

# Tulane University

Financial Statements as of and for the  
Years Ended June 30, 2019 and 2018, and  
Independent Auditors' Report

## **INDEPENDENT AUDITORS' REPORT**

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 consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses 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.

### **Auditors' 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, 2019 and 2018, and the changes in its net assets, its cash flows, and functional expenses for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, on July 1, 2018, the University has adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

October 31, 2019

# TULANE UNIVERSITY

## STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2019 AND 2018 (In thousands)

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	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 75,043	\$ 36,822
Deposits in trust	37,330	71,087
Accounts and other receivables, net	69,256	73,420
Contributions receivable, net	60,490	69,516
Loans receivable, net	33,616	40,135
Investments	1,461,769	1,431,498
Prepaid expenses and other assets	19,715	11,685
Property, plant, and equipment, net	<u>973,442</u>	<u>940,314</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,730,661</u></b>	<b><u>\$ 2,674,477</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 92,156	\$ 83,716
Deferred revenue and refundable deposits	84,953	69,559
Lines of credit	-	-
Notes payable	41,573	29,618
Bonds payable	729,221	749,832
Federal student loan funds	<u>46,194</u>	<u>45,225</u>
Total liabilities	<u>994,097</u>	<u>977,950</u>
<b>NET ASSETS:</b>		
Without donor restrictions	140,122	129,113
Without donor restrictions, funds functioning as endowment	<u>131,804</u>	<u>128,369</u>
Total without donor restrictions	271,926	257,482
With donor restrictions	<u>1,464,638</u>	<u>1,439,045</u>
Total net assets	<u>1,736,564</u>	<u>1,696,527</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,730,661</u></b>	<b><u>\$ 2,674,477</u></b>

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

# TULANE UNIVERSITY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019 (In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2019
REVENUES:			
Tuition and fees	\$ 603,072	\$ -	\$ 603,072
Less: Institutional scholarships and fellowships	<u>(195,938)</u>	<u>-</u>	<u>(195,938)</u>
Tuition and fees, net	407,134	-	407,134
Government grants and contracts	120,149	-	120,149
Private gifts and grants	57,333	41,063	98,396
Medical group practice, labs and clinics	171,164	-	171,164
Affiliated hospital agreements/contracts	45,146	-	45,146
Endowment income	13,165	45,380	58,545
Investment income and gains, net	9,826	4,101	13,927
Recovery of indirect costs	35,752	-	35,752
Auxiliary enterprises	74,388	-	74,388
Other	39,162	-	39,162
Net assets released from restrictions	<u>72,966</u>	<u>(72,966)</u>	<u>-</u>
Total revenues	<u>1,046,185</u>	<u>17,578</u>	<u>1,063,763</u>
EXPENSES:			
Instruction and academic support	350,182	-	350,182
Affiliated hospital agreements/contracts	35,374	-	35,374
Organized research	158,366	-	158,366
Public service	30,451	-	30,451
Libraries	26,377	-	26,377
Student services	89,739	-	89,739
Institutional support	109,601	-	109,601
Scholarships and fellowships	18,628	-	18,628
Auxiliary enterprises	72,439	-	72,439
Medical group practice	121,362	-	121,362
Other	<u>9,082</u>	<u>1,637</u>	<u>10,719</u>
Total expenses	<u>1,021,601</u>	<u>1,637</u>	<u>1,023,238</u>
Change in net assets from operating activities	24,584		
OTHER CHANGES IN NET ASSETS:			
Net realized and unrealized gains	9,294	60,001	69,295
Net unrealized losses on interest rate swaps	(8,759)	-	(8,759)
Accumulated gains used for spending	(7,502)	(53,522)	(61,024)
Transfers between net asset groups	<u>(3,173)</u>	<u>3,173</u>	<u>-</u>
Total other changes in net assets	<u>(10,140)</u>	<u>9,652</u>	<u>(488)</u>
CHANGE IN NET ASSETS	14,444	25,593	40,037
BEGINNING NET ASSETS	<u>257,482</u>	<u>1,439,045</u>	<u>1,696,527</u>
ENDING NET ASSETS	<u>\$ 271,926</u>	<u>\$ 1,464,638</u>	<u>\$ 1,736,564</u>

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

# TULANE UNIVERSITY

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018 (In thousands)

	Without Donor Restrictions	With Donor Restrictions	Total 2018
REVENUES:			
Tuition and fees	\$ 560,342	\$ -	\$ 560,342
Less: Institutional scholarships and fellowships	<u>(183,850)</u>	<u>-</u>	<u>(183,850)</u>
Tuition and fees, net	376,492	-	376,492
Government grants and contracts	128,947	-	128,947
Private gifts and grants	51,940	41,898	93,838
Medical group practice, labs and clinics	174,901	-	174,901
Affiliated hospital agreements/contracts	42,064	-	42,064
Endowment income	12,672	43,848	56,520
Investment income and gains, net	4,696	1,343	6,039
Recovery of indirect costs	34,787	-	34,787
Auxiliary enterprises	70,039	-	70,039
Other	42,442	-	42,442
Net assets released from restrictions	<u>66,322</u>	<u>(66,322)</u>	<u>-</u>
Total revenues	<u>1,005,302</u>	<u>20,767</u>	<u>1,026,069</u>
EXPENSES:			
Instruction and academic support	329,018	-	329,018
Affiliated hospital agreements/contracts	34,615	-	34,615
Organized research	148,188	-	148,188
Public service	31,369	-	31,369
Libraries	25,336	-	25,336
Student services	85,596	-	85,596
Institutional support	107,958	-	107,958
Scholarships and fellowships	18,374	-	18,374
Auxiliary enterprises	71,215	-	71,215
Medical group practice	117,745	-	117,745
Other	<u>8,839</u>	<u>7,384</u>	<u>16,223</u>
Total expenses	<u>978,253</u>	<u>7,384</u>	<u>985,637</u>
Change in net assets from operating activities	<u>27,049</u>		
OTHER CHANGES IN NET ASSETS:			
Net realized and unrealized gains	12,739	105,720	118,459
Net unrealized gain on interest rate swaps	6,932	-	6,932
Loss on early extinguishment of debt	(473)	-	(473)
Accumulated gains used for spending	(4,775)	(46,728)	(51,503)
Transfers between net asset groups	<u>(2,010)</u>	<u>2,010</u>	<u>-</u>
Total other changes in net assets	<u>12,413</u>	<u>61,002</u>	<u>73,415</u>
CHANGE IN NET ASSETS	39,462	74,385	113,847
BEGINNING NET ASSETS	<u>218,020</u>	<u>1,364,660</u>	<u>1,582,680</u>
ENDING NET ASSETS	<u>\$ 257,482</u>	<u>\$ 1,439,045</u>	<u>\$ 1,696,527</u>

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

# TULANE UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018 (In thousands)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 40,037	\$ 113,847
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Loss on early extinguishment of debt	-	473
Depreciation and amortization	52,584	50,966
Asset retirements	694	1,204
Net realized and unrealized investment gains	(69,295)	(118,459)
Net decrease (increase) in fair value of interest rate swap agreements	8,759	(6,932)
Contributions restricted for permanent investment	(25,644)	(20,214)
Contributions of property	(276)	(126)
Grant receipts used for capital purposes	(489)	-
Donations received for capital purposes	(15,139)	(18,699)
Insurance and FEMA recoveries received	-	(1,441)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and other receivables	4,164	(11,774)
Decrease in contributions receivable	4,733	8,233
(Increase) in prepaid expenses and other assets	(8,030)	(2,282)
(Decrease) in accounts payable and accrued liabilities	(2,412)	(108)
Increase (decrease) in deferred revenue and refundable deposits	<u>15,394</u>	<u>(136)</u>
Net cash provided by (used in) operating activities	<u>5,080</u>	<u>(5,448)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(327,186)	(340,912)
Proceeds from the sale of investments	366,210	353,555
Purchase of property, plant and equipment	(83,627)	(77,431)
Decrease (increase) in deposits in trust	33,757	(24,516)
Student loans issued	(245)	(4,883)
Proceeds from collections of student loans	6,764	7,236
Grant receipts used for capital purposes	489	-
Donations received for capital purposes	15,139	18,699
Insurance and FEMA recoveries net of advances received and released	<u>-</u>	<u>(5,559)</u>
Net cash provided by (used in) investing activities	<u>11,301</u>	<u>(73,811)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contributions restricted for permanent investment	29,937	29,708
Repayment of bonded debt	(19,950)	(36,190)
Proceeds from bonded debt	-	92,005
Repayment of notes payable	(28,888)	(440)
Proceeds from notes payable	40,843	-
Increase in federal student loan funds	969	781
Annuities paid	<u>(1,071)</u>	<u>(1,081)</u>
Net cash provided by financing activities	<u>21,840</u>	<u>84,783</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,221	5,524
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>36,822</u>	<u>31,298</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 75,043</u>	<u>\$ 36,822</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid	<u>\$ 30,358</u>	<u>\$ 28,500</u>

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

# TULANE UNIVERSITY

## STATEMENTS OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2019 and 2018 (In thousands)

	2019						Total
	Salaries	Fringe Benefits	Supplies and Services	Depreciation	Interest	Other	
Instruction and Academic Support	\$ 179,435	\$41,631	\$ 87,443	\$15,154	\$ 7,608	\$ 18,911	\$ 350,182
Affiliated Hospital Agreements/Contracts	31,619	4	3,701	-	-	50	35,374
Organized Research	54,512	10,110	34,806	6,901	1,865	50,172	158,366
Public Service	6,329	1,476	3,884	643	-	18,119	30,451
Libraries	7,273	1,700	5,522	11,517	245	120	26,377
Student Services	30,263	7,323	45,508	2,831	-	3,814	89,739
Institutional Support	54,056	12,469	32,415	1,921	5,924	2,816	109,601
Scholarships and Fellowships	1,115	135	-	-	-	17,378	18,628
Auxiliary Enterprises	12,959	3,261	21,109	14,973	14,085	6,052	72,439
Medical Group Practice	98,328	10,150	8,778	-	-	4,106	121,362
Other	2,403	440	7,717	-	-	159	10,719
<b>Total</b>	<b><u>\$478,292</u></b>	<b><u>\$88,699</u></b>	<b><u>\$250,883</u></b>	<b><u>\$53,940</u></b>	<b><u>\$29,727</u></b>	<b><u>\$121,697</u></b>	<b><u>\$1,023,238</u></b>

  

	2018						Total
	Salaries	Fringe Benefits	Supplies and Services	Depreciation	Interest	Other	
Instruction and Academic Support	\$ 167,476	\$37,181	\$ 84,563	\$14,895	\$ 7,025	\$ 17,878	\$ 329,018
Affiliated Hospital Agreements/Contracts	30,577	7	3,970	-	-	61	34,615
Organized Research	53,364	9,434	31,626	6,784	1,712	45,268	148,188
Public Service	6,380	1,601	4,565	632	1	18,190	31,369
Libraries	6,925	1,670	5,350	11,103	242	46	25,336
Student Services	28,389	7,200	44,277	2,782	-	2,948	85,596
Institutional Support	52,846	11,825	35,079	1,888	3,922	2,398	107,958
Scholarships and Fellowships	1,130	146	-	-	-	17,098	18,374
Auxiliary Enterprises	12,596	3,360	19,326	14,717	14,238	6,978	71,215
Medical Group Practice	95,422	9,799	8,280	-	-	4,244	117,745
Other	2,190	463	8,560	-	-	5,010	16,223
<b>Total</b>	<b><u>\$457,295</u></b>	<b><u>\$82,686</u></b>	<b><u>\$245,596</u></b>	<b><u>\$52,801</u></b>	<b><u>\$27,140</u></b>	<b><u>\$120,119</u></b>	<b><u>\$ 985,637</u></b>

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



# TULANE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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### 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 consolidated financial statements (the "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, Samuel Z. Stone CIPR Trust, Tulane Pharmacy, LLC, Tulane Living Well, LLC and all auxiliary activities.

On July 1, 2018, the University adopted Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. ASU 2016-14 provides for additional disclosure requirements and modifies net asset reporting. The standard requires the University to reclassify its net assets (i.e., unrestricted, temporarily restricted, and permanently restricted) into two categories: net assets without donor restrictions and net assets with donor restrictions, among other requirements.

The University's two net asset categories are described below.

Net assets without donor restrictions include the following:

- Net assets without donor restrictions include funds not subject to donor-imposed stipulations. The revenues received and expenses incurred in conducting the educational, research, and service missions of the University are included in this category. Additionally, this category includes the health care services associated with the School of Medicine Medical Group Practice and the professional services provided under affiliated hospital agreements.
- Net assets without donor restrictions, 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.

Net assets with donor restrictions include the following:

- 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.

- 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**—The University follows the following US Generally Accepted Accounting Principles (US GAAP) concerning revenue recognition:

Revenue from Contracts with Customers: Effective July 1, 2018, the University adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance requires that the University recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. The guidance uses a principles-based approach for determining revenue recognition, eliminates the transaction and industry-specific guidance, and establishes a five-step approach for the recognition of revenue. The University adopted this guidance using the modified retrospective approach, which applies to contracts that have remaining obligations as of July 1, 2018 and new contracts entered into subsequent to July 1, 2018. This guidance did not significantly impact the timing of the University's revenue recognition but did impact the classification of certain assets and liabilities in the consolidated statements of financial position and required new disclosures. See Note 13, Revenue Recognition, for more information.

**Net Assets Without Donor Restrictions Operating Results**—Net assets without donor restrictions operating results include all transactions that change net assets without donor restrictions, except for endowment related investment transactions for net realized and unrealized gains, net unrealized gains associated with interest rate swaps, losses on early extinguishment of debt, accumulated gains used for spending, and transfer between net asset groups. Donor transactions for expendable gifts that are released from restrictions are included with net assets without donor restrictions operating results. Net assets without donor restrictions 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 net assets with donor restrictions are transferred to net assets without donor restriction 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 (in thousands):

	<b>2019</b>	<b>2018</b>
Grants and contracts—FEMA	\$ 6,258	\$ 6,103
Grants and contracts—other	38,334	20,787
Tuition and fees—net	14,906	15,387
Other	<u>25,455</u>	<u>27,282</u>
Total	<u>\$84,953</u>	<u>\$69,559</u>

**Use of Estimates**—The preparation of financial statements in conformity with 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 and retirement of assets as presented in the Statement of Functional Expenses, as well as plant operations and maintenance expense of \$59,837 and \$59,598 for 2019 and 2018 respectively, are allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the debt.

**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.L.C. (UHS) is accounted for using the equity method (see Note 18), 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, 2019 and 2018 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 assets with donor restrictions 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 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, 2019 and 2018.

**Deferred Financing Costs**—The University incurred financing costs in connection with the issuance of various bonds payable (see Note 12). Deferred financing costs as of June 30, 2019 and 2018 are as follows (in thousands):

	<b>2019</b>	<b>2018</b>
Total deferred financing costs	\$12,309	\$12,226
Less accumulated amortization	<u>(4,639)</u>	<u>(4,156)</u>
Deferred financing costs—net	<u>\$ 7,670</u>	<u>\$ 8,070</u>

**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 February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lease obligations to be recognized on the balance sheet. ASU No. 2016-02 is effective for the year beginning July 1, 2020. Management has not yet determined the impact, if any, that implementation of ASU No. 2016-02 will have on the University's financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which amends ASC 230 to add or clarify guidance on the classification of certain specific types of cash receipts in the statement of cash flows with the intent of reducing diversity in practice. Updates relate to the following types of cash receipts: debt prepayments of extinguishment cost, settlement of zero-coupon debt, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investees, and beneficial interests in securitization transactions. The University adopted ASU 2016-15 beginning July 1, 2018. There was no significant impact to the University's financial statements.

In August 2018, the FASB issued ASU No. 2018-08 (ASU 2018-08), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the accounting guidance to assist entities in evaluating whether transactions should be accounted for as contributions within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange transactions subject to other guidance, as well as determining whether a contribution is conditional. The University adopted ASU 2018-08 beginning July 1, 2018. There was no significant impact to the University's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, to improve the effectiveness of the footnote disclosures. ASU No. 2018-13 is effective for the University for the year beginning July 1, 2020. The University does not believe the implementation of ASU No. 2018-13 will have a material impact on the University's financial statements and footnote disclosures thereto.

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 its financial statements.

## **2. DEPOSITS IN TRUST**

Deposits in trust at June 30, 2019 and 2018 consist of investments at fair value of \$37,330 and \$71,087 (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, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Student receivables, net of allowance for doubtful accounts of \$3,500 for 2019 and 2018	\$ 4,724	\$ 5,026
U.S. Government, state and other contract receivables, net of allowances for doubtful accounts of \$719 for 2019 and 2018	39,937	43,168
Patient and related receivables, net of allowances for discounts and doubtful accounts of \$12,803 and \$14,226, respectively.	14,839	16,843
Other receivables	<u>9,756</u>	<u>8,383</u>
Total	<u>\$69,256</u>	<u>\$73,420</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, 2019 and 2018 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 3.9% to the present value of the future cash flows for the years ending June 30, 2019 and 2018.

Management expects unconditional promises to be realized in the following periods (in thousands) at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
In one year or less	\$29,702	\$ 26,710
Between one year and five years	34,923	43,376
More than five years	<u>4,978</u>	<u>11,604</u>
Contributions receivable prior to discounts and allowances	69,603	81,690
Less: discounts of \$3,262 and \$5,171 at June 30, 2019 and 2018, respectively, and allowances for uncollectible pledges of \$5,851 and \$7,003, at June 30, 2019 and 2018, respectively	<u>(9,113)</u>	<u>(12,174)</u>
Total	<u>\$60,490</u>	<u>\$ 69,516</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, 2019 and 2018 are adequate to absorb any uncollectible pledges as of those dates.

Contributions receivable at June 30, 2019 and 2018 have restrictions applicable to the following (in thousands):

	<b>2019</b>	<b>2018</b>
Endowments for departmental programs and activities	\$22,615	\$26,540
Departmental programs and activities	14,445	13,408
Capital purposes	<u>23,430</u>	<u>29,568</u>
Total	<u>\$60,490</u>	<u>\$69,516</u>

Conditional promises to give, bequests, and intentions to give that are not recorded in the financial statements are \$192,413 and \$170,610 (in thousands) at June 30, 2019 and 2018, respectively.

## 5. LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Perkins student loan program	\$34,248	\$40,651
Primary care loan program	1,196	1,328
Other loan programs	<u>647</u>	<u>631</u>
Loans receivable prior to allowances	36,091	42,610
Less: allowance for doubtful accounts	<u>(2,475)</u>	<u>(2,475)</u>
Total	<u>\$33,616</u>	<u>\$40,135</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, 2019 and 2018, student loans represented 1.2% and 1.5%, respectively, of total assets.

The University participates in the Perkins federal loan program. New loans under the program were discontinued in October of 2017. Funds advanced by the federal government of \$46,194 and \$45,225 at June 30, 2019 and 2018, 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.

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, 2019 and 2018 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. ASC 820 exempts assets measured using the Net Asset Value (NAV) expedient from this hierarchy. 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, 2019 (in thousands):

<b>Investments</b>	<b>Tier 1 (Quoted Prices in Active Markets)</b>	<b>Tier 2 (Significant Observable Inputs)</b>	<b>Total Investments at Measured Fair Value</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Short term money funds and cash <sup>(a)</sup>	\$ 64,692	\$ 2,122	\$ 66,814	\$ -	\$ 66,814
Domestic equity <sup>(b)</sup>	128,395	-	128,395	151,619	280,014
International equity <sup>(b)</sup>	21,454	-	21,454	206,679	228,133
Hedge funds:					
Long/Short equity <sup>(c)</sup>	-	-	-	101,634	101,634
Absolute return <sup>(d)</sup>	-	-	-	113,698	113,698
Enhanced fixed income <sup>(e)</sup>	-	-	-	88,661	88,661
Fixed income <sup>(f)</sup>	103,568	22,281	125,849	10,124	135,973
Partnerships:					
Private equity <sup>(g)</sup>	-	-	-	276,566	276,566
Private and public real assets <sup>(h)</sup>	-	-	-	130,700	130,700
Total investments at fair value by tier	<u>\$318,109</u>	<u>\$24,403</u>	<u>\$342,512</u>	<u>\$1,079,681</u>	<u>1,422,193</u>
Real estate and royalty interests at original cost or appraised value					19,827
Investment receivables and other at cost or appraised value					<u>19,749</u>
Total investments valued at other than fair value					<u>39,576</u>
Total investments					<u>\$1,461,769</u>
Deposits in trust:					
Short term money funds and cash <sup>(a)</sup>	\$ -	\$ 18,865	\$ 18,865	\$ -	\$ 18,865
Domestic equities <sup>(b)</sup>	504	-	504	-	504
Fixed income <sup>(f)</sup>	-	17,961	17,961	-	17,961
Total deposits in trust at fair value by tier	<u>\$ 504</u>	<u>\$36,826</u>	<u>\$ 37,330</u>	<u>\$ -</u>	<u>\$ 37,330</u>

See annotations on page 18 and 19.

Investments consisted of the following at June 30, 2018 (in thousands):

<b>Investments</b>	<b>Tier 1 (Quoted Prices in Active Markets)</b>	<b>Tier 2 (Significant Observable Inputs)</b>	<b>Total Investments Measured at Fair Value</b>	<b>Investments Measured at NAV</b>	<b>Total</b>
Short term money funds and cash <sup>(a)</sup>	\$ 16,750	\$28,017	\$ 44,767	\$ -	\$ 44,767
Domestic equity <sup>(b)</sup>	113,717	-	113,717	168,157	281,874
International equity <sup>(b)</sup>	20,412	-	20,412	219,387	239,799
Hedge funds:					
Long/Short equity <sup>(c)</sup>	-	-	-	97,407	97,407
Absolute return <sup>(d)</sup>	-	-	-	132,589	132,589
Enhanced fixed income <sup>(e)</sup>	-	-	-	82,507	82,507
Fixed income <sup>(f)</sup>	109,201	37,742	146,943	-	146,943
Partnerships:					
Private equity <sup>(g)</sup>	-	-	-	218,833	218,833
Private and public real assets <sup>(h)</sup>	-	-	-	163,580	163,580
Total investments at fair value by tier	<u>\$260,080</u>	<u>\$65,759</u>	<u>\$325,839</u>	<u>\$1,082,460</u>	<u>1,408,299</u>
Real estate and royalty interests at original cost or appraised value					19,388
Investment receivables and other at cost or appraised value					<u>3,811</u>
Total investments valued at other than fair value					<u>23,199</u>
Total investments					<u>\$1,431,498</u>
Deposits in trust:					
Short term money funds and cash <sup>(a)</sup>	\$ -	\$13,509	\$ 13,509	\$ -	\$ 13,509
Domestic equities <sup>(b)</sup>	542	-	542	-	542
Fixed income <sup>(f)</sup>	-	57,036	57,036	-	57,036
Total deposits in trust at fair value by tier	<u>\$ 542</u>	<u>\$70,545</u>	<u>\$ 71,087</u>	<u>\$ -</u>	<u>\$ 71,087</u>

See annotations on page 19 and 20.

In accordance with ASC 820, fair values are determined by the use of calculated net asset value per ownership share. As of June 30, 2019, the University investments that feature net asset value per share are as follows:

	<b>Fair Value (in Thousands)</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency if Currently Eligible</b>	<b>Redemption Notice Period</b>
Domestic and international equities <sup>(b)</sup>	\$ 358,298	\$ -	Daily, Monthly, Quarterly, Yearly	1-180 days
Equity long/short hedge funds <sup>(c)</sup>	101,634	-	Quarterly	30-60 days
Absolute return hedge funds <sup>(d)</sup>	113,698	-	Monthly, Quarterly, Semi-annual	15-90 days
Enhanced fixed income hedge funds <sup>(e)</sup>	88,661	61,158	Quarterly	90 days
Fixed income <sup>(f)</sup>	10,124	-	Daily, Quarterly	1-60 days
Private equity <sup>(g)</sup>	276,566	233,889	N/A	N/A
Private and public real assets <sup>(h)</sup>	<u>130,700</u>	<u>53,319</u>	N/A	N/A
Total	<u>\$1,079,681</u>	<u>\$348,366</u>		

Annotations are applicable to page 16 in addition to above table.

- <sup>(a)</sup> This category includes investments in money market accounts as well as cash and cash equivalents.
- <sup>(b)</sup> 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. 100% of these investments were valued using NAV. Of the NAV investments approximately 70% of the value of this category were liquid as of June 30, 2019. Most of these funds do not normally short or employ leverage.
- <sup>(c)</sup> 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 57% of the value of this category were liquid as of June 30, 2019. Generally, restriction periods range from three to twelve months as of June 30, 2019.
- <sup>(d)</sup> This category includes investments in hedge funds that invest in event-related equity and credit, arbitrage, fixed income relative value, quantitative strategies, and other marketable assets and strategies. The category is comprised of approximately 40% equity and the remainder in 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, 2019. Generally, restriction periods range from one to eighteen months as of June 30, 2019.
- <sup>(e)</sup> This category includes investments in hedge funds and private capital funds where managers pursue opportunistic exposure to distressed, high-yield debt, and private and opportunistic credit. 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. Investments representing approximately 7% of the value of this category were liquid as of June 30, 2019. The restriction period on the liquid investment within this category is three months as of June 30, 2019.
- <sup>(f)</sup> This category includes direct ownership of domestic and international corporate and governmental bonds and notes, as well as mutual funds owning such investments. Investments representing approximately 96% of the value of this category were liquid as of June 30, 2019.

- (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 33% of private equity is in buyout strategies, 53% in growth strategies, 11% in venture capital, and 3% 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 62% of this category is in oil and gas and natural resources partnerships. The remaining 38% is in real estate funds.

In accordance with ASC 820, fair values are determined by the use of calculated net asset value per ownership share. As of June 30, 2018, the University investments that feature net asset value per share are as follows:

	<b>Fair Value (in Thousands)</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency if Currently Eligible</b>	<b>Redemption Notice Period</b>
Domestic and international equities <sup>(b)</sup>	\$ 387,544	\$ -	Daily, Monthly, Quarterly, Yearly	1-180 days
Equity long/short hedge funds <sup>(c)</sup>	97,407	-	Quarterly	30-60 days
Absolute return hedge funds <sup>(d)</sup>	132,589	-	Monthly, Quarterly, Yearly	30-90 days
Enhanced fixed income hedge funds <sup>(e)</sup>	82,507	60,636	Quarterly	90 days
Private equity <sup>(g)</sup>	218,833	187,284	N/A	N/A
Private and public real assets <sup>(h)</sup>	<u>163,580</u>	<u>70,286</u>	N/A	N/A
<b>Total</b>	<b><u>\$1,082,460</u></b>	<b><u>\$318,206</u></b>		

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. 100% of these investments were valued using NAV. Of the NAV investments approximately 60% of the value of this category were liquid as of June 30, 2018. 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 42% of the value of this category were liquid as of June 30, 2018. Generally, restriction periods range from three to thirty six months as of June 30, 2018.
- (d) This category includes investments in hedge funds that invest in event-related equity and credit, arbitrage, fixed income relative value, quantitative strategies, and other marketable assets and strategies. The category is comprised of approximately 40% equity and the remainder in debt and other investments, and provides a consistent return, with low volatility and limited correlation to equity and fixed-income markets. Investments representing approximately 76% of the value of this category were liquid as of June 30, 2018. Generally, restriction periods range from three to twenty-one months as of June 30, 2018.

- (e) This category includes investments in hedge funds where managers pursue opportunistic exposure to distressed, high-yield debt, and private and opportunistic credit. 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. None of the investments in this category were liquid because of lockup restrictions as of June 30, 2018.
- (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 38% of private equity is in buyout strategies, 51% in growth strategies, 8% in venture capital, and 3% 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 73% of this category is in oil and gas and natural resources partnerships. The remaining 27% is in real estate funds.

Endowment dividend and interest income (loss), net of expenses, amounted to approximately \$(5.7) and \$2.7 million, respectively, for the years ended June 30, 2019 and 2018. In accordance with the University's endowment spending policy, \$61.0 and \$51.5 million of accumulated gains were used to fund current operations for the years ended June 30, 2019 and 2018, respectively. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds and other amounts.

Net assets with restrictions at June 30, 2019 and 2018 include annuity, life income, and other investments at market value of approximately \$36.3 and \$35.5 million, respectively.

Net assets with restrictions at June 30, 2019 and 2018 include the investment assets at fair value of the Foundation that amounted to \$85.0 and \$86.2 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. For the years ended June 30, 2019 and 2018, income from the Foundation, which is restricted to specific purposes, amounted to approximately \$2.7 and \$2.4 million, respectively.

Investment return, net of investment management fees of \$19.3 and \$18.3 million for 2019 and 2018, respectively, is composed of the following for the years ended June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Operating:		
Endowment income	\$ 58,545	\$ 56,520
Investment income and gains, net	<u>13,927</u>	<u>6,039</u>
Total operating return	<u>72,472</u>	<u>62,559</u>
Non operating:		
Net realized and unrealized gains	69,295	118,459
Accumulated gains used for spending	<u>(61,024)</u>	<u>(51,503)</u>
Total non-operating return	<u>8,271</u>	<u>66,956</u>
Total investment return	<u>\$ 80,743</u>	<u>\$129,515</u>

## 7. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The University's financial assets available within one year of the balance sheet date for general expenditure as of June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Total assets, at year end	\$ 2,730,661	\$ 2,674,477
Less nonfinancial assets:		
Property, plant and equipment, net	(973,442)	(940,314)
Prepaid expenses and other assets	<u>(19,715)</u>	<u>(11,685)</u>
Financial assets, at year end	1,737,504	1,722,478
Less those unavailable for general expenditure within one year due to:		
Contractual or donor-imposed restrictions:		
Donor restrictions for specific purposes	(1,464,638)	(1,439,045)
Deposits in trust restricted for specific purposes	(37,330)	(71,087)
Federal student loan funds contractually repayable	<u>(46,194)</u>	<u>(45,225)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 189,342</u>	<u>\$ 167,121</u>

In addition to these available financial assets, a significant portion of the University's annual expenditures are funded by current year operating revenues. The University has also adopted a Cash Management Investment Policy which outlines liquidity objectives surrounding the investment of excess cash until needed to meet cash flow requirements. As indicated in Note 11, the University maintains \$150 million in lines of credit if needed for short term seasonal fluctuations.

## 8. NET ASSETS

Net assets with restrictions at June 30, 2019 and 2018 (in thousands) were as follows:

	<b>2019</b>	<b>2018</b>
Assets required to be held in perpetuity	\$ 678,415	\$ 647,587
Assets required to be held for a specific purpose	748,348	748,482
Assets subject to passage of time (contributions receivable)	<u>37,875</u>	<u>42,976</u>
Total	<u>\$ 1,464,638</u>	<u>\$ 1,439,045</u>

Net assets without restrictions at June 30, 2019 and 2018 (in thousands) were as follows:

	<b>2019</b>	<b>2018</b>
Undesignated	\$140,122	\$129,113
Funds functioning as endowment	<u>131,804</u>	<u>128,369</u>
Total	<u>\$271,926</u>	<u>\$257,482</u>

Net assets released from net assets with donor restrictions at June 30, 2019 and 2018 (in thousands) were as follows:

	<b>2019</b>	<b>2018</b>
Satisfaction of purpose restrictions—endowment spending	\$ 39,320	\$ 40,834
Satisfaction of purpose restrictions—operating and capital	20,190	8,747
Satisfaction of time restrictions—operating and capital	<u>13,456</u>	<u>16,741</u>
Total	<u>\$ 72,966</u>	<u>\$ 66,322</u>

## 9. ENDOWMENT FUNDS AND DISCLOSURES UNDER ASC 958-205

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.

The University classifies as net assets with restriction the original value of gifts donated for permanent endowment, any subsequent gifts to such endowments, unrealized gains (losses) and accumulations subsequently made at the direction of the applicable donor instrument.

Endowment funds, net asset composition as of June 30, 2019 and 2018 (in thousands):

	<b>2019</b>		
	<b>Without Restriction</b>	<b>With Restriction</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$1,291,501	\$1,291,501
Board designated endowment funds	<u>131,804</u>	<u>-</u>	<u>131,804</u>
Total endowment funds	<u>\$131,804</u>	<u>\$1,291,501</u>	<u>\$1,423,305</u>
	<b>2018</b>		
	<b>Without Restriction</b>	<b>With Restriction</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$1,255,598	\$1,255,598
Board designated endowment funds	<u>128,369</u>	<u>-</u>	<u>128,369</u>
Total endowment funds	<u>\$128,369</u>	<u>\$1,255,598</u>	<u>\$1,383,967</u>

Changes in endowment funds, net assets for the years ended June 30, 2019 and 2018 (in thousands):

	<b>2019</b>		
	<b>Without Restriction</b>	<b>With Restriction</b>	<b>Total</b>
Net assets, beginning of year	<u>\$128,369</u>	<u>\$1,255,598</u>	<u>\$1,383,967</u>
Investment return:			
Net appreciation (realized and unrealized)	<u>9,294</u>	<u>60,355</u>	<u>69,649</u>
Total investment return	<u>9,294</u>	<u>60,355</u>	<u>69,649</u>
New gifts	1,641	25,644	27,285
Endowment assets used for expenditure	(7,502)	(53,522)	(61,024)
Other	<u>2</u>	<u>3,426</u>	<u>3,428</u>
Total non investment changes	<u>(5,859)</u>	<u>(24,452)</u>	<u>(30,311)</u>
Net assets, end of year	<u><u>\$131,804</u></u>	<u><u>\$1,291,501</u></u>	<u><u>\$1,423,305</u></u>
	<b>2018</b>		
	<b>Without Restriction</b>	<b>With Restriction</b>	<b>Total</b>
Net assets, beginning of year	<u>\$119,670</u>	<u>\$1,178,070</u>	<u>\$1,297,740</u>
Investment return:			
Net appreciation (realized and unrealized)	<u>12,739</u>	<u>104,042</u>	<u>116,781</u>
Total investment return	<u>12,739</u>	<u>104,042</u>	<u>116,781</u>
New gifts	625	18,993	19,618
Endowment assets used for expenditure	(4,775)	(46,728)	(51,503)
Other	<u>110</u>	<u>1,221</u>	<u>1,331</u>
Total non investment changes	<u>(4,040)</u>	<u>(26,514)</u>	<u>(30,554)</u>
Net assets, end of year	<u><u>\$128,369</u></u>	<u><u>\$1,255,598</u></u>	<u><u>\$1,383,967</u></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, 2019 and 2018 is as follows:

	<b>2019</b>		<b>2018</b>	
Pooled funds	\$1,052,730	*	\$1,018,876	*
LEQSF pooled funds	210,095		209,278	
Separately invested funds	119,239	**	125,462	**
Contributions receivable	22,615		26,540	
Investment income receivables and other	<u>18,626</u>		<u>3,811</u>	
 Total endowment related net assets	 <u>\$1,423,305</u>		 <u>\$1,383,967</u>	

\* This category includes \$16.6 million in University-owned real estate that returned approximately \$0.5 million in net rents and royalties for the years ended June 30, 2019 and 2018.

\*\* This category includes an investment of approximately \$16.4 and \$28.5 million in Murphy Oil Corporation and Murphy USA, Inc. common stock at June 30, 2019 and 2018, 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, 2019 and 2018, the University used approximately \$50.8 and \$39.5 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. In 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. For the years ended June 30, 2019 and 2018, the University used approximately \$8.7 and \$8.4 million, respectively, in such assets for spending.

Separately invested funds generally produce dividends and interest that are then made available for spending. For the years ended June 30, 2019 and 2018, such items totaled approximately \$4.6 and \$2.1 million, respectively.

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, if any, are monitored by management. No significant deficiencies exist as of June 30, 2019 or June 30, 2018; such deficiencies are considered to be temporary.

**Endowment Assets used for Spending**—The University made \$61.0 and \$51.5 million of endowment assets available for spending in the years ended June 30, 2019 and 2018, respectively.

## 10. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Land	\$ 23,598	\$ 23,598
Buildings and improvements	1,248,177	1,216,501
Equipment	228,750	216,259
Library books and materials	229,398	218,378
Construction in progress	<u>59,923</u>	<u>36,924</u>
Property, plant, and equipment, gross	1,789,846	1,711,660
Less: accumulated depreciation	<u>(816,404)</u>	<u>(771,346)</u>
Property, plant, and equipment, net	<u>\$ 973,442</u>	<u>\$ 940,314</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 \$1.9 and \$1.6 million for the years ended June 30, 2019 and 2018, respectively.

Purchases of property, plant, and equipment included in accounts payable as of June 30, 2019 and 2018 total \$11.7 and \$8.5 million, respectively.

## 11. NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2019 and 2018 consist of the following (in thousands):

	<b>2019</b>	<b>2018</b>
Amounts drawn under four short term credit lines, as described below	\$ -	\$ -
One secured note for \$1,500 due in monthly installments of \$8 through 2036 with interest fixed at 4%.	1,105	1,150
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. Interest was borne at Libor plus 185 basis points (4.16% at June 30, 2018).	-	28,468
Term note dated July 20, 2018. Principal amounts vary from \$0.125 million quarterly in fiscal 2019, to \$ 1.0745 million by fiscal 2030. A final payment of \$5.0 million is due on April 1, 2033. Interest is borne at LIBOR plus 80 basis points (3.24% at June 30, 2019).	27,968	-
Term delayed draw note dated July 20, 2018. Proceeds are being made over 8 quarterly draws of \$3.125 million. Principal payments commence on July 1, 2020 with a quarterly payment of \$0.1575 million and conclude with a quarterly payment of \$1.0825 million on April 1, 2033. Interest is borne at LIBOR plus 80 basis points (3.24% at June 30, 2019)	<u>12,500</u>	<u>-</u>
Total notes payable	<u>\$41,573</u>	<u>\$29,618</u>

The University had \$150 million in lines of credit with four banks to meet short-term seasonal cash requirements, if needed, at June 30, 2019 and 2018, respectively. The lines expire as follows: \$40 million on May 28, 2020, \$20 million on May 30, 2020, \$50 million on December 12, 2019, and \$40 million on April 30, 2020 Principal is payable upon demand. At June 30, 2019 and 2018, there was \$0 drawn on these lines. Interest rates applicable to these lines are based on several defined LIBOR indices.

On July 20, 2018, the University refinanced its term note payable with a balance of \$28.468 million at June 30, 2018 with another bank. The new note reflects an improvement in the interest rate to LIBOR plus 80 basis points. Principal amounts vary from \$0.125 million quarterly in fiscal 2019, increasing substantially to \$1.0745 million by fiscal 2030. A final payment of \$5.0 million is due on April 1, 2033.

Additionally, the University executed a \$25 million delayed term note with the same bank on July 20, 2018 at the same interest rate (LIBOR plus 80 basis points). Proceeds are being made over eight quarterly draws of \$3.125 million. Principal payments commence on July 1, 2020 with a quarterly payment of \$0.1575 million and conclude with a quarterly payment of \$1.0825 million on April 1, 2033.

## 12. BONDS PAYABLE

Bonds payable consist of the following at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%.	\$ 330	\$ 420
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, 2019 and 2018 were 2.39% and 2.27%, respectively.	36,750	38,195
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 2016 through 2036, bearing interest at three month LIBOR plus 30 basis points. The rates in effect at June 30, 2019 and 2018 were 2.82% and 2.64%, respectively.	85,635	88,580
Tax exempt Louisiana Public Facilities Authority Revenue Bonds, Series 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 2016 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%.	29,035	29,135

(Continued)

	<b>2019</b>	<b>2018</b>
Tax exempt Louisiana Public Facilities Authority 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%.	\$ 28,650	\$ 28,750
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 2014 at \$500, with a bullet payment of \$5,825 due on May 24, 2019. The rate is fixed at 2.15%.	-	6,325
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%.	22,000	24,860
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
Tax exempt Louisiana Public Facilities Authority Revenue and Refunding Bond Series 2016A with principal payments ranging from \$1,305 to \$13,760 from 2017 to 2046. Fixed interest rates with an average rate of 4.597%.	169,110	171,440
The Louisiana Public Facilities Authority Taxable Revenue and Refunding Bonds Series 2016B with principal payments ranging from of \$4,170 to \$11,474 from 2017 to 2041. Fixed interest rates with an average rate of 4.346%.	91,820	91,820
Tax Exempt Louisiana Public Facilities Authority 2017A Revenue and Refunding Bonds principal payments ranging from \$605 to \$2,660 from 2018 to 2050. Fixed interest rates with an average rate of 4.282%.	48,960	49,565
The Louisiana Public Facilities Authority 2017B Taxable Revenue Bonds with principal payments ranging from \$2,865 to \$4,225 from 2018 to 2027. Fixed interest rates with an average rate of 2.803%.	<u>32,835</u>	<u>35,985</u>
	708,355	728,305
Bond underwriters net premium and discount	28,536	29,597
Deferred financing costs	<u>(7,670)</u>	<u>(8,070)</u>
Bonds payable	<u>\$ 729,221</u>	<u>\$ 749,832</u>

(Concluded)

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 Louisiana Public Facilities Authority (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 during the year ended June 30, 2012.

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.

During the year ended June 30, 2017, the University issued tax exempt and taxable bonds through the LPFA (2016A and B Series) to refinance outstanding 2007 Series A-1 bonds, support business school construction, purchase energy conservation equipment and improvements and other campus improvements. In connection with the issuance of the 2016A and 2016B Series bonds, unamortized debt issuance costs included in the loss on early extinguishment of debt totaled \$2.7 million and reflects a non-cash financing activity.

During the year ended June 30, 2018, the University issued tax exempt and taxable bonds through the LPFA (2017A and B Series), to refinance outstanding 2007 Series B bonds, support dining and student commons construction, and various infrastructure projects.

The annual principal maturities for bonds payable at June 30, 2019 are as follows (in thousands).

**Fiscal Year**

2020	\$ 18,220
2021	19,090
2022	19,230
2023	31,430
2024	20,765
2025 and thereafter	<u>599,620</u>
<b>Total</b>	<b><u>\$708,355</u></b>

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, 2019 and 2018. The mortgage bonds are secured by first mortgages on the facilities financed and by investments in government bonds having a book value and a market value approximating \$0.2 million at June 30, 2019 and 2018. In addition, annual net revenues from the residence halls and from student fees are pledged for debt service to the mortgage bonds.

### 13. REVENUE RECOGNITION

As presented in the Statement of Activities, the University has various sources of operating revenue. The following revenues are presented in accordance with ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*:

**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**—Government grants and contracts have been evaluated and determined to be exchange transactions, meaning revenues are recognized when allowable expenditures are incurred under such agreements and contracts. Advance payments are recorded as deferred revenue.

**Medical Group Practice, Labs, and Clinics**—The University's medical school faculty provide professional services to patients, the Tulane University Hospital and Clinic, other joint venture hospitals, and certain community hospitals. Under these agreements, professional revenues are distributed in accordance with specified formulas, generally in the year earned. Other revenues, such as those that relate to labs and clinics are also recorded in this caption. Expenses directly related to operation of the group practices such as physician compensation are recorded in the expense caption entitled "Medical Group Practice". Other supporting expenditures such as the operation of certain labs and treatment centers are recorded in the "Instruction and Academic Support" and "Public Service" captions.

**Auxiliary Enterprises**—This category represents revenues mainly related to housing and dining, also known as room and board. Payments from students for these services are recorded as revenues during the year the related services are rendered.

**Significant Judgments**—Significant judgment is required in determining the appropriate approach to applying the revenue recognition criteria. While Topic 606 is generally applied to an individual contract with a customer, as a practical expedient, the University applies this guidance to a portfolio of contracts (or performance obligations) with similar characteristics. The University reasonably expects that the effects of applying this guidance to the portfolio would not differ materially from applying the guidance to the individual contracts (or performance obligations) within the portfolio. For tuition and fees, as well as room and board, which is included within auxiliary enterprises revenues, the University has determined that students can be grouped into a single portfolio for each of these three performance obligations. Based on the University's experience, students at different campuses, or in different programs have similar characteristics concerning the University's approach to revenue recognition. Agreements concerning enrollment, student financial responsibility, housing, and dining plans each contain terms which clarify the performance obligations and eligibility for refunds or fee adjustments. These agreements are

fundamentally the same regardless of the program of study. For contracts with customers not pertaining to tuition and fees, room, and board, the University generally applies the revenue recognition guidance on an individual contract basis.

Significant judgment is also required to assess collectability. See Note 3, Accounts and Other Receivables, and Note 4, Contributions Receivable, for additional information concerning these receivables and their collectability, including related allowances for doubtful accounts. Given the nature of the University's contracts with customers, there are no incremental costs of obtaining a contract and no significant financing components. During the fiscal year, there were no significant changes in the judgements affecting the determination of the amount and timing of revenue from contracts with customers.

#### **14. 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 \$1.422 and \$1.408 billion at June 30, 2019 and 2018, respectively. Market values are used when available. Other investments totaling approximately \$39.6 and \$23.2 million at June 30, 2019 and 2018, 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 and Notes Payable**—The fair value was approximately \$800 and \$785 million at June 30, 2019 and 2018, 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.

#### **15. 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, 2019 and 2018, employer contributions to the plans were approximately \$24.1 and \$22.7 million, respectively.



## **16. 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 \$9.9 million and associated liabilities of \$9.9 million at June 30, 2019 and 2018, respectively, are included in unrestricted net assets.

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

## **17. 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 (OIG) Audit**

#### ***Audit Regarding FEMA Disaster Cost Recoveries***

In July 2011, the Department of Homeland Security Office of Inspector General (DHS-OIG) initiated an audit of Tulane's claim filed with the Federal Emergency Management Agency (FEMA) for emergency repair and reconstruction related to Hurricane Katrina damages. Katrina struck New Orleans in 2005. Tulane's gross claim with FEMA totaled over \$305 million, with much of this covered by insurance. The DHS-OIG audit was conducted in three phases, a review of Tulane's: 1) insurance program to ensure federal funds did not duplicate insurance proceeds; 2) contracting practices to ensure they conformed with federal requirements; and 3) specific costs incurred by the University to ensure federal funds paid for allowable expenses at fair and reasonable rates. While rejecting the vast majority of findings and recommendations of the DHS-OIG, FEMA disallowed approximately \$4.8 million.

On April 23, 2018, the DHS-OIG accepted FEMA's determination and closed the audit in its entirety. The \$4.8 million in disallowances was settled by offset with similar amounts of allowable expenses that were in process with FEMA for Tulane reimbursement. The GOHSEP (Governor's Office for Homeland Security and Emergency Preparedness) is conducting a final closeout review of Tulane's FEMA claim. This work may result in adjustments to amounts previously claimed and settled. The University does not believe that such adjustments will be significant. As a result of these developments, the University

recognized grant recoveries of \$7 million in fiscal 2018. Such amount is included in government grants and contracts revenue in the 2018 Statement of Activities. There were no significant changes in fiscal 2019.

The following constitutes a summary of the University's cumulative funding from FEMA at June 30, 2019 and 2018 (in thousands):

	<b>2019</b>	<b>2018</b>
Cumulative FEMA cash received	\$145,767	\$145,547
Receivable from FEMA	<u>-</u>	<u>-</u>
Total FEMA cash received and receivable	<u>\$145,767</u>	<u>\$145,547</u>
Cumulative FEMA advances recognized as recoveries	\$139,509	\$139,444
FEMA advances recorded as deferred revenue	<u>6,258</u>	<u>6,103</u>
Total cost recoveries and deferred revenue	<u>\$145,767</u>	<u>\$145,547</u>

#### ***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 20 years. Total lease payments amounted to approximately \$7.0 and \$6.9 million, respectively, for the years ended June 30, 2019 and 2018. Future minimum rental payments on noncancellable operating leases with lease terms in excess of one year as of June 30, 2019 are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2020	\$ 6,919
2021	6,512
2022	6,219
2023	6,079
2024	5,934
2025 and thereafter	<u>26,538</u>
Total	<u>\$58,201</u>

### ***Operating Leases—Lessor***

The University leases office and other rental space to other businesses. Lease terms range from one to 99 years, with options of renewal for additional periods. All such property leases provide for minimum annual rentals and all rental revenue has been recorded on a straight-line basis. Following is a schedule by years of future minimum rental payments under operating leases as of June 30, 2019 (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2020	\$ 2,449
2021	1,713
2022	1,541
2023	1,156
2024	1,128
2025 and thereafter	<u>78,254</u>
Total	<u>\$86,241</u>

The 99-year land lease dated March 1995 relates to the hospital/clinic as described in Note 18.

### ***Interest Rate Collars and Swaps (in thousands)***

The University has entered into interest rate swap agreements to fix variable interest rates when terms have been advantageous. The University is not required to post collateral under any of its outstanding swaps.

In January 2009, the University entered into a forward-starting swap of interest rates that became effective February 15, 2011 to hedge certain of the Series 2007C Bonds ("Swap A"). Under Swap A, which had an original notional amount of \$103.1 million that amortizes with the Series 2007C Bonds, the University pays a fixed rate of 3.195% (as subsequently amended) and the swap provider pays a three-month U.S. Dollar LIBOR rate. Swap A had an original termination date of February 2017.

In a second swap arrangement that hedges the Series 2007A-2 Bonds, the University pays a fixed interest rate of 2.334% (as subsequently amended) and receives 67% of three-month LIBOR on an original notional amount of \$62.2 million that amortizes with the Series 2007A-2 Bonds ("Swap B"). Swap B had an original termination date of February 2017.

Swap A and Swap B were modified in July 2015 to extend their termination dates to February 15, 2036. In connection with these maturity date extensions, effective May 15, 2015, the fixed rate Swap A (current notional amount of \$88,580), was amended to 3.1296%, and the fixed rate on the Swap B (current notional amount of \$38,195) was amended to 2.1018%.

The combined values of the above agreements at June 30, 2019 and 2018 were approximately \$11,163 and \$2,404 in favor of the swap providers, as reflected in the line item accounts payable and accrued liabilities.

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 (Tier 3) inputs for years ended June 30, 2019 and 2018 is as follows (in thousands):

<b>Fair Value Measurements Using Significant Unobservable Inputs (Tier 3)</b>						
<b>Total Realized/Unrealized Gains (Losses) included in:</b>						
	<b>Balance, July 1, 2018</b>	<b>Realized Gains (Losses)</b>	<b>Unrealized Gains (Losses)</b>	<b>Purchases, Sales, Issuances and Settlements</b>	<b>Transfer In and/or Out of Level 3</b>	<b>Balance, June 30, 2019</b>
Interest rate swaps	<u>\$(2,404)</u>	<u>\$ -</u>	<u>\$(8,759)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(11,163)</u>

<b>Fair Value Measurements Using Significant Unobservable Inputs (Tier 3)</b>						
<b>Total Realized/Unrealized Gains (Losses) included in:</b>						
	<b>Balance, July 1, 2017</b>	<b>Realized Gains (Losses)</b>	<b>Unrealized Gains (Losses)</b>	<b>Purchases, Sales, Issuances and Settlements</b>	<b>Transfer In and/or Out of Level 3</b>	<b>Balance, June 30, 2018</b>
Interest rate swaps	<u>\$(9,336)</u>	<u>\$ -</u>	<u>\$6,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(2,404)</u>

## **18. 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 and security, 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.

Effective May 7, 2017, the UHS entered into an agreement with Epic Development, Inc., a subsidiary of HCA, to lease Lakeview Hospital, licensed as a 167-bed facility, in Covington, Louisiana for 15 years.

For the years ended June 30, 2019 and 2018, the University recorded revenue and cost recoveries of approximately \$59.2 and \$59.4 million, respectively, and as of June 30, 2019 and 2018, recorded approximately \$6.1 and \$5.9 million, respectively, as receivable from UHS, related to these agreements.

The University's share of the joint venture's equity at June 30, 2019 and 2018 was zero.

## **19. SUBSEQUENT EVENTS**

The University completed its subsequent events reviews through October 31, 2019.

\* \* \* \* \*