Tufts
UNIVERSITY

Annual Financial Report 2018

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Tufts University Highlights

(Fiscal years ended June 30, 2018 and 2013)

	2018	2013
FINANCIAL ($ in thousands)		
Total unrestricted operating revenue	$909,105	$773,202
Total net assets	$2,584,174	$2,076,651
Land, buildings and equipment, net	$1,083,931	$801,091
Investments, net of receivables and payables	$2,349,226	$2,003,680
Bonds and notes payable	$766,711	$ 634,969
CREDIT RATING		
Standard & Poors	AA-	AA-
Moody's	Aa2	Aa2
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	5,464	5,167
Graduate	3,295	2,918
Professional	2,093	1,938
Certificate and other	172	287
Total full-time equivalent enrollment	11,024	10,310
Undergraduate Admission		
Applicants	21,501	18,419
Selectivity	14.6%	18.8%
Yield	49.1%	37.9%
SAT (mean)	1,445	1,438
ACT (mean)	32.6	-
Total undergraduate student charges (tuition, room, board, mandatory fees)	$68,372	$56,546
PERSONNEL		
Faculty	1,276	1,107
Staff	3,290	3,028
Total full-time equivalent	4,566	4,135
FACILITIES		
Gross square feet	5,568,412	5,005,006

Campuses – Medford/Somerville, Boston (Health Sciences Campus, SMFA Campus), Grafton

Tufts University
2018 Financial Report

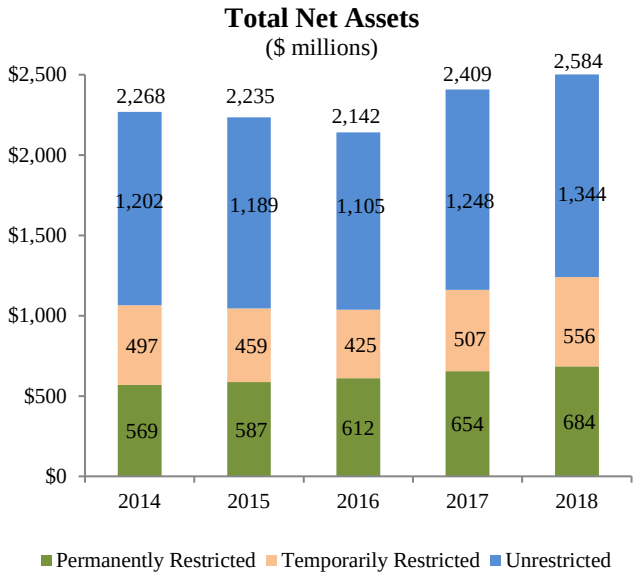
Tufts University continued its trend of strong programmatic and financial growth in Fiscal Year 2018. The university's full-time student enrollment continued to grow, and the overall undergraduate and graduate enrollment exceeded 11,000 students across four campuses. Student demand is excellent and improving, making Tufts one of the most selective and desirable universities in the country. For Academic Year 2018-2019 the undergraduate acceptance rate was 14.6% and the undergraduate matriculation rate was 49.1%, with an undergraduate applicant pool of 21,501 students and an entering undergraduate class of 1,543. In Fiscal Year 2018 Tufts' financial profile remained strong, with annual unrestricted revenues of $909 million, an endowment of $1.9 billion, and net assets of $2.6 billion. In November 2017 Tufts launched *Brighter World: The Campaign for Tufts*, a $1.5 billion fundraising campaign that will further strengthen support for Tufts' mission and its financial position.

Over 11,000 students across four campuses

The university's programmatic growth continued in Fiscal Year 2018 with the announcement of new graduate programs in the School of Engineering and School of Arts and Sciences; the announcement of the development of new online degrees; and the expansion of summer learnings opportunities. The university also completed the initial phase of its Research and Scholarship Strategic Plan, the purpose of which is to advance the university's research enterprise over the coming decade. Finally, Tufts opened Tufts Launchpad|Biolabs, a new incubator space for early-stage biotechnology innovators, an initiative supporting Tufts' T10 Strategic Plan that, in part, endeavors to support innovation and an entrepreneurial spirit. The university's infrastructure growth continued in Fiscal Year 2018 with the opening of the Science and Engineering Complex (SEC), completion of the Central Energy Plant (CEP) and launch of housing initiatives on the Medford/Somerville campus; infrastructure improvements at the School of Museum of Fine Arts (SMFA) campus in Boston; and completion of the construction of Tufts Launchpad|Biolabs and near completion of the improvement and expansion of the Gross Anatomy Lab on the Health Sciences campus in Boston.

$2.6 Billion in Net Assets

Tufts financial strength continued to improve in Fiscal Year 2018 with total net assets growing 7.3% ($175 million) to almost $2.6 billion. The primary factors influencing net assets are operating results, philanthropy, and investment performance. Revenue increases and continued efficiency efforts resulted in an operating surplus of $5.4 million. Non-operating and temporarily restricted operating activities, particularly a 10.7% return on the Total Return Pool (TRP) and donor contributions, added another $169.8 million to total net assets. Notably, continued generous giving in Fiscal Year 2018 resulted in $154.0 million in achievement in



Key Financial Highlights (5-year trend)

(in millions of dollars)	2014	2015	2016	2017	2018
Operating Revenues*	$792	$813	$854	$897	$909
Operating Expenses*	788	812	836	884	904
Operating Results*	3.8	1.1	17.8	13.1	5.4
Net Assets	2,268	2,235	2,142	2,409	2,584
Endowment	1,625	1,622	1,593	1,775	1,893

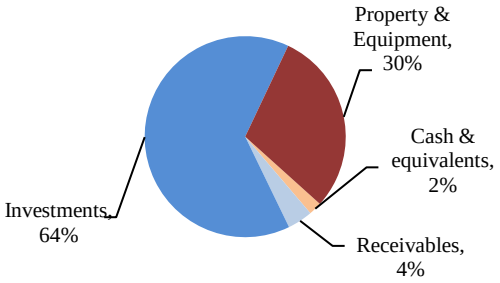
* Unrestricted

the fiscal year. This strong financial performance allows the university to support the needs of our students; maintain and invest in our infrastructure; and, with our prudent endowment management practices, maintain the financial stability of the university to allow consistent delivery of programmatic services over the long-term.

ASSETS

The university has assets of $3.66 billion, which are comprised principally of investments at 64% and property and equipment at 30%. Total assets increased 4.7% during the fiscal year, primarily due to increases in investments and property and equipment. Total assets have grown at a compounded annual rate of 4.1% over the last 5 years.

Assets

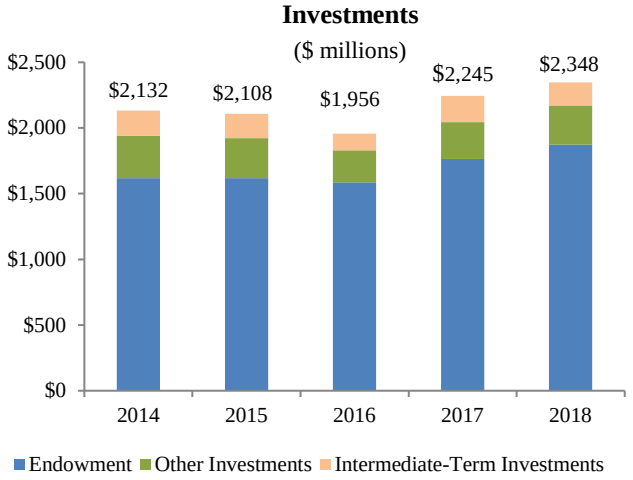


Investments

Investments, which include intermediate and long-term investments, totaled $2.35 billion at the end of Fiscal Year 2018. Of that total, long-term investments, approximately 86% of which are endowed funds, totaled $2.17 billion at the end of the fiscal year, a $127.3 (6.2%) million increase from the prior year-end.

$2.35 Billion in Investments

The Investments increase was driven by the return on the Total Return Pool (TRP) of 10.7% and the addition of $31.0 million in endowed gifts. Please refer to section 2018 Endowment and Investment Report of this report for additional discussion on the endowment and investments.



Property and Equipment

Property and equipment had a $1.08 billion book value net of depreciation at year-end, growing $44.3 million (4.3%) from the prior year-end. Total Fiscal Year 2018 capital expenditures amounted to $103.0 million with large projects including the completion of the Science and Engineering Complex (SEC), a new 4 MW Central Energy Plant (CEP), 15,000 square-foot Tufts Launchpad|Biolabs lab space, and SMFA Campus Improvements.

At fiscal year-end major projects in progress included work on the School of Medicine's Gross Anatomy Lab, initial work on Miller and Houston Halls dorm renovations, Carmichael Dining Hall renovations, Barnum and Dana Halls renovations, and work on the first phase of the university's Community Housing (CoHo) project for Junior/Senior housing. Importantly, Tufts is focused on student life at the university and has determined that housing is an important component of the university's efforts to provide a healthy, robust, inclusive, and holistic environment for students. As such, In Fiscal Year 2018 the university invested $15.5 million in housing projects, which over the last several years has resulted in the refurbishment of 802 beds and addition of 86 new beds for students.

Physical Plant Renewal

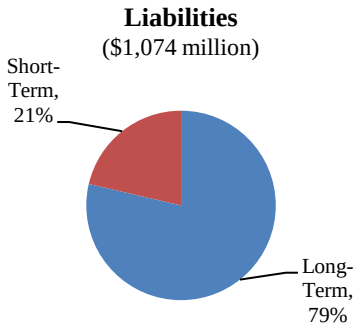
The university is committed to preserving and renewing its physical resources, made possible by an increasing commitment of annual operating revenue and the prudent use of debt. In Fiscal Year 2012, the Board of Trustees approved a plan to increase funds available for deferred maintenance. In accordance with that funding

plan, the university allocated $35 million in Fiscal Year 2018 to improve the condition of the physical plant. The university plans to increase the amounts committed to renewal to $49.2 million by Fiscal Year 2021.

LIABILITIES

Liabilities totaled $1.07 billion at fiscal year-end, a year-over-year decrease of $11.3 million. The decrease was primarily due to principal payments on bonds and notes payable and a decrease in liabilities associated with interest rate agreements, offset partially by an increase in general and project related accounts payable and interest payable.

Long-term liabilities include bonds and notes payable, interest rate agreements, and government advances for student loans. Current liabilities include accounts payable, deferred revenue and other liabilities. Liabilities have grown at a compounded annual rate of 3.3% over the last 5 years.



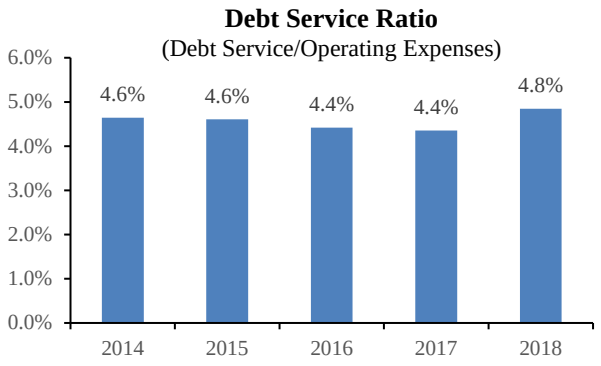
Debt

The university's outstanding debt totaled $766.7 million as of June 30, 2018, a decrease of $11.9 million from June 30, 2017. The university's last debt issuance was in June 2017 for $130 million.

The liability associated with interest rate agreements decreased from $67.1 million as of June 30, 2017 to $54.7 million as of June 30, 2018. These long-term swaps are matched to the university's variable rate debt to effectively create fixed-rate debt obligations. The agreements do not contain financial covenants or require the university to post collateral. The liability associated with the agreements reflects the market termination cost as of June 30, 2018. The university does not intend to retire the agreements and therefore does not expect to incur the obligation for early retirement.

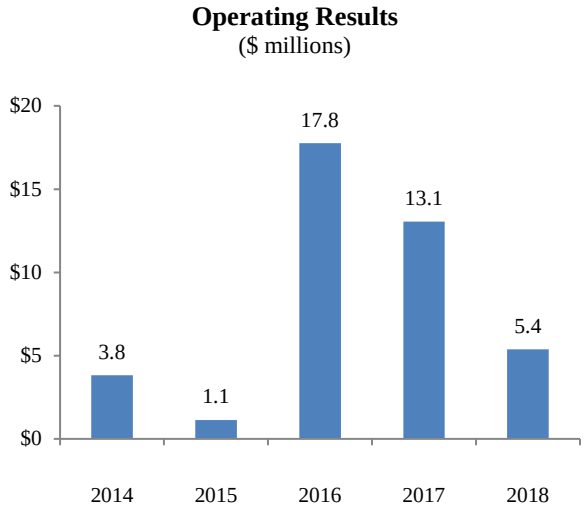
The university's overall weighted average cost of capital as of June 30, 2018 was 4.08%.

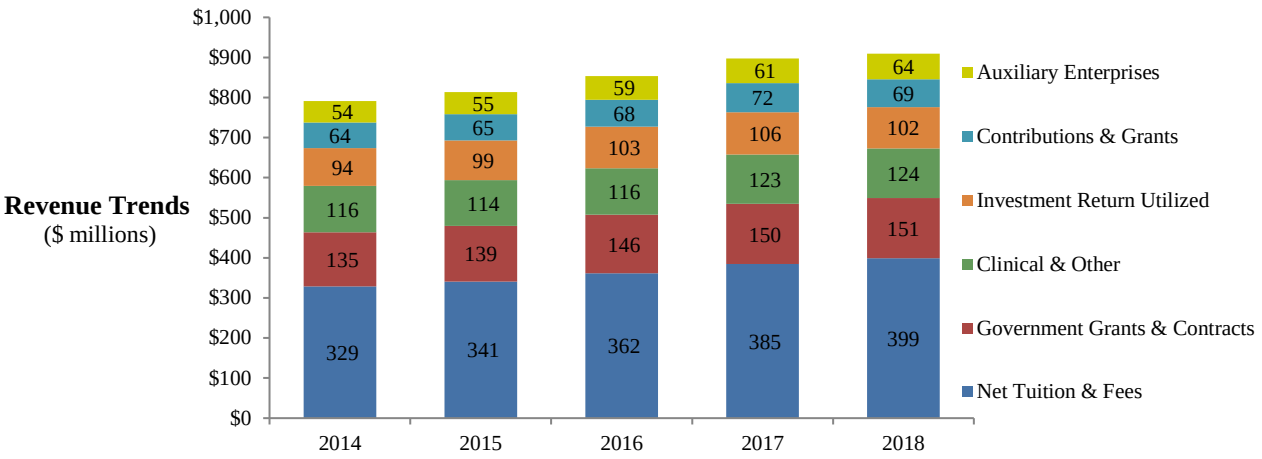
The debt service to operating expense ratio, which measures the impact of annual debt service (interest and principal payments) on operations, was 4.8% in Fiscal Year 2018. This is consistent with the university's goal of maintaining debt service levels less than 5.0% of operating expenses. Over the past five years, the ratio has ranged between 4.4% and 4.8%, enabling the university to maintain its strong credit ratings while benefiting from a low cost of capital.



OPERATING RESULTS

Operations contributed $5.4 million to unrestricted net assets in Fiscal Year 2018 compared to $13.1 million in Fiscal Year 2017.





Unrestricted operating revenues grew to $909.1 million in Fiscal Year 2018 from $897.1 million in Fiscal Year 2017. The change was due primarily to planned increases in tuition, fees, room and board; and increases in enrollment, clinical revenues, and working capital income; offset by decreases in private grant activity, royalty revenues, and endowment earnings utilized for operations.

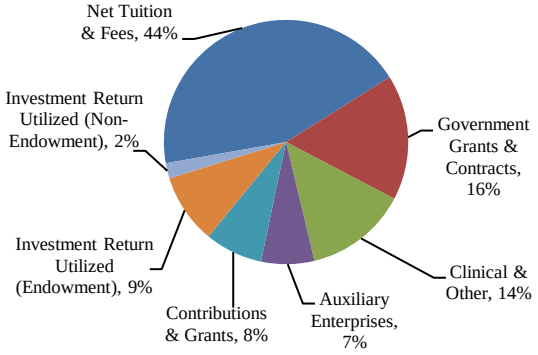
$909 Million in Revenue

Operating expenses grew to $903.7 million In Fiscal Year 2018 from $884.0 million in Fiscal Year 2017. The change was primarily due to increases in salary & wages and facilities related costs (maintenance, depreciation, and interest); offset by decreases in benefits costs, and other non-compensation costs.

Revenue

Operating revenues increased 1.3% in Fiscal Year 2018, bringing the 5-year growth rate to 3.3%. The university has a diverse revenue base, which mitigates the impact of changes in any one revenue source.

Revenue Sources



In the last several years, the revenue components have been stable. In Fiscal Year 2018 the largest components were net tuition and fees comprising 44% of the operating revenue and government grants & contracts comprising 16% of the operating revenue.

Tuition and Financial Aid

Net tuition (gross tuition and fees minus financial aid) grew $14.0 million (3.6%) to $398.7 million. Gross tuition and fees increased 3.8% to $545.9 million due to planned tuition and fee increases and an increased enrollment of 120 students. Undergraduate total student charges increased 3.6%. Undergraduate enrollment increased by 35 students. Graduate enrollment increased by 85 students.

In addition, the School of Engineering graduate programs, the School of Arts & Sciences graduate programs, the Friedman School of Nutrition Science and Policy, the School of Dental Medicine, and the Cummings School of Veterinary Medicine all experienced increased enrollment.

$147 Million in Financial Aid

Total financial aid for both undergraduate and graduate degree programs grew $6.2 million or 4.4% to $147.2 million in Fiscal Year 2018.

Investment Return Utilized

Investment return utilized in operations decreased 2.9% to $102.6 million in Fiscal Year 2018. This amount includes investment income distributed and utilized from the TRP during the fiscal year and income earned on short-term investments of the university's working capital. The utilization decreased in Fiscal Year 2018 due to the initiation of a planned multi-year reduction in

the university's Endowment Spending Policy; a plan that reduced the annual endowment TRP distribution from 4.5%-5.5% of the endowment TRP market value in Fiscal Year 2017 to 4.0%-5.0% of the endowment TRP market value in Fiscal Year 2018 (the TRP market value for this calculation being the 12-quarter moving average ended September 30 of the prior fiscal year). This change resulted in a $6.0 million (6.6%) reduction in endowment distribution utilization. This decrease was offset by a $2.9 million (18.6%) increase in non-endowment utilization due to additional income earned on investments of working capital as a result of increased short-term interest rates and increased non-endowment TRP distributions.

The change to the university's TRP Endowment Spending Policy was enacted to better align the annual distribution percentage with the long-term return expectations of the TRP; a change consistent with the required prudent management of endowed funds, intended to maintain the long-term purchasing power of these funds and provide stable programmatic support over many years.

Additional information regarding the TRP and the performance of the university's investments can be found in section 2018 Endowment and Investment Report of this report.

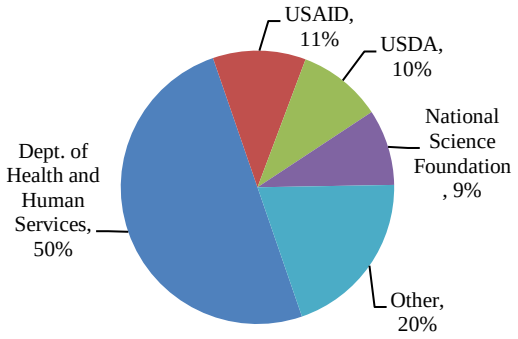
Contributions, Grants and Contracts

Contributions, grants and contracts, which include government and private research grants and contracts, the Commonwealth of Massachusetts appropriation for the Cummings School, annual fund gifts, and utilized restricted gifts totaled $220.3 million, a decrease of $2.2 million (1.0%) from the prior year. Increases in government sponsored activity were offset by decreases in activity funded by private sponsors. The composition of this revenue remained consistent with Fiscal Year 2017. Government grants and contracts comprised 66.2% of this amount, private grants 16.1%, gifts 15.5%, and the state appropriation 2.2%.

$220 Million in Contributions, Grants and Contracts

In Fiscal Year 2018, funding levels from U.S. government agencies were consistent with the prior fiscal year. In Fiscal Year 2018, 51% of government sponsored activity was supported by funding from the Department of Health and Human Services (DHHS). The U.S. Agency for International Development (USAID), U.S. Department of Agriculture (USDA), and National Science Foundation (NSF), each support approximately 10% of the government sponsored research volume.

Government Grants and Contracts

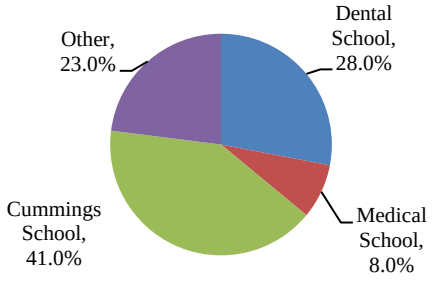


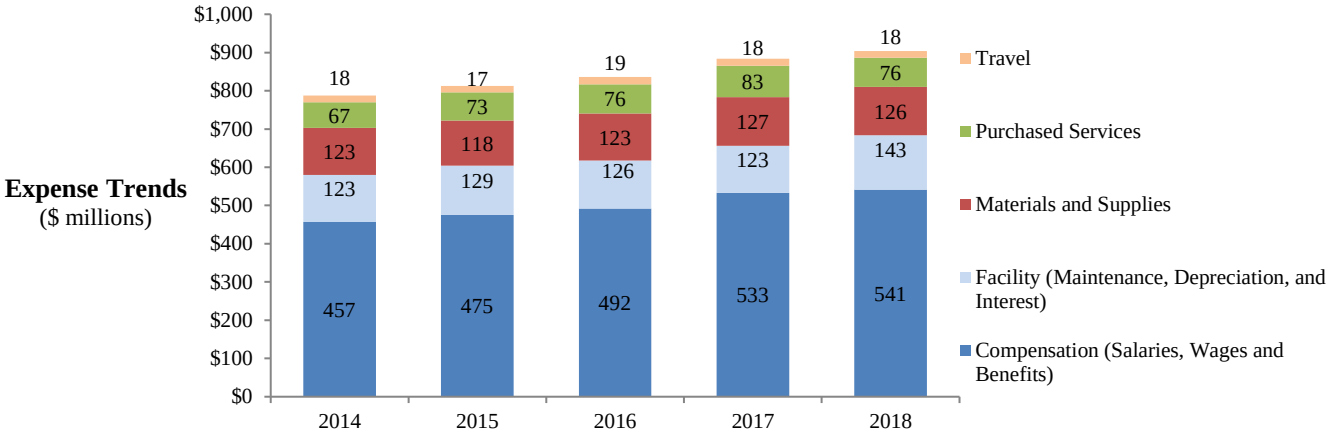
Research supported by the DHHS increased $3.4 million (4.9%) in Fiscal Year 2018. Other notable increases in U.S. funded research volume year-over-year occurred for grants and contracts funded by the Navy, the National Aeronautics and Space Administration (NASA), and the NSF. The School of Engineering experienced a $2.9 million increase in sponsored activity across all three types of sponsors: federal, state, and private. The Fletcher School of Law and Diplomacy experienced a $1.3 million increase in sponsored activity due to increased private sponsor supported activity. The School of Dental Medicine experienced a $0.6 million increase due to increases in state and federal sponsored activity.

Clinical and Other Educational Activities

Revenue from clinical and other educational activities grew 0.5% in Fiscal Year 2018 to a total of $123.6 million. The clinical revenues generated at the Cummings School, Medical School, and Dental School

Clinical and Other Educational Activities





account for most of the revenue in this area. There are a number of other sources as well including royalty income and rental income.

The predominant reason for the increase in this area in Fiscal Year 2018 was a $7.0 million (7.8%) growth in clinical revenue. The Cummings School experienced a 6.3% increase in clinical revenues to $45.8 million; the Dental School experienced a 7.4% increase in clinical revenues to $34.1 million; and the Medical School experienced a 4.4% increase in clinical revenues to $8.7 million. Also included in these clinical revenues is $1.0 million in revenue from Tufts Launchpad|Biolabs, the university's new lab for biotechnology innovators, opened in Fiscal Year 2018.

The growth in clinical revenue was offset in part by a decrease in royalty revenues of $4.9 million due to the fact that the university received large royalty payments from two agreements in Fiscal Year 2017.

Auxiliary Enterprises

Auxiliary enterprises include dorms, dining halls, conference services, health services, and parking facilities. Auxiliary revenues increased $2.7 million in Fiscal Year 2018 to $63.9 million primarily due to planned increases in room and board and increased conference service revenues.

Expenses

Operating expenses increased 2.2% to $903.7 million in Fiscal Year 2018, bringing the 5-year growth rate down to 3.3%, from 3.9% in the prior year. The pie chart displays the major natural class expense categories. Over time, the share of expense components has remained relatively stable.

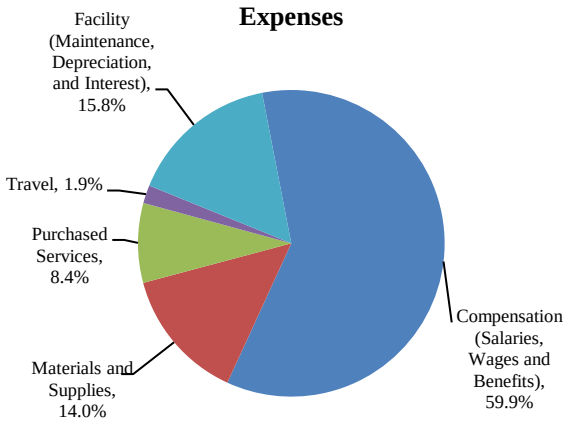
Compensation Costs (Salaries, Wages, and Benefits)

Compensation (salaries, wages, and benefits), comprising nearly 60% of all expenses, increased $8.0 million (1.5%). The five-year compounded growth rate for compensation costs decreased in Fiscal Year 2018 to 3.8%.

Salaries and wages increased $11.7 million (2.7%) with an average merit pool increase of 2.3% and the addition of 15 faculty and 90 staff.

Benefit expenses decreased $3.7 million (3.7%) in Fiscal Year 2018 resulting from lower medical plan costs, reduced postretirement health plan obligations, and reduced Long Term Disability (LTD) related obligations. These decreases were offset by increases in payroll tax and retirement plan (401(a)) expenses, both a function of increases in salaries and wages.

$904 Million in Expenses



The university has a self-insured medical plan for employees, as opposed to a premium only/fully insured Plan; meaning that costs for claims accrue directly to the employer and employees. In Fiscal Year 2018, medical plans costs, which comprised 30% of all benefits costs, decreased $3.6 million (11.1%). The five-year compounded annual growth rate for medical plan costs was 2.4%.

In Fiscal Year 2018 the university transitioned from its employer sponsored postretirement health insurance plans to a private health insurance exchange, providing retirees over 65 years old expanded options for health insurance at lower rates. In addition to reduced rates for these retirees, this transition reduced the university's postretirement health plan obligations by $14.5 million, $1.8 million of which was recognized in operations. Also, the postretirement health plan is funded by a trust which was funded by the university. Due to the transition of this plan and the related reduction in obligations, the university was able to amend the trust and access $17.0 million to pay for active employee claims in Fiscal Year 2018. The postretirement health plan obligations remain well funded, with the assets in the trust exceeding the obligations, resulting in a funded status of 115% and 105% at the end of Fiscal years 2018 and 2017, respectively.

The university provides medical and life insurance benefits continuation for employees on LTD. This obligation is actuarially determined at the close of each fiscal year. Due to a decrease in the number of employees on LTD and a change in actuarial assumptions, the university's obligation for these benefits decreased, resulting in an operating gain of $1.5 million.

Non-Compensation Costs

Non-compensation expense increased $11.7 million (3.3%) to $362.7 million. The five-year compounded growth rate for non-compensation expenses at the end of Fiscal Year 2018 was 2.7%.

Expenses related to Purchased Services, Travel, and Material & Supplies, decreased $7.3 million (3.2%), with each category experiencing a decrease from Fiscal Year 2017. Purchased Services expenses decreased $6.2 million primarily due to lower royalty payments to inventors, who are paid a percentage of the royalty payments that are received annually by the university, which were lower in Fiscal Year 2018; and lower consulting costs. Travel cost decreased primarily due to reduced domestic travel costs. Materials & Supplies expenses decreased nominally.

Facilities related costs (facilities & maintenance, depreciation, and interest) increased $19.0 million (15.4%). Facilities & maintenance costs increased $3.6 million primarily due to increased costs for repairs, plumbing and HVAC, snow removal, and custodial services. Depreciation increased $6.6 million due to the additional depreciation related to the completed construction of the SEC and CEP. The interest expensed in Fiscal Year 2018 increased $8.8 million due to both interest on the $130 million in new debt issued in June 2017 and a reduction in the interest capitalized as a result of the completion of debt funded capital projects including the SEC and CEP.

Non-Operating Activities

Non-operating activities added $167.1 million to the university's net assets in Fiscal Year 2018. Four primary areas contributed to this increase; Investment returns net of utilization, endowed gifts and capital gifts & grants, gains on interest rate agreements, and gains on postretirement healthcare plans.

Investment returns net of spending to support operations added $95.6 million to the university's net assets primarily as a result of a return of 10.7% on the TRP.

Endowed gifts and capital gifts & grants added $47.1 million to the university's net assets predominantly due to $31.0 million in endowment contributions and $7.6 million in gifts-in-kind.

In Fiscal Year 2018 there was a non-operating gain of $14.6 million related to the university's postretirement health care plan. The primary reason for this gain was the university's aforementioned postretirement health plan change, which resulted in a $14.5 million reduction in the university's postretirement health plan obligations, $12.7 of which was recognized in non-operations.

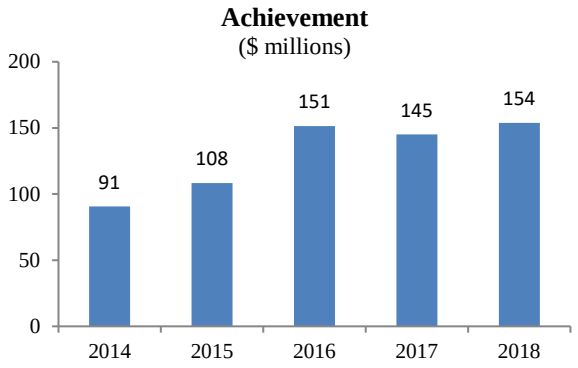
The university holds long-term swaps that are matched to the university's variable rate debt to effectively create fixed-rate debt obligations. In Fiscal Year 2018 the university had a $12.4 million gain on these agreements as a result of increases in market interest rates, adding to the university's net assets.

ADVANCEMENT

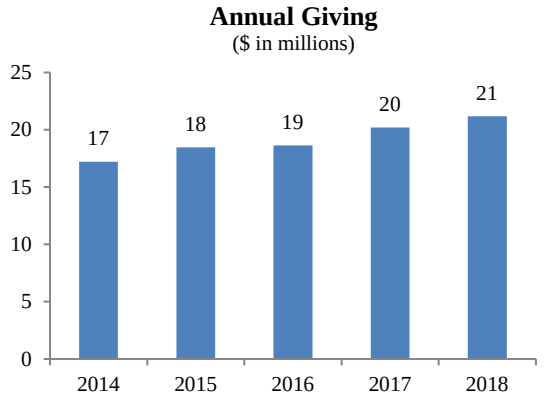
In fiscal year 2018, Tufts publicly launched the largest fundraising initiative in its history; a $1.5 billion comprehensive fundraising campaign called *Brighter World: The Campaign for Tufts*. The campaign will unlock opportunities for students, strengthen teaching and research, enhance graduate programs, support a distinctive culture of collaboration and innovation, and advance the university's capacity to translate brilliant ideas into practical solutions for global problems.

$1.5 Billion Brighter World Campaign

As of June 30, 2018, Tufts has raised 46% of the *Brighter World* goal with gifts and commitments totaling $690 million. Alumni, parents, friends, corporations and foundations have all contributed to the campaign, with 46% of the total raised from university alumni. Campaign support directed to financial aid totaled $184 million. The early success of the campaign is thanks in part to the generosity and partnership of nearly 200 volunteers who are serving on school campaign committees or in roles for special constituencies and targeted fundraising programs.

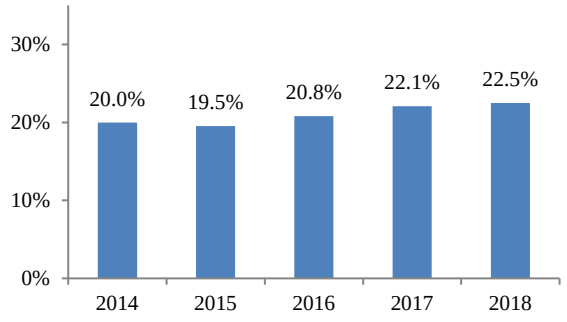


Fiscal Year 2018 was also notable in that it was the first time in Tufts' history that fundraising totals exceed $100 million four years in a row. Advancement raised $154.0 million in achievement in Fiscal Year 2018, exceeding its goal of $150 million. Gifts and pledges to augment the university's endowment totaled $66.2 million, with $38 million designated for financial aid. The university's annual funds accounted for $21.2 million of the funds raised in Fiscal Year 2018, a 5.7% increase over the $20.0 million raised by the annual funds in Fiscal Year 2017, demonstrating strong donor support for the university's most immediate needs and priorities.



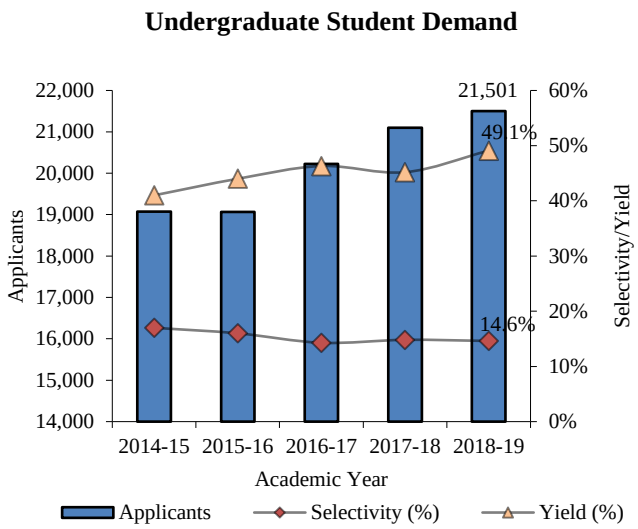
Two areas were particularly important to driving Fiscal Year 2018 fundraising results. Gifts and commitments from corporations and foundations totaled $37.9 million. The largest gift from a corporation or foundation in Fiscal Year 2018 was $2.8 million, making overall success in this area particularly notable. Estate gifts and intentions totaled $37.8 million, the highest since 2010 and the third highest in Tufts history. Tufts welcomed 167 new members to the Charles Tufts Society (donors who have included Tufts University in their estate plans), an all-time record.

More than 40,000 people supported Tufts University in Fiscal Year 2018. One of the highlights of the year was Giving Tuesday. More than 7,500 gifts were made in a single day, shattering the goal of 5,000 donations, and more than $2.2 million was contributed to all schools across the university. In Fiscal Year 2018 undergraduate alumni participation continued to hold strong at 22.5%.

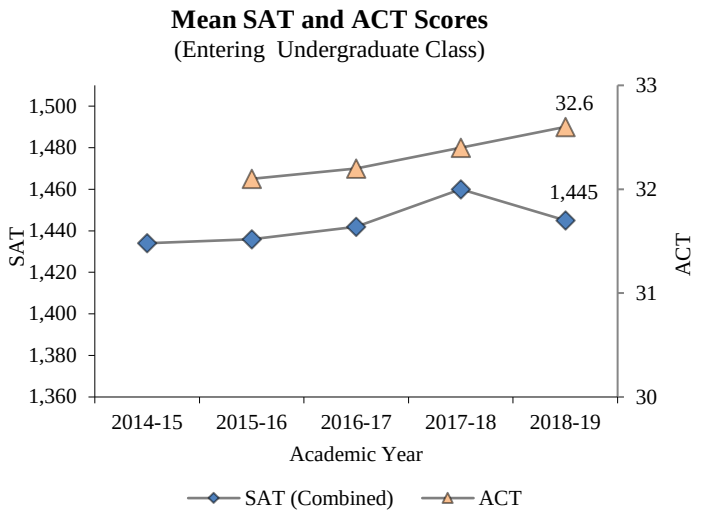


STUDENT DEMAND AND QUALITY

The university continues to experience strong student demand, an important contributor to Tufts financial strength. For Academic Year 2018-19 the number of undergraduate applicants increased to 21,501 with an entering undergraduate class of 1,543 students, an increase from the prior academic year of 130 students. Tufts continues to be a highly selective university. For academic year 2018-19 the number of applicants who were accepted stood at 14.6% and the percentage of students accepted who matriculated rose to 49.1%; continuing long-term trends that illustrate Tufts' continued strength in higher education. The graph below shows these trends for the entering undergraduate class.



The quality of matriculating undergraduate students as measured by SAT and ACT scores continues to be excellent. The mean combined SAT scores and ACT scores of Tufts' entering undergraduate class reflect high continuing student quality and mirrors the scores of students at other highly selective institutions.



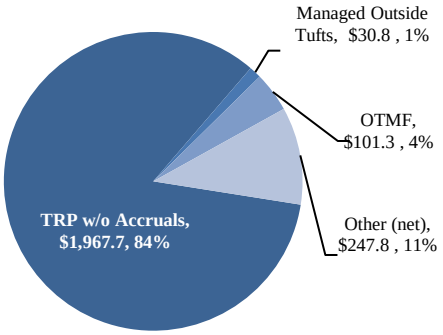
Tufts University
2018 Endowment and Investment Report

Endowment returns are the result of many decisions made over multiple years culminating on the day as of which returns are reported. As such, they are a snapshot. The higher current returns are, the more challenging prospective returns become. While over the last ten years Tufts' endowment has returned 5.3%, just matching spending, near term returns are much stronger. The most recent fiscal year produced a return of 10.7%. More detail on performance is provided below.

Tufts' assets are well stewarded. This year the Board has refined the composition of the Investment Subcommittee to create a more focused and efficient working group. The Subcommittee has enhanced transparency and accountability by presenting detailed information to a wide range of audiences including new and existing Trustees, the Executive Committee of Tufts Financial Network, and the President's Council. Investment office staff have conducted internal education sessions to support University Advancement's efforts to "get the word out" about the importance of endowment.

The University's measures of academic and student quality have moved up significantly against peer schools in recent decades; this achievement is set against a more challenging story of undercapitalization and low relative endowment per student at Tufts. The University's long and intermediate-term investment assets at the end of FY 2018 totaled $2.3 billion.

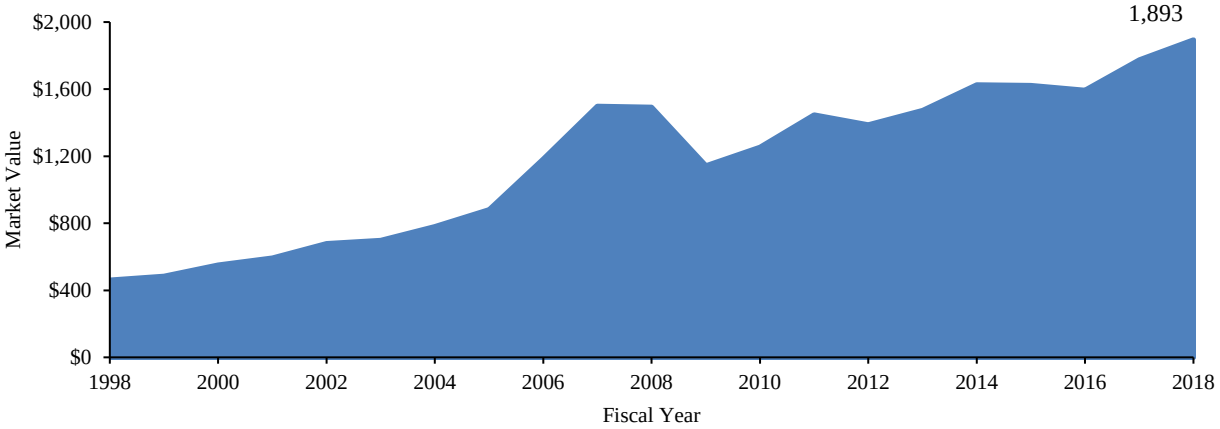
Investments at June 30, 2018
($2,347.6 million)



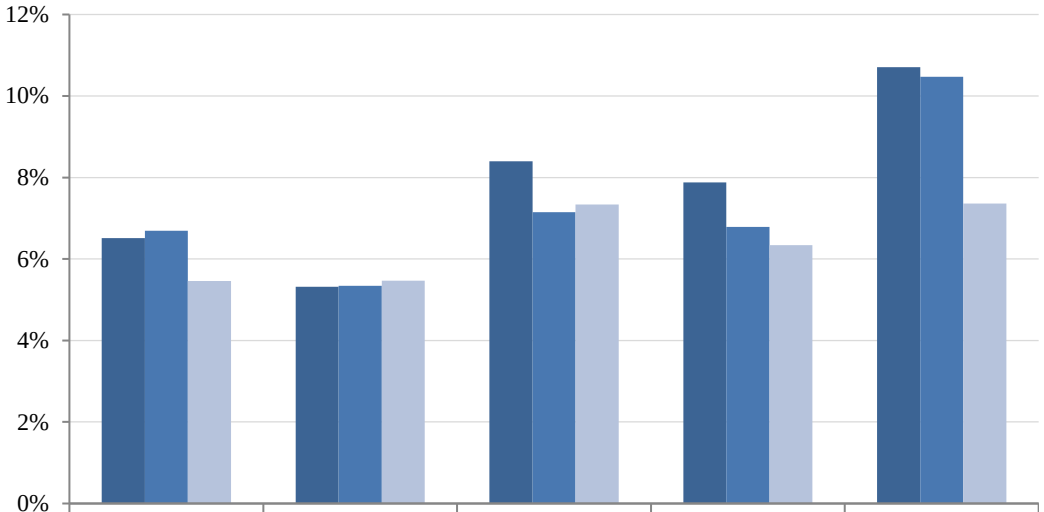
These assets belong to funds established by individual donors, each supporting a specific purpose within each of the University's schools, and to funds designated as unrestricted by the Board of Trustees, in addition to moneys earmarked for operating and capital purposes.

Endowment value at June 30, 2018 was $1.9 billion, representing about $160,000 of endowment per student vs. a peer median of over $300,000. The assets in the funds are invested in a variety of instruments including life income trusts, separately managed accounts, and the Omidyar Tufts Microfinance Fund, which has a charter to invest exclusively in microfinance institutions in developing countries.

Endowment
($ in millions)



Annualized Returns (Net of Fees) period ending June 30, 2018



	20 Years	10 Years	5 Years	3 Years	1 Year
Tufts Actual*	6.51%	5.32%	8.40%	7.88%	10.71%
Tufts Reference Portfolio	6.69%	5.34%	7.15%	6.79%	10.47%
Tufts Investment Policy	5.46%	5.47%	7.34%	6.34%	7.36%

*Tufts Actual returns are gross of administrative fees.

Investment Objectives and Strategy

The largest proportion of the long-term investment assets is invested in the Total Return Pool, or TRP. Assets in the pool at June 30, 2018 were just over $1.97 billion, of which $1.7 billion belonged to the endowment and the balance to long term investments. The investment objective of this pool is to achieve a long-term rate of return that provides both current support to the purposes specified by donors, as well as keep up with inflation to ensure a steady level of support ("intergenerational equity") in the future.

Performance

Equity markets in the US were strong in the 12 months ended June 30, 2018, while debt markets struggled. The broad Russell 3000 index provided US equity investors a return of just under 15%, but a diversified portfolio of US bonds lost money, returning -0.4%. Abroad, a stronger dollar, Brexit, trade war concerns and financial woes in Emerging Markets produced stock returns below those of the US with the global stock index returning 10.7%

The Investment Subcommittee's portfolio management process gives rise to two benchmarks against which performance is measured. The first is a broad market benchmark of 70% global equity and 30% US bonds. The second is a diversified benchmark that includes most of the asset types in which the portfolio invests. Both benchmarks produced strong absolute returns for year. The broad benchmark was up 7.4%, and the diversified benchmark (with less exposure to debt securities) was up 10.5%.

As noted last year, Tufts has been building its allocation to illiquid investments, an effort that takes many years to bear fruit. The portfolio also places greater weight on investments in Emerging Markets where growth is most likely over the long term. Tufts has been increasing its allocation to illiquid investments for some time. Such investments are ideal for university endowments because of the perpetual life of the endowment.

Best practice in endowment management dictates that medium to long term performance is most meaningful for judging the performance of the portfolio. Tufts' investment execution remains focused on strategies that will build value for the university over a long-term time horizon.

Report of Independent Auditors

To the Board of Trustees of Tufts University:

We have audited the accompanying consolidated financial statements of Tufts University and its subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities for the year ended June 30, 2018 and of cash flows for the years ended June 30, 2018 and 2017.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tufts University and its subsidiaries as of June 30, 2018 and 2017 and the changes in their net assets for the year ended June 30, 2018 and their cash flows for the years ended June 30, 2018 and 2017 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2017, and the related consolidated statement of activities (not presented herein), and cash flows for the year then ended, and in our report dated November 3, 2017, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2017 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

November 2, 2018

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TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND JUNE 30, 2017 (in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 77,156	$ 69,494
Investments, intermediate-term	176,777	201,282
Receivables and other assets, net	52,450	51,304
Receivables for investments purchased, net	1,618	-
Contributions receivable, net	50,535	42,415
Notes and student loans receivable, net	44,830	46,570
Investments, long-term	2,170,831	2,043,494
Land, buildings, and equipment, net	1,083,931	1,039,672
TOTAL ASSETS	$ 3,658,128	$ 3,494,231
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 165,681	$ 153,397
Deferred revenue and deposits	63,675	59,626
Bonds and notes payable	766,711	778,596
Interest rate agreements	54,724	67,085
Government advances for student loans	23,163	26,578
Total liabilities	1,073,954	1,085,282
NET ASSETS:		
Unrestricted	1,344,081	1,247,635
Temporarily restricted	555,654	506,797
Permanently restricted	684,439	654,517
Total net assets	2,584,174	2,408,949
TOTAL LIABILITIES AND NET ASSETS	$ 3,658,128	$ 3,494,231

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2017 (in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
OPERATIONS:					
REVENUE:					
Tuition and fees	$ 545,910	$ -	$ -	$ 545,910	$ 525,687
Less scholarships and fellowships	(147,165)	-	-	(147,165)	(140,933)
Tuition and fees, net	398,745	-	-	398,745	384,754
Government grants and contracts	150,815	-	-	150,815	149,790
Clinical and other educational activities	123,608	-	-	123,608	123,007
Auxiliary enterprises	63,866	-	-	63,866	61,130
Contributions and grants	54,843	17,423	-	72,266	90,082
Investment return utilized	92,477	10,082	-	102,559	105,641
Net assets released from restrictions	24,751	(24,751)	-	-	-
Total revenue and other support	909,105	2,754	-	911,859	914,404
EXPENSES:					
Salaries and wages	444,701	-	-	444,701	432,999
Benefits	96,324	-	-	96,324	100,025
Materials, supplies and other	126,313	-	-	126,313	126,702
Purchased services	76,297	-	-	76,297	82,531
Facility and maintenance costs	52,740	-	-	52,740	49,146
Depreciation	58,702	-	-	58,702	52,108
Interest	30,944	-	-	30,944	22,182
Travel	17,703	-	-	17,703	18,358
Total expenses	903,724	-	-	903,724	884,051
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES	5,381	2,754	-	8,135	30,353
NONOPERATING ACTIVITIES:					
Investment return reinvested, net of utilized	51,255	43,533	834	95,622	141,584
Contributions and grants	11,801	6,246	29,088	47,135	42,719
Contribution from SMFA acquisition	-	-	-	-	21,464
Net assets released from restrictions for capital and other nonoperating purposes	5,101	(5,101)	-	-	-
Net unrealized gain on interest rate agreements	12,361	-	-	12,361	21,190
Change in funded status of postretirement health care plan	14,649	-	-	14,649	15,761
Other nonoperating activities	(4,102)	1,425	-	(2,677)	(6,005)
INCREASE IN NET ASSETS FROM NONOPERATING ACTIVITIES	91,065	46,103	29,922	167,090	236,713
INCREASE IN NET ASSETS	96,446	48,857	29,922	175,225	267,066
NET ASSETS—Beginning of year	1,247,635	506,797	654,517	2,408,949	2,141,883
NET ASSETS—End of year	$ 1,344,081	$ 555,654	$ 684,439	$ 2,584,174	$ 2,408,949

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018 AND JUNE 30, 2017 (in thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase in net assets	$ 175,225	$ 267,066
Adjustments to reconcile total increase in net assets to net cash and cash equivalents used in operating activities:		
Net realized and unrealized investment (gains)	(185,667)	(239,855)
Depreciation and amortization	59,080	52,003
Loss on disposal of fixed assets	2,565	2,995
Gifts of securities, property and equipment	(13,798)	(10,060)
Proceeds from sales of donated securities	4,693	4,800
Settlements on interest rate swap agreements	6,576	7,630
Net unrealized (gain) on interest rate agreements	(12,361)	(21,190)
Contributions restricted for long-term investment	(17,956)	(20,263)
Increase in net assets from SMFA acquisition	-	(21,464)
Changes in operating assets and liabilities:		
Receivables and other assets	(1,146)	(9,773)
Contributions receivable	(8,120)	(10,695)
Accounts payable and accrued expenses	6,827	(6,695)
Deferred revenue and deposits	4,049	(4,831)
Net cash and cash equivalents provided by (used in) operating activities	19,967	(10,332)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes and student loans granted	(5,403)	(5,598)
Student loans repaid	7,143	8,453
Change in funds held under bond agreement	-	4,200
Restricted funds from SMFA acquistion	-	4,176
Purchases of investments	(1,162,690)	(1,105,987)
Proceeds from sale of investments	1,242,208	1,064,031
Additions to land, buildings, and equipment	(96,267)	(143,917)
Net cash and cash equivalents (used in) investing activities	(15,009)	(174,642)
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in government advances for student loans	(3,415)	154
Proceeds from issuance of bonds and notes	-	144,000
Cash paid on interest rate swap agreements	(6,576)	(7,630)
Repayments of bonds and notes	(10,473)	(8,971)
Proceeds from contributions restricted for long-term investment	17,956	20,263
Proceeds from sales of donated securities restricted for long-term purposes	5,212	4,763
Net cash and cash equivalents provided by financing activities	2,704	152,579
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,662	(32,395)
CASH AND CASH EQUIVALENTS—Beginning of year	69,494	101,889
CASH AND CASH EQUIVALENTS—End of year	$ 77,156	$ 69,494
SUPPLEMENTAL DATA:		
Cash paid for interest, net of amounts capitalized (see Note 7)	$ 33,316	$ 30,187
Construction amounts remaining in accounts payable	$ 22,681	$ 15,525
Gifts of securities, property and equipment	$ 13,798	$ 10,060

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

TUFTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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 11,000 students and three campuses in Boston, Medford/Somerville and Grafton, Massachusetts. The University provides degree programs at both undergraduate and graduate levels in a variety of liberal arts and professional areas. The University has been granted a tax-exemption as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is generally exempt from income taxes pursuant to Section 501(a) of the Code.

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

Walnut Hill Properties Corporation ("Walnut Hill")—Walnut Hill is a not-for-profit corporation established by the University to own and manage certain investment and rental properties.

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

Tufts Media LLC ("Tufts Media")—Tufts Media is a single member limited liability company created by the University to operate its consumer publishing and media capability.

JM Holding Corporation ("JM Holdings")—JM Holdings is a for-profit development corporation created by the University to develop approximately 100 acres designated for commercial use in Grafton Science Park on the Cummings School of Veterinary Medicine campus. At this time, JM Holdings and the Cummings School are working to identify potential life science tenants who need a greenfield site to construct new research and development, office or bio-manufacturing facilities.

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. Investments associated with these funds are recorded in temporarily restricted net assets.

Tufts Global, Inc ("Tufts Global")—Tufts Global is a non-for-profit corporation formed as a supporting organization of the University to conduct, support and facilitate educational and research activities resulting from grant-funded projects within and outside of the United States.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Unrestricted—Net assets not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes.

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

Classifications—Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Contributions and investment return for operating activities subject to donor-imposed stipulations not utilized in the current period are released from temporarily restricted net assets when spent and are reported as net assets released from restrictions under revenue from operating activities. Expirations of all other temporarily restricted net assets for capitalized long term purposes 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. Fundraising expenses totaled approximately $24,400,000 for the years ended June 30, 2018 and 2017.

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

Investments, long-term—Investments are reported at fair value. Dividends, interest, gains and losses on investments are reported as increases or decreases:

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

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

- in unrestricted net assets in all other cases.

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

Endowment Spending Policy—The Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. The objective of the policy is to ensure that endowment income available to support operations is stable and predictable, while at the same time increases over time to offset the effects of inflation. Endowment funds receive income distributions equal to the current spending level of all funds in the Total Return Pool. The targeted distribution is 5% of each fund's market value, but may vary with market conditions. The

dollar amount is then increased each year by 3-4%. The policy provides for management to adjust the spending rate as necessary if it does not remain within a range of 4.5% to 5.5% of the pool's market value calculated as of the four-quarter average ending September 30 of the previous year. In establishing this policy, the Board considered the expected long term rate of return on its endowment.

Effective July 1, 2017, the University Endowment Spending Policy applicable to the Total Return Pool will maintain an annual spending rate in a range of 4% to 5% of the twelve-quarter moving average ended September 30 of the previous year. Beginning in fiscal year 2019, the range will be lowered .1% in each of the next five years resulting in a long term spending range of 3.5% to 4.5% thereafter. Subject to the range limitation, the annual spending rate will increase at an annual rate of 2.5%.

Nonendowment Spending Policy—The nonendowment investments in the Total Return Pool consist of operating and capital funds. These long-term funds, while invested in a similar manner as the endowment, are not intended to be held in perpetuity. For these investments, the University has adopted a fixed annual spending rate equivalent to 6% of the market value calculated as of June 30 of the previous year.

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

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

Investments, intermediate-term—Investments are reported at fair value. This portfolio is invested in high quality fixed income securities consisting of treasuries, agencies, investment grade corporates, and asset backed securities with maturities generally ranging from 1 to 3 years.

Operations and Nonoperating Activities—The consolidated statement of activities reports changes in unrestricted, temporarily restricted, and permanently restricted net assets from operations and nonoperating activities. Operations include temporarily restricted contributions that have been released to unrestricted as used for operational purposes. Non-operating includes the release from restrictions of contributions restricted to the acquisition of buildings and equipment and other transfers between restriction categories; investment return in excess of the University's operating needs as defined by its spending policy or amounts used in excess of investment return; endowment contributions, unrealized gains or losses on interest rate agreements; changes in the funded status of the postretirement health care plan; contribution from the SMFA acquisition; and unrestricted bequests and gifts of property.

Tuition revenue is reported in the period earned net of the discount attributable to reductions in amounts charged to students, whether as unrestricted University financial aid, distributions from endowment funds, or government aid awarded to students by the University. Revenue associated with research and other grants and contracts is recognized when related expenses are incurred. Revenue from all other sources is recognized in the period earned. Included in operating activities are revenues earned and related expenses incurred for auxiliary enterprises. Auxiliary enterprises include student housing, dining, health fees and other miscellaneous charges. Clinical and other educational activities include clinical revenues generated at the Vet school, Dental school, and Medical school and other revenue sources including royalty income and rental income.

Tax Status—The University is a not-for-profit institution that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. US GAAP requires Tufts to evaluate tax positions taken by the University and recognize a tax liability (or asset) if the University has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Tufts has analyzed the tax positions taken and has concluded that as of June 30, 2018 and 2017, there are no significant uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

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

Land, Buildings, and Equipment—Land, buildings, and equipment are stated at cost at date of purchase or fair value at date of donation in the case of gifts. Depreciation is provided using the straight-line method over the assets' estimated useful lives, which range from 15 to 60 years for land improvements, 10 to 60 years for buildings, 3 to 20 years for equipment and furnishings and technology software.

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 $60,632,000 and $56,830,000 at June 30, 2018 and 2017, respectively. Contributions are recognized at the date the trusts or annuity agreements are established. The primary unobservable input used in the fair value measurement of the charitable remainder trust and life income and annuity assets is the discount rate. Significant fluctuation in the discount rates utilized in this calculation could result in a significant change in fair value. The primary unobservable inputs used in the fair value measurement of the perpetual trust assets are the underlying securities held by the trust. Significant fluctuation in the market value of these underlying securities could result in a material change in fair value. Liabilities associated with life income and annuity agreements are recorded at the present value of the estimated future payments to be made to the donors and/or other beneficiaries by the University. The liabilities associated with life income and annuity agreements are adjusted during the term of the life income agreement or annuity for changes in the value of the assets, accretion of the discount and other changes in the estimates of future payments. The liabilities are included in accounts payable and accrued expenses and totaled approximately $12,100,000 and $11,300,000 at June 30, 2018 and 2017, respectively.

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

New Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 - *Revenue from Contracts with Customers* at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The original standard was effective for fiscal years beginning after December 15, 2016; however, in July 2015, the FASB approved a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the University. The University has completed our initial assessment and our policies and procedures related to this ASU, which we adopted effective July 1, 2018. Based on our initial assessment we do not expect the adoption of this ASU to have a significant impact to our method of recognizing operating and non-operating revenues and support at the University.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the University. Early adoption is permitted. The University is evaluating the impact of the new guidance on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using the net asset value ("NAV"), at its cost minus impairment (if any), plus or minus changes resulting from

observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the statement of financial position or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or fiscal year 2020 for the University. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) may be early adopted and was adopted by the University in 2017.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities,* which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosure must be provided. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the University and early adoption is permitted. The University has completed an initial assessment of the new financial statement format and does not expect this guidance to have a significant impact other than condensing net assets and adding new required disclosures.

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Not-for-Profit Entity that is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*. This guidance retains the presumption that a not-for-profit entity that is a general partner of a for-profit limited partnership or similar entity controls the limited partnership, unless that presumption can be overcome. This ASU also clarifies that the consequential amendments in the guidance on classifying and measuring financial instruments in ASU 2016-01 were not intended to affect the ability of not-for-profits (other than business-oriented health care entities) with investments in certain for-profit entities to elect to measure those investments at fair value. The ASU is effective for annual periods beginning after December 15, 2018 or fiscal year 2020 for the University. This guidance is not expected to significantly impact the University.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. This ASU is for annual periods beginning after June 15, 2018 and thus fiscal year 2019 for the University.

Acquisition of the School of the Museum of Fine Arts (SMFA) - Effective July 1, 2016, the University and the Museum of Fine Arts (MFA), a Massachusetts not-for-profit corporation, completed an asset acquisition agreement. The MFA is engaged, through its School of the Museum of Fine Arts (the "SMFA"), in providing degree and certification granting educational programs, pre-college programs and non-degree educational programs for adults, such as continuing education programs. The MFA agreed to transfer and assign to the University, and the University agreed to acquire and assume from the MFA certain specified assets the MFA used in the operation of the SMFA and certain specified liabilities the MFA incurred in the operation of the SMFA based on June 30, 2016 valuations. Restricted Funds were the predominant asset in the transaction. These funds include endowed funds, accumulated endowment income, other restricted funds, gift annuities, and trusts. No consideration was given for this transaction. This transaction was accounted for using the asset acquisition method of accounting, which requires all the assets and liabilities of the SMFA to be revalued at their fair value as of the acquisition date. The SMFA's fiscal year end is June 30th, therefore, these assets were revalued and recorded at fair values as of July 1, 2016 in the University's consolidated statement of financial position. The acquisition date fair values have been determined using various fair value techniques including book value for property and equipment, acceptable

valuation approaches for other assets, quotations from independent market sources for investments, and liabilities were deemed to approximate the June 30, 2016 cost.

In connection with the acquisition, the University's consolidated statement of activities includes approximately $21,500,000 in non-operating activities for the year ended June 30, 2017, reflecting the fair value of the acquired assets and liabilities of the SMFA, of which 90% were endowed funds. Operating activities related to the SMFA for the year ended June 30, 2017 are immaterial to the University's net assets.

Reclassification—Certain June 30, 2017 balances and amounts previously reported have been reclassified to conform to the June 30, 2018 presentation.

Subsequent events—The University has evaluated the impact of subsequent events through November 2, 2018, representing the date the financial statements were issued.

Prior Year Summarized Information—The consolidated statement of activities includes certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated statement of activities for the year ended June 30, 2017, 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 prepaid expenses and inventories, as well as approximately $400 and $300 of restricted funds held under bond agreement at June 30, 2018 and June 30, 2017, respectively. The components at June 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Gross receivables	$ 48,786	$ 48,819
Less allowance for uncollectible amounts	(2,655)	(2,400)
Receivables, net	46,131	46,419
Other assets	6,319	4,885
Total	$ 52,450	$ 51,304

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2018 and 2017, which are recorded at fair value, consisted of the following (in thousands):

	2018	2017
Unconditional promises scheduled to be collected in:		
Less than one year	$ 20,378	$ 20,185
One year to five years	29,661	26,683
More than five years	15,270	3,445
Gross contributions receivable	65,309	50,313
Less allowance for uncollectible amounts	(8,628)	(5,446)
Less discount to present value	(6,146)	(2,452)
Total	$ 50,535	$ 42,415

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be collected is adjusted, and some pledges have been cancelled and are no longer recorded in the financial

statements. The University's indicative 1- to 10-year taxable unsecured borrowing rate is used to discount pledges receivable upon receipt. The discount was calculated using rates ranging from 2.15% to 3.65% for the years ending June 30, 2018 and 2017. The University's pledges receivable have been categorized as Level 2 assets under the fair value hierarchy.

In addition, at June 30, 2018 and 2017, the University had approximately $36,000,000 and $39,000,000, respectively, of conditional promises from donors that are not recognized as assets in the consolidated statements of financial position. These conditional promises consisted of pledges for endowment, construction and other purposes.

Contributions receivable at June 30, 2018 and 2017 were intended for the following purposes (in thousands):

	2018	2017
Endowment for educational and general purposes	$ 30,207	$ 22,460
Construction and modernization of plant	3,291	3,565
Support of current operations	17,037	16,390
Total	$ 50,535	$ 42,415

5. NOTES AND STUDENT LOANS RECEIVABLE

Student loans receivables at June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Student loans receivable	$ 44,884	$ 46,818
Less allowance for uncollectible amounts	(404)	(598)
Student receivables, net	$ 44,480	$ 46,220
Other notes receivable	350	350
Total	$ 44,830	$ 46,570

Loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions. Generally, payment on student loans receivable commences upon graduation and can extend up to 20 years. Interest rates range from 2% to 12% for the years ending June 30, 2018 and 2017.

The University assesses the adequacy of the allowance for doubtful accounts by evaluating the loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, and, where applicable, the existence of any guarantees or indemnifications. In addition to these factors, the University reviews the aging of the loans receivable and the default rate in comparison to prior years. The allowance is adjusted based on these reviews. The University considers the allowance at June 30, 2018 and 2017 to be reasonable and adequate to absorb potential credit losses inherent in the loan portfolio.

6. INVESTMENTS AND FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

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

Investment fund managers may invest in derivatives, and the value of these positions is reflected in the NAV of the respective funds. Separately the University may employ derivatives to hedge its risks and to rebalance its market exposures.

The following tables present the financial instruments carried at fair value as of June 30, 2018, and 2017, by the fair value hierarchy defined above (in thousands):

Assets as of June 30, 2018:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Equity securities	$ 220,540	$ -	$ 200	$ 220,740
Fixed income securities	291,651	-	2,253	293,904
Hedge funds	-	-	4,133	4,133
Private equities	-	-	14,664	14,664
Real estate	55,821	-	-	55,821
Natural resources	11,625	-	-	11,625
Perpetual trusts	-	-	30,781	30,781
Total Investments	$ 579,637	$ -	$ 52,031	$ 631,668
Other investments measured at NAV (a)	-	-	-	1,676,871
Equity method investment (see Note 12)	-	-	-	10,320
	579,637	-	52,031	2,318,859
Liabilities:				
Interest rate swaps liability	$ -	$ 54,724	$ -	$ 54,724

Assets as of June 30, 2017:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments:				
Equity securities	$ 130,846	$ -	$ 121	$ 130,967
Fixed income securities	286,354	-	2,564	288,918
Hedge funds	-	-	4,833	4,833
Private equities	-	-	15,381	15,381
Real estate	39,653	-	-	39,653
Natural resources	10,331	-	434	10,765
Perpetual trusts	-	-	29,664	29,664
Total Investments	$ 467,184	$ -	$ 52,997	$ 520,181
Other investments measured at NAV (a)	-	-	-	1,648,043
Equity method investment (see Note 12)	-	-	-	9,630
	467,184	-	52,997	2,177,854
Liabilities:				
Interest rate swaps liability	$ -	$ 67,085	$ -	$ 67,085

(a) In accordance with ASU 2015-07, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

Excluded from the tables above, but included in total investments at June 30, 2018 and 2017, are cash and cash equivalents amounting to approximately $28,749,000 and $66,922,000 respectively. There were no investments pending settlement at June 30, 2018.

The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. These values are agreed to by management of the University. If no public market exists for the investment securities, the fair value is determined by the general partner or management for securities held

directly, taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of June 30.

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

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

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

The University also invests directly in private companies that are primarily valued using industry standard methodologies, as applicable. Management strives to corroborate information from third-party sources for relevance and accuracy; these valuations are subject to significant review and consideration by management. The valuation procedures performed on these assets are based on industry standard processes for each respective asset class. The inputs utilized in any valuation model may be significant and unobservable, and require a certain degree of judgment. Management examines market data and collaborates closely with industry experts to attempt to arrive at the best estimation of fair value for each respective asset. While the inputs described below represent the range of inputs utilized as of the measurement date, these inputs may change over time, which may have a material effect on the valuation of these types of investments in the future. The following table presents additional information about valuation techniques and inputs used for the investments that are measured at fair value and categorized within Level 3 as of June 30, 2018, and June 30, 2017 (in thousands):

Asset Type	Industry	Valuation Approach	Unobservable Inputs	Fair Value at June 30, 2018
Private equities	Banking	Market approach	Recent market transaction	$ 9,148
	Financial services	Option pricing model	Valuation backsolved off the price per share from the last round of financing to arrive at implied prices per share for the other series of preferred and common shares in the capital structure	5,516
Fixed Income	Financial services	Market approach	Market price of comparable debt	2,087
				$ 16,751

Excluded from the table above, but included in level 3 investments at June 30, 2018, are perpetual trusts, tech transfers, and other investments amounting to approximately $30,781,000, $4,133,000, and $366,000, respectively.

Asset Type	Industry	Valuation Approach	Unobservable Inputs	Fair Value at June 30, 2017
Private equities	Investment fund	Market approach	Offer price on private holdings	$ 1,498
	Banking	Market approach	Recent market transaction	9,302
	Financial services	Option pricing model	Valuation backsolved off the price per share from the last round of financing to arrive at implied prices per share for the other series of preferred and common shares in the capital structure	4,581
Fixed Income	Financial services	Market approach	Market price of comparable debt	2,266
Natural resources	Natural resources	Market approach	Comparable market price less 10% discount	434
				$ 18,081

Excluded from the table above, but included in level 3 investments at June 30, 2017, are perpetual trusts, tech transfers, and other investments amounting to approximately $29,664,000, $4,833,000, and $419,000, respectively.

The following tables present liquidity information for the investments carried at fair value at June 30, 2018, and 2017, respectively.

Redemption Terms as of June 30, 2018	Non-Marketable Credit	Fixed Income	Private Equities	Hedge Funds	Commingled Public Equity Funds	Real Estate	Natural Resources	Total
Monthly, 2-120 days prior written notice	$ -	$35,843	$ -	$81,127	$217,168	$ -	$10,986	$345,124
Quarterly, 30-90 days prior written notice	-	-	-	267,065	26,788		-	293,853
Semi-Annually, Annually, 30-90 days prior written notice	-	-	-	59,622	53,195	-	-	112,817
1-3 Years, 45-120 days prior written notice	-	-	4,011	154,641	23,556	-	-	182,208
1-7 Years (no terms)	62,974	-	287,663	10,630	-	63,089	77,149	501,505
7+ Years (no terms)	9,628	-	166,175	-	-	36,861	27,924	240,588
Total	$72,602	$35,843	$457,849	$573,085	$320,707	$99,950	$116,059	$1,676,095
Level 1 securities								579,637
Other investments not subject to redemption								91,876
Total Investments								$2,347,608

Redemption Terms as of June 30, 2017	Non-Marketable Credit	Fixed Income	Private Equities	Hedge Funds	Commingled Public Equity Funds	Real Estate	Natural Resources	Total
Monthly, 2-120 days prior written notice	$ -	$ 37,947	$ -	$ 39,467	$ 264,077	$ -	$ 11,655	$353,146
Quarterly, 30-90 days prior written notice	-	-	-	291,956	30,705	-	-	322,661
Semi-Annually, Annually, 30-90 days prior written notice	-	-	-	112,539	-	-	-	112,539
1-3 Years, 45-120 days prior written notice	-	-	4,823	136,328	48,182	-	-	189,333
1-7 Years (no terms)	46,681	-	233,835	10,382	-	75,003	75,731	441,632
7+ Years (no terms)	13,427	-	167,127	-	-	24,232	25,879	230,665
Total	$60,108	$ 37,947	$405,785	$590,672	$342,964	$99,235	$113,265	$1,649,976
Level 1 securities								467,184
Other investments not subject to redemption								127,616
Total Investments								$2,244,776

The University had unfunded commitments of approximately $332,435,000 at June 30, 2018 which consisted of approximately $169,947,000 in private equities, $72,657,000 in real estate, $34,035,000 in natural resources, $47,671,000 in non-marketable credit and $8,125,000 in commingled public funds, and can be called through 2024.

The following tables include roll forwards of investments classified by the University within Level 3 as of June 30, 2018 and 2017. Transfers between levels are recognized at the beginning of the reporting period. The 2018 transfers from Level 3 to NAV totaled approximately $434,000. The 2017 transfers from NAV to Level 3 totaled approximately $1,498,000, and transfers from Level 3 to Level 1 totaled approximately $37,775,000. There were no other material transfers between levels.

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Natural Resources	Perpetual Trusts	Total Investments
Fair value, July 1, 2017	$ 121	$ 2,564	$ 4,833	$ 15,381	$ 434	$29,664	$ 52,997
Transfers	-	-	-	-	(434)	-	(434)
Purchases	79	273	-	750	-		1,102
Sales	-	(405)	(1,807)	(1,434)	-	-	(3,646)
Unrealized and realized gains (losses), net	-	(179)	1,107	(33)	-	1,117	2,012
Fair value, June 30, 2018	$ 200	$ 2,253	$ 4,133	$ 14,664	$ -	$ 30,781	$ 52,031

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Natural Resources	Perpetual Trusts	Total Investments
Fair value, July 1, 2016	$ 324	$ 335	$ 4,531	$ 57,321	$ -	$ 26,208	$ 88,719
Transfers	-	-	-	(36,277)	-	-	(36,277)
Purchases	-	2,000	-	-	434	-	2,434
Sales	(203)	(37)	-	-	-	-	(240)
Unrealized and realized gains (losses), net	-	266	302	(5,663)	-	3,456	(1,639)
Fair value, June 30, 2017	$ 121	$ 2,564	$ 4,833	$ 15,381	$ 434	$ 29,664	$ 52,997

The total return on investments for the years ended June 30, 2018 and 2017 is as follows (in thousands):

	2018	2017
Dividends and interest	$ 12,514	$ 7,370
Net realized and unrealized gains	185,667	239,855
Total return on investments	198,181	247,225
Investment return utilized	(102,559)	(105,641)
Investment return reinvested, net of utilized	$ 95,622	$ 141,584

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Land and land improvements	$ 80,657	$ 58,435
Buildings	1,466,678	1,275,231
Construction in progress	114,829	242,911
Equipment and furnishings	234,886	222,896
	1,897,050	1,799,473
Less accumulated depreciation	(813,119)	(759,801)
Total	$ 1,083,931	$ 1,039,672

Depreciation expense charged to operations was approximately $58,702,000 and $52,108,000 in 2018 and 2017, respectively. Net interest cost capitalized in fiscal 2018 and 2017 was approximately $2,630,000 and $6,515,000, respectively.

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

8. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 5.21% average rate for 2018, par value of $27,900, due February 2024 - February 2026	$ 24,300	$ 24,300
Series J, fixed rate bonds at 5.50%, par value of $33,280, due August 2018	5,710	11,055
Series M, fixed rate bonds at 4.50-5.50%, par value of $59,150, due February 2018 - February 2028	56,470	56,950
Series N-1, variable rate bonds, 3.96% average rate for 2018, par value of $86,400, due August 2029 - August 2040	84,200	84,200
Series N-2, variable rate bonds, 3.959% average rate for 2018, par value of $54,200, due August 2022 - August 2033	54,200	54,200
Series O, fixed rate bonds at 5.00%, par value of $83,360, due August 2018	2,040	3,985
Massachusetts Development Finance Agency ("MDFA"):		
Series P, multi-mode bond, 5.73% average rate for 2018, par value of $49,835, due February 2029 - February 2036	49,835	49,835
Series Q, fixed rate bonds at 3.75%-5%, par value of $69,575, due August 2019 - August 2045	69,575	69,575
JP (through MDFA) tax exempt LOC, fixed rate 2.65%, par value of $28,000, due May 2026	24,732	27,305
Tufts Issue 2012A, taxable fixed rate bond at 5.017%, par value of $250,000, due April 2112	250,000	250,000
Tufts Issue 2017A, taxable fixed rate bond at 4.005%, par value of $130,000, due August 2053 - August 2057	130,000	130,000
Cummings Property, LLC at 4%, par value of $1,400, due February 2026	1,121	1,244
Bank of America note fixed rate 2.54%, par value of $10,200, due May 2026	10,200	10,200
Capital Leases—various imputed interest rates, due through 2019	4	11
	762,387	772,860
Net unamortized bond premium	9,496	10,976
Net unamortized debt issuance costs	(5,172)	(5,240)
Total bonds and notes payable	$ 766,711	$ 778,596

The average rates reflected above for the variable rate bonds are computed based on the variable interest, fees and related swap interest payments. Series P is a long term multi-mode bond (final maturity 2036), the first mode of which was a 5-year put bond with a 3% coupon which was due on February 16, 2016. The second mode is a 15-year bank purchase mode with a variable bank purchase rate which is due February 17, 2031. The average rate for the fiscal 2018 and 2017 was 5.73% and 5.77% respectively.

The University issued $130,000,000 Tufts University, Taxable Bonds, Series 2017A in June 2017. The University issued the bond at par, due August 15, 2057.

The University had available $28,000,000 from March 2015 to April 2017 through a tax-exempt line of credit with a financial institution. The line of credit was not renewed after April 2017. The outstanding balance is approximately $24,732,000 at June 30, 2018, which is expected to be paid by 2026.

Scheduled aggregate principal repayments on bonds and notes payable at June 30, 2018 are as follows (in thousands):

Fiscal Year Ending	Scheduled Principal Maturities
2019	11,211
2020	12,069
2021	12,489
2022	13,066
2023	14,326
Thereafter	699,226
Total	$ 762,387

Included in the University's debt is $162,700,000 of variable rate demand bonds ("VRDBs"). The University has entered into standby bond purchase agreements with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In fiscal year 2012, the University replaced the three standby bond purchase agreements with substantially similar agreements with other financial institutions. These agreements expire in October 2020 and March 2021. In the event a bond cannot be remarketed, the bond may be "put" to the standby bond purchase agreements providers, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put during fiscal year 2018, the maximum aggregate scheduled principal repayments under the VRDBs would be as follows: $54,233,000 in 2019, $54,233,000 in 2020 and $54,234,000 in 2021.

In October 2017, the University renewed two of the standby bond purchase agreements through October 2020. In March 2018, the university renewed the third standby bond purchase agreement through March 2021.

Interest Rate Agreements— The University has entered into derivative transactions for the purpose of reducing the impact of fluctuations in interest rates and reducing interest expense. The University has entered into fixed-to-floating and floating-to-fixed interest rate swaps and basis swaps. The following summarizes the terms for each of the interest rate swap agreements as of June 30, 2018 and 2017 (in thousands).

Swap Agreements as of June 30, 2018

Swaps	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Total
Debt Hedged	(Series P)	(Series G & N-1)	(Series N-1)	(Series N-1)	(Series N-2)	
Notional Amount	$50,500	$39,900	$40,000	$34,000	$54,000	
Termination Date	February 15, 2036	August 15, 2033	August 15, 2040	August 15, 2036	August 15, 2034	
Fair Value June 30, 2018	($17,946)	($7,178)	($8,571)	($10,082)	($10,947)	($54,724)

Swap Agreements as of June 30, 2017

Swaps	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Interest Rate Swap	Total
Debt Hedged	(Series P)	(Series G & N-1)	(Series N-1)	(Series N-1)	(Series N-2)	
Notional Amount	$50,500	$39,900	$40,000	$34,000	$54,000	
Termination Date	February 15, 2036	August 15, 2033	August 15, 2040	August 15, 2036	August 15, 2034	
Fair Value June 30, 2017	($21,749)	($9,694)	($10,230)	($11,812)	($13,600)	($67,085)

The University reported the fair value of its interest rate swap agreements in the statement of financial position as a liability of $54,724,000 and $67,085,000 at June 30, 2018 and 2017, respectively. The change in fair market value of approximately $12,361,000 and $21,190,000 for the years ended June 30, 2018 and 2017, respectively, is included in the statement of activities as net unrealized gain (loss) on interest rate agreements.

The estimated market value of the interest rate exchange agreements at June 30, 2018 and June 30, 2017, was computed using the net present value of fixed and floating future cash flows, with floating future cash flows estimated through the use of forward interest rate yield curves adjusted for non-performance risk. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these interest rate exchange transactions are a diversified group of major financial institutions that meet the University's criteria for financial stability and credit worthiness.

9. NET ASSETS

Net assets at June 30, 2018 and 2017 consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Endowment	$ 751,166	$ 479,549	$ 662,321	$ 1,893,036
Invested in physical plant	414,618			414,618
Operating	110,749	65,910	3	176,662
Building projects	46,061	10,145		56,206
Student loans	21,487	50	22,115	43,652
Total	$ 1,344,081	$ 555,654	$ 684,439	$ 2,584,174

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Endowment	$ 704,737	$ 436,779	$ 633,063	$ 1,774,579
Invested in physical plant	384,192	-	-	384,192
Operating	97,800	60,330	3	158,133
Building projects	39,964	9,638	-	49,602
Student loans	20,942	50	21,451	42,443
Total	$ 1,247,635	$ 506,797	$ 654,517	$ 2,408,949

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 $312,587,000 and $268,313,000 in 2018 and 2017, respectively. Unrestricted operating includes funds that have been internally designated for use by various schools, departments, and programs throughout the University.

The University's endowment consists of individual donor restricted endowment funds and board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: pledges receivables, split interest agreements, and other net assets. The net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Board-designated endowment funds at June 30, 2018 total the unrestricted endowment amount in the above table.

Changes in endowment net assets for the years ended June 30, 2018 and June 30, 2017 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total
Endowment net assets, beginning of year	$ 704,737	$ 436,779	$ 633,063	$ 1,774,579
Investment return:				
Investment income	3,739	4,308	-	8,047
Realized and unrealized gains (losses)	74,319	82,393	25	156,737
Total investment return	78,058	86,701	25	164,784
Contributions	1,509	724	28,763	30,996
Appropriation of endowment assets for expenditure	(34,134)	(43,619)	-	(77,753)
Other changes, net	996	(1,036)	470	430
Endowment net assets, end of year	$ 751,166	$ 479,549	$ 662,321	$ 1,893,036

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total
Endowment net assets, beginning of year	$ 641,158	$ 361,615	$ 590,469	$1,593,242
Investment return:				
Investment income	2,387	2,783	-	5,170
Realized and unrealized gains (losses)	91,041	114,027	816	205,884
Total investment return	93,428	116,810	816	211,054
Contributions	1,938	9,193	40,866	51,997
Appropriation of endowment assets for expenditure	(37,269)	(46,482)	-	(83,751)
Other changes, net	5,482	(4,357)	912	2,037
Endowment net assets, end of year	$ 704,737	$ 436,779	$ 633,063	$1,774,579

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

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

	2018	2017
Subject to time restriction	$101,025	$103,270
Restricted for program support	378,524	333,509
Total endowment assets classified as temporarily restricted net assets	$479,549	$436,779

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

	2018	2017
Restricted for scholarship support	$321,063	$307,642
Restricted for faculty support	142,508	137,684
Restricted for program support	198,750	187,737
Total endowment assets classified as permanently restricted net assets	$662,321	$633,063

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts. When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were approximately $34,000 and $35,000 as of June 30, 2018 and 2017, respectively. These deficits resulted from market losses.

10. FUNCTIONAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statement of activities by natural classification. Operating expenses by functional category for the years ended June 30, 2018 and 2017 consisted of the following (in thousands):

	2018	2017
Instruction	$ 271,076	$ 262,679
Sponsored programs	166,738	168,632
Clinical and other educational activities	165,217	155,843
Academic and student services	107,258	106,536
Auxiliary enterprises	67,901	64,408
Institutional support	125,534	125,953
Total expenses	$ 903,724	$ 884,051

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

11. BENEFIT PLANS

Defined Contribution Plan—The University sponsors a defined contribution retirement plan under Section 401(a) of the Code, which is available to eligible faculty and administrative staff. All retirement benefits are funded by the University and are subject to a vesting schedule. The University's contributions to the plan amounted to approximately $32,390,000 and $30,761,000 in 2018 and 2017, 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 $130,000 and $127,000 in 2018 and 2017, respectively. Under the terms of the Faculty and Administrative Staff Plan, no contributions are made by the University but are fully funded by voluntary employee contributions. The assets and related liabilities of these plans are recorded in investments and accrued liabilities in the consolidated financial statements and total approximately $20,459,000 and $18,246,000 in 2018 and 2017, respectively. The University also maintains a plan under Section 457(b) of the Code for eligible faculty and administrative staff that

was closed to future participants in 1989. The University funded this plan with approximately $4,000 in 2018 and 2017, respectively. The investment assets and related liabilities of these plans, which total approximately $6,311,000 and $5,822,000 in 2018 and 2017, respectively, are recorded in investments and accrued liabilities in the consolidated statements of financial position.

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

Effective January 1, 2018, for retirees over age 65 the University transitioned from its current employer-sponsored plans to a range of Medicare Advantage, Medigap, and Prescription Drug Plans which are offered through a private health insurance exchange; and for retirees under the age of 65, who have access to the university's active employee health plans, adjusted the employee/employer cost sharing formula**.** These plan changes resulted in a reduction of approximately $14,500,000 in the related Accumulated Postretirement Benefit Obligation (APBO) in fiscal year 2018. The trust containing assets allocated and restricted for the postretirement medical plan was amended in fiscal year 2018. In addition to establishing separate sub accounts to pay welfare benefits for pre-July 1, 1993 retirees and post-July 1, 1993 retirees, some of the amount in excess of the obligations to pay retiree benefits were included in a separate sub account available to pay welfare benefits for active employees.

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2018 and 2017 are as follows (in thousands):

	2018	2017
Change in Accumulated Postretirement Benefit Obligation (APBO):		
APBO at prior fiscal year end	$ 31,928	$ 44,443
Employer service cost	71	671
Interest cost	716	1,295
Actuarial (gain)	(2,171)	(12,970)
Plan participants' contributions	1,993	2,791
Benefits paid from plan assets[1]	(3,383)	(4,654)
Medicare Part D subsidy	178	352
Plan amendments	(14,544)	-
APBO at current fiscal year end	$ 14,788	$ 31,928

[1]Net of retiree contributions

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, 2018 and 2017 are as follows (in thousands):

	2018	2017
Change in Plan Assets:		
Fair value of assets at prior fiscal year end	$ 33,594	$ 31,642
Actual return on assets[2]	2,203	3,814
Employer contributions for key employees	83	1
Plan participants' contributions	1,993	2,791
Benefits paid[1]	(3,383)	(4,654)
Transfers	(17,518)	-
Fair value of assets at current fiscal year end	$ 16,972	$ 33,594
Funded Status	$ 2,184	$ 1,665

[1]Net of retiree contributions
[2]Net of administrative expenses

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

	2018	2017
Receivables and other assets, net	$ 2,184	$ 1,665
Net amount recognized in the statement of financial position	$ 2,184	$ 1,665

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

	2018	2017
Unamortized actuarial (gain) loss	(14,696)	(630)
Change to unrestricted net assets	$ (14,696)	$ (630)

In fiscal year 2018 and 2017, the University used the RP-2014 participant mortality table for actuarial assumptions. In fiscal year 2018, the University updated the projections scales table from MP-2015 to MP-2017.

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

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

	2018	2017
Employer service cost	$ 71	$ 671
Interest cost	716	1,295
Expected return on assets	(1,742)	(2,126)
Subtotal	(955)	(160)
Net prior service (credit) cost amortization	(1,850)	-
Net loss amortization	-	1,455
Net periodic postretirement (income) benefit cost	(2,805)	1,295
Total changes recognized in unrestricted net assets	$ (14,649)	$ (15,761)
Total changes recognized in net periodic cost and in nonoperating activities	$ (17,454)	$ (14,466)

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

	2018	2017
Discount rate at end of year	4.28%	3.82%

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

	2018	2017
Assumptions Used to Determine Benefit Cost[1]		
Discount rate	3.82/3.63%	3.00%
Long-term rate of return on assets	7.00%	7.00%
Current health care cost trend rate	7.00%	7.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year of ultimate trend rate	2022	2019
Effect of 1% Increase in Health Care Cost Trend Rates		
Employer service cost	77,937	724,000
Interest cost	749,423	1,446,000
Total	827,360	2,170,000
Change	39,698	204,000
Percentage change	5.040%	10.376%
Effect of 1% Decrease in Health Care Cost Trend Rates		
Employer service cost	65,845	624,000
Interest cost	688,185	1,167,000
Total	754,030	1,791,000
Change	(33,362)	(175,000)
Percentage change	(4.27%)	(8.901%)

[1]These assumptions were used to calculate Net Periodic Postretirement Benefit Cost (Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable.

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

Expected Future Benefit Payments:	
During fiscal year ending 06/30/2019	1,511
During fiscal year ending 06/30/2020	1,457
During fiscal year ending 06/30/2021	1,290
During fiscal year ending 06/30/2022	1,145
During fiscal year ending 06/30/2023	1,060
During fiscal years ending 06/30/2024 through 06/30/2028	4,493

The estimated University cash contribution for fiscal year 2019 is $0.

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

	2018	2017	Target Allocation
Equity securities	57%	59%	58%
Debt securities	29%	28%	29%
Real estate securities	14%	13%	13%
Total	100%	100%	100%

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

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

Equity securities primarily include mutual fund investments in large-cap and small-cap companies primarily located in the United States. Debt securities include high quality, investment grade and international bond funds. Real estate securities consist of mutual fund investments in domestic and international real estate investment trusts. The fair values of the University's post-retirement health care plan assets at June 30, 2018 and 2017 by asset category (in thousands):

VEBA Trust Investments at June 30, 2018	Level 1	Level 2	Level 3	Total
Equity securities	$ 9,661	$ -	$ -	$ 9,661
Debt securities	4,838	-	-	4,838
Real estate securities	2,292	-	-	2,292
	$ 16,791	$ -	$ -	$ 16,791

VEBA Trust Investments at June 30, 2017	Level 1	Level 2	Level 3	Total
Equity securities	$ 19,434	$ -	$ -	$ 19,434
Debt securities	9,407	-	-	9,407
Real estate securities	4,314	-	-	4,314
	$ 33,155	$ -	$ -	$ 33,155

At June 30, 2018 and 2017, the plan also held cash and cash equivalents amounting to approximately $656,000 and $439,000.

12. RELATED ORGANIZATIONS

Tufts Shared Services, Inc. ("TSS")—The University and Tufts Medical Center, Inc. ("Medical Center") jointly formed TSS, a not-for-profit service corporation, to provide the organization and facilities for coordinating certain education and health services activities. The administrative board of TSS includes equal representation from the University and the Medical Center. The cost of services provided by TSS to the University for the years ended June 30, 2018 and 2017 were approximately $5,361,000 and $5,420,000, respectively. The University's 50% ownership investment in TSS has been recorded at approximately $10,319,000 and $9,630,000 and at June 30, 2018 and 2017 using the equity method of accounting. The accounts of TSS are included in the accompanying consolidated financial statements of the University using the equity method of accounting, in investments and non-operating revenues.

13. CONTINGENCIES AND COMMITMENTS

Outstanding commitments on construction contracts amounted to approximately $59,067,000 at June 30, 2018.

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, 2018, with terms in excess of one year for office space. Expenses associated with operating leases totaled approximately $9,429,000 and $8,237,000 for the years ended June 30, 2018 and 2017, respectively.

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

Fiscal Year 2019	8,638
Fiscal Year 2020	7,883
Fiscal Year 2021	7,196
Fiscal Year 2022	4,819
Fiscal Year 2023	3,275
Thereafter	3,462
Total	$35,273

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