


2014–2015

# TULANE UNIVERSITY
## FINANCIAL STATEMENTS

# TULANE UNIVERSITY

## Financial Statements For The Years Ended June 30, 2015 and 2014

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Tulane University, a private research university founded in 1834, is one of the country's most respected universities. 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 13,449 students.

About the cover: The newest residential college on the Tulane University uptown campus is Barbara Greenbaum House at Newcomb Lawn, which opened in August 2014. Home to 256 students and the family of a faculty-member-in-residence, it also includes a kitchen for cooking classes and a 35-seat classroom. (Photos by Paula Burch-Celentano; night photo by Elizabeth Felicella)

Tulane University

# INDEPENDENT AUDITORS' REPORT

## THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

To The Board of Administrators of Tulane University

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, 2015 and 2014, and the related consolidated 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 misstatements, 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 University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2015 and 2014, 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 4, 2015

# TULANE UNIVERSITY
# STATEMENTS OF FINANCIAL POSITION
# JUNE 30, 2015 AND 2014 (IN THOUSANDS)

| | 2015 | 2014 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $ 15,259 | $ 43,055 |
| Deposits in trust | 28,997 | 51,099 |
| Accounts and other receivables, net | 66,682 | 69,045 |
| Contributions receivable, net | 79,689 | 71,708 |
| Loans receivable, net | 40,730 | 41,629 |
| Investments | 1,252,537 | 1,198,363 |
| Prepaid expenses and other assets | 18,080 | 18,873 |
| Property, plant and equipment, net | 885,547 | 864,560 |
| **TOTAL ASSETS** | $ 2,387,521 | $ 2,358,332 |
| **LIABILITIES AND NET ASSETS** | | |
| **Liabilities:** | | |
| Accounts payable and accrued liabilities | $ 98,626 | $ 120,186 |
| Deferred revenue and refundable deposits | 64,906 | 60,974 |
| Notes payable and lines of credit | 111,715 | 99,687 |
| Bonds payable | 585,203 | 593,193 |
| Federal student loan funds | 43,030 | 42,277 |
| **Total liabilities** | 903,480 | 916,317 |
| **Net Assets:** | | |
| Unrestricted | 108,661 | 113,034 |
| Unrestricted, funds functioning as endowment | 92,193 | 89,815 |
| Total unrestricted | 200,854 | 202,849 |
| Temporarily restricted | 699,612 | 684,052 |
| Permanently restricted | 583,575 | 555,114 |
| **Total net assets** | 1,484,041 | 1,442,015 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,387,521 | $ 2,358,332 |

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

# TULANE UNIVERSITY
# STATEMENT OF ACTIVITIES
# YEAR ENDED JUNE 30, 2015 (IN THOUSANDS)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2015 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Tuition and fees | $ 484,425 | $ – | $ – | $ 484,425 |
| Less: Institutional scholarships and fellowships | (152,791) | | | (152,791) |
| Tuition and fees, net | 331,634 | – | – | 331,634 |
| Government grants and contracts | 126,404 | | | 126,404 |
| Private gifts and grants | 43,899 | 20,903 | 28,743 | 93,545 |
| Medical group practice | 85,372 | | | 85,372 |
| Affiliated hospital agreements/contracts | 38,969 | | | 38,969 |
| Endowment income | 9,231 | 35,287 | | 44,518 |
| Investment income and gains, net | 2,746 | 2,130 | | 4,876 |
| Recovery of indirect costs | 28,675 | | | 28,675 |
| Auxiliary enterprises | 77,554 | | | 77,554 |
| Other | 71,034 | | | 71,034 |
| Net assets released from restrictions | 50,306 | (50,306) | | – |
| **Total revenues** | 865,824 | 8,014 | 28,743 | 902,581 |
| **EXPENSES** | | | | |
| Instruction and academic support | 296,387 | | | 296,387 |
| Affiliated hospital agreements/contracts | 31,496 | | | 31,496 |
| Organized research | 135,388 | | | 135,388 |
| Public service | 22,061 | | | 22,061 |
| Libraries | 24,921 | | | 24,921 |
| Student services | 28,759 | | | 28,759 |
| Institutional support | 102,217 | | | 102,217 |
| Scholarships and fellowships | 14,857 | | | 14,857 |
| Auxiliary enterprises | 116,380 | | | 116,380 |
| Medical group practice | 91,445 | | | 91,445 |
| Other | 7,020 | 1,679 | 1,524 | 10,223 |
| **Total expenses** | 870,931 | 1,679 | 1,524 | 874,134 |
| **Change in net assets from operating activities** | (5,107) | | | |
| **OTHER CHANGES IN NET ASSETS** | | | | |
| Net realized and unrealized gains | 5,835 | 47,416 | | 53,251 |
| Net unrealized gains on interest rate swaps | 3,332 | | | 3,332 |
| Accumulated gains used for spending | (3,457) | (39,547) | | (43,004) |
| Transfers between net asset groups | (2,598) | 1,356 | 1,242 | – |
| **Total other changes in net assets** | 3,112 | 9,225 | 1,242 | 13,579 |
| **CHANGE IN NET ASSETS** | (1,995) | 15,560 | 28,461 | 42,026 |
| **BEGINNING NET ASSETS** | 202,849 | 684,052 | 555,114 | 1,442,015 |
| **ENDING NET ASSETS** | $ 200,854 | $ 699,612 | $ 583,575 | $1,484,041 |

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

# TULANE UNIVERSITY
# STATEMENT OF ACTIVITIES
# YEAR ENDED JUNE 30, 2014 (IN THOUSANDS)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2014 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Tuition and fees | $ 467,476 | $ – | $ – | $ 467,476 |
| Less: Institutional scholarships and fellowships | (144,614) | | | (144,614) |
| Tuition and fees, net | 322,862 | – | – | 322,862 |
| Government grants and contracts | 136,543 | | | 136,543 |
| Private gifts and grants | 42,618 | 33,386 | 25,020 | 101,024 |
| Medical group practice | 83,165 | | | 83,165 |
| Affiliated hospital agreements/contracts | 38,190 | | | 38,190 |
| Endowment income | 9,115 | 33,186 | | 42,301 |
| Investment income and gains, net | 3,388 | 1,462 | | 4,850 |
| Recovery of indirect costs | 30,650 | | | 30,650 |
| Auxiliary enterprises | 71,256 | | | 71,256 |
| Other | 45,715 | | | 45,715 |
| Net assets released from restrictions | 52,318 | (52,318) | | – |
| **Total revenues** | 835,820 | 15,716 | 25,020 | 876,556 |
| **EXPENSES** | | | | |
| Instruction and academic support | 276,455 | | | 276,455 |
| Affiliated hospital agreements/contracts | 29,808 | | | 29,808 |
| Organized research | 135,758 | | | 135,758 |
| Public service | 19,711 | | | 19,711 |
| Libraries | 26,768 | | | 26,768 |
| Student services | 27,680 | | | 27,680 |
| Institutional support | 98,167 | | | 98,167 |
| Scholarships and fellowships | 12,877 | | | 12,877 |
| Auxiliary enterprises | 110,849 | | | 110,849 |
| Medical group practice | 89,046 | | | 89,046 |
| Other | 8,421 | 2,453 | 2,573 | 13,447 |
| **Total operating expenses** | 835,540 | 2,453 | 2,573 | 840,566 |
| **Change in net assets from operating activities** | 280 | | | |
| **OTHER CHANGES IN NET ASSETS** | | | | |
| Net realized and unrealized gains | 8,929 | 150,774 | | 159,703 |
| Net unrealized gains on interest rate swaps | 2,634 | | | 2,634 |
| Accumulated gains used for spending | (2,917) | (34,635) | | (37,552) |
| Transfers between net asset groups | (10,272) | 13,059 | (2,787) | – |
| **Total other changes in net assets** | (1,626) | 129,198 | (2,787) | 124,785 |
| **CHANGE IN NET ASSETS** | (1,346) | 142,461 | 19,660 | 160,775 |
| **BEGINNING NET ASSETS** | 204,195 | 541,591 | 535,454 | 1,281,240 |
| **ENDING NET ASSETS** | $ 202,849 | $ 684,052 | $ 555,114 | $1,442,015 |

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

# TULANE UNIVERSITY
# STATEMENTS OF CASH FLOWS
# YEARS ENDED JUNE 30, 2015 AND 2014 (IN THOUSANDS)

| | 2015 | 2014 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Increase in net assets | $ 42,026 | $ 160,775 |
| Adjustments to reconcile increase in net assets to net cash (used in) provided for operating activities: | | |
| Gain on retirement of notes payable | (3,280) | – |
| Depreciation and amortization | 52,248 | 51,824 |
| Asset retirements | 704 | 782 |
| Net realized and unrealized investment gains | (53,251) | (159,703) |
| Net increase in fair value of interest rate swap agreements | (3,332) | (2,634) |
| Contributions restricted for permanent investment | (28,461) | (19,660) |
| Contributions of property | (289) | (2,510) |
| Grant receipts used for capital purposes | (187) | (2,395) |
| Donations received for capital purposes | (12,547) | (16,679) |
| Insurance and FEMA recoveries received | (14,765) | (5,170) |
| Changes in operating assets and liabilities: | | |
| Decrease in accounts and other receivables | 2,363 | 2,667 |
| (Increase) in contributions receivable | (1,853) | (8,218) |
| Decrease in prepaid expenses and other assets | 793 | 1,414 |
| (Decrease) increase in accounts payable and accrued liabilities | (6,340) | 8,224 |
| Increase in deferred revenue and refundable deposits | 3,932 | 1,303 |
| **Net cash (used in) provided by operating activities** | (22,239) | 10,020 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of investments | (265,019) | (245,672) |
| Proceeds from the sale of investments | 264,096 | 265,051 |
| Purchase of property, plant and equipment | (84,935) | (128,702) |
| Decrease in deposits in trust | 22,102 | 68,808 |
| Student loans issued | (5,907) | (6,515) |
| Proceeds from collections of student loans | 6,806 | 5,920 |
| Grant receipts used for capital purposes | 187 | 2,395 |
| Donations received for capital purposes | 12,547 | 16,679 |
| Insurance and FEMA recoveries net of advances received and released | 14,765 | 5,170 |
| **Net cash used for investing activities** | (35,358) | (16,866) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Contributions restricted for permanent investment | 22,333 | 12,983 |
| Repayment of bonded debt | (7,705) | (4,660) |
| Repayment of notes payable | (442) | (15,321) |
| Proceeds from issuance of notes payable | – | 30,093 |
| Repayment of lines of credit | (175,500) | (169,481) |
| Proceeds from lines of credit draws | 191,250 | 162,005 |
| Increase in federal student loan funds | 754 | 867 |
| Annuities paid | (889) | (945) |
| **Net cash provided by financing activities** | 29,801 | 15,541 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (27,796) | 8,695 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 43,055 | 34,360 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 15,259 | $ 43,055 |
| **SUPPLEMENTAL DISCLOSURES:** | | |
| Interest paid | $ 25,092 | $ 23,525 |

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

# Tulane University
# Notes to the Financial Statements
# Years Ended June 30, 2015 and 2014

## 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. The 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 the university, Tulane Murphy Foundation, Inc. (the "Foundation"), Tulane International, LLC, Howard Memorial Association, Riversphere One, Riversphere Two, Wick Cary, LLC's, Richards Trust and Samuel Z. Stone CIPR Trust, 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.

- 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 the 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.

**Unrestricted Operating Results** — Unrestricted operating results include all transactions that change unrestricted net assets, except for endowment related investment transactions for net realized and unrealized gains, net unrealized gains associated with interest rate swaps, accumulated gains used for spending and transfer between net asset groups. Donor transactions for expendable gifts that are released from restrictions are included with unrestricted operating results. Unrestricted operating results exclude gifts for permanent investment and gifts received where the donor restrictions have not been met.

Endowment distributions reported as operating income consist of endowment return distributed to support current operating needs. Endowment distributions initially reported as temporarily restricted are transferred to unrestricted status via the line entitled “Net Assets Released from Restrictions” on the basis of fulfilling the donors’ restrictions through qualified expenditures.

Investment income and gains includes income from trusts that is immediately available to fund operations.

**Deferred revenue** — Advance payments are recorded as deferred revenue within the category Deferred Revenue and Refundable Deposits, which consists of the following amounts:

| | 2015 | 2014 |
|---|---|---|
| Grants and contracts – FEMA | $ 21,380 | $ 20,401 |
| Grants and contracts – Other | 23,728 | 22,006 |
| Tuition and fees, net | 14,573 | 12,234 |
| Other | 5,225 | 6,333 |
| Total | $ 64,906 | $ 60,974 |

## USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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):

| | 2015 | 2014 |
|---|---|---|
| Depreciation | $ 52,533 | $ 51,824 |
| Retirement of plant assets | $ 704 | $ 782 |
| Plant operations and maintenance | $ 54,896 | $ 57,275 |
| Interest expense on indebtedness | $ 23,023 | $ 20,597 |

## 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. (UHS) is accounted for using the equity method (see Note 16), but not below zero.

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, 2015 and 2014 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 other changes in the net assets 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, 2015 and 2014.

## 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 $3.0 and $2.7 million at June 30, 2015 and 2014, respectively. Deferred financing costs are included in the caption “Prepaid Expenses And Other Assets” on the statement 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.

## INCOME TAXES

Tulane is a tax exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and generally is exempt from federal and state income taxes on activities considered to be inside its overall tax exempt mission. Where Tulane activities vary beyond the tax exempt missions, then Tulane pays income taxes on unrelated business income. Such taxes are included in the accompanying financial statements.

## NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (step 1)
- Identifies the performance obligations in the contract (step 2)
- Determines the transaction price (step 3)
- Allocates the transaction price to the performance obligations in the contract (step 4)
- Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5)

ASU No. 2014-09 is effective for the year beginning July 1, 2019. Management has not yet determined the impact, if any, that implementation of ASU No. 2014-09 will have on the university's financial statements.

In April 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (Issue 14-B)*, which removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at NAV. Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. Further, entities must provide the disclosures in ASC 820-10-50-6A only for investments for which they elect to use the NAV practical expedient to determine fair value. ASU No. 2015-07 is effective for the year beginning July 1, 2017, with early adoption permitted. The university adopted ASU No. 2015-07 on July 1, 2014; the disclosure at Note 6 reflects the adoption.

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, 2015 and 2014 consist of investments at fair value of $28,997 and $51,099 (in thousands), respectively, set aside primarily for bond-funded construction costs and medical malpractice self-insurance.

## 3 ACCOUNTS AND OTHER RECEIVABLES

Accounts receivable consist of the following at June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Student receivables, net of allowance for doubtful accounts of $7,281 and $7,211 | $ 4,030 | $ 6,716 |
| U.S. government, state and other contract receivables, net of allowances for doubtful accounts of $460 and $1,107 | 43,042 | 43,771 |
| Patient and related receivables, net of allowances for discounts and doubtful accounts of $10,594 and $10,950 | 12,760 | 12,979 |
| Other receivables | 6,850 | 5,579 |
| Total | $ 66,682 | $ 69,045 |

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, 2015 and 2014, 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% to the present value of the future cash flows at June 30, 2015 and 2014.

Management expects unconditional promises to be realized in the following periods (in thousands) at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| In one year or less | $ 22,184 | $ 23,100 |
| Between one year and five years | 64,094 | 54,377 |
| More than five years | 19,927 | 18,347 |
| | 106,205 | 95,824 |
| Less: discounts of $12,764 and $11,085 and allowances for uncollectible pledges of $13,752 and $13,031 | (26,516) | (24,116) |
| Total | $ 79,689 | $ 71,708 |

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, 2015 and 2014 are adequate to absorb any uncollectible pledges as of those dates.

Contributions receivable at June 30, 2015 and 2014 have restrictions applicable to the following (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Endowments for departmental programs and activities | $ 29,963 | $ 23,835 |
| Departmental programs and activities | 15,987 | 15,715 |
| Capital purposes | 33,739 | 32,158 |
| Total | $ 79,689 | $ 71,708 |

## 5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Perkins student loan program | $ 40,721 | $ 41,466 |
| Primary care loan program | 1,887 | 2,025 |
| Other loan programs | 597 | 613 |
| | 43,205 | 44,104 |
| Less: allowance for doubtful accounts | (2,475) | (2,475) |
| Total | $ 40,730 | $ 41,629 |

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, 2015 and 2014, student loans represented 1.7% and 1.8%, respectively, of total assets.

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 $43,030 and $42,277 at June 30, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in the statements 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, 2015 and 2014, the following amounts were past due under student loan programs (in thousands):

| June 30, | 1–60 days past | 61–90 days past | >90 days past | Total Past due |
|---|---|---|---|---|
| 2015 | $ 992 | $272 | $3,095 | $4,359 |
| 2014 | $1,224 | $161 | $2,328 | $3,713 |

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, 2015 and 2014 are adequate to absorb any uncollectible loans as of those dates.

## 6 INVESTMENTS AND ACCOUNTING STANDARDS CODIFICATION (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. ASU No. 2015-07 exempts assets measured using the NAV expedient from this hierarchy, as described in Note 1. The adoption of ASU No. 2015-07 resulted in the reclassification of investment assets measured using the net asset value expedient and previously reported as Tier 2 and Tier 3 assets as of June 30, 2014. For all other assets measured at fair value, 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. The university does not have any Tier 3 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, 2015 (in thousands):

| Investments | Tier 1 (Quoted prices in active markets) | Tier 2 (Signifcant Observable inputs) | Total Investments Measured at Fair Value | Investments Measured at NAV | Total |
|---|---|---|---|---|---|
| Short term money funds and cash (a) | $ 25,721 | $ 1,857 | **$ 27,578** | $ – | **$ 27,578** |
| Domestic equity (b) | 101,145 | | **101,145** | 194,125 | **295,270** |
| International equity (b) | 7,298 | | **7,298** | 212,212 | **219,510** |
| Hedge funds: | | | | | |
| Long/Short equity (c) | | | – | 82,228 | **82,228** |
| Absolute return (d) | | | – | 145,552 | **145,552** |
| Enhanced fixed income (e) | | | – | 29,859 | **29,859** |
| Fixed income (f) | 104,385 | 50,125 | **154,510** | – | **154,510** |
| Partnerships: | | | | | |
| Private equity (g) | | | – | 146,763 | **146,763** |
| Private and public real assets (h) | | | – | 111,030 | **111,030** |
| **Total investments at fair value by tier** | $ 238,549 | $ 51,982 | **$ 290,531** | $ 921,769 | **$ 1,212,300** |
| Real estate and royalty interests at original cost or appraised value | | | | | **38,152** |
| Investment receivables and other at cost or appraised value | | | | | **2,085** |
| Total investments valued at other than fair value | | | | | **40,237** |
| **Total investments** | | | | | **$ 1,252,537** |
| **Deposits in trust** | | | | | |
| Short term money funds and cash (a) | $ 15,316 | $ – | **$ 15,316** | $ – | **$ 15,316** |
| Domestic equities (b) | 594 | | **594** | – | **594** |
| Fixed income (f) | 2,783 | 10,304 | **13,087** | – | **13,087** |
| **Total deposits in trust at fair value by tier** | $ 18,693 | $ 10,304 | **$ 28,997** | $ – | **$ 28,997** |

See annotations on page 19 and 20.

Investments consisted of the following at June 30, 2014 (in thousands):

| Investments | Tier 1 (Quoted Prices in Active Markets) | Tier 2 (Signifcant Observable inputs) | Total Investments Measured at Fair Value | Investments Measured at NAV | Total |
|---|---|---|---|---|---|
| Short term money funds and cash (a) | $ 17,809 | $ 3,530 | **$ 21,339** | $ – | **$ 21,339** |
| Domestic equity (b) | 132,515 | | **132,515** | 180,897 | **313,412** |
| International equity (b) | 7,419 | | **7,419** | 180,987 | **188,406** |
| Hedge funds: | | | | | |
| Long/Short equity (c) | | | **–** | 73,396 | **73,396** |
| Absolute return (d) | | | **–** | 147,235 | **147,235** |
| Enhanced fixed income (e) | | | **–** | 30,519 | **30,519** |
| Fixed income (f) | 82,397 | 54,966 | **137,363** | – | **137,363** |
| Partnerships: | | | | | |
| Private equity (g) | | | **–** | 136,191 | **136,191** |
| Private and public real assets (h) | | | **–** | 100,644 | **100,644** |
| **Total investments at fair value** | $ 240,140 | $ 58,496 | **$ 298,636** | $ 849,869 | **$ 1,148,505** |
| Real estate and royalty interests at original cost or appraised value | | | | | **38,121** |
| Investment receivables and other at cost or appraised value | | | | | **11,737** |
| Total investments valued at other than fair value | | | | | **49,858** |
| **Total investments** | | | | | **$ 1,198,363** |
| **Deposits in trust** | | | | | |
| Short term money funds and cash (a) | $ 18,024 | $ – | **$ 18,024** | $ – | **$ 18,024** |
| Domestic equities (b) | 595 | | **595** | – | **595** |
| Fixed income (f) | | $ 32,480 | **32,480** | – | **32,480** |
| **Total deposits in trust at fair value by tier** | $ 18,619 | $ 32,480 | **$ 51,099** | $ – | **$ 51,099** |

See annotations on page 21.

The FASB 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. In complying with the update, the university makes the following disclosures about its investments at June 30, 2015, that feature net asset value per share.

| | Fair Value (in thousands) | Unfunded Commitments | Redemption Frequency if Currently Eligible | Redemption Notice Period |
|---|---|---|---|---|
| Domestic and international equities (b) | $ 406,337 | $ – | Daily, Monthly, Quarterly, Yearly | 1–180 days |
| Equity long/short hedge funds (c) | 82,228 | | Quarterly | 30–60 days |
| Absolute return hedge funds (d) | 145,552 | | Monthly, Quarterly, Yearly | 30–90 days |
| Enhanced fixed income hedge funds (e) | 29,859 | | Quarterly | 90 days |
| Private equity (g) | 146,763 | 84,083 | N/A | N/A |
| Private and public real assets (h) | 111,030 | 55,682 | N/A | N/A |
| Total | $ 921,769 | $ 139,765 | | |

Annotations are applicable to page 17 in addition to above table.

(a) This category includes investments in money market accounts as well as cash and cash equivalents.

(b) This category includes direct ownership of equities, mutual funds and investments in partnerships (valued at NAV) that invest primarily in common stocks across various sectors and market caps and across different geographic regions. $406,337 of these investments were valued using NAV. Of the NAV investments approximately 68% of the value of this category were liquid as of June 30, 2015. Most of these funds do not normally short or employ leverage.

(c) 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 84% of the value of this category were liquid as of June 30, 2015. Generally, restriction periods range from three to thirty six months as of June 30, 2015.

(d) 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 37% 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 66% of the value of this category were liquid as of June 30, 2015. Generally, restriction periods range from three to eighteen months as of June 30, 2015.

(e) This category includes investments in hedge funds where managers pursue opportunistic exposure to distressed, emerging market and high-yield debt. The managers may also hold positions in post-bankruptcy reorg equity and other derivative instruments. The goal is to provide an attractive risk-adjusted return while targeting outperformance over the broader high-yield markets. Only 35% of the investments in this category were liquid because of lockup restrictions as of June 30, 2015.

(f) This category includes direct ownership of domestic and international corporate and governmental bonds and notes, as well as mutual funds owning such investments.

(g) This category includes private equity partnerships, including buyout, growth, venture capital and distressed investment firms. 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 30% of private equity is in buyout strategies, 51% in growth strategies, 7% in venture capital and 12% in distressed.

(h) This category includes several partnerships in oil and gas and U.S. real estate 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 48% of this category is in oil and gas and natural resources partnerships. The remaining 52% is in real estate funds.

The FASB 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. In complying with the update, the university makes the following disclosures about its investments at June 30, 2014 that feature net asset value per share.

| | Fair Value (in thousands) | Unfunded Commitments | Redemption Frequency if Currently Eligible | Redemption Notice Period |
|---|---|---|---|---|
| Domestic and international equities (b) | $ 361,884 | $ – | Daily, Monthly, Quarterly | 1–90 days |
| Equity long/short hedge funds (c) | 73,396 | | Monthly, Quarterly | 30–60 days |
| Absolute Return hedge funds (d) | 147,235 | | Quarterly | 45–90 days |
| Enhanced fixed income hedge funds (e) | 30,519 | | Quarterly | 90–180 days |
| Private Equity (g) | 136,191 | 104,900 | N/A | N/A |
| Private and public real assets (h) | 100,644 | 51,300 | N/A | N/A |
| Total | $ 849,869 | $ 156,200 | | |

Annotations are applicable to page 18 in addition to above table.

(a) This category includes investments in money market accounts as well as cash and cash equivalents.

(b) This category includes direct ownership of equities, mutual funds and investments in partnerships (valued at NAV) that invest primarily in common stocks across various sectors and market caps and across different geographic regions. $361,884 of these investments were valued using NAV. Investments representing approximately 86% of the NAV of this category were liquid as of June 30, 2014. Most of these funds do not normally short or employ leverage.

(c) 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 97% of the value of this category were liquid as of June 30, 2014. Generally, restriction periods range from three to thirty six months as of June 30, 2014.

(d) 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 23% 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 71% of the value of this category were liquid as of June 30, 2014. Generally, restriction periods range from one to twenty one months as of June 30, 2014.

(e) This category includes investments in hedge funds where managers pursue opportunistic exposure to distressed, emerging market and high-yield debt. The managers may also hold positions in post-bankruptcy reorg equity and other derivative instruments. The goal is to provide an attractive risk-adjusted return while targeting outperformance over the broader high-yield markets. Only 36% of the investments in this category were liquid because of lockup restrictions as of June 30, 2014.

(f) This category includes direct ownership of domestic and international corporate and governmental bonds and notes, as well as mutual funds owning such investments.

(g) This category includes private equity partnerships, including buyout, growth, venture capital and distressed investment firms. 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 32% of private equity is in buyout strategies, 48% in growth strategies, 8% in venture capital and 12% in distressed.

(h) This category includes several partnerships in oil and gas and U.S. real estate 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 49% of this category is in oil and gas and natural resources partnerships. The remaining 51% is in real estate funds.

Endowment dividend and interest income, net of expenses, amounted to approximately $0.2 and $3.2 million, respectively, for the years ended June 30, 2015 and 2014. In accordance with the university's endowment spending policy, $43.0 and $37.5 million of accumulated gains were used to fund current operations for the years ended June 30, 2015 and 2014, respectively. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Temporarily restricted net assets at June 30, 2015 and 2014 include annuity, life income and other investments at market value of approximately $35.7 and $35.9 million, respectively.

Permanently restricted net assets at June 30, 2015 and 2014, include the investment assets at fair value of the Tulane Murphy Foundation (the Foundation) that amounted to $83.1 and $94.1 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, 2015 and 2014, income from the Foundation, which is restricted to specific purposes, amounted to approximately $2.3 million.

Investment return, net of investment management fees of $13.3 and $14.9 million for 2015 and 2014, respectively, is composed of the following for the years ended June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Operating: | | |
| Endowment income | $ 44,518 | $ 42,301 |
| Investment income and gains, net | 4,876 | 4,850 |
| Total operating return | 49,394 | 47,151 |
| Non operating: | | |
| Net realized and unrealized gains | 53,251 | 159,703 |
| Accumulated gains used for spending | (43,004) | (37,552) |
| Total non-operating return | 10,247 | 122,151 |
| Total investment return | $ 59,641 | $ 169,302 |

# 7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2015 and 2014, (in thousands) benefit the following functions:

| | 2015 | 2014 |
|---|---|---|
| Academic departments and instruction | $ 508,431 | $ 505,357 |
| Student financial aid and scholarship | 107,616 | 103,253 |
| Capital projects | 39,756 | 35,864 |
| Operations | 43,809 | 39,578 |
| Total | $ 699,612 | $ 684,052 |

Permanently restricted net assets at June 30, 2015 and 2014, (in thousands) benefit the following functions:

| | 2015 | 2014 |
|---|---|---|
| Academic departments and instruction | $ 376,575 | $ 361,199 |
| Student financial aid and scholarship | 185,299 | 172,427 |
| Operations | 21,701 | 21,488 |
| Total | $ 583,575 | $ 555,114 |

# 8 ENDOWMENT FUNDS AND DISCLOSURES UNDER ASC 958-205

Management for the university, with the Board of Administrators' 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.

The university 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, 2015 and 2014 (in thousands):

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | | $ 533,554 | $ 583,575* | $1,117,129 |
| Board designated endowment funds | $ 92,193 | | | 92,193 |
| Total endowment funds | $ 92,193 | $ 533,554 | $ 583,575 | $1,209,322 |

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | | $ 524,131 | $ 555,114* | $1,079,245 |
| Board designated endowment funds | $ 89,815 | | | 89,815 |
| Total endowment funds | $ 89,815 | $ 524,131 | $ 555,114 | $1,169,060 |

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

Changes in endowment funds, net assets for the years ended June 30, 2015 and 2014 (in thousands):

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Net assets, beginning of year** | $ 89,815 | $ 524,131 | $ 555,114 | $1,169,060 |
| Investment return | | | | |
| Net appreciation | | | | |
| (realized and unrealized) | 5,835 | 48,970 | | 54,805 |
| **Total investment return** | 5,835 | 48,970 | – | 54,805 |
| New gifts | | | 28,743 | 28,743 |
| Endowment assets used | | | | |
| for expenditure | (3,457) | (39,547) | | (43,004) |
| Other | | | (282) | (282) |
| **Total non-investment changes** | (3,457) | (39,547) | 28,461 | (14,543) |
| **Net assets, end of year** | $ 92,193 | $ 533,554 | $ 583,575 | $1,209,322 |

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Net assets, beginning of year** | $ 83,803 | $ 412,404 | $ 535,454 | $1,031,661 |
| Investment return | | | | |
| Net appreciation | | | | |
| (realized and unrealized) | 8,929 | 146,362 | | 155,291 |
| **Total investment return** | 8,929 | 146,362 | – | 155,291 |
| New gifts | | | 25,020 | 25,020 |
| Endowment assets used | | | | |
| for expenditure | (2,917) | (34,635) | | (37,552) |
| Other | | | (5,360) | (5,360) |
| **Total non-investment changes** | (2,917) | (34,635) | 19,660 | (17,892) |
| **Net assets, end of year** | $ 89,815 | $ 524,131 | $ 555,114 | $1,169,060 |

## 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, 2015 and 2014, is as follows:

| | 2015 | 2014 |
|---|---|---|
| Pooled funds | $ 873,243* | $ 823,323* |
| LEQSF pooled funds | 188,088 | 180,812 |
| Separately invested funds | 117,047** | 130,368** |
| Contributions receivable | 29,963 | 23,835 |
| Investment income receivables and other | 981 | 10,722 |
| Total endowment related net assets | $1,209,322 | $1,169,060 |

* This category includes $32.4 million in university-owned real estate that returned approximately $0.8 and $0.9 million in net rents and royalties for the years ended June 30, 2015 and 2014, respectively.

**This category includes an investment of approximately $29.6 and $55.8 million in Murphy Oil Corporation and Murphy USA, Inc., common stock at June 30, 2015 and 2014, respectively.

## 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 LEQSFs 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% 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, 2015 and 2014, the university used approximately $34.6 and $32.8 million, respectively, in pooled endowment assets for spending.

The BOR provides 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 2014, the BOR permanently suspended application of the CPI feature of its payout formula, thus allowing payouts when fund value is higher than original fund corpus. In the years ended June 30, 2015 and 2014, the university used approximately $7.4 and $6.8 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, 2015 and 2014, such items totaled $2.4 and $2.7 million, respectively.

## ENDOWMENT ASSETS USED FOR SPENDING

The university made $43.0 and $37.5 million of endowment assets available for spending in the years ended June 30, 2015 and 2014, respectively.

## 9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Land | $ 23,598 | $ 23,598 |
| Buildings and improvements | 1,076,442 | 935,532 |
| Equipment | 203,672 | 196,747 |
| Library books and materials | 186,580 | 176,017 |
| Construction in progress | 40,757 | 132,397 |
| Gross property, plant and equipment | 1,531,049 | 1,464,291 |
| Less: accumulated depreciation | (645,502) | (599,731) |
| Property, plant and equipment, net | $ 885,547 | $ 864,560 |

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 $1.7 and $3.9 million for the years ended June 30, 2015 and 2014, respectively.

At June 30, 2015, the university's construction in progress included amounts for the library renovations and mitigation work, and a renovated new uptown campus academic building. Purchases of property, plant and equipment included in accounts payable as of June 30, 2015 and 2014, total $4.0 and $12.3 million, respectively.

## 10 NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2015 and 2014, consist of the following (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Amounts drawn under four short term credit lines, as described below | $ 80,750 | $ 65,000 |
| One unsecured note for $1,500 due in installments through 2036 with interest fixed at 4%. | 1,272 | 1,314 |
| 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 peaked in fiscal 2014 at $430 per quarter. The notes were refinanced during 2014. | – | 3,280 |
| Term note for $30,192 dated February 28, 2014. Principal installments commenced April 1, 2014 at $100 per quarter and peak in fiscal 2038 at $1,300 per quarter. The note terms out on January 1, 2039. Interest is borne at LIBOR plus 185 basis points. (2.1% and 2.2% at June 30, 2015 and 2014). | 29,693 | 30,093 |
| Total notes payable | $ 111,715 | $ 99,687 |

The university had $150 million in lines of credit with four banks to meet short-term seasonal cash requirements at June 30, 2015 and 2014. The lines expire as follows: $40 million on May 20, 2016, $20 million on March 31, 2016, $50 million on December 29, 2015, and $40 million on April 25, 2016. Principal is payable upon demand. At June 30, 2015 and 2014, there was $80 and $65 million drawn on these lines, respectively. Interest rates applicable to these lines are based on several defined LIBOR indices.

# 11 BONDS PAYABLE

Bonds payable consist of the following at June 30, 2015 and 2014:

| | 2015 | 2014 |
|---|---|---|
| Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%. | $ 675 | $ 755 |
| 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 | 150,295 |
| Tax exempt Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007A-2 with annual principal payments of $1,220 to $2,970 from 2015 through 2036, bearing interest at 67% of three-month LIBOR plus 70 basis points. The rates in effect at June 30, 2015 and 2014 were 0.88% and 0.85%. | 42,175 | 43,395 |
| 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, 2015 were 4.55% on the bonds due in 2022 and 4.65% on the bonds due in 2033. | 25,055 | 25,055 |
| The Administrators of the Tulane Educational Fund Series 2007C Taxable Refunding Revenue Bonds with annual principal payments ranging from $2,345 to $7,590 from 2015 through 2036, bearing interest at three-month LIBOR plus 30 basis points. The rates in effect at June 30, 2015 and 2014 were 0.57% and 0.52%. | 96,470 | 98,815 |
| 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 2015 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. The interest rate is fixed at 2.33%. | 29,435 | 29,535 |

(continued)

| | 2015 | 2014 |
|---|---|---|
| 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. The interest rate is fixed at 2.33%. | $ 29,050 | $ 29,150 |
| 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 being made to fund technology improvements and equipment. Principal is scheduled in bi-annual installments beginning in fiscal 2014 at $500, with a bullet payment of $5,825 due on May 24, 2019. The rate is fixed at 2.15% | 9,325 | 10,325 |
| Tax exempt Louisiana Public Facilities Authority Revenue Bond Series 2013A with annual maturities of $2,860 with a bullet payment of $12,705 due on January 1, 2023. The rate is fixed at 2.25%. | 33,440 | 36,300 |
| 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 | 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 | 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%. | 60,575 | 60,575 |
| | 579,150 | 586,855 |
| Bond underwriters net premium and discount | 6,053 | 6,338 |
| Bonds payable | $ 585,203 | $ 593,193 |

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 was 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, 2015, are as follows (in thousands).

| **Fiscal Year** | **Amount** |
|---|---|
| 2016 | $ 7,885 |
| 2017 | 9,425 |
| 2018 | 10,620 |
| 2019 | 16,690 |
| 2020 | 11,985 |
| 2021 and thereafter | 522,545 |
| Total | $ 579,150 |

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, 2015 and 2014. 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 $151,000 and $ 112,000 at June 30, 2015 and 2014, respectively. 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 $1.212 and $1.148 billion at June 30, 2015 and 2014, respectively. Market values are used when available. Other investments totaling approximately $40 and $50 million at June 30, 2015 and 2014, 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 $560 and $570 million at June 30, 2015 and 2014, 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, 2015 and 2014, employer contributions to the plans were approximately $21.1 and $20.6 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 $11.4 and $11.5 million and associated liabilities of $10.2 million at June 30, 2015 and 2014 are included in unrestricted net assets.

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

# 15 COMMITMENTS AND CONTINGENCIES

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

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

## 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 OIG audit has been divided into three phases. During the first phase, OIG audited FEMA's allocation of the university's $303.3 million of insurance proceeds between Hurricane Katrina property damages and business interruption losses. During the second phase, OIG reviewed the methodology the university used to award $230 million in disaster-related contracts. The third phase reviewed the support and eligibility of approximately $36.1 million that the university claimed on various projects. 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 (Phase 1, as referenced above). 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 closeout.

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 (Phase 2, as referenced above). On October 22, 2014, the OIG publicly released its final report as part of its audit of the support and eligibility of specific costs that the university has claimed (Phase 3, as referenced above), recommending that FEMA disallow $13 million of such 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 relating to Phase 2. The university is currently reviewing the OIG's report on Phase 3, and intends to contest the findings with FEMA.

The following constitutes a summary of the university's cumulative funding from FEMA at June 30, 2015 and 2014 (in thousands):

| | 2015 | 2014 |
|---|---|---|
| Cumulative FEMA cash received | $ 135,966 | $ 120,222 |
| Receivable from FEMA | 6,900 | 6,910 |
| Total FEMA cash received and receivable | $ 142,866 | $ 127,132 |
| Cumulative FEMA advances recognized as recoveries | $ 121,486 | $ 106,731 |
| FEMA advances recorded as deferred revenue | 21,380 | 20,401 |
| Total cost recoveries and deferred revenue | $ 142,866 | $ 127,132 |

## OPERATING LEASES—LESSEE

The university leases certain real property and equipment. These leases are classified as operating leases and have lease terms ranging up to 14 years. Total lease payments amounted to approximately $4.6 and $4.2 million, respectively, for the years ended June 30, 2015 and 2014. Future minimum rental payments on noncancellable operating leases with lease terms in excess of one year as of June 30, 2015 are as follows (in thousands):

| Fiscal Year | Amount |
|---|---|
| 2016 | $ 4,780 |
| 2017 | 4,716 |
| 2018 | 1,266 |
| 2019 | 1,116 |
| 2020 | 922 |
| 2021 and thereafter | 6,106 |
| Total | $ 18,906 |

## 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, 2015 (in thousands):

| Fiscal Year | Amount |
|---|---|
| 2016 | $ 2,117 |
| 2017 | 1,474 |
| 2018 | 1,425 |
| 2019 | 1,323 |
| 2020 | 1,346 |
| 2021 and thereafter | 82,590 |
| Total | $ 90,275 |

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 $2.9 and $2.7 million during the years ended June 30, 2015 and 2014, respectively. Under this agreement 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, 2015 and 2014, were $3,767 and $5,968, respectively, 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, 2015 and 2014 were $1,673 and $2,667, respectively, due the counterparty.

The above swaps were modified in July 2015, such that the termination dates were extended to February 15, 2036. As a result of these maturity date extensions, effective May 15, 2015 to the new maturity date of February 15, 2036, the fixed rate on the swap with original notional amount of $103,135 (current notional $96,470), was amended to 3.1296%, and the fixed rate on the swap with original notional amount of $62,180 (current notional $57,405) was amended to 2.1018%.

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 $0 and $137 due the counterparty at June 30, 2015 and 2014, respectively.

The combined values of these agreements at June 30, 2015 and 2014 were included as approximately $5,440 and $8,772, respectively, in the caption accounts payable and accrued liabilities on the statements of financial position. In 2015 and 2014, the effect on the statement of activities is recorded in the other changes in net assets section as $3,332 and $2,634, respectively, 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 years ended June 30, 2015 and 2014, is as follows (in thousands):

| | | Total Realized/Unrealized Gains (Losses) included in: | | | | |
|---|---|---|---|---|---|---|
| | Balance, July 1, 2014 | Realized Gains (Losses) | Unrealized Gains (Losses) | Purchases, Sales, Issuances and Settlements | Transfer In and/or Out of Level 3 | Balance, June 30, 2015 |
| Interest Rate Swaps | $ (8,772) | $ – | $ 3,332 | $ – | $ – | $ (5,440) |

| | | Total Realized/Unrealized Gains (Losses) included in: | | | | |
|---|---|---|---|---|---|---|
| | Balance, July 1, 2013 | Realized (Losses) Gains | Unrealized (Losses) Gains | Purchases, Sales, Issuances and Settlements | Transfer In and/or Out of Level 3 | Balance, June 30, 2014 |
| Interest Rate Swaps | $ (11,406) | $ – | $ 2,634 | $ – | $ – | $ (8,772) |

## 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, UHS, a Louisiana limited liability corporation, was formed. Through June 30, 2005, the university retained a 20% interest in UHS. Effective July 1, 2005, the university accepted a dilution in interest to 17.25% when HCA contributed Lakeside Hospital to the partnership. Under the terms of the joint venture agreement, the university provides services to UHS under a shared services agreement, an academic affiliation agreement and other related agreements. These services include a variety of overhead services, such as plant operations, security and telecommunications, as well as a variety of direct and indirect medical educational and related services. Additionally, the university leases to UHS the land upon which the hospital and clinic facilities are located, and leases office space to UHS and to HCA in a university-owned building.

For the years ended June 30, 2015 and 2014, the university recorded revenue and cost recoveries of approximately $55.5 and $55.6 million, respectively, and as of June 30, 2015 and 2014, recorded approximately $2.9 and $6.2 million, respectively, 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, 2014 and 2013, is as follows (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Current assets | $ 83,635 | $ 70,068 |
| Property, plant and equipment, net | 70,775 | 78,867 |
| Other assets | 416 | 416 |
| Total assets | $ 154,826 | $ 149,351 |
| Current liabilities | $ 46,719 | $ 40,260 |
| Long term debt | 133,691 | 110,063 |
| Total liabilities | 180,410 | 150,323 |
| Partners' deficit | (25,584) | (972) |
| Total liabilities and partners' equity | $ 154,826 | $ 149,351 |

Summarized audited financial results for the years ended December 31, 2014 and 2013 are as follows (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Net revenues | $ 361,701 | $ 344,765 |
| Operating expenses | 361,737 | 350,433 |
| Depreciation and amortization | 12,628 | 14,398 |
| Other | 11,948 | 8,639 |
| Net (loss) | $ (24,612) | $ (28,705) |

The university's share of the joint venture's equity at June 30, 2015 and 2014 was zero.

## 17 SUBSEQUENT EVENTS

The university completed its subsequent events reviews through November 4, 2015. There were no material subsequent events as of that date which would require disclosure in or adjustment to the financial statements.

Tulane University