INDEPENDENT AUDITORS' REPORT

THE BOARD OF TRUSTEES
TUFTS UNIVERSITY:

WE HAVE AUDITED THE ACCOMPANYING statements of financial position of Tufts University ("the University") as of June 30, 2001 and 2000,and the related statements of unrestricted activities, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2001 and 2000, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

KPMG

Boston, Massachusetts
September 14, 2001

Statements of Financial Position

AS OF JUNE 30, 2001 AND 2000 *(in thousands)*

	2001	2000
ASSETS		
Cash and equivalents	$45,678	19,435
Receivables, net, and other assets	28,019	23,845
Contributions receivable, net (note 3)	52,890	40,347
Notes and loans receivable, net	41,623	39,756
Funds held under bond agreements (note 6)	55,436	4,459
Long-term investments, at market value (note 4)	801,777	773,384
Land, buildings and equipment, net (note 5)	361,842	328,044
Total assets	**1,387,265**	**1,229,270**
LIABILITIES		
Accounts payable and accrued expenses	72,462	61,890
Current portion of long-term debt (note 6)	4,121	3,755
Deferred revenue and deposits	28,966	25,134
Government advances for student loans	22,623	22,178
Long-term debt, net of current portion (note 6)	240,198	167,874
Total liabilities	**368,370**	**280,831**
NET ASSETS (note 7)		
Unrestricted	566,706	520,823
Temporarily restricted	228,464	238,715
Permanently restricted	223,725	188,901
Total net assets	**1,018,895**	**948,439**
Total liabilities and net assets	**$1,387,265**	**1,229,270**

See accompanying notes to financial statements.

Statements of Unrestricted Activities

YEARS END JUNE 30, 2001 AND 2000 *(in thousands)*

	2001	2000
OPERATIONS		
Revenues:		
Tuition and fees	$214,109	204,870
Less: scholarships and fellowships	(43,823)	(41,218)
Tuition and fees, net	170,286	163,652
Government grants and contracts	90,441	80,168
Clinical and other educational activities	46,009	41,776
Auxiliary enterprises	34,983	34,253
Contributions and grants	30,488	29,870
Investment return utilized	38,017	34,803
Total revenues	**410,224**	**384,522**
Expenses:		
Instruction	114,838	106,922
Sponsored programs	85,824	76,405
Clinical and other educational activities	59,217	54,302
Academic and student services	54,694	50,487
Auxiliary enterprises	32,143	30,702
Institutional support	43,014	40,275
Total expenses	**389,730**	**359,093**
Increase in unrestricted net assets from operations	**20,494**	**25,429**
NON-OPERATING ACTIVITIES		
Investment return reinvested	11,236	20,982
Net assets released from restrictions for capital and other purposes	11,266	7,408
Other non-operating activities	2,887	4,847
Increase in unrestricted net assets from non-operating activities	**25,389**	**33,237**
Increase in unrestricted net assets	**$45,883**	**58,666**

See accompanying notes to financial statements.

Statements of Changes in Net Assets

YEARS ENDED JUNE 30, 2001 AND 2000 *(in thousands)*

	2001	2000
UNRESTRICTED NET ASSETS		
Total revenues from operations	$410,224	384,522
Total expenses from operations	(389,730)	(359,093)
Non-operating activities, net	25,389	33,237
Increase in unrestricted net assets	**45,883**	**58,666**
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	3,406	9,400
Investment return reinvested	(784)	22,265
Net assets released from restrictions due to investment return utilized	(1,607)	–
Net assets released from restrictions for capital and other purposes	(11,266)	(7,408)
Increase in temporarily restricted net assets	**(10,251)**	**24,257**
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	32,638	23,060
Investment return reinvested	2,186	2,167
Increase in permanently restricted net assets	**34,824**	**25,227**
Increase in total net assets	**70,456**	**108,150**
Net assets at beginning of year	**948,439**	**840,289**
Net assets at end of year	**$1,018,895**	**948,439**

See accompanying notes to financial statements.

Statements of Cash Flows

YEARS ENDED JUNE 30, 2001 AND 2000 *(in thousands)*

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in total net assets	$70,456	108,150
Adjustments to reconcile increase in total net assets to net cash provided by operating activities:		
Net realized and unrealized investment gains	(13,860)	(50,820)
Depreciation and other noncash transactions	25,398	20,729
Net change in working capital assets and liabilities	(2,065)	(7,915)
Contributions and investment income restricted for long-term investment	(14,763)	(26,581)
Net cash provided by operating activities	**65,166**	**43,563**
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans granted	(6,380)	(5,826)
Student loans repaid	4,038	3,963
Purchases of investments	(733,190)	(636,645)
Proceeds from sale of investments	718,657	598,424
Additions to land, buildings and equipment	(58,872)	(58,911)
Net cash used by investing activities	**(75,747)**	**(98,995)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in government advances for student loans	445	947
Proceeds from issuance of notes and bonds	76,148	2
Repayments of bonds and notes	(3,555)	(5,668)
Changes in funds held under bond agreements	(50,977)	26,680
Contributions and investment income restricted for long-term investment	14,763	26,581
Net cash provided by financing activities	**36,824**	**48,542**
Net increase (decrease) in cash and equivalents	**26,243**	**(6,890)**
Cash and equivalents at beginning of year	**19,435**	**26,325**
Cash and equivalents at end of year	**$45,678**	**19,435**
SUPPLEMENTAL DATA		
Interest paid	$8,753	8,986
Gifts of property	$1,547	1,046

See accompanying notes to financial statements.

Notes to Financial Statements

JUNE 30, 2001 AND 2000

(1) ORGANIZATION

Tufts University, founded in 1852, is a not-for-profit institution committed to education and research. The University is a relatively small but complex independent nonsectarian university of high quality, with approximately 8,800 students and three campuses, in Boston, Medford/Somerville and Grafton, Massachusetts. The University provides degree programs at both undergraduate and graduate levels in a variety of liberal arts and professional areas. The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

- **Permanently restricted**–Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the University. Such net assets consist primarily of donor-restricted endowment funds.
- **Temporarily restricted**–Net assets subject to donor-imposed stipulations that may be satisfied by actions of the University that expire with the passage of time.
- **Unrestricted**–Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

CLASSIFICATIONS

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Contributions and investment return for operating activities subject to donor-imposed stipulations that are met in the same period are reported as unrestricted revenues. Investment return subject to donor-imposed stipulations not utilized in the current period, are released from temporarily restricted net assets when spent and shown as investment return utilized. Expirations of all other temporarily restricted net assets are reported as reclassifications between the applicable classes of net assets.

Notes to Financial Statements

CONTRIBUTIONS

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

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

INVESTMENTS

Investments are reported at fair value. Dividends, interest and net gains on long-term investments are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment or loan fund;
- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net gains.The University has relied on the Massachusetts Attorney General's interpretation of relevant state law that unappropriated endowment gains ($191,273,000 in 2001 and $193,864,000 in 2000) should generally be classified as temporarily restricted; and
- as increases in unrestricted net assets in all other cases.

OPERATIONS AND NON-OPERATING ACTIVITIES

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

Tuition revenues are reported net of the discount attributable to reductions in amounts charged to students, whether as unrestricted University financial aid, distributions from endowment funds or government aid awarded to students by the University.

Revenues associated with research and other grants and contracts are recognized when related expenses are incurred. Indirect cost recovery by the University is recorded as unrestricted revenues of $21,510,000 in 2001 and $19,888,000 in 2000.

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

CASH EQUIVALENTS

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

FINANCIAL INSTRUMENTS

The University has estimated,where practicable, the fair values of its financial instruments by using appropriate valuation methodologies. Using discounted cash flow analysis, the University determined that the estimated fair value of its total long-term indebtedness is substantially equivalent to its carrying value. The University further determined that the differences between the carrying values and the estimated fair values of its other financial assets and liabilities are not material.

LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts.Depreciation is provided using the straight-line method over the assets' estimated useful lives.

LIFE INCOME AND ANNUITY AGREEMENTS

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

USE OF ESTIMATES

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

Notes to Financial Statements

(3) CONTRIBUTIONS RECEIVABLE

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

	2001	2000
Unconditional promises scheduled to be collected in:		
Less than one year	$15,115	14,075
One year to five years	48,323	31,718
More than five years	3,981	4,689
Less: allowance for uncollectible contributions and unamortized discount to present value	(14,529)	(10,135)
Total	**$52,890**	**40,347**

(4) LONG-TERM INVESTMENTS

Long-term investments included commingled assets from the various net asset classes and consisted of the following market values at June 30 *(in thousands)*:

	2001	2000
Cash and equivalents	$21,457	25,296
Equity securities	280,646	305,615
Fixed income securities	313,781	280,439
Hedge funds	170,950	143,368
Private equities	21,511	19,946
Net payable for unsettled trades	(6,568)	(1,280)
Total	**$801,777**	**773,384**

Fair values for marketable equity securities and fixed income securities are based on published market values.The University invests in hedge fund and private equity investments through various limited partnerships and similar vehicles. Hedge funds utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at fair value. Private equity investments consist of long-term private investment securities and have been valued based on estimates reported by fund managers. Such estimates may differ significantly from values that would have been used had a ready market for the investments existed.

Notes to Financial Statements

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

	2001			2000		
	Endowment and funds functioning as endowment	Other funds	**Total**	Endowment and funds functioning as endowment	Other funds	**Total**
Dividends and interest	$16,303	18,885	**35,188**	12,802	16,595	**29,397**
Net realized and unrealized gains	4,568	9,292	**13,860**	43,651	7,169	**50,820**
Total return on investments	20,871	28,177	**49,048**	56,453	23,764	**80,217**
Investment return utilized	(22,111)	(15,906)	**(38,017)**	(19,922)	(14,881)	**(34,803)**
Investment return reinvested	$(1,240)	12,271	**11,031**	36,531	8,883	**45,414**

In 2001, investment return utilized from endowment and funds functioning as endowment included $1,607,000 of appropriated prior-year endowment gains qualifying as net assets released from restrictions.

(5) LAND, BUILDING AND EQUIPMENT

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

	2001	2000
Land and land improvements	$24,588	21,244
Buildings	465,746	426,402
Equipment and furnishings	110,097	101,186
	600,431	**548,832**
Less: accumulated depreciation	(238,589)	(220,788)
Total	**$361,842**	**328,044**

Depreciation expense charged to operations was $22,651,000 and $20,070,000 in 2001 and 2000, respectively.

Notes to Financial Statements

(6) LONG-TERM DEBT

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

	2001	2000
Massachusetts Industrial Finance Agency (MIFA):		
Series H, fixed rate bonds at 4.75% – 5.5%, due through 2028	$100,550	102,470
Massachusetts Health and Educational Facilities Authority (MHEFA)		
Series G, variable rate bonds, 4.088% average rate for 2001, due 2024-2026	44,300	20,200
Series F, fixed rate bonds at 5.05% – 5.95%, due through 2018	34,375	34,545
Series I, fixed rate bonds at 5.25% – 5.50%, due 2029–2036	50,000	–
Department of Education (DOE):		
Fixed rate bonds, 3% – 3.625%, due through 2018	5,006	5,421
Fixed rate bonds, 3%, due through 2021	2,528	2,632
Secured note, 5.5%, due through 2020	1,561	1,605
Citizens Bank:		
Note, rate fixed at 6.135% until 2005; rate at 7-year Eurodollar rate plus 1% from 2005 to maturity in 2006	7,500	7,500
	245,820	**174,373**
Less: net unamortized bond discount	(1,501)	(2,744)
Less:current portion	(4,121)	(3,755)
Long-term debt, net of current portion	**$240,198**	**167,874**

The University issued $50,000,000 of Revenue Bonds, Series I, on April 3, 2001 and $25,000,000 of Revenue Bonds, Series G, Tranche Two, on June 7, 2001. The proceeds of both issues are being used to finance the construction and renovation of various educational facilities.As of June 30, 2001, $51,509,000 of the aggregate proceeds was unexpended for its intended purposes, and is included as funds held under bond agreements in the accompanying statement of financial position.

The MHEFA Series F bonds are collateralized by pledged tuition revenues.The DOE fixed rate bonds are collateralized by certain dormitories and other buildings. The DOE secured note is collateralized by funds held under bond agreements.

Notes to Financial Statements

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

Fiscal Year	
2002	$4,121
2003	3,055
2004	3,086
2005	3,393
2006	3,438
Thereafter	228,727
Total	**$245,820**

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

Interest expense charged to operations was $9,527,000 and $9,050,000 in 2001 and 2000, respectively.

(7) NET ASSETS

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2001	Total 2000
Operating funds:					
Undesignated	$46,496			46,496	43,111
Donor restricted		26,945	13,864	40,809	47,604
Specific programs	42,325			42,325	43,186
Designated for facilities	121,886			121,886	100,682
Net investment in plant	175,345			175,345	163,424
Endowment and funds functioning as endowment	180,654	201,519	209,861	592,034	550,432
Total	**$566,706**	**228,464**	**223,725**	**1,018,895**	**948,439**

Notes to Financial Statements

(8) BENEFIT PLANS

Retirement benefits are available to eligible faculty and administrative staff. All retirement benefits are funded and vested under a defined contribution plan. The University's contributions to the plan amounted to approximately $13,468,000 and $12,714,000 in 2001 and 2000, respectively.

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 copayments and deductibles related to years of service and date of retirement. Employees who were hired after December 31, 1993 must pay for the entire cost of their benefit when they retire. The University has established a trust to fund the postretirement benefits for most of the eligible employees. The trust qualifies as a "voluntary employees' beneficiary association" under the provisions of Section 501(c)(9) of the Internal Revenue Code in order that the trust be exempt from certain taxes. The University funded the trust in 2001 and 2000 with $1,593,000 and $1,622,000, respectively.

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

	2001	2000
Change in Benefit Obligation		
Benefit obligation at beginning of year	$28,308	28,659
Service cost	327	354
Interest cost	1,943	1,933
Benefits paid	(1,644)	(1,391)
Actuarial gain	(820)	(1,247)
Benefit obligation at end of year	**$28,114**	**28,308**

Notes to Financial Statements

The funded status of the University's plan and the amounts recognized in the statements of financial position at June 30, 2001 and 2000 were as follows *(in thousands)*:

	2001	2000
Change in Plan Assets		
Fair value of plan assets at beginning of year	$19,030	17,795
Actual return on plan assets	1,471	848
Employer contributions	1,593	1,622
Plan participant contributions	201	156
Benefits paid	(1,644)	(1,391)
Fair value of plan assets at end of year	**$20,651**	**19,030**
Funded status	7,463	9,278
Unrecognized transition obligation	(15,100)	(16,360)
Unrecognized net gain	7,829	7,256
Accrued liability recognized	**$192**	**174**

The 2001 and 2000 postretirement benefit expense included the following components (*in thousands*):

	2001	2000
Interest cost	$1,943	1,933
Service cost	327	354
Amortization of transition obligation over 20 years	1,260	1,260
Expected return on plan assets	(1,467)	(1,365)
Amortization of gain	(452)	(542)
Net periodic benefit cost	**$1,611**	**1,640**

The 2001 and 2000 postretirement benefit obligation amounts were determined by using a weighted-average discount rate of 7.25%. For 2001,health care costs were assumed to increase 12%, grading down to 6% in year 2006 and thereafter. For 2000, the assumed health care cost trend rate was 15%, grading down to 6% in year 2006 and thereafter. The health care cost trend rate has a significant effect on the amounts reported. A 1% increase in the health care cost trend would have increased the expense and the accumulated postretirement benefit obligation for 2001 by $195,000 and $1,119,000, respectively. A 1% decrease in the health care cost trend would have decreased the expense and the accumulated postretirement benefit obligation for 2001 by $172,000 and $993,000, respectively.

The expected return on plan assets was assumed to be 8% per year for 2001 and 2000.

Notes to Financial Statements

(9) AFFILIATED ORGANIZATIONS

WALNUT HILL PROPERTIES CORPORATION (Walnut Hill)
Walnut Hill is a not-for-profit corporation established by the University to own and manage certain investment and rental properties. The accounts of Walnut Hill are consolidated in the financial statements of the University.

TUFTS-NEW ENGLAND MEDICAL CENTER, INC. (T-NEMC)
T-NEMC provides services for parking, lab animal research and educational media to the University and New England Medical Center. The administrative board of T-NEMC includes equal representation from the University and the Medical Center. The University holds a mortgage note receivable that bears interest at rates varying from 5.9% to 7%, with principal and interest payable semiannually. The balance of the note at June 30, 2001 and 2000 was $2,239,000 and $2,488,000 respectively.

TUDC, INC. (TUDC)
TUDC is a wholly owned for-profit real estate corporation created to develop the Tufts International Center (the “Center”) with the air rights over South Station in Boston. The Center, when completed, will include an office tower, hotel and conference facilities, retail space and a parking facility. In October 1997, TUDC entered into a development partnership agreement with Hines Interests Limited Partnership to co-develop the air rights. This arrangement was approved by the Boston Redevelopment Authority in July 1998. TUDC has a promissory note payable to the Massachusetts Bay Transportation Authority in the amount of $10,000,000. The University has no liability for the promissory note.

(10) CONTINGENCIES

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