Tufts
UNIVERSITY

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2012

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2012

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Tufts UNIVERSITY

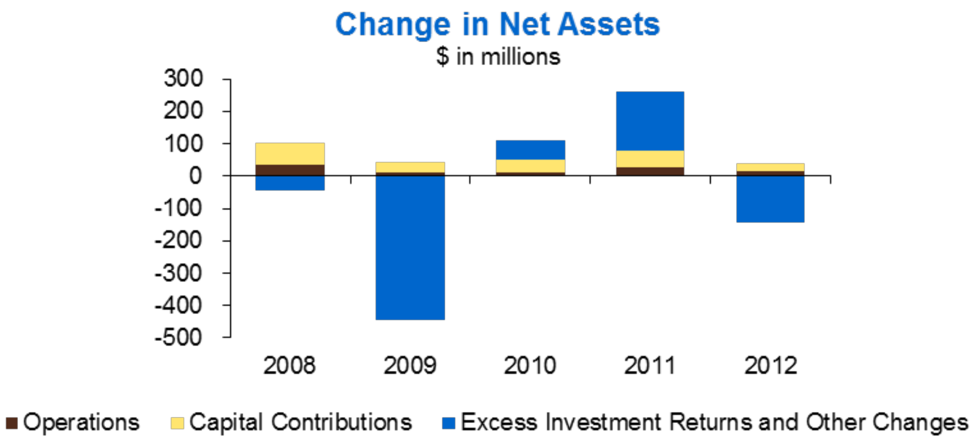
TUFTS UNIVERSITY
HIGHLIGHTS

Fiscal years ended June 30, 2012 and 2007 (in thousands)

	2012	2007
FINANCIAL		
Total operating revenue	$743,284	$603,925
Total net assets	1,948,829	2,019,741
Land, buildings and equipment, net	773,585	573,769
Investments, net of receivables and payables	1,920,832	1,812,461
Bonds and notes payable	646,805	355,085
CREDIT RATING		
Standard & Poors	AA-	AA-
Moody's	Aa2	Aa3
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	5,100	4,960
Graduate	2,916	2,313
Professional	1,902	1,676
Certificate and other	363	308
Total full-time equivalent enrollment	10,281	9,257
Undergraduate Admission		
Applicants	16,378	15,294
Selectivity	21%	27%
Yield	37%	31%
SAT (mean)	1,427	1,405
Total undergraduate student charges (tuition, room, board, mandatory fees)	$54,474	$44,500
PERSONNEL		
Faculty	1,080	999
Staff	3,029	2,678
Total full-time equivalent	4,109	3,677
FACILITIES		
Gross square feet	5,005,006	4,629,043

TUFTS UNIVERSITY
2012 FINANCIAL REPORT

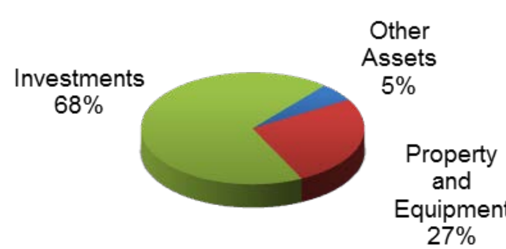
The University's financial performance is primarily influenced by operating results, philanthropy and investment performance. Two of the three areas achieved positive results in 2012. Following the successful conclusion last year of the $1.2 billion Beyond Boundaries campaign, capital and annual giving performed well this year with total achievement of $77.9 million. Unrestricted operating performance resulted in a 2% surplus which has been consistently positive over a period of many years. Investment performance matched our internal policy benchmark; however, we lagged our long term return target of 8% and spending for the budget of 5.5%. Total net assets declined approximately $100 million as our investment returns were breakeven, requiring a draw of accumulated prior years' excess returns to fund the operating budget.



In April we successfully sold $250 million of taxable bonds with a final maturity of 100 years. The bond proceeds, along with gifts and internal resources, will provide capital to finance our five year, $450 million capital budget. The capital plan will address science, laboratory and teaching space needs throughout the University and the capital renewal of existing space.

ASSETS

Comprised primarily of cash and investments at 68% and property and equipment at 27%, total assets of $2.9 billion increased by 6.1% during the year with a compound five-year average increase of 2.4%.



Investments

Long-term investment and related accounts ended the year at $1.92 billion, a $157 million or 8.9% one-year increase and a five-year compound annual growth rate of 1.2%. Please refer to the next section, 2012 Endowment and Investment Report, for additional discussion on the endowment and investments.

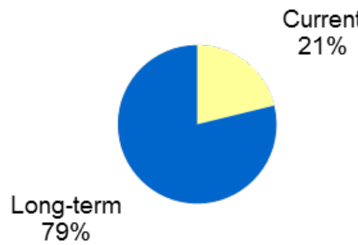
Property and Equipment

Representing 27% of balance sheet assets, the University's physical plant assets had a $774 million book value net of depreciation, growing by 7.4% this past year. Total 2012 capital expenditures amounted to $93 million with the completion of renovations at the Pearson Organic Laboratory, Phase II of the M&V complex and the renovation work on Hill Hall, Lewis and Barnum/Dana Buildings. Major projects in progress include renovation of the Dental Tower, third phase of the renovation to the M&V complex, expansion of the Tisch Sports and Fitness Center, the necropsy suite renovation and the new microbiology laboratories in the Arnold building.

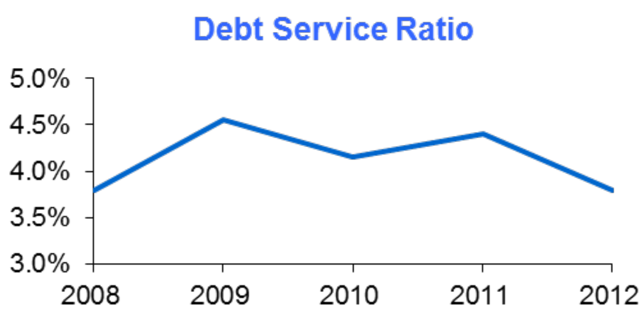
Renewal
The University is committed to preserving and renewing its physical resources, made possible by an increasing commitment of annual operating revenue and the prudent use of debt. During fiscal year 2012, the board approved a plan to significantly increase funds available for deferred maintenance. In accordance with the funding plan, the University spent $30 million in 2012 improving the condition of the physical plant. Funding in 2013 will continue at an increased pace of $35 million. Funding over the next ten years is scheduled to total $423 million.

LIABILITIES

Total liabilities reached a level of $953 million, a year-over-year increase of $268 million. Long-term liabilities include bonds and notes payable, interest rate agreements, and government advances for student loans while current liabilities represent accounts payable, deferred revenue and other liabilities.



Debt
The University's outstanding debt totaled $646.8 million at fiscal year end June, 30, 2012. During the year, the University issued $250 million of Tufts University Series 2012A taxable bonds, due in April 2112, taking advantage of historically low long-term interest rates to fund projected capital needs for the next five years. The University also prepaid $3.5 million of 1979 U.S. Department of Education (DOE) bonds and 1968 HUD Construction and Consolidation bonds. The overall weighted average cost of capital as of June 30, 2012 was 4.87%, compared to the June 30, 2007 rate of 4.77%. The debt service to operations ratio was 3.8% in fiscal year 2012, well within the goal of maintaining debt service levels less than 5% of the operating budget. Over the past five years, this ratio ranged between 3.8% and 4.4%, enabling the University to maintain its strong credit ratings while benefiting from a low cost of capital.

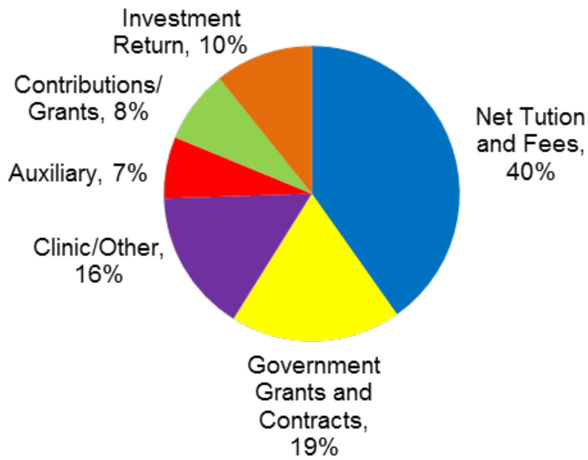


The liability associated with interest rate swap agreements increased from $39.3 million to $76.9 million. These long term contracts provide a hedge against short term debt and are intended to be held to maturity. The agreements do not require the University to post collateral and generally have favorable terms.

OPERATING RESULTS

Despite the sluggish economy, the University continues to operate with moderate surpluses. Operations contributed $15 million to unrestricted net assets in fiscal year 2012 compared to $29 million in fiscal year 2011 and $12 million in fiscal year 2010. Planned increases in tuition rates and student enrollment, improved investment return utilized and royalty payments funded strategic investments in research and clinical faculty and student information system implementation costs. Operating revenues grew 4.4% to $744 million while operating expenses, after two consecutive years of 2% growth, grew 6.6% to $729 million.

A diversified revenue base mitigates the impact of losses in any one revenue source. In the last several years, the relative share of revenue components remained stable.



Tuition

Tuition and fees increased 4.6% to $409 million primarily from rate and, to a lesser degree, enrollment increases. The undergraduate total student charge rose 3.0% and enrollment declined slightly as planned from the unusually high enrollment of 2011. Also contributing to growth are graduate and professional degree enrollment increases in Arts & Sciences, Fletcher, Medical, Dental and Cummings schools along with rate increases of 3% to 5%.

Financial Aid

Financial aid grew 4.9% to $107 million in fiscal year 2012 and remains among Tufts highest priorities. To counter high medical student indebtedness, the Medical School continued its plan to fund ¼-tuition scholarships to 25% of MD students and provided aid to additional Sackler students. Graduate student aid in the School of Arts & Sciences and the Engineering School (AS&E) and the Fletcher School grew 9% and 16%, respectively, to improve discount rates and support enrollment increases in these schools. While AS&E devoted more unrestricted resources for undergraduate financial aid, total funding was flat with both a 24% reduction in federal grant support (e.g., Pell, SEOG, SMART) and the final year of the Class of 2012 Pritzker gift lower than the prior year. After several years of improvement, undergraduate aid as a percent of total student charges declined from 21.9% to 21.7%.

Investment Return Utilized

Investment return utilized includes investment income distributed from the Total Return Pool per the University's spending policy along with income earned on short-term investments of the University's working capital. Investment income utilized grew 10.4% over 2011 representing planned spending increases, additional spending on endowment funds that emerged from underwater, new gifts, interest from the century bond proceeds and growth in short-term investments.

As a percentage of total revenues, this strategically important funding source fell from 11.7% in 2007 to 10.7% in 2012. Over recent years, market events affected the availability of this revenue source.

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, <u>2012 Endowment and Investment Report</u>.

Gifts, Grants and Contracts

Comprising government and private research grants and contracts, the Commonwealth of Massachusetts appropriation for the Cummings School and gifts for operating use, revenue remained steady at $181 million from the prior year. Though government grants and contracts revenue totaling $100 million declined by 3.2% in fiscal year 2012, private grants of $27 million rose 12%, offsetting the loss of stimulus funding that ended in 2012. A $4 million reduction in Medical School stimulus grants was offset by a $4 million increase in the Friedman School for USAID sponsored projects in Asia and Africa, a Pastoral Livelihoods Initiative in Ethiopia, the Child Obesity program and other Friedman projects. Increased funding at the School of Engineering offset million-dollar reductions in both the Dental School and Human Nutrition Research Center on Aging research portfolios. The state appropriation remained steady at $2.2 million while gifts for current use rose 11.7% to $15 million.

Clinical and Other Educational Activities

Revenue from clinical and other educational activities totaled $115 million in fiscal year 2012, increasing $11 million from fiscal year 2011. Royalty payments accounted for more than $5 million of the increase. Dental School growth included final payment for its graduate medical education program and expansion of clinical operations into its newly renovated second floor. The Cummings School's Foster Hospital for Small Animals caseload rebounded from last year but average fee per case fell; expenses were managed to produce a modest surplus consistent with 2011. While the Hospital for Large Animals' caseload and fee per case dropped, expenses declined to offset the revenue shortfall. Tufts VETS' caseload expanded by 8% with significant cost containment generating a balanced position this year.

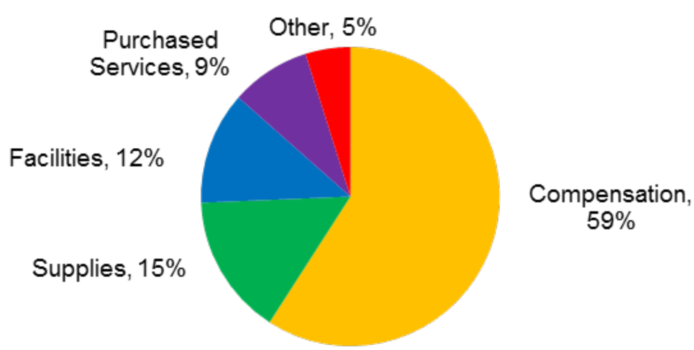
Expenses

Operating expenses increased 6.6% from $683 million to $729 million in fiscal year 2012. Compensation, representing 59% of expenses, increased 8% due primarily to a 2.25% annual merit salary increase, salaries and direct costs associated with revenue-generating programs, and a 16% increase in fringe benefit expense due to a one-time liability reduction in 2011 and rising health care costs, vacation accruals, and reserves for long term disability recipients in 2012.

The University continues its commitment to attract and retain outstanding faculty by providing competitive compensation packages and supporting research and teaching. Faculty salaries increased 6% to $116 million. Much of the growth beyond merit is attributable to expanded clinical programs at the Dental School and faculty recruitment at the Medical School.

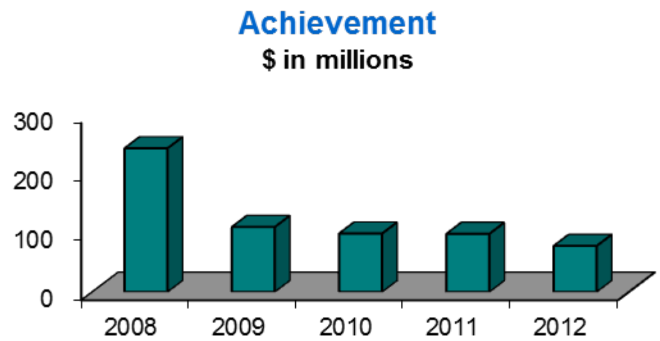
Non-compensation expense increased 4.5% from $285 million to $298 million in fiscal year 2012. Interest expense on the new century bond, royalty payments and related legal fees, the student information system project expenses and property rental expense comprised most of the 4.5% increase.

The pie chart displays the major natural classification categories. In the last several years, the relative share of expense components has remained stable.



ADVANCEMENT

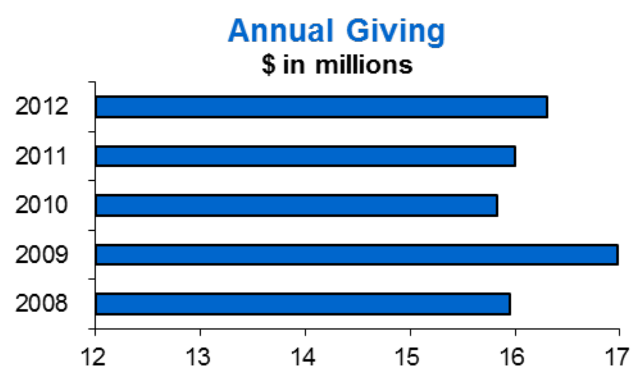
In light of the continuing weakness of the economy as well as the transitional nature of the year, fiscal year 2012 was a successful one for fundraising at Tufts. In this first year of the post-campaign period, total achievement was $77.9 million[1], or 97.4% of the $80 million goal. Nearly 39,000 donors—including alumni, friends, parents, students, and organizations—made gifts to Tufts in fiscal year 2012.



Fundraising highlights for the year included:

- a $1 million gift from the Knez Family Charitable Foundation to support junior faculty recruitment in the School of Arts and Sciences;
- a $6.9 million grant from the Robert Wood Johnson Foundation for the Friedman School of Nutrition's ChildObesity 180 initiative;
- a $2.5 million bequest intention established by David Fisher, MD, M63, to create a professorship in family medicine;
- a $2.25 million bequest intention pledge to the Cummings School from John Gacher and Federico Santi to support financial aid;
- a $0.7 million commitment from Peter Kamin, A84, A16P, to the School of Engineering for the Bridge to Engineering Success at Tufts program;
- over $30 million in achievement from corporations and foundations, including $5.9 million from the MasterCard Foundation in support of the Talloires Network;
- over $13 million in planned giving achievement, including gifts from 49 estates.

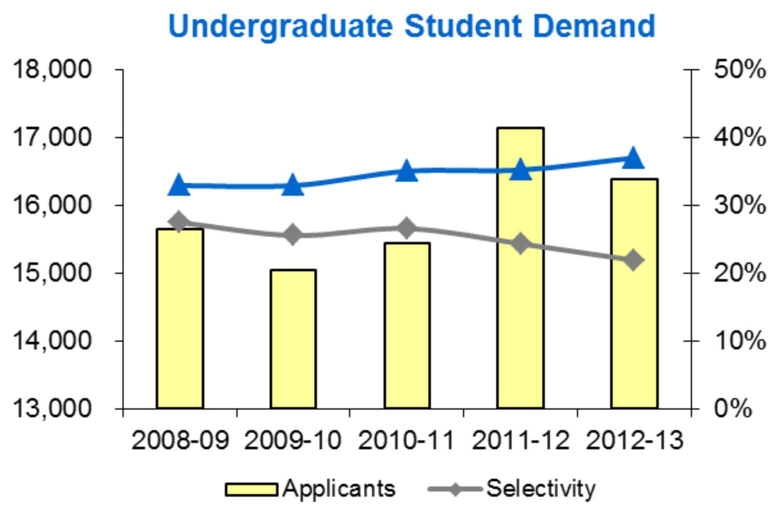
Annual giving exceeded $16.3 million for the year, a 2% increase over fiscal year 2011. The average fiscal year 2012 annual gift was 11% larger than the previous year's, reflecting both generous leadership gifts and challenging trends at lower giving levels. For the Tufts Fund for Arts, Sciences, and Engineering, total giving was more than $7.85 million, up 1% over fiscal year 2011. However, the overall number of donors and the number of new donors acquired both declined from the previous year, and alumni participation decreased from 22% to 20.3%.



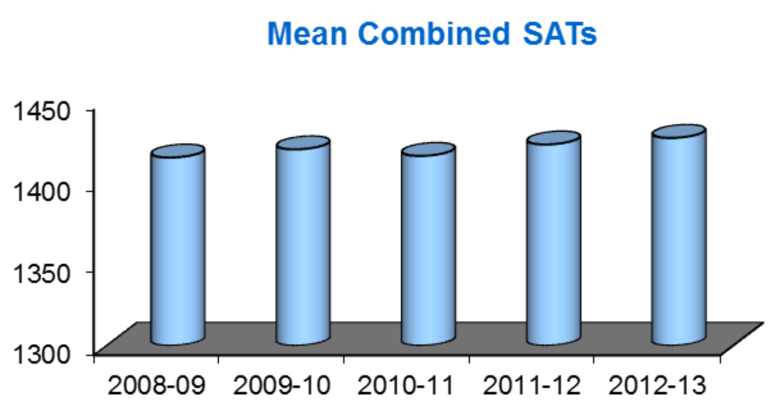
[1] Achievement reflects total gifts credited towards the capital campaign and includes certain pledges which, due to conditions and other terms, have not been recognized in the accompanying financial statements.

STUDENT DEMAND AND QUALITY

The University continues to enjoy strong student demand in 2012-13 with the number of applicants totaling 16,378 and a freshman enrollment of 1,310. Tufts experienced strong and improved 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 as measured by SAT scores continues to be excellent. Mean combined scholastic aptitude test (SAT) scores of Tufts' entering classes reflect a trend of continuing student quality and mirror highly selective institutions.

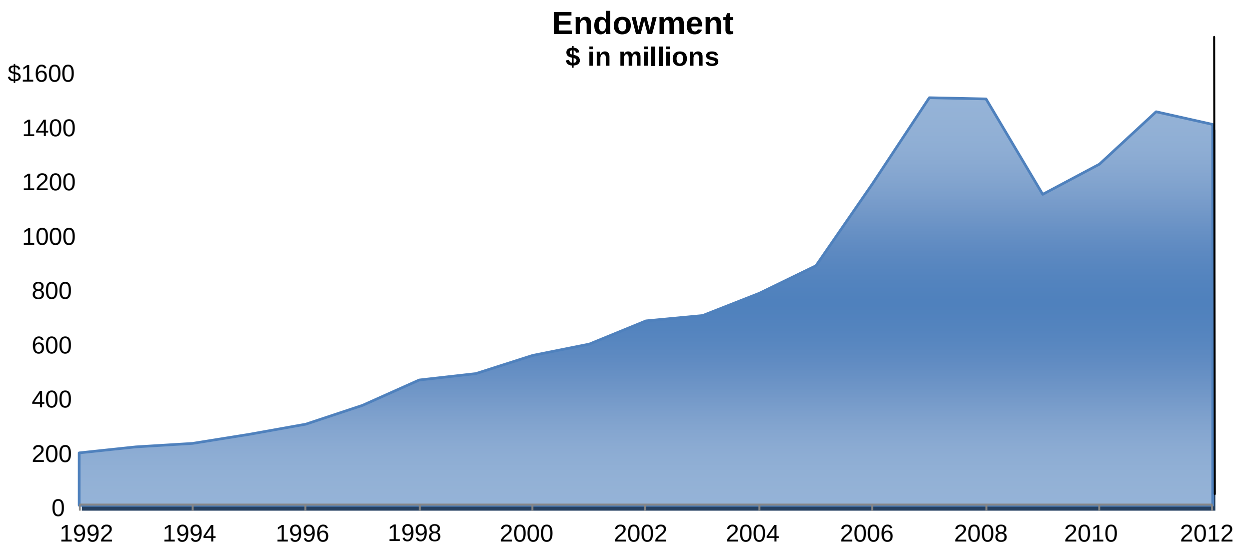


TUFTS UNIVERSITY
2012 ENDOWMENT AND INVESTMENT REPORT

TUFTS ENDOWMENT

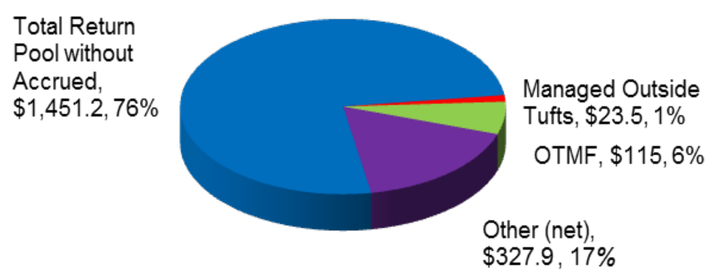
Over the twelve months ended June 30, 2012, highly uncertain global economic conditions were a challenge for financial markets: questions around global growth, and particularly growth in the emerging markets, the survival of the Euro and fiscal conditions in the US led to what is now being called a "risk-on/risk-off" environment. The University's long term objective is to take advantage of global growth while endeavoring to safeguard assets; in FY 2012 our exposure to global growth impacted portfolio results.

As of June 30, 2012, the University's long term investments and related accounts totaled $1.92 billion. The majority of these assets belong to endowment funds established by individual donors, with each fund supporting a specific purpose within each of the University's schools, totaling just under $1.39 billion. The remainder are funds earmarked for operating and capital purposes.



The assets in these funds are invested in a variety of instruments including life income trusts, separately managed accounts, and the Omidyar Tufts Microfinance Fund, OTMF. In keeping with its charter, OTMF has placed funds mainly in the private equity of financial institutions in emerging markets, where per capita annual income is lower than in more developed economies. This pool is more concentrated and more exposed to foreign currency than the larger, more diversified pool of endowment and operating assets and will therefore be more volatile. This fund has produced a five year annualized return of 3.41%.

By far the largest investment is a diversified pool known within the University as the Total Return Pool, or TRP. This pool is managed for total return rather than current income and is the source of the cash for the spending distribution that supports the University's purposes each year. The investment and performance discussion that follows applies to this Total Return Pool.



INVESTMENT OBJECTIVES AND STRATEGY

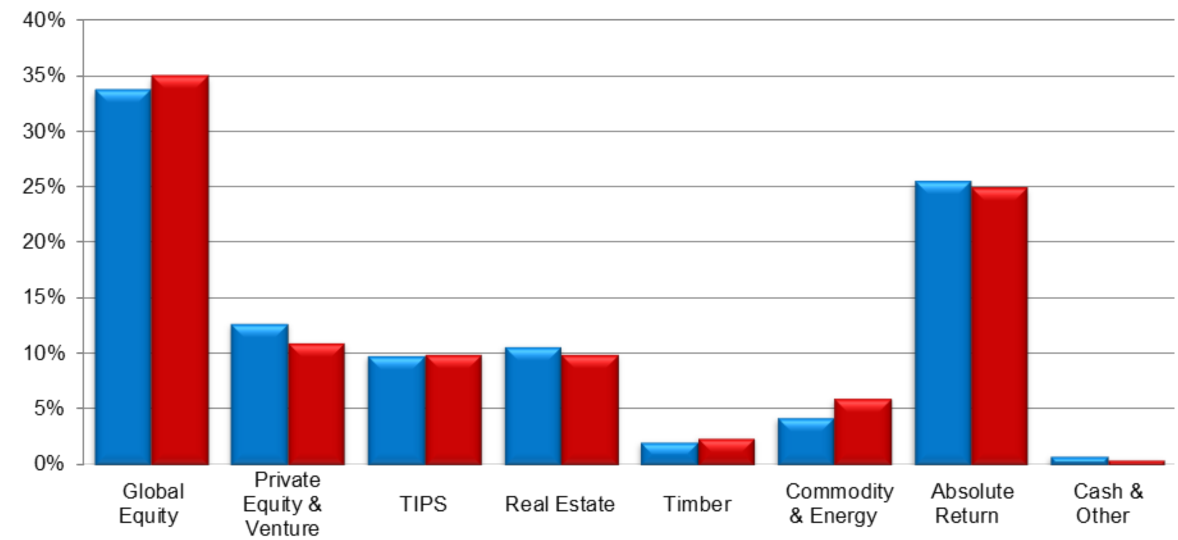
Chief among endowment and investment goals is to provide intergenerational equity, meaning that future generations of students will enjoy the same level of support as the current generation. To achieve this, the endowment must maintain its purchasing power by earning a long term return that covers current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

The Board of Trustees has established investment objectives for the endowment. Approximately five percent of the value of the endowment is spent annually to support donors' purposes. The Board adds an estimate of inflation to this spending rate, currently around three percent, to bring the current target rate of return to eight percent. In constructing the portfolio the Investment Committee seeks to earn this rate of return over the long term, using as inputs expected asset returns over a minimum of ten years.

These are long term objectives, and are unlikely to change substantially from year to year, or even decade to decade. However the Board of Trustees, Investment Committee, and investment staff, regularly review portfolio strategy in light of changing market conditions, as well as the University's changing needs and evolving risk tolerance. As a strong and well managed institution that typically "runs lean", the University's risk tolerance is moderate compared to many institutions, so it may be misleading to compare absolute returns without taking the risk component into account.

Asset Allocation

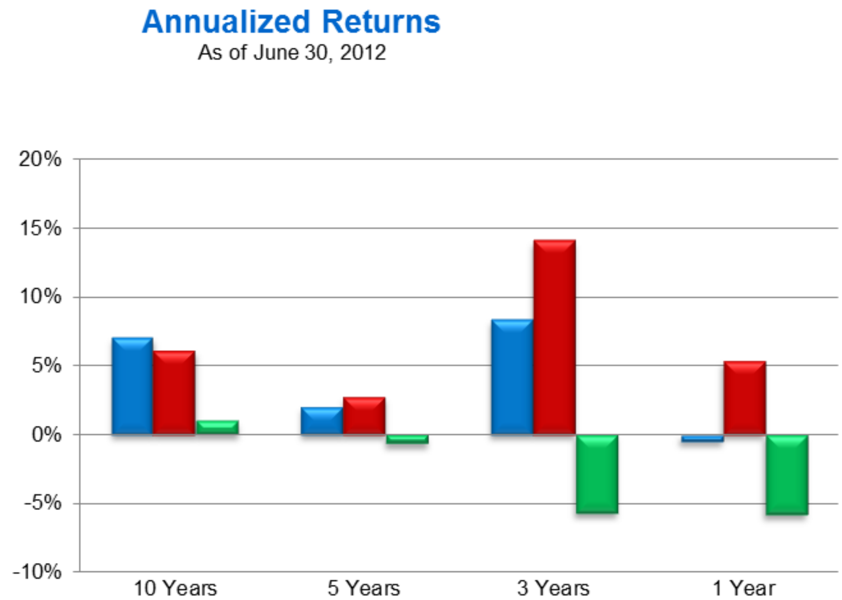
Each year the Investment Committee establishes a policy portfolio comprised of assets that respond differently to various economic conditions. This policy portfolio measures what performance would be if the Total Return Portfolio were invested in the market index for each asset class. There have been no major changes to the asset allocation in fiscal year 2012 compared to prior fiscal years; the portfolio of private assets continues to develop.



	Global Equity	Private Equity & Venture	TIPS	Real Estate	Timber	Commodity & Energy	Absolute Return	Cash & Other
6/30/2012	33.8%	12.8%	9.9%	10.7%	2.1%	4.3%	25.6%	0.8%
Target	35.0%	11.0%	10.0%	10.0%	2.5%	6.0%	25.0%	0.5%

Performance

During fiscal 2012, the Tufts policy portfolio, the benchmark against which the actual Total Return Pool portfolio is measured, earned a return of -0.50%; the return for a naïve portfolio of 70% U.S. stocks and 30% bonds was 5.34%. In a year when the U.S. stock market provided a return of 3.84% vs. a return to a global portfolio of stocks of -6.49%, it is not surprising that a diversified portfolio's return would be lower. As noted above, the Tufts portfolio is designed to take advantage of long term global growth, which lagged in the twelve months ended June 30, 2012.



	10 Years	5 Years	3 Years	1 Year
Tufts Policy	7.05%	2.01%	8.35%	-0.50%
70% Russell 3000/30%Barclays AGG	6.08%	2.71%	14.08%	5.34%
Value Added from Asset Allocation	0.97%	-0.70%	-5.73%	-5.84%

The actual portfolio returned -0.26% for the fiscal year, net of all costs. Over 70% of the assets in the portfolio outperformed their benchmarks on an asset class basis. The underperforming classes were in private assets where we continue to build our portfolios.

	10 Years	5 Years	3 Years	1 Year
Tufts Actual	5.83%	-0.20%	9.76%	-0.26%
Tufts Policy	7.05%	2.01%	8.35%	-0.50%
Value Added	-1.22%	-2.21%	1.41%	0.24%

As expected the portfolio held up well in a challenging environment. Endowments are managed to a perpetual time horizon and no single year will determine the future of the institution. The Investment Committee remains focused on its mission to provide the best possible long term stewardship of the assets entrusted to the University.

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Report of Independent Auditors

To the Board of Trustees of Tufts University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Tufts University and its Subsidiaries (the "University") at June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements, and in our report dated November 4, 2011, 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.

PricewaterhouseCoopers LLP

November 2, 2012

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND JUNE 30, 2011 (in thousands)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 72,463	$ 84,589
Receivables and other assets, net	34,267	31,385
Receivables for investments purchased, net	3,239	-
Contributions receivable, net	47,422	58,152
Student loans receivable, net	52,847	53,536
Funds held under bond agreements	-	1,495
Investments	1,917,593	1,783,170
Land, buildings, and equipment, net	773,585	721,413
TOTAL ASSETS	$ 2,901,416	$ 2,733,740
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 144,017	$ 123,736
Payable for investments purchased, net	-	19,930
Deferred revenue and deposits	57,690	64,383
Bonds and notes payable	646,805	409,647
Interest rate agreements	76,971	39,336
Government advances for student loans	27,104	27,270
Total liabilities	952,587	684,302
NET ASSETS:		
Unrestricted	1,019,940	1,089,468
Temporarily restricted	404,007	442,352
Permanently restricted	524,882	517,618
Total net assets	1,948,829	2,049,438
TOTAL LIABILITIES AND NET ASSETS	$ 2,901,416	$ 2,733,740

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2011 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
OPERATIONS:					
REVENUE:					
Tuition and fees	$ 408,543	$ -	$ -	$ 408,543	$ 390,737
Less scholarships and fellowships	(107,173)	-	-	(107,173)	(102,206)
Tuition and fees, net	301,370	-	-	301,370	288,531
Government grants and contracts	137,961	-	-	137,961	142,796
Clinical and other educational activities	115,361	-	-	115,361	104,614
Auxiliary enterprises	49,849	-	-	49,849	50,835
Contributions and grants	42,982	12,083	-	55,065	56,514
Investment return utilized	75,047	4,344	-	79,391	71,886
Net assets released from restrictions	20,714	(20,714)	-	-	-
Total revenue	743,284	(4,287)	-	738,997	715,176
EXPENSES:					
Salaries and wages	350,592	-	-	350,592	329,051
Benefits	80,066	-	-	80,066	74,978
Materials, supplies and other	111,017	-	-	111,017	105,519
Purchased services	62,830	-	-	62,830	52,517
Facility and maintenance costs	50,489	-	-	50,489	49,345
Depreciation	38,248	-	-	38,248	40,377
Interest	21,175	-	-	21,175	18,408
Travel	14,231	-	-	14,231	13,254
Total expenses	728,648	-	-	728,648	683,449
INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES	14,636	(4,287)	-	10,349	31,727
NONOPERATING ACTIVITIES:					
Investment return (utilized) reinvested	(48,555)	(34,436)	(197)	(83,188)	185,073
Contributions and grants	5,103	1,732	7,461	14,296	32,956
Net assets released from restrictions for capital and other nonoperating purposes	1,354	(1,354)	-	-	-
Net unrealized (loss) gain on interest rate agreements	(37,635)	-	-	(37,635)	11,726
Change in funded status of postretirement health care plan	(3,145)	-	-	(3,145)	781
Other nonoperating activities	(1,286)	-	-	(1,286)	(602)
(DECREASE) INCREASE IN NET ASSETS FROM NONOPERATING ACTIVITIES	(84,164)	(34,058)	7,264	(110,958)	229,934
(DECREASE) INCREASE IN NET ASSETS	(69,528)	(38,345)	7,264	(100,609)	261,661
NET ASSETS—Beginning of year	1,089,468	442,352	517,618	2,049,438	1,787,777
NET ASSETS—End of year	$ 1,019,940	$ 404,007	$ 524,882	$ 1,948,829	$ 2,049,438

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, 2012 AND JUNE 30, 2011 (in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total (decrease) increase in net assets	$ (100,609)	$ 261,661
Adjustments to reconcile total (decrease) increase in net assets to net cash and cash equivalents provided by operating activities:		
Net realized and unrealized investment losses (gains)	19,602	(238,327)
Depreciation and amortization	37,384	39,415
Loss on disposal of fixed assets	728	791
Gifts of securities, property and equipment	(2,732)	(6,673)
Settlements on interest rate swap agreements, net	7,549	6,357
Net unrealized loss (gain) on interest rate agreements	37,635	(11,726)
Contributions restricted for long-term investment	(14,897)	(27,277)
Gain on extinguishment of debt	-	(457)
Cash premium received upon issuance of bonds	-	697
Changes in operating assets and liabilities:		
Receivables and other assets, net	(303)	3,355
Contributions receivable, net	10,730	2,633
Accounts payable and accrued expenses	22,492	1,709
Deferred revenue and deposits	(6,693)	1,159
Net cash and cash equivalents provided by operating activities	10,886	33,317
CASH FLOWS FROM INVESTING ACTIVITIES:		
Student loans granted	(6,185)	(6,367)
Student loans repaid	6,874	7,388
Receivable for investments sold, net	(3,239)	-
Payable for investments purchased, net	(19,930)	11,280
Purchases of investments	(922,953)	(823,551)
Proceeds from sale of investments	771,659	763,257
Changes in funds held under bond agreements	1,495	1,694
Additions to land, buildings, and equipment	(93,356)	(49,697)
Net cash and cash equivalents used in investing activities	(265,635)	(95,996)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in government advances for student loans	(166)	729
Proceeds from issuance of bonds and notes	247,442	49,348
Cash paid on interest rate swap agreements, net	(7,549)	(6,357)
Repayments of bonds and notes	(12,001)	(59,345)
Proceeds from contributions restricted for long-term investment	14,897	27,277
Net cash and cash equivalents provided by financing activities	242,623	11,652
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,126)	(51,027)
CASH AND CASH EQUIVALENTS—Beginning of year	84,589	135,616
CASH AND CASH EQUIVALENTS—End of year	$ 72,463	$ 84,589
SUPPLEMENTAL DATA:		
Cash paid for interest, net of amounts capitalized	$ 19,116	$ 20,442
Construction amounts remaining in accounts payable	$ 11,370	$ 13,581
Gifts of securities, property and equipment	$ 2,732	$ 6,673

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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 10,300 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.

The following organizations are included in the consolidated financial statements of the University:

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.

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.

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.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America 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 will 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.

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

Classifications—Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Contributions and investment return for operating activities subject to donor-imposed stipulations 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 factors that approximate the risk and 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 increases or decreases:

- 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;
- 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
- in unrestricted net assets in all other cases.

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

Endowment Spending Policy—The Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. The objective of the policy is to ensure that endowment income available to support operations is stable and predictable, while at the same time increases over time to offset the effects of inflation. Endowment funds receive income distributions equal to the current spending level of all funds in the Total Return Pool. The targeted distribution is 5% of each fund's market value, but may vary with market conditions. The dollar amount is then increased each year by 3-4%. The policy provides for management to adjust the spending rate as necessary if it does not remain within a range of 4.5% to 5.5% of the pool's market value calculated as of December 31 of the previous year. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

*Nonendowment Spending Policy***—**The nonendowment investments in the Total Return Pool consist of operating and capital funds. These long-term funds, while invested in a similar manner as the endowment, are not intended to be held in perpetuity. For these investments, the University has adopted a fixed annual spending rate equivalent to 6% of the market value calculated as of June 30 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. Non-operating includes the release from restrictions of contributions restricted to the acquisition of 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 or amounts used in excess of investment return; endowment contributions, unrealized gains or losses on interest rate agreements; changes in the funded status of the postretirement health care plan; and 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. 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.

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

Land, Buildings, and Equipment—Land, buildings, and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts. Depreciation is provided using the straight-line method over the assets' estimated useful lives, which range from 15 to 60 years for land improvements, 10 to 60 years for buildings, and 7 to 20 years for equipment and furnishings. During fiscal year 2011, the University changed its useful life estimate for certain building components and equipment. This change resulted in a decrease in depreciation expense of approximately $6,800,000 for the year ended June 30, 2011.

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 $47,500,000 and $49,500,000 at June 30, 2012 and 2011, respectively. Contributions are recognized at the date the trusts or annuity agreements are established. Liabilities associated with life income and annuity agreements are recorded at the present value of the estimated future payments to be made to the donors and/or other beneficiaries by the University. The liabilities associated with life income and annuity agreements are adjusted during the term of the life income agreement or annuity for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments. The liabilities are included in accounts payable and accrued expenses and totaled approximately $11,200,000 and $11,800,000 at June 30, 2012 and 2011, respectively.

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—In September 2009, the FASB issued new guidance intended to enhance the current disclosures made for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). This guidance requires disclosures by major category of investment about the attributes of the investments within the scope of the guidance, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments, and the investment strategies of the investees. This new guidance was effective for fiscal years and interim periods ending after December 15, 2009. The University adopted this standard as of June 30, 2011. See Note 6 for the disclosures required by this new guidance.

In addition to the disclosures above, additional disclosures under the fair measurement standard became effective for fiscal years beginning after December 31, 2010. The new guidance requires the activity in the Level 3 rollforward to be reported on a gross, rather than net basis. The University has adopted this guidance as of June 30, 2012. See note 6 for the disclosures required by this new guidance.

Subsequent events—The University has evaluated the impact of subsequent events through November 2, 2012, representing the date the financial statements were issued.

Prior Year Summarized Information—The consolidated statement of activities includes certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated statement of activities for the year ended June 30, 2011, from which the summarized information was derived.

Reclassification—Certain prior year amounts have been reclassified to conform to current year presentation. In 2012, the University changed the presentation of its expenses from a functional to a natural classification, and accordingly, the 2011 expenses were reclassified to a natural classification for comparative purposes.

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, 2012 and 2011 are as follows (in thousands):

	2012	2011
Gross receivables	$ 28,099	$ 27,588
Less allowance for uncollectible amounts	(1,627)	(1,569)
Receivables, net	26,472	26,019
Other assets	7,795	5,366
Total	$ 34,267	$ 31,385

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2012 and 2011, which are recorded at fair value, consisted of the following (in thousands):

	2012	2011
Unconditional promises scheduled to be collected in:		
Less than one year	$ 36,635	$ 38,807
One year to five years	16,431	24,640
More than five years	907	1,724
Gross contributions receivable	53,973	65,171
Less allowance for uncollectible amounts	(5,671)	(5,521)
Less discount to present value	(880)	(1,498)
Total	$ 47,422	$ 58,152

Contributions receivable at June 30, 2012 and 2011 were intended for the following purposes (in thousands):

	2012	2011
Endowment for educational and general purposes	$ 23,404	$ 29,442
Construction and modernization of plant	5,952	8,752
Support of current operations	18,066	19,958
Total	$ 47,422	$ 58,152

5. STUDENT LOANS RECEIVABLE

Student loans receivables at June 30, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Student loans receivable	$ 53,710	$ 54,272
Less allowance for uncollectible amounts	(863)	(736)
Total	$ 52,847	$ 53,536

Loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions. Generally, payment on student loans receivable commences upon graduation and can extend up to 20 years. Interest rates range from 2% to 18%.

The University assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral, and, where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the University reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The University considers the allowance at June 30, 2012 and 2011 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

The University invests in alternative investments, consisting of hedge funds, private equities, real estate, natural resources and commingled public equity funds through various limited partnerships and similar vehicles. Alternative investments utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at fair value or its equivalent as estimated by management using values provided by external investment managers. Hedge funds consist of limited partnership investments in stocks, bonds, commodities, currencies, derivatives and other instruments and often use non-traditional portfolio management techniques including shorting, leveraging, arbitrage and swaps. Commingled public equity funds consist of investments in commingled investment products that invest in long positions of publicly traded equity. Private equity investments consist of long-term private investment securities. Real estate consists of investments in privately held and publicly traded REITs and other privately held entities. Natural resources consist of private investments. Estimates of fair value may differ significantly from values that would have been used had a ready market for the investments existed. The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels.

The following tables present the financial instruments carried at fair value as of June 30, 2012 and 2011, by the fair value hierarchy defined above (in thousands):

Assets as of June 30, 2012:	Quoted Prices in Active Markets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Fair Value	
Investments:								
Equity securities	$	20,666	$	-	$	16,252	$	36,918
Commingled public equity funds		-		337,319		-		337,319
Fixed income securities		380,267		2,043		27,462		409,772
Hedge funds		-		365,815		208,623		574,438
Private equities		-		-		277,208		277,208
Real estate		18,757		16,141		124,070		158,968
Natural resources		-		28,496		64,663		93,159
Other		-		5,399		7,737		13,136
Total Investments	$	419,690	$	755,213	$	726,015	$	1,900,918
Liabilities:								
Interest rate swaps payable	$	-	$	76,971	$	-	$	76,971

Assets as of June 30, 2011:	Quoted Prices in Active Markets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Total Fair Value	
Investments:								
Equity securities	$	20,729	$	-	$	16,187	$	36,916
Commingled public equity funds		-		363,922		-		363,922
Fixed income securities		235,208		1,571		27,856		264,635
Hedge funds		-		381,822		215,472		597,294
Private equities		-		-		225,275		225,275
Real estate		38,658		-		107,430		146,088
Natural resources		-		-		56,955		56,955
Other		-		7,419		6,954		14,373
Total Investments	$	294,595	$	754,734	$	656,129	$	1,705,458
Funds held under bond agreements		1,495		-		-		1,495
Total assets at fair value	$	296,090	$	754,734	$	656,129	$	1,706,953
Liabilities:								
Interest rate swaps payable	$	-	$	39,336	$	-	$	39,336

Excluded from the tables above, but included in total investments at June 30, 2012 and 2011, are cash and cash equivalents amounting to approximately $16,675,000 and $77,712,000, respectively. The value of certain alternative investments represents the ownership interest in the net asset value ("NAV") of the respective partnership. The fair values (NAV) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. These values are agreed to by management of the University. If no public market exists for the investment securities, the fair value is determined by the general partner or management for securities held directly, taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

Interest rate swaps, held for investment purposes, are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2. See Note 8 for interest rate swaps.

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

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

Limited partnership interests with up to one year annual redemption provisions are classified as Level 2; others are classified as Level 3.

Redemption terms for those investments valued at net asset value consist of the following as of June 30, 2012 and 2011 (in thousands):

Redemption Terms as of June 30, 2012	Private Equities	Hedge Funds	Commingled Public Equity Funds	Real Estate	Natural Resources	Total
Within 30 Days, 2-120 days prior written notice	$ -	$ 47,356	$ 296,830	$ -	$ 28,496	$ 372,682
Quarterly, 30-90 days prior written notice	7,602	193,787	40,489	16,141	-	258,019
Semi-Annually, Annually, 30-90 days prior written notice	-	111,234	-	-	-	111,234
1-3 Years, 45-120 days prior written notice	-	221,021	-	-	-	221,021
1-7 Years (no terms)	157,239	-	-	95,456	32,509	285,204
7+ Years (no terms)	33,612	-	-	27,912	32,154	93,678
Total	$ 198,453	$ 573,398	$ 337,319	$ 139,509	$ 93,159	$ 1,341,838
Level 1 securities						419,690
Other investments not subject to redemption						156,065
Total Investments						$ 1,917,593

Redemption Terms as of June 30, 2011	Private Equities	Hedge Funds	Commingled Public Equity Funds	Real Estate	Natural Resources	Total
Within 30 Days, 2-120 days prior written notice	$ -	$ 73,837	$ 325,204	$ -	$ -	$ 399,041
Quarterly, 30-90 days prior written notice	-	231,588	38,718	-	-	270,306
Semi-Annually, Annually, 30-90 days prior written notice	-	92,648	-	-	-	92,648
1-3 Years, 45-120 days prior written notice	-	197,070	-	-	-	197,070
1-7 Years (no terms)	118,362	-	-	79,013	31,132	228,507
7+ Years (no terms)	41,731	-	-	27,059	25,823	94,613
Total	$ 160,093	$ 595,143	$ 363,922	$ 106,072	$ 56,955	$ 1,282,185
Level 1 securities						294,595
Other investments not subject to redemption						206,390
Total Investments						$ 1,783,170

The University had unfunded commitments of approximately $233,580,000 at June 30, 2012 which consisted of approximately $142,230,000 in private equities, $62,160,000 in real estate and $29,190,000 in natural resources, and can be called through 2017.

The following tables include rollforwards of investments classified by the University within Level 3 as of June 30, 2012 and 2011. There were no transfers between Level 2 and Level 3 during 2012.

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Real Estate	Natural Resources	Other	Total Investments
Fair value, July 1, 2011	$ 16,187	$ 27,856	$ 215,472	$ 225,275	$ 107,430	$ 56,955	$ 6,954	$ 656,129
Purchases	-	350	10,000	68,595	23,086	9,005	-	111,036
Sales	-	(179)	(21,923)	(27,812)	(11,014)	(7,282)	-	(68,210)
Unrealized and realized gains (losses), net	65	(565)	5,074	11,150	4,568	5,985	783	27,060
Fair value, June 30, 2012	$ 16,252	$ 27,462	$ 208,623	$ 277,208	$ 124,070	$ 64,663	$7,737	$ 726,015

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Real Estate	Natural Resources	Other	Total Investments
Fair value, July 1, 2010	$ 13,299	$ 27,782	$ 223,634	$ 209,184	$ 77,959	$ 18,677	$ 8,152	$ 578,687
Transfers	-	-	(22,727)	(22,476)	-	22,476	-	(22,727)
Unrealized and realized gains (losses), net	3,041	445	28,044	32,362	8,874	6,129	562	79,457
Net purchases (sales)	(153)	(371)	(13,479)	6,205	20,597	9,673	(1,760)	20,712
Fair value, June 30, 2011	$ 16,187	$ 27,856	$ 215,472	$ 225,275	$ 107,430	$ 56,955	$ 6,954	$ 656,129

The total return on investments for the years ended June 30, 2012 and 2011 is as follows (in thousands):

	2012	2011
Dividends and interest	$ 15,805	$ 18,632
Net realized and unrealized (losses) gains	(19,602)	238,327
Total return on investments	(3,797)	256,959
Investment return utilized	(79,391)	(71,886)
Investment return (utilized) reinvested	$ (83,188)	$ 185,073

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

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Land and land improvements	$ 45,809	$ 43,902
Buildings	1,017,282	985,097
Construction in progress	94,280	54,276
Equipment and furnishings	159,561	151,374
	1,316,932	1,234,649
Less accumulated depreciation	(543,347)	(513,236)
Total	$ 773,585	$ 721,413

Depreciation expense charged to operations was approximately $38,248,000 and $40,377,000 in 2012 and 2011, respectively. Net interest cost capitalized in fiscal 2012 and 2011 was $1,141,000 and $538,000 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 other nonoperating activities on the statement of activities.

8. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Massachusetts Industrial Finance Agency ("MIFA"):		
Series H, fixed rate bonds at 5.50%, due through 2013	$ 1,830	$ 6,095
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 5.26% average rate for 2012, due 2024-2026	25,100	25,100
Series J, fixed rate bonds at 5.50%, due 2012-2018	31,300	31,480
Series M, fixed rate bonds at 5.00-5.50%, due 2014-2028	59,150	59,150
Series N-1, variable rate bonds, 3.30% average rate for 2012, due 2029-2040	84,700	85,200
Series N-2, variable rate bonds, 3.82% average rate for 2012, due 2022-2034	54,200	54,200
Series O, fixed rate bonds at 5.00%-5.38%, due 2012-2038	74,360	77,860
Massachusetts Development Finance Agency ("MDFA"):		
Series P, fixed rate bonds at 3.00%, due 2036	49,835	49,835
United States Department of Education ("DOE"):		
Fixed rate bonds, 3.00-3.625%, paid in 2012	-	2,162
Fixed rate bonds, 3.00%, paid in 2012	-	1,336
Tufts Issue 2012A, taxable fixed rate bond at 5.017%, due 2112	250,000	-
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
Note, rate fixed at 7.19% until maturity in 2016	123	148
Capital Leases—various imputed interest rates, due through 2014	82	94
	639,680	401,660
Net unamortized bond premium	7,125	7,987
Total bonds and notes payable	$ 646,805	$ 409,647

The average rates reflected above for the variable rate bonds are computed based on the variable interest, fees and related swap interest payments. Series P is a long term multi-modal bond (final maturity 2036), the first mode of which is a 5 year put bond with a 3% coupon. The issue has two associated swaps; one fixed to variable and the second variable to fixed. The average rate for fiscal 2012 was 6.29%.

Scheduled aggregate principal repayments on bonds and notes payable at June 30, 2012 are as follows (in thousands):

Fiscal Year Ending	Scheduled Principal Maturities
2013	$ 6,045
2014	5,916
2015	6,595
2016	15,715
2017	7,374
Thereafter	598,035
Total	$ 639,680

Included in the University's debt is $164,000,000 of variable rate demand bonds ("VRDBs"). The University has entered into standby bond purchase agreements with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In the event a bond cannot be remarketed, the bond may be "put" to the standby bond purchase agreements providers, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put during fiscal year 2012, the maximum aggregate scheduled principal repayments under the VRDB-related standby bond purchase agreements would be as follows: $54,666,667 in 2013, $54,666,667 in 2014 and $54,666,666 in 2015.

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 and non-performance risk. The rates were based upon market conditions as of June 30, 2012 and 2011. The estimated fair values at June 30, 2012 and 2011 are approximately $706,956,000 and $425,985,000, respectively.

The University issued $250,000,000 of Tufts University, Taxable Bonds, Series 2012A in March 2012. The University issued the series, which is due April 2112, at par. The University prepaid HUD Construction and consolidated bonds (1968) series E and G, and US Department of Education (DOE) bonds (1979). In fiscal year 2012, the University replaced the three standby bond purchase agreements with substantially similar agreements with other financial institutions.

In February 2011, the University refinanced $50,000,000 of Massachusetts Health and Educational Facilities Authority (MHEFA) Series l, into $49,835,000 of Massachusetts Development Finance Agency Revenue Bonds, Series P. As a result of this refinancing, the University realized a gain of approximately $457,000 in 2011. This was reflected as a non-operating item in the statement of activities in 2011.

Interest Rate Agreements— The University has entered into derivative transactions for the purpose of reducing the impact of fluctuations in interest rates and reducing interest expense. The University has entered into fixed-to-floating and floating-to-fixed interest rate swaps and basis swaps. During fiscal year 2011, the University entered into a reverse swap agreement.

The following summarizes the terms for each of the interest rate swap agreements as of June 30, 2012 and June 30, 2011 (in thousands).

Swap Agreements as of June 30, 2012

Swaps	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Reverse Swap
Debt Hedged	(Series P)	(Series G & N-1)	(Series N-1)	(Series N-1)	(Series N-2)	(Series P)
Notional Amount	$50,500	$39,900	$40,000	$34,000	$54,000	$50,500
Termination Date	February 15, 2036	August 15, 2033	August 15, 2040	August 15, 2036	August 15, 2034	February 16, 2016
Fair Value June 30, 2012	($26,222)	($13,881)	($10,091)	($12,982)	($16,538)	$2,743

Swap Agreements as of June 30, 2011

Swaps	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Reverse Swap
Debt Hedged	(Series P)	(Series G & N-1)	(Series N-1)	(Series N-1)	(Series N-2)	(Series P)
Notional Amount	$50,500	$39,900	$40,000	$34,000	$54,000	$50,500
Termination Date	February 15, 2036	August 15, 2033	August 15, 2040	August 15, 2036	August 15, 2034	February 16, 2016
Fair Value June 30, 2011	($17,130)	($8,497)	($2,613)	($5,577)	($6,723)	$1,204

The University reported the fair value of its interest rate swap agreements in the statement of financial position as a liability of $76,971,000 and $39,336,000 at June 30, 2012 and 2011, respectively. The change in fair market value of approximately $37,635,000 and $11,726,000 for the years ended June 30, 2012 and 2011, respectively, is included in the statement of activities as net unrealized gain or loss on interest rate agreements.

The interest rate swap on Series N-1 for $40,000,000 was amended in November 2009 to change the rate paid by the counterparty to 69% of one month of LIBOR for three years. At the end of the three year period, the rate will revert back to 64.4% of the five year USD-ISDA swap rate.

The estimated market value of the interest rate exchange agreements at June 30, 2012 and June 30, 2011, was computed by an independent advisor and reviewed by the University using the net present value of fixed and floating future cash flows, with floating future cash flows estimated through the use of forward interest rate yield curves adjusted for non-performance risk. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these interest rate exchange transactions are a diversified group of major financial institutions that meet the University's criteria for financial stability and credit worthiness.

9. NET ASSETS

Net assets at June 30, 2012 and 2011 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Endowment	$ 551,843	$ 329,945	$ 504,909	$ 1,386,697	$ 1,445,681
Invested in physical plant	331,364	-	-	331,364	313,490
Operating	106,274	52,524	19	158,817	185,000
Building projects	8,430	21,488	-	29,918	63,966
Student loans	22,029	50	19,954	42,033	41,301
Total	$ 1,019,940	$ 404,007	$ 524,882	$ 1,948,829	$ 2,049,438

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 $148,857,000 and $184,590,000 in 2012 and 2011, respectively. Unrestricted operating includes funds that have been internally designated for use by various schools, departments, and programs throughout the University.

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

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

Changes in endowment net assets for the years ended June 30, 2012 and June 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Endowment net assets, beginning of year	$ 582,345	$ 365,432	$ 497,904	$ 1,445,681	$ 1,252,971
Investment return:					
Investment income	6,883	7,135	-	14,018	17,328
Realized and unrealized gains (losses)	4,391	(8,952)	(1,251)	(5,812)	209,238
Total investment return	11,274	(1,817)	(1,251)	8,206	226,566
Contributions	610	240	7,155	8,005	24,334
Appropriation of endowment assets for expenditure	(38,442)	(41,130)	-	(79,572)	(72,528)
Other changes, net	(3,944)	7,220	1,101	4,377	14,338
Endowment net assets, end of year	$ 551,843	$ 329,945	$ 504,909	$ 1,386,697	$ 1,445,681

Other changes include additions or deductions to the endowment from net transfers resulting from changes in donor restrictions or University designations.

The temporarily restricted endowment funds consist of the following components (in thousands):

	2012	2011
Subject to time restriction	$114,768	$118,631
Restricted for program support	215,177	246,801
Total endowment assets classified as temporarily restricted net assets	$329,945	$365,432

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

	2012	2011
Restricted for scholarship support	$212,053	$205,413
Restricted for faculty support	115,215	110,102
Restricted for program support	177,641	182,389
Total endowment assets classified as permanently restricted net assets	$504,909	$497,904

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were approximately $4,498,000 and $1,430,000 as of June 30, 2012 and 2011, respectively. These deficits resulted from unfavorable market losses.

10. FUNCTIONAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statement of activities by natural classification. Operating expenses by functional category for the years ended June 30, 2012 and 2011 consisted of the following (in thousands):

	2012	2011
Instruction	$ 212,153	$ 198,110
Sponsored programs	147,386	145,090
Clinical and other educational activities	132,397	120,070
Academic and student services	105,219	97,109
Auxiliary enterprises	51,879	50,022
Institutional support	79,614	73,048
Total expenses	$ 728,648	$ 683,449

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

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 $25,500,000 and $24,007,000 in 2012 and 2011, 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 $70,000 and $84,000 in 2012 and 2011, 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 investments and accrued liabilities in the consolidated financial statements and total approximately $8,538,000 and $7,698,000 in 2012 and 2011, 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 $3,900 and $3,900 in 2012 and 2011, respectively. The investment assets and related liabilities of these plans, which total approximately $5,135,000 and $4,921,000 in 2012 and 2011, respectively, are recorded in investments and accrued liabilities in the consolidated financial statements.

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

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2012 and 2011 are as follows (in thousands):

	2012	2011
Benefit obligation—Beginning of year	$ 30,893	$ 27,617
Service cost	370	75
Interest cost	1,515	1,411
Benefits paid	(3,888)	(3,945)
Participants' contributions	1,846	1,642
Actuarial loss	1,519	4,093
Benefit obligation—end of year	$ 32,255	$ 30,893

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, 2012 and 2011 are as follows (in thousands):

	2012	2011
Fair value of plan assets—beginning of year	$ 30,895	$ 26,836
Actual return on plan assets	(65)	6,125
Additional employer contributions to VEBA	324	235
Employer contributions for key employees	22	2
Plan participant contributions	1,846	1,642
Benefits paid	(3,888)	(3,945)
Fair value of plan assets—end of year	$ 29,134	$ 30,895
Funded Status	$ (3,121)	$ 2

Amounts recognized in the Statement of Financial Position (in thousands):

	2012	2011
Receivables and other assets, net	$ -	$ 2
Accounts payable and accrued expenses	(3,121)	-
Net amount recognized in the statement of financial position	$ (3,121)	$ 2

Amounts not yet reflected in net periodic benefit cost and included in unrestricted net sssets (in thousands):

	2012	2011
Unamortized net transition obligation	$ 813	$ 1,629
Unamortized actuarial loss	4,805	844
Change to unrestricted net assets	$ 5,618	$ 2,473

Amounts expected to be recognized in net periodic cost in the following year (in thousands):

	2012
Amortization of transition obligation	$ 813
Amortization of actuarial loss	170
Amounts to be recognized in the following year	$ 983

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

	2012	2011
Service Cost	$ 370	$ 75
Interest Cost	1,515	1,411
Expected return on plan assets	(2,377)	(2,067)
Amortization of net obligation at transition	816	816
Net periodic benefit cost	$ 324	$ 235

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

	2012	2011
Net gain	$ 3,961	$ 35
Amortization of transition (obligation)	(816)	(816)
Total changes recognized in unrestricted net assets	$ 3,145	$ (781)
Total changes recognized in net periodic cost and in nonoperating activities	$ 3,469	$ (546)

Additional Disclosure Information on Assets and Cash Flows

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

	2012	2011
Discount rate at end of year	3.60%	5.10%

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

	2012	2011
Discount rate at beginning of year	5.10%	5.30%
Expected return on plan assets during year	8.00%	8.00%

Health Care Cost Trend Rate	Fiscal Year Ending	2012	2011
	2012	7.50%	6.50%
	2013	6.50%	6.00%
	2014	5.50%	5.50%
	2015 +	4.50%	6.00%

Impact of 1% increase in health care cost trend on		
Interest cost plus service cost during past year	$	190,000
Accumulated postretirement benefit obligation	$	3,302,000
Impact of 1% decrease in health care cost trend on		
Interest cost plus service cost during past year	$	(166,000)
Accumulated postretirement benefit obligation	$	(2,822,000)

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

	Expected Net Benefit Payments*
Fiscal Year Ending in 2013	2,246
Fiscal Year Ending in 2014	2,317
Fiscal Year Ending in 2015	2,363
Fiscal Year Ending in 2016	2,382
Fiscal Year Ending in 2017	2,350
Fiscal Year Ending in 2018 through fiscal year ending 2022	10,871

* Excludes expected Medicare Part D subsidy

The estimated University cash contributions for fiscal year 2013 are $264,000.

The expected Medicare retiree drug subsidy to be received in the next ten years is approximately $3,000,000.

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

	2012	2011	Target Allocation
Equity securities	58%	58%	58%
Debt securities	29%	29%	29%
Real estate securities	13%	13%	13%
Total	100%	100%	100%

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

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

Equity securities primarily include mutual fund investments in large-cap and small-cap companies primarily located in the United States. Debt securities include high quality, investment grade and international bond funds. Real estate securities consist of mutual fund investments in domestic and international real estate investment trusts.

The fair values of the University's post-retirement health care plan assets at June 30, 2012 and 2011 by asset category (in thousands):

VEBA Trust Investments at June 30, 2012	Level 1	Level 2	Level 3	Total
Equity securities	$ 16,862	$ -	$ -	$ 16,862
Debt securities	8,240	-	-	8,240
Real estate securities	3,828	-	-	3,828
	$ 28,930	$ -	$ -	$ 28,930

VEBA Trust Investments at June 30, 2011	Level 1	Level 2	Level 3	Total
Equity securities	$ 17,707	$ -	$ -	$ 17,707
Debt securities	8,835	-	-	8,835
Real estate securities	3,953	-	-	3,953
	$ 30,495	$ -	$ -	$ 30,495

At June 30, 2012 and 2011, the plan also held cash and cash equivalents amounting to $202,000 and $400,000.

12. RELATED ORGANIZATIONS

Tufts Shared Services, Inc. ("TSS")—The University and Tufts Medical Center, Inc. ("Medical Center") jointly formed TSS, a not-for-profit service corporation, to provide the organization and facilities for coordinating certain education and health services activities. The administrative board of TSS includes equal representation from the University and the Medical Center. The cost of services provided by TSS to the University for the years ended June 30, 2012 and 2011 were approximately $5,653,000 and $5,332,000, respectively. The University's investment in TSS has been recorded at approximately $7,737,000 and $6,955,000 at June 30, 2012 and 2011 using the equity method of accounting. The accounts of TSS are included in the accompanying consolidated financial statements of the University using the equity method of accounting, in investments and non-operating revenues.

13. CONTINGENCIES AND COMMITMENTS

Outstanding commitments on construction contracts amounted to approximately $22,247,000 at June 30, 2012.

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, 2012, with terms in excess of one year for office space. Expenses associated with operating leases totaled approximately $6,150,000 and $3,917,000 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under operating leases are as follows (in thousands):

Fiscal Year 2013	$ 4,221
Fiscal Year 2014	3,863
Fiscal Year 2015	3,115
Fiscal Year 2016	2,317
Fiscal Year 2017	1,875
Thereafter	5,269
Total	$ 20,660

TUFTS UNIVERSITY

The Board of Trustees of Tufts College

AS OF JUNE 30, 2012

Tufts
UNIVERSITY