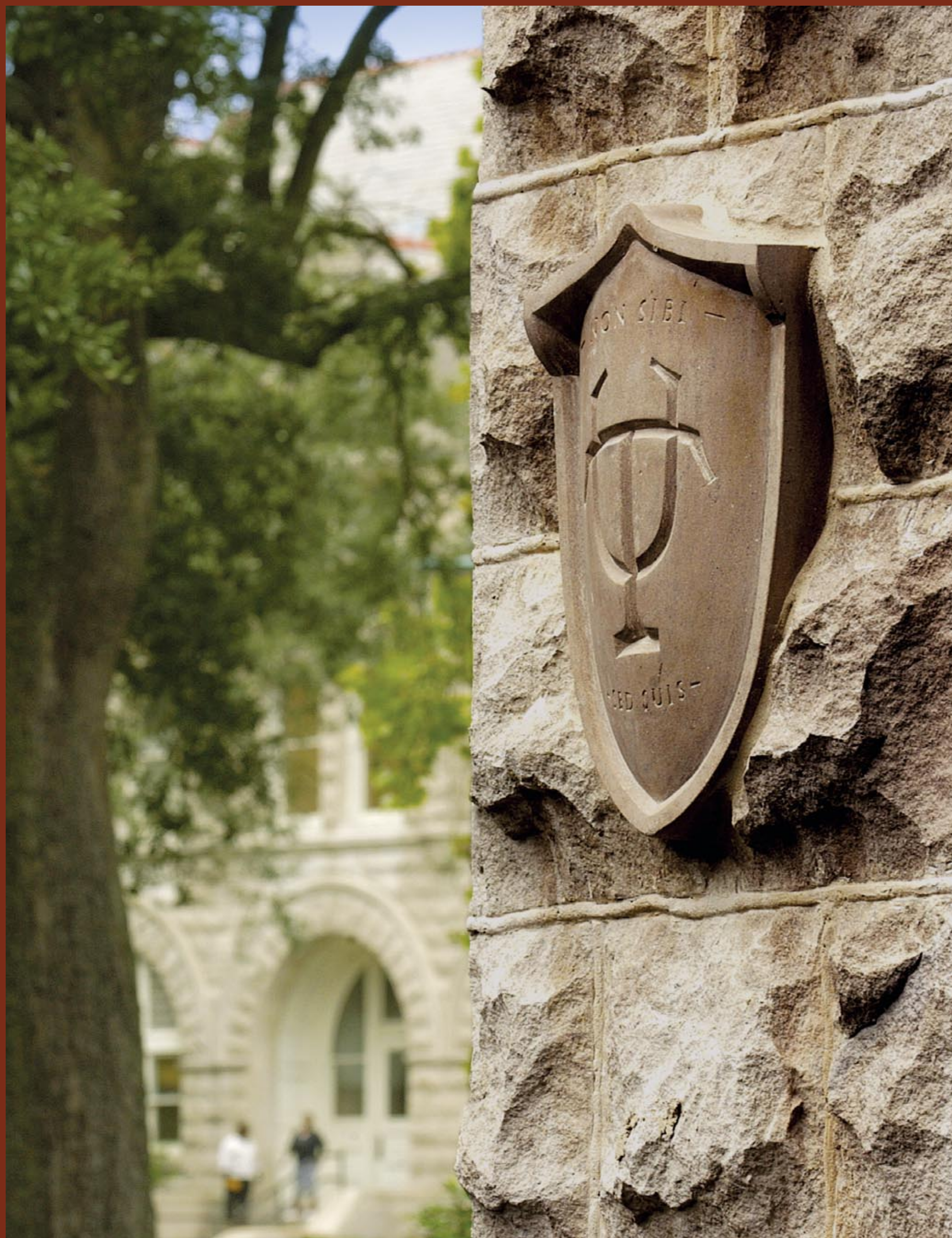
TULANE UNIVERSITY
FINANCIAL STATEMENTS



2003–2004

TULANE UNIVERSITY

Financial Statements For The Year Ended June 30, 2004

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Tulane University, founded in 1834, is a private, non-sectarian research university located in New Orleans, Louisiana. With a total enrollment of approximately 13,000 students in its 11 schools and colleges, Tulane offers undergraduate, graduate and professional degrees in law, medicine, public health and tropical medicine, architecture, business, engineering, social work and the liberal arts and sciences.

ABOUT THE PHOTOGRAPH: The front cover displays one of four new stone pylons that mark Tulane University's St. Charles Avenue entrance in front of Gibson Hall. The pylons, along with a new 46-foot wall displaying the words *Tulane University*, were unveiled in May 2004. They are constructed of limestone from the same quarry that supplied the stone for Gibson Hall more than a century ago.

Tulane University

INDEPENDENT AUDITORS' REPORT

THE ADMINISTRATORS OF THE TULANE EDUCATIONAL FUND

We have audited the accompanying statement of financial position of Tulane University as of June 30, 2004 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Tulane University. 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 Tulane University's June 30, 2003 financial statements and, in our report dated September 26, 2003, we expressed an unqualified opinion on those financial statements and included an explanatory paragraph that described the change in the University's method of computing depreciation discussed in Note 15.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the financial position of Tulane University as of June 30, 2004, the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

New Orleans, Louisiana
October 8, 2004

TULANE UNIVERSITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003 (IN THOUSANDS)

	2004	2003
ASSETS		
Cash and cash equivalents	$ 7,415	$ 7,698
Deposits in trust	70,455	81,670
Accounts receivable, net	50,494	58,953
Contributions receivable, net	57,252	51,716
Loans receivable, net	34,951	34,505
Investments	743,136	656,775
Prepaid expenses and other assets	20,038	16,944
Property, plant and equipment, net	419,576	402,244
TOTAL ASSETS	$ 1,403,317	$ 1,310,505
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	$ 74,812	$ 72,491
Deferred revenue and refundable deposits	43,311	39,860
Notes payable and lines of credit	29,637	32,850
Bonds payable	289,745	288,700
Federal student loan funds	34,958	34,202
Total liabilities	472,463	468,103
Net Assets		
Unrestricted	133,942	137,839
Unrestricted, funds functioning as endowment	391,754	332,296
Total unrestricted	525,696	470,135
Temporarily restricted	67,039	71,893
Permanently restricted	338,119	300,374
Total net assets	930,854	842,402
TOTAL LIABILITIES AND NET ASSETS	$ 1,403,317	$ 1,310,505

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

TULANE UNIVERSITY
STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2004, WITH COMPARATIVE TOTALS FOR JUNE 30, 2003 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2004	Total 2003
OPERATING REVENUES					
Tuition and fees	$ 287,874			$ 287,874	$ 265,748
Less: Institutional scholarships and fellowships	(80,101)			(80,101)	(74,490)
Tuition and fees, net	207,773			207,773	191,258
Government grants and contracts	116,487			116,487	99,819
Private gifts and grants	29,963	$ 10,975	$ 35,766	76,704	64,213
Medical group practice	63,232			63,232	62,129
Affiliated hospital agreements/contracts	41,399			41,399	40,544
Endowment income	32,431			32,431	31,466
Investment income and gains, net	5,363	1,033		6,396	8,309
Recovery of indirect costs	25,729			25,729	22,093
Auxiliary enterprises	45,441			45,441	43,521
Other	25,594			25,594	23,522
Net assets released from restrictions	17,991	(17,991)		–	–
Total operating revenues	611,403	(5,983)	35,766	641,186	586,874
OPERATING EXPENSES					
Instruction and academic support	177,792			177,792	171,274
Affiliated hospital agreements/contracts	29,518			29,518	27,973
Organized research	128,466			128,466	108,250
Public service	13,144			13,144	9,107
Libraries	18,585			18,585	18,208
Student services	16,215			16,215	15,905
Institutional support	66,281			66,281	61,706
Scholarships and fellowships	13,261			13,261	11,257
Auxiliary enterprises	71,543			71,543	66,884
Medical group practice	64,202			64,202	66,872
Faculty early retirement				–	8,870
Other	8,519	2,280		10,799	6,737
Total operating expenses	607,526	2,280	–	609,806	573,043
Change in net assets from operating activities	3,877	(8,263)	35,766	31,380	13,831
NON-OPERATING ACTIVITIES					
Net realized and unrealized gains	83,410	3,445		86,855	14,463
Accumulated gains used for spending	(26,140)			(26,140)	(24,929)
Loss on early extinguishment of debt	(3,643)			(3,643)	(2,017)
Transfers to permanently restricted	(1,943)	(36)	1,979	–	–
Change in net assets before cumulative effect of change in accounting principle	55,561	(4,854)	37,745	88,452	1,348
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE					
Change in depreciation method				–	(3,514)
CHANGE IN NET ASSETS	55,561	(4,854)	37,745	88,452	(2,166)
BEGINNING NET ASSETS	470,135	71,893	300,374	842,402	844,568
ENDING NET ASSETS	$ 525,696	$ 67,039	$ 338,119	$ 930,854	$ 842,402

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

TULANE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2004 AND 2003 (IN THOUSANDS)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 88,452	$ (2,166)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	–	3,514
Loss on early extinguishment of debt	3,643	2,017
Depreciation	29,074	27,072
Net realized and unrealized investment gains	(86,855)	(14,463)
Contributions restricted for permanent investment	(35,766)	(11,340)
Contributions of property	(489)	(8,380)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	8,459	11,152
Increase in contributions receivable	(5,536)	(6,038)
(Increase) decrease in prepaid expenses and other assets	(3,094)	783
Increase in accounts payable and accrued liabilities	4,089	9,935
Increase in deferred revenue and refundable deposits	3,451	1,043
Net cash provided by operating activities	5,428	13,129
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(509,825)	(338,184)
Proceeds from the sale of investments	510,319	352,639
Purchase of property, plant and equipment, net	(45,917)	(35,859)
Decrease (increase) in deposits in trust	11,215	(1,344)
Student loans issued	(8,044)	(5,799)
Proceeds from collections of student loans	7,598	7,550
Net cash used for investing activities	(34,654)	(20,997)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	35,766	11,340
Proceeds from debt	178,020	158,705
Repayment of debt	(183,831)	(156,950)
Increase in federal student loan funds	756	695
Payments on annuities payable	(1,768)	(1,860)
Net cash provided by financing activities	28,943	11,930
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(283)	4,062
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,698	3,636
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 7,415	$ 7,698
SUPPLEMENTAL DISCLOSURE		
Interest paid	$ 15,013	$ 13,470

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

Tulane University
Notes to the Financial Statements
Year Ended June 30, 2004

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., 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.

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	$ 29,074
Retirement of plant assets	1,228
Plant operations and maintenance	33,146
Interest on indebtedness	14,833

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

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.

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, 2004 was 6.0%.

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.

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.

RECLASSIFICATIONS

Certain reclassifications of prior year amounts have been made to conform to the current year presentation. These reclassifications were made for comparative purposes only.

NEW ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 145 *Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections*, effective years beginning after May 15, 2002. This statement eliminates the requirement that gains and losses from early extinguishments of debt are recorded as extraordinary items on the income statement and makes certain other technical corrections. The statement also requires that any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria for classification as an extraordinary item shall be reclassified. Tulane adopted this statement in 2003.

2 DEPOSITS IN TRUST

Deposits in trust consist of the following at June 30, 2004 (in thousands):

Assets restricted for self-insurance	$ 9,996
Assets restricted by bond indentures	60,459
Total	$ 70,455

The terms of several bond indentures 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, 2004 (in thousands):

Student and other receivables, net of allowance for doubtful accounts of $4,172	$ 11,955
U.S. Government and other contract receivables, net of allowance for doubtful accounts of $1,100	32,234
Patient and related receivables, net of allowance for discounts and doubtful accounts of $20,499	6,305
Total	$ 50,494

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	$ 27,257
Between one year and five years	29,272
More than five years	15,103
	71,632
Less: discount of $7,217 and allowance for uncollectibles of $7,163	(14,380)
Total	$ 57,252

Contributions receivable at June 30, 2004, have the following restrictions (in thousands):

Endowment for departmental programs and activities	$ 17,525
Departmental programs and activities and capital	39,727
Total	$ 57,252

5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2004 (in thousands):

Perkins student loan program	$ 32,886
Primary care loan program	2,844
Other loan programs	1,696
	37,426
Less: allowance for doubtful accounts	(2,475)
Total	$ 34,951

6 INVESTMENTS

Investments consist of the following at June 30, 2004 (in thousands):

Short-term investments	$ 52,024
Stocks	480,028
Bonds: Government bonds and notes	24,362
Corporate bonds	75,239
University Healthcare System, L.C.	34,457
Partnerships, mortgages, and other	53,025
Real estate and royalty interests	24,001
Total	$ 743,136

Net pooled endowment income amounted to $3,884,000 for the year ended June 30, 2004. In accordance with the university's endowment spending policy, $26,140,000 of accumulated gains were used for current operations.

Permanently restricted net assets at June 30, 2004, include the investment assets at market value of the Tulane Murphy Foundation (the Foundation) amounting to $59,509,000. 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, 2004, income from the Foundation, which is restricted to specific purposes, amounted to $774,000.

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, 2004, are $2,768,000 and $3,095,000, respectively.

The university is monitoring endowment accounts where historical cost is greater than market value at June 30, 2004. Historical cost and market value totals for these accounts are $71,658,000 and $67,363,000, respectively.

7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2004 (in thousands):

Land	$ 16,714
Buildings and improvements	438,814
Equipment	115,332
Library books	84,711
Construction in progress	23,764
	679,335
Less: accumulated depreciation	(259,759)
Total	$ 419,576

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 $427,000 for the year ended June 30, 2004.

The university has undertaken a long-range capital plan that includes a campus-wide student housing program and renovations of non-residential academic and administrative facilities. Plans for 2005 to 2008 include construction of new student housing, renovation of the University Center, and other infrastructure improvements that are estimated to cost approximately $60 million. Funding for these projects is available from the Louisiana Public Facilities Authority Revenue Bonds Series 2002 A and other university sources.

8 NOTES PAYABLE AND LINES OF CREDIT

Notes payable, which total $2,637,000 at June 30, 2004, consist of unsecured and secured notes due in installments through 2021, with a maximum interest rate of 8.50%.

The university has $100 million in lines of credit with four banks to meet short-term seasonal cash requirements. Principal is payable upon demand. At June 30, 2004, $27 million was borrowed against the credit lines. Interest rates applicable to these lines are based on several defined indices. The effective interest rate on borrowings outstanding at June 30, 2004 was 1.55%.

9 BONDS PAYABLE

Bonds payable at June 30, 2004, consist of the following (in thousands):

Mortgage Bonds maturities through 2022, interest rates of 3.00% - 3.47%	$ 1,550
Louisiana Public Facilities Authority Revenue Bonds Series 1992 A-2 maturities through 2021, interest rates of 5.75% - 6.00%	5,755
Louisiana Public Facilities Authority Revenue Bonds Series 1996 maturities through 2006, interest rates of 5.25% - 5.45%	1,980
The Administrators of the Tulane Educational Fund Series 1996 Taxable Bonds maturities through 2015, interest rates of 7.55% - 8.00%	3,545
Louisiana Public Facilities Authority Revenue Bonds Series 1997 maturities through 2027, interest rates of 5.00% - 5.60%	6,235
The Administrators of the Tulane Educational Fund Series 1997 Taxable Bonds maturities through 2012, interest rates of 7.10% - 7.30%	7,045
Louisiana Public Facilities Authority Revenue Bonds Series 1997 A-1 and A-2 maturities through 2027, interest rates of 4.45% - 5.13%	57,430
Louisiana Public Facilities Authority Revenue Bonds Series 1999 maturities through 2014, interest rate of 5.67%	5,720
Louisiana Public Facilities Authority Revenue Bonds Series 2002 A, B, and C maturities through 2032, interest rates of 3.50% - 6.00%	149,580
Louisiana Public Facilities Authority Revenue Bonds Series 2002 D maturities through 2026, interest rates of 3.30% - 5.38%	22,235
Louisiana Public Facilities Authority Revenue Bonds Series 2004 A maturities through 2025, interest rates of 2.00 - 5.00%	28,670
Total	$ 289,745

The annual principal maturities for bonds payable at June 30, 2004 are as follows (in thousands):

Fiscal Year	Amount
2005	$ 2,865
2006	2,920
2007	3,090
2008	4,415
2009	6,730
2010 and thereafter	269,725
Total	$ 289,745

On December 30, 1992, the Louisiana Public Facilities Authority issued $82,645,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in two series. The Louisiana Public Facilities Authority Revenue Bonds Series 2002 D was issued to refinance the A-1 Series. The A-2 Series was issued to partially finance the J.B. Johnston Health and Environmental Research Building.

On June 13, 1996, the Louisiana Public Facilities Authority issued $30,280,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance several plant improvements to the uptown campus student housing system. The Louisiana Public Facilities Authority Revenue Bonds Series 2004 A was issued in the current year to advance refund a substantial portion of the issue.

On June 13, 1996, the university issued $29,720,000 of taxable bonds. The bond proceeds were used to finance several plant improvements, including a capital renewal program, and an energy conservation and management program. The Louisiana Public Facilities Authority Revenue Bonds Series 2002 A and B were issued to refinance the portion of the issue that was dedicated to tax-exempt activities.

On May 1, 1997, the Louisiana Public Facilities Authority issued $6,795,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance several plant improvements to the uptown campus student housing system.

On May 1, 1997, the university issued $17,500,000 of taxable bonds. The bond proceeds were used to finance several plant improvements, including a capital renewal program, an energy conservation and management program, new information systems technology, and to refinance outstanding Series 1987 Taxable Notes. The university defeased a portion of the outstanding

Series 1997 Taxable Bonds with unexpended construction funds on deposit from the Series 1997 Taxable Bonds with the remaining bond proceeds reallocated to finance a portion of the Health Sciences Center student housing complex.

On December 22, 1997, the Louisiana Public Facilities Authority issued $57,740,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in two series. The A-1 Series was issued to advance refund $23,190,000 of the Louisiana Public Facilities Authority Series 1992 bonds. The A-2 Series was issued to finance several plant improvements, including a capital renewal program, an energy conservation and management program, new information systems technology, and a student housing complex for the Health Sciences Center campus.

On October 1, 1999, the Louisiana Public Facilities Authority issued $6,765,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance the acquisition, construction, equipping, and installation of a cogeneration facility at the university.

On March 7, 2002, the Louisiana Public Facilities Authority issued $149,580,000 of tax-exempt revenue bonds on behalf of the university. The bonds were issued in three series. The Series A was issued to: (1) advance refund $4,305,000 of the Louisiana Public Facilities Authority Series 1991 A tax-exempt bonds and $10,221,000 of the Tulane Educational Fund Series 1996 taxable bonds, (2) retire $30,000,000 of the Louisiana Public Facilities Authority 1985 tax-exempt revenue bonds, and (3) establish a capital acquisition fund of $75,000,000 for construction and renovation of student housing and infrastructure improvements. The Series B was issued to advance refund $11,999,000 of the Tulane Educational Fund Series 1996 taxable bonds. The Series C was issued to advance refund $6,875,000 of the Louisiana Public Authority Series 1992 tax-exempt bonds.

On December 19, 2002, the Louisiana Public Facilities Authority issued $22,235,000 of tax-exempt revenue bonds on behalf of the university. The Series D was used to advance refund $21,060,000 of the Louisiana Public Facilities Authority Series 1992 A-1 tax-exempt revenue bonds. These transactions resulted in a loss on bond defeasance of $2,017,000, which was recorded as a non-operating activity.

On April 1, 2004, the Louisiana Public Facilities Authority issued $28,670,000 of tax-exempt revenue bonds on behalf of the university. The Series A was used to advance refund $25,140,000 of the Louisiana Public Facilities Authority Series 1996 tax-exempt revenue bonds. These transactions resulted in a loss on bond defeasance of $3,643,000, which was recorded as a non-operating activity.

All of the above described outstanding bonds payable, excluding the mortgage bonds payable, are general obligations of the university and are secured by an assignment of certain tuition revenues. 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 $272,000 at June 30, 2004. In addition, annual net revenues from the residence halls and from student university fees are pledged for debt service to the mortgage bonds.

10 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 equals quoted market price where available. Carrying value for the university's equity interest in University Healthcare System, L.C., was used for fair value as no fair value was readily determinable.

Bonds Payable — The fair value was approximately $298 million at June 30, 2004. 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.

11 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, 2004, contributions to the plans were $15,694,000.

On October 31, 2002, the university announced a Faculty Immediate Early Retirement Program. Eligible faculty members had until January 31, 2003 to apply. This program was a voluntary plan that provided eligible faculty members with four types of benefits: (1) a faculty early retirement allowance at the time of early retirement, (2) transitional medical benefits that begin on the day after the date of early retirement, (3) tuition waiver benefits, and (4) library privileges and employee discounts. Fifty-one faculty members elected to participate in the program. In accordance with Statement of Financial Accounting Standard No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, the discounted cost of the plan's benefits, $8,870,000, was included with operating expenses on the statement of activities in 2003.

12 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 that 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.

13 COMMITMENTS AND CONTINGENCIES

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

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

14 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. The university retains a 20% equity interest in UHS. 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, 2004, the university recorded revenue of approximately $27.1 million, and as of June 30, 2004, recorded approximately $1.9 million as an amount receivable from UHS, related to these agreements.

15 CHANGE IN ACCOUNTING PRINCIPLE

Effective July 1, 2002, the university adopted the straight-line method of depreciating its library assets (books, periodicals, manuscripts, etc.). The cumulative effect of changing from the declining balance method to the straight-line method totaled $3,514,000 and was recorded in 2003. The new policy conforms the method used to depreciate library materials to the method used to depreciate all other depreciable assets. Twenty year lives are used.

Tulane University

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