

TULANE UNIVERSITY

FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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Tulane University, a private research university founded in 1834, is one of the most respected universities in the country. Tulane has been a member of the prestigious Association of American Universities since 1958. 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 13,486 students.

About the cover: An aerial view shows the Tulane University uptown campus, with its iconic oak trees and century-old buildings facing St. Charles Avenue (bottom right). The New Orleans skyline and the Mercedes-Benz Superdome are in the distance.

(Photo by Jackson Hill)



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, 2012 and 2011, 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, 2012 and 2011, and the results of its operations 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 2012 and 2011.

Deloitte & Touche LLP

New Orleans, Louisiana
November 9, 2012

TULANE UNIVERSITY
 STATEMENTS OF FINANCIAL POSITION
 JUNE 30, 2012 AND 2011 (IN THOUSANDS)

	<u>2012</u>	<u>2011</u>
ASSETS:		
Cash and cash equivalents	\$ 10,987	\$ 15,738
Deposits in trust	17,495	14,021
Accounts and other receivables, net	65,048	67,786
Contributions receivable, net	63,298	54,629
Loans receivable, net	41,225	42,205
Investments	969,122	1,032,402
Prepaid expenses and other assets	21,536	22,267
Property, plant and equipment, net	<u>736,072</u>	<u>711,397</u>
TOTAL ASSETS	<u>\$ 1,924,783</u>	<u>\$ 1,960,445</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 101,187	\$ 102,727
Deferred revenue and refundable deposits	45,315	40,805
Notes payable and lines of credit	71,154	58,222
Bonds payable	454,843	447,195
Federal student loan funds	<u>40,791</u>	<u>40,124</u>
Total liabilities	<u>713,290</u>	<u>689,073</u>
Net Assets:		
Unrestricted	128,528	141,830
Unrestricted, funds functioning as endowment	<u>80,978</u>	<u>90,402</u>
Total unrestricted	209,506	232,232
Temporarily restricted	481,258	528,348
Permanently restricted	<u>520,729</u>	<u>510,792</u>
Total net assets	<u>1,211,493</u>	<u>1,271,372</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,924,783</u>	<u>\$ 1,960,445</u>

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

TULANE UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012
OPERATING REVENUES				
Tuition and fees	\$ 428,480	\$ -	\$ -	\$ 428,480
Less: Institutional scholarships and fellowships	<u>(146,474)</u>	<u> </u>	<u> </u>	<u>(146,474)</u>
Tuition and fees, net	282,006			282,006
Government grants and contracts	146,809			146,809
Private gifts and grants	37,360	\$ 30,736	\$ 10,669	78,765
Medical group practice	79,626			79,626
Affiliated hospital agreements/contracts	36,077			36,077
Endowment income	8,926	32,934		41,860
Investment income and gains, net	2,153	708		2,861
Recovery of indirect costs	31,364			31,364
Auxiliary enterprises	65,691			65,691
Other	47,914			47,914
Net assets released from restrictions	<u>44,920</u>	<u>(44,920)</u>	<u> </u>	<u> </u>
Total operating revenues	<u>782,846</u>	<u>19,458</u>	<u>10,669</u>	<u>812,973</u>
OPERATING EXPENSES				
Instruction and academic support	257,605			257,605
Affiliated hospital agreements/contracts	29,766			29,766
Organized research	156,779			156,779
Public service	13,202			13,202
Libraries	25,288			25,288
Student services	26,643			26,643
Institutional support	78,578			78,578
Scholarships and fellowships	13,332			13,332
Auxiliary enterprises	101,978			101,978
Medical group practice	80,449			80,449
Disaster costs (net recoveries)	(10,001)			(10,001)
Other	<u>13,378</u>	<u>5,883</u>	<u>4,741</u>	<u>24,002</u>
Total operating expenses	<u>786,997</u>	<u>5,883</u>	<u>4,741</u>	<u>797,621</u>
Increase (decrease) in net assets from operating activities	(4,151)	13,575	5,928	15,352
NON-OPERATING ACTIVITIES				
Net realized and unrealized losses	(6,300)	(25,364)		(31,664)
Net unrealized losses on interest rate swaps	(6,455)	-		(6,455)
Accumulated gains used for spending	(3,124)	(33,988)		(37,112)
Transfers between net asset groups	<u>(2,696)</u>	<u>(1,313)</u>	<u>4,009</u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	(22,726)	(47,090)	9,937	(59,879)
BEGINNING NET ASSETS	<u>232,232</u>	<u>528,348</u>	<u>510,792</u>	<u>1,271,372</u>
ENDING NET ASSETS	<u>\$ 209,506</u>	<u>\$ 481,258</u>	<u>\$ 520,729</u>	<u>\$ 1,211,493</u>

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	<u>(136,321)</u>			<u>(136,321)</u>
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	<u>41,020</u>	<u>(46,020)</u>	<u>5,000</u>	<u>-</u>
Total operating revenues	<u>755,557</u>	<u>(210)</u>	<u>23,448</u>	<u>778,795</u>
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	<u>755,250</u>	<u>4,690</u>	<u>4,878</u>	<u>764,818</u>
Increase (decrease) in net assets from operating activities	307	(4,900)	18,570	13,977
NON-OPERATING ACTIVITIES				
Net realized and unrealized gains (losses)	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	<u>(3,581)</u>	<u>(418)</u>	<u>3,999</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	(2,920)	106,705	22,569	126,354
BEGINNING NET ASSETS	<u>235,152</u>	<u>421,643</u>	<u>488,223</u>	<u>1,145,018</u>
ENDING NET ASSETS	<u>\$ 232,232</u>	<u>\$ 528,348</u>	<u>\$ 510,792</u>	<u>\$ 1,271,372</u>

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

TULANE UNIVERSITY
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2012 AND 2011 (IN THOUSANDS)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (59,879)	\$ 126,354
Adjustments to reconcile increase (decrease) in net assets to net cash (used for) operating activities:		
Depreciation and amortization	50,152	46,589
Asset retirements	181	915
Net realized and unrealized investment losses (gains)	31,664	(151,167)
Net decrease in fair value of interest rate swap agreements	6,455	1,255
Contributions restricted for permanent investment	(5,928)	(7,874)
Contributions of property	(317)	(1,380)
Grant receipts used for capital purposes	(3,083)	(9,773)
Insurance and FEMA recoveries received	(11,243)	(5,705)
Changes in operating assets and liabilities:		
Decrease in accounts and other receivables	2,738	7,798
Increase (decrease) in contributions receivable	(8,669)	3,407
Decrease (increase) in prepaid expenses and other assets	409	(191)
Decrease in accounts payable and accrued liabilities	(9,880)	(6,343)
Increase (decrease) in deferred revenue and refundable deposits	4,510	(9,117)
Net cash used for operating activities	(2,890)	(5,232)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(310,663)	(391,712)
Proceeds from the sale of investments	342,415	424,025
Purchase of property, plant and equipment, net	(72,056)	(93,485)
(Increase) in deposits in trust	(3,474)	(1,534)
Student loans issued	(5,058)	(5,857)
Proceeds from collections of student loans	6,038	5,737
Grant receipts used for capital purposes	3,083	9,773
FEMA recoveries net of advances received and released	11,243	5,705
Net cash used for investing activities	(28,472)	(47,348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for permanent investment	5,928	7,874
Proceeds from issuance of bonded debt	24,785	34,363
Repayment of bonded debt	(16,815)	(70)
Proceeds from issuance of notes payable and lines of credit	114,400	93,207
Repayment of notes payable and lines of credit	(101,468)	(84,164)
Increase in federal student loan funds	667	733
Annuities paid	(886)	(974)
Net cash provided by financing activities	26,611	50,969
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,751)	(1,611)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	15,738	17,349
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,987	\$ 15,738
SUPPLEMENTAL DISCLOSURES:		
Interest paid	\$ 18,450	\$ 17,355

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

TULANE UNIVERSITY

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

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 have been consolidated to include the accounts of Tulane University, Tulane Murphy Foundation, Inc., Tulane International, L.L.C., 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 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 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 health care 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):

	<u>2012</u>	<u>2011</u>
Depreciation	\$ 50,152	\$ 46,589
Retirement of plant assets	\$ 181	\$ 915
Plant operations and maintenance	\$ 53,350	\$ 49,898
Interest expense on indebtedness	\$ 18,406	\$ 17,656

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.

I N V E S T M E N T S

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.

E N D O W M E N T S P E N D I N G P O L I C Y

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, 2012 and 2011 was 5.0%. Accumulated investment gains are used to fund the difference between payout and current earnings.

A N N U I T Y A N D L I F E I N C O M E A G R E E M E N T S

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.

O T H E R F I N A N C I A L I N S T R U M E N T S

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, 20 to 50 years, improvements, 10 to 20 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.

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.

DEFERRED FINANCING COSTS

In connection with the issuance of the various bonds and notes payable (see Notes 10 and 11), financing costs approximating \$10.6 million have been capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximated \$1.6 million and \$1.2 million at June 30, 2012 and 2011, respectively. Deferred financing costs are included in the caption prepaid expenses and other assets on the statements of financial position.

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

Effective July 1, 2011, the university adopted ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The adoption of ASU 2010-24 did not have a material impact on the 2012 and 2011 financial statements.

In April 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The guidance provided in this ASU is effective for fiscal years beginning after December 15, 2011. The university has not determined the impact, if any, on the financial statements from the adoption of this ASU.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations. Because of the tentative and preliminary nature of such proposed standards, the university has not yet determined the effect, if any, that the implementation of such proposed standards would have on the financial statements.

2 DEPOSITS IN TRUST

Deposits in trust at June 30, 2012 and 2011 consist of investments at fair value of \$17,495 and \$14,021 (in thousands), respectively, set aside primarily for medical malpractice self insurance.

3 ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consist of the following at June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Student receivables, net of allowance for doubtful accounts of \$9,497 and \$9,375	\$ 5,693	\$ 5,137
U.S. Government, state and other contract receivables, net of allowances for doubtful accounts of \$455 and \$592	42,891	49,599
Patient and related receivables, net of allowances for discounts and doubtful accounts of \$8,944 and \$9,905	11,833	9,092
Other receivables	<u>4,631</u>	<u>3,958</u>
Total	<u>\$ 65,048</u>	<u>\$ 67,786</u>

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, 2012 and 2011 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 17,545	\$ 33,815
Between one year and five years	43,641	44,418
More than five years	<u>24,022</u>	<u>14,948</u>
	85,208	93,181
Less: discounts of \$11,217 and \$9,037 and allowances for uncollectible pledges of \$10,693 and \$29,515	<u>(21,910)</u>	<u>(38,552)</u>
Total	<u>\$ 63,298</u>	<u>\$ 54,629</u>

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, 2012 and 2011 are adequate to absorb any uncollectible pledges as of those dates.

Contributions receivable at June 30, 2012 and 2011 have restrictions applicable to the following (in thousands):

	<u>2012</u>	<u>2011</u>
Endowments for departmental programs and activities	\$ 20,107	\$ 14,723
Departmental programs and activities	14,078	15,064
Capital purposes	<u>29,113</u>	<u>24,842</u>
Total	<u>\$ 63,298</u>	<u>\$ 54,629</u>

5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Perkins student loan program	\$ 40,676	\$ 41,606
Primary care loan program	2,011	2,083
Other loan programs	<u>1,013</u>	<u>991</u>
	43,700	44,680
Less: allowance for doubtful accounts	<u>(2,475)</u>	<u>(2,475)</u>
Total	<u>\$ 41,225</u>	<u>\$ 42,205</u>

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, 2012 and 2011, student loans represented 2.1% and 2.2% 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 \$40,791 and \$40,124 at June 30, 2012 and 2011, 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, 2012 and 2011 the following amounts were past due under student loan programs (in 000s):

<u>June 30,</u>	<u>1-60 days past</u>	<u>60-90 days past</u>	<u>>90 days past</u>	<u>Total Past due</u>
2012	\$1,956	\$463	\$3,510	\$5,929
2011	\$1,675	\$702	\$3,000	\$5,377

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, 2012 and 2011 are adequate to absorb any uncollectible loans as of those dates.

6 INVESTMENTS AND ASC 820-10, FAIR VALUE MEASUREMENTS AND DISCLOSURES

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 consisted of the following at June 30, 2012 (in thousands):

Investment Type	Tier 1	Tier 2	Tier 3	Total
	(Quoted prices in active markets)	(Significant Observable inputs)	(Significant Unobservable inputs)	
Short term money funds	\$ 4,431	\$ 6,427	–	\$ 10,858
Domestic equities	173,372	87,388	\$ 10,021	270,781
International and global equities	16,405	107,009	8,620	132,034
Absolute return and long short funds	–	123,774	121,624	245,398
Private Equity and Real Assets (Limited Partnerships)	–	–	142,402	142,402
Government bonds and notes	13,220	12,436	–	25,656
Corporate bonds and notes	50,232	36,615	–	86,847
Total investments at fair value by tier	\$ 257,660	\$ 373,649	\$ 282,667	\$ 913,976
University Healthcare System on the equity basis	–	–	–	8,565
Real Estate and royalty interests at original cost or appraised value	–	–	–	36,921
Investment receivables and other at cost or appraised value	–	–	–	9,660
Total investments valued at other than fair value				55,146
Total investments				\$ 969,122
Deposits in trust				
Short term money funds	\$ 5,685	\$ 221	–	\$ 5,906
Domestic equities	741	–	–	741
Corporate bonds	–	5,028	–	5,028
Government bonds, notes	–	5,820	–	5,820
Total deposits in trust at fair value by tier	\$ 6,426	\$ 11,069	–	\$ 17,495

Investments consisted 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	<u>\$ 240,909</u>	<u>\$ 381,320</u>	<u>\$ 341,165</u>	<u>\$ 963,394</u>
University Healthcare System on the equity basis	–	–	–	13,862
Real Estate and royalty interests at original cost or appraised value	–	–	–	36,921
Other investments at cost or appraised value	–	–	–	18,225
Total investments valued at other than fair value				69,008
Total investments				<u>\$ 1,032,402</u>
Deposits in trust				
Short term money funds	\$ 472	\$ 2,184	–	\$ 2,656
Domestic equities	748	–	–	748
Corporate bonds	–	3,424	–	3,424
Government agency bonds, notes	–	7,193	–	7,193
Total deposits in trust at fair value by tier	<u>\$ 1,220</u>	<u>\$ 12,801</u>	<u>–</u>	<u>\$ 14,021</u>

Reconciliation of Tier 3 assets at June 30, 2012 and 2011 (in thousands):

2012					
	<u>Total</u>	<u>Long Short funds and Absolute Return funds</u>	<u>Private Equity and Real Assets – Limited Partnership</u>	<u>International Equities – Limited Partnerships</u>	<u>Domestic Equities</u>
Beginning Balances, July 1, 2011	\$ 341,165	\$ 179,086	\$ 119,086	\$ 28,425	\$ 14,568
Total reclassifications	(60,183)	(15,986)	–	(24,521)	(19,676)
Total gains and losses, (realized/unrealized)	(6,865)	(10,921)	9,295	(10,368)	5,129
Purchases, issuances, (capital advanced)	99,378	31,033	34,385	23,960	10,000
Redemptions (capital returned)	<u>(90,828)</u>	<u>(61,588)</u>	<u>(20,364)</u>	<u>(8,876)</u>	<u>–</u>
Ending balances, June 30, 2012	<u>\$ 282,667</u>	<u>\$ 121,624</u>	<u>\$ 142,402</u>	<u>\$ 8,620</u>	<u>\$ 10,021</u>
2011					
	<u>Total</u>	<u>Long Short funds and Absolute Return funds</u>	<u>Private Equity and Real Assets – Limited Partnership</u>	<u>International Equities – Limited Partnerships</u>	<u>Domestic Equities</u>
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 and settlements (capital advanced/returned)	<u>(1,989)</u>	<u>3,881</u>	<u>(5,590)</u>	<u>(280)</u>	<u>–</u>
Ending balances, June 30, 2011	<u>\$ 341,165</u>	<u>\$ 179,086</u>	<u>\$ 119,086</u>	<u>\$ 28,425</u>	<u>\$ 14,568</u>

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 transferred \$60,183 and \$71,281 in 2012 and 2011 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, 2012 that feature net asset value per share in tiers 2 and 3.

	<u>Fair Value (in thousands)</u>	<u>Unfunded Commitments</u>	<u>Redemption frequency if currently eligible</u>	<u>Redemption Notice Period</u>
Global and Domestic Long Only Equity (a)	\$ 148,095	–	Daily, Monthly, Quarterly	1–60 days
Equity long/short hedge funds (b)	163,335	–	Monthly, Quarterly	45–65 days
Absolute Return hedge funds (c)	111,165	–	Quarterly	65 days
Enhanced Fixed Income (d)	35,842	–	N/A	N/A
Private Equity (e)	91,431	\$ 80,970	N/A	N/A
Private Real Assets (f)	<u>50,971</u>	<u>27,504</u>	N/A	N/A
Total	<u>\$ 600,839</u>	<u>\$ 108,474</u>		

(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 89% of the value of this category were liquid as of June 30, 2012. 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 66% of the value of this category were liquid as of June 30, 2012. Generally, restriction periods range from three to twenty-four months as of June 30, 2012.

(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 70% of the value of this category were liquid as of June 30, 2012. Generally, restriction periods range from one to twenty-one months as of June 30, 2012.

(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 2% of the investments in this category were not available to be redeemed because of lockup restrictions as of June 30, 2012.

(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 38% of private equity NAV is in buyout strategies, 41% in venture capital, 20% in distressed, and 1% 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 68% of the NAV in this category is in oil and gas and natural resources partnerships. The remaining 32% is in real estate funds.

The university also makes the following disclosures about its investments at June 30, 2011 that feature net asset value per share in tiers 2 and 3.

	<u>Fair Value (in thousands)</u>	<u>Unfunded Commitments</u>	<u>Redemption frequency if currently eligible</u>	<u>Redemption Notice Period</u>
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)	<u>30,712</u>	<u>21,079</u>	N/A	N/A
Total	<u>\$ 608,755</u>	<u>\$ 68,571</u>		

(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 \$3.4 million and \$5.1 million respectively, for the years ended June 30, 2012 and 2011. In accordance with the university's endowment spending policy, \$37.1 million and \$37.5 million of accumulated gains were used to fund current operations for the years ended June 30, 2012 and 2011, respectively. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Temporarily restricted net assets at June 30, 2012 and 2011 include annuity, life income and other investments at market value of approximately \$28.6 million and \$28.7 million respectively.

Permanently restricted net assets at June 30, 2012 and 2011, include the investment assets at fair value of the Tulane Murphy Foundation (the Foundation) that amounted to \$67.5 million and \$63.8 million, 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, 2012 and 2011, income from the Foundation, which is restricted to specific purposes, amounted to approximately \$1.9 million and \$1.7 million, respectively.

Investment return, net of investment management fees of \$11.1 million and \$9.8 million for 2012 and 2011, respectively, is composed of the following for the years ended June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Operating:		
Endowment income	\$ 41,860	\$ 42,679
Investment income and gains, net	<u>2,861</u>	<u>5,803</u>
Total Operating Return	<u>44,721</u>	<u>48,482</u>
Non Operating:		
Net realized and unrealized gains (losses)	(31,664)	151,167
Accumulated gains used for spending	<u>(37,112)</u>	<u>(37,535)</u>
Total non-operating return	<u>(68,776)</u>	<u>113,632</u>
Total investment return	<u>\$ (24,055)</u>	<u>\$ 162,114</u>

7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2012 and 2011, (in thousands) benefit the following functions:

	<u>2012</u>	<u>2011</u>
Academic departments and instruction	\$ 330,405	\$ 367,410
Student financial aid and scholarship	82,643	98,781
Capital projects	50,375	42,192
Operations	<u>17,835</u>	<u>19,965</u>
Total	<u>\$ 481,258</u>	<u>\$ 528,348</u>

Permanently restricted net assets at June 30, 2012 and 2011, (in thousands) benefit the following functions:

	<u>2012</u>	<u>2011</u>
Academic departments and instruction	\$ 336,121	\$ 332,677
Student financial aid and scholarship	163,328	157,670
Operations	<u>21,280</u>	<u>20,445</u>
Total	<u>\$ 520,729</u>	<u>\$ 510,792</u>

ENDOWMENT FUNDS AND DISCLOSURES UNDER ASC 958 - 205

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, 2012 and 2011 (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	–	\$ 344,469	\$ 520,729*	\$ 865,198
Board designated endowment funds	<u>\$ 80,978</u>	<u>–</u>	<u>–</u>	<u>80,978</u>
Total endowment funds	<u><u>\$ 80,978</u></u>	<u><u>\$ 344,469</u></u>	<u><u>\$ 520,729</u></u>	<u><u>\$ 946,176</u></u>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	–	\$ 403,544	\$ 510,792*	\$ 914,336
Board designated endowment funds	<u>\$ 90,402</u>	<u>–</u>	<u>–</u>	<u>\$ 90,402</u>
Total endowment funds	<u><u>\$ 90,402</u></u>	<u><u>\$ 403,544</u></u>	<u><u>\$ 510,792</u></u>	<u><u>\$ 1,004,738</u></u>

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

Changes in endowment funds net assets for the year ended June 30, 2012 and 2011
(in thousands):

	2012			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 90,402	\$ 403,544	\$ 510,792	\$ 1,004,738
Investment Return				
Net appreciation (realized and unrealized)	<u>(6,300)</u>	<u>(25,087)</u>	<u>—</u>	<u>(31,387)</u>
Total investment return	<u>(6,300)</u>	<u>(25,087)</u>	<u>—</u>	<u>(31,387)</u>
New gifts			10,669	10,669
Endowment assets used for expenditure	(3,124)	(33,988)	—	(37,112)
Other	<u>—</u>	<u>—</u>	<u>(732)</u>	<u>(732)</u>
Total non investment changes	<u>(3,124)</u>	<u>(33,988)</u>	<u>9,937</u>	<u>(27,175)</u>
Net assets, end of year	<u>\$ 80,978</u>	<u>\$ 344,469</u>	<u>\$ 520,729</u>	<u>\$ 946,176</u>
	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 88,549	\$ 296,276	\$ 488,223	\$ 873,048
Investment Return				
Net appreciation (realized and unrealized)	<u>4,835</u>	<u>141,577</u>	<u>—</u>	<u>146,412</u>
Total investment return	<u>4,835</u>	<u>141,577</u>	<u>—</u>	<u>146,412</u>
New gifts			23,448	23,448
Endowment assets used for expenditure	(3,226)	(34,309)	—	(37,535)
Other	<u>244</u>	<u>—</u>	<u>(879)</u>	<u>(635)</u>
Total non investment changes	<u>(2,982)</u>	<u>(34,309)</u>	<u>22,569</u>	<u>(14,722)</u>
Net assets, end of year	<u>\$ 90,402</u>	<u>\$ 403,544</u>	<u>\$ 510,792</u>	<u>\$ 1,004,738</u>

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, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Pooled funds	\$ 667,460*	\$ 690,717*
LEQSF pooled funds	144,828	146,385
Separately invested funds	105,276**	133,330**
Contributions receivable	20,107	14,723
Investment income receivables and other	<u>8,505</u>	<u>19,583</u>
Total endowment related net assets	<u>\$ 946,176</u>	<u>\$1,004,738</u>

*This category includes \$32.4 million in university owned real estate that returned approximately \$1.3 million and \$0.6 million in net rents and royalties for the years ended June 30, 2012 and 2011.

**This category includes an investment of approximately \$9.0 million and \$14.0 million in University Healthcare System, L.L.C. and investments of approximately \$46.1 million and \$66.0 million in Murphy Oil Corporation common stock at June 30, 2012 and 2011.

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 167 and 205 individual endowment funds and totaled approximately \$6.4 million and \$4.7 million at June 30, 2012 and 2011. Management is monitoring these deficiencies and either discontinued or curtailed payouts on these funds in fiscal 2011 and 2012.

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, 2012 and 2011 the university used approximately \$33.6 million and \$32.1 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 2012, the BOR suspended application of the CPI feature of its payout formula, thus allowing payouts in fiscal 2012 when fund value is higher than original fund corpus. In the years ended June 30, 2012 and 2011, the university used approximately \$6.0 million and \$5.4 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, 2012 and 2011, such items totaled \$2.0 million and \$2.2 million, respectively.

ENDOWMENT ASSETS USED FOR SPENDING

The university made \$37.1 million and \$37.5 million of endowment assets available for spending in the years ended June 30, 2012 and 2011, respectively.

9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Land	\$ 22,369	\$ 22,369
Buildings and improvements	861,480	784,532
Equipment	185,078	180,029
Library books and materials	150,879	141,772
Construction in progress	<u>31,219</u>	<u>55,163</u>
Gross property, plant and equipment	1,251,025	1,183,865
Less: accumulated depreciation	<u>(514,953)</u>	<u>(472,468)</u>
Property, plant and equipment, net	<u>\$ 736,072</u>	<u>\$ 711,397</u>

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 \$0.3 million and \$1.3 million, respectively, for the years ended June 30, 2012 and 2011.

At June 30, 2012 the university's construction in progress included amounts for a network and technology upgrade and an uptown research facility. Purchases of property, plant and equipment included in accounts payable as of June 30, 2012 total \$2.8 million.

10 NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2012 and 2011, consist of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Amounts drawn under short term credit lines, as described below	\$ 33,650	\$ 19,751
One unsecured note for \$1.5 million due in installments through 2036 with interest fixed at 4%.	1,385	1,422
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, 2012 and 2011).	17,125	17,625
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 (1.24% and 1.07% at June 30, 2012 and 2011).	<u>18,994</u>	<u>19,424</u>
Total notes payable	<u>\$ 71,154</u>	<u>\$ 58,222</u>

The university had \$140 million in lines of credit with four banks to meet short term seasonal cash requirements at June 30, 2012 and 2011. The lines expire as follows: \$40 million on May 23, 2013, \$20 million on March 27, 2013, \$50 million on December 31, 2013 and \$30 million on April 4, 2013. Principal is payable upon demand. At June 30, 2012 and 2011, there was \$33.650 million and \$19.751 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, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%.	\$ 915	\$ 985
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, 2012 is 1.01%.	45,685	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, 2012 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, 2012 was 0.76%.	103,135	103,135

(continued)

	<u>2012</u>	<u>2011</u>
<p>Tax Exempt Louisiana Public Facilities Authority Variable Rate 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 10 years and every 5 years thereafter. Interest is priced at 67% of the sum of one-month LIBOR plus 3.50%. At June 30, 2012 this rate was 2.51%.</p>	\$ 30,000	\$ 16,534
<p>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 2012 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 10 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, 2012 this rate was 1.94%.</p>	29,750	30,000
<p>Tax exempt Louisiana Public Facilities Authority Variable Rate Revenue Bonds, Series 2012 was delivered on May 24, 2012 and matures on May 24, 2019. The face value of the issue is \$11,325 with draws being made to fund technology improvements and equipment. Principal is scheduled in bi-annual installments beginning in 2013 at \$500, with a final repayment amount of \$5,825 due May 24, 2019. At June 30, 2012 this rate was 2.15%.</p>	<u>11,325</u>	<u>—</u>
Total bonds payable principal outstanding	446,860	439,884
Bond underwriters premium	<u>7,983</u>	<u>8,311</u>
Bonds payable	<u>\$ 454,843</u>	<u>\$ 447,195</u>

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 have been fully drawn to match construction requirements that are expected to conclude by December 31, 2012. In each case the bond purchaser is a large commercial bank.

During 2012 the university purchased par \$16.495 million of Series A-2 bonds. The trustee was instructed to retire these bonds. A realized gain of \$1.922 million is included in other revenues on the statement of activities.

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 million in previously issued taxable bonds. The 2007B Series proceeds were used to escrow \$31.820 million 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, 2012 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 4,175
2014	11,805
2015	12,515
2016	13,040
2017	13,625
2018 and thereafter	<u>391,700</u>
Total	<u>\$ 446,860</u>

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, 2012 and 2011. 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, 2012 and 2011. 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 — Loans 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 \$914 million and \$963 million at June 30, 2012 and 2011. Market values are used when available. Other investments totaling approximately \$55 million and \$69 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 \$438 million and \$424 million at June 30, 2012 and 2011, 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, 2012 and 2011, contributions to the plans were approximately \$19 million and \$18 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 of \$11,809,000 and \$11,837,000 and associated liabilities of \$9,869,000 and \$9,805,000 at June 30, 2012 and 2011, respectively, 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.

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 — LESSEE

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 \$4.213 million and \$3.985 million, respectively, for the years ended June 30, 2012 and 2011. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2012, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 4,033
2014	3,572
2015	3,649
2016	3,370
2017	3,096
2018 and thereafter	<u>264</u>
Total	<u>\$ 17,984</u>

OPERATING LEASES — LESSOR

The university leases office and other rental space to other businesses. Lease terms range from one to 99 years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2012 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 2,406
2014	2,131
2015	1,476
2016	1,492
2017	1,407
2018 and thereafter	<u>80,638</u>
Total	<u>\$ 89,550</u>

The 99 year land lease dated March 1995 relates to the hospital/clinic as described in note 16.

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 \$3.4 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 \$3.4 million and \$2.7 million during the years ended June 30, 2012 and 2011, respectively, under this agreement and such amounts are included in the plant operations and maintenance cost total.

INTEREST RATE COLLARS AND SWAPS (IN THOUSANDS)

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, and terminated on February 15, 2011.

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. 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, 2012 and 2011 were \$10,384 and \$5,584 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, 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, 2012 and 2011 were \$4,677 and \$2,875, 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 and \$18,750 at 2.34% and 2.18% until June 22, 2013 and December 21, 2014 respectively. The combined fair values of these arrangements were \$919 and \$1,066 due the counterparty at June 30, 2012 and 2011.

The combined values of these agreements at June 30, 2012 and 2011 were included as approximately \$15,980 and \$9,525 in the caption accounts payable and accrued liabilities on the Statement of Financial Position. In 2012, the effect on the statement of activities is recorded in

the non-operating section as \$6,455 in net unrealized losses on interest rate swaps. The fair value of the interest rate swap is based on the present value of the fixed and floating portions of the agreements and therefore is considered a tier 3 input (See Note 6).

A roll forward of the fair value measurements for the university's financial liability measured at estimated fair value on a recurring basis using significant unobservable (Level 3) inputs for year ended June 30, 2012 and 2011 is as follows (in thousands):

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Total Realized/Unrealized Gains (Losses) included in:					
Balance, July 1, 2011	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, June 30, 2012
\$ (9,525)	\$ —	\$ (6,455)	\$ —	\$ —	\$ (15,980)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Total Realized/Unrealized Gains (Losses) included in:					
Balance, July 1, 2010	Realized (Losses) Gains	Unrealized (Losses) Gains	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, June 30, 2011
\$ (8,270)	\$ —	\$ (1,255)	\$ —	\$ —	\$ (9,525)

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 year ended June 30, 2012 and 2011, the university recorded revenue and cost recoveries of approximately \$44.9 million and \$44.1 million, and as of June 30, 2012 and 2011, recorded approximately \$2.6 million and \$2.3 million as receivable from UHS, related to these agreements.

Summarized audited financial information about the financial position of the unconsolidated joint venture entity as of December 31, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Current assets	\$ 64,503	\$ 71,744
Property plant and equipment, net	93,048	96,259
Other assets	<u>116</u>	<u>124</u>
Total assets	<u>\$ 157,667</u>	<u>\$ 168,127</u>
Current liabilities	\$ 95,651	\$ 79,783
Long term debt	<u>6,847</u>	<u>7,336</u>
Total liabilities	102,498	87,119
Partners' equity	<u>55,169</u>	<u>81,008</u>
Total liabilities and partners' equity	<u>\$ 157,667</u>	<u>\$ 168,127</u>

Summarized financial results for the years ended December 31, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Net revenues	\$ 407,019	\$ 431,262
Operating expenses	409,756	383,072
Depreciation and amortization	15,980	16,864
Goodwill Writeoff	-	37,955
Other	<u>7,543</u>	<u>8,857</u>
Net loss	<u>\$ (26,260)</u>	<u>\$ (15,486)</u>

The university's share of partners' equity at June 30, 2012 and 2011 was approximately \$9 million and \$14 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, 2012 and 2011 are summarized as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Restoration of buildings and grounds	\$ 237,371	\$ 232,897
Equipment replacements	12,986	12,986
Other incremental disaster-related operating costs	<u>80,102</u>	<u>78,361</u>
Direct gross incremental out-of-pocket disaster costs	330,459	324,244
Net book value of fixed improvements and equipment destroyed	28,074*	28,074*
Less: construction and replacement equipment capitalized	(117,430)	(112,458)
National Flood Insurance Program, FEMA, and other insurance recoveries	<u>(171,876)</u>	<u>(160,632)</u>
Disaster costs, net of recoveries	<u>69,227**</u>	<u>79,228**</u>
Net amount expensed in fiscal 2007–2010	\$ 84,757	\$ 84,757
Net amount recovered in fiscal 2011	(5,529)	(5,529)
Net amount recovered in fiscal 2012	<u>(10,001)</u>	<u>–</u>
Total disaster costs	<u>\$ 69,227</u>	<u>\$ 79,228</u>

*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, 2012, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cumulative FEMA cash received	\$ 105,782	\$ 95,708**
Receivable from FEMA	234	70
Total FEMA cash received and receivable	<u>\$ 106,016</u>	<u>\$ 95,778</u>
Cumulative FEMA advances recognized as recoveries	\$ 93,694	\$ 85,140*
FEMA advances recorded as deferred revenue	12,322	10,638***
Total cost recoveries and deferred revenue	<u>\$ 106,016</u>	<u>\$ 95,778</u>

*Of this amount, \$11.2 million and \$5.7 million were recognized in disaster cost recoveries in the years ended June 30, 2012 and 2011, respectively.

**Of this amount, \$10.0 million and \$7.0 million were received in the years ended June 30, 2012 and 2011, 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 9, 2012 for the years ended June 30, 2012 and 2011, respectively.