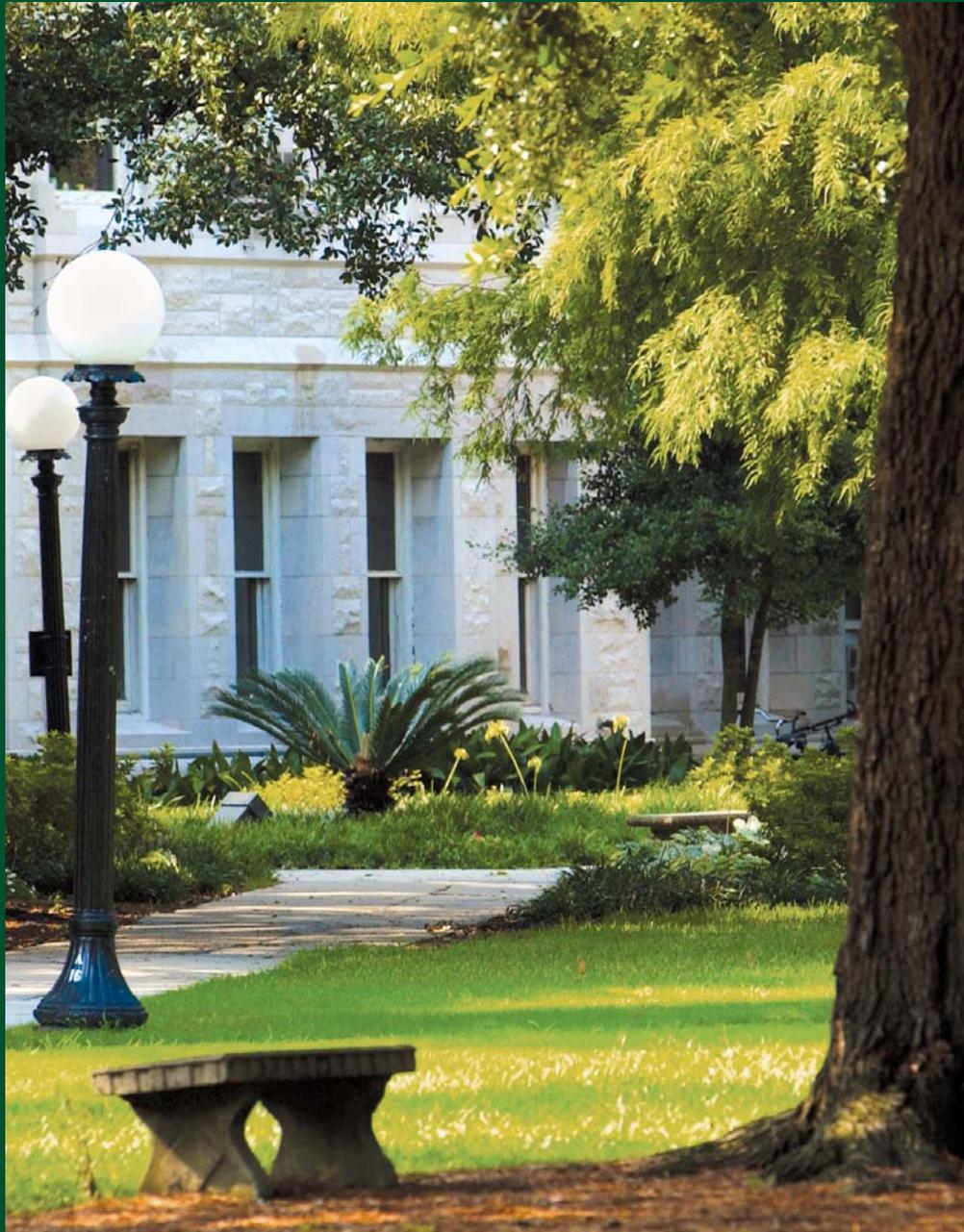


TULANE UNIVERSITY  
FINANCIAL STATEMENTS



2006-2007

# TULANE UNIVERSITY

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FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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Tulane University, a private research university founded in 1834, is one of the most respected universities in the country. A member of the prestigious Association of American Universities, it is consistently ranked among the top 50 universities in the nation. With research and educational partnerships that span the globe, top-ranked programs in the academic and professional schools, and its location in historic New Orleans, Louisiana, Tulane offers an unparalleled educational experience for its 10,500 students.

**ABOUT THE PHOTOGRAPH:** Historic oak trees shade the Gibson quad on the Tulane University uptown campus in front of Dinwiddie Hall, constructed in 1923 and named for former Tulane president Albert Bledsoe Dinwiddie. The building houses the Middle American Research Institute and its museum. (Photo by Paula Burch-Celentano)





# INDEPENDENT AUDITORS' REPORT

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## THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

We have audited the accompanying statement of financial position of Tulane University (the "University") as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2006 financial statements and, in our report dated November 10, 2006, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Tulane University as of June 30, 2007, and the changes in its net assets and its cash flows for the year then in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 16 to the financial statements, the University's operations were significantly impacted by the effects of Hurricane Katrina in fiscal 2007.

*Deloitte & Touche LLP*

New Orleans, Louisiana

October 23, 2007

TULANE UNIVERSITY  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006 (IN THOUSANDS)

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	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 55,784	\$ 105,644
Deposits in trust	28,840	46,479
Accounts receivable, net	54,264	87,672
Contributions receivable, net	78,847	65,001
Loans receivable, net	38,068	36,320
Investments	1,022,648	895,076
Prepaid expenses and other assets	5,835	19,154
Property, plant and equipment, net	<u>549,263</u>	<u>517,371</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,833,549</u>	<u>\$ 1,772,717</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 96,611	\$ 179,959
Deferred revenue and refundable deposits	56,533	57,554
Notes payable and lines of credit	19,853	80,299
Bonds payable	392,625	434,105
Federal student loan funds	<u>37,859</u>	<u>37,389</u>
<b>Total liabilities</b>	<u>603,481</u>	<u>789,306</u>
<b>Net Assets</b>		
Unrestricted	123,601	26,600
Unrestricted, funds functioning as endowment	<u>588,984</u>	<u>481,598</u>
Total unrestricted	712,585	508,198
Temporarily restricted	85,683	61,873
Permanently restricted	<u>431,800</u>	<u>413,340</u>
<b>Total net assets</b>	<u>1,230,068</u>	<u>983,411</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,833,549</u>	<u>\$ 1,772,717</u>

TULANE UNIVERSITY  
STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2007,  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2006 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2007	2006
<b>OPERATING REVENUES</b>					
Tuition and fees	\$ 278,196			\$ 278,196	\$ 263,192
Less: Institutional scholarships and fellowships	<u>(83,351)</u>			<u>(83,351)</u>	<u>(82,962)</u>
Tuition and fees, net	194,845			194,845	180,230
Government grants and contracts	148,043			148,043	101,480
Private gifts and grants	32,472	\$ 32,661	\$ 16,201	81,334	74,836
Medical group practice	38,031			38,031	28,494
Affiliated hospital agreements/contracts	26,723			26,723	28,427
Endowment income	33,162			33,162	32,806
Investment income and gains, net	12,764	879		13,643	8,586
Recovery of indirect costs	26,436			26,436	18,718
Auxiliary enterprises	41,269			41,269	22,887
Commercial insurance recoveries—unallocated	125,000			125,000	100,000
Other	26,784			26,784	22,133
Net assets released from restrictions	<u>14,183</u>	<u>(14,183)</u>		<u>—</u>	<u>—</u>
<b>Total operating revenues</b>	<u>719,712</u>	<u>19,357</u>	<u>16,201</u>	<u>755,270</u>	<u>618,597</u>
<b>OPERATING EXPENSES</b>					
Instruction and academic support	184,871			184,871	180,995
Affiliated hospital agreements/contracts	19,730			19,730	24,524
Organized research	124,662			124,662	114,684
Public service	6,360			6,360	6,953
Libraries	18,531			18,531	18,541
Student services	18,676			18,676	17,135
Institutional support	68,961			68,961	53,560
Scholarships and fellowships	8,189			8,189	5,541
Auxiliary enterprises	75,583			75,583	62,403
Medical group practice	39,273			39,273	50,449
Disaster costs	24,021			24,021	152,546
Other	<u>8,280</u>	<u>1,546</u>		<u>9,826</u>	<u>13,105</u>
<b>Total operating expenses</b>	<u>597,137</u>	<u>1,546</u>	<u>—</u>	<u>598,683</u>	<u>700,436</u>
<b>Increase (decrease) in net assets from operating activities</b>	122,575	17,811	16,201	156,587	(81,839)
<b>NON-OPERATING ACTIVITIES</b>					
Net realized and unrealized gains (losses)	130,547	2,053		132,600	61,657
Accumulated gains used for spending	(24,790)			(24,790)	(22,901)
Loss on early extinguishment of debt	(17,740)			(17,740)	—
Transfers between net asset groups	<u>(6,205)</u>	<u>3,946</u>	<u>2,259</u>	<u>—</u>	<u>—</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	204,387	23,810	18,460	246,657	(43,083)
<b>BEGINNING NET ASSETS</b>	<u>508,198</u>	<u>61,873</u>	<u>413,340</u>	<u>983,411</u>	<u>1,026,494</u>
<b>ENDING NET ASSETS</b>	<u>\$ 712,585</u>	<u>\$ 85,683</u>	<u>\$ 431,800</u>	<u>\$1,230,068</u>	<u>\$ 983,411</u>

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

TULANE UNIVERSITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2007 AND 2006 (IN THOUSANDS)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase (decrease) in net assets	\$ 246,657	\$ (43,083)
Adjustments to reconcile increase (decrease) in net assets to net cash provide by (used for) operating activities:		
Loss on early extinguishment of debt	17,740	-
Net book value of buildings and equipment destroyed	8,577	18,529
Depreciation	35,545	33,172
Net realized and unrealized investment gains	(132,600)	(61,657)
Contributions restricted for permanent investment	(16,201)	(29,185)
Contributions of property	-	(2,000)
National Flood Insurance Program and other insurance recoveries received	(19,759)	(5,113)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	33,408	(36,869)
(Increase) decrease in contributions receivable	(13,846)	5,950
Decrease (increase) in prepaid expenses and other assets	2,657	(814)
(Decrease) increase in accounts payable and accrued liabilities	(45,378)	72,461
(Decrease) increase in deferred revenue and refundable deposits	(1,021)	15,704
<b>Net cash provided by (used for) operating activities</b>	<b>115,779</b>	<b>(32,905)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(472,584)	(345,120)
Proceeds from the sale of investments	477,612	339,830
Purchase of property, plant and equipment, net	(107,507)	(81,896)
Decrease (increase) in deposits in trust	17,639	(3,995)
Student loans issued	(9,224)	(7,065)
Proceeds from collections of student loans	7,476	10,298
National Flood Insurance Program and other insurance recoveries received	19,759	5,113
<b>Net cash used for investing activities</b>	<b>(66,829)</b>	<b>(82,835)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted for permanent investment	16,201	29,185
Proceeds from long term debt	380,078	147,176
Repayment of long term debt	(433,220)	(2,980)
(Decrease) increase in notes payable and lines of credit	(60,446)	35,936
Increase in federal student loan funds	470	1,765
Payments on annuities payable	(1,893)	(1,954)
<b>Net cash (used for) provided by financing activities</b>	<b>(98,810)</b>	<b>209,128</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(49,860)	93,388
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>\$ 105,644</b>	<b>\$ 12,256</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>55,784</b>	<b>105,644</b>
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest paid	<b>\$ 23,735</b>	<b>\$ 18,131</b>

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

# TULANE UNIVERSITY

## NOTES TO THE FINANCIAL STATEMENTS

### YEAR ENDED JUNE 30, 2007

#### 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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The summary of significant accounting policies followed by Tulane University (the university) is presented below and in other sections of these notes.

#### BASIS OF PRESENTATION

The accompanying financial statements have been prepared using the accrual basis of accounting. The financial statements include the accounts of Tulane University, Tulane Murphy Foundation, Inc., Howard Memorial Association, 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 and research missions of the university are included in this category. Additionally, this category includes the health care services associated with the School of Medicine Medical Group Practice and the professional services provided under affiliated hospital agreements. The university has determined that any donor-imposed restrictions for current or developing programs and activities are generally met within the operating cycle of the university, and therefore, the university's policy is to record these net assets as unrestricted.
- Unrestricted funds functioning as endowment include funds designated by the Board of Administrators and realized and unrealized gains.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met, annuity and life income funds and contributions receivable for which the ultimate purpose of the proceeds is not permanently restricted.

Permanently restricted net assets include gifts, trusts and contributions receivable, which are required by donor-imposed restriction to be invested in perpetuity. Only the income from such investments is available for program operations in accordance with donor restrictions.

## REVENUE RECOGNITION

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

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

**Medical group practice** — Revenues for health care services rendered by the medical group practice are recorded at contractual or established rates net of discounts, contractual adjustments, charity services and bad debts.

## USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## ALLOCATION OF CERTAIN EXPENSES

The financial statements present expenses by functional classification in accordance with the overall mission of the university. Certain natural expenses are allocated to the respective functional classifications based on certain criteria. Depreciation expense, plant operations and maintenance, and retirement of plant assets are allocated based on square footage occupancy. Interest expense is allocated to the functional categories that have benefited from the proceeds of the debt. The expenses allocated are as follows (in thousands):

Depreciation	\$ 35,545
Retirement of plant assets	3,165
Plant operations and maintenance	44,971
Interest on indebtedness	23,997

## CASH EQUIVALENTS

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

## I N V E S T M E N T S

Investments are stated at market value, except partnerships, mortgages, real estate and royalty interests, which are stated at cost, in accordance with Statement of Financial Accounting Standard No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is shown in the statement of activities. The university's investment in University Healthcare System, L.C., is accounted for using the equity method.

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 fund balances even if depreciation provisions were made. This excess is considered sufficient to permit the distribution of a portion of the rentals and royalties derived from these properties to current operations.

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

The endowment spending policy is based upon the average market value of the previous twelve quarters multiplied by a specified percentage. The percentage for the pooled endowment for the fiscal year ended June 30, 2007, was 5.40%. Accumulated investment gains are used to fund the difference between payout and current earnings.

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

The university has agreements with donors that include irrevocable charitable remainder trusts, charitable gift annuities, and life income funds where the university serves as trustee. Assets held in trust are included in investments with gifts recorded net of liabilities for the estimated future payment to be made to donors or other beneficiaries.

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

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

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost, or if donated, at fair market value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the related assets. The estimated useful lives are as follows: buildings and improvements, 20 to 50 years, and equipment and library books, 4 to 20 years.

Certain works of art and historical treasures have been recognized at their estimated fair value based upon appraisals or similar valuations at the time of acquisition. Works of art and historical treasures are not depreciated.

As required by Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Obligations*, conditional asset retirement obligations related to legal requirements to perform certain future activities related to the retirement, disposal, or abandonment of assets are accrued utilizing physical site surveys to estimate the net present value of applicable future costs such as asbestos abatement or removal.

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

## MEDICAL GROUP PRACTICE

The university's medical school faculty provides professional services in the Tulane University Hospital and Clinic and other community hospitals. Under these agreements, professional revenues are included in the unrestricted net assets grouping and are distributed in accordance with specified formulas.

## INTERNAL REVENUE CODE STATUS

The university has been granted tax-exempt status as a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code.

## 2 DEPOSITS IN TRUST

---

Deposits in trust consist of the following at June 30, 2007 (in thousands):

Assets restricted for self-insurance	\$ 11,390
Assets restricted by bond indentures	<u>17,450</u>
Total	<u>\$ 28,840</u>

The terms of a bond indenture require that the bond proceeds be maintained in trust until used for their specified purposes. The primary purposes of these funds are to acquire property, plant and equipment. The funds are invested principally in government securities.

## 3 ACCOUNTS RECEIVABLE

---

Accounts receivable consist of the following at June 30, 2007 (in thousands):

Insurance receivables	\$ 801
Student and other receivables, net of allowance for doubtful accounts of \$7,400	10,813
U.S. Government, state and other contract receivables, net of allowance for doubtful accounts of \$1,800	37,593
Patient and related receivables, net of allowance for discounts and doubtful accounts of \$16,155	<u>5,057</u>
Total	<u>\$ 54,264</u>

## 4 CONTRIBUTIONS RECEIVABLE

---

Unconditional promises are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions are recorded after discounting at 6.0% to the present value of the future cash flows.

Management expects unconditional promises to be realized in the following periods (in thousands):

In one year or less	\$ 25,577
Between one year and five years	62,585
More than five years	<u>10,946</u>
	99,108
Less: discount of \$10,350 and allowance for uncollectibles of \$9,911	<u>(20,261)</u>
Total	<u>\$ 78,847</u>

Contributions receivable at June 30, 2007, have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$ 25,733
Departmental programs and activities	25,479
Capital purposes	<u>27,635</u>
Total	<u>\$ 78,847</u>

## 5 LOANS RECEIVABLE

---

Loans receivable consist of the following at June 30, 2007 (in thousands):

Perkins student loan program	\$ 35,961
Primary care loan program	2,788
Other loan programs	<u>1,794</u>
	40,543
Less: allowance for doubtful accounts	<u>(2,475)</u>
Total	<u>\$ 38,068</u>

## 6 INVESTMENTS

---

Investments consist of the following at June 30, 2007 (in thousands):

Short-term investments	\$ 42,660
Stocks	754,742
Bonds: Government bonds and notes	27,741
Corporate bonds	67,559
University Healthcare System, L.C.	26,751
Partnerships, mortgages and other	65,523
Real estate and royalty interests	<u>37,672</u>
 Total	 <u><u>\$1,022,648</u></u>

Endowment dividend and interest income, net of expenses, amounted to \$9,905,000 for the year ended June 30, 2007. In accordance with the university's endowment spending policy, \$24,790,000 of accumulated gains were used to fund current operations. Unrestricted investment income and gains consist primarily of earnings on unspent bond proceeds.

Temporarily restricted net assets at June 30, 2007 include annuity and life income investments at market value of approximately \$32,000,000.

Permanently restricted net assets at June 30, 2007, include the investment assets at market value of the Tulane Murphy Foundation (the Foundation) amounting to \$91,578,000. 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 year ended June 30, 2007, income from the Foundation, which is restricted to specific purposes, amounted to \$1,245,000.

Trust funds not controlled by the university and held by fiduciary agencies for the benefit of the university have been excluded from the financial statements. The book value and the market value of such funds at June 30, 2007, are \$2,678,000 and \$3,156,000, respectively.

Investment return is composed of the following for the year ended June 30, 2007 (in thousands):

Operating:

Endowment distributions	\$ 33,162
Investment income	13,643
Total operating return	<u>46,805</u>

Non operating:

Net realized and unrealized gains	\$ 132,600
Investment income	<u>(24,790)</u>
Total non operating return	<u>107,810</u>

Total investment return	<u><u>\$154,615</u></u>
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## 7

## TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

---

Temporarily restricted net assets at June 30, 2007, (in thousands) benefit the following functions:

Academic departments and instruction	\$ 36,130
Student financial aid and scholarship	11,629
Capital projects	27,942
Operations	<u>9,982</u>
 Total	 <u>\$ 85,683</u>

Permanently restricted net assets at June 30, 2007, (in thousands) benefit the following functions:

Academic departments and instruction	\$ 294,154
Student financial aid and scholarship	117,928
Operations	<u>19,718</u>
 Total	 <u>\$ 431,800</u>

## 8

## PROPERTY, PLANT AND EQUIPMENT

---

Property, plant and equipment consist of the following at June 30, 2007 (in thousands):

Land	\$ 20,369
Buildings and improvements	598,974
Equipment	128,876
Library books	101,804
Construction in progress	<u>35,367</u>
Gross property, plant, and equipment	<u>885,390</u>
Less: accumulated depreciation	<u>(336,127)</u>
 Total	 <u>\$ 549,263</u>

The university capitalizes interest related to the construction of major facilities. The capitalized interest is recorded as part of the related asset, and is amortized over the asset's estimated useful life. Capitalized interest amounted to \$595,000 for the year ended June 30, 2007.

The Tulane National Primate Research Center was established under the auspices of the National Institutes of Health and is located on a 500 acre tract of land near New Orleans. The Center is undergoing improvements and expansion that will cost approximately \$67,000,000. The expansion is funded in part by \$37,000,000 in government grants. At June 30, 2007, the university had invested approximately \$15,000,000 in these projects.

## 9 NOTES PAYABLE AND LINES OF CREDIT

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Notes payable at June 30, 2007, consist of one unsecured note for \$227,577 due in installments through 2010 with an interest rate of 8.50%, and two unsecured term notes totaling \$19,625,000 dated June 2006 with principal installments ranging from \$125,000 to \$500,000 quarterly with \$15 million due in June 2013. These two notes bear interest at the London Interbank Offering Rate (LIBOR) minus 50 basis points (4.86% at June 30, 2007).

The university has \$135 million in lines of credit with three banks to meet short-term seasonal cash requirements. Principal is payable upon demand. At June 30, 2007, there were no borrowings against these credit lines. Interest rates applicable to these lines are based on several defined indices.

## 10 BONDS PAYABLE

---

Bonds payable consist of the following at June 30, 2007 (in thousands):

Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%	\$ 1,260
Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-1 with annual maturities of \$5,160 to \$13,805 from 2014 through 2035, fixed interest rates from 4.00% to 5.00%	192,565
Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-2 with annual principal payments of \$1,525 to \$4,045 from 2013 through 2036, bearing interest at 67% of Three Month LIBOR plus 70 basis points. The initial interest rate for the period ending August 15, 2007 is 4.29%	62,180

Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 B with maturities of \$12,950 on December 15, 2022 and \$20,535 on December 15, 2032. The series was issued as taxable with conversion to tax exempt rates scheduled for December 18, 2007. Such conversion must take place by December 15, 2009 or the bonds will bear interest at the Reset Taxable Rate until maturity. The taxable interest rate in effect at June 30, 2007 is 5.63%. Conversion will result in annual principal payments of \$1,045 to \$2,510 from 2014 to 2033 and fixed tax exempt interest rates of 4.55% to 4.65% at December 18, 2007

33,485

The Administrators of the Tulane Educational Fund Series 2007C Taxable Refunding Revenue Bonds with annual principal payments ranging from \$2,110 to \$7,590 from 2013 through 2036, bearing interest at Three Month LIBOR plus 30 basis points. The rate in effect at June 30, 2007 is 5.66%

103,135

Total bonds payable outstanding at June 30, 2007

\$ 392,625

The university undertook a plan of debt refinancing in the spring of 2007 in part due to the impact of Hurricane Katrina on the university's operations and cash flows. In a comprehensive refinancing transaction that closed on May 31, 2007, \$429,705,000 in bonds outstanding were defeased or redeemed. Refunding bonds with principal balances totaling \$391,365,000 were issued in the four Series 2007 shown above. The university contributed \$50,000,000 in cash toward redemption of taxable bonds.

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

The university recorded a non cash refunding loss of \$17,740,000 in connection with completing the transaction. That loss is recorded in the non operating section of the Statement of Activities (in thousands).

The annual principal maturities for bonds payable at June 30, 2007 are as follows (in thousands):

Fiscal Year	Amount
2008	\$ 65
2009	70
2010	70
2011	70
2012	70
2013 and thereafter	<u>392,280</u>
Total	<u>\$ 392,625</u>

All of the above described outstanding bonds payable, excluding the mortgage bonds payable, are general obligations of the university. In accordance with the bond agreements, the university is required to comply with certain covenants, including the maintenance of minimum working capital and net worth requirements, and limit the incurrence of certain indebtedness and sale of certain assets. The mortgage bonds are secured by first mortgages on the facilities financed and by endowment and similar fund investments in government bonds having a book value and a market value approximating one hundred twelve thousand dollars at June 30, 2007. In addition, annual net revenues from the residence halls and from student fees are pledged for debt service to the mortgage bonds.

## II DISCLOSURE OF FAIR VALUE OF FINANCIAL INSTRUMENTS

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The estimated fair value of all significant financial instrument amounts has been determined by the university using available market information and appropriate valuation methodologies. The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

**Accounts and Contributions Receivable** — The university considers the carrying amounts of these financial instruments to be 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 practicable to determine fair value.

**Investments** — The fair value of investments was approximately \$1,048,000,000 at June 30, 2007. Market values are used when available. Carrying value was used for the university's equity interest in University Healthcare System, L.C. since fair value is not readily determinable. Similarly, real estate and royalty interests' carrying values were used as updated appraised values are not readily available.

**Bonds Payable** — The fair value was approximately \$398 million at June 30, 2007. 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.

## 12 RETIREMENT PLANS

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Retirement benefits for substantially all employees are provided through the Teachers Insurance and Annuity Association, the College Retirement Equities Fund and Fidelity Investments. Under these defined contribution plans, contributions are applied, as directed by each participant, to annuities and/or to the purchase of shares or participation units in a variety of mutual funds. The amount of contributions made by the university is based upon the employee's salary. Plan contributions are funded as they accrue. For the year ended June 30, 2007, contributions to the plans were approximately \$14,453,000.

## 13 PROFESSIONAL LIABILITY INSURANCE

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The university maintains a self-insurance program for professional medical services rendered by its medical faculty, including residents and interns. The trust fund assets and associated liabilities are included in unrestricted net assets.

During 1976, the State of Louisiana enacted legislation that created a statutory limit of \$500,000 for each medical professional liability claim and established the Louisiana Patient Compensation Fund (State Insurance Fund) to provide professional liability insurance to participating 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.

# 14 COMMITMENTS AND CONTINGENCIES

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

The university is a party to various litigation and other claims including the claims discussed in the next paragraph, 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.

The university is a defendant in a class action lawsuit alleging that it mishandled a large number of human bodies donated to the university's Willed Body Program. The suit was filed in the Civil District Court, Parish of Orleans, Louisiana and seeks monetary damages for emotional distress and mental anguish. In this case, which includes 14 named plaintiffs, the court granted the plaintiffs' motion for class certification covering the period 1994 to 2004. The university appealed this decision, however, the Fourth Circuit Court of Appeals affirmed the district court decision granting class certification. The university plans to file a writ with the Louisiana Supreme Court. The composition and the number of members in the proposed class cannot be conclusively determined at this stage. The university believes the lawsuit is without merit and intends to defend itself vigorously. Management's opinion is that the outcome of these matters would not have a significant effect upon the university's financial position or statement of activities.

## OPERATING LEASES

The university leases certain real property. These leases are classified as operating leases and have lease terms ranging up to twelve years. Total lease payments amounted to approximately \$3,000,000 for the year ended June 30, 2007. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2007, are as follows (in thousands):

<b>Fiscal Year</b>	<b>Amount</b>
2008	\$ 4,218
2009	3,654
2010	3,570
2011	3,802
2012	3,802
2013 and thereafter	<u>18,361</u>
Total	<u>\$ 37,407</u>

#### 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 \$17,000,000 on the university's main campus. Construction is expected to be substantially complete by November 30, 2007. The physical assets will be owned by a third party with whom the university has contracted to share future energy savings associated with more efficient operation of the physical facilities. Over the twelve-year term, the university expects to share annual energy cost savings of \$2.7 million to \$3.3 million with the third party owner. Realization of the energy savings are guaranteed by the energy controls company. The university may purchase the fixed assets at the end of the term for fair market value.

#### INTEREST RATE COLLAR

The university entered into an interest rate collar in fiscal 2006. The collar carries a notional amount of \$150,000,000, terminates on November 18, 2008 and features a floor and a cap based on the U.S. Dollar London Interbank Offering Rate (LIBOR). For any period that LIBOR exceeds 6.00% (the CAP rate), the counterparty to the agreement must make a payment to the university based on the notional amount of the collar and the difference between LIBOR and the CAP rate. Likewise, for any period that LIBOR is less than 4.38% (the Floor rate), the university will pay the counterparty based on the notional amount of the Collar and the difference between LIBOR and the Floor rate. The university entered into this transaction to manage its variable interest rate exposure. The collar remains in place until scheduled termination and remains an effective hedge against interest increases.

## 15 HOSPITAL / CLINIC JOINT VENTURE

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Effective March 31, 1995, the university entered into a joint venture agreement with HCA The Healthcare Company (HCA), formerly Columbia/HCA Healthcare Corporation, for the continued operation of the Tulane University Hospital and Clinic. Under the joint venture agreement, a new entity, University Healthcare System, L.C. (UHS), a Louisiana Limited Liability Corporation, was formed. Through June 30, 2005, the university retained a 20.00% 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.

The university leases parking spaces for its employees in parking facilities owned by UHS. For the year ended June 30, 2007, the university recorded revenue and cost recoveries of approximately \$32.0 million, and as of June 30, 2007, recorded approximately \$1.8 million as receivable from UHS, related to these agreements.

Summarized unaudited financial information about the financial position of the unconsolidated joint venture entity as of June 30, 2007 is as follows (in thousands):

Current assets	\$ 48,086
Property plant and equipment, net	103,203
Other assets	<u>37,963</u>
 Total assets	 <u>\$ 189,251</u>
 Current liabilities	 \$ 29,723
Long term debt	<u>9,292</u>
Total liabilities	<u>39,015</u>
Partners' equity	<u>150,236</u>
 Total liabilities and partners' equity	 <u>\$ 189,251</u>

Summarized unaudited financial results for the six months ended June 30, 2007 are as follows (in thousands):

Net revenues	\$ 143,211
Operating expenses	151,881
Depreciation and amortization	10,886
Other	<u>4,498</u>
 Net loss	 <u>\$ (24,054)</u>

The university's share of partners' equity at June 30, 2007 is \$26,751,000. The university recorded an equity adjustment of (\$4,149,000) for the six months ended June 30, 2007 as its share of the loss shown above.

# 16 HURRICANE KATRINA

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On August 29, 2005, Hurricane Katrina struck the Gulf Coast area causing widespread damage to properties throughout the region, including the New Orleans Metropolitan area. The university's campuses experienced extensive property damage from the hurricane, including the losses of research-related assets, fine arts materials, equipment, building contents and valuable documents. Hurricane Katrina caused a necessary interruption of Tulane's business. The university resumed partial operations with the spring 2006 semester. The university incurred significant costs to replace, repair, and remediate damage to its property, demolish and remove damaged improvements and ruined contents, and to reconstruct facilities and building premises. By June 30, 2007, these repair costs had accumulated to \$216,091,000 including \$203,000,000 under arrangements with the university's prime recovery contractor. By June 30, 2007, the university had paid that contractor \$190,000,000.

Estimated cumulative disaster losses (excluding business interruption costs) and costs as of June 30, 2007 are summarized as follows (in thousands):

Remediation of buildings and grounds	\$ 216,091
Equipment replacements	9,241
Other incremental disaster-related operating costs	<u>59,417</u>
Direct gross incremental out-of-pocket disaster costs	284,749
Net book value of fixed improvements and equipment destroyed	27,106*
Less: construction and replacement equipment capitalized	(96,019)
National Flood Insurance Program, FEMA, and other	
insurance recoveries	<u>(39,269)</u>
Disaster costs	<u>\$ 176,567**</u>
Net amount expensed in fiscal 2006	\$ 152,546
Net amount expensed in fiscal 2007	<u>24,021</u>
Total disaster costs	<u>\$ 176,567</u>

\* Net book value destroyed was determined on the basis of replacement costs deflated to the in service date and depreciated to the loss date.

\*\*Excludes business interruption, certain research losses, and lost arts and library materials.

The university had insurance policies in effect at the time of the hurricane, including all risk property, casualty, library and fine arts, and specialized equipment. As of June 30, 2007, the university had received approximately \$250,000,000 in commercial and National Flood Insurance Policy recoveries. Unallocated commercial insurance recoveries totaling \$225,000,000 were recorded as operating revenues in the statements of activities across fiscal 2007 and 2006. The first three insurers required no allocation between property losses and business interruption losses. The university has made no internal allocation of these recoveries. The university is now in litigation with its fourth and final level of property insurance, which has a policy limit of \$100,000,000. The insurer is disputing liability on a number of grounds. University management is uncertain of the outcome of these negotiations or the likelihood of recovery of additional funds under this policy.

Additionally, the university is the defendant in a lawsuit brought by another insurer which contests the extent of coverage for losses to the university's library collection incurred in Hurricane Katrina under a fine arts policy in the amount of approximately \$66,000,000. The university brought a separate suit against the insurer to enforce the policy and against its insurance broker alleging that, if the insurer's denial of coverage is upheld, the broker was negligent in procuring the policy. The suit against the insurer and broker seeks monetary damages in the amount of the insurance policy. University management believes that it will prevail in this litigation; however, there can be no assurance that the university will prevail or that any judgement will not be subject to judicial delay.

The university also qualifies for assistance through various state and federal government agencies such as FEMA. University representatives are working with FEMA and the state to identify costs that qualify for reimbursement. As of June 30, 2007 the university had received approximately \$13,541,000 from FEMA. These amounts are included above as an offset to the presentation of disaster related costs. By June 30, 2007 the university had received cumulative emergency relief funds from other state and federal agencies totaling \$37,596,000 and as of June 30, 2007 the university had recorded another \$2,866,000 as receivable from these agencies. Such amounts funded operating expenses and are recorded as government grants and contracts revenues.



