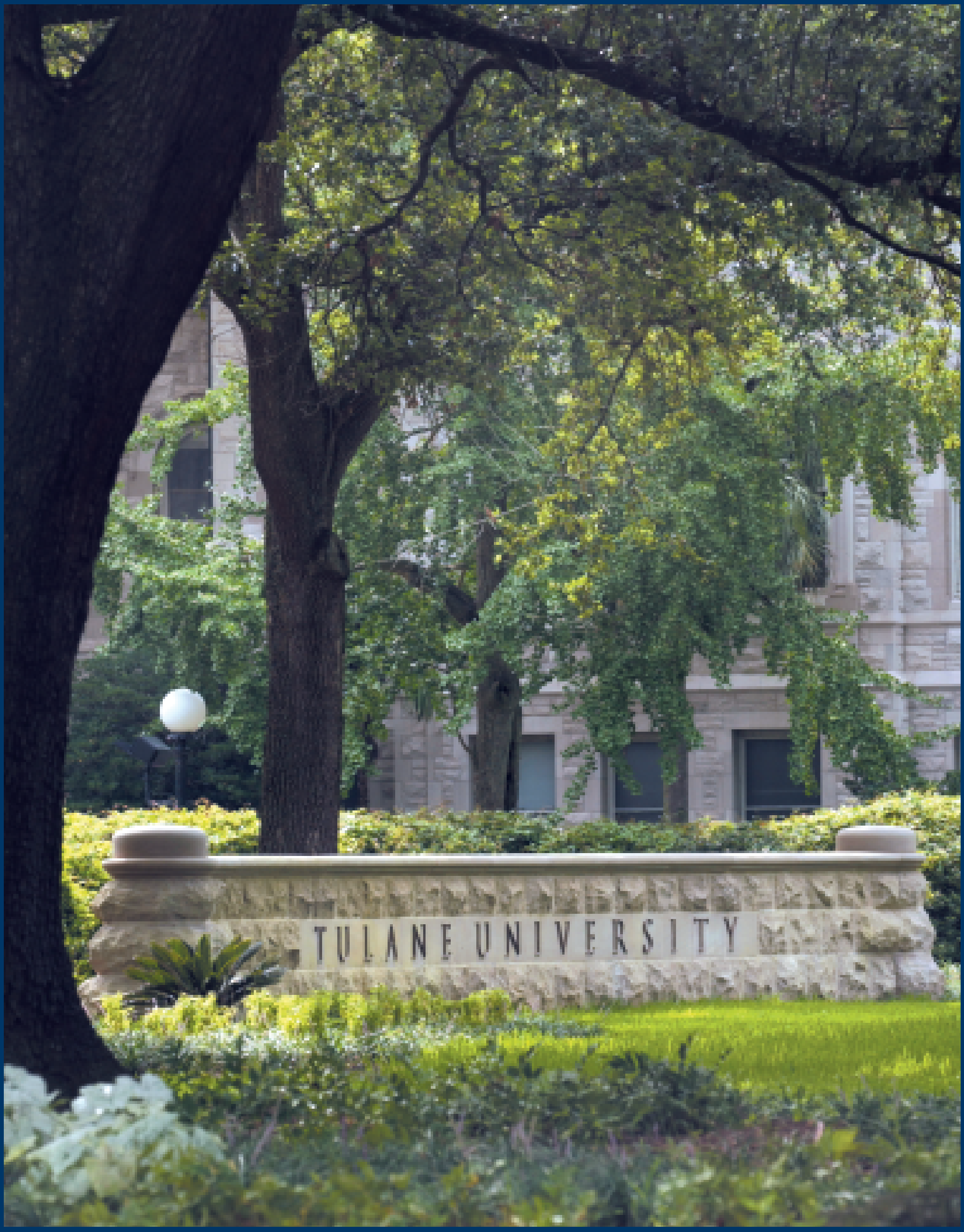
TULANE UNIVERSITY
FINANCIAL STATEMENTS



2005–2006

TULANE UNIVERSITY

Financial Statements For The Year Ended June 30, 2006

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Tulane University, founded in 1834, is a private, non-sectarian research university located in New Orleans, Louisiana. With a total enrollment of approximately 10,600 students in its 10 schools and colleges, Tulane offers undergraduate, graduate and professional degrees in law, medicine, public health and tropical medicine, architecture, business, engineering, social work and the liberal arts and sciences.

ABOUT THE PHOTOGRAPH: Limestone entry monuments welcome visitors to the Tulane University campus on St. Charles Avenue, including this 46-foot wall on the lawn in front of Gibson Hall, as well as four stone pylons that mark the entry and exit points on Gibson Circle. (Photo by Paula Burch-Celentano)

Tulane University

INDEPENDENT AUDITORS' REPORT

THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

We have audited the accompanying statement of financial position of Tulane University (the "University") as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2005 financial statements and, in our report dated December 16, 2005, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Tulane University as of June 30, 2006, and the changes in its net assets and its cash flows for the year then in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 16 to the financial statements, the University's operations were significantly impacted by the effects of Hurricane Katrina in fiscal 2006.

Deloitte & Touche LLP

New Orleans, Louisiana
November 10, 2006

TULANE UNIVERSITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005 (IN THOUSANDS)

	2006	2005
ASSETS		
Cash and cash equivalents	$ 105,644	$ 12,256
Deposits in trust	46,479	42,484
Accounts receivable, net	87,672	50,803
Contributions receivable, net	65,001	70,951
Loans receivable, net	36,320	39,553
Investments	895,076	828,129
Prepaid expenses and other assets	19,154	15,516
Property, plant and equipment, net	517,371	448,977
TOTAL ASSETS	$ 1,772,717	$ 1,508,669
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 179,959	$ 73,253
Deferred revenue and refundable deposits	57,554	41,850
Notes payable and lines of credit	80,299	44,363
Bonds payable	434,105	287,085
Federal student loan funds	37,389	35,624
Total liabilities	789,306	482,175
Net Assets		
Unrestricted	26,600	133,486
Unrestricted, funds functioning as endowment	481,598	442,564
Total unrestricted	508,198	576,050
Temporarily restricted	61,873	70,386
Permanently restricted	413,340	380,058
Total net assets	983,411	1,026,494
TOTAL LIABILITIES AND NET ASSETS	$ 1,772,717	$ 1,508,669

The accompanying notes are an integral part of the financial statements.

TULANE UNIVERSITY
STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2006, WITH COMPARATIVE TOTALS FOR JUNE 30, 2005 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
OPERATING REVENUES					
Tuition and fees	$ 263,192			$ 263,192	$ 304,346
Less: Institutional scholarships and fellowships	(82,962)			(82,962)	(84,306)
Tuition and fees, net	180,230			180,230	220,040
Government grants and contracts	101,480			101,480	123,918
Private gifts and grants	41,859	$ 3,792	$ 29,185	74,836	87,294
Medical group practice	28,494			28,494	62,642
Affiliated hospital agreements/contracts	28,427			28,427	41,422
Endowment income	32,806			32,806	32,173
Investment income and gains, net	7,340	1,246		8,586	6,474
Recovery of indirect costs	18,718			18,718	26,469
Auxiliary enterprises	22,887			22,887	43,992
Commercial insurance recoveries–unallocated	100,000			100,000	–
Other	22,133			22,133	27,489
Net assets released from restrictions	9,972	(9,972)		–	–
Total operating revenues	594,346	(4,934)	29,185	618,597	671,913
OPERATING EXPENSES					
Instruction and academic support	180,995			180,995	191,450
Affiliated hospital agreements/contracts	24,524			24,524	28,703
Organized research	114,684			114,684	134,651
Public service	6,953			6,953	9,960
Libraries	18,541			18,541	18,942
Student services	17,135			17,135	17,518
Institutional support	53,560			53,560	66,030
Scholarships and fellowships	5,541			5,541	13,786
Auxiliary enterprises	62,403			62,403	70,198
Medical group practice	50,449			50,449	64,435
Disaster costs, net	152,546			152,546	–
Other	11,331	1,774		13,105	12,926
Total operating expenses	698,662	1,774	–	700,436	628,599
(Decrease) increase in net assets from operating activities	(104,316)	(6,708)	29,185	(81,839)	43,314
NON-OPERATING ACTIVITIES					
Net realized and unrealized gains (losses)	61,714	(57)		61,657	76,869
Accumulated gains used for spending	(22,901)			(22,901)	(24,475)
Loss on early extinguishment of debt	–			–	(68)
Transfers to permanently restricted	(2,349)	(1,748)	4,097	–	–
(DECREASE) INCREASE IN NET ASSETS	(67,852)	(8,513)	33,282	(43,083)	95,640
BEGINNING NET ASSETS	576,050	70,386	380,058	1,026,494	930,854
ENDING NET ASSETS	$ 508,198	$ 61,873	$ 413,340	$ 983,411	$1,026,494

The accompanying notes are an integral part of the financial statements.

TULANE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006 AND 2005 (IN THOUSANDS)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (43,083)	$ 95,640
Adjustments to reconcile (decrease) increase in net assets to net cash used for operating activities:		
Loss on early extinguishment of debt	–	68
Net book value of buildings and equipment destroyed	18,529	–
Depreciation	33,172	30,531
Net realized and unrealized investment gains	(61,657)	(76,869)
Contributions restricted for permanent investment	(29,185)	(40,394)
Contributions of property	(2,000)	–
National Flood Insurance Program and other insurance recoveries received	(5,113)	–
Changes in operating assets and liabilities:		
Increase in accounts receivable	(36,869)	(309)
Decrease (increase) in contributions receivable	5,950	(13,699)
(Increase) decrease in prepaid expenses and other assets	(3,638)	4,522
Increase in accounts payable and accrued liabilities	72,461	462
Increase (decrease) in deferred revenue and refundable deposits	15,704	(1,461)
Net cash used for operating activities	(35,729)	(1,509)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(345,120)	(510,086)
Proceeds from the sale of investments	339,830	501,962
Purchase of property, plant and equipment, net	(81,896)	(59,932)
(Increase) decrease in deposits in trust	(3,995)	27,971
Student loans issued	(7,065)	(12,314)
Proceeds from collections of student loans	10,298	7,712
National Flood Insurance Program and other insurance recoveries received	5,113	–
Net cash used for investing activities	(82,835)	(44,687)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	29,185	40,394
Proceeds from debt	254,050	282,976
Repayment of debt	(71,094)	(270,978)
Increase in federal student loan funds	1,765	666
Payments on annuities payable	(1,954)	(2,021)
Net cash provided by financing activities	211,952	51,037
NET INCREASE IN CASH AND CASH EQUIVALENTS	93,388	4,841
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,256	7,415
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 105,644	$ 12,256
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 18,131	$ 14,239

The accompanying notes are an integral part of the financial statements.

Tulane University
Notes to the Financial Statements
Year Ended June 30, 2006

1 Summary of Significant Accounting Policies

The summary of significant accounting policies followed by Tulane University (the university) is presented below and in other sections of these notes.

Basis of Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting. The financial statements include the accounts of Tulane University, Tulane Murphy Foundation, Inc., Howard Memorial Association, and all auxiliary activities.

The university utilizes three net asset categories, which are described as follows:

Unrestricted net assets include the following:

- Unrestricted net assets include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the educational and research missions of the university are included in this category. Additionally, this category includes the health care services associated with the School of Medicine Medical Group Practice and the professional services provided under affiliated hospital agreements. The university has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the university, and therefore, the university's policy is to record these net assets as unrestricted.
- Unrestricted funds functioning as endowment include funds designated by the Board of Administrators and realized and unrealized gains.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, annuity and life income funds and contributions receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts and contributions receivable, which are required by donor-imposed restriction to be invested in perpetuity. Only the income from such investments is available for program operations in accordance with donor restrictions.

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, the 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 those estimates.

ALLOCATION OF CERTAIN EXPENSES

The financial statements present expenses by functional classification in accordance with the overall mission of the university. Certain natural expenses are allocated to the respective functional classifications based on certain criteria. Depreciation expense, plant operations and maintenance, and retirement of plant assets are allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the debt. The expenses allocated are as follows (in thousands):

Depreciation	$ 33,172
Retirement of plant assets	3,217
Plant operations and maintenance	35,289
Interest on indebtedness	19,274

CASH EQUIVALENTS

Cash equivalents include short-term, highly liquid investments with a maturity of three months or less at the time of purchase. Cash and cash equivalents representing assets of endowment and similar funds and annuity and life income funds are included in investments.

INVESTMENTS

Investments are stated at market value, except partnerships, mortgages, real estate and royalty interests, which are stated at cost, in accordance with Statement of Financial Accounting Standard No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities. The university's investment in University Healthcare System, L.C., is accounted for using the equity method.

Depreciation is not recorded for endowment fund real estate investments. In the opinion of the university's management, the excess of realizable market value over the book value of such property would be sufficient to preclude the impairment of endowment fund balances even if depreciation provisions were made. This excess is considered sufficient to permit the distribution of a portion of the rentals and royalties derived from these properties to current operations.

ENDOWMENT SPENDING POLICY

The endowment spending policy is based upon the average market value of the previous twelve quarters multiplied by a specified percentage. The percentage for the pooled endowment for the fiscal year ended June 30, 2006, was 5.60%.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives are as follows: buildings and improvements, 20 to 50 years, and equipment and library books, 4 to 20 years.

Certain works of art and historical treasures have been recognized at their estimated fair value based upon appraisals or similar valuations at the time of acquisition. Works of art and historical treasures are not depreciated.

MEDICAL GROUP PRACTICE

The university's medical school faculty provides professional services in the Tulane University Hospital and Clinic and other community hospitals. Under these agreements, professional revenues are included in the unrestricted net assets grouping and are distributed in accordance with specified formulas.

INTERNAL REVENUE CODE STATUS

The university has been granted tax-exempt status as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

2 DEPOSITS IN TRUST

Deposits in trust consist of the following at June 30, 2006 (in thousands):

Assets restricted for self-insurance	$ 10,444
Assets restricted by bond indentures	36,035
Total	$ 46,479

The terms of several bond indentures require that the bond proceeds be maintained in trust until used for their specified purposes. The primary purposes of these funds are to acquire property, plant and equipment. The funds are invested principally in government securities.

3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2006 (in thousands):

Insurance receivables	$ 20,105
Student and other receivables, net of allowance for doubtful accounts of $7,971	16,955
U.S. Government, state and other contract receivables, net of allowance for doubtful accounts of $800	46,990
Patient and related receivables, net of allowance for discounts and doubtful accounts of $19,159	3,622
Total	$ 87,672

4 CONTRIBUTIONS RECEIVABLE

Unconditional promises are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions are recorded after discounting at 6.0% to the present value of the future cash flows.

Management expects unconditional promises to be realized in the following periods (in thousands):

In one year or less	$ 15,326
Between one year and five years	59,390
More than five years	7,084
	81,800
Less: discount of $8,619 and allowance for uncollectibles of $8,180	(16,799)
Total	$ 65,001

Contributions receivable at June 30, 2006, have the following restrictions (in thousands):

Endowment for departmental programs and activities	$ 30,567
Departmental programs and activities	21,148
Capital purposes	13,286
Total	$ 65,001

5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2006 (in thousands):

Perkins student loan program	$ 34,060
Primary care loan program	2,888
Other loan programs	1,847
	38,795
Less: allowance for doubtful accounts	(2,475)
Total	$ 36,320

6 INVESTMENTS

Investments consist of the following at June 30, 2006, (in thousands):

Short-term investments	$ 18,428
Stocks	639,616
Bonds: Government bonds and notes	35,631
Corporate bonds	68,817
University Healthcare System, L.C.	30,353
Partnerships, mortgages, and other	66,510
Real estate and royalty interests	35,721
Total	$ 895,076

Endowment dividend and interest income, net of expenses, amounted to $9,905,000 for the year ended June 30, 2006. In accordance with the university's endowment spending policy, $22,901,000 of accumulated gains were used for current operations. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Permanently restricted net assets at June 30, 2006, include the investment assets at market value of the Tulane Murphy Foundation (the Foundation) amounting to $85,614,000. The university is the sole beneficiary of the Foundation, and a majority of the Foundation's directors are members of the university's Board of Administrators. During the year ended June 30, 2006, income from the Foundation, which is restricted to specific purposes, amounted to $1,090,000.

Trust funds not controlled by the university and held by fiduciary agencies for the benefit of the university have been excluded from the financial statements. The book value and the market value of such funds at June 30, 2006, are $2,612,000 and $2,934,000, respectively.

The university is monitoring endowment accounts where historical cost is greater than market value at June 30, 2006. Historical cost and market value totals for these accounts are $34,186,000 and $32,930,000, respectively.

7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2006, (in thousands) benefit the following functions:

Academic departments and instruction	$ 33,145
Student financial aid scholarship	11,357
Plant facilities	9,693
Operations	7,678
Total	$ 61,873

Permanently restricted net assets at June 30, 2006, (in thousands) benefit the following functions:

Academic departments and instruction	$ 261,794
Student financial aid scholarship	124,509
Plant facilities	6,320
Operations	20,717
Total	$ 413,340

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2006, (in thousands) benefit the following functions:

Land	$ 20,444
Buildings and improvements	552,169
Equipment	128,920
Library books	95,482
Construction in progress	33,370
	830,385
Less: accumulated depreciation	(313,014)
Total	$ 517,371

The university capitalizes interest related to the construction of major facilities. The capitalized interest is recorded as part of the related asset, and is amortized over the asset's estimated useful life. Capitalized interest amounted to $1,005,000 for the year ended June 30, 2006.

The university has undertaken a long-range capital plan that includes a campus-wide student housing program and renovations of non-residential academic and administrative facilities that will cost approximately $75 million. Plans for 2007 and 2008 include construction of new student housing and non-residential student facilities. Funding for these projects is available from the Louisiana Public Facilities Authority Revenue Bonds Series 2002 A.

9 NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2006, consist of one unsecured note for $299,000 due in installments through 2010 with an interest rate of 8.50% and two unsecured term notes totaling $20 million dated June 2006 due with principal installments ranging from $125,000 to $500,000 quarterly with $15 million due in June 2013 bearing interest at LIBOR minus .50% (4.82% at June 30, 2006). The $20 million borrowed in 2006 provides interim financing on the university's University Center Project.

The university has $115 million in lines of credit with three banks to meet short-term seasonal cash requirements. Principal is payable upon demand. At June 30, 2006, $60 million was borrowed against the credit lines. Interest rates applicable to these lines are based on several defined indices. The effective interest rate on borrowings outstanding at June 30, 2006, was 5.56%.

10 BONDS PAYABLE

Bonds payable at June 30, 2006, consist of the following (in thousands):

Mortgage Bonds maturities through 2022, interest rates of 3.00%	$	1,325
Louisiana Public Facilities Authority Revenue Bonds Series 1992 A-2 maturities through 2021, interest rates of 5.75% – 6.00%		5,330
Louisiana Public Facilities Authority Revenue Bonds Series 1996 maturities through 2006, interest rates of 5.45%		695
The Administrators of the Tulane Educational Fund Series 1996 Taxable Bonds maturities through 2015, interest rates of 7.64% – 8.00%		3,160
Louisiana Public Facilities Authority Revenue Bonds Series 1997 maturities through 2027, interest rates of 5.10% – 5.60%		5,970

The Administrators of the Tulane Educational Fund Series 1997 Taxable Bonds maturities through 2012, interest rates of 7.22% – 7.30%	5,730
Louisiana Public Facilities Authority Revenue Bonds Series 1997 A-1 and A-2 maturities through 2027, interest rates of 4.55% – 5.13%	56,960
Louisiana Public Facilities Authority Revenue Bonds Series 2002 A, B and C maturities through 2032, interest rates of 3.50% – 6.00%	149,580
Louisiana Public Facilities Authority Revenue Bonds Series 2002 D maturities through 2026, interest rates of 3.30% – 5.38%	22,235
Louisiana Public Facilities Authority Revenue Bonds Series 2004 A maturities through 2025, interest rates of 2.00% – 5.00%	28,055
Louisiana Public Facilities Authority Revenue Bonds Series 2004 B maturities through 2014, interest rates of 3.00% – 5.00%	5,065
The Administrators of the Tulane Educational Fund Series 2005 Taxable Bonds due in three equal annual installments over the three years ending November 15, 2012 bearing interest at LIBOR plus .80% (6.28% at June 30, 2006).	150,000
Total	$ 434,105

The annual principal maturities for bonds payable at June 30, 2006, are as follows (in thousands):

Fiscal Year	**Amount**
2007	$ 3,140
2008	4,455
2009	6,765
2010	7,080
2011	57,410
2012 and thereafter	355,255
Total	$ 434,105

On December 30, 1992, the Louisiana Public Facilities Authority issued $82,645,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in two series. The Louisiana Public Facilities Authority Revenue Bonds Series 2002 D was issued to refinance the A-1 Series. The A-2 Series was issued to partially finance the J.B. Johnston Health and Environmental Research Building.

On June 13, 1996, the Louisiana Public Facilities Authority issued $30,280,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance several plant improvements to the uptown campus student housing system. The Louisiana Public Facilities Authority Revenue Bonds Series 2004 A was issued to advance refund a substantial portion the issue.

On June 13, 1996, the university issued $29,720,000 of taxable bonds. The bond proceeds were used to finance several plant improvements, including a capital renewal program, and an energy conservation and management program. The Louisiana Public Facilities Authority Revenue Bonds Series 2002 A and B were issued to refinance the portion of the issue that was dedicated to tax-exempt activities.

On May 1, 1997, the Louisiana Public Facilities Authority issued $6,795,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance several plant improvements to the uptown campus student housing system.

On May 1, 1997, the university issued $17,500,000 of taxable bonds. The bond proceeds were used to finance several plant improvements, including a capital renewal program, and an energy conservation and management program, new information systems technology, and to refinance outstanding Series 1987 Taxable Notes. The university defeased a portion of the outstanding Series 1997 Taxable Bonds with unexpended construction funds on deposit from the Series 1997 Taxable Bonds with the remaining bond proceeds reallocated to finance a portion of the Health Sciences Center student housing complex.

On December 22, 1997, the Louisiana Public Facilities Authority issued $57,740,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in two series. The A-1 Series was issued to advance refund $23,190,000 of the Louisiana Public Facilities Authority Series 1992 bonds. The A-2 Series was issued to finance several plant improvements, including a capital renewal program, an energy conservation and management program, new information systems technology, and a student housing complex for the Health Sciences Center campus.

On October 1, 1999, the Louisiana Public Facilities Authority issued $6,765,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance the acquisition, construction, equipping, and installation of a cogeneration facility at the university. The Louisiana Public Facilities Authority Revenue Bonds Series 2004 B was issued to advance refund these bonds.

On March 7, 2002, the Louisiana Public Facilities Authority issued $149,580,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in three series. The Series A was issued to: (1) advance refund $4,305,000 of the Louisiana Public Facilities Authority Series 1991 A tax-exempt bonds and $10,221,000 of the Tulane Educational Fund Series 1996 taxable bonds, (2) retire $30,000,000 of the Louisiana Public Facilities Authority 1985 tax-exempt revenue bonds, and (3) establish a capital acquisition fund of $75,000,000 for construction and renovation of student housing and infrastructure improvements. The Series B was issued to advance refund $11,999,000 of the Tulane Educational Fund Series 1996 taxable bonds. The Series C was issued to advance refund $6,875,000 of the Louisiana Public Authority Series 1992 tax-exempt bonds.

On December 19, 2002, the Louisiana Public Facilities Authority issued $22,235,000 of tax-exempt revenue bonds on behalf of the university. The Series D was used to advance refund $21,060,000 of the Louisiana Public Facilities Authority Series 1992 A-1 tax-exempt revenue bonds.

On April 1, 2004, the Louisiana Public Facilities Authority issued $28,670,000 of tax-exempt revenue bonds on behalf of the university. The Series A was used to advance refund $25,140,000 of the Louisiana Public Facilities Authority Series 1996 tax-exempt revenue bonds.

On July 7, 2004, the Louisiana Public Facilities Authority issued $6,000,000 of tax-exempt revenue bonds on behalf of the university. The Series B was used to advance refund $5,720,000 of the Louisiana Public Facilities Authority Series 1999 tax-exempt revenue bonds.

On November 18, 2005, the university issued $150,000,000 in taxable bonds to provide the cash flow needed to sustain university operations during the Hurricane Katrina recovery period.

All of the above described outstanding bonds payable, excluding the mortgage bonds payable, are general obligations of the university. In accordance with the bond agreements, the university is required to comply with certain covenants, including the maintenance of minimum working capital and net worth requirements, and limit the incurrence of certain indebtedness and sale of certain assets. The mortgage bonds are secured by first mortgages on the facilities financed and by endowment and similar fund investments in government bonds having a book value and a market value approximating $112 thousand at June 30, 2006. In addition, annual net revenues from the residence halls and from student university fees are pledged for debt service to the mortgage bonds.

11 DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of all significant financial instrument amounts has been determined by the university using available market information and appropriate valuation methodologies. The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

Accounts and Contributions Receivable — The university considers the carrying amounts of these financial instruments to be fair value.

Loans Receivable — Loans receivable are amounts principally due from students under federally sponsored programs that are subject to significant restrictions. Accordingly, it is not practicable to determine fair value.

Investments — The fair value equals quoted market price where available. Carrying value for the university's equity interest in University Healthcare System, L.C., was used for fair value as no fair value was readily determinable.

Bonds Payable — The fair value was approximately $447 million at June 30, 2006. The fair value was estimated using rates currently available for debt with similar terms and remaining maturities

Other — The university considers the carrying amounts of all other financial instruments to be a reasonable estimate of fair value.

12 RETIREMENT PLANS

Retirement benefits for substantially all employees are provided through the Teachers Insurance and Annuity Association, the College Retirement Equities Fund and Fidelity Investments. Under these defined contribution plans, contributions are applied, as directed by each participant, to annuities and/or to the purchase of shares or participation units in a variety of mutual funds. The amount of contributions made by the university is based upon the employee's salary. Plan contributions are funded as they accrue. For the year ended June 30, 2006, contributions to the plans were approximately $15,577,000.

13 PROFESSIONAL LIABILITY INSURANCE

The university maintains a self-insurance program for professional medical services rendered by its medical faculty, including residents and interns. The trust fund assets and associated liabilities are included in unrestricted net assets.

During 1976, the State of Louisiana enacted legislation that created a statutory limit of $500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating health care providers. The constitutionality of the statutory limit has been upheld by the Louisiana Supreme Court, but is subject to its review at any time. The university participates in the State Insurance Fund, which provides up to $400,000 of coverage for settlement amounts in excess of $100,000 per claim. The university carries commercial liability insurance for claims that might exceed amounts funded by the self-insurance trust fund or the State Insurance Fund.

14 COMMITMENTS AND CONTINGENCIES

Amounts received and expended by the university under various federal and state programs are subject to audit by governmental agencies. Management believes that adjustments, if any, that might result from such audits would not have a significant impact upon the financial position of the university.

The university is a party to various litigation and other claims, the outcome of which cannot be presently determined. Management's opinion is that the outcome of such matters would not have a significant effect upon the university's financial position or statement of activities.

The university leases certain real property. These leases are classified as operating leases and have lease term ranging up to twelve years. Total lease payments amounted to $1,248,000 for the year ended June 30, 2006. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2006, are as follows (in thousands):

Fiscal Year	**Amount**
2007	$ 3,009
2008	4,218
2009	3,654
2010	3,570
2011	3,802
2012 and thereafter	22,163
Total	$ 40,416

As required by FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, for the year ended June 30, 2006, the university recognized $1.5 million in cumulative expenses, in the caption other expenses, and estimated asbestos abatement and disposal obligations, in the caption accounts payable and accrued liabilities, associated with the future retirement of fixed assets.

15 HOSPITAL/CLINIC JOINT VENTURE

Effective March 31, 1995, the university entered into a joint venture agreement with HCA The Healthcare Company (HCA), formerly Columbia/HCA Healthcare Corporation, for the continued operation of the Tulane University Hospital and Clinic. Under the joint venture agreement, a new entity, University Healthcare System, L.C. (UHS), a Louisiana Limited Liability Corporation, was formed. Through June 30, 2005, the university retained a 20% interest in UHS. Effective July 1, 2005, the university accepted a dilution in the interest to 17.25% when HCA contributed Lakeside Hospital to the partnership. Under the terms of the joint venture agreement, the university provides services to UHS under a Shared Services Agreement, an Academic Affiliation Agreement and other related agreements. These services include a variety of overhead services, such as plant operations, security and telecommunications, as well as a variety of direct and indirect medical educational and related services. Additionally, the university leases to UHS the land upon which the hospital and clinic facilities are located, and leases office space to UHS and to HCA in a university-owned building. The university leases parking spaces for its employees in parking facilities owned by UHS. For the year ended June 30, 2006, the university recorded revenue of approximately $30.0 million, and as of June 30, 2006, recorded approximately $4.9 million as an amount receivable from UHS, related to these agreements.

16 HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina struck the Gulf Coast area causing widespread damage to properties throughout the region, including the New Orleans Metropolitan area. The university's campuses experienced extensive property damage from the hurricane, including the losses of research-related assets, fine arts materials, equipment, building contents and valuable documents. Hurricane Katrina caused a necessary interruption of Tulane's business. The university resumed partial operations with the spring 2006 semester. The university incurred significant costs to replace, repair, and remediate damage to its property, demolish and remove damaged improvements and ruined contents, and to reconstruct facilities and building premises. At June 30, 2006, these repair costs approximated $198,330,000 including approximately $190,000,000 under arrangements with the university's prime recovery contractor. At June 30, 2006, the university had paid that contractor $100,000,000. The contractor has not rendered the final project invoice but an estimated total has been recorded.

Estimated disaster losses and costs as of June 30, 2006, are summarized as follows (in thousands):

Remediation of buildings and grounds	$ 198,330
Equipment replacements	6,453
Other incremental disaster-related operating costs	41,536
Direct gross incremental out-of-pocket disaster costs	246,319
Net book value of fixed improvements and equipment destroyed	18,529*
Less: construction and replacement equipment capitalized	(87,084)
National Flood Insurance Program and other insurance recoveries	(25,218)
Disaster costs, net	$ 152,546**

* Net book value destroyed was determined on the basis of replacement costs deflated to the in service date and depreciated to the loss date.
**Excludes business interruption, certain research losses, and certain lost arts and library materials.

The university has engaged appraisal experts to value its business interruption losses, lost library and arts materials, and lost research. These losses are expected to exceed $250,000,000.

The university had insurance policies in effect at the time of the hurricane, including all risk property, casualty, library and fine arts, and specialized equipment. At June 30, 2006, the university had received $105,113,000 in insurance recoveries and had recorded insurance receivables under various policies, including its National Flood Insurance Program policy, of approximately $20,105,000. Unallocated commercial insurance recoveries at June 30, 2006, totaling $100,000,000 were recorded as operating revenues in the statement of activities. The underlying policy limits were clearly reached with the first two insurers, and they required no allocation between property losses and business interruption losses. The university has made no internal allocation of these recoveries.

The university is involved in litigation with its second layer excess property insurer. That insurer has denied coverage in a lawsuit filed in federal district court in New Orleans. The university answered that claim and is seeking a declaration that the insurer must pay the $250,000,000 policy limit. The timing and ultimate resolution of this dispute cannot be estimated at this time.

The university is also involved in litigation with its insurer of library contents over the extent to which coverage exists under that policy. The timing and ultimate resolution of this dispute cannot be estimated at this time.

The university also qualifies for assistance through various state and federal government agencies such as FEMA. University representatives are working with FEMA and the state to identify costs that qualify for reimbursement. Total assistance receivables under such arrangements at June 30, 2006, were approximately $15,589,000. Such amounts are recorded in the caption government grants and contracts revenues.