TULANE UNIVERSITY

Financial Statements For The Year Ended June 30, 2008

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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 11,157 students.

ABOUT THE PHOTOGRAPH: The Lavin-Bernick Center for University Life is the heart of the Tulane uptown campus, housing the bookstore, shops, dining facilities, administrative offices and meeting rooms. The winner of several design awards, the 142,000-square-foot building opened in January 2007 and was a key project funded during "Promise and Distinction: The Campaign for Tulane." **(Photo by Paula Burch-Celentano)**

Tulane University

INDEPENDENT AUDITORS' REPORT

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, 2008, 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 2007 financial statements and, in our report dated October 23, 2007, 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, 2008, 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 2008.

Deloitte & Touche LLP

New Orleans, Louisiana
November 17, 2008

TULANE UNIVERSITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007 (IN THOUSANDS)

	2008	2007
ASSETS		
Cash and cash equivalents	$ 58,795	$ 55,784
Deposits in trust	22,581	28,840
Accounts receivable, net	63,530	54,264
Contributions receivable, net	74,455	78,847
Loans receivable, net	42,396	38,068
Investments	1,055,185	1,022,648
Prepaid expenses and other assets	10,076	5,835
Property, plant and equipment, net	604,427	549,263
TOTAL ASSETS	$ 1,931,445	$ 1,833,549
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 98,718	$ 96,611
Deferred revenue and refundable deposits	72,783	56,533
Notes payable and lines of credit	26,147	19,853
Bonds payable	392,560	392,625
Federal student loan funds	38,116	37,859
Total liabilities	628,324	603,481
Net Assets		
Unrestricted	194,089	123,601
Unrestricted, funds functioning as endowment	576,421	588,984
Total unrestricted	770,510	712,585
Temporarily restricted	69,789	85,683
Permanently restricted	462,822	431,800
Total net assets	1,303,121	1,230,068
TOTAL LIABILITIES AND NET ASSETS	$ 1,931,445	$ 1,833,549

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

TULANE UNIVERSITY
STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2008, WITH COMPARATIVE TOTALS FOR JUNE 30, 2007 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2008	Total 2007
OPERATING REVENUES					
Tuition and fees	$ 299,670			$ 299,670	$ 278,196
Less: Institutional scholarships and fellowships	(90,516)			(90,516)	(83,351)
Tuition and fees, net	209,154			209,154	194,845
Government grants and contracts	155,681			155,681	148,043
Private gifts and grants	47,585	$ 8,733	$ 25,124	81,442	81,334
Medical group practice	47,074			47,074	38,031
Affiliated hospital agreements/contracts	30,070			30,070	26,723
Endowment income	37,229			37,229	33,162
Investment income and gains, net	6,971	3,273		10,244	13,643
Recovery of indirect costs	27,796			27,796	26,436
Auxiliary enterprises	47,508			47,508	41,269
Commercial insurance recoveries–unallocated	–			–	125,000
Other	27,226			27,226	26,784
Net assets released from restrictions	10,041	(10,041)		–	–
Total operating revenues	646,335	1,965	25,124	673,424	755,270
OPERATING EXPENSES					
Instruction and academic support	194,429			194,429	183,857
Affiliated hospital agreements/contracts	27,785			27,785	21,528
Organized research	143,139			143,139	125,315
Public service	8,692			8,692	6,565
Libraries	19,430			19,430	18,531
Student services	21,666			21,666	18,676
Institutional support	64,360			64,360	66,782
Scholarships and fellowships	12,373			12,373	8,189
Auxiliary enterprises	80,255			80,255	75,583
Medical group practice	45,522			45,522	39,273
Disaster (recoveries) costs–net	(51,324)			(51,324)	24,021
Other	5,056	4,832		9,888	10,363
Total operating expenses	571,383	4,832	–	576,215	598,683
Increase (decrease) in net assets from operating activities	74,952	(2,867)	25,124	97,209	156,587
NON-OPERATING ACTIVITIES					
Net realized and unrealized gains (losses)	11,135	(5,066)		6,069	132,600
Accumulated gains used for spending	(30,225)			(30,225)	(24,790)
Loss on early extinguishment of debt	–			–	(17,740)
Transfers between net asset groups	2,063	(7,961)	5,898	–	–
INCREASE (DECREASE) IN NET ASSETS	57,925	(15,894)	31,022	73,053	246,657
BEGINNING NET ASSETS	712,585	85,683	431,800	1,230,068	983,411
ENDING NET ASSETS	$ 770,510	$ 69,789	$ 462,822	$1,303,121	$1,230,068

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

TULANE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008 AND 2007 (IN THOUSANDS)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 73,053	$ 246,657
Adjustments to reconcile increase in net assets		
to net cash provided by (used for) operating activities:		
Loss on early extinguishment of debt	–	17,740
Depreciation	39,951	35,545
Asset retirements	2,502	11,742
Net realized and unrealized investment gains	(6,069)	(132,600)
Contributions restricted for permanent investment	(25,124)	(16,201)
Contributions of property	(14,539)	–
Grant receipts used for capital purposes	(21,937)	(7,550)
Insurance and FEMA recoveries received	(69,771)	(19,759)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(9,266)	33,408
Decrease (increase) in contributions receivable	4,392	(13,846)
(Decrease) increase in prepaid expenses and other assets	(4,241)	2,657
Increase (decrease) in accounts payable and accrued liabilities	6,923	(45,378)
(Decrease) in deferred revenue and refundable deposits	(2,750)	(1,021)
Net cash (used for) provided by operating activities	(26,876)	111,394
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(235,083)	(472,584)
Proceeds from the sale of investments	208,615	477,612
Purchase of property, plant and equipment, net	(83,078)	(110,672)
Decrease in deposits in trust	6,259	17,639
Student loans issued	(9,160)	(9,224)
Proceeds from collections of student loans	4,832	7,476
Grant receipts used for capital purposes	21,937	7,550
Insurance and FEMA recoveries and advances received	88,771	19,759
Net cash provided by (used for) investing activities	3,093	(62,444)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	25,124	16,201
Proceeds from issuance of bonded debt	–	380,078
Repayment of bonded debt	(65)	(433,220)
Proceeds from issuance of notes payable	6,871	–
Repayment of notes payable	(577)	(60,446)
Increase in federal student loan funds	257	470
Annuities paid	(4,816)	(1,893)
Net cash provided by (used for) financing activities	26,794	(98,810)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,011	(49,860)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	55,784	105,644
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 58,795	$ 55,784
SUPPLEMENTAL DISCLOSURE	$ 18,606	$ 23,735
Interest paid		

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

Tulane University
Notes to the Financial Statements
Year Ended June 30, 2008

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.

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., Tulane International, LLC, 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	$ 39,951
Retirement of plant assets	1,534
Plant operations and maintenance	48,499
Interest on indebtedness	19,863

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.

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 (as is the case for certain assets held in the absolute return category), 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. Real estate, mortgages, royalty interests, and investments in partnerships are valued at cost in accordance with Statement of Financial Accounting Standard No. 124, Accounting for Certain Investments Held by Not for Profit Organizations. The university's investment in University Healthcare System, L.C., is accounted for using the equity method. The university evaluates differences between cost and estimated fair value on all investments. Declines that are evaluated as permanent are recognized as realized losses in the statement of activities.

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.

ENDOWMENT SPENDING POLICY

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, 2008, was 5.40%. 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 included in investments with gifts recorded net of liabilities for the estimated future payment 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 as additional interest expense 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.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109" (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective for the university with the fiscal year ended June 30, 2008 but had no material impact on the university's financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement is applicable in the university's fiscal year ending June 30, 2009. SFAS No.157 is not expected to materially affect the university's determination of fair value but may result in additional disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statements No. 115 (SFAS No. 159). SFAS No. 159 permits the University to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). The university would report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard applies to the university's fiscal year ending June 30, 2009. The university has not yet determined the impact that the adoption of SFAS No. 159 will have on its financial statements, or whether it will choose to elect the option to report certain assets and liabilities at fair value.

In June 2008, the FASB issued Staff Position SOP 94-3-1 and AAG HCO-1, Omnibus Changes to Consolidation and Equity Method Guidance for Not-for-Profit Organizations (FSP SOP 94-3-1). FSP SOP 94-3-1 clarifies guidance on the accounting for equity method investments and consolidations by not-for-profit organizations and requires not-for-profit organizations to apply the equity method to certain investments in for profit partnerships, limited liability companies or similar entities unless they are reported at fair value. FSP SOP 94-3-1 is effective for fiscal years beginning after June 15, 2008. The university's management is currently evaluating the impact of FSP SOP 94-3-1 on its financial statements for fiscal year ending June 30, 2009.

In August 2008, the FASB issued Staff Position (FSP) No. 117-1, Endowments of Non-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the UPMIFA act of 2006. This FSP is also expected to improve disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. FSP 117-1 is effective for fiscal years ending after December 15, 2008. The university's management is currently evaluating the impact of FSP 117-1 on its financial statements for fiscal year ending June 30, 2009.

PRESENTATION OF PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the university's financial statements for the year ended June 30, 2007.

2 DEPOSITS IN TRUST

Deposits in trust consist of the following at June 30, 2008 (in thousands):

Assets restricted for self-insurance	$ 11,954
Assets restricted by bond indentures	10,627
Total	$ 22,581

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, 2008 (in thousands):

Student and other receivables, net of allowance for doubtful accounts of $7,400	$ 16,403
U.S. Government, state and other contract receivables, net of allowance for doubtful accounts of $3,800	43,724
Patient and related receivables, net of allowance for discounts and doubtful accounts of $18,499	3,403
Total	$ 63,530

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	$ 13,638
Between one year and five years	71,011
More than five years	11,185
	95,834
Less: discount of $11,796 and allowance for uncollectibles of $9,583	(21,379)
Total	$ 74,455

Contributions receivable at June 30, 2008 have restrictions applicable to the following (in thousands):

Endowment for departmental programs and activities	$ 28,425
Departmental programs and activities	13,953
Capital purposes	32,077
Total	$ 74,455

5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2008 (in thousands):

Perkins student loan program	$ 40,887
Primary care loan program	2,768
Other loan programs	1,216
	44,871
Less: allowance for doubtful accounts	(2,475)
Total	$ 42,396

6 INVESTMENTS

Investments consist of the following at June 30, 2008 (in thousands):

Short-term investments	$ 66,901
Stocks:	
Domestic equity	376,684
International equity	183,772
Global equity	24,967
Absolute return and long/short funds	189,839
Private investments (mainly partnerships)	65,303
Bonds: Government bonds and notes	21,054
Corporate bonds	67,522
University Healthcare System, L.C.	21,986
Real estate and royalty interests	37,157
Total	$1,055,185

Endowment dividend and interest income, net of expenses, amounted to approximately $8,046,000 for the year ended June 30, 2008. In accordance with the university's endowment spending policy, $30,225,000 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, 2008 include annuity and life income investments at market value of approximately $18,000,000.

Permanently restricted net assets at June 30, 2008, include the investment assets at market value of the Tulane Murphy Foundation (the Foundation) that amounted to $137,976,000. 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, 2008, income from the Foundation, which is restricted to specific purposes, amounted to $957,000.

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, 2008, are $2,666,000 and $3,659,000, respectively.

Investment return is composed of the following for the year ended June 30, 2008 (in thousands):

Operating:	
Endowment distributions	$ 37,229
Investment income	10,244
Total operating return	47,473
Non operating:	
Net realized and unrealized gains	$ 6,069
Endowment appreciation utilized	(30,225)
Total non operating return	(24,156)
Total investment return	$ 23,317

Subsequent to June 30, 2008, the investment fair values declined significantly. For the three months ended September 30, 2008, the university experienced an overall decline in investment values of approximately $130 million.

7 TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008, (in thousands) benefit the following functions:

Academic departments and instruction	$ 21,077
Student financial aid and scholarship	6,080
Capital projects	37,811
Operations	4,821
Total	$ 69,789

Permanently restricted net assets at June 30, 2008, (in thousands) benefit the following functions:

Academic departments and instruction	$ 298,250
Student financial aid and scholarship	144,852
Operations	19,720
Total	$ 462,822

8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2008 (in thousands):

Land	$ 22,369
Buildings and improvements	637,851
Equipment	136,143
Library books	112,721
Construction in progress	62,239
Gross property, plant, and equipment	971,323
Less: accumulated depreciation	(366,896)
Total	$ 604,427

The university capitalizes interest related to 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 $953,000 for the year ended June 30, 2008.

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 $70,000,000. The expansion is funded in part by $41,000,000 in government grants. At June 30, 2008, the university had invested approximately $50,000,000 in these projects, which is recorded as Construction in progress at June 30, 2008.

9 NOTES PAYABLE AND LINES OF CREDIT

Notes payable at June 30, 2008, consist of the following (in thousands):

One unsecured note for $150,000 due in installments through 2010 with an interest rate of 8.50%	$ 150
Two unsecured term notes dated June 2006 with quarterly principal installments ranging from $125,000 to $500,000 with $15 million due in June 2013. Interest is borne at the London Interbank Offering Rate (LIBOR) minus 50 basis points (2.20% at June 30, 2008)	19,125
Four unsecured term notes totaling $6,822,000 drawn under a $20,500,000 non revolving credit agreement dated December 2007. The amount borrowed under these arrangements will increase to $20.5 million by December 2008. Principal installments will commence at $107,000 per quarter on January 1, 2009, peak in fiscal 2014 at $430,000 per quarter, and term out through 2047 at $101,000 per quarter. Interest is borne at the London Interbank Offering Rate (LIBOR) plus 77 basis points (3.47% at June 30, 2008)	6,822
Other	50
Total notes payable	$ 26,147

The university has $125 million in lines of credit with three banks to meet short term seasonal cash requirements. The lines expire as follows: $65 million on December 31, 2008, $10 million on December 20, 2008, and $50 million on May 25, 2009. Principal is payable upon demand. At June 30, 2008, 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, 2008 (in thousands):

Mortgage Bonds Series 1982 with annual maturities through 2022, fixed interest rate of 3.00%	$ 1,195
Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-1 with annual maturities of $5,160 to $13,805 from 2014 through 2035, fixed interest rates from 4% to 5%	192,565
Louisiana Public Facilities Authority Refunding Revenue Bonds Series 2007 A-2 with annual principal payments of $1,525 to $4,045 from 2013 through 2036, bearing interest at 67% of Three Month LIBOR plus 70 basis points. The rate in effect at June 30, 2008 is 2.49%	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. The conversion took place as scheduled. The tax exempt interest rate in effect at June 30, 2008 is 4.55% on the bonds due in 2022 and 4.65% on the bonds due in 2032. Annual principal payments of $1,045 to $2,510 are due from 2014 to 2033	33,485
The Administrators of the Tulane Educational Fund Series 2007 C 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, 2008 is 2.98%	103,135
Total bonds payable outstanding at June 30, 2008	$ 392,560

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 2007 A-1 Series proceeds were used to establish a proceeds fund to defease portions of five earlier tax exempt bond issues. The 2007 A-2 Series proceeds were used to redeem $61,000,000 in previously issued taxable bonds. The 2007 B Series proceeds were used to escrow $31,820,000 toward redemption of certain 1997 tax exempt issues. The 2007 C 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) for the prior fiscal year.

The annual principal maturities for bonds payable at June 30, 2008 are as follows (in thousands).

Fiscal Year	**Amount**
2009	$ 70
2010	70
2011	70
2012	70
2013	80
2014 and thereafter	392,200
Total	$ 392,560

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, 2008. In addition, annual net revenues from the residence halls and from student fees are pledged for debt service to the mortgage bonds.

11 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 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 $1.089 billion at June 30, 2008. 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 $396 million at June 30, 2008. 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

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, 2008, contributions to the plans were approximately $14.449 million.

13 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 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

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 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 $4,600,000 for the year ended June 30, 2008. Future minimum rental payments on non-cancellable operating leases with lease terms in excess of one year as of June 30, 2008, are as follows (in thousands):

Fiscal Year	Amount
2009	$ 4,209
2010	3,937
2011	4,035
2012	4,039
2013	3,723
2014 and thereafter	14,637
Total	$ 34,580

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 was substantially complete by January 2008. The physical assets are owned by a third party with whom the university has contracted to share future energy savings associated with more efficient operation of the physical facilities. Over the twelve-year term, the university expects to share annual energy cost savings of $2.7 million to $3.3 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. The university paid the owner $1.3 million during the year ended June 30, 2008 under this agreement and such amount is included in the plant operations and maintenance cost total. This total is allocated in the Statement of Activities as described in Note 1.

INTEREST RATE COLLARS

The university entered into two interest rate collars on February 29, 2008 in replacement of an interest rate hedge completed in fiscal 2006. The first collar is an interest rate hedge of the university's taxable variable rate debt. This collar has a notional amount of $103,135,000, terminates on February 15, 2011 and features a floor and a cap based on the 3-month U.S. Dollar London Interbank Offering Rate (LIBOR). For any period that LIBOR exceeds 6% (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 2.65% (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. No payments are made on the collar by either party if LIBOR is between 2.65% and 6.00%. The fair value of the collar at June 30, 2008 was $179,000 due the counterparty. This amount is included in the caption accounts payable and accrued liabilities on the Statement of Financial Position and charged to interest on indebtedness (see Footnote 1 for information about allocating interest on indebtedness in the Statement of Activities).

In the second transaction, the hedge was devised to protect against interest rate fluctuations on the university's tax exempt variable rate debt. This collar has a notional amount of $62,180,000, terminates on February 15, 2011 and features a floor and a cap based on 67% of the 3-month U.S, Dollar London Interbank Offering Rate (67% of LIBOR). For any period that 67% of LIBOR exceeds 4% (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 67% of LIBOR and the CAP rate. Likewise, for any period that 67% of LIBOR is less than 2.35% (the floor rate), the university will pay the counterparty based on the notional amount of the collar and the difference between 67% of LIBOR and the floor rate. No payments are made on the collar by either party if 67% of LIBOR is between 2.35% and 4.00%. The fair value of the collar at June 30, 2008 was $472,000 due the counterparty. This liability is included in the caption accounts payable and accrued liabilities on the Statement of Financial Position and charged to interest on indebtedness (see Footnote 1 for information about allocating interest on indebtedness in the Statement of Activities).

15 HOSPITAL/CLINIC JOINT VENTURE

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% 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, 2008, the university recorded revenue and cost recoveries of approximately $35.0 million, and as of June 30, 2008, 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, 2008 are as follows (in thousands):

Current assets	$ 74,046
Property plant and equipment, net	93,897
Other assets	37,955
Total assets	$ 205,898
Current liabilities	$ 32,572
Long term debt	8,803
Total liabilities	41,375
Partners' equity	164,523
Total liabilities and partners' equity	$ 205,898

Summarized unaudited financial results for the 6 months ended June 30, 2008 are as follows (in thousands).

Net revenues	$ 183,170
Operating expenses	178,549
Depreciation and amortization	9,376
Other	3,535
Net loss	$ (8,290)

The university's share of partners' equity at June 30, 2008 is approximately $22 million. The university recorded a negative equity adjustment of $1.5 million for the six months ended June 30, 2008 as its share of the loss shown above.

16 HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina struck the Gulf Coast area causing widespread damage throughout the region, including the New Orleans Metropolitan area. The university's campuses experienced extensive property damage from the hurricane, including the losses of research-related assets, fine arts materials, equipment, building contents and valuable documents. Hurricane Katrina caused a necessary interruption of Tulane's business. The university resumed partial operations with the spring 2006 semester. The university incurred significant costs to replace, repair, and remediate damage to its properties, demolish and remove damaged improvements and contents, and to reconstruct facilities and buildings. By June 30, 2008, these repair costs had accumulated to $221,223,000 including $203,000,000 under arrangements with the university's prime recovery contractor. By June 30, 2008, the university had paid that contractor $201,000,000. This contractor has rendered the final project invoice, excluding certain library materials that are still in the process of restoration.

Estimated cumulative disaster losses (excluding business interruption costs) and costs as of June 30, 2008 are summarized as follows (in thousands):

Restoration of buildings and grounds	$ 221,223
Equipment replacements	12,986
Other incremental disaster-related operating costs	69,887
Direct gross incremental out-of-pocket disaster costs	304,096
Net book value of fixed improvements and equipment destroyed	28,074*
Less: construction and replacement equipment capitalized	(103,077)
National Flood Insurance Program, FEMA, and other insurance recoveries	(103,850)
Disaster costs	$ 125,243**
Net amount expensed in fiscal 2006	$ 152,546
Net amount expensed in fiscal 2007	24,021
Net amount recovered in fiscal 2008	(51,324)
Total disaster costs	$ 125,243

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

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

The university had commercial insurance policies in effect at the time of the hurricane, including all risks property, casualty, library and fine arts, and specialized equipment in addition to National Flood Insurance policies. As of June 30, 2008, the university had received approximately $295,000,000 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 property insurers required no allocation between property damage 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 layer 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.

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, 2008 the university had received approximately $51 million from FEMA. Of this total approximately $33 million (including $19 million in fiscal 2008) has been applied toward specific costs and thus recognized as an offset to disaster costs as shown above. The remaining $18 million received in 2008 has been recorded as advances toward future mitigation costs. Such advances are recorded in the caption “Deferred revenue and refundable deposits” on the Statement of Financial Position.

By June 30, 2008 the university had received cumulative emergency relief funds from other state and federal agencies totaling $41,000,000, including approximately $3,400,000 in 2008. Such amounts funded operating expenses and are recorded as government grants and contracts revenues.