500,000 at June 30, 2008 and 2007, respectively. At June 30, 2007 the University held a beneficial interest in a trust amounting to approximately $86,800,000 that was terminated during the year ended June 30, 2008. 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 $13,300,000 and $14,400,000 at June 30, 2008 and 2007, respectively. The present value of payments is discounted at a risk-free rate of return with 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—The University adopted FIN No.48, *Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS No. 109, Accounting for Income Taxes* for the year ended June 30, 2008. The adoption of FIN No. 48 did not have a material effect on the financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FASB 157”), as amended in February 2008 by FSP FAS 157-2, “Effective Date of FASB Statement No. 157”. FASB 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The provisions of FASB 157 become effective at the beginning of fiscal 2009 for financial assets and liabilities and at the beginning of fiscal 2010 for non-financial assets and liabilities. Management is still evaluating the impact of this statement, but does not expect the adoption to have a material impact on our financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities” (“FASB 159”). FASB 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently measured at fair value. FASB 159 becomes effective at the beginning of fiscal 2009. Management is still evaluating the impact of this statement, but does not expect the adoption to have a material impact on our financial statements.

In August 2008, the FASB issued final FSP FAS 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." This FASB Staff Position (FSP) provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). A not-for-profit organization that is subject to an enacted version of UPMIFA shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. Management is still evaluating the impact of this FSP, but does not expect the adoption to have a material impact on our financial statements.

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, 2007, from which the summarized information was derived.

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, 2008 and 2007 are as follows (in thousands):

	2008	2007
Gross receivables	$ 40,344	$ 25,297
Less allowance for uncollectible amounts	(3,110)	(2,520)
Receivables, net	37,234	22,777
Funded status of post retirement benefit obligation (Note 11)	8,491	8,800
Other assets	7,425	8,689
Total	$ 53,150	$ 40,266

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Unconditional promises scheduled to be collected in:		
Less than one year	$ 46,735	$ 41,957
One year to five years	49,029	45,053
More than five years	1,232	2,071
Gross contributions receivable	96,996	89,081
Less allowance for uncollectible amounts	(12,583)	(10,913)
Less discount to present value	(3,991)	(4,686)
Total	$ 80,422	$ 73,482

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

	2008	2007
Endowment for educational and general purposes	$ 35,028	$ 32,353
Construction and modernization of plant	27,504	20,975
Support of current operations	17,890	20,154
Total	$ 80,422	$ 73,482

5. NOTE AND STUDENT LOANS RECEIVABLES

Note and student loans receivables at June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Student loans receivable	$ 53,253	$ 40,923
Less allowance for uncollectible amounts	(2,146)	(2,111)
Student receivables, net	51,107	38,812
T-NEMC note receivable (Note 12)	-	382
Total	$ 51,107	$ 39,194

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 10%.

6. INVESTMENTS

Investments at June 30, 2008 and 2007 consisted of the following categories and are stated at market value (in thousands):

	2008	2007
Cash and cash equivalents	$ 41,326	$ 30,038
Equity securities	91,450	621,199
Fixed income securities	308,867	340,291
Hedge funds	1,054,940	670,176
Private equities	180,725	98,901
Real estate	84,783	34,419
Commodities	35,332	21,824
Timber	3,194	-
Other	7,641	-
Receivable for unsettled trades	424	1,959
Payable for unsettled trades	(770)	(6,346)
Total	$ 1,807,912	$ 1,812,461

Fair values for equity securities and fixed income securities are generally based on published market values. At June 30, 2008 and 2007, approximately $1,301,000 and $90,000,000 of equity securities are not readily marketable and are valued at management's estimate of fair value. 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. In addition, the University released approximately $136,200,000 from restriction as a result of the transaction.

The University invests in alternative investments, consisting of hedge funds, private equities, real estate, commodities 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 estimated fair value by the fund 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. 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. Commodities consist of an investment in a long only commodities fund. 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 $257,071,000 and $171,054,000 at June 30, 2008 and 2007 respectively, which can be called through 2018. Alternative investments are valued at approximately $1,298,300,000 and $1,214,679,000 at June 30, 2008 and 2007, respectively.

The total return on investments for the years ended June 30, 2008 and 2007 is as follows (in thousands):

	2008			2007		
	Endowment	Non-endowment	Total	Endowment	Non-endowment	Total
Dividends and interest	$ 13,097	$ 22,848	$ 35,945	$ 19,278	$ 20,624	$ 39,902
Net realized and unrealized gains	33,292	(17,989)	15,303	255,858	41,833	297,691
Total return on investments	46,389	4,859	51,248	275,136	62,457	337,593
Investment return utilized	(56,530)	(22,095)	(78,625)	(44,539)	(22,195)	(66,734)
Investment return reinvested	$ (10,141)	$ (17,236)	$ (27,377)	$ 230,597	$ 40,262	$ 270,859

Endowment and non-endowment funds are described in Note 9.

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Land and land improvements	$ 38,388	$ 37,430
Buildings	778,908	688,913
Construction in progress	69,200	95,993
Equipment and furnishings	123,662	133,208
	1,010,158	955,544
Less accumulated depreciation	(401,024)	(381,775)
Total	$ 609,134	$ 573,769

Depreciation expense charged to operations was approximately $37,713,000 and $35,367,000 in 2008 and 2007, respectively. Net interest cost capitalized in fiscal 2008 and 2007 was $220,945 and $589,000, respectively.

Equipment and furnishings include assets recorded under capital leases of approximately $1,221,000 in 2008 and $1,229,000 in 2007. Accumulated depreciation on the assets amounted to approximately $705,000 and $495,000 in 2008 and 2007, 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 $99,000,000 at June 30, 2008.

8. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Massachusetts Industrial Finance Agency (“MIFA”)—Series H, fixed rate bonds at 4.75-5.50%, due through 2028	$ 81,850	$ 84,995
Massachusetts Health and Educational Facilities Authority (“MHEFA”):		
Series G, variable rate bonds, 3.69% average rate for 2008, due 2024-2026	30,500	32,400
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	32,165	32,405
Series K, variable rate bonds at 5.46% average rate for 2008, due 2022-2034	-	54,000
Series L, variable rate bonds at 4.94% average rate for 2008, due 2030-2041	-	86,000
Series N1, variable rate bonds at 3.15% average rate for 2008 due 2029-2040	86,400	-
Series N2, variable rate bonds at 3.65% average rate for 2008, due 2022-2034	54,200	-
United States Department of Education (“DOE”):		
Fixed rate bonds, 3.00-3.625%, due through 2018	2,878	3,128
Fixed rate bonds, 3.00%, due through 2021	1,704	1,833
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	214	233
Sovereign Bank - Letter of credit at 1.99% above prime	-	25
Capital Leases—various imputed interest rates, due through 2012	247	313
	349,158	354,332
Net unamortized bond premium	651	753
Total bonds and notes payable	$ 349,809	$ 355,085

DOE fixed rate bonds are collateralized by certain dormitories and other buildings. The DOE secured note is collateralized with amounts included in funds held under bond agreements.

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 (in thousands):

Fiscal Year Ending	
2009	6,768
2010	4,394
2011	4,499
2012	4,799
2013	4,957
Thereafter	323,741
Total	$ 349,158

A refunding trust was established in 1989 to retire Series A bonds. At June 30, 2008, trust funds of $1,076,015 were available to service principal and interest obligations, which were fully repaid in July 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 statement of financial position.

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, 2008 and 2007. The estimated fair value at June 30, 2008 and 2007 is approximately $357,956,000 and $363,106,000 respectively.

In March 2008, the University refinanced and converted all of its auction rate debt to variable rate demand bonds in the weekly mode. $54,000,000 of MHEFA Series K Revenue Bonds and $86,000,000 of MHEFA Series L Revenue Bonds were refinanced into $54,200,000 of MHEFA Series N-2 Revenue Bonds and $86,400,000 of MHEFA Series N-1 Revenue bonds respectively. As a result of this refinancing, the University incurred a charge of $2,080,974 from the unamortized issuance costs of Series K and Series L. This has been reflected as a non-operating item in the statement of activities. The MHEFA Series G Revenue Bonds were converted into the weekly rate mode. Total costs associated with the refinancing and conversion of $701,893 have been capitalized and are being amortized over the life of the bonds.

Interest Rate Agreements**—**The University has entered into several swap agreements used in managing the interest rate risk associated with certain of its variable rate debt. The following summarizes the terms for each of these agreements:

	Series N-2 Interest Rate Swap	Series N-1 Interest Rate Swap	Series N-1 Interest Rate Swap	Exercise of Swaption: Variable Interest Rate Swap
Trade Date	May 2004	May 2004	December, 2005	October, 2004
Effective Date	August 2004	January 2006	January 2006	January, 2008
Notional Amount	$54,000,000	$34,000,000	$40,000,000	$65,950,000
Termination Date	August 15, 2034	August 15, 2036	August 15, 2040	Feb. 15, 2028
Rate paid by University	4.069%	4.292%	3.5175%	4.32%
Effective June 15, 2006	64.18% of 5-year	64.36% of 5-year	64.40% of 5-year	69% of one-month
	USD-ISDA-Swap Rate	USD-ISDA-Swap Rate	USD-ISDA-Swap Rate	USD-LIBOR-BBA
Fair Value (Liability):				
June 30, 2007	$(1,312,000)	$(1,895,000)	$2,183,000	$(2,920,000)
June 30, 2008	$(4,663,000)	$(4,354,000)	$(477,000)	$(7,705,000)

The University also entered into two interest rate swaption agreements associated with its fixed rate debt. In return for the option to exercise the swaption agreements, the University received premium payments. If the options are exercised by the Counterparty, and the swap is executed, the University plans to call the bonds covered under the agreements and issue new variable rate debt. One swaption was exercised in 2008, as reflected in the preceding paragraph. The details of the remaining swaption agreement are summarized as follows:

	Swaption
Trade Date	October 2004
Premium Received	$5,150,000
Exercise Date	January 13, 2011
Underlying Swap:	
Notional Amount	$50,500,000
Termination Date	February 15, 2036
Rate paid by University	5.11%
Rate paid by Counterparty	69% of one-month USD-LIBOR-BBA
Fair Value (Liability):	
June 30, 2007	$(5,935,000)
June 30, 2008	$(9,723,000)

The fair values of the swap and swaption agreements are classified as interest rate agreement liabilities on the consolidated statement of financial position. Any gain or loss associated with the interest rate agreements, including the swaption premiums received in fiscal year 2005, is reflected as a nonoperating item in the accompanying statement of activities.

9. NET ASSETS

Net assets at June 30, 2008 and 2007 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2008 Total	2007 Total
Endowment	$ 741,059	$ 306,834	$ 444,405	$ 1,492,298	$ 1,496,853
Invested in physical plant	260,875	-	-	260,875	223,706
Operating	174,529	42,957	-	217,486	202,076
Building projects	21,388	45,914	2,130	69,432	60,703
Student loans	19,722	-	18,233	37,955	36,403
Total	$ 1,217,573	$ 395,705	$ 464,768	$ 2,078,046	$ 2,019,741

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 $303 million and $294 million in 2008 and 2007, respectively. Unrestricted operating includes funds that have been internally designated for use by various schools, departments, and programs throughout the University.

10. 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, 2008 and 2007 consisted of the following (in thousands):

	2008	2007
Compensation:		
Staff, student, and other	$ 201,060	$ 188,085
Faculty	97,780	93,694
Benefits	65,437	57,833
Total compensation	364,277	339,612
Materials, supplies, and other	98,168	100,808
Purchased services	47,242	41,299
Depreciation and loss on disposals	38,093	36,948
Maintenance and facilities costs	36,869	32,453
Interest	16,627	15,948
Travel	13,669	11,992
Total expenses	$ 614,945	$ 579,060

11. 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 $20,905,000 and $19,718,000 in 2008 and 2007, 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 $81,000 and $75,000 in 2008 and 2007, 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 $5,024,000 and $4,416,000 in 2008 and 2007, 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 and $7,000 in 2008 and 2007, respectfully. The investment assets and related liabilities of these plans, which total approximately $8,660,000 and $10,704,000 in 2008 and 2007, 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. The University funded the trust with approximately $350,000 in 2007 and was refunded $350,000 by the trust in 2008.

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2008 and 2007 were as follows (in thousands):

	2008	2007
Benefit obligation—beginning of year	$ 28,124	$ 31,178
Service cost	130	165
Interest cost	1,405	1,747
Benefits paid	(2,928)	(2,908)
Participants' contributions	1,132	1,023
Actuarial (gain) loss	(4,551)	(3,436)
Employer Part D Subsidy	215	175
Special termination benefit	-	180
Benefit obligation—end of year	$ 23,527	$ 28,124

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, 2008 and 2007 were as follows (in thousands):

	2008	2007
Fair value of plan assets—beginning of year	$ 36,924	$ 32,943
Actual return on plan assets	(2,755)	5,524
Employer contributions	(355)	342
Plan participant contributions	1,132	1,023
Benefits paid	(2,928)	(2,908)
Fair value of plan assets—end of year	$ 32,018	$ 36,924

Funded Status — In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. The University adopted the balance sheet recognition provisions of SFAS 158 as of June 30, 2007.

	2008	2007
Funded Status	$ 8,491	$ 8,800
Amounts not yet reflected in net periodic benefit cost and included in Net Assets:		
Unamortized Net Transition Obligation/Asset	$ 4,077	$ 4,893
Unamortized Actuarial Loss/Gain	(10,708)	(13,315)
Change to Unrestricted Net Assets	$ (6,631)	$ (8,422)

	2008	2007
Change in Unrestricted Net Assets, due to application of FAS 158	N/A	$ (8,422)

The amounts expected to be recognized in net periodic cost in the following year are as follows:

	2008	2007
Amortization of transition obligation	$ 816	$ 816
Amortization of actuarial loss/(gain)	(821)	(722)
Amounts to be recognized in the following year	$ (5)	$ 94

The components of net periodic benefit cost are as follows:

	2008	2007
Service cost	$ 130	$ 165
Interest cost	1,405	1,747
Expected return on plan assets	(2,867)	(2,549)
Amortization of net obligation/(asset) at transition	816	816
Amortization of actuarial loss/(gain)	(1,536)	(471)
Amortization of prior service cost/(credit)	-	-
Special termination benefits	-	180
Net periodic postretirement benefit cost/(income)	$ (2,052)	$ (112)

Other changes recognized in unrestricted net assets in non-operating activities:

	2008
Net Loss/Gain	$ 1,071
Amortization of Gain/(Loss)	1,536
Amortization of Transition (Obligation)/Asset	(816)
Total changes recognized in unrestricted net assets	$ 1,791
Total changes recognized in net periodic cost and unrestricted net assets	$ (261)

Additional Disclosure Information on Assets and Cash Flow

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

	2008	2007
Discount rate at end of year	6.70%	6.25%
Rate of compensation increase at end of year	NA	NA

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

	2008	2007
Discount rate at beginning of year	6.25%	6.25%
Expected return on plan assets during year	8.00%	8.00%
Rate of compensation increase at beginning of year	NA	NA

The following were other significant assumptions used in the valuation as of June 30, 2008 and 2007:

Health Care Cost Trend Rate	Fiscal Year Ending	Medical	Drugs
	2007	9.00%	12.00%
	2008	8.50%	10.50%
	2009	7.50%	8.00%
	2010	6.50%	6.50%
	2011	5.50%	5.50%
	2012 and after	5.00%	5.00%

Impact of 1% increase in health care cost trend	
on interest cost plus service cost during past year	$ (8,000)
on accumulated postretirement benefit obligation	$ (58,000)

Impact of 1% decrease in health care cost trend	
on interest cost plus service cost during past year	$ 4,000
on accumulated postretirement benefit obligation	$ 14,000

The expected future benefit payments net of employee contributions are as follows:

	Expected Net Benefit Payments*	Expected Medicare Subsidy
Fiscal Year Ending in 2009	$ 2,211,000	$ 248,000
Fiscal Year Ending in 2010	2,285,000	276,000
Fiscal Year Ending in 2011	2,288,000	303,000
Fiscal Year Ending in 2012	2,282,000	329,000
Fiscal Year Ending in 2013	2,312,000	354,000
Fiscal Year Ending in 2014 through fiscal year ending 2018	11,483,000	2,147,000

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

The estimated University cash contributions for the 2009 fiscal year are as follows:

Key employee amounts	$ 8,000

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

	2008	2007	Target Allocation
Equity securities	56%	56%	56%
Debt securities	30%	29%	29%
Real estate securities	13%	14%	15%
Other	1%	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, as well as expected return on assets by category.

12. 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 8, 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 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 a nonrecourse note and 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, which remains nonrecourse to the University. 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.

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 an 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, allowing Hines to purchase the development rights and obligations from TUDC for the amount of \$11,116,416. An initial payment of \$6,116,416 was due on the closing date, April 1, 2008, subject to the right to extend the closing date each month through March 31, 2009 by making monthly payments against the initial payment obligation with the balance due at closing. As of June 30, 2008, \$2,500,000 has been received to extend the closing date with monthly payments of \$500,000 due thereafter through December 31, 2008, with a final scheduled payment of \$616,416 due January 2009. The last payment of \$5,000,000 will be paid at the Air Rights closing. In addition, Hines continues to be obligated to fund all development costs. There are no capitalized amounts related to TUDC at June 30, 2008.

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 of the University.

Tufts-New England Medical Center, Inc. ("T-NEMC")—The University and Tufts Medical Center, Inc. ("Medical Center") jointly formed T-NEMC, a not-for-profit service corporation, to provide the organization and facilities for coordinating certain education and health services activities. The administrative board of T-NEMC includes equal representation from the University and the Medical Center. The cost of services provided by T-NEMC to the University for the years ended June 30, 2008 and 2007 were approximately \$7,433,000 and \$4,673,000, 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 T-NEMC. The University's investment in T-NEMC has been recorded at approximately \$5,511,000 at June 30, 2008 using the equity method of accounting. The accounts of T-NEMC are included in the accompanying consolidated financial statements of the University 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.

13. 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, 2008, with terms in excess of one year for equipment and office space. Expenses associated with operating leases totaled approximately $1,793,000 and $1,694,000 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments under operating leases are as follows (in thousands):

Fiscal Year	
2009	2,326
2010	2,182
2011	1,968
2012	1,829
2013	1,575
Thereafter	3,333
Total	$ 13,213

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TUFTS UNIVERSITY

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