

Tufts
UNIVERSITY



Annual Financial Report

2020

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Tufts University Highlights

(Fiscal years ended June 30, 2020 and 2015)

	2020	2015
FINANCIAL (\$ in thousands)		
Total operating revenue without donor restrictions (unrestricted)	\$970,629	\$813,460
Total net assets	\$2,692,401	\$2,235,096
Land, buildings and equipment, net	\$1,155,960	\$870,270
Investments	\$2,375,928	\$2,122,561
Bonds and notes payable	\$745,436	\$648,511
CREDIT RATING		
Standard & Poor's	AA-	AA-
Moody's	Aa2	Aa2
STUDENTS		
Enrollment (full-time equivalent enrollment)		
Undergraduate	5,774	5,126
Graduate	3,362	3,190
Professional	2,106	1,983
Certificate and other	<u>157</u>	<u>160</u>
Total full-time equivalent enrollment	11,399	10,459
Undergraduate admission		
Applicants	23,127	19,062
Selectivity	16%	16%
Yield	43%	44%
SAT (mean)	1,446	1,436
ACT (mean)	33.0	-
Total undergraduate student charges (tuition, room, board, mandatory fees)	\$73,664	\$61,277
PERSONNEL		
Faculty	1,268	1,155
Staff	<u>3,341</u>	<u>2,979</u>
Total full-time equivalent	4,609	4,134
FACILITIES		
Gross square feet	5,568,596	5,171,757
Campuses – Medford/Somerville, Boston (Health Sciences campus, SMFA campus), Grafton		

Tufts University 2020 Financial Report

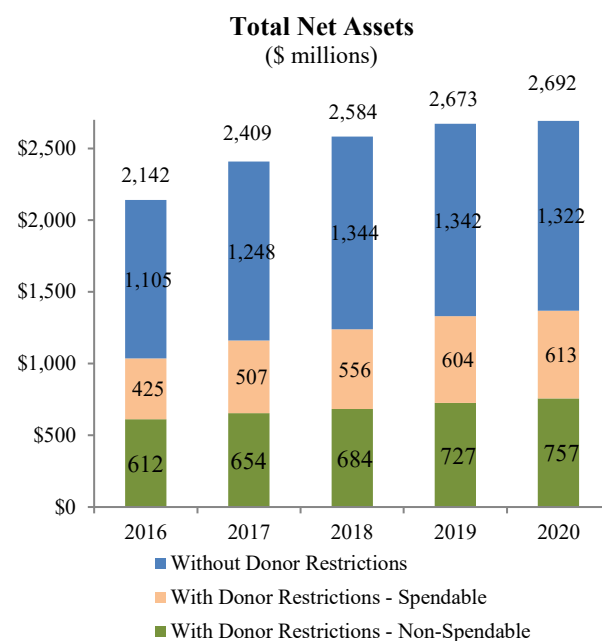
For the fiscal year, our chief financial indicators achieved strong results: the operating surplus was \$10.9 million, the endowment grew to \$1.94 billion, the Brighter World campaign achievement reached \$1.03 billion of its \$1.5 billion goal, and total net assets grew to \$2.7 billion.

Tufts is one of the most selective and desirable universities in the country, with an undergraduate acceptance rate of 16% and undergraduate matriculation rate of 43%. The university's full-time student enrollment continued to grow, with over 11,000 undergraduate and graduate students across four campuses. Innovative new programs were added, including online degree programs in computer science, international business, and public health. Research activity reached a new high of \$197 million. The university's infrastructure grew with the completion of major renovations to Barnum-Dana and Miller and Houston halls, the new Dental School elevator, chemistry laboratories in Michael, new squash courts, and projects for life/health and safety needs and essential information technology requirements. Progress on the new Cummings Center continued and the new MBTA station adjacent to the center was officially named the Medford/Tufts station.

These results were achieved in a year in which Tufts was challenged by the onset of the COVID-19 pandemic, which impacted all the university's major revenue sources. Simultaneously, the university was faced with critical and necessary investments to reduce the risks for students, faculty, and staff. In March 2020, students, faculty, and staff except those essential to maintain the university's academic, research, and operational continuity were requested to study, teach, and work remotely from home. All but essential laboratory research was suspended. Veterinary and dental clinics remained open only for emergency services, and on-campus events were cancelled.

To facilitate the re-opening of our campuses for the new academic year, Tufts implemented a multitude of mitigating measures to allow for the safe return of our students, faculty, and staff, and the continued ramp-up of research activity. Included in those measures has been Tufts' leading efforts in the development of COVID-19 surveillance testing protocols to protect those at the university and in the surrounding community. The coordinated efforts of our campus community and the implementation of measures to mitigate the financial impacts of the pandemic allowed Tufts to maintain its strong financial position.

\$2.7 Billion in Net Assets



Key Financial Highlights (5-year trend)

(in millions of dollars)

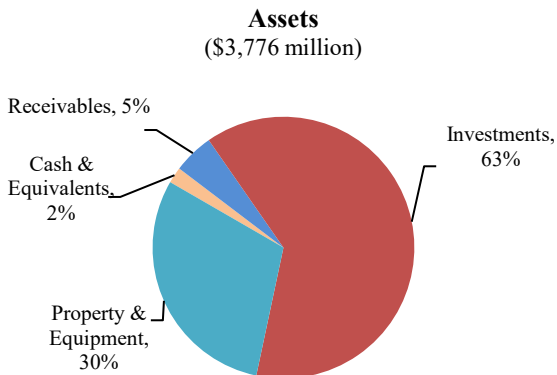
	2016	2017	2018	2019	2020
Operating revenues*	\$854	\$897	\$909	\$954	\$971
Operating expenses*	836	884	904	946	960
Operating results*	17.8	13.1	5.4	8.5	10.9
Net assets	2,142	2,409	2,584	2,673	2,692
Endowment	1,593	1,775	1,893	1,910	1,937

* Without Donor Restrictions (Unrestricted)

STATEMENT OF FINANCIAL POSITION

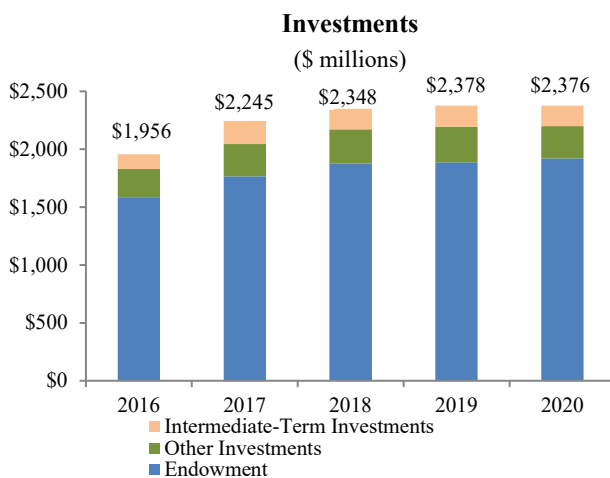
ASSETS

The university has assets of \$3.78 billion, which includes investments at 63% and property and equipment at 30%. Total assets increased \$6.7 million (0.2%) during the fiscal year due to increases in property and equipment offset by decreases in investment, cash, and receivables balances.



Investments

Long-term and intermediate-term investments totaled \$2.38 billion at the end of Fiscal Year 2020, declining \$1.7 million from the prior year-end. Long-term investments totaled \$2.2 billion. Intermediate-term investments totaled \$176.9 million. Please refer to the [2020 Endowment and Investment Report](#) section of this report for additional discussion on the endowment and investments.



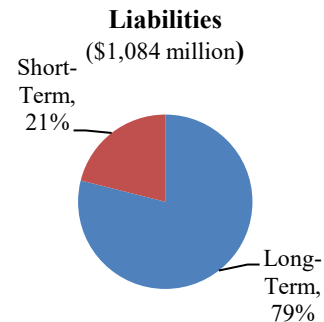
Property and Equipment

Property and equipment had a \$1.2 billion book value net of depreciation at fiscal year-end, growing \$30.7

million (2.7%) from the prior year. Total Fiscal Year 2020 capital expenditures were \$100.8 million.

LIABILITIES

Liabilities totaled \$1.1 billion at fiscal year-end, a year-over-year decrease of \$1.3 million. Decreases included declines in long-term debt, accounts payable, government advances for student loans, and advance payments for conferences. Offsetting these decreases were increases in interest rate agreement liabilities, student pre-payments and credits, grant and contract advances, and payroll tax liabilities due to deferral of tax payments allowed by the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act.



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.

Debt

The university's outstanding debt totaled \$745.4 million at June 30, 2020, a decrease of \$13.3 million from June 30, 2019 due to scheduled principal payments.

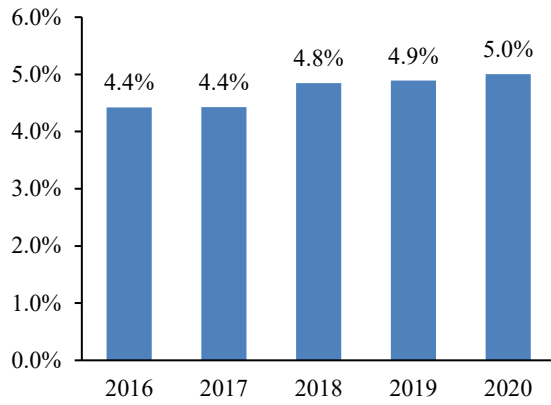
The liability associated with interest rate agreements increased from \$68.9 million as of June 30, 2019 to \$91.2 million as of June 30, 2020. These long-term agreements are matched to the university's variable-rate debt to effectively create fixed-rate debt obligations. The agreements do not contain financial covenants or require the university to post collateral. The liability associated with the agreements, which is a function of market interest rates, reflects the market termination cost as of June 30, 2020. 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, 2020 was 4.41% and average life was 42.2 years.

The debt service-to-operating expense ratio, which measures the impact of annual debt service (interest and principal payments) on operations, was 5.0% in Fiscal Year 2020. The university's goal is to maintain debt

service levels at less than 5.0% of operating expenses. That ratio has ranged from 4.4% to 5.0% in the last five years, enabling the university to maintain its strong credit ratings while benefiting from a low cost of capital.

Debt Service Ratio
(Debt Service/Operating Expenses)



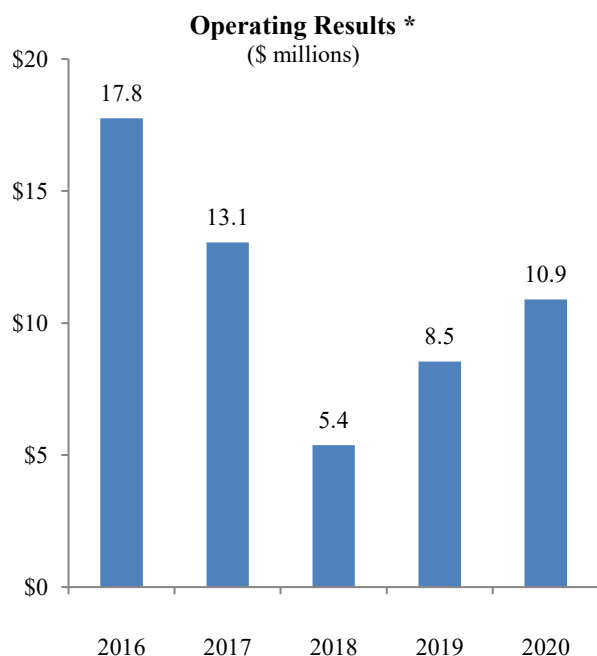
STATEMENT OF OPERATING ACTIVITIES

Operating Result without Donor Restrictions

Net unrestricted operating results contributed \$10.9 million to unrestricted net assets in Fiscal Year 2020, compared to \$8.5 million in Fiscal Year 2019.

Unrestricted operating revenues grew to \$970.6 million in Fiscal Year 2020 from \$954.3 million in Fiscal Year 2019. Growth drivers included: planned increases in tuition, fees, room and board; and expansion of enrollment, endowment earnings utilized for operations, government, and private grants and contracts revenue, and gifts. These increases were offset by decreases in clinical and conference revenues as a result of the pandemic, housing and dining refunds after the campus closure, and decreased royalty revenues.

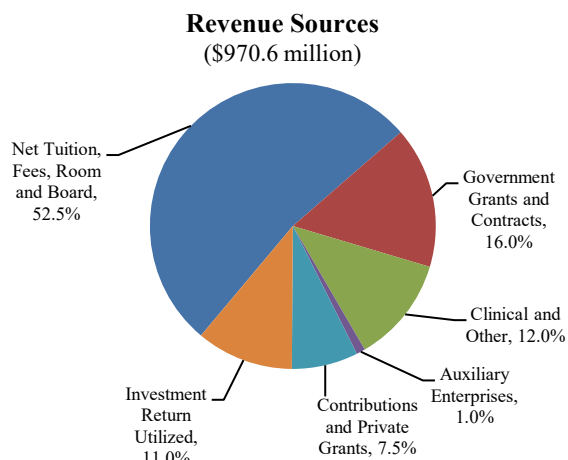
Operating expenses grew to \$959.7 million in Fiscal Year 2020 from \$945.8 million in Fiscal Year 2019. The change was primarily due to increases in costs for compensation, materials and services, and depreciation; this was offset by decreases in travel expenses and facilities and maintenance costs.



*Without Donor Restrictions (unrestricted)

REVENUES

Unrestricted operating revenues increased 1.7% in Fiscal Year 2020, bringing the five-year compound annual growth rate to 3.6%. The university has a diverse revenue base, which mitigates the impact of changes in any one revenue source.



Tuition, Fees, and Room and Board

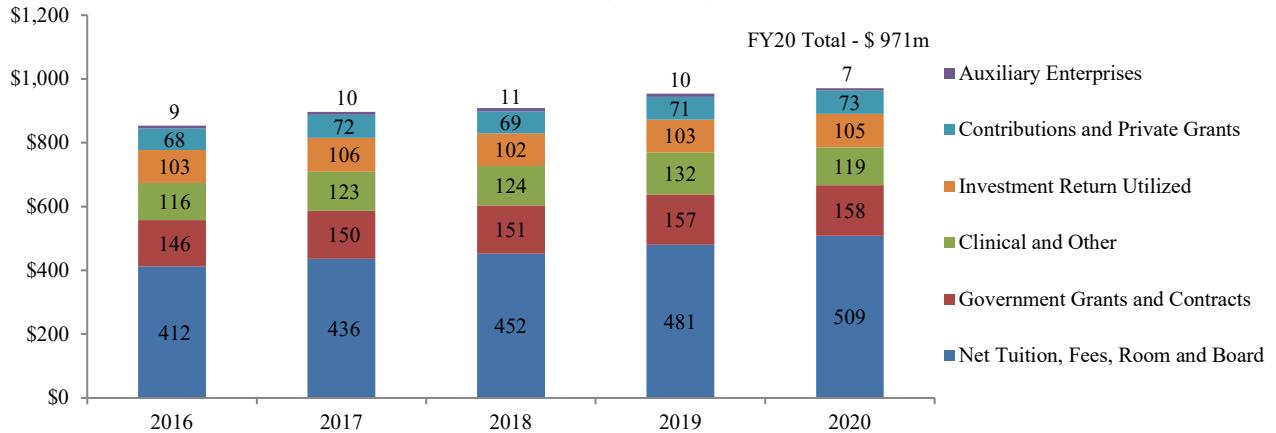
Gross tuition, fees, and room and board increased 3.8% to \$653.3 million due to tuition and fee increases and an increased enrollment of 246 students. Net tuition, fees, and room and board (gross revenues minus financial aid) grew \$28.2 million (5.9%) to \$508.8 million. The closure of the campus due to the pandemic required refunds of room and board charges resulting in a year-over-year decline of \$7.1 million (14.1%) in room and board revenues.

Undergraduate total student charges increased 4.0%. Undergraduate enrollment increased by 182 students, including an increase of 63 undergraduate students in the School of the Museum of Fine Arts (SMFA). Enrollment in graduate and professional degree programs increased by 64 students, including: enrollments in new master's programs in the Graduate School of Arts and Sciences and School of Engineering; enrollments in new online master's programs in global business management in the Fletcher School and in health informatics and analytics and public health in the School of Medicine; and continued increased enrollments in University College programs.

Financial Aid

Total financial aid for both undergraduate and graduate degree programs was \$149.9 million in Fiscal Year 2020. This amount includes \$144.5 in scholarships on the Statement of Activities and another \$5.4 of aid in excess of student charges reported in expenses on the Statement of Activities, which is a change this year to be in compliance with Financial Accounting Standards

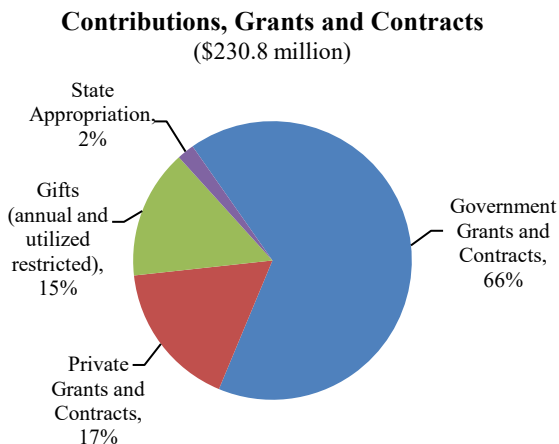
Revenue Trends (\$ millions)



Board (FASB) accounting standards. This excess typically represents amounts awarded to students who live off campus and use that aid to pay off-campus living expenses.

Contributions, Grants, and Contracts

Contributions, grants, and contracts (which includes government and private research grants and contracts, the Commonwealth of Massachusetts appropriation for Cummings School, annual fund gifts, and utilized restricted gifts) totaled \$230.8 million, an increase of \$2.3 million (1.0%) from the prior year.

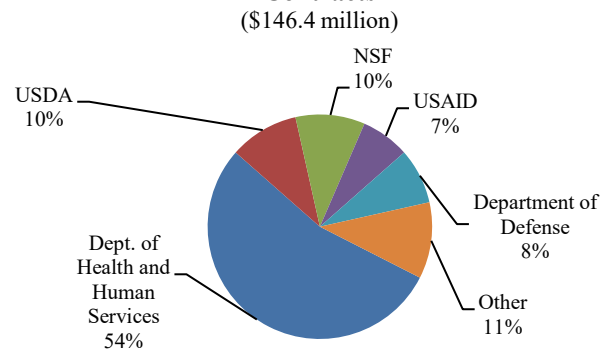


The primary reasons for the change was a \$1.0 million (2.6%) increase in private grants revenue and \$0.8 million (0.5%) increase in government grant and contract revenues.

Consistent with Fiscal Year 2019, government grants and contracts accounted for 66.0% of this revenue, private grants and contracts 16.9%, gifts 14.7%, and the state appropriation 2.4%.

In Fiscal Year 2020, relative funding levels from U.S. government agencies were consistent with the prior year. Fifty-four percent of U.S. 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), National Science Foundation (NSF), and Department of Defense (DOD), including its military components, supported another 35% of the government-sponsored research.

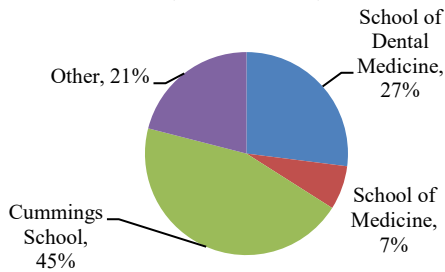
U.S. Federal Government Grants and Contracts



Clinical and Other Educational Activities

Revenue from clinical and other educational activities was higher year-over-year through February but decreased \$13.5 million (11.4%) for the fiscal year due to COVID-19 restrictions. These revenues are primarily comprised of revenues in Cummings School of Veterinary Medicine, the School of Dental Medicine, and the School of Medicine. Other revenues included rent, royalties, and income from Tufts Launchpad|Biolabs, which opened in Fiscal Year 2018.

Clinical and Other Educational Activities
(\$118.5 million)



Clinical revenues at the School of Dental Medicine and Cummings School of Veterinary Medicine declined \$8.0 million (21.5%) and \$1.6 million (3.2%) from the prior year, respectively, due to pandemic restrictions.

Royalties declined \$2.7 million compared to the prior year as the university had received large royalty income in the prior year with the sale of stock received for use of intellectual property.

Tufts Launchpad|Biolabs continued its growth, with an 8.4% increase in revenue to \$3.5 million.

Investment Return Utilized

Investment return utilized increased 2.1% to \$105.5 million. This amount includes investment income distributed and utilized from the endowment and other investments as well as income earned on working capital.

The endowment and other investment return utilized increased \$2.7 million (2.8%). Please refer to the 2020 Endowment and Investment Report section of this

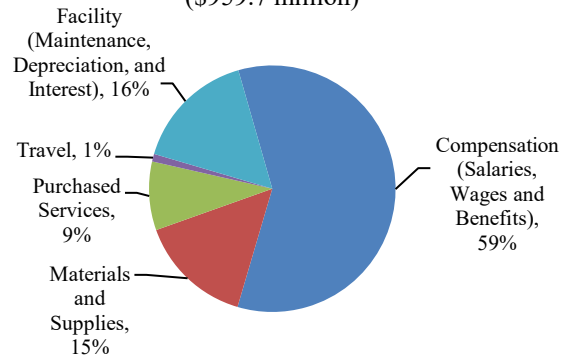
report for additional discussion on the endowment and investments utilization.

The working capital income utilized decreased \$0.53 million (8.4%). This decrease was primarily due to a decrease in income earned on working capital as a result of decreased short-term interest rates.

EXPENSES

Operating expenses increased 1.5% to \$959.7 million, bringing the five-year compound-annual growth rate to 3.4%. The relative size of the expense components remained consistent with prior years, with compensation and facilities encompassing most of the costs.

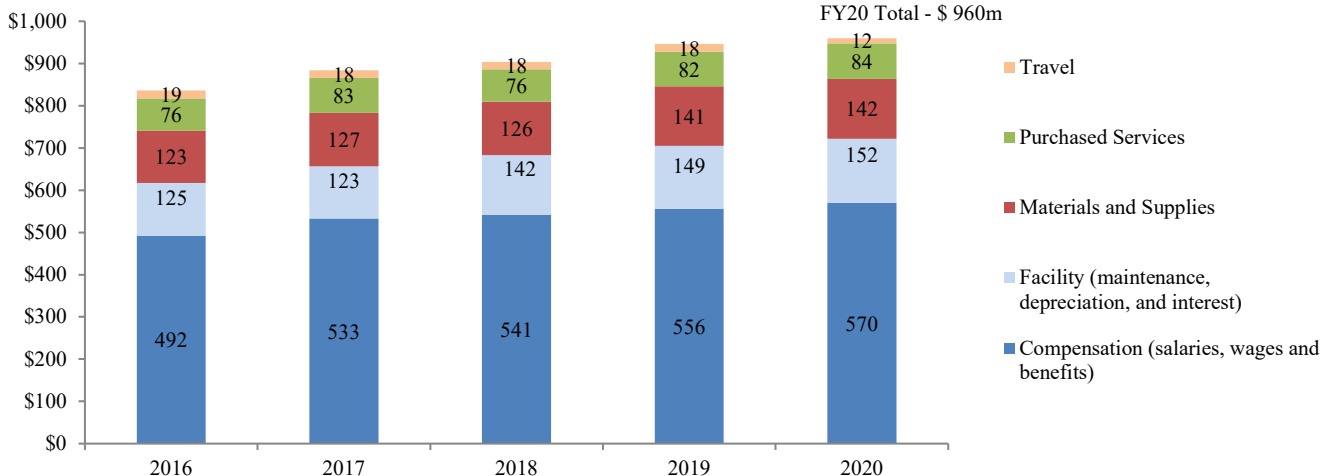
Expenses
(\$959.7 million)



Compensation Costs (Salaries, Wages, and Benefits)

Compensation costs, representing 59% of all expenses, increased \$13.8 million (2.5%) to \$570.0 million in Fiscal Year 2020. That annual percentage increase was below the 3.7% five-year compounded growth rate for

Expense Trends
(\$ millions)



compensation costs through Fiscal Year 2020.

The salaries and wages component of compensation costs increased \$14.0 million (3.1%) due to an average merit pool of 2.55% and an increase of faculty and staff of 81. The five-year compounded annual growth rate for salaries and wages for faculty and staff and students was 4.0% and 3.8%, respectively.

Benefit expenses totaled \$106.1 million in Fiscal Year 2020. Health insurance, contributions to the university's 401(a) plan, and employer payroll taxes make up approximately 85% of benefits costs. The five-year compounded annual growth rate in benefits was 3.1% through Fiscal Year 2020.

The university has a self-insured medical plan for employees in lieu of a premium only/fully insured plan. As a result, those costs for claims accrue directly to the employer and employees. Medical costs decreased 19.5% year-over-year primarily due to restrictions on medical visits and procedures due to COVID-19.

Non-Compensation Costs

Non-compensation costs were flat year-over-year totaling \$389.7 million. The five-year compounded annual growth rate for non-compensation expenses at the end of Fiscal Year 2020 was 2.9%.

Materials and supplies costs (e.g., consumables, rent, periodicals, aid, and software) increased \$0.8 million (0.6%) due, in part, to spending associated with the pandemic response, increased rent expenses on the SMFA and Boston campuses, and increased technology expenses. These increases were offset, in part, by decreased research and clinical activity and decreased catering needs as a result of COVID-19 restrictions.

Purchased services costs (e.g., subcontracted services on grants and contracts and professional, consulting, and legal services) increased \$2.4 million (2.9%) primarily due to increases in subcontracting costs on grants and contracts and revenue share costs for new online program delivery. These increases were offset by decreases in revenue share costs related to royalties and a decrease in temporary labor agency costs as a result of COVID-19 restrictions.

Facilities related costs (facilities & maintenance, depreciation, and interest) increased \$2.8 million (1.9%). Facilities and maintenance costs (e.g., utilities, custodial service, and repairs and replacements) decreased \$1.9 million primarily with reduced costs for gas, electricity, and carpentry work. Depreciation increased \$4.3 million due to additional depreciation related to completed projects. Interest expenses increased 1.4% due to higher average rates on variable

rate bonds, offset by lower interest costs on fixed rate bonds with lower balances.

Travel cost decreased \$5.9 million (33.3%) due to reduced travel during the COVID-19 pandemic.

STATEMENT OF OPERATING ACTIVITIES

Operating Results with Donor Restrictions and Non-operating Activities

Restricted Operating Results

Operating results with donor restrictions added \$32.7 million to net assets. This amount includes \$28.9 million in unconditional restricted private grant funding received or awarded and \$36.9 million in restricted contributions received or pledged. This was offset by \$49.7 million in assets released for use for which restriction were met, including \$18.4 million of grant funding, \$14.8 million in restricted contributions, and \$16.5 million of restricted Total Return Pool (TRP) distributions.

Non-Operating Activities

Non-operating activities resulted in a loss of \$23.9 million to the university's net assets in Fiscal Year 2020. Three non-operating categories had notable changes: contributions and grants, investment returns reinvested net of utilization, and interest rate agreements.

Non-operating contributions and grants (endowed gifts, capital gifts, gifts-in-kind, and bequests received) added \$45.0 million to the university's net assets predominantly due to \$35.4 million in endowment contributions and \$5.8 million in gifts for facilities.

Investment returns reinvested net of utilization to support operations resulted in a loss of \$39.2 million. This was due to the fact that the return on investments was less than the distribution for use from those investments. Please refer to 2020 Endowment and Investment Report section of this report for additional discussion on the endowment and investments.

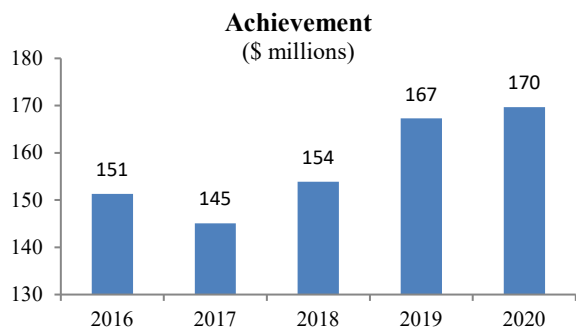
At the end of Fiscal Year 2020 the university recorded a \$22.3 million loss related to long-term interest rate agreements. The liability associated with these agreements increased as a result of decreases in market interest rates year-over-year.

ADVANCEMENT

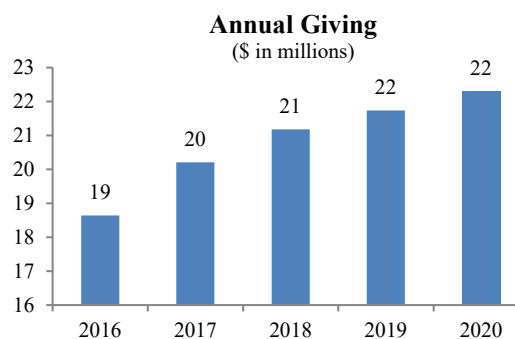
\$1.03 billion for the Brighter World Campaign

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's goal is to 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.

In May 2020, the campaign reached an important milestone in surpassing \$1 billion in cumulative gifts and commitments. As of June 30, 2020, Tufts raised 69% of the *Brighter World* goal with achievement totaling \$1.03 billion. Alumni, parents, friends, corporations and foundations have all contributed to the campaign, with 45% of the total raised from university alumni. Cumulative campaign support directed to financial aid has totaled \$226.1 million. And \$358.8 million has been raised to support the university's endowment.



In Fiscal Year 2020 the university secured \$169.7 million in new pledges and gifts, a 1.3% increase over Fiscal Year 2019 and the highest level of fundraising achievement in the last 12 years. Gifts and pledges to augment the university's endowment totaled \$58.4 million, with nearly \$33.9 million designated for financial aid. The university's annual funds, which provide support for the university's most immediate needs and priorities, accounted for \$22.3 million of the funds raised in Fiscal Year 2020, a 2.6% increase over Fiscal Year 2019. In Fiscal Year 2020, more than 37,000 people supported Tufts University.



The Fiscal Year 2020 Achievement include two eight-figure gifts: a \$20 million commitment from William and Joyce Cummings for multi-year core support for Cummings School of Veterinary Medicine and a \$10 million commitment from Pierre and Pam Omidyar for the Omidyar-Tufts Active Citizenship Trust (OT-ACT, renamed from the previous Omidyar-Tufts Microfinance Fund). The latter gift provides support for Arts and Sciences, Engineering, and Tisch College, and includes expanded guidelines for investment that will allow Tufts to broaden its impact across the globe and strengthen its mission for promoting active citizenship.

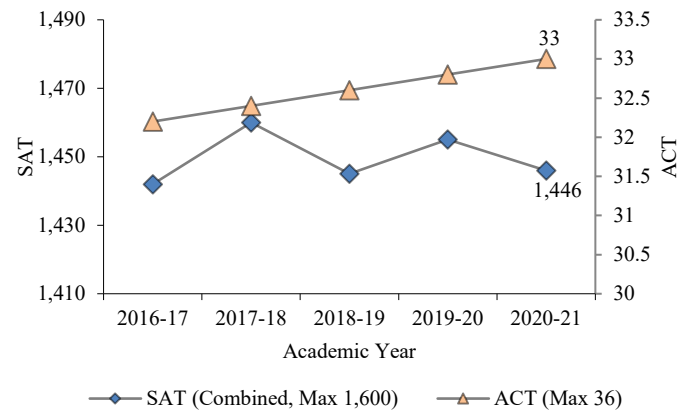
Corporations and foundations provided more than \$40 million in new commitments in Fiscal Year 2020, up from \$35 million in Fiscal Year 2019. Planned gifts generated \$28.4 million. Planned gifts have contributed \$187.9 million to the campaign thus far, representing close to 18% of total achievement. We have welcomed 881 new members to the Charles Tufts Society (for individuals who have included Tufts in their estate plans) over the course of the campaign, towards a goal of 1,000 new members.

UNDERGRADUATE STUDENT DEMAND AND QUALITY

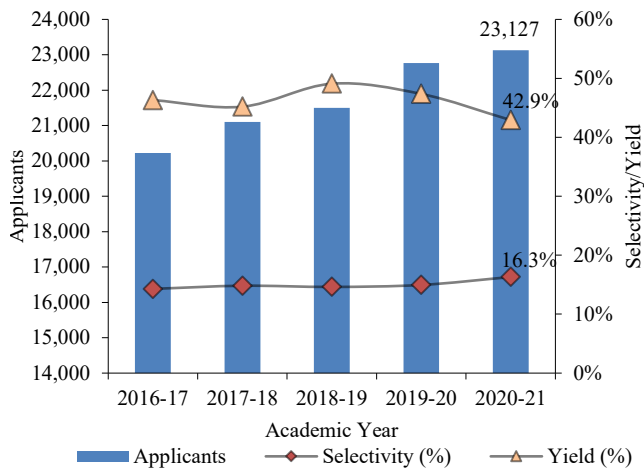
The university continues to experience strong student demand, an important contributor to Tufts' financial strength. For Academic Year 2019–20, the number of undergraduate applicants increased to 23,127, with an entering undergraduate class of 1,618 students.

Tufts continues to be a highly selective university. For academic year 2020 – 21, the number of applicants who were accepted stood at 16.3% and the percentage of students accepted who matriculated was 42.9%; continuing long-term trends that illustrate Tufts' continued strength in the marketplace. The graph below shows these trends for the entering Class of 2024. As a strong indication of Tufts as a first-choice university, Tufts received 2,445 Early Decision applications, the highest ever received.

Mean SAT and ACT Scores
(Entering Undergraduate Class)



Undergraduate Student Demand



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 reflects continuing high student quality and mirrors the scores of students at other highly selective institutions.

Tufts University 2020 Endowment and Investment Report

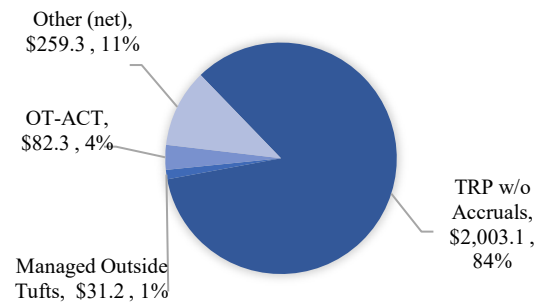
The Board of Trustees and Investment Committee at Tufts look at the endowment return over multiple periods, rather than in any single year, to provide a base for support for the university’s activities. Endowment assets of the university are invested in a diversified manner. This should allow the endowment to produce results that meet the core objective of supporting the current operating budget while still preserving and enhancing the value of the endowment so that future generations can enjoy the same standard of excellence as Tufts’ current students. In Fiscal Year 2020, the portfolio returned 3.7%. Detailed performance information is provided below.

In addition to selecting and monitoring the investments in the endowment, the Investment Committee and Investment Office support all the constituencies of the university, including donors, administrators and Advancement, in understanding the strategic value of the endowment to the university’s long-term financial health. This year, there was meaningful coordination and communication between the Investment Office and the University Finance team with respect to managing through the immediate impacts of the pandemic and planning for various future scenarios regarding the operating budget and the potential impact on the endowment.

The university’s long-term and intermediate-term assets totaled at \$2.38 billion at the end of Fiscal Year 2020. Of these, \$1.94 billion are considered endowment assets. Endowment assets comprise

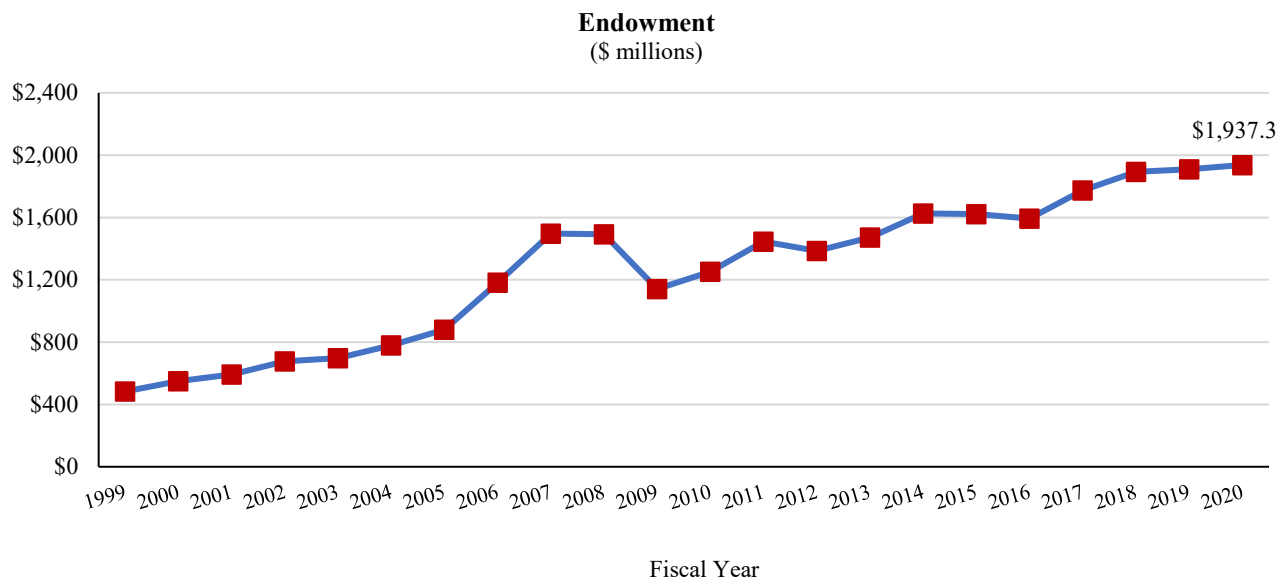
funds from multiple sources. A meaningful component are funds designated as unrestricted by the Board of Trustees, transferred to the endowment in the early years of the last decade when the university produced operating surpluses. Another critically important component of the endowment are funds established by individual donors, each supporting a specific purpose within each of the university’s schools. Other components include life income trusts, separately managed accounts, and the Omidyar-Tufts Active Citizenship Trust (OT-ACT).

\$2,375.9 MILLION AS OF JUNE 30, 2020



Investment Objectives and Strategy

The value of the Total Return Pool (TRP), in which the majority of the long-term assets (both endowment and



non-endowment) are invested, was \$2.0 billion at June 30, 2020. Of this balance, \$1.7 billion belonged to the endowment and the balance to other long-term investments. The pool’s target long-term rate of return of 7% represents a dual objective of steady support for university operations while ensuring the preservation of long-term value for future generations of students.

Performance

Fiscal Year 2020 saw significant market volatility around the onset of the pandemic; the U.S. equity market fell by more than 30% between mid-February and late March. The recovery, however, was also rapid and many risk asset classes ended the year down, but well above market lows. Once again, large-capitalization U.S. equity markets led other major equity markets, posting a one-year return of 7.5% vs. the non-US developed markets return of -5.1% and emerging markets return of -3.4%. However, long-term U.S. Treasury Bonds was by far the best-performing category across major equity and debt markets, with a return of 26.0%.

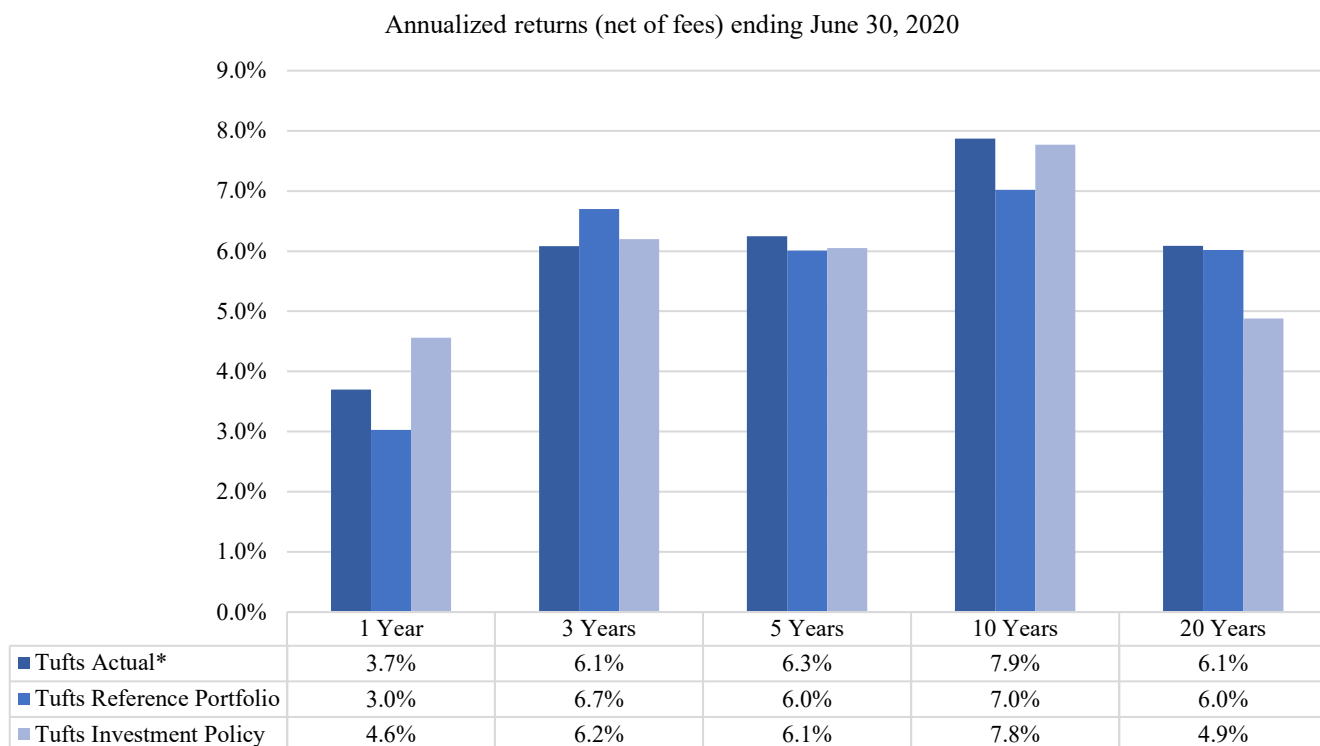
The TRP is highly diversified, seeking to provide an all-weather portfolio that can meet long-term return objectives in multiple market environments. In Fiscal Year 2020, the portfolio returned 3.7%, exceeding our reference portfolio of 2.9%, but trailing the investment policy benchmark (a passive 70 global equity/30 US bonds) of 4.6%. Longer term, the results continue to exceed both the reference portfolio and the investment

policy benchmark over the 5-, 10- and 20-year time periods, although not consistently above the absolute 7% target return in all periods. This longer-term performance includes both the 2001 and 2009 recessions as well as the recent impact from the pandemic. Shorter-term performance has been more volatile given the global nature of the portfolio and some divergence in returns across different geographies and sub-asset classes.

In the last year, the Investment Office has worked closely with the Investment Committee to opportunistically manage the liquidity in the portfolio as well as upgrade the quality of the manager roster as market conditions have evolved. This has allowed the TRP to maintain a market exposure consistent with the asset allocation and recover from the market sell-off in March 2020 more quickly. Going forward, the TRP pool is positioned to benefit from several key investment themes, including healthcare and life sciences innovation, acceleration of technology adoption across key consumer and enterprise markets, and further institutionalization of the Chinese equity market.

Fiscal Year Summary

The balance of long-term and intermediate-term investments remained stable year-over-year at \$2.38 billion.



*Tufts Actual returns are gross of administrative fees.

Investments increased due to returns and new gifts. Returns on all investments totaled a net of \$66.3 million, which included the 3.7% return on the TRP offset by losses in other investments. New gifts totaled \$38.0 million, including \$35.4 million in endowed gifts.

The investment increases were offset by the use of returns of \$105.5 million, \$98.8 million from the TRP, \$5.8 million from working capital investments, and \$0.9 million from Omidyar-Tufts Active Citizenship Trust (OT-ACT). The \$98.8 million from the TRP included \$84.0 million from endowment funds invested in the TRP and \$14.8 from university funds invested in the TRP.

The \$105.5 million utilization is reflected as revenue on the statement of activities. The net of the returns and utilization (a \$39.2 million loss) is reflected in the non-operating portion of the statement of activities. This utilization in excess of current-year returns is consistent with the objective of providing stable funding for university activities throughout the years even though returns on investments fluctuate throughout the years. This is consistent with the required prudent management of an endowment, in which excess gains in years of high returns are used to support distributions in years of low returns.



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, 2020 and 2019, and the related consolidated statements of activities for the year ended June 30, 2020, and of cash flows for the years ended June 30, 2020 and June 30, 2019.

Management's Responsibility for the Consolidated Financial Statements

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

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, 2020 and 2019, the changes in their net assets for the year ended June 30, 2020, and their cash flows for the years ended June 30, 2020 and June 30, 2019 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the University changed the manner in which it accounts for restricted cash within the consolidated statements of cash flows in fiscal year 2020. Our opinion is not modified with respect to this matter.

Other Matter

We previously audited the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities and of cash flows for the year then ended (the statement of activities is not presented herein), and in our report dated November 1, 2019, 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, 2019 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



November 5, 2020

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2020 AND JUNE 30, 2019 (in thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 69,539	\$ 73,854
Investments, intermediate-term	176,876	183,950
Receivables and other assets, net	48,903	57,556
Contributions receivable, net	84,529	80,156
Notes and student loans receivable, net	41,067	42,931
Investments, long-term	2,199,052	2,193,705
Land, buildings, and equipment, net	<u>1,155,960</u>	<u>1,125,280</u>
TOTAL ASSETS	<u>\$ 3,775,926</u>	<u>\$ 3,757,432</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 175,188	\$ 182,353
Deferred revenue and deposits	53,118	51,054
Bonds and notes payable	745,436	758,730
Interest rate agreements	91,233	68,917
Government advances for student loans	<u>18,550</u>	<u>23,722</u>
Total liabilities	<u>1,083,525</u>	<u>1,084,776</u>
NET ASSETS:		
Without donor restrictions	1,322,472	1,341,595
With donor restrictions:		
Spendable	613,281	604,136
Non-Spendable	<u>756,648</u>	<u>726,925</u>
Total net assets with donor restrictions:	<u>1,369,929</u>	<u>1,331,061</u>
Total net assets	<u>2,692,401</u>	<u>2,672,656</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,775,926</u>	<u>\$ 3,757,432</u>

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020, WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2019 (in thousands)

	Without donor restrictions	With donor restrictions	Total 2020	Total 2019
OPERATIONS:				
REVENUE AND OTHER SUPPORT:				
Tuition and fees, room and board (net of scholarships, see Note 2)	\$ 508,813	\$ -	\$ 508,813	\$ 480,582
Government grants and contracts	157,958	-	157,958	157,170
Clinical and other educational activities	118,543	-	118,543	132,069
Auxiliary enterprises	6,954	-	6,954	9,764
Contributions and private grants	39,729	65,835	105,564	116,044
Investment return utilized	88,958	16,528	105,486	103,283
Net assets released from restrictions	49,674	(49,674)	-	-
Total revenue and other support	970,629	32,689	1,003,318	998,912
EXPENSES:				
Salaries, wages and benefits	569,984	-	569,984	556,154
Materials, supplies and other	142,292	-	142,292	141,498
Purchased services	83,963	-	83,963	81,570
Facility and maintenance costs	54,006	-	54,006	55,911
Depreciation	66,248	-	66,248	61,971
Interest	31,324	-	31,324	30,884
Travel	11,869	-	11,869	17,782
Total expenses	959,686	-	959,686	945,770
INCREASE IN NET ASSETS FROM OPERATING ACTIVITIES				
	10,943	32,689	43,632	53,142
NONOPERATING ACTIVITIES:				
Investment return (utilized)/reinvested, net	(32,672)	(6,537)	(39,209)	(19,018)
Contributions and grants, spendable	5,136	5,986	11,122	19,388
Contributions and grants, non-spendable	-	33,906	33,906	42,034
Net assets released from restrictions for capital and other nonoperating purposes	27,176	(27,176)	-	-
Net unrealized (loss) on interest rate agreements	(22,316)	-	(22,316)	(14,193)
Change in funded status of postretirement health care plan	(794)	-	(794)	(1,570)
Gain on sale of building	-	-	-	12,579
Other nonoperating activities	(6,596)	-	(6,596)	(3,880)
(DECREASE) INCREASE IN NET ASSETS FROM NONOPERATING ACTIVITIES	(30,066)	6,179	(23,887)	35,340
(DECREASE) INCREASE IN NET ASSETS	(19,123)	38,868	19,745	88,482
NET ASSETS—Beginning of year	1,341,595	1,331,061	2,672,656	2,584,174
NET ASSETS—End of year	\$ 1,322,472	\$ 1,369,929	\$ 2,692,401	\$ 2,672,656

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

TUFTS UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 (in thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Total increase in net assets	\$ 19,745	\$ 88,482
Adjustments to reconcile total increase in net assets to net cash and cash equivalents provided by operating activities:		
Net realized and unrealized investment (gains)	(52,551)	(68,345)
Depreciation and amortization	67,525	63,536
Loss (gain) on disposal of fixed assets	2,089	(10,540)
Gifts of intangible assets	(8,600)	-
Gifts of securities, property and equipment	(10,805)	(17,893)
Proceeds from sales of donated securities	3,438	4,670
Settlements on interest rate swap agreements	7,259	5,645
Net unrealized loss on interest rate agreements	22,316	14,193
Contributions restricted for long-term investment	(33,948)	(28,825)
Changes in operating assets and liabilities:		
Receivables and other assets	8,196	3,962
Contributions receivable	(4,373)	(29,621)
Accounts payable and accrued expenses	10,777	12,466
Deferred revenue and deposits	2,064	(12,621)
Net cash, cash equivalents and restricted cash provided by operating activities	<u>33,132</u>	<u>25,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Notes and student loans granted	(5,259)	(5,331)
Student loans repaid	7,123	7,230
Purchases of investments	(1,566,230)	(1,596,085)
Proceeds from sale of investments	1,601,234	1,618,642
Proceeds from sale of building	-	29,631
Additions to land, buildings, and equipment	(118,709)	(120,361)
Net cash, cash equivalents and restricted cash (used in) investing activities	<u>(81,841)</u>	<u>(66,274)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Decrease) increase in government advances for student loans	(5,172)	559
Proceeds from issuance of bonds and notes	-	34,289
Cash paid on interest rate swap agreements	(7,259)	(5,645)
Repayments of bonds and notes	(12,272)	(41,131)
Proceeds from contributions restricted for long-term investment	33,948	28,825
Proceeds from sales of donated securities restricted for long-term purposes	6,818	1,464
Net cash, cash equivalents and restricted cash provided by financing activities	<u>16,063</u>	<u>18,361</u>
Net decrease in cash, cash equivalents and restricted cash	(32,646)	(22,804)
Cash, cash equivalents and restricted cash—Beginning of year	167,746	190,550
Cash, cash equivalents and restricted cash—End of year	<u>\$ 135,100</u>	<u>\$ 167,746</u>
Supplemental Information on Cash, Cash Equivalents and Restricted Cash:		
Cash as shown in the statements of financial position	69,539	73,854
Restricted cash included in Investments, intermediate-term (see Note 2 and 12)	65,550	84,824
Restricted cash included in Other Assets (see Note 3)	11	9,068
Total cash, cash equivalents and restricted cash as shown on the Consolidated Statement of Cash Flows	<u>\$ 135,100</u>	<u>\$ 167,746</u>
Supplemental Data:		
Cash paid for interest, net of amounts capitalized (see Note 7)	\$ 35,502	\$ 34,791
Construction amounts remaining in accounts payable	\$ 8,945	\$ 26,887
Gifts of securities, property and equipment	<u>\$ 10,805</u>	<u>\$ 17,893</u>

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

TUFTS UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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 11,400 students and four 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 Active Citizenship Trust (“OT-ACT”)— The Omidyar–Tufts Microfinance Fund (the “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 Fund were contributed by a third party and, according to the donor’s stipulation, were to be invested in microfinance-related ventures. In 2006, a \$100 million contribution to establish the Fund was recorded in net assets with donor restrictions. In March 2020, the Trust Agreement was amended in order to remove certain limitations on the charitable activities described therein and thereby make the trust assets more productive, enhance the Fund’s impact and increase the Trustee’s ability to achieve the Fund’s charitable purposes. The name of the Trust under this amendment was revised to be the Omidyar–Tufts Active Citizenship Trust (“OT-ACT”). The majority of OT-ACT’s trustees are appointed by the University. Investments associated with these funds are recorded in net assets with donor restrictions.

Tufts Global, Inc (“Tufts Global”)—Tufts Global is a not-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.

BrainGate, Inc (“BrainGate”)—Braingate is a for-profit corporation donated to the University in September 2019. BrainGate owns patents that are the basis of a transformative neurotechnology that uses micro-electrodes implanted in the brain to let humans operate external devices such as computers or robotic arms with just their thought. BrainGate was donated to Tufts to facilitate further research and practical applications of the technology.

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:

Net assets with donor restrictions—Net assets subject to donor-imposed stipulations that are maintained in perpetuity by the University consisting primarily of donor-restricted endowment funds (non-spendable), and also 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 (spendable).

Net assets without donor restrictions —Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions 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 net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions 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 net assets with donor restrictions when spent and are reported as net assets released from restrictions under revenue from operating activities. Expirations of all other net assets with donor restrictions (spendable) 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 net assets with donor restrictions. These contributions are reclassified to net assets without donor restrictions 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 net assets with donor restrictions (non-spendable). Fundraising expenses totaled approximately \$24,300,000 and \$24,200,000 for the years ended June 30, 2020 and 2019, respectively.

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 net assets with donor restrictions (non-spendable) if the terms of the gift require that they be added to the principal of a permanent endowment or loan fund;
- in net assets with donor restrictions (spendable) 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 net assets with donor restrictions; and
- in net assets without donor restrictions in all other cases.

Investments are comprised of the assets of the University’s endowment and non-endowment funds. The majority of these assets are invested in the University’s Total Return Pool (TRP). The TRP 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 non-endowment investments in the TRP 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 TRP.

As of July 1, 2017, the University Endowment Spending Policy applicable to the TRP maintained 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 lowered 0.1% 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%. In establishing this policy, the Board considered the expected long-term rate of return on its endowment. In May 2020, the Board approved a temporary departure from the Spending Policy to increase the spending range from 4.2% to 5.2% for fiscal year 2021, as one of a number of actions to offset the impact of lost revenues and additional expenses related to the Covid-19 pandemic.

Non-endowment Spending Policy—The non-endowment investments in the TRP 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 the twelve-quarter moving average ended September 30 of the previous year.

Spending on all investments held outside the TRP 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 net assets with donor restrictions, (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.

Investments, intermediate-term—Investments are reported at fair value. This portfolio is invested in cash and 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 net assets without donor restrictions and net assets with donor restrictions from operations and nonoperating activities. Operations include contributions with donor restrictions that have been released to net assets without donor restrictions 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; bequests and gifts of property, and gains on disposal of buildings that are investment properties.

Revenue Recognition - Revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration the University expects to be entitled to in exchange for those goods or services. Generally, the University’s contracts with customers have a duration of one year or less.

Tuition and fees, and room and board revenues are derived from degree programs as well as summer and continuing education programs and includes tuition, related fees, and room and board. Tuition and fees are recognized ratably over the academic period of the course or program offered based on time elapsed, and scholarships awarded to students reduce the amount of revenue recognized. The University’s individual schools have various billing and academic cycles and the majority of our programs are designed to be completed within the fiscal year. Room and board revenue is recognized ratably over the course of the contracted time students are living on campus.

Student tuition, fees, room and board at published rates is summarized as follows for the years ended June 30, 2020 and 2019 (in thousands of dollars):

Tuition and fees, room and board	2020	2019
Tuition and fees	\$ 610,338	\$ 579,395
Room and board	43,006	50,078
Total	\$ 653,344	\$ 629,473
Financial aid applied to tuition and fees, room and board	\$ 144,531	\$ 148,891
Financial aid in excess of student charges, reported as other expenses	5,416	4,371
Total	\$ 149,947	\$ 153,262

The University receives sponsored research support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on the University's fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Other sponsored support is considered contribution revenue in accordance with ASU 2018-08 *Clarifying the scope and accounting guidance for contributions received and contributions made (Topic 958)*, which is recognized when any donor-imposed conditions (if any) have been met.

Clinical and other educational activities include clinical revenues generated at the Veterinary school and Dental school, royalty income, rental income and revenues from a variety of other activities, which are subject to ASU 2014-09, *Revenue from Contracts with Customers (ASC 606)*, and are recognized at the point in time goods or services are provided. Clinical revenues are recorded at the transaction price estimated to reflect the total consideration due from patients and third-party payors in exchange for providing veterinary and dental services. Clinical services are considered a single performance obligation. Revenues are recognized as these performance obligations are fulfilled.

Clinical and other educational activities are summarized as follows for the years ended June 30, 2020 and 2019 (in thousands of dollars):

Clinical and other educational activities	2020	2019
Veterinary and Dental clinical	\$ 78,080	\$ 87,635
Other sources	40,463	44,434
Total	\$ 118,543	\$ 132,069

Auxiliary services exist to furnish goods or services to students, faculty, staff, or incidentally to the general public, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of auxiliary services is that they are managed as an essentially self-supporting activity. Auxiliary services revenue includes revenues from contracts with customers to provide conferences, parking services, and other miscellaneous activities and are recognized at the point in time goods or services are provided.

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 the University 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, 2020 and 2019, 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. Certain restricted cash balances have been classified as other assets and intermediate-term investments for the same intention. These amounts are identified as restricted cash in the Consolidated Statements of Cash Flows.

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 \$62,490,000 and \$63,380,000 at June 30, 2020 and 2019, 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 \$12,300,000 and \$12,700,000 at June 30, 2020 and 2019, 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— On July 1, 2019, the University adopted ASU 2016-15 - *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments*, which provides clarification on classifying a variety of activities within the Statements of Cash Flows. The adoption of this standard did not have a material impact to the University's Statements of Cash Flows.

On July 1, 2019, the University adopted ASU 2016-18 - *Statement of Cash Flows: Restricted Cash*. Under this new guidance, the University must identify all cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents within the Statements of Financial Position for inclusion in the beginning and ending totals within the Statements of Cash Flows. The University has evaluated and applied this guidance on a retrospective basis and included all applicable cash balances within the Statements of Cash Flows. The University made the policy election to exclude cash equivalents, which are included in long-term investments in the Statements of Financial Position, from the total cash, cash equivalents and restricted cash in the Statements of Cash Flows.

On July 1, 2019, the University early adopted ASU 2018-13 - *Fair Value Measurement: Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. Following this new guidance, the University is no longer required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy. For investments in certain entities that calculate net asset value, the requirement to disclose the estimated period of time over which the underlying assets might be liquidated is modified to only require disclosure if the investee has communicated the timing to the University or announced the timing publicly.

On July 1, 2019, the University adopted ASU 2017-07 - *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance requires the service cost component of net periodic benefit costs for pension and other postretirement benefits to be presented as a component part of employee benefit expense. The other components of net periodic benefit costs, such as interest, expected return on plan assets, and amortization of net actuarial gains and losses, are required to be presented outside of operating activities. This change is reflected in the University's Statement of Activities.

Reclassification—Certain June 30, 2019 balances and amounts previously reported have been reclassified to conform to the June 30, 2020 presentation. The University reclassified restricted cash on the Consolidated Statements of Cash Flows per ASU 2016-18 and reclassified payables for investments purchased to investments, long-term to improve reporting. Where applicable, changes to financial reporting and presentation have been applied to the prior period comparatives shown throughout the University's financial statements.

Subsequent events—The University has evaluated the impact of subsequent events through November 5, 2020, representing the date the financial statements were issued and has concluded that there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements other than as identified in Note 8.

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, 2019, from which the summarized information was derived.

COVID-19 Pandemic— In March of 2020, the outbreak of COVID-19 caused domestic and global disruption in operations for institutions of higher education. As a result of the pandemic, the University moved quickly to remote work and learning in March to protect the health and safety of our community. The University suspended in-person education and other campus-based activities and provided a combination of credits and refunds for a portion of residence and dining revenues.

For fiscal year 2020, the primary financial impact was the revenue loss in housing and dining and the loss of clinic income in the Dental and Veterinary Schools, where only emergency patients were able to be seen as per state guidelines on physical distancing. The University acted quickly and put in place several measures to control expenses and conserve cash, including holds on wage increases, hiring, discretionary spending and capital projects. The University received funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), used to provide emergency financial aid to students during the year ended June 30, 2020.

To address the potential impacts on future revenues and expected incremental costs required as a result of COVID-19, such as the transition to online/hybrid education and enhanced work environments and required investments in testing as well as health and safety protocols, the University has taken proactive budget actions for various scenarios. The full impact of COVID-19 and the scope of any adverse impact on the University’s finances and operations is uncertain at this time.

3. RECEIVABLES AND OTHER ASSETS

Receivables represent amounts due from students, grants and contracts, clinical billings, and other sources. Other assets includes prepaid expenses and inventories, funded status of postretirement health care plan as well as approximately \$11,000 and \$9,069,000 of restricted funds held under bond agreement at June 30, 2020 and 2019, respectively. Intangible assets consist of patents that were received from the donation of BrainGate (see Note 1). The components at June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Grant receivables	\$ 21,724	\$ 29,514
Student receivables, net	3,269	2,079
Clinic receivables, net	1,615	4,218
Other receivables, net	<u>6,625</u>	<u>6,630</u>
Receivables, net	33,233	42,441
Other assets	7,070	15,115
Intangible assets	<u>8,600</u>	<u>-</u>
Total	<u>\$ 48,903</u>	<u>\$ 57,556</u>

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2020 and 2019, which are recorded at fair value, consisted of the following (in thousands):

	2020	2019
Unconditional promises scheduled to be collected in:		
Less than one year	\$ 50,342	\$ 43,481
One year to five years	35,694	40,073
More than five years	<u>8,108</u>	<u>7,950</u>
Gross contributions receivable	94,144	91,504
Less allowance for uncollectible amounts	(6,518)	(5,976)
Less discount to present value	<u>(3,097)</u>	<u>(5,372)</u>
Total	<u>\$ 84,529</u>	<u>\$ 80,156</u>

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be collected is adjusted, and some pledges have been cancelled and are no longer recorded in the financial statements. The University's indicative 1 to 10-year taxable unsecured borrowing rate is used to discount pledges receivable upon receipt. The discount was calculated using rates ranging from 0.81% to 2.55% for the years ended June 30, 2020 and 2019. The University's pledges receivable have been categorized as Level 2 assets under the fair value hierarchy.

In addition, at June 30, 2020 and 2019, the University had approximately \$33,000,000 and \$25,000,000, 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. As of June 30, 2020, and 2019, the University had approximately \$446,510,000, and \$223,773,000, respectively, in funding awarded but not yet expended related to conditional contributions from sponsored support where the condition had not yet been met. Funding received in advance of recognition is recorded as deferred revenue. Included in deferred revenue at June 30, 2020 and 2019 are approximately \$11,769,000 and \$9,849,000, respectively, of sponsored receipts, that have not been expended and cannot yet be recognized as revenue due to having a barrier and right of return as defined under ASU 2018-08.

Contributions receivable at June 30, 2020 and 2019 were intended for the following purposes (in thousands):

	2020	2019
Endowment for educational and general purposes	\$ 29,743	\$ 35,343
Construction and modernization of plant	12,492	11,204
Support of current operations	<u>42,294</u>	<u>33,609</u>
Total	<u>\$ 84,529</u>	<u>\$ 80,156</u>

5. NOTES AND STUDENT LOANS RECEIVABLE

Student loans receivables at June 30, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Student loans receivable	\$ 41,051	\$ 42,968
Less allowance for uncollectible amounts	<u>(334)</u>	<u>(387)</u>
Student receivables, net	\$ 40,717	\$ 42,581
Other notes receivable	<u>350</u>	<u>350</u>
Total	<u>\$ 41,067</u>	<u>\$ 42,931</u>

Loans receivable are principally amounts due from students under U.S. Government-sponsored loan programs, which are subject to significant restrictions. Generally, payment on student loans receivable commences upon graduation and can extend up to 20 years. Interest rates range from 2% to 12% for the years ending June 30, 2020 and 2019.

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, 2020 and 2019 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 University also has ownership in certain investments that are classified as equity method investments.

The following tables present the financial instruments carried at fair value as of June 30, 2020, and 2019, by the fair value hierarchy defined above (in thousands):

Assets as of June 30, 2020:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)	Total Fair Value
Investments:					
Short-term investments	\$ 51,547	\$ -	\$ -	\$ -	\$ 51,547
Equity securities	285,790	-	200	-	285,990
Equity derivatives	-	1,086	-	-	1,086
Commingled public equity	-	-	-	435,284	435,284
Fixed income securities	251,010	-	-	6,311	257,321
Hedge funds	-	-	961	408,586	409,547
Private equities	-	-	5,391	517,547	522,938
Non-marketable credit	-	-	-	51,701	51,701
Real estate	4,454	-	6,954	111,367	122,775
Natural resources	-	-	-	103,408	103,408
Perpetual trusts	-	-	31,222	-	31,222
Total Investments	\$ 592,801	\$ 1,086	\$ 44,728	\$ 1,634,204	\$ 2,272,819
Equity method investment (see Note 13)	-	-	-	-	10,150
	592,801	1,086	44,728	1,634,204	2,282,969
Liabilities:					
Interest rate swaps liability	\$ -	\$ 91,233	\$ -	\$ -	\$ 91,233

Assets as of June 30, 2019:	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value (NAV)	Total Fair Value
Investments:					
Short-term investments	\$ 45,722	\$ -	\$ -	\$ -	\$ 45,722
Equity securities	299,827	-	200	-	300,027
Commingled public equity	-	-	-	376,528	376,528
Fixed income securities	273,529	-	143	37,626	311,298
Hedge funds	-	-	2,444	537,261	539,705
Private equities	-	-	11,999	452,769	464,768
Non-marketable credit	-	-	-	58,656	58,656
Real estate	4,448	-	11,210	107,433	123,091
Natural resources	-	-	-	109,914	109,914
Perpetual trusts	-	-	31,688	-	31,688
Total Investments	\$ 623,526	\$ -	\$ 57,684	\$ 1,680,187	\$ 2,361,397
Equity method investment (see Note 13)	-	-	-	-	10,499
	623,526	-	57,684	1,680,187	2,371,896
Liabilities:					
Interest rate swaps liability	\$ -	\$ 68,917	\$ -	\$ -	\$ 68,917

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, 2020 and 2019, are net investment receivables of approximately \$52,959,000 and net investment payables of approximately \$11,768,000, respectively.

In addition, the tables above exclude approximately \$40,000,000 and \$17,527,000 representing cash subscriptions made in two investments pending settlement at June 30, 2020 and 2019, respectively.

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 reviewed 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.

Level 3 investments have been valued using pending or recent market transactions.

The following tables include roll forwards of investments classified by the University within Level 3 as of June 30, 2020 and 2019. Transfers between levels are recognized at the beginning of the reporting period. There were no transfers between levels in 2020 and 2019.

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Real Estate	Perpetual Trusts	Total Investments
Fair value, July 1, 2019	\$ 200	\$ 143	\$ 2,444	\$ 11,999	\$ 11,210	\$ 31,688	\$ 57,684
Sales	-	(143)	-	-	-	-	(143)
Unrealized and realized gains(losses), net	-	-	(1,483)	(6,608)	(4,256)	(466)	(12,813)
Fair value, June 30, 2020	\$ 200	\$ -	\$ 961	\$ 5,391	\$ 6,954	\$ 31,222	\$ 44,728

	Equity Securities	Fixed Income	Hedge Funds	Private Equities	Real Estate	Perpetual Trusts	Total Investments
Fair value, July 1, 2018	\$ 200	\$ 2,253	\$ 4,133	\$ 14,664	\$ -	\$ 30,781	\$ 52,031
Purchases	-	-	-	-	11,210	-	11,210
Sales	-	(2,276)	(1,891)	-	-	-	(4,167)
Unrealized and realized gains(losses), net	-	166	202	(2,665)	-	907	(1,390)
Fair value, June 30, 2019	\$ 200	\$ 143	\$ 2,444	\$ 11,999	\$ 11,210	\$ 31,688	\$ 57,684

The following tables present liquidity information for the investments carried at fair value at June 30, 2020, and 2019, respectively.

Redemption Terms as of June 30, 2020	Non-Marketable	Fixed	Private	Hedge	Commingled Public Equity	Real	Natural	Total
	Credit	Income	Equities	Funds	Funds	Estate	Resources	
Monthly, 2-120 days prior written notice	\$ -	\$6,311	\$ -	\$85,564	\$251,174	\$ -	\$ -	\$343,049
Quarterly, 30-90 days prior written notice	-	-	-	302,158	88,531	-	-	390,689
Semi-Annually, Annually, 30-90 days prior written notice	-	-	-	-	59,211	-	-	59,211
1-3 Years, 45-120 days prior written notice	-	-	2,240	14,525	76,368	-	-	93,133
1-7 Years (no terms)	45,057	-	310,300	6,339	-	81,000	92,353	535,049
7+ Years (no terms)	6,644	-	205,007	-	-	30,367	11,055	253,073
Total	\$51,701	\$6,311	\$517,547	\$408,586	\$475,284	\$111,367	\$103,408	\$1,674,204
Level 1 securities								592,801
Other investments not subject to redemption								108,923
Total Investments								\$2,375,928

Redemption Terms as of June 30, 2019	Non-Marketable	Fixed	Private	Hedge	Commingled Public Equity	Real	Natural	Total
	Credit	Income	Equities	Funds	Funds	Estate	Resources	
Monthly, 2-120 days prior written notice	\$ -	\$37,626	\$ -	\$121,580	\$266,691	\$ -	\$ -	\$425,897
Quarterly, 30-90 days prior written notice	-	-	-	208,432	70,986	-	-	279,418
Semi-Annually, Annually, 30-90 days prior written notice	-	-	-	63,353	10,838	-	-	74,191
1-3 Years, 45-120 days prior written notice	-	-	2,984	133,371	45,540	-	-	181,895
1-7 Years (no terms)	49,500	-	286,281	10,525	-	78,756	91,018	516,080
7+ Years (no terms)	9,156	-	163,504	-	-	28,677	18,896	220,233
Total	\$58,656	\$37,626	\$452,769	\$537,261	\$394,055	\$107,433	\$109,914	\$1,697,714
Level 1 securities								623,526
Other investments not subject to redemption								56,415
Total Investments								\$2,377,655

The University had unfunded commitments of approximately \$292,539,000 at June 30, 2020 which consisted of approximately \$155,552,000 in private equities, \$90,574,000 in real estate, \$19,597,000 in natural resources, and \$26,816,000 in non-marketable credit.

The total return on investments for the years ended June 30, 2020 and 2019 is as follows (in thousands), net of investment expenses:

	2020	2019
Dividends and interest	\$ 13,726	\$ 15,920
Net realized and unrealized gains	52,551	68,345
Total return on investments	66,277	84,265
Investment return utilized	(105,486)	(103,283)
Investment return (utilized)/reinvested, net	\$ (39,209)	\$ (19,018)

7. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment at June 30, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Land and land improvements	\$ 79,159	\$ 79,144
Buildings	1,644,897	1,527,419
Construction in progress	94,229	134,960
Equipment and furnishings	246,869	239,981
	2,065,154	1,981,504
Less accumulated depreciation	(909,194)	(856,224)
Total	\$ 1,155,960	\$ 1,125,280

Depreciation expense charged to operations was approximately \$66,248,000 and \$61,971,000 in 2020 and 2019, respectively. Net interest cost capitalized in fiscal 2020 and 2019 was approximately \$2,494,000 and \$2,220,000, 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, 2020 and 2019 consisted of the following (in thousands):

	2020	2019
Massachusetts Health and Educational Facilities Authority ("MHEFA"):		
Series G, variable rate bonds, 5.12% average rate for 2020, par value of \$27,900, due February 2024 - February 2026	\$ 24,300	\$ 24,300
Series M, fixed rate bonds at 5.25-5.50%, par value of \$59,150, due February 2020 - February 2028	49,130	56,020
Series N-1, variable rate bonds, 4.68% average rate for 2020, par value of \$86,400, due August 2029 - August 2040	57,100	57,100
Series N-2, variable rate bonds, 4.56% average rate for 2020, par value of \$54,200, due August 2022 - August 2034	54,200	54,200
Massachusetts Development Finance Agency ("MDFA"):		
Series P, multi-mode bond, 5.75% average rate for 2020, 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 2020 - August 2045	65,220	67,210
Series R, variable rate bonds, 3.75% average rate for 2020, par value of \$34,000, due August 2029-2048	34,000	34,000
JPM tax exempt line of credit, fixed rate 2.65%, par value of \$28,000, due May 2026	18,646	21,853
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	861	994
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 2024	214	266
	<u>743,706</u>	<u>755,978</u>
Net unamortized bond premium	6,894	8,102
Net unamortized debt issuance costs	(5,164)	(5,350)
Total bonds and notes payable	<u>\$ 745,436</u>	<u>\$ 758,730</u>

The average rates reflected above for the variable rate bonds are computed based on the variable interest, fees and related swap interest payments. Series P is a long-term multi-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 2020 and 2019 was 5.75% and 5.74% respectively.

During fiscal year 2019, the University sold the building at 35 Kneeland Street, Boston and used the proceeds to retire approximately \$27,100,000 of associated Series N-1 bonds and defease approximately \$2,365,000 of associated Series Q bonds. In addition, the University issued \$34,000,000 MDFA Revenue Bonds, Series R in December 2018. The University issued the bonds at par, due August 2048.

Scheduled aggregate principal repayments on bonds and notes payable at June 30, 2020 are as follows (in thousands):

Fiscal Year Ending	Scheduled Principal Maturities
2021	\$31,328
2022	32,158
2023	33,122
2024	12,869
2025	18,787
Thereafter	615,442
Total	\$743,706

As of June 30, 2020, included in the University's debt is \$169,600,000 of variable rate demand bonds ("VRDBs"). The University has entered into standby bond purchase agreements with a diverse group of financial institutions to secure bond repayment and interest obligations associated with its VRDBs. In fiscal year 2012, the University replaced the three standby bond purchase agreements with substantially similar agreements with other financial institutions. In fiscal year 2019, the University entered into a fourth standby bond purchase agreement. These agreements expire in October 2020, March 2021 and December 2021. In the event a bond cannot be remarketed, the bond may be "put" to the standby bond purchase agreement providers, resulting in a loan to fund redemption of the bond. If it is assumed that outstanding bonds are put during fiscal year 2021, the maximum aggregate scheduled principal repayments under the VRDBs would be as follows: \$56,533,000 in 2021, \$56,533,000 in 2022 and \$56,534,000 in 2023.

In October 2020, the University terminated two of the standby bond purchase agreements following the conversion of the bonds to the bank purchase mode with a variable bank purchase rate. The University intends to renew or execute a bank direct purchase for the third agreement, due to expire in March 2021, but not before the issuance date of these financial statements. As a result, approximately \$19,000,000 is included in the above table for each fiscal year ending 2021, 2022 and 2023. Since the third agreement is in place until March 2021, the bonds would only become due if the bonds were not remarketed or if the agreement was not renewed or converted.

In September 2020, the University closed on a \$75 million line of credit to support investment operations. The line of credit will be used for portfolio management purposes to reduce the need to make short-term trades to maintain cash levels during transactions and has a one-year term.

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, 2020 and 2019 (in thousands).

Swap Agreements as of June 30, 2020

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 & R)	(Series N-1 & R)	(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, 2020	(\$27,100)	(\$10,446)	(\$18,506)	(\$17,426)	(\$17,755)	(\$91,233)

Swap Agreements as of June 30, 2019

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, 2019	(\$21,684)	(\$8,651)	(\$12,106)	(\$12,814)	(\$13,662)	(\$68,917)

The University reported the fair value of its interest rate swap agreements in the statement of financial position as a liability of \$91,233,000 and \$68,917,000 at June 30, 2020 and 2019, respectively. The change in fair market value of approximately \$22,316,000 and \$14,193,000 for the years ended June 30, 2020 and 2019, respectively, is included in the statement of activities as net unrealized (loss) on interest rate agreements.

The estimated market value of the interest rate exchange agreements at June 30, 2020 and June 30, 2019, 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, 2020 and 2019 consisted of the following (in thousands):

	Without donor restrictions	With donor restrictions	2020 Total
Endowment	\$ 744,733	\$ 1,192,540	\$ 1,937,273
Invested in physical plant	404,080	-	404,080
Operating	91,866	138,916	230,782
Building projects	61,541	16,675	78,216
Student loans	20,252	21,798	42,050
Total	<u>\$ 1,322,472</u>	<u>\$ 1,369,929</u>	<u>\$ 2,692,401</u>

	Without donor restrictions	With donor restrictions	2019 Total
Endowment	\$ 746,030	\$ 1,163,577	\$ 1,909,607
Invested in physical plant	433,545	-	433,545
Operating	58,170	122,929	181,099
Building projects	81,607	21,761	103,368
Student loans	22,243	22,794	45,037
Total	<u>\$ 1,341,595</u>	<u>\$ 1,331,061</u>	<u>\$ 2,672,656</u>

Endowment consists of resources that have been restricted by the donor, trust, split interest agreement, or designated by the Board of Trustees for investment to provide future resources to support the University's activities. Endowment with donor restrictions includes unappropriated gains of approximately \$315,239,000 and \$307,297,000 in 2020 and

2019, respectively. Operating without donor restrictions 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, 2020 and 2019 total the endowment without donor restrictions amount in the above table, and are earmarked for the following:

	2020	2019
General university support	\$ 564,285	\$ 569,100
Scholarships and fellowships	37,417	37,726
Professorships	26,062	24,498
Other purposes	116,969	114,706
Total	<u>\$ 744,733</u>	<u>\$ 746,030</u>

Note: Other purposes include several categories, including but not limited to, departmental, innovative education, faculty development, maintenance, research, library, prizes, books, lectureships, and other miscellaneous purposes

Changes in endowment net assets for the years ended June 30, 2020 and June 30, 2019 are as follows (in thousands):

	Without donor restrictions	With donor restrictions	2020 Total
Endowment net assets, beginning of year	\$ 746,030	\$ 1,163,577	\$ 1,909,607
Total investment return, net	10,395	40,029	50,424
Contributions	1,768	33,602	35,370
Appropriation of endowment assets for expenditure	(36,243)	(45,201)	(81,444)
Other changes, net	22,783	533	23,316
Endowment net assets, end of year	<u>\$ 744,733</u>	<u>\$ 1,192,540</u>	<u>\$ 1,937,273</u>

	Without donor restrictions	With donor restrictions	2019 Total
Endowment net assets, beginning of year	\$ 751,166	\$ 1,141,870	\$ 1,893,036
Total investment return, net	26,032	34,466	60,498
Contributions	1,134	31,855	32,989
Appropriation of endowment assets for expenditure	(33,683)	(43,749)	(77,432)
Other changes, net	1,381	(865)	516
Endowment net assets, end of year	<u>\$ 746,030</u>	<u>\$ 1,163,577</u>	<u>\$ 1,909,607</u>

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

Total endowment assets classified with donor restrictions consist of the following components (in thousands):

	2020	2019
Spendable:		
Subject to time restriction	\$ 82,020	\$ 96,140
Restricted for program support	381,619	373,552
Total net assets with spendable restrictions	<u>\$ 463,639</u>	<u>\$ 469,692</u>
Non-Spendable:		
Restricted for scholarship support	\$ 360,504	\$ 331,091
Restricted for faculty support	155,134	149,102
Restricted for program support	213,263	213,692
Total net assets with non-spendable restrictions	<u>\$ 728,901</u>	<u>\$ 693,885</u>
Total net assets with donor restrictions	<u>\$ 1,192,540</u>	<u>\$ 1,163,577</u>

Underwater Endowment Funds

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 (underwater). When underwater endowment funds exist, they are classified as a reduction of net assets with donor restrictions. Underwater endowment funds reported in net assets with donor restrictions were approximately \$1,487,000 and \$71,000 as of June 30, 2020 and 2019, respectively.

10. FUNCTIONAL CLASSIFICATION OF EXPENSES

The University reports operating expenses in its consolidated statement of activities by natural classification. Interest, depreciation, operations and maintenance expenses have been allocated to functional expense classifications based on square footage utilized. Operating expenses by functional category for the years ended June 30, 2020 and 2019 consisted of the following (in thousands):

June 30, 2020				
	Instruction & Research	Clinical & Auxiliary	General & Administration	Total
Salaries, wages and benefits	\$ 289,653	\$ 86,651	\$ 193,680	\$ 569,984
Materials, supplies and other	23,890	78,098	40,304	142,292
Purchased services	51,759	10,430	21,774	83,963
Facility and maintenance costs	33,432	7,923	12,651	54,006
Travel	8,494	873	2,502	11,869
Allocations:				
Depreciation	29,822	21,176	15,250	66,248
Interest	14,100	10,012	7,212	31,324
Operations and maintenance	27,096	4,163	(31,259)	-
Total	<u>\$ 478,246</u>	<u>\$ 219,326</u>	<u>\$ 262,114</u>	<u>\$ 959,686</u>

June 30, 2019

	Instruction & Research	Clinical & Auxiliary	General & Administration	Total
Salaries, wages and benefits	\$ 283,607	\$ 83,146	\$ 189,401	\$ 556,154
Materials, supplies and other	32,745	80,089	28,664	141,498
Purchased services	47,930	12,209	21,431	81,570
Facility and maintenance costs	34,405	8,319	13,187	55,911
Travel	10,835	1,269	5,678	17,782
Allocations:				
Depreciation	27,897	19,808	14,266	61,971
Interest	13,903	9,872	7,109	30,884
Operations and maintenance	26,609	4,088	(30,697)	-
Total	<u>\$ 477,931</u>	<u>\$ 218,800</u>	<u>\$ 249,039</u>	<u>\$ 945,770</u>

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 contributions are funded by the University and are subject to a vesting schedule. The University’s contributions to the plan amounted to approximately \$34,150,000 and \$32,255,000 in 2020 and 2019, 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 \$152,000 and \$137,000 in 2020 and 2019, 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 \$24,400,000 and \$22,522,000 at June 30, 2020 and 2019, 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 at June 30, 2020 and 2019, respectively. The investment assets and related liabilities of these plans, which total approximately \$6,800,000 and \$6,540,000 in 2020 and 2019, 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.

Changes in the University's postretirement health care benefit obligation for the years ended June 30, 2020 and 2019 are as follows (in thousands):

	2020	2019
Change in Accumulated Postretirement Benefit Obligation (APBO):		
APBO at prior fiscal year end	\$ 13,218	\$ 14,788
Employer service cost	1	4
Interest cost	447	601
Actuarial loss (gain)	409	(1,313)
Plan participants' contributions	973	951
Benefits paid from plan assets ¹	(2,177)	(1,813)
APBO at current fiscal year end	<u>\$ 12,871</u>	<u>\$ 13,218</u>

¹Net 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, 2020 and 2019 are as follows (in thousands):

	2020	2019
Change in Plan Assets:		
Fair value of assets at prior fiscal year end	\$ 14,539	\$ 16,972
Actual return on assets ²	51	612
Employer contributions for key employees	10	0
Plan participants' contributions	973	951
Benefits paid ¹	(2,177)	(1,813)
Transfers	0	(2,183)
Fair value of assets at current fiscal year end	<u>\$ 13,396</u>	<u>\$ 14,539</u>
Funded Status	<u>\$ 526</u>	<u>\$ 1,321</u>

¹Net of retiree contributions

²Net of administrative expenses

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

	2020	2019
Receivables and other assets, net	<u>\$ 526</u>	<u>\$ 1,321</u>
Net amount recognized in the statement of financial position	<u>\$ 526</u>	<u>\$ 1,321</u>

In fiscal year 2020, the University updated the participant mortality table for actuarial assumptions from RP-2018 to PRI-2012.
 In fiscal year 2020, the University updated the projections scales table from MP-2018 to MP-2019.

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):

	2020	2019
Employer service cost	\$ 1	\$ 4
Interest cost	447	601
Expected return on assets	<u>(1,076)</u>	<u>(1,249)</u>
Subtotal	(628)	(644)
Net prior service (credit) cost amortization	(2,219)	(2,219)
Net loss amortization	<u>(105)</u>	<u>(27)</u>
Net periodic postretirement (income) benefit cost	<u>\$ (2,952)</u>	<u>\$ (2,890)</u>
Total changes recognized in unrestricted net assets	<u>\$ 794</u>	<u>\$ 1,570</u>

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

	2020	2019
Discount rate at end of year	2.67%	3.53%

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

	2020	2019
Assumptions Used to Determine Benefit Cost¹		
Discount rate	3.53%	4.28%
Long-term rate of return on assets	7.70%	7.70%
Current health care cost trend rate	6.50%	6.50%
Ultimate health care cost trend rate	4.50%	4.50%
Year of ultimate trend rate	<u>2025</u>	<u>2022</u>
Effect of 1% Increase in Health Care Cost Trend Rates		
Employer service cost	\$ 1,129	\$ 3,882
Interest cost	<u>456,615</u>	<u>614,609</u>
Total	457,744	\$ 618,491
Change	\$ 10,125	\$ 14,099
Percentage change	2.26%	2.33%
Effect of 1% Decrease in Health Care Cost Trend Rates		
Employer service cost	\$ 1,090	\$ 3,686
Interest cost	<u>437,649</u>	<u>588,163</u>
Total	\$ 438,738	\$ 591,849
Change	\$ (8,881)	\$ (12,543)
Percentage change	(1.98%)	(2.08%)

¹These 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 06/30/2021	\$ 959
During fiscal year ending 06/30/2022	932
During fiscal year ending 06/30/2023	904
During fiscal year ending 06/30/2024	866
During fiscal year ending 06/30/2025	831

The estimated University cash contribution for fiscal year 2020 is \$0.

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

	2020	2019	Target Allocation
Equity securities	56%	57%	56%
Debt securities	29%	28%	29%
Real estate securities	15%	15%	15%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

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, 2019 and 2018 by asset category (in thousands):

VEBA Trust Investments at June 30, 2020	Level 1	Level 2	Level 3	Total
Equity securities	\$ 6,809	\$ -	\$ -	\$ 6,809
Debt securities	3,562	-	-	3,562
Real estate securities	1,780	-	-	1,780
	<u>\$ 12,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,151</u>

VEBA Trust Investments at June 30, 2019	Level 1	Level 2	Level 3	Total
Equity securities	\$ 7,998	\$ -	\$ -	\$ 7,998
Debt securities	4,087	-	-	4,087
Real estate securities	2,115	-	-	2,115
	<u>\$ 14,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,200</u>

At June 30, 2020 and 2019, the plan also held cash and cash equivalents amounting to approximately \$1,087,000 and \$628,000.

12. LIQUIDITY AND FUNDS AVAILABLE FOR GENERAL EXPENDITURE

As part of the University's liquidity management strategy, the University structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The University regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the University considers all expenditures related to its ongoing mission-related activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The University invests excess daily cash in short-term and intermediate-term investments. In accordance with University spending policies, TRP funds appropriated for spending are distributed to University department and program budgets for spending, subject to donor restrictions where applicable; however, cash distributions from the TRP to support the appropriations are available for general liquidity purposes.

To help manage unanticipated liquidity needs, the University has a committed bank line of credit in the amount of \$50,000,000 which it could draw upon through September 2021. The University also has a surplus liquidity fund, an intermediate-term investment invested in fixed income securities, which included approximately \$111,300,000 and \$99,100,000 of unrestricted funds as of June 30, 2020 and 2019, respectively.

The University's financial assets and resources available to meet cash needs for general expenditures within one year of the date of the Consolidated Statements of Financial Position were as follows:

	2020	2019
Cash and cash equivalents	\$ 69,539	\$ 73,854
Investments, intermediate-term, net of unspent bond proceeds	111,326	99,126
Accounts receivable, net	33,233	42,441
Expected pledge and private grant payments available	31,196	20,646
Investments: appropriated for spending in the following year	102,028	89,785
Financial assets available for general expenditure within one year	<u>\$ 347,322</u>	<u>\$ 325,852</u>
Unspent bond proceeds for limited use	\$ 65,550	\$ 84,824
Notes receivable due in more than one year	41,067	42,931
Contributions receivable due in more than one year	53,333	59,510
Board-designated quasi endowment funds	744,733	746,030
Donor-restricted endowment funds less appropriated spending	1,022,814	1,073,792
Annuities and perpetual trusts	61,536	62,428
Other long-term investments	267,941	233,438
Inventories, prepaid expenses and other assets	15,670	15,115
Property, plant, and equipment	1,155,960	1,125,280
Total financial assets	<u>\$3,775,926</u>	<u>\$3,769,200</u>

In addition to these available financial assets, a significant portion of the University's annual expenditures are funded by current year operating revenues including tuition, grant and contract income, clinical and other educational income, and contributions and grants.

As part of total investments, the University has board-designated quasi endowment funds of approximately \$745,000,000 and \$746,000,000 as of June 30, 2020 and 2019, respectively. Although the University does not intend to spend from its board-designated quasi endowment funds other than amounts appropriated for expenditure as part of its annual budget approval process, amounts from its board-designated quasi endowment could be liquidated and made available.

13. 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, 2020 and 2019 were approximately \$5,087,000 and \$5,065,000, respectively. The University’s 50% ownership investment in TSS has been recorded at approximately \$10,150,000 and \$10,499,000 at June 30, 2020 and 2019 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.

14. CONTINGENCIES AND COMMITMENTS

Outstanding commitments on construction contracts amounted to approximately \$83,138,000 at June 30, 2020.

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 non-cancelable operating lease commitments at June 30, 2020, with terms in excess of one year for office space. Expenses associated with operating leases totaled approximately \$11,320,000 and \$10,134,000 for the years ended June 30, 2020 and 2019, respectively.

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

Fiscal Year 2021	\$8,850
Fiscal Year 2022	6,514
Fiscal Year 2023	4,406
Fiscal Year 2024	3,229
Fiscal Year 2025	2,525
Thereafter	<u>1,559</u>
Total	<u>\$27,083</u>

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