

2012-2013  
TULANE UNIVERSITY  
FINANCIAL STATEMENTS



# TULANE UNIVERSITY

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FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

## CONTENTS

INDEPENDENT AUDITORS' REPORT .....	3
FINANCIAL STATEMENTS	
Statements of Financial Position .....	4
Statements of Activities .....	5-6
Statements of Cash Flows .....	7
Notes .....	8

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 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 13,486 students.

About the cover: Yulman Stadium will bring Green Wave football back to the uptown campus. The \$70 million project is under construction along Ben Weiner Drive, between the Reily Student Recreation Center and the Wilson Athletic Center. With a capacity of 30,000, it is scheduled to open for the 2014 football season.





# INDEPENDENT AUDITORS' REPORT

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## THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements (the "financial statements") of Tulane University (the "university"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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 from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tulane University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

New Orleans, Louisiana  
November 7, 2013

TULANE UNIVERSITY  
 STATEMENTS OF FINANCIAL POSITION  
 JUNE 30, 2013 AND 2012 (IN THOUSANDS)

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	<u>2013</u>	<u>2012</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 34,360	\$ 10,987
Deposits in trust	119,907	17,495
Accounts and other receivables, net	71,712	65,048
Contributions receivable, net	56,813	63,298
Loans receivable, net	41,034	41,225
Investments	1,056,039	969,122
Prepaid expenses and other assets	20,287	21,536
Property, plant and equipment, net	<u>780,851</u>	<u>736,072</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 2,181,003</u></u>	<u><u>\$ 1,924,783</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 108,141	\$ 101,187
Deferred revenue and refundable deposits	59,671	45,315
Notes payable and lines of credit	92,391	71,154
Bonds payable	598,150	454,843
Federal student loan funds	<u>41,410</u>	<u>40,791</u>
<b>Total liabilities</b>	<u>899,763</u>	<u>713,290</u>
<b>Net Assets:</b>		
Unrestricted	120,392	128,528
Unrestricted, funds functioning as endowment	<u>83,803</u>	<u>80,978</u>
Total unrestricted	204,195	209,506
Temporarily restricted	541,591	481,258
Permanently restricted	<u>535,454</u>	<u>520,729</u>
<b>Total net assets</b>	<u>1,281,240</u>	<u>1,211,493</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 2,181,003</u></u>	<u><u>\$ 1,924,783</u></u>

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

TULANE UNIVERSITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2013 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 450,246	\$ -	\$ -	\$ 450,246
Less: Institutional scholarships and fellowships	<u>(145,066)</u>			<u>(145,066)</u>
Tuition and fees, net	305,180			305,180
Government grants and contracts	141,894			141,894
Private gifts and grants	45,033	\$ 13,967	\$ 13,740	72,740
Medical group practice	80,330			80,330
Affiliated hospital agreements/contracts	37,485			37,485
Endowment income	8,685	31,811		40,496
Investment income and gains, net	4,412	982		5,394
Recovery of indirect costs	31,883			31,883
Auxiliary enterprises	69,456			69,456
Other	31,518			31,518
Net assets released from restrictions	<u>52,425</u>	<u>(52,425)</u>		<u>-</u>
<b>Total operating revenues</b>	<u>808,301</u>	<u>(5,665)</u>	<u>13,740</u>	<u>816,376</u>
<b>OPERATING EXPENSES</b>				
Instruction and academic support	270,862			270,862
Affiliated hospital agreements/contracts	30,393			30,393
Organized research	143,754			143,754
Public service	10,905			10,905
Libraries	25,420			25,420
Student services	26,981			26,981
Institutional support	91,700			91,700
Scholarships and fellowships	11,916			11,916
Auxiliary enterprises	103,413			103,413
Medical group practice	84,496			84,496
Other	9,520	3,858	943	14,321
<b>Total operating expenses</b>	<u>809,360</u>	<u>3,858</u>	<u>943</u>	<u>814,161</u>
<b>Increase (decrease) in net assets from operating activities</b>	(1,059)	(9,523)	12,797	2,215
<b>NON-OPERATING ACTIVITIES</b>				
Net realized and unrealized gains	1,297	100,543		101,840
Net unrealized gains on interest rate swaps	4,575			4,575
Loss on early extinguishment of debt	(5,911)			(5,911)
Accumulated gains used for spending	(2,684)	(30,288)		(32,972)
Transfers between net asset groups	<u>(1,529)</u>	<u>(399)</u>	<u>1,928</u>	<u>-</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(5,311)	60,333	14,725	69,747
<b>BEGINNING NET ASSETS</b>	<u>209,506</u>	<u>481,258</u>	<u>520,729</u>	<u>1,211,493</u>
<b>ENDING NET ASSETS</b>	<u>\$ 204,195</u>	<u>\$ 541,591</u>	<u>\$ 535,454</u>	<u>\$1,281,240</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
<b>OPERATING REVENUES</b>				
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>
<b>Total operating revenues</b>	<u>782,846</u>	<u>19,458</u>	<u>10,669</u>	<u>812,973</u>
<b>OPERATING EXPENSES</b>				
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>
<b>Total operating expenses</b>	<u>786,997</u>	<u>5,883</u>	<u>4,741</u>	<u>797,621</u>
<b>Increase (decrease) in net assets from operating activities</b>	(4,151)	13,575	5,928	15,352
<b>NON-OPERATING ACTIVITIES</b>				
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>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	(22,726)	(47,090)	9,937	(59,879)
<b>BEGINNING NET ASSETS</b>	<u>232,232</u>	<u>528,348</u>	<u>510,792</u>	<u>1,271,372</u>
<b>ENDING NET ASSETS</b>	<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  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2013 AND 2012 (IN THOUSANDS)

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ 69,747	\$ (59,879)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) for operating activities:		
Loss on early extinguishment of debt	5,911	
Depreciation and amortization	52,177	50,152
Asset retirements	1,090	181
Net realized and unrealized investment (gains) losses	(101,840)	31,664
Net increase (decrease) in fair value of interest rate swap agreements	(4,575)	6,455
Contributions restricted for permanent investment	(14,725)	(5,928)
Contributions of property	(2,443)	(317)
Grant receipts used for capital purposes	(10,793)	(3,083)
Donations received for capital purposes	(8,107)	
Insurance and FEMA recoveries received	(2,149)	(11,243)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts and other receivables	(6,664)	2,738
Decrease (increase) in contributions receivable	3,536	(8,669)
Decrease in prepaid expenses and other assets	2,154	409
Increase (decrease) in accounts payable and accrued liabilities	10,696	(9,880)
Increase in deferred revenue and refundable deposits	14,356	4,510
<b>Net cash provided (used) for operating activities</b>	<b>8,371</b>	<b>(2,890)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(274,871)	(310,663)
Proceeds from the sale of investments	289,794	342,415
Purchase of property, plant and equipment, net	(93,473)	(72,056)
(Increase) in deposits in trust	(102,412)	(3,474)
Student loans issued	(6,031)	(5,058)
Proceeds from collections of student loans	6,222	6,038
Grant receipts used for capital purposes	10,793	3,083
Donations received for capital purposes	8,107	
FEMA recoveries net of advances received and released	2,149	11,243
<b>Net cash used for investing activities</b>	<b>(159,722)</b>	<b>(28,472)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for permanent investment	17,674	5,928
Payments of bond issue costs	(2,240)	
Proceeds from issuance of bonded debt	200,235	24,785
Repayment of bonded debt	(61,505)	(16,815)
Proceeds from issuance of notes payable and lines of credit	162,125	114,400
Repayment of notes payable and lines of credit	(140,888)	(101,468)
Increase in federal student loan funds	619	667
Annuities paid	(1,296)	(886)
<b>Net cash provided by financing activities</b>	<b>174,724</b>	<b>26,611</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	23,373	(4,751)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	10,987	15,738
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 34,360</b>	<b>\$ 10,987</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	\$ 18,996	\$ 18,450

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



# TULANE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2013 AND 2012

#### 1

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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 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):

	<u>2013</u>	<u>2012</u>
Depreciation	\$ 52,177	\$ 50,152
Retirement of plant assets	\$ 2,021	\$ 181
Plant operations and maintenance	\$ 55,456	\$ 53,350
Interest expense on indebtedness	\$ 19,837	\$ 18,406

## 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 12 quarters multiplied by a specified percentage. The percentage for the pooled endowment for the fiscal years ended June 30, 2013 and 2012 was 5%. 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, 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. No impairment charges were recorded for the years ended June 30, 2013 and 2012.

#### DEFERRED FINANCING COSTS

In connection with the issuance of the various bonds and notes payable (see Notes 10 and 11), financing costs approximating \$12.2 million have been capitalized and are being amortized over the respective lives of the bonds. Accumulated amortization of these deferred financing costs approximated \$2.3 and \$1.6 million at June 30, 2013 and 2012, 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

On December 16, 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities*, which contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards (IFRS). Generally, it is more difficult to qualify for offsetting under IFRSs than it is under U.S. GAAP because under U.S. GAAP certain derivative and repurchase agreement arrangements are granted exceptions from the general offsetting model. As a result, entities with significant financial instrument and derivative portfolios that report under IFRSs typically present positions on their balance sheets that are significantly larger than those of entities with similarly sized portfolios whose financial statements are prepared in accordance with U.S. GAAP. To facilitate comparison between financial statements prepared under U.S. GAAP and IFRSs, the new disclosures will give financial statement users information about both gross and net exposures. The new disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein; retrospective application is required. The university did not elect to early adopt and is currently evaluating the impact that will result from adopting ASU 2011-11 to its financial statements.

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

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Deposits in trust at June 30, 2013 and 2012 consist of investments at fair value of \$119,907 and \$17,495 (in thousands), respectively, set aside primarily for bond funded construction costs and medical malpractice self insurance.

### 3 ACCOUNTS AND OTHER RECEIVABLES

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Accounts receivable consist of the following at June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Student receivables, net of allowance for doubtful accounts of \$8,622 and \$9,497	\$ 5,945	\$ 5,693
U.S. Government, state and other contract receivables, net of allowances for doubtful accounts of \$455 and \$455	47,375	42,891
Patient and related receivables, net of allowances for discounts and doubtful accounts of \$10,238 and \$8,944	12,398	11,833
Other receivables	<u>5,994</u>	<u>4,631</u>
Total	<u>\$ 71,712</u>	<u>\$ 65,048</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, 2013 and 2012 are adequate to absorb credit losses inherent in the portfolio as of those dates.

## 4 CONTRIBUTIONS RECEIVABLE

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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 at June 30, 2013 and 2012.

Management expects unconditional promises to be realized in the following periods (in thousands) at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
In one year or less	\$ 17,029	\$ 17,545
Between one year and five years	39,803	43,641
More than five years	<u>20,550</u>	<u>24,022</u>
	77,382	85,208
Less: discounts of \$9,867 and \$11,217 and allowances for uncollectible pledges of \$10,702 and \$10,693	<u>(20,569)</u>	<u>(21,910)</u>
Total	<u>\$ 56,813</u>	<u>\$ 63,298</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, 2013 and 2012 are adequate to absorb any uncollectible pledges as of those dates.

Contributions receivable at June 30, 2013 and 2012 have restrictions applicable to the following (in thousands):

	<u>2013</u>	<u>2012</u>
Endowments for departmental programs and activities	\$ 17,158	\$ 20,107
Departmental programs and activities	12,491	14,078
Capital purposes	<u>27,164</u>	<u>29,113</u>
Total	<u>\$ 56,813</u>	<u>\$ 63,298</u>

## 5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Perkins student loan program	\$ 40,776	\$ 40,676
Primary care loan program	2,030	2,011
Other loan programs	<u>703</u>	<u>1,013</u>
	43,509	43,700
Less: allowance for doubtful accounts	<u>(2,475)</u>	<u>(2,475)</u>
Total	<u>\$ 41,034</u>	<u>\$ 41,225</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, 2013 and 2012, student loans represented 1.9% and 2.1% 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 \$41,410 and \$40,791 at June 30, 2013 and 2012, 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, 2013 and 2012 the following amounts were past due under student loan programs (in 000s).

<u>June 30,</u>	<u>1-60 days past</u>	<u>61-90 days past</u>	<u>&gt;90 days past</u>	<u>Total Past due</u>
2013	\$1,627	\$353	\$4,011	\$5,991
2012	\$1,956	\$463	\$3,510	\$5,929

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, 2013 and 2012 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, 2013 (in thousands):

<b>Investment Type</b>	<b>Tier 1</b> (Quoted prices in active markets)	<b>Tier 2</b> (Significant Observable inputs)	<b>Tier 3</b> (Significant Unobservable inputs)	<b>Total</b>
Short term money funds	\$ 17,131	\$ 5,868	\$ –	\$ 22,999
Domestic equities	146,360	126,084	15,731	288,175
International and global equities	16,600	132,858	28,715	178,173
Absolute return and long short funds	–	160,679	84,314	244,993
Private Equity and Real Assets (Limited Partnerships)	–	–	174,429	174,429
Government bonds and notes	11,129	10,758	–	21,887
Corporate bonds and notes	50,163	34,164	–	84,327
<b>Total investments at fair value by tier</b>	<b>\$ 241,383</b>	<b>\$ 470,411</b>	<b>\$ 303,189</b>	<b>\$ 1,014,983</b>
University Healthcare System on the equity basis	–	–	–	2,216
Real Estate and royalty interests at original cost or appraised value	–	–	–	36,767
Investment receivables and other at cost or appraised value	–	–	–	2,073
Total investments valued at other than fair value				41,056
<b>Total investments</b>				<b>\$ 1,056,039</b>
<b>Deposits in trust</b>				
Short term money funds	\$ 17,083	\$ –	\$ –	\$ 17,083
Domestic equities	648	–	–	648
Corporate bonds	–	6,855	–	6,855
Government bonds, notes	–	95,321	–	95,321
<b>Total deposits in trust at fair value by tier</b>	<b>\$ 17,731</b>	<b>\$ 102,176</b>	<b>\$ –</b>	<b>\$ 119,907</b>

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

<b>Investment Type</b>	<b>Tier 1</b> (Quoted prices in active markets)	<b>Tier 2</b> (Significant Observable inputs)	<b>Tier 3</b> (Significant Unobservable inputs)	<b>Total</b>
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	<u>50,232</u>	<u>36,615</u>	<u>–</u>	<u>86,847</u>
<b>Total investments at fair value by tier</b>	<b>\$ <u>257,660</u></b>	<b>\$ <u>373,649</u></b>	<b>\$ <u>282,667</u></b>	<b>\$ <u>913,976</u></b>
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	–	–	–	<u>9,660</u>
Total investments valued at other than fair value				<u>55,146</u>
<b>Total investments</b>				<b>\$ <u>969,122</u></b>
<b>Deposits in trust</b>				
Short term money funds	\$ 5,685	\$ 221	\$ –	\$ 5,906
Domestic equities	741	–	–	741
Corporate bonds	–	5,028	–	5,028
Government bonds, notes	<u>–</u>	<u>5,820</u>	<u>–</u>	<u>5,820</u>
<b>Total deposits in trust at fair value by tier</b>	<b>\$ <u>6,426</u></b>	<b>\$ <u>11,069</u></b>	<b>\$ <u>–</u></b>	<b>\$ <u>17,495</u></b>

Reconciliation of Tier 3 assets at June 30, 2013 and 2012 (in thousands):

<b>2013</b>					
	<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, 2012	\$ 282,667	\$ 121,624	\$ 142,402	\$ 8,620	\$ 10,021
Total reclassifications	(62,669)	(39,250)	–	(4,617)	(18,802)
Total gains and losses, (realized/unrealized)	37,846	14,375	14,168	2,292	7,011
Purchases, issuances, (capital advanced)	130,165	37,888	47,228	25,000	20,049
Redemptions, (capital returned)	<u>(84,820)</u>	<u>(50,323)</u>	<u>(29,369)</u>	<u>(2,580)</u>	<u>(2,548)</u>
Ending balances, June 30, 2013	<u>\$ 303,189</u>	<u>\$ 84,314</u>	<u>\$ 174,429</u>	<u>\$ 28,715</u>	<u>\$ 15,731</u>
<b>2012</b>					
	<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>

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 \$62,669 and \$60,183 in 2013 and 2012 respectively, from tier 3 to tier 2 based on the liquidity provisions in the underlying investments. There were no transfers of investments to or from tier 1 and tier 2. In complying with the update, the university makes the following disclosures about its investments at June 30, 2013 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)	\$ 233,575	–	Daily, Monthly, Quarterly	1–60 days
Equity long/short hedge funds (b)	148,905	–	Monthly, Quarterly	45–65 days
Absolute Return hedge funds (c)	141,429	–	Quarterly	65 days
Enhanced Fixed Income (d)	24,473	–	N/A	N/A
Private Equity (e)	105,708	\$ 104,519	N/A	N/A
Private Real Assets (f)	<u>68,721</u>	<u>44,905</u>	N/A	N/A
Total	<u>\$ 722,811</u>	<u>\$ 149,424</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 normally short or employ leverage. Investments representing approximately 81% of the value of this category were liquid as of June 30, 2013. 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 96% of the value of this category were liquid as of June 30, 2013. Generally, restriction periods range from three to thirty six months as of June 30, 2013.

(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 27% 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 58% of the value of this category were liquid as of June 30, 2013. Generally, restriction periods range from one to twenty one months as of June 30, 2013.

(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 22% of the investments in this category were liquid because of lockup restrictions as of June 30, 2013.

(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 37% of private equity NAV is in buyout strategies, 49% in venture capital, and 14% in distressed.

(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. Fifty-seven percent of the NAV in this category is in oil and gas and natural resources partnerships. The remaining 43% is in real estate funds.

The university also 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 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.

Endowment dividend and interest income, net of expenses, amounted to approximately \$5.9 and \$3.4 million respectively, for the years ended June 30, 2013 and 2012. In accordance with the university's endowment spending policy, \$32.9 and \$37.1 million of accumulated gains were used to fund current operations for the years ended June 30, 2013 and 2012, respectively. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Temporarily restricted net assets at June 30, 2013 and 2012 include annuity, life income and other investments at market value of approximately \$31.8 and \$28.6 million, respectively.

Permanently restricted net assets at June 30, 2013 and 2012, include the investment assets at fair value of the Tulane Murphy Foundation (the Foundation) that amounted to \$78.8 and \$67.5 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, 2013 and 2012 income from the Foundation, which is restricted to specific purposes, amounted to approximately \$2.1 and \$1.9 million, respectively.

Investment return, net of investment management fees of \$11.4 and \$11.1 million for 2013 and 2012, respectively, is composed of the following for the years ended June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Operating:		
Endowment income	\$ 40,496	\$ 41,860
Investment income and gains, net	<u>5,394</u>	<u>2,861</u>
Total operating return	<u>45,890</u>	<u>44,721</u>
Non operating:		
Net realized and unrealized gains (losses)	101,840	(31,664)
Accumulated gains used for spending	<u>(32,972)</u>	<u>(37,112)</u>
Total non-operating return	<u>68,868</u>	<u>(68,776)</u>
Total investment return	<u>\$ 114,758</u>	<u>\$ (24,055)</u>

## 7

TEMPORARILY AND PERMANENTLY  
RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2013 and 2012, (in thousands) benefit the following functions:

	<u>2013</u>	<u>2012</u>
Academic departments and instruction	\$ 387,541	\$ 330,405
Student financial aid and scholarship	92,324	82,643
Capital projects	41,560	50,375
Operations	<u>20,166</u>	<u>17,835</u>
Total	<u>\$ 541,591</u>	<u>\$ 481,258</u>

Permanently restricted net assets at June 30, 2013 and 2012, (in thousands) benefit the following functions:

	<u>2013</u>	<u>2012</u>
Academic departments and instruction	\$ 347,556	\$ 336,121
Student financial aid and scholarship	166,593	163,328
Operations	<u>21,305</u>	<u>21,280</u>
Total	<u>\$ 535,454</u>	<u>\$ 520,729</u>



## ENDOWMENT FUNDS AND DISCLOSURES UNDER ASC 958 - 205

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Management for the university, with the Board of Administrator's concurrence, has interpreted the Uniform Prudent Management of Institutional Funds Act of 2006 (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, 2013 and 2012 (in thousands):

	<b>2013</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	–	\$ 412,404	\$ 535,454*	\$ 947,858
Board designated endowment funds	\$ 83,803	–	–	83,803
<b>Total endowment funds</b>	<b><u>\$ 83,803</u></b>	<b><u>\$ 412,404</u></b>	<b><u>\$ 535,454</u></b>	<b><u>\$ 1,031,661</u></b>
	<b>2012</b>			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	–	\$ 344,469	\$ 520,729*	\$ 865,198
Board designated endowment funds	\$ 80,978	–	–	80,978
<b>Total endowment funds</b>	<b><u>\$ 80,978</u></b>	<b><u>\$ 344,469</u></b>	<b><u>\$ 520,729</u></b>	<b><u>\$ 946,176</u></b>

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

Changes in endowment funds net assets for the year ended June 30, 2013 and 2012  
(in thousands):

	<b>2013</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net assets, beginning of year</b>	\$ 80,978	\$ 344,469	\$ 520,729	\$ 946,176
Investment Return				
Net appreciation (realized and unrealized)	<u>1,297</u>	<u>98,223</u>	<u>–</u>	<u>99,520</u>
<b>Total investment return</b>	<u>1,297</u>	<u>98,223</u>	<u>–</u>	<u>99,520</u>
New gifts	4,212		13,740	17,952
Endowment assets used for expenditure	(2,684)	(30,288)	–	(32,972)
Other	<u>–</u>	<u>–</u>	<u>985</u>	<u>985</u>
<b>Total non investment changes</b>	<u>1,528</u>	<u>(30,288)</u>	<u>14,725</u>	<u>(14,035)</u>
<b>Net assets, end of year</b>	<u>\$ 83,803</u>	<u>\$ 412,404</u>	<u>\$ 535,454</u>	<u>\$ 1,031,661</u>
	<b>2012</b>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Net assets, beginning of year</b>	\$ 90,402	\$ 403,544	\$ 510,792	\$ 1,004,738
Investment Return				
Net depreciation (realized and unrealized)	<u>(6,300)</u>	<u>(25,087)</u>	<u>–</u>	<u>(31,387)</u>
<b>Total investment return</b>	<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>
<b>Total non investment changes</b>	<u>(3,124)</u>	<u>(33,988)</u>	<u>9,937</u>	<u>(27,175)</u>
<b>Net assets, end of year</b>	<u>\$ 80,978</u>	<u>\$ 344,469</u>	<u>\$ 520,729</u>	<u>\$ 946,176</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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Pooled funds	\$ 734,181*	\$ 667,460*
LEQSF pooled funds	158,591	144,828
Separately invested funds	120,167**	105,276**
Contributions receivable	17,158	20,107
Investment income receivables and other	<u>1,564</u>	<u>8,505</u>
Total endowment related net assets	<u>\$1,031,661</u>	<u>\$ 946,176</u>

\*This category includes \$32.4 million in university owned real estate that returned approximately \$.4 and \$1.3 million in net rents and royalties for the years ended June 30, 2013 and 2012.

\*\*This category includes an investment of approximately \$2.0 and \$9.0 million in University Healthcare System, L.C. and investments of approximately \$48.8 and \$46.1 million in Murphy Oil Corporation common stock at June 30, 2013 and 2012.

## 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 159 and 167 individual endowment funds and totaled approximately \$3.7 and \$6.4 million at June 30, 2013 and 2012, respectively. Management is monitoring these deficiencies.

## 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 Louisiana Education Quality Support 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, 2013 and 2012, the university used approximately \$31.3 and \$33.6 million, respectively, 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 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 2013, the BOR permanently suspended application of the CPI feature of its payout formula, thus allowing payouts in fiscal 2013 when fund value is higher than original fund corpus. In the years ended June 30, 2013 and 2012, the university used approximately \$6.5 and \$6.0 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, 2013 and 2012, such items totaled \$2.7 and \$2.0 million, respectively.

#### ENDOWMENT ASSETS USED FOR SPENDING

The university made \$32.9 and \$37.1 million of endowment assets available for spending in the years ended June 30, 2013 and 2012, respectively.

## 9 PROPERTY, PLANT AND EQUIPMENT

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Property, plant and equipment consist of the following at June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Land	\$ 22,369	\$ 22,369
Buildings and improvements	896,380	861,480
Equipment	193,949	185,078
Library books and materials	166,134	150,879
Construction in progress	<u>58,983</u>	<u>31,219</u>
Gross property, plant and equipment	1,337,815	1,251,025
Less: accumulated depreciation	<u>(556,964)</u>	<u>(514,953)</u>
Property, plant and equipment, net	<u>\$ 780,851</u>	<u>\$ 736,072</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 \$1.5 and \$0.3 million, respectively, for the years ended June 30, 2013 and 2012.

At June 30, 2013, the university's construction in progress included amounts for a new residence hall, football stadium and renovations of the downtown research facilities. Purchases of property, plant and equipment included in accounts payable as of June 30, 2013 and 2012 total \$4.9 and \$2.8 million, respectively.

## 10 NOTES PAYABLE AND LINES OF CREDIT

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Notes payable at June 30, 2013 and 2012, consist of the following (in thousands):

	<u>2013</u>	<u>2012</u>
Amounts drawn under three short term credit lines, as described below	\$ 72,476	\$ 33,650
One secured note for \$1,500 due in installments through 2036 with interest fixed at 4%.	1,352	1,385
Two unsecured term notes dated June 2006 with quarterly principal installments ranging from \$125 to \$500 with \$15,000 due in June 2013. Interest is borne at the London Interbank Offered Rate (LIBOR) minus 50 basis points (0% at June 30, 2012).	–	17,125
Four unsecured term notes totaling \$20,500 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 (1.08% and 1.24% at June 30, 2013 and 2012).	<u>18,563</u>	<u>18,994</u>
Total notes payable	<u>\$ 92,391</u>	<u>\$ 71,154</u>

The university had \$150 million in lines of credit with four banks to meet short term seasonal cash requirements at June 30, 2013 and 2012. The lines expire as follows: \$40 million on May 22, 2014, \$20 million on March 26, 2014, \$50 million on December 31, 2013 and \$40 million on March 27, 2014. Principal is payable upon demand. At June 30, 2013 and 2012, there was \$72.476 and \$33.650 million drawn on these lines, respectively. Interest rates applicable to these lines are based on several defined indices.

# 11 BONDS PAYABLE

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Bonds payable consist of the following at June 30, 2013 and 2012 (in thousands):

	<u>2013</u>	<u>2012</u>
Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%.	\$ 835	\$ 915
Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007A-1 with annual maturities of \$1,315 to \$13,805 from 2017 through 2035, fixed interest rates from 4% to 5%.	150,295	192,565
Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007A-2 with annual principal payments of \$1,170 to \$2,970 from 2014 through 2036, bearing interest at 67% of three-month LIBOR plus 70 basis points. The rates in effect at June 30, 2013 and 2012 were 0.88% and 1.01%.	44,565	45,685
Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007B with maturities of \$1,440 to \$2,510 are due from 2021 to 2033. The series was issued as taxable with conversion to tax exempt rates scheduled for December 18, 2007. The conversion took place as scheduled. The fixed interest rates in effect at June 30, 2013 were 4.55% on the bonds due in 2022 and 4.65% on the bonds due in 2033.	25,055	33,485
The Administrators of the Tulane Educational Fund Series 2007C Taxable Refunding Revenue Bonds with annual principal payments ranging from \$2,210 to \$7,590 from 2014 through 2036, bearing interest at three-month LIBOR plus 30 basis points. The rates in effect at June 30, 2013 and 2012 were 0.58% and 0.76%.	101,025	103,135

(continued)

	<u>2013</u>	<u>2012</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 made to fund construction. Principal is due in annual installments ranging from \$100 to \$5,500 due from 2014 to 2042. These bonds can be called at any time and may be put by the bondholder in fiscal 2020 and every 5 years thereafter. Interest is priced at 67% of the sum of one-month LIBOR plus 3.50%. At June 30, 2013 and 2012 these rates were 2.48% and 2.51%.</p>	\$ 29,635	\$ 30,000
<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 made to fund construction. Principal is scheduled in annual installments beginning in fiscal 2014 at \$100 and ending in fiscal 2042 with \$3,865. The bonds may be called at any time and may be put by the bondholder in fiscal 2020 and every 5 years thereafter. Interest is priced monthly at 67% of the sum of one-month LIBOR plus 2.65%. At June 30, 2013 and 2012 these rates were 1.91% and 1.94%.</p>	29,250	29,750
<p>Tax exempt Louisiana Public Facilities Authority Revenue Bonds, Series 2012 was delivered on May 24, 2012 and matures in fiscal 2027. The face value of the issue is \$11,325 with draws made to fund technology improvements and equipment. Principal is scheduled in bi-annual installments beginning in fiscal 2014 at \$500 to \$364, with a final repayment amount of \$364 due at fiscal 2027. The rate is fixed at 2.15%.</p>	11,325	11,325
<p>Tax exempt Louisiana Public Facilities Authority Revenue Bond Series 2013A with annual maturities of \$3,203 to \$4,270 from 2015 through 2023, fixed interest rate of 2.25%.</p>	36,300	-

(continued)



	<u>2013</u>	<u>2012</u>
Tax exempt Louisiana Public Facilities Authority Revenue Bond Series 2013B with annual maturities of \$11,965 to \$14,255 from 2037 through 2041, fixed interest rates from 4% to 5%.	\$ 65,670	\$ –
The Administrators of the Tulane Educational Fund Series 2013C Taxable Refunding Revenue Bonds with annual principal payments ranging from \$1,380 to \$6,700 from 2042 to 2048, fixed interest rate of 5.0%.	36,985	–
The Administrators of the Tulane Educational Fund Series 2013D Taxable Refunding Revenue Bonds with annual principal payments ranging from \$4,850 to \$6,225 from 2036 to 2037, and from \$6,035 to \$8,200 from 2042 to 2048, fixed interest rates from 5.25% to 5.434%.	<u>60,575</u>	<u>–</u>
	<u>591,515</u>	<u>446,860</u>
Bond underwriters net premium	<u>6,635</u>	<u>7,983</u>
Bonds payable	<u>\$ 598,150</u>	<u>\$ 454,843</u>

The 2007 Series A-1 proceeds were used to establish a proceeds fund to defease portions of five earlier tax exempt bond issues. The 2007 Series A-2 Series were used to redeem \$61 million in previously issued taxable bonds. The 2007 Series B proceeds were used to escrow \$31.820 million toward redemption of certain 1997 tax exempt issues. The 2007 Series C proceeds were applied toward escrows established to defease portions of six previous tax exempt issues and three previous taxable issues.

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. The Series 2009 bonds have been fully drawn to match construction requirements that concluded in December 2012. In each case the bond purchaser is a large commercial bank.

During 2012 the university purchased par \$16.495 million of 2007 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 university issued tax exempt bonds in 2013 through the LPFA (2013A and B Series) to support stadium construction, undergraduate dormitory construction, and medical school and uptown campus infrastructure improvements. Taxable bonds Series 2013C provided financing for similar projects.

The university also issued taxable bonds (Series 2013D) to refund \$42.27 million of 2007 Series A-1 bonds and \$8.43 million of 2007 Series B bonds.

The annual principal maturities for bonds payable at June 30, 2013 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 4,660
2015	8,048
2016	9,296
2017	10,836
2018	12,030
2019 and thereafter	<u>546,645</u>
Total	<u>\$ 591,515</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. Management believes the university was in compliance with its covenants at June 30, 2013 and 2012. 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, 2013 and 2012. 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

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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 \$1,015 and \$914 million at June 30, 2013 and 2012, respectively. Market values are used when available. Other investments totaling approximately \$41 and \$55 million at June 30, 2013 and 2012, respectively, 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 \$556 and \$438 million at June 30, 2013 and 2012, 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

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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, 2013 and 2012, contributions to the plans were approximately \$20 and \$19 million, respectively.

## 14 PROFESSIONAL LIABILITY INSURANCE

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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 \$11.4 and \$11.8 million and associated liabilities of \$9.7 and \$9.9 million at June 30, 2013 and 2012, 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 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

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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.

### OFFICE OF INSPECTOR GENERAL AUDIT

Since July 2011, the U.S. Department of Homeland Security Office of Inspector General (the "OIG"), which has responsibility for auditing FEMA public assistance programs, has been conducting an audit of public assistance funds awarded by FEMA to the university as a result of Hurricane Katrina. The major initial focus of the OIG audit has been on (1) the procurement and administration by the university of certain contracts to rebuild its campuses in the aftermath of Hurricane Katrina, and (2) the allocation of insurance proceeds received by the university that FEMA may use to offset the public assistance funds already awarded to the university or to offset public assistance funds that may be awarded to the university in the future. The OIG audit is standard procedure with regard to all major recipients of public assistance funds from FEMA.

In April 2012, the OIG issued a Management Advisory Report to FEMA regarding the amount of insurance FEMA has allocated for use in offsetting public assistance funds that may otherwise be available to the university. By a memorandum dated June 21, 2013, FEMA determined that an additional \$17.3 million of insurance recoveries remains to be offset against FEMA-eligible expenses, and noted that this amount will be taken into account as FEMA continues its review of requests for reimbursement that the university has submitted to FEMA.

FEMA also indicated that it completed its allocation methodology of the university's commercial property insurance proceeds. FEMA's determination regarding the allocation methodology was consistent with the university's methodology. The allocation may be subject to review at close out.

On August 26, 2013, the OIG publicly released its Final Report on the university's procurement practices and questioned \$46.2 million as ineligible contract costs. The OIG's recommendations regarding the disallowance of contract costs are not binding on FEMA, and FEMA has not yet issued a written public decision on such recommendations. The amount of potential liability, if any, related to federal procurement regulations and certain contracts for disaster recovery and rebuilding at the university's campuses remains to be determined. The university has submitted a memorandum to FEMA responding to the OIG's recommendations.

OIG is now conducting as part of its audit a review of the support and eligibility of specific costs that the university has claimed. OIG has not yet released its determinations and recommendations based on such review. The amount of potential liability, if any, related to this part of the audit remains to be determined.

The following constitutes a summary of the university's cumulative funding from FEMA at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Cumulative FEMA cash received	\$ 117,629	\$ 105,782
Receivable from FEMA	<u>361</u>	<u>234</u>
Total FEMA cash received and receivable	<u>\$ 117,990</u>	<u>\$ 106,016</u>
Cumulative FEMA advances recognized as recoveries	\$ 95,797	\$ 93,694
FEMA advances recorded as deferred revenue	<u>22,193</u>	<u>12,322</u>
Total cost recoveries and deferred revenue	<u>\$ 117,990</u>	<u>\$ 106,016</u>

OPERATING LEASES — LESSEE

The university leases certain real property. These leases are classified as operating leases and have lease terms ranging up to 12 years. Total lease payments amounted to approximately \$4.2 million for each of the years ended June 30, 2013 and 2012. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2013, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 3,814
2015	3,649
2016	3,370
2017	3,096
2018	130
2019 and thereafter	<u>134</u>
Total	<u>\$ 14,193</u>

OPERATING LEASES — LESSOR

The university leases office and other rental space to other businesses. Lease terms range from one to 99 years<sup>1</sup>, 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, 2013 (in thousands):

<u>Fiscal Year</u>	<u>Amount</u>
2014	\$ 2,214
2015	1,567
2016	1,584
2017	1,499
2018	1,145
2019 and thereafter	<u>80,713</u>
Total	<u>\$ 88,722</u>

<sup>1</sup>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 12-year term, the university expects to share annual energy cost savings of \$2.7 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 \$2.8 and \$3.4 million during the years ended June 30, 2013 and 2012, respectively, under this agreement and such amounts are included in the plant operations and maintenance cost total.

#### INTEREST RATE COLLARS AND SWAPS (IN THOUSANDS)

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 three-month U.S. Dollar LIBOR rate. The swap terminates in February 2017. The fair values of this swap at June 30, 2013 and 2012 were \$7,565 and \$10,384 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 three-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, 2013 and 2012 were \$3,427 and \$4,677, 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 \$414 and \$919 due the counterparty at June 30, 2013 and 2012.

The combined values of these agreements at June 30, 2013 and 2012 were included as approximately \$11,406 and \$15,980 in the caption accounts payable and accrued liabilities on the statement of financial position. In 2013, the effect on the statement of activities is recorded in the non-operating section as \$4,575 in net unrealized gains 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, 2013 and 2012 is as follows (in thousands):

Total Realized/Unrealized Gains (Losses) included in:					
Balance, July 1, 2012	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases, Sales, Issuances and Settlements	Transfer In and/or Out of Level 3	Balance, June 30, 2013
<u>\$ (15,980)</u>	<u>\$ —</u>	<u>\$ 4,574</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (11,406)</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

## 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, 2013 and 2012, the university recorded revenue and cost recoveries of approximately \$50.6 and \$44.9 million, and as of June 30, 2013 and 2012, recorded approximately \$6.7 and \$2.6 million as receivable from UHS, related to these agreements. The university's share of partners' equity at June 30, 2013 and 2012 was approximately \$2.0 and \$9.0 million, respectively.

## 17 SUBSEQUENT EVENTS

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The university completed its subsequent events reviews through November 7, 2013 for the years ended June 30, 2013 and 2012, respectively.

