2010–2011

# TULANE UNIVERSITY
## FINANCIAL STATEMENTS








Tulane empowers




# TULANE UNIVERSITY

## Financial Statements For The Years Ended June 30, 2011 and 2010

## CONTENTS



Tulane University, a private research university founded in 1834, is one of the most respected universities in the country. A member of the prestigious Association of American Universities, it is consistently ranked among the top 50 universities in the nation. With research and educational partnerships that span the globe, top-ranked programs in academic and professional schools and its location in historic New Orleans, Louisiana, Tulane offers an unparalleled educational experience for its 13,359 students.

About the cover: Tulane Empowers is a philosophy of learning that will define Tulane University for generations. Its priority issues are public education, public service, urban/cultural renewal, disaster response and community health—areas where, post-Katrina, Tulane has developed extraordinary expertise and well-defined mechanisms for collaboration and delivery of services. Faculty, staff and students across every school and college, as well as alumni, are working in these five areas, bringing their creativity to bear on solving some of society's greatest problems and helping people build a better world.

Tulane University

# INDEPENDENT AUDITORS' REPORT

THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

We have audited the accompanying statements of financial position of Tulane University (the "University") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 17 to the financial statements, the University's operations continue to be significantly impacted by the effects of Hurricane Katrina in fiscal 2011 and 2010.

Deloitte & Touche LLP

New Orleans, Louisiana
October 31, 2011

# TULANE UNIVERSITY
# STATEMENTS OF FINANCIAL POSITION
# JUNE 30, 2011 AND 2010 (IN THOUSANDS)

| | 2011 | 2010 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $ 15,738 | $ 17,349 |
| Deposits in trust | 14,021 | 12,487 |
| Accounts and other receivables, net | 67,786 | 75,584 |
| Contributions receivable, net | 54,629 | 58,036 |
| Loans receivable, net | 42,205 | 42,085 |
| Investments | 1,032,402 | 912,167 |
| Prepaid expenses and other assets | 22,267 | 22,076 |
| Property, plant and equipment, net | 711,397 | 665,416 |
| **TOTAL ASSETS** | $ 1,960,445 | $ 1,805,200 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ 102,727 | $ 108,788 |
| Deferred revenue and refundable deposits | 40,805 | 49,922 |
| Notes payable and lines of credit | 58,222 | 49,179 |
| Bonds payable | 447,195 | 412,902 |
| Federal student loan funds | 40,124 | 39,391 |
| **Total liabilities** | 689,073 | 660,182 |
| **Net Assets:** | | |
| Unrestricted | 141,830 | 146,603 |
| Unrestricted, funds functioning as endowment | 90,402 | 88,549 |
| Total unrestricted | 232,232 | 235,152 |
| Temporarily restricted | 528,348 | 421,643 |
| Permanently restricted | 510,792 | 488,223 |
| **Total net assets** | 1,271,372 | 1,145,018 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 1,960,445 | $ 1,805,200 |

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

# TULANE UNIVERSITY
# STATEMENT OF ACTIVITIES
# YEAR ENDED JUNE 30, 2011 (IN THOUSANDS)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2011 |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Tuition and fees | $ 397,814 | | | $ 397,814 |
| Less: Institutional scholarships and fellowships | (136,321) | | | (136,321) |
| Tuition and fees, net | 261,493 | | | 261,493 |
| Government grants and contracts | 161,438 | | | 161,438 |
| Private gifts and grants | 33,306 | $ 10,079 | $ 18,448 | 61,833 |
| Medical group practice | 79,189 | | | 79,189 |
| Affiliated hospital agreements/contracts | 34,560 | | | 34,560 |
| Endowment income | 8,642 | 34,037 | | 42,679 |
| Investment income and gains, net | 4,109 | 1,694 | | 5,803 |
| Recovery of indirect costs | 32,565 | | | 32,565 |
| Auxiliary enterprises | 62,637 | | | 62,637 |
| Other | 36,598 | | | 36,598 |
| Net assets released from restrictions | 41,020 | (46,020) | 5,000 | – |
| **Total operating revenues** | 755,557 | (210) | 23,448 | 778,795 |
| **OPERATING EXPENSES** | | | | |
| Instruction and academic support | 237,846 | | | 237,846 |
| Affiliated hospital agreements/contracts | 28,867 | | | 28,867 |
| Organized research | 159,863 | | | 159,863 |
| Public service | 12,863 | | | 12,863 |
| Libraries | 24,208 | | | 24,208 |
| Student services | 25,989 | | | 25,989 |
| Institutional support | 74,816 | | | 74,816 |
| Scholarships and fellowships | 12,855 | | | 12,855 |
| Auxiliary enterprises | 97,361 | | | 97,361 |
| Medical group practice | 76,716 | | | 76,716 |
| Disaster costs (net recoveries) | (5,529) | | | (5,529) |
| Other | 9,395 | 4,690 | 4,878 | 18,963 |
| **Total operating expenses** | 755,250 | 4,690 | 4,878 | 764,818 |
| **Increase (decrease) in net assets from operating activities** | 307 | (4,900) | 18,570 | 13,977 |
| **NON-OPERATING ACTIVITIES** | | | | |
| Net realized and unrealized gains | 4,835 | 146,332 | | 151,167 |
| Net unrealized losses on interest rate swaps | (1,255) | – | | (1,255) |
| Accumulated gains used for spending | (3,226) | (34,309) | | (37,535) |
| Transfers between net asset groups | (3,581) | (418) | 3,999 | – |
| **INCREASE (DECREASE) IN NET ASSETS** | (2,920) | 106,705 | 22,569 | 126,354 |
| **BEGINNING NET ASSETS** | 235,152 | 421,643 | 488,223 | 1,145,018 |
| **ENDING NET ASSETS** | $ 232,232 | $ 528,348 | $ 510,792 | $1,271,372 |

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

## TULANE UNIVERSITY
## STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2010 (IN THOUSANDS)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2010 |
|---|---|---|---|---|
| **OPERATING REVENUES** | | | | |
| Tuition and fees | $ 360,874 | | | $ 360,874 |
| Less: Institutional scholarships and fellowships | (120,087) | | | (120,087) |
| Tuition and fees, net | 240,787 | | | 240,787 |
| Government grants and contracts | 144,722 | | | 144,722 |
| Private gifts and grants | 31,156 | $ 19,858 | $ 22,862 | 73,876 |
| Medical group practice | 78,136 | | | 78,136 |
| Affiliated hospital agreements/contracts | 33,153 | | | 33,153 |
| Endowment income | 8,756 | 29,647 | | 38,403 |
| Investment income and gains, net | 3,615 | (346) | | 3,269 |
| Recovery of indirect costs | 28,348 | | | 28,348 |
| Auxiliary enterprises | 59,081 | | | 59,081 |
| Other | 38,230 | | | 38,230 |
| Net assets released from restrictions | 37,176 | (37,176) | | – |
| **Total operating revenues** | 703,160 | 11,983 | 22,862 | 738,005 |
| **OPERATING EXPENSES** | | | | |
| Instruction and academic support | 213,936 | | | 213,936 |
| Affiliated hospital agreements/contracts | 28,989 | | | 28,989 |
| Organized research | 151,131 | | | 151,131 |
| Public service | 13,400 | | | 13,400 |
| Libraries | 22,697 | | | 22,697 |
| Student services | 23,533 | | | 23,533 |
| Institutional support | 73,375 | | | 73,375 |
| Scholarships and fellowships | 13,837 | | | 13,837 |
| Auxiliary enterprises | 90,106 | | | 90,106 |
| Medical group practice | 77,280 | | | 77,280 |
| Disaster costs (net recoveries) | (9,448) | | | (9,448) |
| Other | 9,305 | 9,619 | 9,438 | 28,362 |
| **Total operating expenses** | 708,141 | 9,619 | 9,438 | 727,198 |
| **Increase (decrease) in net assets from operating activities** | (4,981) | 2,364 | 13,424 | 10,807 |
| **NON-OPERATING ACTIVITIES** | | | | |
| Net realized and unrealized gains | 8,020 | 75,835 | | 83,855 |
| Net unrealized losses on interest rate swaps | (10,332) | – | | (10,332) |
| Accumulated gains used for spending | (3,467) | (32,799) | | (36,266) |
| Transfers between net asset groups | 2,576 | (3,701) | 1,125 | – |
| **INCREASE (DECREASE) IN NET ASSETS** | (8,184) | 41,699 | 14,549 | 48,064 |
| **BEGINNING NET ASSETS** | 243,336 | 379,944 | 473,674 | 1,096,954 |
| **ENDING NET ASSETS** | $ 235,152 | $ 421,643 | $ 488,223 | $1,145,018 |

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

## TULANE UNIVERSITY
## STATEMENTS OF CASH FLOWS
## YEAR ENDED JUNE 30, 2011 AND 2010 (IN THOUSANDS)

| | 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Increase in net assets | $ 126,354 | $ 48,064 |
| Adjustments to reconcile (decrease) increase in net assets to net cash (used for) operating activities: | | |
| Depreciation and amortization | 46,589 | 43,803 |
| Asset retirements | 915 | 3,427 |
| Net realized and unrealized investment gains | (151,167) | (83,855) |
| Net decrease in fair value of interest rate swap agreements | 1,255 | 10,332 |
| Contributions restricted for permanent investment | (7,874) | (13,424) |
| Contributions of property | (1,380) | (351) |
| Grant receipts used for capital purposes | (9,773) | (4,816) |
| Insurance and FEMA recoveries received | (5,705) | (13,686) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts and other receivables | 7,798 | 10,379 |
| Decrease in contributions receivable | 3,407 | 10,093 |
| Increase in prepaid expenses and other assets | (191) | (5,028) |
| Increase (decrease) in accounts payable and accrued liabilities | (6,343) | 7,492 |
| Decrease in deferred revenue and refundable deposits | (9,117) | (16,469) |
| **Net cash (used for) operating activities** | (5,232) | (4,039) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of investments | (391,712) | (422,476) |
| Proceeds from the sale of investments | 424,025 | 427,829 |
| Purchase of property, plant and equipment, net | (93,485) | (70,763) |
| (Increase) in deposits in trust | (1,534) | (400) |
| Student loans issued | (5,857) | (6,571) |
| Proceeds from collections of student loans | 5,737 | 5,677 |
| Grant receipts used for capital purposes | 9,773 | 4,816 |
| Insurance and FEMA recoveries net of advances received and released | 5,705 | 13,686 |
| **Net cash (used for) investing activities** | (47,348) | (48,202) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Contributions restricted for permanent investment | 7,874 | 13,424 |
| Proceeds from issuance of bonded debt | 34,363 | 11,531 |
| Repayment of bonded debt | (70) | (70) |
| Proceeds from issuance of notes payable and lines of credit | 93,207 | 9,471 |
| Repayment of notes payable and lines of credit | (84,164) | (924) |
| Increase in federal student loan funds | 733 | 528 |
| Annuities paid | (974) | (1,052) |
| **Net cash provided by financing activities** | 50,969 | 32,908 |
| **NET (DECREASE) IN CASH AND CASH EQUIVALENTS** | (1,611) | (19,333) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 17,349 | 36,682 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 15,738 | $ 17,349 |
| **SUPPLEMENTAL DISCLOSURE:** | | |
| Interest paid | $ 17,355 | $ 16,822 |

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

# Tulane University
# Notes to the Financial Statements
# Years Ended June 30, 2011 and 2010

## 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. Tulane University is a private research university founded in 1834.

### 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., Tulane International, LLC, Howard Memorial Association, Riversphere One 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, research and service missions of the university are included in this category. Additionally, this category includes the healthcare 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 for investment purposes. The earnings on such funds are distributed to support university operations.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, annuity and life income funds, contributions receivable (where the ultimate purpose of the proceeds is not permanently restricted), accumulated but undistributed gains and losses on donor restricted endowment funds, and distributed but unspent earnings on donor restricted endowment funds.

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.

## REVENUE RECOGNITION

**Tuition and fees, net** — Student tuition and fees are recorded as revenues during the year the related services are rendered. Advance payments are recorded as deferred revenue. Financial aid provided by the university is recorded as a reduction to tuition and fees.

**Government grants and contracts** — Revenues are recognized when allowable expenditures are incurred under such agreements and contracts. Advance payments are recorded as deferred revenue.

**Medical group practice** — Revenues for healthcare services rendered by the medical group practice are recorded at contractual or established rates net of discounts and contractual adjustments. Charity services and bad debts are recorded in the operating expenses caption entitled Medical Group Practice.

## 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):

| | 2011 | 2010 |
|---|---|---|
| Depreciation | $ 46,589 | $ 43,803 |
| Retirement of plant assets | $ 915 | $ 3,427 |
| Plant operations and maintenance | $ 49,898 | $ 49,552 |
| Interest expense on indebtedness | $ 17,656 | $ 17,149 |

## CASH EQUIVALENTS

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

## INVESTMENTS

Equity securities with readily determinable values and most debt securities are valued based on market quotations. Certain fixed income securities are valued based on dealer supplied valuations. Where fair values are not determinable through market quotations estimates are supplied by external investment managers and a valuation review is conducted by management. Such review includes obtaining and reviewing audited and unaudited financial information from investment managers, holding discussions with external managers and general partners, and evaluating investment returns in light of current conditions. University held real estate, mortgages and royalty interests are valued at cost or original appraised value. The university's investment in University Healthcare System, L.C. is accounted for using the equity method (see Note 16).

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 net assets 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 pooled 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 years ended June 30, 2011 and 2010 was 5.0% and 5.2%, respectively. Accumulated investment gains are used to fund the difference between payout and current earnings.

## ANNUITY AND LIFE INCOME AGREEMENTS

The university has agreements with donors that include irrevocable charitable remainder trusts, charitable gift annuities, and life income funds where the university serves as trustee. Assets held in trust are generally comprised of investments. Such values are reported as temporarily restricted net assets net of the estimated future payments to be made to donors or other beneficiaries.

## OTHER FINANCIAL INSTRUMENTS

The university occasionally uses derivatives to manage the market risk associated with outstanding variable rate debt. Derivative financial instruments are reported at fair value with any resulting gain or loss reported in the non-operating section of the statement of activities.

## 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.

As required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 410-20, Asset Retirement and Environmental Obligations, formerly known as Interpretation No. 47, Accounting for Conditional Asset Obligations, conditional asset retirement obligations related to legal requirements to perform certain future activities related to the retirement, disposal, or abandonment of assets are accrued utilizing physical site surveys to estimate the net present value of applicable future costs such as asbestos abatement or removal.

The university reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable through future utilization. An impairment charge is recognized when the fair value of an asset is less than its carrying value.

## 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.

## NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU 2010-06, which amends ASC Topic 820, Fair Values to add new disclosure requirements about recurring and non-recurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance is effective for reporting periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures, which are effective for reporting periods beginning after December 15, 2010. The university adopted this guidance beginning July 1, 2010.

In July 2010, the FASB issued ASU 2010-20 which enhances the disclosures about the credit quality of financing receivables and allowance for credit losses. Specifically, the amendments in this update require expanded disclosures related to the disaggregation by portfolio segment or class and provide certain new disclosures about its financing receivables and related allowance for credit losses to help financial statement users assess an entity's exposure to credit risk and evaluate its allowance for credit losses. This guidance is effective for annual reporting periods ending on or after December 15, 2011, with early adoption permitted. The university adopted this guidance for the year ended June 30, 2011, see Notes 3, 4 and 5.

In August 2010, the FASB issued ASU 2010-23, which requires that cost be used as the measurement basis of charity care disclosures and that cost be segregated as to the direct and indirect cost of providing the charity care. The ASU also requires disclosure of the method used to identify the costs. The ASU is effective for fiscal years beginning after December 15, 2010. Retrospective application and early adoption are permitted. The university has not yet determined the impact, if any, on the financial statements from the adoption of this ASU.

On July 25, 2011, the FASB issued ASU 2011-07, which provides guidance on presentation and disclosure of patient service revenue and the related provision for bad debts and allowance for doubtful accounts. The ASU is based on the EITF's consensus on Issue 09-H reached at its June 2011 meeting, which the FASB ratified at the Board's July 13, 2011 meeting. The ASU's objective is to "provide financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts." The ASU requires an entity, instead of showing bad debts as an operating expense, to present its patient service revenue net of its provision for bad debts in its statement of operations. In addition, the ASU calls for enhanced quantitative and qualitative disclosures about changes in the allowance for bad debts. The ASU is effective for the first annual period ending after December 15, 2012. Early adoption is permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue in the statement of operations should be applied retrospectively to all prior periods presented. The additional disclosure requirements should be applied prospectively. The university has not determined the impact, if any, on the financial statements from the adoption of this ASU.

## 2 DEPOSITS IN TRUST

Deposits in trust at June 30, 2011 and 2010 consist of investments at fair value of $14,021,000 and $12,487,000, respectively, set aside primarily for medical malpractice self insurance.

## 3 ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consist of the following at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Student receivables, net of allowance for doubtful accounts of $9,375 and $8,700 | $ 5,137 | $ 9,063 |
| U.S. Government, state and other contract receivables, net of allowances for doubtful accounts of $592 and $1,656 | 49,599 | 44,727 |
| Patient and related receivables, net of allowances for discounts and doubtful accounts of $9,905 and $12,367 | 9,092 | 10,371 |
| Investment and other receivables | 3,958 | 11,423 |
| Total | $ 67,786 | $ 75,584 |

Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluations of the various components of the accounts receivable portfolio, including such factors as the differing economic risks associated with each category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent accounts, and the past history of the various borrowers and the university. Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the various receivables and a review of the default rate by receivables category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

Considering the other factors already discussed herein, management considers the allowance for doubtful accounts losses to be prudent and reasonable. Furthermore, the university's allowance is general in nature and is available to absorb losses from any receivables category. Management believes that the allowances for doubtful accounts at June 30, 2011 and 2010 are adequate to absorb credit losses inherent in the portfolio as of those dates.

## 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) at June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| In one year or less | $ 33,815 | $ 35,790 |
| Between one year and five years | 44,418 | 42,543 |
| More than five years | 14,948 | 16,737 |
| | 93,181 | 95,070 |
| Less: discounts of $9,037 and $9,037 and allowances for uncollectible pledges of $29,515 and $27,997 | (38,552) | (37,034) |
| Total | $ 54,629 | $ 58,036 |

Management follows a similar approach as described in Note 3 for accounts receivable in evaluating the adequacy of the allowance for contributions receivable. Management considers the allowance for uncollectible pledges to be prudent and reasonable. Furthermore, the university's allowance is general in nature and is available to absorb losses from any contributions receivable category. Management believes that the allowances for uncollectible pledges at June 30, 2011 and 2010 are adequate to absorb any uncollectible pledges as of those dates.

Contributions receivable at June 30, 2011 and 2010 have restrictions applicable to the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Endowments for departmental programs and activities | $ 14,723 | $ 14,658 |
| Departmental programs and activities | 15,064 | 23,115 |
| Capital purposes | 24,842 | 20,263 |
| Total | $ 54,629 | $ 58,036 |

## 5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Perkins student loan program | $ 41,606 | $ 41,154 |
| Primary care loan program | 2,083 | 2,320 |
| Other loan programs | 991 | 1,086 |
| | 44,680 | 44,560 |
| Less: allowance for doubtful accounts | (2,475) | (2,475) |
| Total | $ 42,205 | $ 42,085 |

The university makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans represented 2.2% and 2.3% of total assets, respectively.

The university participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $40,124 and $39,391 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of funds available for lending and decrease the liability to the government.

At June 30, 2011 and 2010 the following amounts were past due under student loan programs (in 000s).

| June 30 | 1–60 days past | 60–90 days past | >90 days past | Total Past due |
|---|---|---|---|---|
| 2011 | $1,675 | $702 | $3,000 | $5,377 |
| 2010 | $1,398 | $854 | $2,727 | $4,979 |

Management follows a similar approach as described in Note 3 for accounts receivable in evaluating the adequacy of the allowance for loans receivable. Allowances for doubtful loan accounts are established based on management’s best estimate of the collectability of the receivables and current economic factors which, in management’s judgment, could influence the ability of loan recipients to repay the amounts per loan terms. Amounts due under the Perkins loan program related to the government funded portion, are guaranteed by the government and, therefore, no reserves are placed on any balances past due under that program.

Management considers the allowance for doubtful accounts to be prudent and reasonable. Furthermore, the university’s allowance is general in nature and is available to absorb losses from any loans receivable category. Management believes that the allowances for doubtful accounts at June 30, 2011 and 2010 are adequate to absorb any uncollectible loans as of those dates.

## 6 INVESTMENTS AND ASC 820-10, FAIR VALUE MEASUREMENTS AND DISCLOSURES (FORMERLY KNOWN AS SFAS NO. 157)

ASC 820-10 adopts a hierarchy approach for ranking the quality and reliability of the information used to determine fair values in one of three categories to increase consistency and comparability in fair value measurements and disclosures. The highest priority (tier 1) is given to quoted prices in active markets for identical assets. Tier 2 assets are valued based on inputs other than quoted prices that are "observable." For example, quoted prices for similar securities or quoted prices in inactive markets would both be observable. In tier 3, the inputs used for valuation are not observable or transparent and assumptions have to be made about how market participants would price the underlying assets. Investments are classified based on the lowest level of input that is significant to the fair value measurement.

Investments consist of the following at June 30, 2011 (in thousands):

| **Investment Type** | **Tier 1** (Quoted prices in active markets) | **Tier 2** (Significant Observable inputs) | **Tier 3** (Significant Unobservable inputs) | **Total** |
|---|---|---|---|---|
| Short term money funds | $ 2,527 | $ 41,347 | – | $ 43,874 |
| Domestic equities | 206,704 | 67,995 | $ 14,568 | 289,267 |
| International and global equities | 24,136 | 78,303 | 28,425 | 130,864 |
| Absolute return and long short funds | – | 121,575 | 179,086 | 300,661 |
| Private Equity and Real Assets (Limited Partnerships) | – | – | 119,086 | 119,086 |
| Government bonds and notes | 7,542 | 16,991 | – | 24,533 |
| Corporate bonds and notes | – | 55,109 | – | 55,109 |
| **Total investments at fair value by tier** | $ 240,909 | $ 381,320 | $ 341,165 | $ 963,394 |
| University Healthcare System on the equity basis | – | – | – | 13,862 |
| Real Estate and royalty interests at original cost or appraised value | – | – | – | 36,921 |
| Investment receivables and other at cost or appraised value | – | – | – | 18,225 |
| Total investments valued at other than fair value | | | | 69,008 |
| **Total investments** | | | | $ 1,032,402 |
| **Deposits in trust** | | | | |
| Short term money funds | $ 472 | $ 2,184 | – | $ 2,656 |
| Domestic equities | 748 | – | | 748 |
| Corporate bonds | – | 3,424 | – | 3,424 |
| Government bonds, notes | – | 7,193 | – | 7,193 |
| **Total deposits in trust at fair value by tier** | $ 1,220 | $ 12,801 | – | $ 14,021 |

Investments consist of the following at June 30, 2010 (in thousands):

| **Investment Type** | **Tier 1** (Quoted prices in active markets) | **Tier 2** (Significant Observable inputs) | **Tier 3** (Significant Unobservable inputs) | **Total** |
|---|---|---|---|---|
| Short term money funds | $ 1,637 | $ 18,432 | $ – | $ 20,069 |
| Domestic equities | 184,286 | 46,319 | 13,820 | 244,425 |
| International and global equities | 18,787 | 74,889 | 22,174 | 115,850 |
| Absolute return and long short funds | – | 39,999 | 225,058 | 265,057 |
| Private Equity and Real Assets (Limited Partnerships) | – | – | 96,220 | 96,220 |
| Government bonds and notes | 23,161 | 32,825 | – | 55,986 |
| Corporate bonds and notes | 1,196 | 58,378 | – | 59,574 |
| **Total investments at fair value by tier** | $ 229,067 | $ 270,842 | $ 357,272 | $ 857,181 |
| University Healthcare System on the equity basis | – | – | – | 18,034 |
| Real Estate and royalty interests at original cost or appraised value | – | – | – | 33,053 |
| Other investments at cost or appraised value | – | – | – | 3,899 |
| Total investments valued at other than fair value | – | – | – | 54,986 |
| **Total investments** | | | | $ 912,167 |
| **Deposits in trust** | | | | |
| Short term money funds | – | $ 1,077 | – | 1,077 |
| Domestic equities | $ 573 | – | – | 573 |
| Corporate bonds | – | 3,639 | – | 3,639 |
| Government agency bonds, notes | 6,239 | 959 | – | 7,198 |
| **Total deposits in trust at fair value by tier** | $ 6,812 | $ 5,675 | $ – | $ 12,487 |

Reconciliation of Tier 3 assets at June 30, 2011 and 2010 (in thousands):

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Total | Long Short funds and Absolute Return funds | Private Equity and Real Assets – Limited Partnership | International Equities – Limited Partnerships | Domestic Equities |
| Beginning Balances, July 1, 2010 | $ 357,272 | $ 225,058 | $ 96,220 | $ 22,174 | $ 13,820 |
| Total reclassifications | (71,281) | (76,472) | 8,834 | – | (3,643) |
| Total gains and losses (realized/unrealized) | 57,163 | 26,619 | 19,622 | 6,531 | 4,391 |
| Purchases, issuances, settlements (capital advanced/returned) | (1,989) | 3,881 | (5,590) | (280) | – |
| Ending balances, June 30, 2011 | $ 341,165 | $ 179,086 | $ 119,086 | $ 28,425 | $ 14,568 |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Total | Long Short funds and Absolute Return funds | Private Equity and Real Assets – Limited Partnership | International Equities – Limited Partnerships | Domestic Equities |
| Beginning Balances, July 1, 2009 | $ 340,152 | $ 226,265 | $ 85,256 | $ 16,675 | $ 11,956 |
| Total reclassifications | (40,818) | (48,121) | – | 7,303 | – |
| Total gains and losses, (realized/unrealized) | 40,126 | 27,250 | 6,991 | 4,021 | 1,864 |
| Purchases, issuances and settlements (capital advanced/returned) | 17,812 | 19,664 | 3,973 | (5,825) | – |
| Ending balances, June 30, 2010 | $ 357,272 | $ 225,058 | $ 96,220 | $ 22,174 | $ 13,820 |

The Financial Accounting Standards Board issued a standards update pertaining to Fair Value Measurements and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share in September 2009. Fair values are determined by the use of calculated net asset value per ownership share. As a result of the update, the university reclassified $71,281 and $40,818 in 2011 and 2010 respectively, from tier 3 to tier 2 based on the liquidity provisions in the underlying investments. In complying with the update, the university makes the following disclosures about its investments at June 30, 2011 that feature net asset value per share in tiers 2 and 3.

| | Fair Value (in thousands) | Unfunded Commitments | Redemption frequency if currently eligible | Redemption Notice Period |
|---|---|---|---|---|
| Global and Domestic Long Only Equity (a) | $ 131,383 | – | Daily, Monthly, Quarterly | 1–60 days |
| Equity long/short hedge funds (b) | 164,572 | – | Monthly, Quarterly | 45–65 days |
| Absolute Return hedge funds (c) | 152,082 | – | Quarterly | 65 days |
| Enhanced Fixed Income (d) | 41,632 | – | N/A | N/A |
| Private Equity (e) | 88,374 | $ 47,492 | N/A | N/A |
| Private Real Assets (f) | 30,712 | 21,079 | N/A | N/A |
| Total | $ 608,755 | $ 68,571 | | |

(a) This category includes investments in partnerships that invest primarily in common stocks across various sectors and market caps and across different geographic regions. The firms do not short and do not employ leverage. Investments representing approximately 74% of the value of this category were liquid as of June 30, 2011. Generally, these funds do not have lock-up periods after the initial investment.

(b) This category includes investments in hedge funds that invest primarily in equities, both long and short. Managers of these funds have the ability to shift investments by geography, sector, and exposure, both on a net and gross basis. Investments representing approximately 61% of the value of this category were liquid as of June 30, 2011. Generally, restriction periods range from three to twenty four months as of June 30, 2011.

(c) This category includes investments in hedge funds that invest in event-related equity and credit, arbitrage, short selling and other marketable assets and strategies. The category is comprised of approximately 25% equity and the remainder debt and other investments, and provides a consistent return, with low volatility and limited correlation to equity and fixed income markets. Investments representing approximately 44% of the value of this category were liquid as of June 30, 2011. Generally, restriction periods range from one to twenty one months as of June 30, 2011.

(d) This category includes investments in hedge funds where managers pursue opportunistic exposure to distressed loans and other senior credits, emerging market debt and high yield bonds. The category is comprised of approximately 20% equity and the remainder debt and other investments, and provides a consistent return, with low volatility and limited correlation to equity and fixed income markets. Only 8% of the investments in this category were not available to be redeemed because of lockup restrictions as of June 30, 2011.

(e) This category includes private equity partnerships including buyout, venture capital, and distressed investment funds. Many of the partnerships are funds of funds that invest in multiple funds across strategies. These investments cannot be redeemed. Distributions from each fund will be received as the underlying investments are liquidated. Most funds have a primary term of ten years. Approximately 41% of private equity NAV is in buyout strategies, 37% in venture capital, 18% in distressed, and 4% in other.

(f) This category includes several partnerships in oil and gas and U.S. real estate funds. Many of these partnerships are funds of funds that invest in multiple funds. These investments cannot be redeemed but are subject to liquidation distributions as the underlying investments are liquidated. Most funds have a primary term of ten years. Approximately 84% of the NAV in this category is in oil and gas and natural resources partnerships. The remaining 16% is in real estate funds.

Endowment dividend and interest income, net of expenses, amounted to approximately $5,144,000 and $2,137,000, respectively, for the years ended June 30, 2011 and 2010. In accordance with the university's endowment spending policy, $37,500,000 and $36,300,000 of accumulated gains were used to fund current operations for the years ended June 30, 2011 and 2010, respectively. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Temporarily restricted net assets at June 30, 2011 and 2010 include annuity, life income and other investments at market value of approximately $28,792,000 and $26,623,000 respectively.

Permanently restricted net assets at June 30, 2011 and 2010, include the investment assets at fair value of the Tulane Murphy Foundation (the Foundation) that amounted to $63,801,000 and $64,438,000, respectively. 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 years ended June 30, 2011 and 2010, income from the Foundation, which is restricted to specific purposes, amounted to approximately $1,693,000 and $1,339,000, respectively.

Investment return, net of investment management fees of $9.8 million and $8.8 million for 2011 and 2010, respectively, is composed of the following for the years ended June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Operating: | | |
| Endowment distributions | $ 42,679 | $ 38,403 |
| Investment income | 5,803 | 3,269 |
| Total Operating Return | 48,482 | 41,672 |
| Non Operating: | | |
| Net realized and unrealized gains, losses | 151,167 | 83,855 |
| Endowment appreciation utilized | (37,535) | (36,266) |
| Total non-operating return | 113,632 | 47,589 |
| Total Investment Return | $ 162,114 | $ 89,261 |

## 7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2011 and 2010, (in thousands) benefit the following functions:

| | 2011 | 2010 |
|---|---|---|
| Academic departments and instruction | $ 367,410 | $ 293,208 |
| Student financial aid and scholarship | 98,781 | 78,831 |
| Capital projects | 42,192 | 33,671 |
| Operations | 19,965 | 15,933 |
| Total | $ 528,348 | $ 421,643 |

Permanently restricted net assets at June 30, 2011 and 2010, (in thousands) benefit the following functions:

| | 2011 | 2010 |
|---|---|---|
| Academic departments and instruction | $ 332,677 | $ 312,960 |
| Student financial aid and scholarship | 157,670 | 156,031 |
| Operations | 20,445 | 19,232 |
| Total | $ 510,792 | $ 488,223 |

## 8 ENDOWMENT FUNDS AND DISCLOSURES UNDER ASC 958-205

As discussed in Note 1, New Accounting Pronouncements, the university adopted ASC 658-205 as of July 1, 2008. Management for the university, with the Board of Administrator's concurrence, has interpreted UPMIFA as not expressly requiring the preservation of purchasing power (real value) for donor restricted endowment funds absent donor stipulations to the contrary.

Tulane classifies as permanently restricted net assets the original value of gifts donated for permanent endowment, any subsequent gifts to such endowments, and accumulations subsequently made at the direction of the applicable donor instrument.

Endowment funds net asset composition as of June 30, 2011 and 2010 (in thousands):

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | – | $ 403,544 | $ 510,792* | $ 914,336 |
| Board designated endowment funds | $ 90,402 | – | – | 90,402 |
| Total endowment funds | $ 90,402 | $ 403,544 | $ 510,792 | $1,004,738 |

| | 2010 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | – | $ 296,276 | $ 488,223* | $ 784,499 |
| Board designated endowment funds | $ 88,549 | – | – | 88,549 |
| Total endowment funds | $ 88,549 | $ 296,276 | $ 488,223 | $ 873,048 |

* Funds reflect original gift corpus adjusted for any donor requirements.

Changes in endowment funds net assets for the year ended June 30, 2011 and 2010 (in thousands):

| | 2011 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Net assets, beginning of year** | $ 88,549 | $ 296,276 | $ 488,223 | $ 873,048 |
| Investment Return | | | | |
| Net appreciation | | | | |
| (realized and unrealized) | 4,835 | 141,577 | – | 146,412 |
| **Total investment return** | 4,835 | 141,577 | 0 | 146,412 |
| New gifts | | | 23,448 | 23,448 |
| Endowment assets used | | | | |
| for expenditure | (3,226) | (34,309) | – | (37,535) |
| Other | 244 | – | (879) | (635) |
| **Total non investment changes** | (2,982) | (34,309) | 22,569 | (14,722) |
| **Net assets, end of year** | $ 90,402 | $ 403,544 | $ 510,792 | $ 1,004,738 |

| | 2010 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Net assets, beginning of year** | $ 83,912 | $ 257,887 | $ 473,674 | $ 815,473 |
| Investment Return | | | | |
| Net appreciation | | | | |
| (realized and unrealized) | 8,020 | 74,533 | – | 82,553 |
| **Total investment return** | 8,020 | 74,533 | – | 82,553 |
| New gifts | | | 25,693 | 25,693 |
| Endowment assets used | | | | |
| for expenditure | (3,475) | (32,799) | – | (36,274) |
| Other | 92 | (3,345) | (11,144) | (14,397) |
| **Total non investment changes** | (3,383) | (36,144) | 14,549 | (24,978) |
| **Net assets, end of year** | $ 88,549 | $ 296,276 | $ 488,223 | $ 873,048 |

## COMPOSITION OF ENDOWED FUNDS

The university's endowment fund assets are managed around asset components with different characteristics. These are pooled endowment funds, funds managed under the Louisiana Education Quality Support Fund (LEQSF), separately invested endowment funds, and university owned real estate.

The approximate asset composition of these funds at June 30, 2011 and 2010 is as follows:

| | 2011 | 2010 |
|---|---|---|
| Pooled funds | $ 690,717* | $ 602,705* |
| LEQSF pooled funds | 146,385 | 128,825 |
| Separately invested funds | 133,330** | 124,236** |
| Contributions receivable | 14,723 | 14,658 |
| Investment income receivables and other | 19,583 | 2,624 |
| Total endowment related net assets | $1,004,738 | $ 873,048 |

*This category includes $32.4 million and $32.4 million in university owed real estate that returned approximately $0.6 million and $1.2 million in net rents and royalties for the years ended June 30, 2011 and 2010.

**This category includes an investment of approximately $14.0 million and $18.0 million in University Healthcare System, L.L.C. and investments of approximately $66.0 million and $68.0 million in Murphy Oil Corporation common stock at June 30, 2011 and 2010.

## FUNDS WITH DEFICITS

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the university to maintain as a fund of perpetual duration. These deficiencies fell across 205 and 328 individual endowment funds and totaled approximately $4.7 million and $7.2 million at June 30, 2011 and 2010. Management is monitoring these deficiencies and either discontinued or curtailed payouts on these funds in fiscal 2011.

## RETURN OBJECTIVES AND RISK PARAMETERS

The university has adopted endowment investment and spending policies relative to its pooled endowment funds that attempt to provide a predictable stream of funding to programs supported by its endowment while ensuring that purchasing power of the assets do not decline over time. The pooled endowment assets are invested long term in a manner intended to produce results that exceed the rate of inflation plus the payout percentage.

The Board of Regents of Louisiana (BOR) provides investment guidelines for LEQSF funds that are more restrictive in terms of investment choices that are available. Accordingly, these funds are managed with the expectation of lower volatility and with a bias toward preservation of capital. Even so, the long term expectation is that these funds will generally return inflation plus 5%.

Separately invested funds are managed to meet donor expectations.

## STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long term rate of return objectives, the university relies on a total return strategy in which investment returns are achieved through both capital appreciation  (realized and unrealized) and current yield (interest and dividends). The university targets a diversified asset allocation that places a greater emphasis on equity–based investments to achieve its long term return objectives within prudent risk constraints.

## SPENDING POLICIES AND INVESTMENT OBJECTIVES

The university has a policy with respect to its pooled endowment funds of appropriating for distribution each year approximately 5.0% of its pooled endowment fund's average fair value over the prior 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned.

This policy is consistent with the objective of maintaining the purchasing power of the endowment assets as well as to provide additional real growth through investment return. In the years ended June 30, 2011 and 2010 the university used approximately $32.1 million and $31.1 million in pooled endowment assets for spending.

The BOR provide spending guidelines for those accounts that are matched by state funds through the LEQSF program. Those guidelines generally provide for preservation of capital via consumer price index measurements and by averaging the fund values of the previous five years. Generally values that fall below the CPI adjusted balances will forgo a distribution in the subsequent year. For fiscal 2011, the BOR suspended application of the CPI feature of its payout formula, thus allowing payouts in fiscal 2011 when fund value is higher than original fund corpus. In the years ended June 30, 2011 and 2010, the university used approximately $5.4 million and $5.2 million, respectively, in such assets for spending.

Separately invested funds generally produce dividends and interest that are then made available for spending. In the years ended June 30, 2011 and 2010, such items totaled $2.2 million and $2.5 million, respectively.

## ENDOWMENT ASSETS USED FOR SPENDING

The university made $37.5 million and $36.3 million of endowment assets available for spending in the years ended June 30, 2011 and 2010, respectively.

# 9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Land | $ 22,369 | $ 22,369 |
| Buildings and improvements | 784,532 | 728,867 |
| Equipment | 180,029 | 167,823 |
| Library books and materials | 141,772 | 132,494 |
| Construction in progress | 55,163 | 45,246 |
| Gross property, plant and equipment | 1,183,865 | 1,096,799 |
| Less: accumulated depreciation | (472,468) | (431,383) |
| Property, plant and equipment, net | $ 711,397 | $ 665,416 |

The university capitalizes interest related to construction of major facilities. Capitalized interest is recorded as part of the related asset, and is amortized over the asset's estimated useful life. Capitalized interest amounted to $1.3 million and $1.1 million, respectively, for the years ended June 30, 2011 and 2010.

At June 30, 2011 the university's construction in progress included $17.5 million for a campus dormitory, $6.3 million for a basketball/volleyball practice facility and $6.4 million for a research support building on the primate center campus.

## 10 NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2011 and 2010, consist of the following (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Amounts drawn under two short term credit lines, as described below | $ 19,751 | $ 9,745 |
| One unsecured note for $1.5 million due in installments through 2036 with interest fixed at 4%. | 1,422 | 1,455 |
| Two unsecured term notes dated June 2006 with quarterly principal installments ranging from $125 to $500 with $15 million due in June 2013. Interest is borne at the London Interbank Offered Rate (LIBOR) minus 50 basis points (0% and 0% at June 30, 2011 and 2010). | 17,625 | 18,125 |
| Four unsecured term notes totaling $ 20.5 million drawn under a non revolving credit agreement dated December 2007. Principal installments commenced at $107 per quarter on January 1, 2009 and peak in fiscal 2014 at $430 per quarter. The notes term out through 2047 at $101 per quarter. Interest is borne at LIBOR plus 77 basis points (1.07% and 1.06% at June 30, 2011 and 2010). | 19,424 | 19,854 |
| Total notes payable | $ 58,222 | $ 49,179 |

The university had $140 million and $110 million in lines of credit with four banks to meet short term seasonal cash requirements at June 30, 2011 and 2010, respectively. The lines expire as follows: $50 million on January 31, 2012, $20 million on March 29, 2012, $40 million on May 26, 2012 and $30 million on April 10, 2012. Principal is payable upon demand. At June 30, 2011 and 2010, there was $19.751 million and $9.745 million drawn on these lines, respectively. Interest rates applicable to these lines are based on several defined indices.

## 11 BONDS PAYABLE

Bonds payable consist of the following at June 30, 2010 and 2009 (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%. | $ 985 | $ 1,055 |
| Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-1 with annual maturities of $5,160 to $13,805 from 2014 through 2035, fixed interest rates from 4% to 5%. | 192,565 | 192,565 |
| Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-2 with annual principal payments of $1,525 to $4,045 from 2013 through 2036, bearing interest at 67% of three month LIBOR plus 70 basis points. The rate in effect at June 30, 2011 was 0.87%. | 62,180 | 62,180 |
| Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007B with maturities of $12,950 on December 15, 2022 and $20,535 on December 15, 2032. The series was issued as taxable with conversion to tax exempt rates scheduled for December 18, 2007. The conversion took place as scheduled. The interest rate in effect at June 30, 2011 was 4.55% on the bonds due in 2022 and 4.65% on the bonds due in 2032. Annual principal payments of $1,045 to $2,510 are due from 2014 to 2032. | 33,485 | 33,485 |
| The Administrators of the Tulane Educational Fund Series 2007C Taxable Refunding Revenue Bonds with annual principal payments ranging from $2,110 to $7,590 from 2013 through 2036, bearing interest at three month LIBOR plus 30 basis points. The rate in effect at June 30, 2011 was 0.56%. | 103,135 | 103,135 |

| | 2011 | 2010 |
|---|---|---|
| Tax Exempt Louisiana Public Facilities Authority Variable Range Revenue Bonds, Series 2009 (Dormitory) was delivered on December 9, 2009 and matures December 9, 2041. The face value of the issue is $30,000 with draws being made to fund construction. Principal is due in annual installments beginning with $365 on December 9, 2012 and ending with $2,120 on December 9, 2041. These bonds can be called at any time and may be put by the bondholder after five years and every 5 years thereafter. Interest is priced at 67% of the sum of one month LIBOR plus 3.50%. At June 30, 2011 this rate was 2.43%. | $ 16,534 | $ 2,997 |
| Tax exempt Louisiana Public Facilities Authority Variable Rate Bonds, Series 2010 (Energy) were delivered on March 25, 2010 and mature on March 25, 2042. The face value of the issue is $30,000 with draws being made in calendar 2010 to fund construction. Principal is scheduled in annual installments beginning in fiscal 2013 at $250 and ending in fiscal 2042 with $1,500. The bonds may be called at any time and may be put by the bondholder after 5 years and every 5 years thereafter. Interest is priced monthly at 67% of the sum of one month LIBOR plus 2.65%. At June 30, 2011 this rate was 1.86%. | 30,000 | 8,854 |
| Total bonds payable principal outstanding | 438,884 | 404,271 |
| Bond underwriters premium | 8,311 | 8,631 |
| Bonds payable | $ 447,195 | $ 412,902 |

The university issued tax exempt bonds in 2010 through the LPFA to support undergraduate campus dormitory construction and medical school campus infrastructure improvements. The Series 2010 bonds were fully drawn by December 31, 2010 whereas the Series 2009 bonds will be drawn to match construction requirements that are expected to conclude by September 30, 2011. In each case the bond purchaser is a large commercial bank.

The 2007A-1 Series proceeds were used to establish a proceeds fund to defease portions of five earlier tax exempt bond issues. The 2007A-2 Series proceeds were used to redeem $61,000,000 in previously issued taxable bonds. The 2007B Series proceeds were used to escrow $31,820,000 toward redemption of certain 1997 tax exempt issues. The 2007C Series proceeds were applied toward escrows established to defease portions of six previous tax exempt issues and three previous taxable issues.

The annual principal maturities for bonds payable at June 30, 2011 are as follows (in thousands):

| Fiscal Year | Amount |
|---|---|
| 2012 | $ 320 |
| 2013 | 4,580 |
| 2014 | 11,225 |
| 2015 | 11,955 |
| 2016 | 12,230 |
| 2017 and thereafter | 398,574 |
| Total | $ 438,884 |

All of the above described outstanding bonds payable, excluding the mortgage bonds payable, are general obligations of the university. The university is required to comply with certain covenants that, if not met, limit the incurrence of additional certain long term indebtedness and the sale of certain assets. The university was in compliance with its covenants at June 30, 2011 and 2010. 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 one hundred twelve thousand dollars at June 30, 2011 and 2010. In addition, annual net revenues from the residence halls and from student fees are pledged for debt service to the mortgage bonds.

## 12 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 approximate fair value.

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

**Investments** — Investments at fair value were approximately $963 million and $857 million at June 30, 2011 and 2010. Market values are used when available. Other investments totaling approximately $69.0 million and $55.1 million are reported at carrying values because it was not practical to apply fair valuation techniques and application of such techniques was not expected to result in materially different values (see Note 6).

**Bonds Payable** — The fair value was approximately $423.9 million and $372.6 million at June 30, 2011 and 2010, respectively. 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.

## 13 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 years ended June 30, 2011 and 2010, contributions to the plans were approximately $18.1 million and $16.5 million, respectively.

## 14 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 healthcare 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.

## 15 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.

## OPERATING LEASES

The university leases certain real property. These leases are classified as operating leases and have lease terms ranging up to twelve years. Total lease payments amounted to approximately $3,985,000 and $4,936,000, respectively, for the years ended June 30, 2011 and 2010. Additionally, in 2010 the university paid a contraction fee of $1.471 million in connection with a lease of office space. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2011, are as follows (in thousands):

| Fiscal Year | Amount |
|---|---|
| 2012 | $ 3,969 |
| 2013 | 3,241 |
| 2014 | 2,788 |
| 2015 | 2,974 |
| 2016 | 2,974 |
| 2017 and thereafter | 2,974 |
| Total | $ 18,920 |

## SHARED SAVINGS AGREEMENT

The university entered into an agreement dated December 2006 with a major energy controls company to construct and install energy conservation improvements and measures valued at approximately $17 million on the university's main campus. The physical assets are owned by a third party with whom the university has contracted to share future energy savings associated with more efficient operation of the physical facilities. Over the twelve-year term, the university expects to share annual energy cost savings of $2.7 million to $3.3 million with the third party owner. Realization of the energy savings are guaranteed by the energy controls company. The university may purchase the fixed assets at the end of the term for fair market value. The university paid the owner $2.7 million and $2.5 million during the years ended June 30, 2011 and 2010, respectively, under this agreement and such amounts are included in the plant operations and maintenance cost total.

## INTEREST RATE COLLARS AND SWAPS

The university entered into two interest rate collars on February 29, 2008 in replacement of an interest rate hedge completed in fiscal 2006. The first collar was an interest rate hedge of the university's taxable variable rate debt. This collar had a notional amount of $103,135,000, and terminated on February 15, 2011 and featured a floor and a cap based on the 3-month U.S. Dollar London Interbank Offered Rate (LIBOR). For any period that LIBOR exceeded 6% (the CAP rate), the counterparty to the agreement was required to make a payment to the university based on the notional amount of the collar and the difference between LIBOR and the CAP rate. Likewise, for any period that LIBOR was less than 2.65% (the floor rate), the university had to pay the counterparty based on the notional amount of the collar and the difference between LIBOR and the floor rate. No payments were made on the collar by either party if LIBOR is between 2.65% and 6.00%. The fair value of the collar at June 30, 2011 and 2010 was $0 and $1,242,000 due the counterparty.

On January 23, 2009 the university entered into a forward starting swap of interest rates that is effective February 15, 2011 pursuant to continued hedging of the university's taxable variable rate debt. The notional amount is $103,135,000. The university accepted a fixed rate of 3.195% in exchange for its 3-month U.S. Dollar LIBOR rate. The swap terminates in February 2017. The fair values of this swap at June 30, 2011 and 2010 were $5,583,000 and $3,431,000 due the counterparty. In a second transaction, a hedge was devised to protect against interest rate fluctuations on the university's tax exempt variable rate debt. This swap had a notional amount of $62,180,000, terminated on February 15, 2011 and featured a floor and a cap based on 67% of the 3-month U.S. Dollar LIBOR rate (67% of LIBOR). This arrangement was amended on January 23, 2009 and replaced with an interest rate swap wherein the university fixed its interest rate at 2.334% until maturity in February 2017. The fair values of this arrangement at June 30, 2011 and 2010 were $2,875,000 and $2,746,000, respectively, due the counterparty.

In two additional interest rate swap transactions executed on December 22, 2008, the university fixed its LIBOR interest rates on two variable rated notes payable with beginning notional values of $17,112,000 and $18,750,000 at 2.34% and 2.18% until June 22, 2013 and December 21, 2014 respectively. The combined fair values of these arrangements were $1,066,000 and $850,000 due the counterparty at June 30, 2011 and 2010.

The combined values of these agreements at June 30, 2011 and 2010 were included as approximately $9,525,000 and $8,269,000 in the caption accounts payable and accrued liabilities on the Statement of Financial Position. In 2011 the effect on the statement of activities is recorded in the non-operating section as $1,256,000 in net unrealized losses on interest rate swaps.

## 16 HOSPITAL/CLINIC JOINT VENTURE

Effective March 31, 1995, the university entered into a joint venture agreement with Hospital Corporation of America (HCA), 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 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.

For the years ended June 30, 2011 and 2010, the university recorded revenue and cost recoveries of approximately $44.1 million and $44.9 million, and as of June 30, 2011 and 2010, recorded approximately $2.3 million and $1.7 million as receivable from UHS, related to these agreements.

Summarized financial information about the financial position of the unconsolidated joint venture entity as of December 31, 2010 (unaudited) and 2009 (audited) are as follows (in thousands):

| | 2010 | 2009 |
|---|---|---|
| Current assets | $ 71,744 | $ 74,766 |
| Property plant and equipment, net | 96,259 | 91,223 |
| Other assets* | 124 | 38,081 |
| Total assets | $ 168,127 | $ 204,070 |
| Current liabilities | $ 79,783 | $ 99,751 |
| Long term debt | 7,336 | 7,825 |
| Total liabilities | 87,119 | 107,576 |
| Partners' equity | 81,008 | 96,494 |
| Total liabilities and partners' equity | $ 168,127 | $ 204,070 |

* 2010 reflects writedown of previously recorded Goodwill

Summarized financial results for the years ended December 31, 2010 and 2009 are as follows (in thousands):

| | 2010 | 2009 |
|---|---|---|
| Net revenues | $ 431,262 | $ 390,311 |
| Operating expenses | 383,072 | 374,184 |
| Depreciation and amortization | 16,864 | 19,837 |
| Goodwill Writeoff | 37,955 | – |
| Other | 8,857 | 8,238 |
| Net loss | $ (15,486) | $ (11,948) |

The university's share of partners' equity at June 30, 2011 and 2010 was approximately $14 million and $18 million, respectively.

## 17 HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina struck the Gulf Coast area causing widespread damage 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 properties, demolish and remove damaged improvements and contents, and to reconstruct facilities and buildings.

Estimated cumulative disaster losses (excluding business interruption costs) and costs as of June 30, 2011 and 2010 are summarized as follows (in thousands):

| | 2011 | 2010 |
|---|---|---|
| Restoration of buildings and grounds | $ 232,897 | $ 228,156 |
| Equipment replacements | 12,986 | 12,986 |
| Other incremental disaster-related operating costs | 78,361 | 77,983 |
| Direct gross incremental out-of-pocket disaster costs | 324,244 | 319,125 |
| Net book value of fixed improvements and equipment destroyed | 28,074* | 28,074* |
| Less: construction and replacement equipment capitalized | (112,458) | (107,515) |
| National Flood Insurance Program, FEMA, and other insurance recoveries | (160,632) | (154,927) |
| Disaster costs, net of recoveries | 79,228** | 84,757** |
| Net amount expensed in fiscal 2006 | $ 152,546 | $ 152,546 |
| Net amount expensed in fiscal 2007 | 24,021 | 24,021 |
| Net amount recovered in fiscal 2008 | (51,324) | (51,324) |
| Net amount recovered in fiscal 2009 | (31,038) | (31,038) |
| Net amount recovered in fiscal 2010 | (9,448) | (9,448) |
| Net amount recovered in fiscal 2011 | (5,529) | |
| Total disaster costs | $ 79,228 | $ 84,757 |

*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 lost arts and library materials.

The university had commercial insurance policies in effect at the time of the hurricane, including all risks property, casualty, library and fine arts, and specialized equipment in addition to National Flood Insurance policies. As of June 30, 2011, the university had received approximately $300 million in commercial and National Flood Insurance Policy recoveries. Unallocated commercial insurance recoveries totaling $225 million were recorded as operating revenues in the statements of activities across fiscal 2007 and 2006. During fiscal 2009, the university reached final settlement with its fourth and final layer of property insurance and recorded proceeds in the amount of $3.0 million included in the caption net disaster recoveries in the accompanying statement of activities.

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.

The following constitutes a summary of the university's cumulative funding from FEMA at June 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---|---|
| Cumulative FEMA cash received | $ 95,708 | $ 88,337** |
| Receivable from FEMA | 70 | 1,234 |
| Total FEMA cash received and receivable | $ 95,778 | $ 89,571 |
| | | |
| Cumulative FEMA advances recognized as recoveries | $ 85,140 | $ 78,611* |
| FEMA advances recorded as deferred revenue | 10,638 | 10,960*** |
| Total cost recoveries and deferred revenue | $ 95,778 | $ 89,571 |

*Of this amount, $5.7 million and $10.8 million were recognized in disaster cost recoveries in the years ended June 30, 2011 and 2010, respectively.

**Of this amount, $7,000 and $26,000 were received in the years ended June 30, 2011 and 2010, respectively.

***This amount will be recognized when FEMA obligates the underlying projects' worksheets.

## 18 SUBSEQUENT EVENTS

The university completed its subsequent events reviews through November 2, 2011 for the years ended June 30, 2011 and 2010, respectively.

Tulane University
www.tulane.edu