

ANNUAL FINANCIAL REPORT OF TUFTS UNIVERSITY

2014

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Tufts
UNIVERSITY

TUFTS UNIVERSITY HIGHLIGHTS

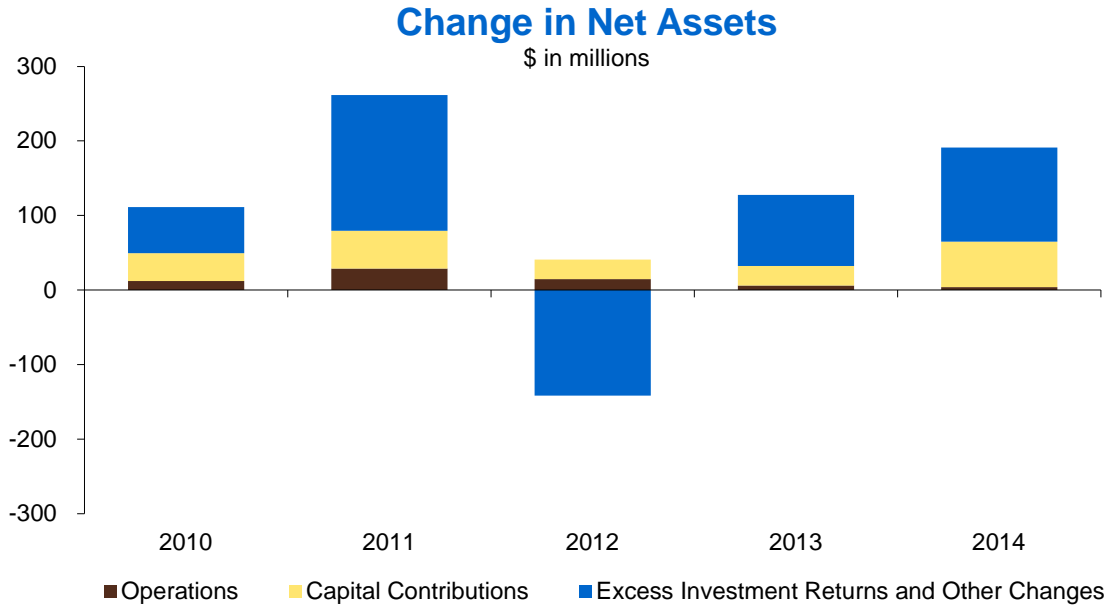
Fiscal years ended June 30, 2014 and 2009 (in thousands)

	2014	2009
FINANCIAL		
Total operating revenue	\$791,591	\$669,309
Total net assets	2,268,010	1,676,491
Land, buildings and equipment, net	833,636	692,502
Investments, net of receivables and payables	2,138,125	1,340,625
Bonds and notes payable	633,460	430,432
CREDIT RATING		
Standard & Poors	AA-	AA-
Moody's	Aa2	Aa2
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	5,131	5,025
Graduate	3,175	2,448
Professional	1,963	1,734
Certificate and other	<u>146</u>	<u>324</u>
Total full-time equivalent enrollment	10,415	9,531
Undergraduate Admission		
Applicants	19,074	15,642
Selectivity	17%	25%
Yield	41%	33%
SAT (mean)	1,434	1,415
Total undergraduate student charges (tuition, room, board, mandatory fees)	\$58,780	\$49,358
PERSONNEL		
Faculty	1,136	998
Staff	<u>2,989</u>	<u>2,805</u>
Total full-time equivalent	4,125	3,803
FACILITIES		
Gross square feet	5,171,757	4,722,742

TUFTS UNIVERSITY

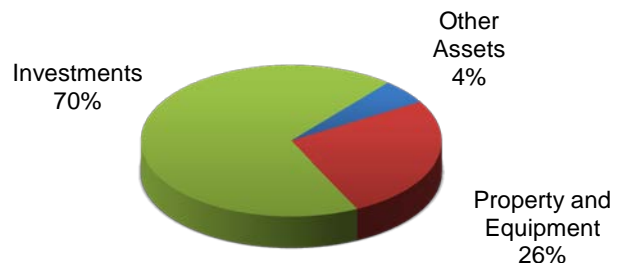
2014 FINANCIAL REPORT

Fiscal year 2014 produced improved financial results with an increase in total net assets of \$191 million. Investment performance accounted for the largest portion of the increase in net assets. The total return pool, which comprises the majority of the University's investments, returned approximately 15% for the fiscal year. Capital contributions also continued to yield favorable results in 2014 as \$91 million was raised in total achievement by the University. Unrestricted operating performance produced an increase in net assets of \$4 million.



ASSETS

Comprised primarily of cash and investments at 70% and property and equipment at 26%, total assets of \$3.2 billion increased by 6.0% during the year with a compound five-year average increase of 6.2%.



Investments

Long-term investment and related accounts ended the year at \$2.1 billion, a \$131 million or 6.5% one-year increase and a five-year compound annual growth rate of 9.8%. Please refer to the next section, [2014 Endowment and Investment Report](#), for additional discussion on the endowment and investments.

Property and Equipment

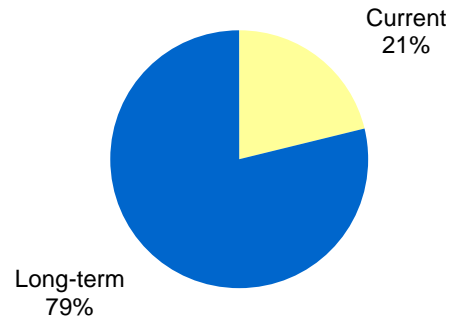
Representing 26% of balance sheet assets, the University's physical plant assets had an \$834 million book value net of depreciation, growing by 4.1% this past year. Total 2014 capital expenditures amount to \$82 million with the completion of the TAB Data Center, updates to Wren and Haskell Residence Halls, Halligan Hall interior renovations, Cohen Auditorium refurbishing, Dewick/McPhie Dining Hall upgrades, the BRPH exterior envelope project and the new Student Information System (SIS). Major projects in progress include the new Science and Engineering Complex and 574 Boston Avenue.

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 of Trustees approved a plan to significantly increase funds available for deferred maintenance. In accordance with the funding plan, the University spent \$30 million in 2014 improving the condition of the physical plant. Funding in 2015 will also be \$30 million. Funding over the next ten years is scheduled to total \$484 million.

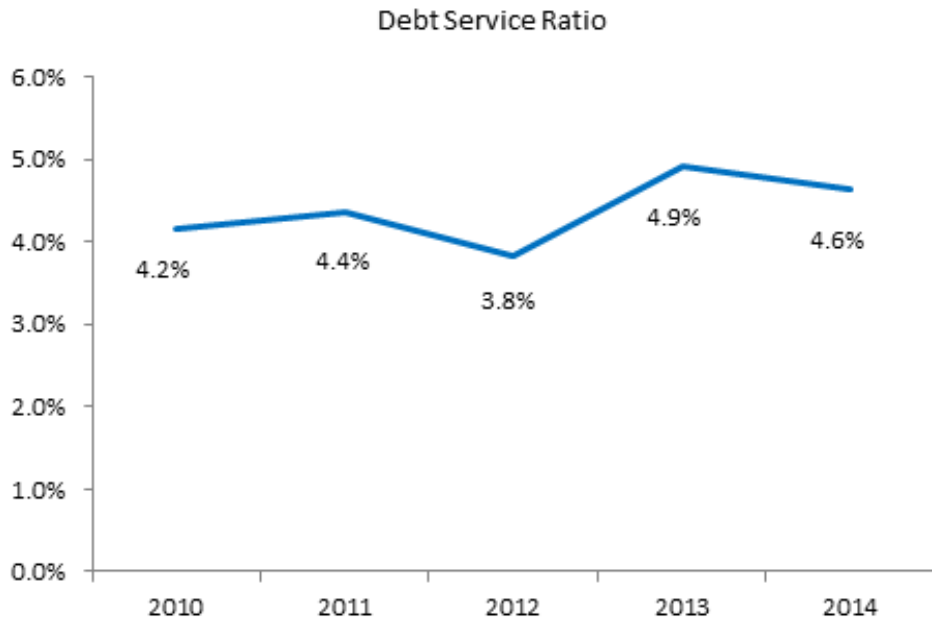
LIABILITIES

Total liabilities reached a level of \$902 million, a year-over-year decrease of \$13 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 \$633.5 million at fiscal year end June 30, 2014. The University issued no new debt during the year. The proceeds of the \$250 million Tufts University Series 2012A taxable bonds issued in fiscal year 2012 and due in April 2012 are being used as planned over five years to fund construction and renovation of classroom, office and research facilities to advance the University’s academic priorities. The University’s overall weighted average cost of capital as of June 30, 2014 was 4.84%. The debt service to operations ratio was 4.6% in fiscal year 2014, in keeping with 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 4.9%, enabling the University to maintain its strong credit ratings while benefiting from a low cost of capital.

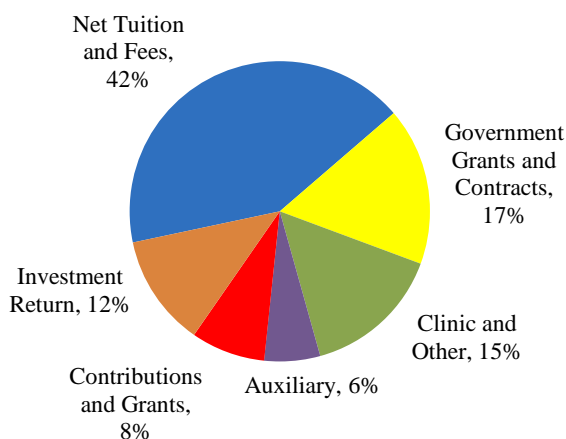


The liability associated with interest rate swap agreements increased from \$51.5 million at June 30, 2013 to \$56.2 million at June 30, 2014. These long term swaps are matched to the University’s variable rate debt to ensure effectively fixed rate debt instruments. The agreements do not have covenants and do not require the University to post collateral.

OPERATING RESULTS

Despite the sluggish U.S economic recovery since the 2008/2009 downturn, the University remains committed to funding its strategic investments. Operations contributed \$4 million to unrestricted net assets in fiscal year 2014 compared to \$6 and \$15 million, respectively, in fiscal year 2013 and 2012. Planned increases in tuition and fee rates and student enrollment plus growth in patient care revenue and investment return utilized funded priority investments in faculty, financial aid, systems and the Tufts Effectiveness in Administrative Management (TEAM) implementations. Operating expenses outpaced revenue growth, posting a 2.7% increase to \$788 million compared with operating revenue growth of 2.4% reaching \$792 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 \$451 million with rate increases the main driver supplemented with expanded enrollment across schools. From the prior year, undergraduate total student charges rose 3.95% and enrollment added 28 students. Also contributing to enrollment growth were 37 extra PhD students in Arts & Sciences, 36 new Physician Assistant degree students and 54 more professional degree students in Medical, Dental and Cummings Schools coupled with rate increases of 2% to 5%.

Financial Aid

Financial aid for all degree programs grew 7.5% to \$122 million in fiscal year 2014 signaling this to be among Tufts' highest priorities. Undergraduate aid grew to \$68 million or 6.9% of which school resources rose 7% and Pell and state aid increased 6.5%. Supporting enrollment growth, aid expanded for Arts & Sciences PhD enrollment increases. The Medical School continued with its plan to increase the number of need-based tuition scholarships to MD students, and an enhanced state appropriation provided additional scholarship funding to Massachusetts DVM enrollees.

Investment Return Utilized

Investment return utilized includes investment income distributed from the Total Return Pool (TRP) per the University's spending policy along with income earned on short-term investments of the University's working capital. Investment income utilized of \$94.3 million grew an overall 1.5% over 2013. Of that amount, endowment income growth of 5.2% was driven by the TRP planned spending increase of 3%, augmented by new Financial Aid Initiative gifts and several activated professorships. Offsetting this growth was a 1.5% decline in investment income utilized due to spending down the century bond proceeds for planned capital needs, lower short-term interest rates and less draws from temporarily restricted net assets accumulated in prior years. As a percentage of total revenues, this strategically important funding source fell from 13.4% in 2008, a high water mark, to 12.0% in 2014.

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, [2014 Endowment and Investment Report](#).

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 of \$182 million remained flat from the prior year. Government grants and contracts comprise 72% of this category, private grants 18%, state appropriation 2% and gifts 8%.

While government grant and contract revenue of \$130.6 million declined for the second year in a row -- 1.1% in fiscal year 2014 and 2.7% in 2013 -- private grants of \$33 million rose 10.4% this past year and 9.3% the year before. In 2014 two areas posted significant declines in government funding, most prominently the Human Nutrition Research Center on Aging, due to federal budget sequestration, and the Clinical and Translational Science Institute (CTSI), experiencing its first start up year of the second 5-year award period. These decreases were offset by significant growth in the Friedman School for its food security research. Private grants saw an increase of \$3.1 million or 10.4%, mainly in Arts Science & Engineering's Child Development and Urban and Environmental Policy departments and the Fletcher School.

The Cummings School's state appropriation rose by \$0.75 million to \$4.0 million. Gifts for current use fell 13.8% from \$16.7 million to \$14.4 million of which Arts Science & Engineering posted the largest decline due to a one-time significant gift in fiscal year 2013.

Clinical and Other Educational Activities

Revenue from clinical and other educational activities totaled \$116 million in fiscal year 2014, growing by 3.1% from fiscal year 2013. The Cummings School's Foster Hospital, Hospital for Large Animals and Tufts VETS again performed well in 2014 with increased case loads and fees per case driving revenue up by \$3 million. Patent and licensing income continued to deteriorate countered by Medical School's foreign fellow placement program revenue.

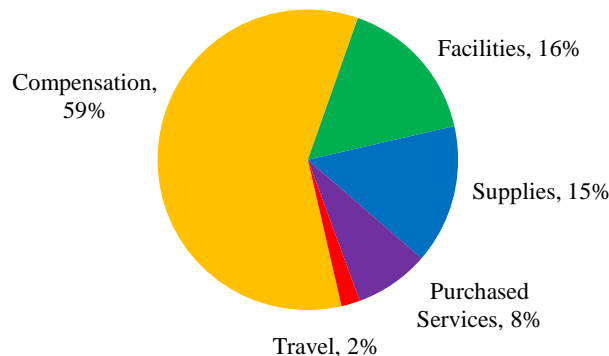
Expenses

Operating expenses increased 2.7% from \$767 million to \$788 million in fiscal year 2014. Compensation, comprising 59% of expenses, rose 1.6% due primarily to a 2.25% annual merit salary increase and planned new faculty hires against a 3.2% decline in benefit expenses.

The University continued its commitment to attract and retain outstanding faculty by providing competitive compensation packages and supporting research and teaching. Faculty salaries increased 3.6%, and much of the growth beyond merit is attributable to new faculty hires in several Arts & Sciences departments, the Medical School's basic science research faculty and new Physician's Assistant program.

Non-compensation expense increased 4.3% from \$317 million to \$331 million in fiscal year 2014. Depreciation on deferred maintenance funded projects including the M&V façade and dining and dormitory improvements, utilities, the variable costs of increased clinical revenue, Tufts Effectiveness in Administrative Management (TEAM) implementation expenses, and student information and research administration systems costs comprised most of the increase.

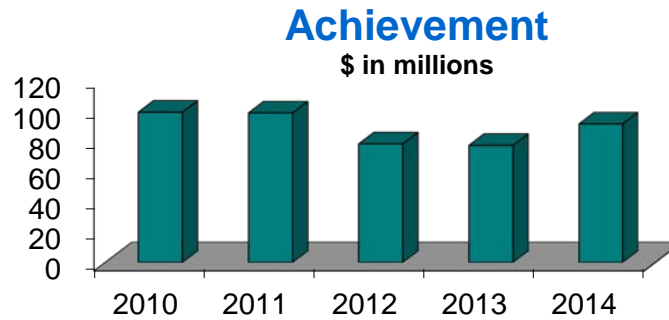
The pie chart displays the major natural classification categories. Over time, the share of expense components remained relatively stable.



ADVANCEMENT

Fiscal year 2014 was the strongest fundraising year for Tufts since 2011, thanks to the generosity of more than 40,000 donors making gifts across the University. Working together, the University leadership, volunteer leadership, and University Advancement division were successful in communicating Tufts' mission in ways that generated enthusiasm and inspired donors' support, enabling Tufts to raise a total of nearly \$91 million in gifts and pledges – an 18% increase over last year.

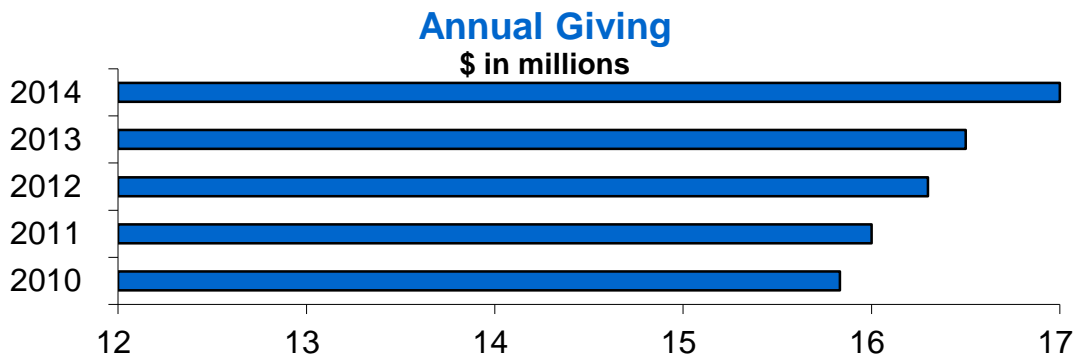
Capital achievement totaled more than \$73 million, which is nearly 20% more than in fiscal year 2013. Of the total raised, one-third was committed to the permanent endowment of the university, largely for student support. In annual giving across the University, achievement totaled more than \$17 million, a 3% increase over last year.



Volunteer leadership continues to set the pace for engagement, with 100% of the Board of Trustees making a commitment to Tufts this year, including 90% giving to the annual fund and nearly 70% giving to both the annual fund and capital projects. Across all schools, participation by members of the Boards of Advisors to the annual fund also increased by 9% in fiscal year 2014.

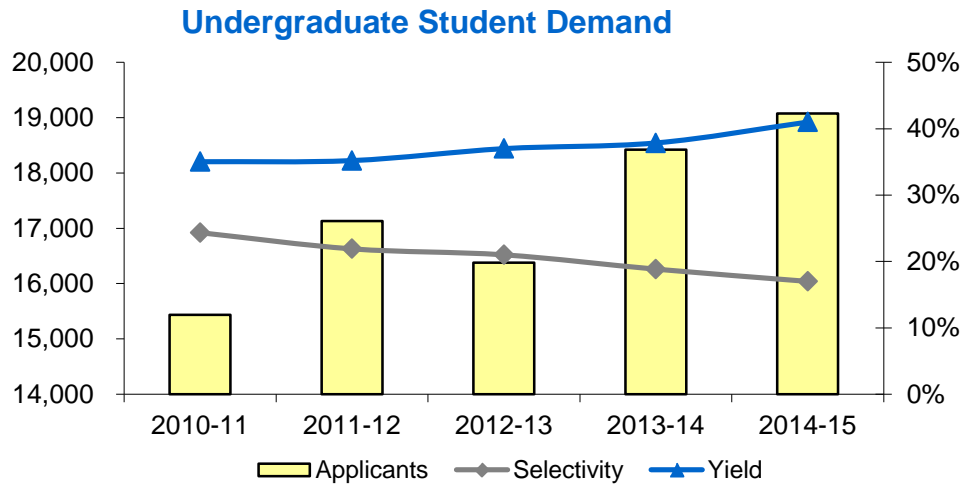
One of the highest priorities in fiscal year 2014 was to ensure the continuing success of the Financial Aid Initiative. This year was the second and anticipated final year of this two-year fundraising challenge with a \$25 million goal for new support of endowed scholarship funds. This initiative has prompted more than \$36 million in new endowed scholarship support over the two-year time frame, including \$23 million in fiscal year 2014. At the Schools of Arts and Sciences, Engineering, and Medicine in particular – where the initiative has been promoted most prominently over the past two years – the numbers of new scholarships established grew by 47% compared to the year prior to the Financial Aid Initiative (fiscal year 2012). Total endowed funds university-wide have also grown by more than 40% in this timeframe. Due to the success of this initiative, the Financial Aid Initiative has been extended for two years (through fiscal year 2016) with a new goal of \$50 million for endowed financial aid funds. All schools will participate and offer matching funds for gifts of \$100,000 or more. The fundraising success in fiscal year 2014 has positioned the University well for the quiet phase of the campaign, which began on July 1, 2014.

Planning for the forthcoming campaign was another high priority throughout fiscal year 2014. The Board of Trustees' Campaign Planning Committee (the Committee) was launched in the spring of 2014, under the leadership of Co-chairs Peter Dolan and Neal Shapiro. The Committee is providing valuable guidance and advice to the President and the Advancement team on important issues including the volunteer leadership structure of the campaign and the recruitment of key leaders, increasing volunteer involvement at all levels, engaging alumni and developing prospects, and shaping campaign themes and messaging. The charge to the Committee also includes recommending the campaign timeline and goal, reviewing and recommending campaign gift policies, and engaging in the nucleus fund solicitation process.

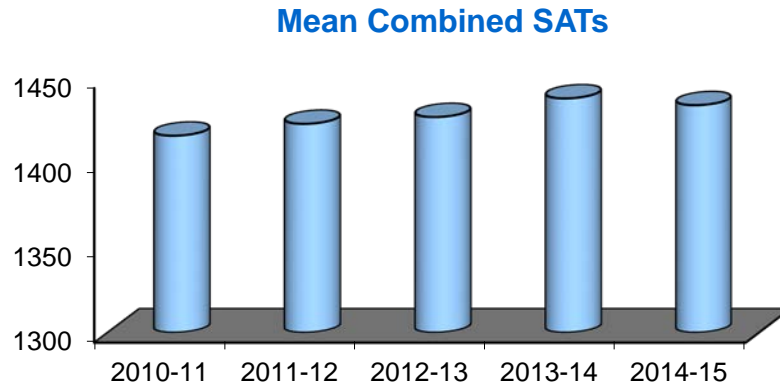


STUDENT DEMAND AND QUALITY

The University continues to enjoy strong student demand in 2014-15 with the number of applicants totaling 19,074 and a freshman enrollment of 1,351. Tufts experienced improvement in the number of applicants who were accepted (selectivity) and of those accepted who matriculated (yield). The graph below shows these 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.

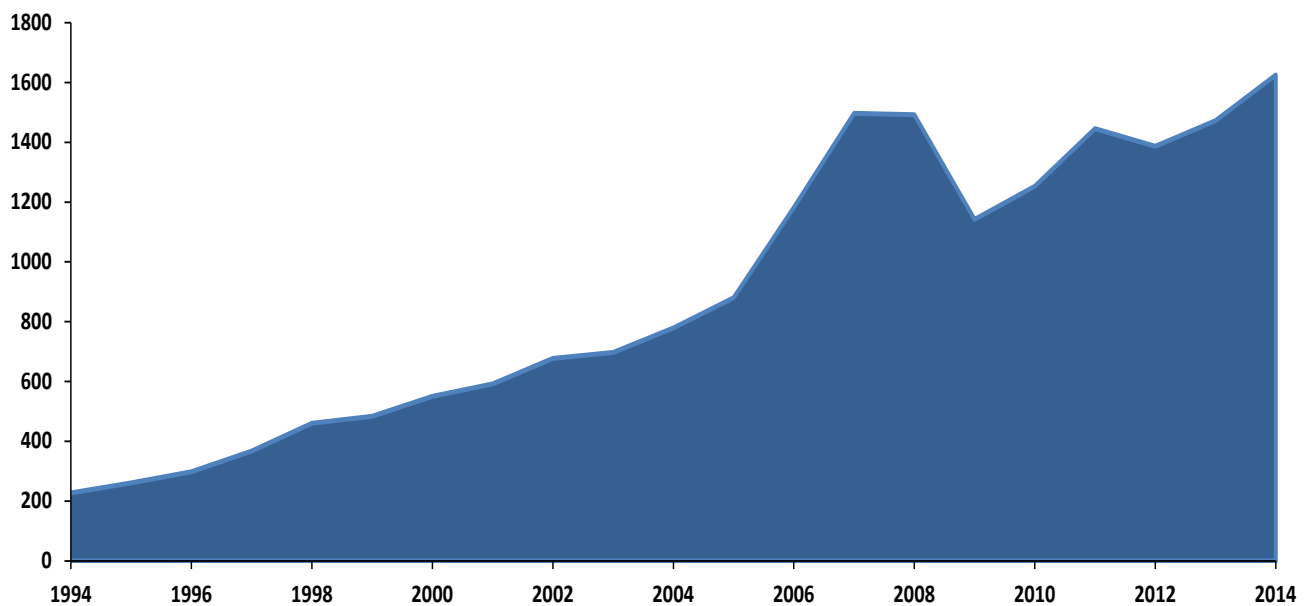


TUFTS UNIVERSITY 2014 ENDOWMENT AND INVESTMENT REPORT

During the twelve months ended June 30, 2014, financial conditions across the world remained highly liquid, with global central banks keeping interest rates low in an effort to boost the continuing recovery from the 2008 global financial crisis. This liquidity has provided a tremendous uplift to the prices of risk assets. However, it has implications for returns in future years, as high levels achieved in the most recent periods are unlikely to be sustained going forward.

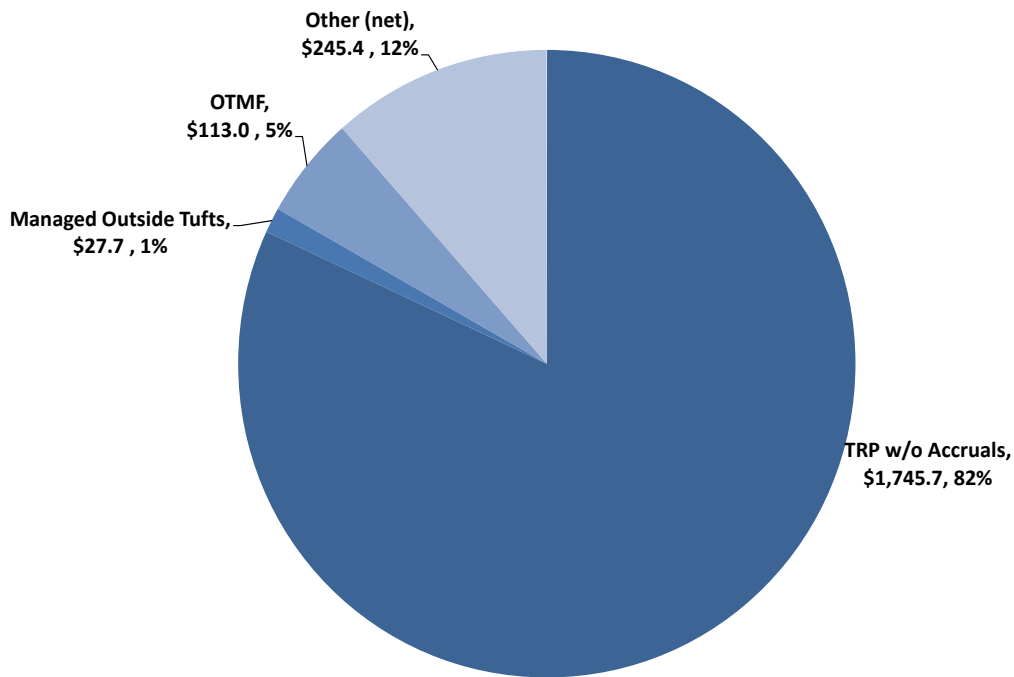
The University's long term investment assets at the end of FY 2014 totaled \$2.1 billion, of which the majority are endowment assets. These assets largely belong to funds established by individual donors, with each fund supporting a specific purpose within each of the University's schools. Endowment value at June 30, 2014 was \$1.6 billion. The remainder are funds earmarked for operating and capital purposes.

Endowment *\$ in millions*



The assets in the funds are invested in a variety of instruments including life income trusts, separately managed accounts, and the Omidyar Tufts Microfinance Fund. This fund's charter is to invest exclusively in microfinance institutions in developing countries, and its 0.55% five year compound annual return represents strong performance in the face of currency and growth challenges in its markets and sector. Estimates are that the number of individuals positively impacted by the financing provided through this fund exceeds 1 billion people.

\$2,131.8 million as of June 30, 2014



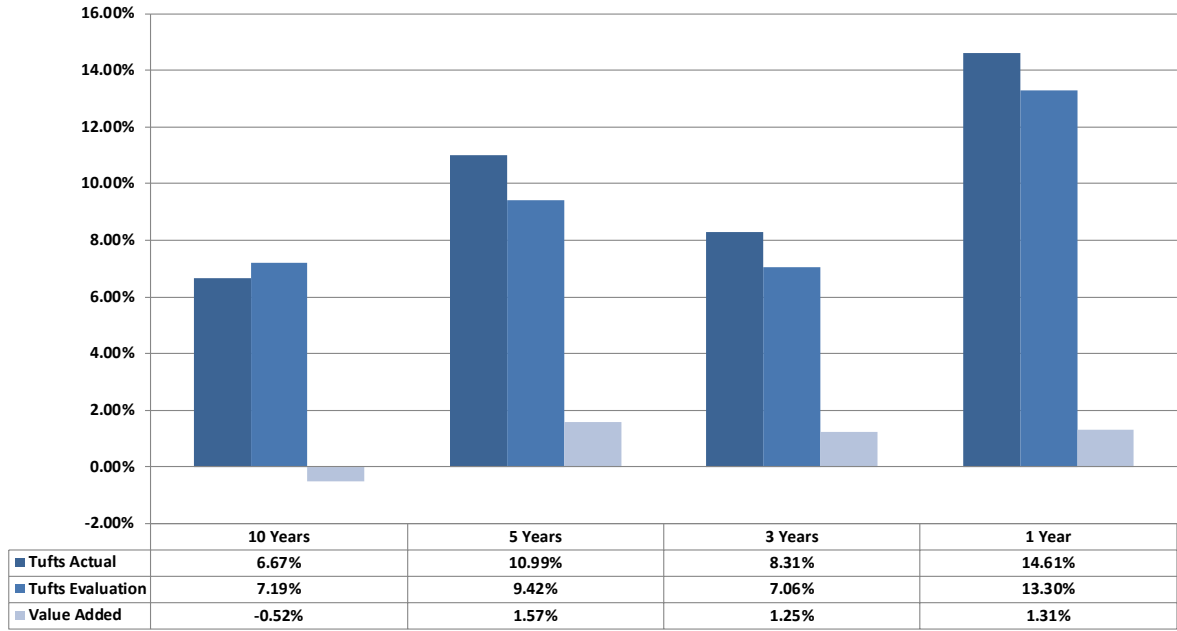
Investment Objectives and Strategy

The largest proportion of the long term investment assets is invested in the Total Return Pool, or TRP. Assets in the pool at June 30 2014 were just over \$1.7 billion, of which \$1.4 billion belonged to the endowment and the balance to long term investments. The investment objective of this pool is to achieve a long term rate of return that provides both current support to the purposes specified by donors, as well as keep up with inflation to insure a steady level of support (“intergenerational equity”) in the future. The risk profile of the TRP is lower than many peer schools given the unique challenges faced by Tufts. Each year the Investment Subcommittee of the Board of Trustees reviews the strategy in light of Tufts’ investment objectives and constraints, to insure that the future returns of the portfolio can be expected to meet the target rate of return, currently 8%. This target is intended to cover annual spending, running at approximately 5%, and inflation estimated over the long term at 3%. The Investment Subcommittee’s process gives rise to two benchmarks against which performance is measured. The first is a broad market benchmark of 70% global equity and 30% US bonds. The second is a diversified benchmark that includes most of the asset types in which the portfolio invests. The performance difference between these two benchmarks in the last year has been substantial, because global stock markets have outperformed most other assets by wide margins.

Performance

The dollar value of the assets in the Total Return Pool now exceeds previous highs reached prior to the global financial crisis, and the compounded three year return is just at the 8% target. As noted above, the 70/30 benchmark produced a return of 17.2% for the year vs. 13.3% for the diversified Evaluation Benchmark, with equity returns outpacing all other asset classes. The actively managed portfolio added 128 basis points of value, bringing the total net return for the year to 14.6%.

Annualized Returns (Net of Fees) period ending June 30, 2014



The strong returns of the last several years have pushed global stock markets to elevated value levels. As the likelihood increases of higher US interest rates, the values of income generating investments will also be challenged. While the risks in the current environment seem significant, success in achieving Tufts' investment objectives will be attained by maintaining a diversified strategy suitable to the University's perpetual investment horizon.



Independent Auditor's Report

To the Board of Trustees of Tufts University

We have audited the accompanying consolidated financial statements of Tufts University and its subsidiaries (the "University"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University and its subsidiaries at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have previously audited the University's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

November 7, 2014

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TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF JUNE 30, 2014 AND JUNE 30, 2013 (in thousands)

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 76,201	\$ 64,195
Receivables and other assets, net	36,867	33,955
Receivables for investments purchased, net	6,360	2,469
Contributions receivable, net	33,708	36,518
Student loans receivable, net	51,632	51,968
Investments	2,131,765	2,001,211
Land, buildings, and equipment, net	<u>833,636</u>	<u>801,091</u>
TOTAL ASSETS	<u><u>\$ 3,170,169</u></u>	<u><u>\$ 2,991,407</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 135,837	\$ 138,651
Deferred revenue and deposits	49,258	57,219
Bonds and notes payable	633,460	639,958
Interest rate agreements	56,249	51,509
Government advances for student loans	<u>27,355</u>	<u>27,419</u>
Total liabilities	<u>902,159</u>	<u>914,756</u>
NET ASSETS:		
Unrestricted	1,202,485	1,112,194
Temporarily restricted	496,780	426,847
Permanently restricted	<u>568,745</u>	<u>537,610</u>
Total net assets	<u>2,268,010</u>	<u>2,076,651</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,170,169</u></u>	<u><u>\$ 2,991,407</u></u>

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2013 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
OPERATIONS:					
REVENUE:					
Tuition and fees	\$ 450,951	\$ -	\$ -	\$ 450,951	\$ 431,044
Less scholarships and fellowships	(121,999)	-	-	(121,999)	(113,458)
Tuition and fees, net	328,952	-	-	328,952	317,586
Government grants and contracts	134,622	-	-	134,622	135,334
Clinical and other educational activities	116,070	-	-	116,070	112,582
Auxiliary enterprises	54,222	-	-	54,222	52,371
Contributions and grants	47,280	12,599	-	59,879	58,126
Investment return utilized	88,354	5,980	-	94,334	92,947
Net assets released from restrictions	22,091	(22,091)	-	-	-
Total revenue	791,591	(3,512)	-	788,079	768,946
EXPENSES:					
Salaries and wages	373,635	-	-	373,635	363,832
Benefits	83,119	-	-	83,119	85,889
Materials, supplies and other	122,758	-	-	122,758	114,008
Purchased services	67,353	-	-	67,353	65,955
Facility and maintenance costs	48,724	-	-	48,724	49,583
Depreciation	46,335	-	-	46,335	42,961
Interest	28,028	-	-	28,028	29,922
Travel	17,822	-	-	17,822	14,983
Total expenses	787,774	-	-	787,774	767,133
INCREASE (DECREASE) IN NET ASSETS FROM OPERATING ACTIVITIES	3,817	(3,512)	-	305	1,813
NONOPERATING ACTIVITIES:					
Investment return reinvested, net of utilized	69,631	71,079	2,983	143,693	85,198
Contributions and grants	11,980	8,418	28,152	48,550	14,456
Net assets released from restrictions for capital and other nonoperating purposes	6,052	(6,052)	-	-	-
Net unrealized gain (loss) on interest rate agreements	(4,740)	-	-	(4,740)	25,462
Change in funded status of postretirement health care plan	1,361	-	-	1,361	1,181
Other nonoperating activities	2,190	-	-	2,190	(288)
INCREASE IN NET ASSETS FROM NONOPERATING ACTIVITIES	86,474	73,445	31,135	191,054	126,009
INCREASE IN NET ASSETS	90,291	69,933	31,135	191,359	127,822
NET ASSETS—Beginning of year	1,112,194	426,847	537,610	2,076,651	1,948,829
NET ASSETS—End of year	\$ 1,202,485	\$ 496,780	\$ 568,745	\$ 2,268,010	\$ 2,076,651

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2014 AND JUNE 30, 2013 (in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase in net assets	\$ 191,359	\$ 127,822
Adjustments to reconcile total increase in net assets to net cash and cash equivalents used in operating activities:		
Net realized and unrealized investment gains	(216,560)	(160,700)
Depreciation and amortization	45,536	42,134
Loss on disposal of fixed assets	156	2,631
Gifts of securities, property and equipment	(9,374)	(2,798)
Proceeds from sales of donated securities	3,052	2,254
Settlements on interest rate swap agreements	7,016	7,697
Net unrealized loss (gain) on interest rate agreements	4,740	(25,462)
Contributions restricted for long-term investment	(27,915)	(17,160)
Changes in operating assets and liabilities:		
Receivables and other assets	(2,912)	312
Contributions receivable	2,810	10,904
Accounts payable and accrued expenses	1,852	(10,491)
Deferred revenue and deposits	(7,961)	(471)
Net cash and cash equivalents used in operating activities	<u>(8,201)</u>	<u>(23,328)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Student loans granted	(6,238)	(6,076)
Student loans repaid	6,574	6,955
Change in receivable for investments sold	(3,891)	770
Purchases of investments	(853,611)	(983,617)
Proceeds from sale of investments	939,617	1,060,699
Additions to land, buildings, and equipment	(81,863)	(67,890)
Net cash and cash equivalents provided by investing activities	<u>588</u>	<u>10,841</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in government advances for student loans	(64)	315
Proceeds from issuance of bonds and notes	23	7,026
Cash paid on interest rate swap agreements	(7,016)	(7,697)
Repayments of bonds and notes	(5,722)	(13,048)
Proceeds from contributions restricted for long-term investment	27,915	17,160
Proceeds from sales of donated securities restricted for long-term purposes	4,483	463
Net cash and cash equivalents provided by financing activities	<u>19,619</u>	<u>4,219</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,006	(8,268)
CASH AND CASH EQUIVALENTS—Beginning of year	64,195	72,463
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 76,201</u>	<u>\$ 64,195</u>
SUPPLEMENTAL DATA:		
Cash paid for interest, net of amounts capitalized	<u>\$ 30,848</u>	<u>\$ 31,685</u>
Construction amounts remaining in accounts payable	<u>\$ 11,829</u>	<u>\$ 16,495</u>
Gifts of securities, property and equipment	<u>\$ 9,374</u>	<u>\$ 2,798</u>

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

TUFTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

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 10,400 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.

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.

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.

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.

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.

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 \$55,600,000 and \$51,100,000 at June 30, 2014 and 2013, respectively. Contributions are recognized at the date the trusts or annuity agreements are established. The primary unobservable input used in the fair value measurement of the charitable remainder trust and life income and annuity assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a material change in fair value. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the trust. Significant fluctuation in the market value of these underlying securities could result in a material change in fair value. 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 \$11,400,000 and \$11,700,000 at June 30, 2014 and 2013, 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— Effective July 1, 2012, the University adopted ASU 2011-4, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-4 aids entities in measuring fair value, as well as provides guidelines for additional quantitative and qualitative disclosures for instruments categorized within Level 3 of the FASB’s fair value hierarchy. The effects of adopting this amendment are addressed in the University’s Investments and Fair Value Measurements note.

Effective July 1, 2013, the University adopted ASU 2012-05, *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 defines the appropriate financial reporting for the proceeds from donated securities in the *Statements of Cash Flows*. Proceeds from donated securities with no donor-imposed restrictions are to be included in the operating section of the statement, while proceeds from donated securities with donor-imposed long-term restrictions should be included in the financing section. The effects of adopting this amendment are addressed within the *Statements of Cash Flows* for both 2014 and 2013.

Reclassification—A reclassification was made in the *Statements of Cash Flows* related to proceeds from donated securities in conjunction with the adoption of ASU 2012-05. This resulted in the movement of “Proceeds from the sales of donated securities” from “Investing Activities” to “Operating Activities” and “Financing Activities” based upon whether they were deemed to be sales of securities restricted for long-term purposes or for current use.

Subsequent events—The University has evaluated the impact of subsequent events through November 7, 2014, 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, 2013, 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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Gross receivables	\$ 32,014	\$ 27,113
Less allowance for uncollectible amounts	<u>(2,246)</u>	<u>(1,547)</u>
Receivables, net	29,768	25,566
Other assets	<u>7,099</u>	<u>8,389</u>
Total	<u>\$ 36,867</u>	<u>\$ 33,955</u>

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2014 and 2013, which are recorded at fair value, consisted of the following (in thousands):

	2014	2013
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 23,191	\$ 26,684
One year to five years	13,787	14,934
More than five years	<u>1,617</u>	<u>1,189</u>
Gross contributions receivable	38,595	42,807
Less allowance for uncollectible amounts	(4,136)	(5,503)
Less discount to present value	<u>(751)</u>	<u>(786)</u>
Total	<u>\$ 33,708</u>	<u>\$ 36,518</u>

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be collected is adjusted, and some pledges have been cancelled and are no longer recorded in the financial statements. The University's indicative 1- to 10-year taxable unsecured borrowing rate is used to discount pledges receivable upon receipt. The discount was calculated using rates ranging from 0.67% to 3.52% for the years ending June 30, 2014 and 2013. The University's pledges receivable have been categorized as Level 2 assets under the fair value hierarchy.

Contributions receivable at June 30, 2014 and 2013 were intended for the following purposes (in thousands):

	2014	2013
Endowment for educational and general purposes	\$ 19,351	\$ 18,101
Construction and modernization of plant	3,370	4,250
Support of current operations	<u>10,987</u>	<u>14,167</u>
Total	<u>\$ 33,708</u>	<u>\$ 36,518</u>

5. STUDENT LOANS RECEIVABLE

Student loans receivables at June 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Student loans receivable	\$ 52,449	\$ 52,813
Less allowance for uncollectible amounts	<u>(817)</u>	<u>(845)</u>
Total	<u>\$ 51,632</u>	<u>\$ 51,968</u>

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, 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, 2014 and 2013 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, 2014 and 2013, by the fair value hierarchy defined above (in thousands):

Assets as of June 30, 2014:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Equity securities	\$ 27,384	\$ -	\$ 19,586	\$ 46,970
Commingled public equity funds	-	391,217	29,608	420,825
Fixed income securities	330,221	1,159	22,832	354,212
Hedge funds	-	442,915	173,059	615,974
Private equities	-	-	332,314	332,314
Real estate	15,306	27,814	135,516	178,636
Natural resources	5,602	-	90,210	95,812
Other	-	6,702	9,234	15,936
Total Investments	\$ 378,513	\$ 869,807	\$ 812,359	\$ 2,060,679
Liabilities:				
Interest rate swaps liability	\$ -	\$ 56,249	\$ -	\$ 56,249
Assets as of June 30, 2013:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Equity securities	\$ 24,055	\$ -	\$ 17,531	\$ 41,586
Commingled public equity funds	-	359,166	12,809	371,975
Fixed income securities	374,314	1,651	22,285	398,250
Hedge funds	-	410,988	180,840	591,828
Private equities	-	-	283,078	283,078
Real estate	15,580	19,123	141,176	175,879
Natural resources	-	-	80,793	80,793
Other	-	5,552	8,325	13,877
Total Investments	\$ 413,949	\$ 796,480	\$ 746,837	\$ 1,957,266
Liabilities:				
Interest rate swaps liability	\$ -	\$ 51,509	\$ -	\$ 51,509

Excluded from the tables above, but included in total investments at June 30, 2014 and 2013, are cash and cash equivalents amounting to approximately \$41,086,000 and \$43,945,000, respectively. In addition, the tables above exclude \$30,000,000 representing cash subscriptions made to two investments pending settlement at June 30, 2014.

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

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

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

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

The University also invests directly in private companies that are primarily valued using industry standard methodologies, as applicable. Management strives to corroborate information from third-party sources for relevance and accuracy; these valuations are subject to significant review and consideration by management. The valuation procedures performed on these assets are based on industry standard processes for each respective asset class. The inputs utilized in any valuation model may be significant and unobservable, and require a certain degree of judgment. Management examines market data and collaborates closely with industry experts to attempt to arrive at the best estimation of fair value for each respective asset. While the inputs described below represent the range of inputs utilized as of the measurement date, these inputs may change over time, which may have a material effect on the valuation of these types of investments in the future.

The following table presents additional information about valuation techniques and inputs used for the investments that are measured at fair value and categorized within Level 3 as of June 30, 2014 and June 30, 2013 (in thousands):

Asset Type	Industry	Valuation Approach	Unobservable Inputs	Fair Value at June 30, 2014
Fixed income securities	Financial services	Market approach	Market Transaction	\$ 15,000
Private equities	Banking	Book Value Multiple determined using a blended approach for public market comparables, dividend discount model and recent market transaction	Recent market transaction for similar security (50%) - book value multiple of 1.20; DDM (25%) - book value multiple of 1.26; comparable public company analysis (25%) - book value multiple range of 0.59 to 4.71 further adjusted for a marketability discount of 17%.	41,646
	Banking	Market approach	Recent market transaction	10,902
	Financial services	Blend of an option pricing model and residual income model	A set of 16 publically taded Mexican financial service compaies was utilized to draw reference points to create an option pricing model and residual income model.	7,626
	Insurance	Market approach	Recent market transaction	750
				\$ 75,924

Asset Type	Industry	Valuation Approach	Unobservable Inputs	Fair Value at June 30, 2013
Fixed income securities	Financial services	Market approach	Recent round pricing	\$ 15,000
Private equities	Banking	Book value multiple determined using a blended approach for public market comparables, discounted cash flow analysis and comparable market transactions	Recent transaction (50%) - book value multiple of 1.46; DDM (25%) - book value multiple of 1.60; public comparable company analysis (25%) - book value multiple range of .61 to 4.24 further adjusted for a marketability discount of 17%.	46,014
	Banking	Book value multiple	Book value multiple obtained from previous financing round	11,566
	Financial services / Insurance	Market approach	Recent round pricing	7,566
				\$ 80,146

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, 2014 and 2013 (in thousands):

Redemption Terms as of June 30, 2014	Fixed Income	Private Equities	Hedge Funds	Commingled Public		Real Estate	Natural Resources	Total
				Equity Funds	Equity Funds			
Monthly, 2-120 days prior written notice	\$ 15,000	\$ -	\$ 33,675	\$370,599	\$ -	\$ -	\$419,274	
Quarterly, 30-90 days prior written notice	-	-	272,509	35,618	27,814	-	335,941	
Semi-Annually, Annually, 30-90 days prior written notice	-	-	136,731	-	-	-	136,731	
1-3 Years, 45-120 days prior written notice	-	8,046	150,524	29,608	-	-	188,178	
1-7 Years (no terms)	-	202,930	19,634	-	96,858	80,256	399,678	
7+ Years (no terms)	-	60,396	-	-	37,822	9,954	108,172	
Total	\$ 15,000	\$271,372	\$613,073	\$435,825	\$162,494	\$90,210	\$1,587,974	
Level 1 securities							378,513	
Other investments not subject to redemption							165,278	
Total Investments							\$2,131,765	

Redemption Terms as of June 30, 2013	Private Equities	Hedge Funds	Commingled Public		Real Estate	Natural Resources	Total
			Equity Funds	Equity Funds			
Monthly, 2-120 days prior written notice	\$ -	\$ 21,787	\$ 315,274	\$ -	\$ -	\$ 337,061	
Quarterly, 30-90 days prior written notice	-	247,004	43,892	19,123	-	310,019	
Semi-Annually, Annually, 30-90 days prior written notice	-	126,761	-	-	-	126,761	
1-3 Years, 45-120 days prior written notice	7,945	177,549	12,809	-	-	198,303	
1-7 Years (no terms)	164,982	16,352	-	107,476	48,253	337,063	
7+ Years (no terms)	44,976	-	-	32,861	32,540	110,377	
Total	\$ 217,903	\$ 589,453	\$ 371,975	\$ 159,460	\$ 80,793	\$ 1,419,584	
Level 1 securities						413,949	
Other investments not subject to redemption						167,678	
Total Investments						\$ 2,001,211	

The University had unfunded commitments of approximately \$245,608,000 at June 30, 2014 which consisted of approximately \$141,926,000 in private equities, \$64,718,000 in real estate, \$30,143,000 in natural resources and \$8,821,000 in hedge funds, and can be called through 2020.

The following tables include roll forwards of investments classified by the University within Level 3 as of June 30, 2014 and 2013.

	Commingled							Total Investments	
	Equity Securities	Public Equity Funds	Fixed Income	Hedge Funds	Private Equities	Real Estate	Natural Resources Other		
Fair value, July 1, 2013	\$ 17,531	\$12,809	\$ 22,285	\$ 180,840	\$ 283,078	\$ 141,176	\$ 80,793	\$ 8,325	\$ 746,837
Transfers	-	15,000	-	-	-	-	-	-	15,000
Purchases	-	-	-	5,279	51,060	19,970	7,079	-	83,388
Sales	-	-	(29)	(40,503)	(31,975)	(45,757)	(10,124)	-	(128,388)
Unrealized and realized gains (losses), net	2,055	1,799	576	27,443	30,151	20,127	12,462	909	95,522
Fair value, June 30, 2014	\$ 19,586	\$29,608	\$22,832	\$173,059	\$332,314	\$135,516	\$90,210	\$9,234	\$812,359

	Commingled								Total Investments
	Equity Securities	Public Equity Funds	Fixed Income	Hedge Funds	Private Equities	Real Estate	Natural Resources	Other	
Fair value, July 1, 2012	\$ 16,252	\$ -	\$ 27,462	\$ 208,623	\$ 277,208	\$ 124,070	\$ 64,663	\$ 7,737	\$ 726,015
Transfers	-	11,290	-	(7,099)	-	-	-	-	4,191
Purchases	-	-	14,616	4,627	43,769	23,206	18,066	-	104,284
Sales	-	-	(19,811)	(55,427)	(37,620)	(25,978)	(5,848)	-	(144,684)
Unrealized and realized gains (losses), net	1,279	1,519	18	30,116	(279)	19,878	3,912	588	57,031
Fair value, June 30, 2013	\$ 17,531	\$ 12,809	\$ 22,285	\$ 180,840	\$ 283,078	\$ 141,176	\$ 80,793	\$ 8,325	\$ 746,837

The total return on investments for the years ended June 30, 2014 and 2013 is as follows (in thousands):

	2014	2013
Dividends and interest	\$ 21,467	\$ 17,445
Net realized and unrealized gains	216,560	160,700
Total return on investments	238,027	178,145
Investment return utilized	(94,334)	(92,947)
Investment return reinvested	\$ 143,693	\$ 85,198

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Land and land improvements	\$ 48,605	\$ 45,891
Buildings	1,150,387	1,096,973
Construction in progress	69,782	67,824
Equipment and furnishings	186,624	172,526
	1,455,398	1,383,214
Less accumulated depreciation	(621,762)	(582,123)
Total	\$ 833,636	\$ 801,091

Depreciation expense charged to operations was approximately \$46,335,000 and \$42,959,000 in 2014 and 2013, respectively. Net interest cost capitalized in fiscal 2014 and 2013 was \$1,982,000 and \$1,159,000 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, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 5.19% average rate for 2014, due 2024-2026	\$ 25,000	\$ 25,100
Series J, fixed rate bonds at 5.50%, due 2014-2018	25,575	28,530
Series M, fixed rate bonds at 5.00-5.50%, due 2014-2028	57,250	59,150
Series N-1, variable rate bonds, 3.55% average rate for 2014, due 2029-2040	84,300	84,400
Series N-2, variable rate bonds, 3.45% average rate for 2014, due 2022-2034	54,200	54,200
Series O, fixed rate bonds at 5.00%-5.38%, due 2014-2038	72,675	73,280
Massachusetts Development Finance Agency ("MDFA"):		
Series P, fixed rate bonds at 3.00%, due 2036	49,835	49,835
Tufts Issue 2012A, taxable fixed rate bond at 5.017%, due 2112	250,000	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	67	96
Capital Leases—various imputed interest rates, due through 2019	58	68
	<u>627,960</u>	<u>633,659</u>
Net unamortized bond premium	5,500	6,299
Total bonds and notes payable	<u>\$ 633,460</u>	<u>\$ 639,958</u>

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, which is due on February 16, 2016. The issue has two associated swaps; one fixed to variable and the second variable to fixed. The average rate for fiscal 2014 and 2013 was 6.24% and 6.30%, respectively.

Scheduled aggregate principal repayments on bonds and notes payable at June 30, 2014 are as follows (in thousands):

Fiscal Year Ending	Scheduled Principal Maturities
2015	\$ 6,904
2016	15,825
2017	7,385
2018	7,777
2019	8,304
Thereafter	<u>581,765</u>
Total	<u>\$ 627,960</u>

Included in the University's debt is \$163,500,000 of variable rate demand bonds ("VRDBs"). The University has entered into standby bond purchase agreements with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In fiscal year 2012, the University replaced the three standby bond purchase agreements with substantially similar agreements with other financial institutions. 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 2014, the maximum aggregate scheduled principal repayments under the VRDB-related standby bond purchase agreements would be as follows: \$54,500,000 in 2015, \$54,500,000 in 2016 and \$54,500,000 in 2017.

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, 2014 and 2013. The estimated fair values at June 30, 2014 and 2013 are approximately \$659,944,000 and \$647,233,000, respectively. The University determined the fair value of its existing fixed rate debt obligations based on trade data, broker/dealer quotes and other observable market data. The carrying amounts of its variable rate debt obligations approximately fair value because the obligations are currently callable at a price equal to the carrying amounts. The University considers this to be a Level 2 measurement.

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.

The following summarizes the terms for each of the interest rate swap agreements as of June 30, 2014 and June 30, 2013 (in thousands).

Swap Agreements as of June 30, 2014

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, 2014	(\$20,543)	(\$10,329)	(\$6,633)	(\$9,211)	(\$11,222)	\$1,689

Swap Agreements as of June 30, 2013

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, 2013	(\$19,718)	(\$10,050)	(\$5,565)	(\$8,273)	(\$10,127)	\$2,224

The University reported the fair value of its interest rate swap agreements in the statement of financial position as a liability of \$56,249,000 and \$51,509,000 at June 30, 2014 and 2013, respectively. The change in fair market value of approximately \$4,739,000 and \$25,462,000 for the years ended June 30, 2014 and 2013, 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. In November 2012, the rate reverted 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, 2014 and June 30, 2013, was computed 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, 2014 and 2013 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Endowment	\$ 637,952	\$ 438,477	\$ 548,628	\$ 1,625,057	\$ 1,472,355
Invested in physical plant	342,421	-	-	342,421	335,919
Operating	169,133	48,035	3	217,171	179,174
Building projects	31,136	10,218	-	41,354	46,161
Student loans	21,843	50	20,114	42,007	43,042
Total	<u>\$ 1,202,485</u>	<u>\$ 496,780</u>	<u>\$ 568,745</u>	<u>\$ 2,268,010</u>	<u>\$ 2,076,651</u>

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 \$262,080,000 and \$189,744,000 in 2014 and 2013, 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.

Changes in endowment net assets for the years ended June 30, 2014 and June 30, 2013 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total	2013 Total
Endowment net assets, beginning of year	\$ 585,615	\$ 369,566	\$ 517,174	\$ 1,472,355	\$ 1,386,697
Investment return:					
Investment income	8,338	10,553	-	18,891	13,657
Realized and unrealized gains	80,051	109,337	2,085	191,473	146,119
Total investment return	88,389	119,890	2,085	210,364	159,776
Contributions	1,290	634	25,522	27,446	11,124
Appropriation of endowment assets for expenditure	(38,686)	(54,818)	-	(93,504)	(90,642)
Other changes, net	1,344	3,205	3,847	8,396	5,400
Endowment net assets, end of year	<u>\$ 637,952</u>	<u>\$ 438,477</u>	<u>\$ 548,628</u>	<u>\$ 1,625,057</u>	<u>\$ 1,472,355</u>

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):

	<u>2014</u>	<u>2013</u>
Subject to time restriction	\$112,766	\$116,291
Restricted for program support	<u>325,711</u>	<u>253,275</u>
Total endowment assets classified as temporarily restricted net assets	<u>\$438,477</u>	<u>\$369,566</u>

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

	<u>2014</u>	<u>2013</u>
Restricted for scholarship support	\$243,301	\$222,815
Restricted for faculty support	128,149	121,450
Restricted for program support	<u>177,178</u>	<u>172,909</u>
Total endowment assets classified as permanently restricted net assets	<u>\$548,628</u>	<u>\$517,174</u>

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 \$82,000 and \$1,474,000 as of June 30, 2014 and 2013, respectively. These deficits resulted from 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, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Instruction	\$ 238,766	\$ 231,497
Sponsored programs	150,696	149,855
Clinical and other educational activities	137,045	134,444
Academic and student services	96,633	94,937
Auxiliary enterprises	57,188	55,046
Institutional support	<u>107,446</u>	<u>101,354</u>
Total expenses	<u>\$ 787,774</u>	<u>\$ 767,133</u>

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 \$26,601,000 and \$26,401,000 in 2014 and 2013, 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 \$98,300 and \$79,000 in 2014 and 2013, 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 \$12,811,000 and \$10,443,000 in 2014 and 2013, 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 \$4,000 and \$3,900 in 2014 and 2013, respectively. The investment assets and related liabilities of these plans, which total approximately \$5,471,000 and \$4,752,000 in 2014 and 2013, respectively, are recorded in investments and accrued liabilities in the consolidated financial statements of financial position.

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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Benefit obligation—Beginning of year	\$ 33,225	\$ 32,255
Service cost	425	403
Interest cost	1,313	1,121
Benefits paid	(3,735)	(3,800)
Participants' contributions	2,040	1,916
Actuarial loss	1,569	1,245
Special termination benefits	-	85
	<u> </u>	<u> </u>
Benefit obligation—end of year	<u>\$ 34,837</u>	<u>\$ 33,225</u>

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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Fair value of plan assets—beginning of year	\$ 31,226	\$ 29,134
Actual return on plan assets	5,210	3,686
Additional employer contributions to VEBA	45	260
Employer contributions for key employees	17	30
Plan participant contributions	2,040	1,916
Benefits paid	(3,735)	(3,800)
	<u> </u>	<u> </u>
Fair value of plan assets—end of year	<u>\$ 34,803</u>	<u>\$ 31,226</u>
Funded Status	<u>\$ (34)</u>	<u>\$ (1,999)</u>

	2014	2013
Accounts payable and accrued expenses	<u>\$ (34)</u>	<u>\$ (1,999)</u>
Net amount recognized in the statement of financial position	<u>\$ (34)</u>	<u>\$ (1,999)</u>

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

	2014	2013
Unamortized actuarial loss	<u>3,076</u>	<u>4,437</u>
Change to unrestricted net assets	<u>\$ 3,076</u>	<u>\$ 4,437</u>

There are no amounts expected to be recognized in the net periodic cost in the following year as there were no events creating any prior service cost and there is no unrecognized actuarial (gain)/loss over the 10% corridor this year.

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

	2014	2013
Service cost	\$ 425	\$ 403
Interest cost	1,313	1,121
Expected return on plan assets	(2,403)	(2,243)
Amortization of net obligation at transition	-	813
Amortization of net actuarial loss	123	170
Special termination benefits	-	85
Net periodic benefit cost	<u>\$ (542)</u>	<u>\$ 349</u>

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

	2014	2013
Net gain	\$ (1,238)	\$ (198)
Amortization of transition (obligation)	-	(813)
Amortization of loss	<u>(123)</u>	<u>(170)</u>
Total changes recognized in unrestricted net assets	<u>\$ (1,361)</u>	<u>\$ (1,181)</u>
Total changes recognized in net periodic cost and in nonoperating activities	<u>\$ (1,903)</u>	<u>\$ (832)</u>

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

	2014	2013
Discount rate at end of year	3.75%	4.10%

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

	2014	2013
Discount rate at beginning of year	4.10%	3.60%
Expected return on plan assets during year	8.00%	8.00%

Health Care Cost Trend Rate	Fiscal Year		Fiscal Year	
	Ending	2014	Ending	2013
	2015	7.50%	2014	7.50%
	2016	6.50%	2015	6.50%
	2017	5.50%	2016	5.50%
	2018+	4.50%	2017 +	4.50%

Impact of 1% increase in health care cost trend on

Interest cost plus service cost during past year	\$ 185,000
Accumulated postretirement benefit obligation	\$ 3,530,000

Impact of 1% decrease in health care cost trend on

Interest cost plus service cost during past year	\$ (159,000)
Accumulated postretirement benefit obligation	\$ (3,021,000)

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

	Expected Net Benefit Payments	Expected Medicare Part D Subsidy Payments
Fiscal Year Ending in 2015	2,422	348
Fiscal Year Ending in 2016	2,558	367
Fiscal Year Ending in 2017	2,608	381
Fiscal Year Ending in 2018	2,587	407
Fiscal Year Ending in 2019	2,566	428
Fiscal Year Ending in 2020 through fiscal year ending 2024	11,844	2,948

The estimated University cash contribution for fiscal year 2015 is \$0.

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

	2014	2013	Target Allocation
Equity securities	58%	59%	58%
Debt securities	29%	28%	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, 2014 and 2013 by asset category (in thousands):

VEBA Trust Investments at June 30, 2014	Level 1	Level 2	Level 3	Total
Equity securities	\$ 20,016	\$ -	\$ -	\$ 20,016
Debt securities	9,733	-	-	9,733
Real estate securities	4,528	-	-	4,528
	\$ 34,277	\$ -	\$ -	\$ 34,277

VEBA Trust Investments at June 30, 2013	Level 1	Level 2	Level 3	Total
Equity securities	\$ 18,182	\$ -	\$ -	\$ 18,182
Debt securities	8,734	-	-	8,734
Real estate securities	3,850	-	-	3,850
	\$ 30,766	\$ -	\$ -	\$ 30,766

At June 30, 2014 and 2013, the plan also held cash and cash equivalents amounting to approximately \$525,000 and \$460,000.

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, 2014 and 2013 were approximately \$5,690,000 and \$5,691,000, respectively. The University's investment in TSS has been recorded at approximately \$9,234,000 and \$8,325,000 at June 30, 2014 and 2013 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 \$24,739,000 at June 30, 2014.

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, 2014, with terms in excess of one year for office space. Expenses associated with operating leases totaled approximately \$5,730,000 and \$5,081,000 for the years ended June 30, 2014 and 2013, respectively.

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

Fiscal Year 2015	5,202
Fiscal Year 2016	4,342
Fiscal Year 2017	3,639
Fiscal Year 2018	2,939
Fiscal Year 2019	2,412
Thereafter	<u>3,929</u>
Total	<u>\$ 22,463</u>

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