

TULANE UNIVERSITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

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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 12,000 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.



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, 2002 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, 2001 financial statements and, in our report dated September 28, 2001, we expressed an unqualified opinion on those financial 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 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, 2002, the changes in its net assets and 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
September 30, 2002

TULANE UNIVERSITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002 AND 2001 (IN THOUSANDS)

	<u>2002</u>	<u>2001</u>
ASSETS		
Cash and cash equivalents	\$ 3,636	\$ 2,766
Deposits in trust	80,326	15,833
Accounts receivable, net	57,105	66,651
Contributions receivable, net	45,678	44,319
Loans receivable, net	36,256	36,582
Investments	649,497	678,721
Prepaid expenses and other assets	17,727	12,258
Property, plant and equipment, net	<u>395,861</u>	<u>385,103</u>
TOTAL ASSETS	<u>\$ 1,286,086</u>	<u>\$ 1,242,233</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 61,416	\$ 53,385
Deferred revenue and refundable deposits	28,817	30,868
Notes payable and lines of credit	26,058	27,196
Bonds payable	291,720	210,730
Federal student loan funds	<u>33,507</u>	<u>32,511</u>
Total liabilities	<u>441,518</u>	<u>354,690</u>
 Net Assets		
Unrestricted	154,213	171,803
Unrestricted, funds functioning as endowment	<u>336,034</u>	<u>378,167</u>
Total unrestricted	490,247	549,970
Temporarily restricted	67,193	69,414
Permanently restricted	<u>287,128</u>	<u>268,159</u>
Total net assets	<u>844,568</u>	<u>887,543</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,286,086</u>	<u>\$ 1,242,233</u>

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

TULANE UNIVERSITY
STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2002,
WITH COMPARATIVE TOTALS FOR JUNE 30, 2001 (IN THOUSANDS)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2002	2001
OPERATING REVENUES					
Tuition and fees	\$ 239,135			\$ 239,135	\$ 223,383
Less: Institutional scholarships and fellowships	(66,609)			(66,609)	(62,358)
Tuition and fees, net	172,526			172,526	161,025
Government grants and contracts	83,144			83,144	75,865
Private gifts and grants	26,491	\$ 15,297	\$ 17,432	59,220	69,938
Faculty practice plan	59,922			59,922	61,347
Affiliated hospital agreements/contracts	49,763			49,763	47,263
Endowment income	32,232			32,232	27,799
Investment income and gains, net	4,453	1,237		5,690	7,057
Recovery of indirect costs	18,401			18,401	16,041
Auxiliary enterprises	47,878			47,878	45,183
Other	34,268			34,268	34,109
Net assets released from restrictions	12,213	(12,213)		-	-
Total operating revenues	541,291	4,321	17,432	563,044	545,627
OPERATING EXPENSES					
Instruction and academic support	176,213			176,213	172,795
Affiliated hospital agreements/contracts	34,501			34,501	31,876
Organized research	93,566			93,566	81,624
Public service	9,680			9,680	10,830
Libraries	17,819			17,819	17,299
Student services	15,171			15,171	14,913
Institutional support	56,441			56,441	54,561
Scholarships and fellowships	10,720			10,720	9,292
Auxiliary enterprises	70,786			70,786	69,903
Faculty practice plan	62,772			62,772	53,274
Other	3,702	3,268		6,970	5,477
Total operating expenses	551,371	3,268	-	554,639	521,844
Change in net assets from operating activities	(10,080)	1,053	17,432	8,405	23,783
NON-OPERATING ACTIVITIES					
Net realized and unrealized gains (losses)	(22,181)	(3,274)		(25,455)	21,309
Accumulated gains used for spending	(22,337)			(22,337)	(15,079)
Transfers to permanently restricted	(1,537)		1,537	-	-
Change in net assets before extraordinary item	(56,135)	(2,221)	18,969	(39,387)	30,013
EXTRAORDINARY ITEM – LOSS ON EARLY EXTINGUISHMENT OF DEBT	(3,588)			(3,588)	-
CHANGE IN NET ASSETS	(59,723)	(2,221)	18,969	(42,975)	30,013
BEGINNING NET ASSETS	549,970	69,414	268,159	887,543	857,530
ENDING NET ASSETS	\$ 490,247	\$ 67,193	\$ 287,128	\$ 844,568	\$ 887,543

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

TULANE UNIVERSITY
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002 AND 2001 (IN THOUSANDS)

	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (42,975)	\$ 30,013
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on early extinguishment of debt	3,588	-
Depreciation	22,099	23,391
Realized and unrealized investment losses (gains), net	25,455	(21,309)
Contributions restricted for permanent investment	(17,432)	(15,845)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	9,546	(1,468)
Increase in contributions receivable	(1,359)	(11,161)
Increase in prepaid expenses and other assets	(5,469)	(1,601)
Increase in accounts payable and accrued liabilities	10,126	2,383
Decrease in deferred revenue and refundable deposits	(2,051)	(699)
Net cash provided by operating activities	<u>1,528</u>	<u>3,704</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(604,819)	(432,657)
Proceeds from the sale of investments	608,588	433,013
Purchase of property, plant and equipment, net	(32,857)	(32,479)
(Increase) decrease in deposits in trust	(64,493)	73
Student loans issued	(5,345)	(4,992)
Proceeds from collections of student loans	5,671	4,475
Net cash used for investing activities	<u>(93,255)</u>	<u>(32,567)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for permanent investment	17,432	15,845
Proceeds from debt	308,560	105,245
Repayment of debt	(232,296)	(91,982)
Increase in federal student loan funds	996	1,153
Payments on annuities payable	(2,095)	(2,158)
Net cash provided by financing activities	<u>92,597</u>	<u>28,103</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	870	(760)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,766</u>	<u>3,526</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,636</u>	<u>\$ 2,766</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 11,768</u>	<u>\$ 12,368</u>

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

Tulane University

Notes to the Financial Statements

Year Ended June 30, 2002

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies followed by Tulane 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 Faculty Practice Plan 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	\$ 22,099
Retirement of plant assets	163
Plant operations and maintenance	23,609
Interest on indebtedness	13,213

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, 2002, 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.

Faculty Practice Plan

The university's medical school faculty provides professional services to the Tulane University Hospital and Clinic and other community hospitals. Under these agreements, professional revenues are included in the unrestricted fund 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 June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 established new accounting and reporting standards for derivative financial instruments and for hedging activities. SFAS No. 133 required the university to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the university's rights or obligations under the applicable derivative contract. The university adopted SFAS No. 133 in fiscal year 2001. Adoption of the new method of accounting for derivatives and hedging activities did not have a material impact on the university's financial position or statement of activities.

2 DEPOSITS IN TRUST

Deposits in trust consist of the following at June 30, 2002 (in thousands):

Assets restricted for self-insurance	\$ 8,977
Assets restricted by bond indentures	<u>71,349</u>
Total	<u>\$ 80,326</u>

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 and to redeem outstanding bonds. The funds are invested principally in government securities.

3 ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30, 2002 (in thousands):

Student and other receivables, net of allowance for doubtful accounts of \$2,811	\$ 21,925
U.S. Government and other contract receivables, net of allowance for doubtful accounts of \$3,231	28,170
Patient and related receivables, net of allowance for discounts and doubtful accounts of \$23,043	<u>7,010</u>
Total	<u>\$ 57,105</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	\$ 13,935
Between one year and five years	36,972
More than five years	<u>5,235</u>
	56,142
Less: discount of \$4,850 and allowance for uncollectibles of \$5,614	<u>(10,464)</u>
Total	<u>\$ 45,678</u>

Contributions receivable at June 30, 2002, have the following restrictions (in thousands):

Endowment for departmental programs and activities	\$ 2,468
Departmental programs and activities and capital	<u>43,210</u>
Total	<u>\$ 45,678</u>

5 LOANS RECEIVABLE

Loans receivable consist of the following at June 30, 2002 (in thousands):

Perkins student loan program	\$ 33,833
Primary care loan program	3,085
Other loan programs	<u>1,813</u>
	38,731
Less: allowance for doubtful accounts	<u>(2,475)</u>
Total	<u>\$ 36,256</u>

6 INVESTMENTS

Investments consist of the following at June 30, 2002 (in thousands):

Short-term investments	\$ 21,328
Stocks	414,570
Bonds: Government bonds and notes	23,499
Corporate bonds	100,663
University Healthcare System, L.C.	34,243
Partnerships, mortgages and other	39,583
Real estate and royalty interests	<u>15,611</u>
Total	<u>\$ 649,497</u>

Net pooled endowment income amounted to \$5,715,000 for the year ended June 30, 2002. In accordance with the university's endowment spending policy, \$22,337,000 of accumulated gains were used for current operations.

Permanently restricted net assets at June 30, 2002, include the investment assets at market value of the Tulane Murphy Foundation (the Foundation) amounting to \$35,942,000. 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, 2002, income from the Foundation, which is restricted to specific purposes, amounted to \$689,000.

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, 2002, are approximately \$3,559,000 and \$3,362,000 respectively.

7 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2002 (in thousands):

Land	\$ 15,591
Buildings and improvements	404,901
Equipment and library books	154,729
Construction in progress	<u>9,914</u>
	585,135
Less: accumulated depreciation	<u>(189,274)</u>
Total	<u>\$ 395,861</u>

The university capitalizes interest related to the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Capitalized interest amounted to approximately \$233,000 for the year ended June 30, 2002.

The university has undertaken a long-range capital plan that includes a campus-wide student housing program, renovations of non-residential academic and administrative facilities and an energy conservation and management program. Plans for 2003 to 2008 include construction of new student housing, a new academic building, and other infrastructure improvements that are estimated to cost approximately \$75 million. Funding for these projects is available from the March 2002 tax-exempt bond issue. See footnote 9.

8

NOTES PAYABLE AND LINES OF CREDIT

Notes payable, which total \$3,058,000 at June 30, 2002, consist of unsecured and secured notes due in installments through 2021, with a maximum interest rate of 8.50%.

The university has \$80 million in lines of credit with three banks to meet short-term seasonal cash requirements. Principal is payable upon demand. At June 30, 2002, \$23 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, 2002 was 2.34%.

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BONDS PAYABLE

Bonds payable at June 30, 2002, consist of the following (in thousands):

Mortgage Bonds maturities through 2022, interest rates of 3.00%–3.47%	\$ 1,985
Louisiana Public Facilities Authority Revenue Bonds Series 1992 maturities through 2012, interest rates of 6.00%–6.60%	7,280
Louisiana Public Facilities Authority Revenue Bonds Series 1992 A-1 and A-2 maturities through 2021, interest rates of 5.75%–6.00%	28,745
Louisiana Public Facilities Authority Revenue Bonds Series 1996 maturities through 2025, interest rates of 5.05%–6.05%	28,280
The Administrators of the Tulane Educational Fund Series 1996 Taxable Bonds maturities through 2015, interest rates of 7.32%–8.00%	3,880
Louisiana Public Facilities Authority Revenue Bonds Series 1997 maturities through 2027, interest rates of 4.80%–5.60%	6,480
The Administrators of the Tulane Educational Fund Series 1997 Taxable Bonds maturities through 2012, interest rates of 6.90%–7.30%	8,185
Louisiana Public Facilities Authority Revenue Bonds Series 1997 A-1 and A-2 maturities through 2027, interest rates of 4.30%–5.13%	57,740
Louisiana Public Facilities Authority Revenue Bonds Series 1999 maturities through 2014, interest rate of 5.67%	6,435
Louisiana Public Facilities Authority Revenue Bonds Series 2002 A and B maturities through 2032, interest rates of 3.50%–5.13%	<u>142,710</u>
Total	<u>\$ 291,720</u>

The annual principal maturities for bonds payable at June 30, 2002, are as follows (in thousands):

Fiscal Year	Amount
2003	\$ 4,195
2004	3,855
2005	4,010
2006	4,150
2007	4,405
2008 and thereafter	<u>271,105</u>
Total	<u>\$ 291,720</u>

On June 18, 1992, the Louisiana Public Facilities Authority issued \$70,135,000 of tax-exempt revenue bonds on behalf of the university. The bond proceeds were used to finance several plant improvements, including a law school building, a parking garage, equipment acquisitions and various medical center projects. The Louisiana Public Facilities Authority Bonds Series 2002 C was issued to refinance Louisiana Public Facilities Authority Bonds Series 1992 and will be delivered on November 15, 2002.

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 A-1 Series was issued to advance refund \$19,460,000 of the Louisiana Public Facilities Authority Series 1988, \$18,695,000 of the Health Education Authority of Louisiana Series 1985 and \$25,680,000 of the Louisiana Public Facilities Authority Series 1987 B&C bonds. 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.

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

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 are to be 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 are to be used to finance several plant improvements, including a capital renewal program and 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 co-generation facility at the university.

On March 7, 2002, the Louisiana Public Facilities Authority issued \$149,580,000 of tax-exempt revenue bonds in three series on behalf of the university. 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 of student housing, an academic building and infrastructure improvements. The Series B was issued to advance refund \$11,999,000 of the Tulane Educational Fund Series 1996 taxable bonds. These transactions resulted in a loss on bond defeasance of \$3,588,000, which was recorded as an extraordinary item. The Series C was issued for delivery in November 2002 and will be used to advance refund \$6,875,000 of the Louisiana Public Facilities Authority Series 1992 tax-exempt bonds.

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, 2002. 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, 2002. 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, 2002, contributions to the plans were approximately \$13,693,000.

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, 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.

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, which 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, 2002, the university recorded revenue of approximately \$25 million, and as of June 30, 2002, recorded approximately \$7.3 million as an amount receivable from UHS, related to these agreements.

15 OTHER

During the fiscal year ended June 30, 2002, the School of Medicine implemented a new patient billing and information system for its Faculty Practice Plan (FPP). Following implementation of the new system, the FPP maintained the existing patient accounts receivable balances on the former system in order to facilitate the ultimate resolution of such balances. As of June 30, 2002, the FPP reevaluated its outstanding patient accounts receivable balances and recorded an additional provision of \$10 million for its estimate of uncollectible patient accounts receivable balances. This provision is included with FPP operating expenses on the statement of activities.