Tufts
UNIVERSITY

2007

Annual Financial Report of Tufts University

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TUFTS UNIVERSITY
HIGHLIGHTS

Fiscal years ended June 30, 2007 and 2002 (in thousands)

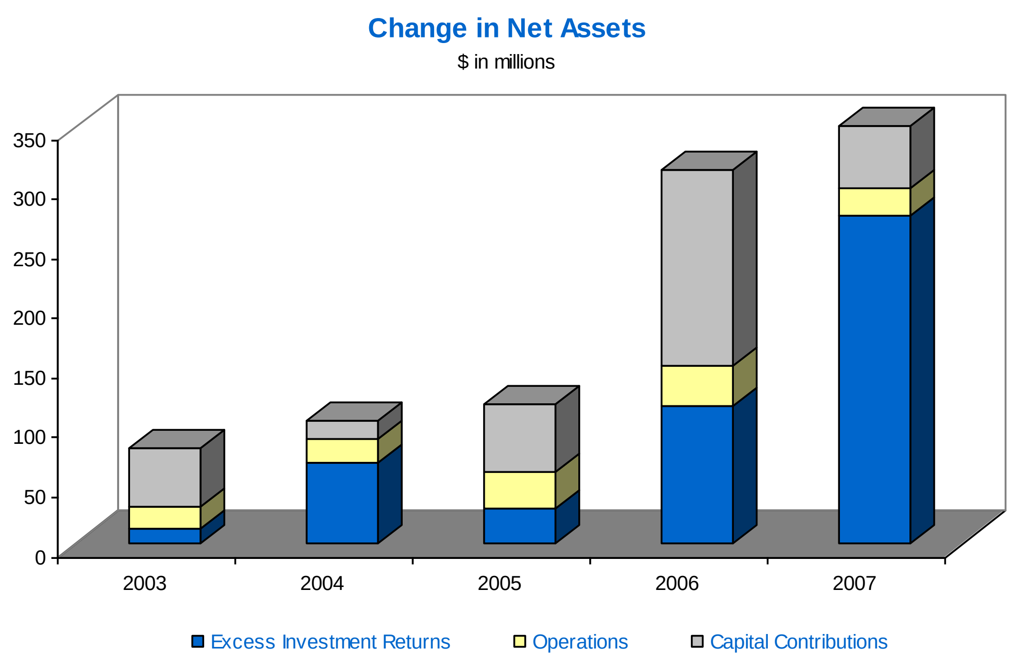
	2007	2002
FINANCIAL		
Total revenue	**$603,925**	$426,677
Total net assets	**2,019,741**	1,029,473
Property, plant and equipment, net	**573,769**	396,824
Investments	**1,812,461**	859,146
Bonds and notes payable	**355,085**	276,338
CREDIT RATING		
Standard & Poors	**AA-**	AA-
Moody's	**Aa3**	Aa3
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	**4,960**	4,706
Graduate	**2,313**	1,889
Professional	**1,676**	1,631
Certificate and other	**308**	232
Total full-time equivalent enrollment	**9,257**	8,458
Undergraduate Admission		
Applicants	**15,294**	13,700
Selectivity	**27%**	23%
Yield	**31%**	37%
SAT (mean)	**1,405**	1,309
Total undergraduate student charges (tuition, room, board, and mandatory fees)	**$44,500**	$34,879
PERSONNEL		
Faculty	**999**	891
Staff	**2,678**	2,450
Total full-time equivalent	**3,677**	3,341
FACILITIES		
Gross square feet	**4,629,043**	4,166,483

TUFTS UNIVERSITY
2007 FINANCIAL REPORT

Tufts' fiscal year 2007 financial results featured exceptional growth led by strong investment returns, generous contributions, steadfast operating results and a highly selective student market position. Successes in these broad fronts added to the University's history of favorable results, positioning Tufts to further enhance its academic priorities of attracting and retaining outstanding faculty and students.

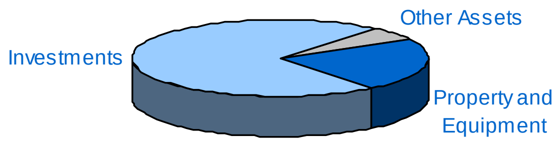
NET ASSETS

Tufts' net assets were substantially enhanced by FY 2007 results. Total net assets rose 23% or $379 million to $2.0 billion. Excess investment returns provided $275 million, a strong donor base delivered $81 million in capital contributions, and net operating activities added $23 million. Over the last five years net asset values nearly doubled, posting a compound annual growth of 14.4%.



ASSETS

Total assets of $2.6 billion are comprised primarily of investments at 72% of the total and property and equipment at 22%, growing overall by 17.5% in one year with a compound annual five-year average increase of 12.4%.



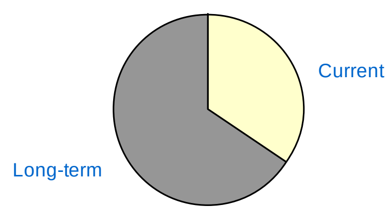
Investments
Long-term investment assets grew $354 million to $1.8 billion, a 24.3% increase from the prior year and a five-year compound annual rate of 16.1%. Excellent growth resulted from positive investment returns, generous gifts to the University, and strong operating results. The next section, 2007 Endowment and Investment Report, presents additional discussion on the endowment and investments.

Property and Equipment
Representing almost a quarter of balance sheet assets, Tufts' physical plant assets had a $574 million book value net of depreciation, growing by 5.6% this past year. Total 2007 capital expenditures amounted to $72 million with the opening of Sophia Gordon Hall and the Perry and Marty Granoff Music Center, and extensive Cabot Center renovations. Following its long term strategy, the University will continue to invest in its physical plant with major projects planned including the Regional Biosafety Laboratory at the Cummings School of Veterinary Medicine, a clinical skills and medical simulation center and research laboratory renovations at the Medical School, laboratory space for AS&E, campus centers at the Health Sciences campuses, athletics and fitness facilities expansion and renovation, Dental Tower expansion, and a new student information system.

Renewal
Tufts is committed to preserving and renewing its physical resources, made possible by an increasing commitment of annual operating revenue and the prudent use of debt. A long-term plan to address the University's capital renewal was adopted in 1996. In accordance with the funding plan, the University spent $13 million in 2007 and a cumulative $121 million since inception, improving the condition of the physical plant. Funding in 2008 will continue at the steady pace of $14 million.

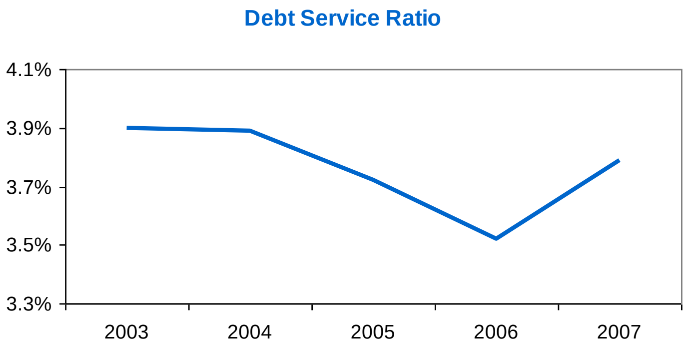
LIABILITIES

Total liabilities reached a level of $554 million, a year-over-year increase of $5 million or 1%. Long-term liabilities include bonds and notes payable and interest rate agreements, while current liabilities represent accounts payable and deferred revenue.



Debt
Tufts' outstanding debt totaled $355 million in 2007 with the most recent Series L bond issuance in January 2006 of $86 million. Debt advances the University's academic priorities by financing research facilities, new building construction, and strategic property purchases. Specifically, some of the more recently financed construction projects include the design and construction of the South Campus Garage in Medford, renovations of 80 George Street, research laboratories in South Cove and four floors of the Arnold Building. Examples of recent property acquisitions include 550 Boston Ave and 51 Winthrop Street in Medford and 35 Kneeland Street in Boston for future research, academic and administrative needs.

The University's overall cost of capital for this past year stood at 4.31%, a reduction of expense when compared to the fiscal year 2002 rate of 4.90%.



The debt service ratio measures the effect of annual debt service on operations. With a 3.8% ratio in 2007, the University continued to perform well within its goal of maintaining debt service levels less than 5% of the operating budget. Over the past several years, the debt ratio ranged between 3.5% and 3.9%, enabling the University to maintain its credit ratings while benefiting from a low cost of capital.

OPERATING RESULTS

The increase in unrestricted net assets from operations totaled $23 million in 2007, building on the excellent results from the past two years of $33 and $31 million, respectively. Tufts' operating activities were an important source of asset growth as all major operating units performed ahead of or on budget. Revenues of $602 million represent a year-over-year increase of $30 million, rising 5.3%. Expenses rose $40 million to $579 million, a 7.5% growth. Primary operating categories are highlighted below.

Tuition

Net tuition, room, board and other fees experienced growth of $11 million or 4.9%, rising to a level of $231 million. This increase is due primarily to an increase in tuition rates. Included here are record levels of student aid, one of the University's highest academic priorities. Student aid reached an all time high of $71 million, a 4.6% increase from the prior year.

Investment Return Utilized

Totaling $73 million in 2007, investment return utilized increased 3.2% over the prior year, expanding by a compound five-year average 11.6% per year. This revenue line includes investment income distributed per the University's spending rule applied to the Total Return Pool. This effectively represents the amount of income planned for and included in the annual operating budget.

As a percentage of total revenues, this strategically important source of revenue moved from a level of 9.7% in 2003 to 12.2% in 2007, signifying real growth relative to other more sizeable revenue sources. Strong market returns and corresponding appreciation of the Total Return Pool plus extraordinary gifts of endowment allowed investment returns to garner a larger share of revenue. 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, 2007 Endowment and Investment Report.

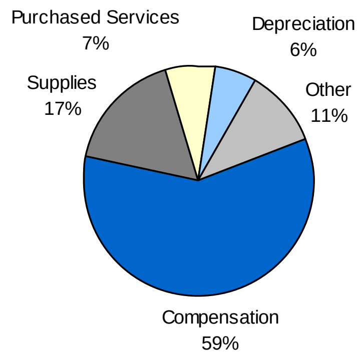
Grants and Contracts

Comprised of government and private sponsored research grants and contracts and the Commonwealth of Massachusetts appropriation in support of the Cummings School, combined grant and contract revenue reached $139 million in 2007, level with the prior year. A 24% growth in the private grant category was offset by a corresponding decrease in federal grants and contracts activity. Faculty success in garnering support from new private grants occurred in the Medical School, the Friedman School and the Schools of Arts and Sciences & Engineering. Declining Federal research grant funding was experienced in the Medical School and attributable to DHHS and USDA awards. On a positive note regarding federal funding, grant activity from the Departments of Education and Defense showed improvement in the second half of the year.

Expenses

Operating expenses of $579 million increased $40 million or 7.5% since 2006. The largest category, compensation, rose to $340 million, an increase of 5.8%. Of this amount, faculty compensation grew by 6.2% while benefits rose 3.1%. Driving the increase in faculty expenses were new faculty in Arts & Sciences and the Dental and Medical Schools and market increases to current salaries in several schools. These investments demonstrate Tufts' strategic commitment to attract and retain outstanding faculty by providing increasingly competitive compensation packages and market adjustments. Non-compensation expense rose to $239 million, growing 9.9% over the prior year. A 24% increase was posted for interest expense due to recent additional debt financing, while supplies, purchased services and facilities costs grew with the addition of new faculty, new facilities and investments in a number of academic and student service and advancement programs.

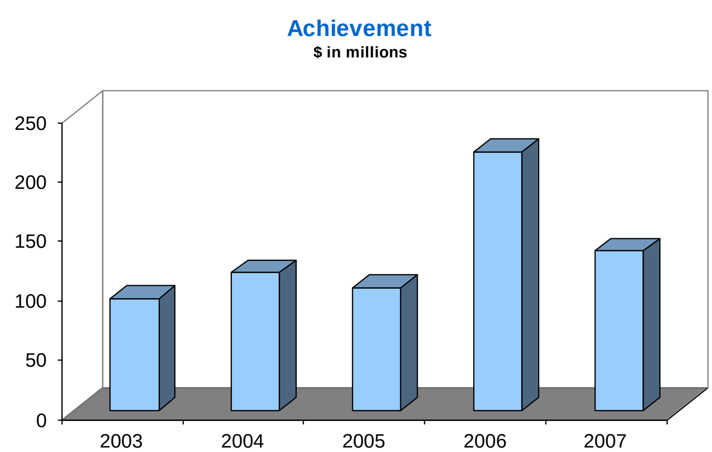
The pie chart displays the major natural classification categories. Over time, the relative share of each category remained stable.

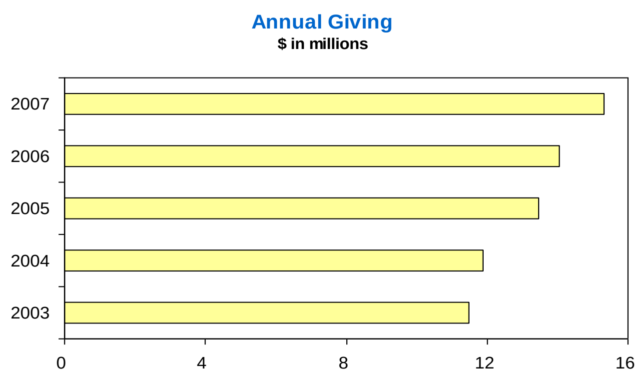


ADVANCEMENT

Fiscal year 2007 was another outstanding year for Advancement at Tufts, with achievement exceeding $134 million, the second highest fundraising year ever. Gifts to the endowment exceeded $54 million during the year. Over 34,000 donors helped achieve this success, the largest number of donors yet.

While success in previous years was driven by extraordinarily large gifts, success in FY07 was attributable to gifts across the spectrum. Highlights from the year include a $20 million gift from an anonymous donor benefiting financial aid at the Fletcher School. This gift supports the Fletcher Board of Overseers' commitment to increase student scholarships for deserving Fletcher students.





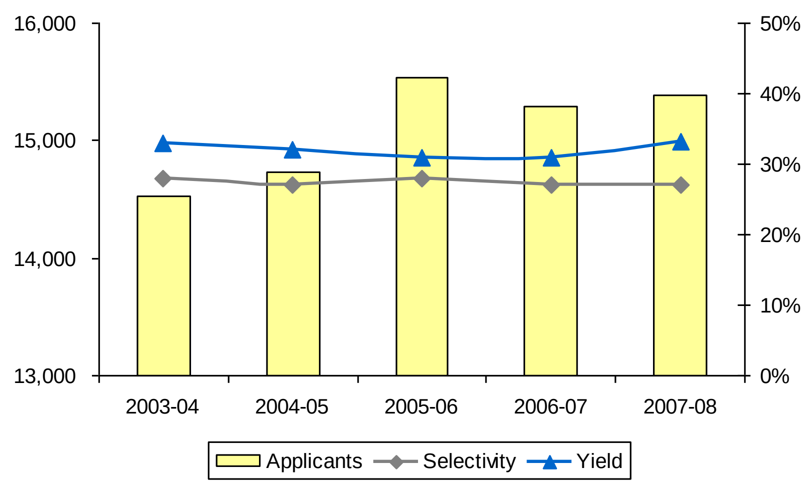
Additionally, gifts to the annual fund exceeded $15.3 million, a growth of over 9.1% from the previous fiscal year and a 9.9% five-year compound annual increase, with every individual school fund exceeding its goal.

The public phase of *Beyond Boundaries: The Campaign for Tufts* launched November 3, 2006 and included celebrations in seven cities involving well over 2,000 Tufts friends and supporters. The *Beyond Boundaries* campaign runs through FY 2011 with a goal of $1.2 billion. As of June 30, 2007, Tufts has raised nearly $662 million in the campaign.

STUDENT DEMAND AND QUALITY

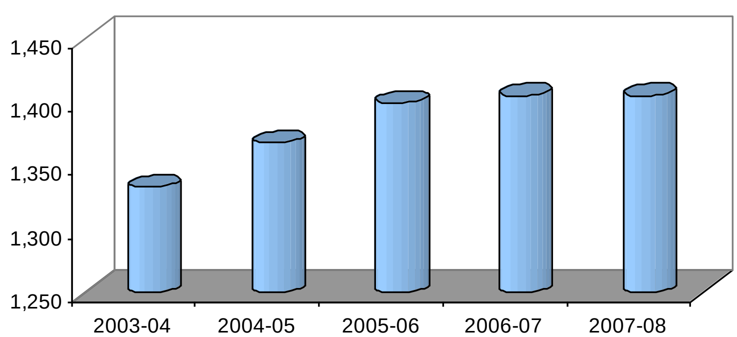
Tufts continued to enjoy strong student demand in FY 2007 as evidenced by the large volume of applicants and the strong and stable percentages of applicants who were accepted (selectivity), and of those accepted who matriculated (yield). The graph below shows these favorable trends for the undergraduate population.

Undergraduate Student Demand



The quality of matriculating undergraduate students simultaneously improved. Mean combined scholastic aptitude test (SAT) scores of Tufts' entering classes reflect a trend of improving student quality mirroring highly selective institutions.

Mean Combined SATs



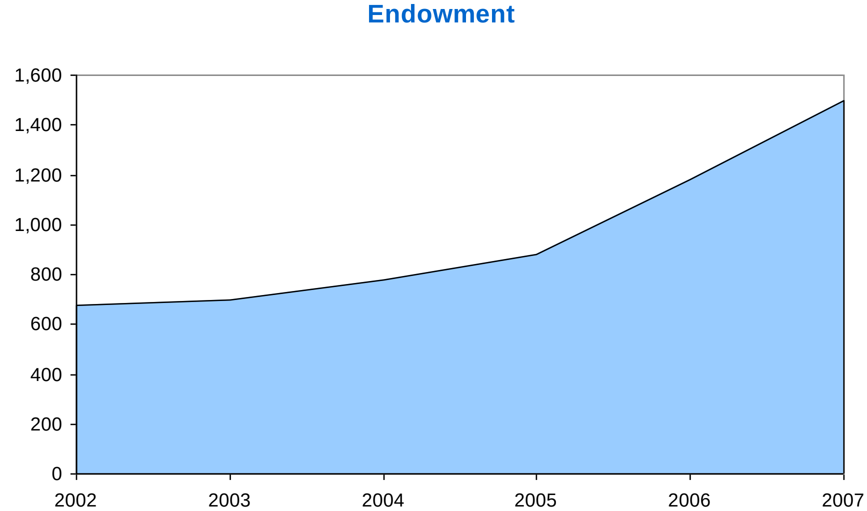
SUMMARY

Tufts ended fiscal year 2007 with extensive growth in assets, gifts and net revenue sources; a diversified, prudently managed investment portfolio; sound management of physical plant assets; and continuing strong student demand and quality. Fiscally sound policies and planning have been historically translated into a strong financial performance which bode well for the achievement of the University's academic mission and goals.

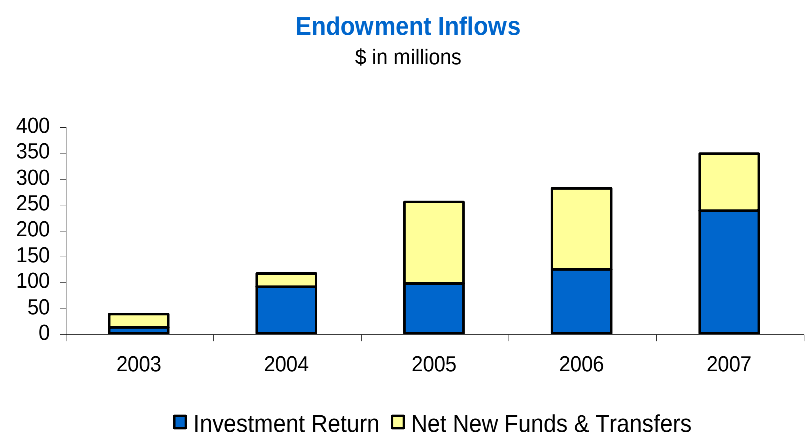
TUFTS UNIVERSITY
2007 ENDOWMENT AND INVESTMENT REPORT

Tufts' Endowment

Combining strategic management with fundraising, the endowment grew from $111 million at fiscal year end 1987 to $1.5 billion in 2007, a 13.9% twenty year compound annual rate and a 17.2% rate in the past five years. This extraordinary growth in the university's financial bedrock is credit to the visionary philanthropy of the university's donors and friends and to Tufts' focus on responsibly seeking the highest risk-adjusted return on its assets.



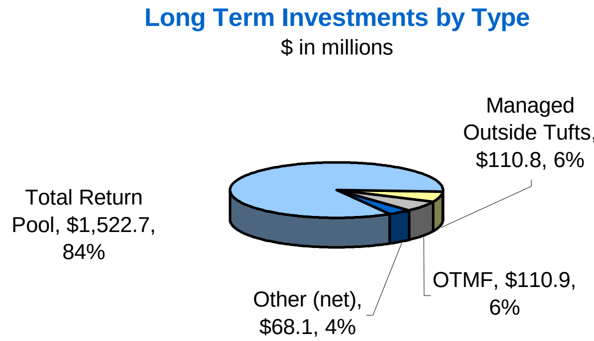
During the past five years, steady growth in endowment has been achieved through gifts and investment returns.



Investments

As of June 30, 2007, the university's long term assets totaled $1.8 billion. These assets are primarily endowment funds established by hundreds of individual donors to support specific purposes within the university's various schools. Together, all these endowment accounts total $1.5 billion in assets. The remainder of these long term assets, approximately $330 million, is comprised of funds earmarked for operating and capital purposes.

The assets in these funds are invested in a variety of ways including life income trusts, separately managed accounts, and the Omidyar Tufts Microfinance Fund. By far the largest investment is a vehicle the university refers to as the Total Return Pool, or TRP, managed for total return rather than current income. The investment and performance discussion that follows applies to this Total Return Pool.



Investment Objectives

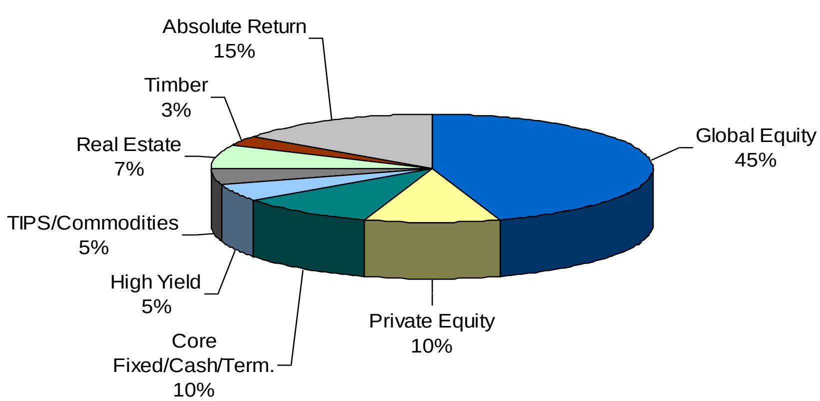
Chief among endowment and investment goals is to provide intergenerational equity, meaning that future generations of students will enjoy the same level of support as the current generation does. To achieve this, the endowment must maintain its purchasing power by earning a long term return that covers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

The Board of Trustees established investment objectives for the endowment. First, the Board set an annual target of 5% of the value of the endowment as the amount of investment assets that are to be spent annually from the endowment to support donors' purposes. To maintain the level of support after inflation, the endowment must earn an additional 4%, representing an estimate of the university's long term inflation rate. These returns are measured over long periods, so that over any ten year period we endeavor to earn at least a 9% annualized return. Since the absolute level of the endowment determines how well Tufts can compete for students, faculty and other resources, we strive to earn as much as possible, given market conditions and the university's risk tolerance, which may enable us in some years to exceed the 9% target.

Asset Allocation

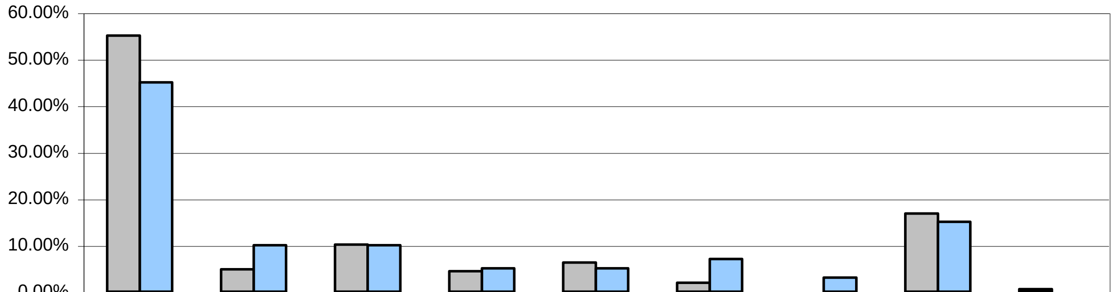
The vehicle through which investment objectives are achieved is a portfolio diversified as broadly as possible over assets that respond differently to various economic conditions. The policy portfolio measures what the performance would be if the Total Return Pool were invested exactly in the market index for each asset class. The performance of this policy portfolio is a second baseline (in addition to the 9% target) against which the actual performance of the Total Return Pool is measured over all periods. This allocation is reviewed periodically to insure that it continues to meet the university's needs.

The Target Asset Allocation is shown below.



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

Target vs. Actual Asset Allocation



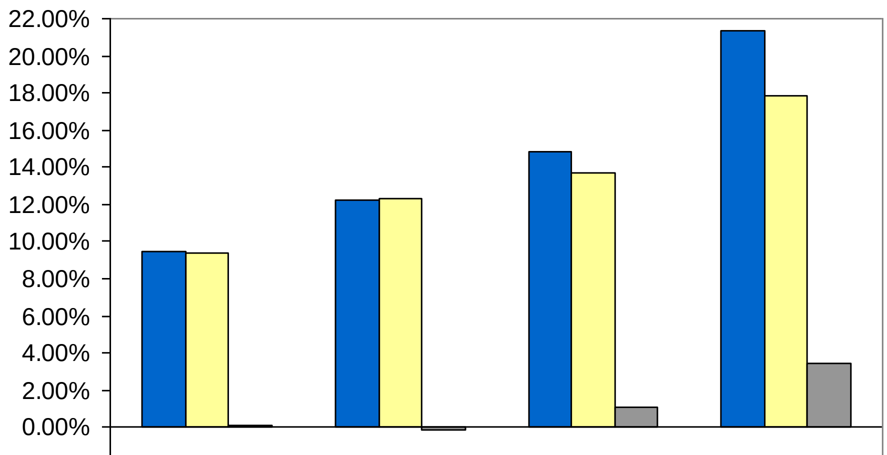
	Global Equity	Private Equity/Venture/LBO	Core Fixed/Cash/Term.	High Yield	TIPS + Comm. Overlay	Real Estate	Timber	Absolute Return	Cash/Other
Actual	55.06%	4.80%	10.12%	4.41%	6.26%	1.96%	0.00%	16.83%	0.56%
Target	45.00%	10.00%	10.00%	5.00%	5.00%	7.00%	3.00%	15.00%	0.00%

Performance

Over the last ten years, on an annualized basis, the portfolio has provided a return of 9.5% vs. the policy benchmark of 9.4%. For the fiscal year ended June 30, 2007, the Total Return Pool produced a return of 21.4%, compared with the policy benchmark which returned 17.9%. While the portfolio participated in the strong equity markets of the last twelve months, short term returns will depend on market conditions. Most importantly, the portfolio is exceeding the University's 9% target, thereby insuring that both present and future support are available to attract the best students, faculty, and staff, so that Tufts will continue to excel.

Annualized Returns

as of June 30, 2007



	10 years	5 years	3 years	1 year
Tufts Actual	9.50%	12.23%	14.81%	21.36%
Tufts Policy	9.39%	12.33%	13.69%	17.87%
Value Added	0.11%	-0.10%	1.12%	3.49%

PricewaterhouseCoopers LLP
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Boston, MA 02110
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Report of Independent Auditors

To the Board of Trustees of
Tufts University:

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of activities and cash flows present fairly, in all material respects, the financial position of Tufts University at June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Tufts University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Tufts University's 2006 financial statements which was audited by other auditors whose report dated September 22, 2006 expressed an unqualified opinion on those statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 11 to the consolidated financial statements, the University changed the manner in which it accounts for its postretirement health care plan in 2007.

PricewaterhouseCoopers LLP

September 26, 2007

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2007, WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2006
(In thousands)

	2007	2006
ASSETS		
Cash and cash equivalents	$ 28,237	$ 40,747
Receivables and other assets, net	40,266	31,909
Contributions receivable, net	73,482	50,289
Note and student loans receivables, net	39,194	37,451
Funds held under bond agreements	5,879	27,476
Investments	1,812,461	1,458,119
Land, buildings, and equipment, net	573,769	543,564
TOTAL ASSETS	$ 2,573,288	$ 2,189,555
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 110,512	$ 107,614
Deferred revenue and deposits	53,484	47,291
Bonds and notes payable	355,085	358,263
Interest rate agreements	9,879	10,820
Government advances for student loans	24,587	24,682
Total liabilities	553,547	548,670
NET ASSETS:		
Unrestricted	1,042,462	852,238
Temporarily restricted	546,982	420,576
Permanently restricted	430,297	368,071
Total net assets	2,019,741	1,640,885
TOTAL LIABILITIES AND NET ASSETS	$ 2,573,288	$ 2,189,555

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2006
(In thousands)

		Temporarily	Permanently	Total	
	Unrestricted	Restricted	Restricted	2007	2006
OPERATIONS:					
REVENUE:					
Tuition and fees	$ 301,916	$ -	$ -	$ 301,916	$ 288,085
Less scholarships and fellowships	(71,247)			(71,247)	(68,140)
Tuition and fees, net	230,669	-	-	230,669	219,945
Government grants and contracts	112,089			112,089	116,979
Clinical and other educational activities	90,663			90,663	78,303
Auxiliary enterprises	44,328			44,328	42,465
Contributions and grants	51,097	8,345		59,442	43,160
Investment return utilized	66,734			66,734	64,354
Net assets released from restrictions	6,451	(6,451)		-	-
Total revenue	602,031	1,894	-	603,925	565,206
EXPENSES:					
Instruction	174,695			174,695	161,369
Sponsored programs	114,793			114,793	113,158
Clinical and other educational activities	100,023			100,023	88,512
Academic and student services	79,061			79,061	75,175
Auxiliary enterprises	44,331			44,331	41,799
Institutional support	66,157			66,157	58,817
Total expenses	579,060	-	-	579,060	538,830
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	22,971	1,894	-	24,865	26,376
NONOPERATING ACTIVITIES:					
Investment return reinvested	162,858	99,655	8,346	270,859	99,434
Contributions and grants	2,542	17,396	53,880	73,818	165,869
Net assets released from restrictions for capital and other nonoperating purposes	3,918	(3,918)		-	-
Transfers between restriction categories	(11,379)	11,379		-	-
Net unrealized gain on interest rate agreements	941			941	20,862
Other nonoperating activities	(49)			(49)	49
Increase in net assets from nonoperating activities	158,831	124,512	62,226	345,569	286,214
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	181,802	126,406	62,226	370,434	312,590
CUMULATIVE EFFECT OF ACCOUNTING CHANGE	8,422	-	-	8,422	-
INCREASE IN NET ASSETS	190,224	126,406	62,226	378,856	312,590
NET ASSETS—Beginning of year	852,238	420,576	368,071	1,640,885	1,328,295
NET ASSETS—End of year	$ 1,042,462	$ 546,982	$ 430,297	$2,019,741	$1,640,885

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2006
(In thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase in net assets	$ 378,856	$ 312,590
Adjustments to reconcile total increase in net assets to net cash provided by operating activities:		
Net realized investment gains	(87,558)	(92,190)
Net unrealized investment gains	(210,133)	(35,466)
Depreciation and amortization of bond premium	35,266	38,586
Loss on disposal of land, buildings, and equipment	1,566	732
Gifts of property and equipment	(70)	(99)
Net unrealized gain on interest rate agreements	(941)	(20,862)
Contributions and investment income restricted for long-term investment	(69,982)	(174,105)
Changes in operating assets and liabilities:		
Receivables and other assets, net	(8,357)	(4,670)
Contributions receivable, net	(23,193)	6,784
Accounts payable and accrued expenses	6,718	6,615
Deferred revenue and deposits	6,193	5,071
Net cash provided by operating activities	28,365	42,986
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes receivable	358	337
Student loans granted	(7,997)	(8,381)
Student loans repaid	5,896	7,123
Purchases of investments	(1,069,440)	(1,207,604)
Proceeds from sale of investments	1,012,789	1,009,270
Changes in funds held under bond agreements	21,597	(20,961)
Additions to land, buildings, and equipment	(70,889)	(86,310)
Net cash used in investing activities	(107,686)	(306,526)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in government advances for student loans	(95)	204
Proceeds from issuance of bonds and notes	2,086	86,172
Repayments of bonds and notes	(5,162)	(4,424)
Proceeds from contributions and investment income restricted for long-term investment	69,982	174,105
Net cash provided by financing activities	66,811	256,057
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,510)	(7,483)
CASH AND CASH EQUIVALENTS—Beginning of year	40,747	48,230
CASH AND CASH EQUIVALENTS—End of year	$ 28,237	$ 40,747
SUPPLEMENTAL DATA:		
Cash paid for interest	$ 16,781	$ 14,541
Construction amounts remaining in accounts payable	$ 7,897	$ 11,717

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

1. ORGANIZATION

Tufts University (the "University"), founded in 1852, is a not-for-profit institution committed to education and research. The University is a complex independent nonsectarian university, with approximately 9,300 students and three campuses in Boston, Medford/Somerville and Grafton, Massachusetts. The University provides degree programs at both undergraduate and graduate levels in a variety of liberal arts and professional areas. The University has been granted a tax-exemption as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Permanently Restricted—Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the University. Such net assets consist primarily of donor-restricted endowment funds.

Temporarily Restricted—Net assets subject to donor-imposed stipulations that may be satisfied by actions of the University that expire with the passage of time or the occurrence of specific events.

Unrestricted—Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by the Board of Trustees.

Consolidation—The consolidated financial statements include the accounts of the University and its wholly owned or controlled subsidiaries. Intercompany accounts and transactions have been eliminated.

Classifications—Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Contributions and investment return for operating activities subject to donor-imposed stipulations that are met in the same period are reported as unrestricted revenue. Contributions and investment return for operating activities subject to donor-imposed stipulations not utilized in the current period are released from temporarily restricted net assets when spent and are reported as net assets released from restrictions under revenue from operating activities. Expirations of all other temporarily restricted net assets are reported in the nonoperating section of the statement of activities.

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

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

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

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment or loan fund;

- as increases in temporarily restricted net assets if the terms of the gift or relevant state law impose restrictions on the current use of the income or net gains. The University has relied on the Massachusetts Attorney General's interpretation of relevant state law that unappropriated endowment gains should generally be classified as temporarily restricted; and,

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

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

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

Nonendowment Spending Policy—The nonendowment investments in the Total Return Pool consist of operating and capital funds. These long-term funds, while invested in a similar manner as the endowment, are not intended to be held in perpetuity. For these investments, the University has adopted a fixed annual spending rate equivalent to 6% of the market value calculated as of December 31 of the previous year.

Spending on all investments held outside the Total Return Pool represents the yield earned, unless otherwise prescribed by donor restrictions.

Operations and Nonoperating Activities—The consolidated statement of activities reports changes in unrestricted, temporarily restricted, and permanently restricted net assets from operations and nonoperating activities. Operations includes temporarily restricted contributions that will be released to unrestricted as used for operational purposes. Operations does not include the release from restrictions of contributions restricted to the acquisition of land, buildings, and equipment and other transfers between restriction categories; investment return in excess of the University's operating needs as defined by its spending policy; unrealized gains or losses on interest rate agreements; or unrestricted bequests and gifts of property.

Tuition revenue is reported in the period earned net of the discount attributable to reductions in amounts charged to students, whether as unrestricted University financial aid, distributions from endowment funds, or government aid awarded to students by the University. Revenue associated with research and other grants and contracts is recognized when related expenses are incurred. Indirect cost recovery by the University is recorded as unrestricted revenue of $28,611,000 in 2007 and $29,396,000 in 2006. Revenue from all other sources is recognized in the period earned.

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

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

Land, Buildings, and Equipment—Land, buildings, and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts. Depreciation is provided using the straight-line method over the assets' estimated useful lives, which range from 15 to 60 years for land improvements, 3 to 60 years for buildings, and 5 to 20 years for equipment and furnishings.

Perpetual Trusts, Life Income, and Annuity Agreements—The University has an interest in various perpetual trusts, irrevocable charitable remainder trusts, and life income and annuity agreements. Assets held in these trusts and agreements, which are administered by the University or third-party trustees, are included in investments, and totaled approximately $141,500,000 and $81,400,000 at June 30, 2007 and 2006, respectively. Contributions are recognized at the date the trusts or annuity agreements are established. Liabilities associated with life income and annuity agreements are recorded at the present value of the estimated future payments to be made to the donors and/or other beneficiaries by the University. The liabilities associated with life income and annuity agreements are adjusted during the term of the life income agreement or annuity for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments. The liabilities are included in accounts payable and accrued expenses and totaled approximately $14,400,000 and $12,600,000 at June 30, 2007 and 2006, respectively. The present value of payments is discounted at a risk-free rate of return with rates that range from 5.5% to 11.6%.

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

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, 2006, 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, 2007 and 2006 are as follows (in thousands):

	2007	2006
Gross receivables	$ 25,297	$ 26,702
Less allowance for uncollectible amounts	(2,520)	(3,067)
Receivables, net	22,777	23,635
Funded status of post retirement benefit obligation (Note 11)	8,800	-
Other assets	8,689	8,274
Total	$ 40,266	$ 31,909

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Unconditional promises scheduled to be collected in:		
Less than one year	$ 41,957	$ 29,589
One year to five years	45,053	24,433
More than five years	2,071	2,520
Gross contributions receivable	89,081	56,542
Less allowance for uncollectible amounts	(10,913)	(3,937)
Less discount to present value	(4,686)	(2,316)
Total	$ 73,482	$ 50,289

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

	2007	2006
Endowment for educational and general purposes	$ 32,353	$ 22,789
Construction and modernization of plant	20,975	12,692
Support of current operations	20,154	14,808
Total	$ 73,482	$ 50,289

5. NOTE AND STUDENT LOANS RECEIVABLES

Note and student loans receivables at June 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Student loans receivable	$ 40,923	$ 38,715
Less allowance for uncollectible amounts	(2,111)	(2,004)
Student receivables, net	38,812	36,711
T-NEMC note receivable (Note 12)	382	740
Total	$ 39,194	$ 37,451

Loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions. Accordingly, it is not practicable to determine the fair value of such amounts. Generally, payment on student loans receivable commences upon graduation and can extend up to 20 years. Interest rates range from 2% to 10%.

6. INVESTMENTS

Investments at June 30, 2007 and 2006 consisted of the following categories and are stated at market value (in thousands):

	2007	2006
Cash and cash equivalents	$ 30,038	$ 181,669
Equity securities	621,199	539,561
Fixed income securities	340,291	207,738
Hedge funds	670,176	460,225
Private equities	98,901	36,004
Real estate	34,419	21,601
Commodities	21,824	15,614
Receivable for unsettled trades	1,959	356
Payable for unsettled trades	(6,346)	(4,649)
Total	$ 1,812,461	$ 1,458,119

Fair values for equity securities and fixed income securities are generally based on published market values. At June 30, 2007 and 2006, approximately $90,000,000 and $38,400,000 of equity securities are not readily marketable and are valued at management's estimate of fair value. Included in equity securities is a beneficial interest in a trust held by others amounting to $86,800,000 and $36,200,000 at June 30, 2007 and 2006, respectively. The return on this trust, included in the statement of activities is $50,600,000 and $4,200,000 for the years ended June 30, 2007 and 2006, respectively. The University invests in alternative investments, consisting of hedge funds, private equities, real estate, commodities and commingled funds through various limited partnerships and similar vehicles. Alternative investments utilize a variety of investment strategies incorporating marketable securities and, in some cases, derivative instruments, all of which are reported at estimated fair value by the fund managers. The underlying investments of the hedge funds are principally publicly-priced securities and derivatives. Private equity investments consist of long-term private investment securities and have been valued based on estimates reported by fund managers. Estimates of fair value may differ significantly from values that would have been used had a ready market for the investments existed. Real estate consists of investments in privately held and publicly traded REITs and other privately held entities. Commodities consist of an investment in a long only commodities fund. The University is obligated under certain limited partnership agreements and other alternative investment arrangements to advance additional funding periodically up to specified levels. At June 30, 2007, the University had unfunded commitments of approximately $171,054,000, which can be called through 2013. Alternative investments are valued at $1,214,679,000 and $947,791,000 at June 30, 2007 and 2006, respectively.

The total return on investments for the years ended June 30, 2007 and 2006 is as follows (in thousands):

	2007			2006		
	Endowment	Non-endowment	Total	Endowment	Non-endowment	Total
Dividends and interest	$ 19,278	$ 20,624	$ 39,902	$ 15,878	$ 20,254	$ 36,132
Net realized and unrealized gains	255,858	41,833	297,691	111,756	15,900	127,656
Total return on investments	275,136	62,457	337,593	127,634	36,154	163,788
Investment return utilized	(44,539)	(22,195)	(66,734)	(44,891)	(19,463)	(64,354)
Investment return reinvested	$ 230,597	$ 40,262	$ 270,859	$ 82,743	$ 16,691	$ 99,434

Endowment and nonendowment funds are described in Note 9.

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Land and land improvements	$ 37,430	$ 36,417
Buildings	688,913	636,293
Construction in progress	95,993	95,057
Equipment and furnishings	133,208	145,876
	955,544	913,643
Less accumulated depreciation	(381,775)	(370,079)
Total	$ 573,769	$ 543,564

Depreciation expense charged to operations was $35,367,000 and $38,687,000 in 2007 and 2006, respectively. Net interest cost capitalized in fiscal 2007 and 2006 was $589,000 and $1,581,000, respectively.

Equipment and furnishings include assets recorded under capital leases of $1,229,000 in 2007 and $840,000 in 2006. Accumulated depreciation on the assets amounted to $495,000 and $314,000 in 2007 and 2006, respectively.

Maintenance and repairs are expensed as incurred, and improvements are capitalized. When assets are retired or disposed of, the cost and accumulated depreciation thereon are removed from the accounts and gains or losses are included in operations on the statement of activities.

Outstanding commitments on construction contracts amounted to approximately $17,000,000 at June 30, 2007.

8. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2007 and 2006 consisted of the following (in thousands):

	2007	2006
Massachusetts Industrial Finance Agency ("MIFA")—Series H, fixed rate bonds at 4.75-5.50%, due through 2028	$ 84,995	$ 88,095
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 3.91% average rate for 2007, due 2024-2026	32,400	32,400
Series I, fixed rate bonds at 5.25-5.50%, due 2029-2036	50,000	50,000
Series J, fixed rate bonds at 3.00-5.50%, due 2003-2018	32,405	32,635
Series K, variable rate bonds at 4.46% average rate for 2007, due 2022-2034	54,000	54,000
Series L, variable rate bonds at 4.08% average rate for 2007, due 2030-2041	86,000	86,000
United States Department of Education ("DOE"):		
Fixed rate bonds, 3.00-3.625%, due through 2018	3,128	3,373
Fixed rate bonds, 3.00%, due through 2021	1,833	1,957
Secured note, 5.50%, due through 2020	-	1,303
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	-
		-
Southside LLC - Note, rate fixed at 7.19 until maturity in 2016	233	-
Sovereign Bank - Letter of credit at 1.99% above prime	25	-
Capital Leases—various imputed interest rates, due through 2012	313	146
	354,332	357,409
Net unamortized bond premium	753	854
Total bonds and notes payable	$ 355,085	$ 358,263

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

Scheduled aggregate principal repayments on bonds and notes payable are as follows (in thousands):

Fiscal Year Ending	
2008	$ 5,771
2009	4,189
2010	4,416
2011	4,522
2012	4,826
Thereafter	330,608
Total	$ 354,332

A refunding trust was established in 1989 to retire Series A bonds. At June 30, 2007, trust funds of $2,065,000 are available to service principal and interest obligations, which will be fully repaid in 2008. Because the refunded bonds are no longer deemed to be outstanding for financial reporting purposes, neither the debt nor the irrevocable trust assets are included in the consolidated statement of financial position.

The University's debt is stated at cost. The fair value has been calculated by determining the net present value of future cash outlays using an appropriate interest rate based on the length of time to maturity. The rates were based upon market conditions as of June 30, 2007 and 2006. The estimated fair value at June 30, 2007 and 2006, is $363,106,000 and $365,936,000 respectively.

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

	Series K Interest Rate Swap	Series L Interest Rate Swap	Series L Interest Rate Swap
Trade Date	May 2004	May 2004	December, 2005
Effective Date	August 2004	January 2006	January 2006
Notional Amount	$54,000,000	$34,000,000	$40,000,000
Termination Date	August 15, 2034	August 15, 2036	August 15, 2040
Rate paid by University	4.069%	4.292%	3.5175%
Rate paid by Counterparty:			
Through June 14, 2006	69% of one-month USD-LIBOR-BBA	69% of one-month USD-LIBOR-BBA	69% of one-month USD-LIBOR-BBA
Effective June 15, 2006	64.18% of 5-year USD-ISDA-Swap Rate	64.36% of 5-year USD-ISDA-Swap Rate	64.40% of 5-year USD-ISDA-Swap Rate
Fair Value (Liability):			
June 30, 2006	$(1,588,000)	$(2,118,000)	$2,067,000
June 30, 2007	$(1,312,000)	$(1,895,000)	$2,183,000

The University also entered into two interest rate swaption agreements associated with certain of its fixed rate debt. In return for the option to exercise the swaption agreements, the University received premium payments. If the options are exercised by the Counterparty, the University will call the bonds covered under the agreements, issue new variable rate debt and enter into the swap agreements described below. The details of the swaption agreements are summarized as follows:

	Swaption	Swaption
Trade Date	October 2004	October 2004
Premium Received	$3,850,000	$5,150,000
Exercise Date	January 15, 2008	January 13, 2011
Underlying Swap:		
Notional Amount	$65,950,000	$50,500,000
Termination Date	February 15, 2028	February 15, 2036
Rate paid by University	4.32%	5.11%
Rate paid by Counterparty	69% of one-month USD-LIBOR-BBA	69% of one-month USD-LIBOR-BBA
Fair Value (Liability):		
June 30, 2006	$(3,185,000)	$(5,996,000)
June 30, 2007	$2,920,000	$(5,935,000)

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

9. NET ASSETS

Net assets at June 30, 2007 and 2006 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2007 Total	2006 Total
Endowment	$ 596,445	$ 487,628	$ 412,780	$ 1,496,853	$ 1,181,972
Invested in physical plant	223,706			223,706	213,115
Operating	171,689	30,387		202,076	163,564
Building projects	31,736	28,967		60,703	47,498
Student loans	18,886		17,517	36,403	34,736
Total	$ 1,042,462	$ 546,982	$ 430,297	$ 2,019,741	$ 1,640,885

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 $294 million and $225 million in 2007 and 2006, respectively. Unrestricted operating includes funds that have been internally designated for use by various schools, departments, and programs throughout the University.

10. NATURAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statement of activities by functional category. Operating expenses by natural category for the years ended June 30, 2007and 2006 consisted of the following (in thousands):

	2007	2006
Compensation:		
Staff, student, and other	$ 188,085	$ 176,591
Faculty	93,694	88,206
Benefits	57,833	56,100
Total compensation	339,612	320,897
Materials, supplies, and other	100,808	87,629
Purchased services	41,299	36,810
Depreciation and loss on disposals	36,948	39,419
Maintenance and facilities costs	32,453	29,919
Interest	15,948	12,879
Travel	11,992	11,277
Total expenses	$ 579,060	$ 538,830

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 $19,718,000 and $18,711,000 in 2007 and 2006, 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 $75,000 and $73,000 in 2007 and 2006, respectively. Under the terms of the Faculty and Administrative Staff Plan, no contributions are made by the University but are fully funded by voluntary employee contributions. The assets and related liabilities of these plans are recorded in the consolidated financial statements and total approximately $4,416,000 and $2,871,000 in 2007 and 2006, 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 $7,000 and $19,000 in 2007 and 2006, respectfully. The investment assets and related liabilities of these plans, which total approximately $10,704,000 and $9,853,000 in 2007 and 2006, respectively, are recorded in the consolidated financial statements.

Health and Welfare Benefit Plan—The University provides postretirement health care benefits to eligible retired employees and their eligible spouses. Retirees share in the cost of their health care benefits through co-payments and deductibles related to years of service and date of retirement. Employees who were hired after December 31, 1993, must pay for the entire cost of their benefit when they retire. The University established a trust to fund the postretirement health care benefits for most of the eligible employees. The trust qualifies as a "voluntary employees beneficiary association" (VEBA) under the provisions of Section 501(c)(9) of the Code in order that the trust be exempt from certain taxes. The University funded the trust with approximately $350,000 and $700,000 in 2007 and 2006, respectively.

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2007 and 2006 were as follows (in thousands):

	2007	2006
Benefit obligation—beginning of year	$ 31,178	$ 39,146
Service cost	165	243
Interest cost	1,747	1,753
Benefits paid	(2,908)	(2,803)
Participants' contributions	1,023	894
Actuarial (gain) loss	(3,436)	(8,055)
Employer Part D Subsidy	175	-
Special termination benefit	180	-
Benefit obligation—end of year	$ 28,124	$ 31,178

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, 2007 and 2006 were as follows (in thousands):

	2007	2006
Fair value of plan assets—beginning of year	$ 32,943	$ 30,493
Actual return on plan assets	5,524	3,651
Employer contributions	342	708
Plan participant contributions	1,023	894
Benefits paid	(2,908)	(2,803)
Fair value of plan assets—end of year	$ 36,924	$ 32,943
Funded status	$ 8,800	$ 1,765
Unrecognized transition obligation		5,709
Unrecognized actuarial (gain) loss	-	(7,375)
Prepaid/(accrued) benefit cost recognized	$ 8,800	$ 99

Funded Status — In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS 158 focuses primarily on balance sheet reporting for the funded status of benefit plans and requires recognition of benefit liabilities for under-funded plans and benefit assets for over-funded plans, with offsetting impacts to unrestricted net assets. The University adopted the balance sheet recognition provisions of SFAS 158 as of June 30, 2007. The impact of adoption resulted in a net increase of $8,422,000 in unrestricted net assets, which has been recorded as a cumulative effect of accounting change in the consolidated statement with activities. The increase is comprised of the net transition obligation of $4,893,000 and actuarial gain of $13,315,000.

The incremental effect of applying SFAS 158 on individual line items in the consolidated statement of financial position as of June 30, 2007 is as follows (in thousands):

	Before Application of SFAS 158	Health & Welfare Benefit Plan Adjustments	After Application of SFAS 158
Receivables and other assets, net	$ 31,844	$ 8,422	$ 40,266
Total assets	$ 2,564,866	$ 8,422	$ 2,573,288
Unrestricted net assets	$ 1,034,040	$ 8,422	$ 1,042,462

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

	2007
Amortization of transition obligation	$ 816,000
Amortization of actuarial loss/(gain)	(722,000)
Amounts to be recognized in the following year	$ 94,000

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

	2007	2006
Service cost	$ 165	$ 243
Interest cost	1,747	1,753
Expected return on plan assets	(2,549)	(2,375)
Amortization of net obligation/(asset) at transition	816	816
Amortization of actuarial loss/(gain)	(471)	-
Amortization of prior service cost/(credit)	-	-
Special termination benefits	180	-
Net periodic postretirement benefit cost/(income)	$ (112)	$ 437

Expected Cash Flows— Information about the expected cash flows for the postretirement healthcare plan is as follows:

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

	2007	2006
Discount rate at end of year	6.25%	6.25%

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

	2007	2006
Discount rate at beginning of year	5.25%	6.25%
Expected return on plan assets during year	8.00%	8.00%

The following were other significant assumptions used in the valuation as of June 30, 2007 and 2006:

Health Care Cost Trend Rate	Fiscal Year Ending	Medical	Drugs
	2006	9.50%	13.50%
	2007	9.00%	12.00%
	2008	8.50%	10.50%
	2009	7.50%	8.00%
	2010	6.50%	6.50%
	2011	5.50%	5.50%
	2012 and after	5.00%	5.00%

The expected return on plan assets was assumed to be 8.0% per year for 2007 and 2006.

Impact of 1% increase in health care cost trend	
on interest cost plus service cost during past year	$ 43,000
on accumulated postretirement benefit obligation	$ 626,000
Impact of 1% decrease in health care cost trend	
on interest cost plus service cost during past year	$ (38,000)
on accumulated postretirement benefit obligation	$ (570,000)

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

	Expected Net Benefit Payments*	Expected Medicare Subsidy
Fiscal Year Ending in 2008	$ 2,419,000	$ 115,000
Fiscal Year Ending in 2009	2,493,000	117,000
Fiscal Year Ending in 2010	2,442,000	115,000
Fiscal Year Ending in 2011	2,461,000	112,000
Fiscal Year Ending in 2012	2,451,000	106,000
Fiscal Year Ending in 2013 through fiscal year ending 2017	12,172,000	436,000

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

The estimated University cash contributions for the 2008 fiscal year are as follows:

Key employee and special termination benefit amounts	$34,000

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

	2007	2006	Target Allocation
Equity securities	56%	56%	56%
Debt securities	29%	28%	29%
Real estate securities	14%	16%	15%
Other	1%	0%	0%
Total	100%	100%	100%

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

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

12. RELATED ORGANIZATIONS

Walnut Hill Properties Corporation ("Walnut Hill")—Walnut Hill is a not-for-profit corporation established by the University to own and manage certain investment and rental properties. The $7,500,000 bank note described in Note 8, which is an obligation of Walnut Hill, is guaranteed by the University. The accounts of Walnut Hill are included in the accompanying consolidated financial statements of the University.

TUDC, LLC ("TUDC")—TUDC is a single member limited liability company created by the University to develop the Tufts International Center (the "Center") with the air rights over South Station in Boston. The Center, when completed, will include office space, a hotel, residential uses, and a parking facility. In October 1997, TUDC entered into a development partnership agreement with Hines Interests Limited Partnership ("Hines") to co-develop the air rights. Original financing for the project included a promissory note payable to the Massachusetts Bay Transportation Authority (the "MBTA") in the amount of $10,000,000, which was a nonrecourse note and the sole responsibility of TUDC. In May 2005, TUDC, Hines and the MBTA executed a letter of intent setting forth revised terms with respect to the development of the South Station air rights owned by the MBTA and the restructuring of the note payable.

In October 2005, the Boston Redevelopment Authority ("BRA"), TUDC and Hines executed a revised letter of intent for the development of the project. Effective April 30, 2007, an amended and restated loan agreement was executed by TUDC and the MBTA, combining the original $10,000,000 principal and accrued interest of $7,400,000 into a new $17,400,000 note, which remains nonrecourse to the University. At the same time, TUDC formalized agreements by and among Hines, the BRA and the MBTA, conveying the rights for and setting forth the terms of the project's development. The accounts of TUDC are included in the accompanying consolidated financial statements of the University in investments, accounts payable and accrued expenses, and operating expenses.

On August 10, 2007, TUDC and Hines entered into an Asset Purchase Agreement setting forth provisions for the sale of TUDC's interest in the South Station air rights project to Hines. According to this agreement, Hines would acquire all of TUDC's rights and assets related to the project upon the earlier of initial funding by an third party investor or December 31, 2007. The agreement also sets forth the rights and obligations of TUDC and Hines as co-developers should the asset purchase agreement not close by December 31, 2007.

Tufts Veterinary Emergency Treatment & Specialties ("Tufts VETS")—Tufts VETS is a not-for-profit corporation organized by the University to provide emergency and specialty veterinary services in a community environment. It provides postgraduate training in its emergency and critical care training program and training to veterinary students on elective rotations. The accounts of Tufts VETS are included in the accompanying consolidated financial statements of the University.

Tufts Media LLC ("Tufts Media")—Tufts Media is a single member limited liability company created by the University to operate its consumer publishing and media capability. The accounts of Tufts Media are included in the accompanying consolidated financial statements of the University.

JM Holding Corporation ("JM Holdings")—JM Holdings is a for-profit development corporation created by the University to develop 106 acres designated for commercial use at the Cummings School of Veterinary Medicine. At this time, there is no development agreement. The accounts of JM Holdings are included in the accompanying consolidated financial statements of the University.

Omidyar–Tufts Microfinance Fund ("Microfinance Fund") — The Microfinance Fund was organized in October 2005 as a charitable trust to support, benefit and carry out the purposes of public charity beneficiaries, including the University, by engaging in two activities: promoting the relief of the poor and distressed through microfinance investments, and promoting education through grants. The capital assets of the Microfinance Fund were contributed by a third party and, according to the donor's stipulation, are to be invested in microfinance-related ventures. The majority of the Microfinance Fund's trustees are appointed by the University. In 2006, a $100 million contribution to establish the Microfinance Fund was recorded in temporarily restricted net assets. The accounts of the Microfinance Fund are included in the accompanying consolidated financial statements of the University.

Tufts-New England Medical Center, Inc. ("T-NEMC")—The University and New England Medical Center Hospitals, Inc. ("Medical Center") jointly formed T-NEMC, a not-for-profit service corporation, to provide the organization and facilities for coordinating certain education and health services activities. The administrative board of T-NEMC includes equal representation from the University and the Medical Center. Through September 30, 2006, shared cost centers provided by T-NEMC to the University and the Medical Center included parking, laboratory animal housing, educational media and utility services. Effective October 1, 2006, an agreement was reached to transfer the operations of laboratory animal housing and educational media services to the University. The cost of services provided by T-NEMC to the University for the years ended June 30, 2007 and 2006 were approximately $4,673,000 and $5,592,000, respectively. 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, 2007 and 2006 was $382,000 and $740,000, respectively, and is included in note and student loans receivables in the consolidated statements of financial position. The accounts of T-NEMC are not included in the accompanying consolidated financial statements of the University.

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

13. CONTINGENCIES AND COMMITMENTS

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

Operating Leases—The University has several noncancelable operating lease commitments at June 30, 2007, with terms in excess of one year for equipment and office space. Expenses associated with operating leases totaled approximately $1,694,000 and $1,408,000 for the years ended June 30, 2007 and 2006, respectively. Future minimum lease payments under operating leases are as follows (in thousands):

Fiscal Year	
2008	$ 1,624
2009	1,233
2010	952
2011	484
2012	270
Thereafter	2,549
Total	$ 7,112

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THE BOARD OF TRUSTEES OF TUFTS COLLEGE
AS OF JUNE 30, 2007