KPMG

EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Independent Auditors' Report

The Board of Trustees
Emory University:

We have audited the accompanying consolidated statements of financial position of Emory University (the University) as of August 31, 2008 and 2007, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emory University as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits for the years ended August 31, 2008 and 2007 were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole for the years ended August 31, 2008 and 2007.

KPMG LLP

December 18, 2008

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
ASSETS:		
Cash and cash equivalents	$ 35,009	$ 30,918
Cash held as collateral under securities lending transactions	274,510	370,488
Patient accounts receivable, net	211,941	190,663
Student accounts receivable, net	52,748	52,237
Loans receivable, net	34,597	50,891
Contributions receivable, net	215,515	252,876
Accrued investment income receivable	9,734	8,624
Other receivables, net	109,559	125,063
Prepaid expenses, deferred charges, and other assets	130,722	109,201
Investments	6,986,920	7,120,189
Property and equipment, net	2,055,071	1,917,842
Total assets	**$ 10,116,326**	**$ 10,228,992**
LIABILITIES AND NET ASSETS:		
Liability under securities lending transactions	$ 274,510	$ 370,488
Accounts payable and accrued liabilities	367,780	282,866
Interest payable	13,325	15,243
Annuities payable	21,548	23,146
Bonds, notes, and mortgages payable	1,675,734	1,495,252
Accrued liabilities for benefit obligations and professional liabilities	137,232	182,201
Deferred tuition and other revenue	226,113	211,397
Deposits held in custody for others	438,752	419,779
Government advances for federal loan programs	17,723	18,794
Total liabilities	3,172,717	3,019,166
Unrestricted net assets	5,241,972	5,510,960
Temporarily restricted net assets	429,818	438,591
Permanently restricted net assets	1,271,819	1,260,275
Total net assets	6,943,609	7,209,826
Total liabilities and net assets	**$ 10,116,326**	**$ 10,228,992**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2008 (with summarized financial information for the year ended 2007)
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2008	Total August 31, 2007
OPERATING REVENUES:					
Tuition and fees	$ 400,123	$ -	$ -	$ 400,123	$ 366,997
Less: scholarship allowances	(115,205)	-	-	(115,205)	(105,920)
Net tuition and fees	284,918	-	-	284,918	261,077
Endowment spending distribution	173,640	-	-	173,640	164,252
Other investment income designated for current operations	35,969	-	-	35,969	48,277
Gifts and contributions	45,880	-	-	45,880	36,437
Indirect cost recoveries	93,848	-	-	93,848	87,364
Government grants and contracts	256,966	-	-	256,966	213,870
Other grants and contracts	40,721	-	-	40,721	51,355
Medical services	148,300	-	-	148,300	131,874
Auxiliary enterprises	57,716	-	-	57,716	54,630
Independent operations	22,659	-	-	22,659	21,332
Net patient service revenue	1,634,100	-	-	1,634,100	1,522,870
Patent and royalty revenue	10,801	-	-	10,801	6,020
Other revenue	81,573	-	-	81,573	79,567
Net assets released from restrictions	5,905	(5,905)	-	-	-
Total operating revenues	**2,892,996**	**(5,905)**	**-**	**2,887,091**	**2,678,925**
OPERATING EXPENSES:					
Salaries and fringe benefits	1,696,685	-	-	1,696,685	1,570,218
Student financial aid	11,759	-	-	11,759	10,724
Other operating expenses	927,666	-	-	927,666	909,009
Interest on indebtedness	52,012	-	-	52,012	55,346
Depreciation	144,351	-	-	144,351	127,384
Total operating expenses	**2,832,473**	**-**	**-**	**2,832,473**	**2,672,681**
NET OPERATING REVENUES/(EXPENSES)	**60,523**	**(5,905)**	**-**	**54,618**	**6,244**
NON-OPERATING REVENUES/(EXPENSES):					
Net unrealized (losses) gains on investments	(444,307)	(2,790)	(32,577)	(479,674)	432,480
Investment income and gains in excess of spending distribution for current operations	163,176	633	8,818	172,627	241,025
Investment management fees	(20,634)	(147)	(147)	(20,928)	(23,571)
Gifts and contributions	6,960	4,024	34,429	45,413	302,153
Loss on disposal of property and equipment	(8,993)	-	-	(8,993)	(19,364)
Other non-operating items	(25,713)	(4,588)	1,021	(29,280)	9,576
Total non-operating revenues/(expenses)	**(329,511)**	**(2,868)**	**11,544**	**(320,835)**	**942,299**
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**(268,988)**	**(8,773)**	**11,544**	**(266,217)**	**948,543**
Cumulative effect of change in accounting principle	-	-	-	-	(8,453)
CHANGE IN NET ASSETS AFTER CUMULATIVE EFFECT ON CHANGE IN ACCOUNTING PRINCIPLE	**(268,988)**	**(8,773)**	**11,544**	**(266,217)**	**940,090**
BEGINNING NET ASSETS	**5,510,960**	**438,591**	**1,260,275**	**7,209,826**	**6,269,736**
ENDING NET ASSETS	**$ 5,241,972**	**$ 429,818**	**$ 1,271,819**	**$ 6,943,609**	**$ 7,209,826**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended August 31, 2007
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2007
OPERATING REVENUES:				
Tuition and fees	$ 366,997	$ -	$ -	$ 366,997
Less: scholarship allowances	(105,920)	-	-	(105,920)
Net tuition and fees	261,077	-	-	261,077
Endowment spending distribution	164,252	-	-	164,252
Other investment income designated for current operations	48,277	-	-	48,277
Gifts and contributions	36,437	-	-	36,437
Indirect cost recoveries	87,364	-	-	87,364
Government grants and contracts	213,870	-	-	213,870
Other grants and contracts	51,355	-	-	51,355
Medical services	131,874	-	-	131,874
Auxiliary enterprises	54,630	-	-	54,630
Independent operations	21,332	-	-	21,332
Net patient service revenue	1,522,870	-	-	1,522,870
Patent and royalty revenue	6,020	-	-	6,020
Other revenue	79,567	-	-	79,567
Net assets released from restrictions	21,083	(21,083)	-	-
Total operating revenues	**2,700,008**	**(21,083)**	**-**	**2,678,925**
OPERATING EXPENSES:				
Salaries and fringe benefits	1,570,218	-	-	1,570,218
Student financial aid	10,724	-	-	10,724
Other operating expenses	909,009	-	-	909,009
Interest on indebtedness	55,346	-	-	55,346
Depreciation	127,384	-	-	127,384
Total operating expenses	**2,672,681**	**-**	**-**	**2,672,681**
NET OPERATING REVENUES/(EXPENSES)	**27,327**	**(21,083)**	**-**	**6,244**
NON-OPERATING REVENUES/(EXPENSES):				
Net unrealized (losses) gains on investments	$ 330,144	879	101,457	432,480
Investment income and gains in excess of spending	0	0	0	0
distribution for current operations	230,757	253	10,015	241,025
Investment management fees	(23,312)	(122)	(137)	(23,571)
Gifts and contributions	14,462	272,324	15,367	302,153
Loss on disposal of property and equipment	(19,364)	-	-	(19,364)
Other non-operating items	10,647	(1,034)	(37)	9,576
Total non-operating revenues/(expenses)	**543,334**	**272,300**	**126,665**	**942,299**
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**570,661**	**251,217**	**126,665**	**948,543**
Cumulative effect of change in accounting principle	(8,453)	-	-	(8,453)
CHANGE IN NET ASSETS AFTER CUMULATIVE EFFECT ON CHANGE IN ACCOUNTING PRINCIPLE	**562,208**	**251,217**	**126,665**	**940,090**
BEGINNING NET ASSETS	**4,948,752**	**187,374**	**1,133,610**	**6,269,736**
ENDING NET ASSETS	**$ 5,510,960**	**$ 438,591**	**$ 1,260,275**	**$ 7,209,826**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2008 and 2007
(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (266,217)	$ 940,090
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Nonoperating items:		
Gifts restricted for long-term investment and capital projects	(43,933)	(74,681)
Net realized gain on sale of investments	(259,560)	(400,956)
Loss on disposal of property and equipment	8,993	19,364
Noncash items:		
Depreciation	144,351	127,384
Accretion/amortization of bond discounts/premiums	2,985	1,116
Net unrealized losses (gains) on investments	479,674	(432,480)
Gifts of securities and other assets	(5,502)	(10,437)
Gifts of securities and other assets for long-term investment and capital projects	(35,000)	(49,000)
Gifts of property, plant and equipment	(1,738)	(1,492)
Cumulative effect of change in accounting principle	-	8,453
(Increase) decrease in:		
Accounts receivable, net	(6,285)	(31,222)
Contributions receivable	37,361	(208,964)
Accrued investment income	(1,110)	6,379
Prepaid expenses, deferred charges and other assets	(21,147)	(9,384)
Increase (decrease) in:		
Accounts payable and interest payable	82,996	(5,875)
Accrued liabilities for benefit obligations and professional liabilities	(44,969)	1,237
Deferred tuition and other revenue	14,716	13,329
Net cash provided by (used in) operating activities	**85,615**	**(107,139)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(3,979)	(13,333)
Repayment of loans from students	20,273	6,345
Proceeds from sales and maturities of investments	7,602,447	4,779,589
Purchases of investments	(7,648,790)	(4,780,715)
Change in collateral deposits under securities lending transactions	95,978	(66,422)
Change in obligation to return collateral under securities lending transactions	(95,978)	66,422
Purchases of property, plant and equipment	(288,835)	(238,182)
Increase in deposits held in custody for others	18,973	67,585
Net cash used in investing activities	**(299,911)**	**(178,711)**

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EMORY UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2008 and 2007

(Dollars in thousands)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	43,933	74,681
Proceeds from bonds and mortgages payable	327,978	158,069
Principal repayments of bonds and mortgages payable	(150,481)	(61,070)
Increase (decrease) in annuities payable	(1,598)	3,425
Decrease in government advances for federal loan programs	(1,071)	(138)
Bond issuance costs	(374)	-
Net cash provided by financing activities	**218,387**	**174,967**
Net increase (decrease) in cash and cash equivalents	**4,091**	**(110,883)**
Cash and cash equivalents at beginning of year	**30,918**	**141,801**
Cash and cash equivalents at end of year	**$ 35,009**	**$ 30,918**
Supplemental disclosure:		
Cash paid for interest	$ 59,561	$ 56,739

See accompanying notes to consolidated financial statements.

(1) Organization

Emory University (the University or Emory) is a not-for-profit corporation, located in Atlanta, Georgia, which owns and operates educational facilities, a healthcare system, Clifton Casualty Insurance Company Ltd. (CCIC) and Emory Medical Care Foundation (EMCF). The Emory Healthcare system (the System or Emory Healthcare) consists of (i) three general and acute care hospitals (Emory University Hospital, Emory Crawford Long Hospital and Emory University Hospital Northlake, which was opened in September 2008), (ii) a geriatric hospital and a long term care hospital (Wesley Woods Geriatric Hospital and Wesley Woods Long Term Care Hospital), (iii) an intermediate care nursing home (Budd Terrace), and an independent and assisted living facility for seniors (Wesley Woods Towers), (iv) two physician groups (The Emory Clinic, Inc. and Emory Specialty Associates, LLC) and one physician-group joint venture (Emory Children's Center, Inc.) and (v) Emory Healthcare Corporate (EHC). The consolidated financial statements include Emory University and the aforementioned entities. All material intercompany accounts and transactions have been eliminated in consolidation.

Emory University Hospital, Emory Crawford Long Hospital, Emory University Hospital Northlake, Wesley Woods Geriatric Hospital and Wesley Woods Long Term Care Hospital are sometimes referred to herein as "the Hospitals."

(2) Summary of Significant Accounting and Reporting Policies

The following accounting policies are used in the preparation of the accompanying consolidated financial statements:

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP).

In accordance with not-for-profit accounting principles, the University has classified resources into three net asset categories: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – Net assets that are not subject to externally imposed stipulations. Certain net assets classified as unrestricted are designated for specific purposes or uses under various internal operating and administrative arrangements of the University.

Temporarily Restricted Net Assets – Net assets that are subject to externally imposed stipulations that may or will be met either by actions of the University and/or the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to externally imposed restrictions that the University maintains permanently. Generally, the donors of these assets permit the University to use all or part of the income earned and net appreciation on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(a) Cash Equivalents

Cash equivalents consist primarily of short-term money market mutual funds and treasury bills with original maturities of ninety days or less. These amounts are carried at cost, which approximates fair value.

(b) Loans Receivables, Net

Loans to students from Emory are carried at cost. Loans receivable from students under governmental loan programs, also carried at cost, can only be assigned to the federal government or its designees. Loan balances are net of allowances for estimated uncollectible accounts of $0.8 million as of August 31, 2008 and 2007. Loans to qualified students are funded principally with government advances to Emory under the Perkins, Nursing and Health Professions Student Loan Programs.

(c) Other Receivables, Net

Other receivables are recorded at net realizable value and include receivables under grants and contracts, billings under clinical trials, royalty agreements, and medical services provided to other organizations and outstanding losses recoverable from reinsurers.

(d) Investments

Investments are carried at fair value, with the difference between fair value and cost (or fair value at date of gift) being recorded as unrealized gains (losses). The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and exchange rates, if applicable. Fair values for private partnership interests, real estate, and oil and gas properties held through limited partnerships or commingled funds, and marketable alternative investments (often referred to as hedge funds and typically in the form of limited partnerships) are not as readily ascertainable. Fair value for these investments is established based on either external events which substantiate a change in fair value or a reasonable methodology that exists to capture and quantify changes in fair value. In some instances, those changes in fair value may require the use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed.

Investments in private partnership interests are valued using the most current information provided by the general partner. General partners typically value privately held companies at cost or an adjusted value based on a recent arm’s length transaction. Public companies are valued using quoted market prices and exchange rates, if applicable. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third-party appraisers retained by the general partner or investment manager. General partners of alternative investments that invest in marketable securities provide values based on quoted market prices and exchange rates for publicly traded securities and valuation estimates of derivative instruments. General partners of oil and gas partnerships also use third-party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by management and management believes such values are reasonable estimates of fair value at August 31, 2008 and 2007.

Emory has exposure to a number of risks including interest rate, market and credit risks for both marketable and nonmarketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in Emory's consolidated financial statements.

(e) Life Income, Gift Annuities, and Interest in Perpetual Trusts Held by Others

The University's split interest agreements with donors consist primarily of gift annuity agreements and irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in the trusts are included in investments. Contribution revenues are recognized when trusts (or annuity agreements) are established, after recording liabilities for the present value of the estimated future payments to be made to beneficiaries. The liabilities are adjusted annually for changes in the value of assets, accretion of the discount, and other changes in the estimates of future benefits.

The University is also the beneficiary of certain perpetual trusts held and administered by others. The present value of the estimated future cash receipts from the trusts is recognized in investments and as contribution revenue at the date such trusts are established. The carrying value of the investments is adjusted annually for changes in fair value.

(f) Property and Equipment

Land, buildings, and equipment are recorded at cost or fair value at the date of gift to the University. Interest expense, net of interest earnings, on borrowings is capitalized during project construction periods as part of property cost. Depreciation expense is based on the straight-line method over the estimated useful lives of the assets, using the half-year convention beginning in the year the assets are placed in service. Useful lives are as follows: buildings – 15 to 60 years; land improvements and infrastructure – 5 to 20 years; moveable equipment – 3 to 20 years; fixed equipment – 30 years; and library books – 10 years.

(g) Tuition and Fees

Tuition and fee revenues and related expenditures are recognized in the fiscal year during which the academic services are rendered. The accompanying consolidated statements of financial position as of August 31, 2008 and 2007 reflect deferred fall semester revenues and expenditures, which will be recognized as revenues and expenditures in fiscal years 2009 and 2008, respectively.

(h) Contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions for specified purposes, capital projects or permanent endowments and contributions under split interest agreements are reported as non-operating revenues. All other contributions are recorded as operating revenues. Donor-restricted contributions are reported as temporarily restricted or permanently restricted support that increases those net asset classes. Unconditional promises to give, with payments due in future periods, are recorded as increases in temporarily or permanently restricted assets at the estimated present value of future cash flows, net of an allowance for uncollectible pledges. Expirations of temporary restrictions on net assets, such as the donor stipulation being met or the passage of time, are reported as net assets released from restriction and reflect reclassifications from temporarily restricted net assets to unrestricted net assets. If the donor stipulation is met in the year of the gift, the contribution is reflected as an unrestricted net asset. Temporary restrictions on gifts to acquire long-lived assets are considered met

(Continued)

in the period when the asset is placed in service. Promises of noncash assets are recorded at their fair values. Conditional promises are recorded when donor conditions are substantially met.

(i) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenues on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

With respect to reserves for third-party payor cost report audits and anticipated settlements, the Hospitals routinely reserve 3.0% of relevant Medicare revenues through initial audit and settlement of related cost reports, which is then reduced to 1.5% of revenues until the related statutory reopening periods have expired (generally, three years from the date of original settlement). The Hospitals have historically provided such reserves in recognition of the complexity of relevant reimbursement regulations and the volatility of related settlement processes, and believe that such policy properly provides for the Hospitals' routine exposures in this area consistent with industry-specific accounting principles and practices. In any event, the Hospitals' estimates in this area will differ from actual experience, and those differences may be material. During fiscal 2008 and 2007, net patient service revenue increased approximately $12.7 million and $6.8 million, respectively, due to adjustment of previously estimated third-party payer reserves that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations, and new reserves established in accordance with the System's stated policy.

(j) Income Taxes

The University is recognized as a tax-exempt organization as defined in Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and is generally exempt from the federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements.

On September 1, 2007, the University adopted FIN 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109.* FIN 48 clarifies the accounting for uncertainty in income tax positions recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* It also provides guidance on when tax positions are recognized in an entity's financial statements and how the values of these positions are determined. There was no significant impact on the University's consolidated financial statements as a result of the adoption of FIN 48.

(k) Asset Retirement Obligations

The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the University capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the consolidated statement of activities.

(l) New Pension and Postretirement Accounting Standard

The FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158), in September 2006. SFAS No. 158 requires employers to recognize the funded status of their defined benefit plans and postretirement benefit plans as an asset or liability and to recognize changes in funded status during the year in which the changes occur as changes in unrestricted net assets for not-for-profit organizations. The funded status of defined benefit pension plans and postretirement benefit plans is required to be recognized as of the end of fiscal years ending after June 15, 2007. Application of the statement's recognition provisions resulted in the recording of an additional pension asset of $1.5 million and an additional postretirement liability of $9.9 million, for a net cumulative effect of change in accounting principle of $8.5 million for the year ended August 31, 2007 *(see notes 14 and 15).*

In addition to the recognition provision described above, SFAS No. 158 will also require, effective for the year ending August 31, 2009, the University to change to a fiscal year-end measurement of plan assets and benefit obligations. This provision eliminates the measurement of plan assets and benefit obligations as of a date not more than three months prior to the financial reporting date.

(m) New Accounting Pronouncements

Through June 30, 2008, the University's management and investment of donor-restricted endowment funds was subject to the provisions of the Uniform Management of Institutional Funds Act (UMIFA). In 2006, the Uniform Law Commission approved the model act, Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline to states to use in enacting legislation. Among UPMIFA's most significant changes is the elimination of UMIFA's important concept of historic dollar value threshold, the amount below which an organization could not spend from the fund in favor of a more robust set of guidelines about what constitutes prudent spending.

Effective July 1, 2008, the State of Georgia enacted UPMIFA, the provisions of which apply to funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the University has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate based on accounting standards in effect as of August 31, 2008.

FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowments Funds* (FSP), is effective for fiscal years ending after December 15, 2008. A key component of the FSP is a requirement to reclassify the portion of a donor-restricted endowment fund that is not classified as temporarily restricted net assets until appropriated for expenditure. The University will adopt the FSP for the year ending August 31, 2009 which will require the August 31, 2008 financial statements to be retrospectively adjusted to reflect a reclassification of net assets from unrestricted to temporarily restricted. The University does not believe this net asset reclassification will be operationally significant. Another key component of that FSP is a requirement for expanded disclosures for all endowments. These expanded disclosures are required in the fiscal year 2009 consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. In addition, SFAS 157 expands the disclosures regarding the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs, and the effect of the measurement on changes in net assets for the period. SFAS 157 will be effective for the University as of September 1, 2008. The University is currently evaluating the impact of adopting this standard.

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. In addition, SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective for the University as of September 1, 2008. The University is currently evaluating the impact of adopting this standard.

(n) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items in the University's consolidated financial statements subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for employee healthcare and workers' compensation claims, accrued professional and general liability costs, estimated third-party settlements and actuarially determined benefit liabilities related to the University's pension and other postretirement benefit plans. Depreciation expense is based on the estimated useful lives of the related assets. The carrying value of contributions to be received after one year are estimated by discounting the expected future cash flows at a risk free rate which could have been obtained at the date of the gift.

(o) Current Economic Environment

The recent economic downturn in the U.S. economy, which has not abated subsequent to August 31, 2008, might impact the University in a number of ways. Some of the factors which might negatively impact the University include, but are not limited to:

- Volatility in the tax-exempt bond market which could limit funds for long-term strategic and capital investments;

- Volatility in financing costs and limited ability to hedge those risks using instruments such as interest rate swap agreements;
- Volatility in the commercial banking industry and related potential issues including, but not limited to, liquidity access, counterparty arrangements and short-term financing capacity.
- Investment losses emerging subsequent to the date of these consolidated financial statements;
- Rising self-pay patient volumes and corresponding increases in uncompensated care; and
- An increasingly uncertain state and federal government reimbursement environment.

Any of the above factors, along with others both currently in existence or which may in light of current circumstances arise in the future, could have a material adverse impact on the University's consolidated financial position and operating results.

(p) Reclassifications

If applicable, certain prior year amounts have been reclassified to conform to current year presentation.

(3) Contributions Receivable

Contributions receivable as of August 31, 2008 and 2007 consist of the following (in thousands):

		2008	2007
Unconditional promises expected to be collected in:			
Less than one year	$	69,412	70,604
One year to five years		176,550	222,354
Over five years		5,045	740
Total unconditional promises		251,007	293,698
Less:			
Unamortized discount		(21,523)	(24,584)
Allowance for uncollectible amounts		(13,969)	(16,238)
Contributions receivable, net	$	215,515	252,876

Contributions receivable scheduled to be collected after one year are discounted at a rate commensurate with the anticipated timing of receipt. Such amounts outstanding as of August 31, 2008 and 2007 generally are discounted on rates ranging from 2.17% to 5.11%.

The methodology for calculating an allowance for uncollectible contributions receivable is based upon management's analysis of the aging of payment schedules for all outstanding pledges over $1 million and other factors, including donor history and quality. This review resulted in allowances for uncollectible amounts totaling 5.5% of contribution receivable as of August 31, 2008 and 2007.

In November 2006, Emory University received three gifts from the Robert W. Woodruff Foundation, Inc. for a total of $261.5 million. A gift of $240 million is restricted to support the University's future Healthcare facility projects and a $12.5 million gift is to provide support for the University President's strategic initiatives. The third gift of $9 million is for the renovation of the Woodruff Health Sciences Center Administration Building. As of August 31, 2008, $75 million has been received on the $240 million gift and $5.0 million has been received on the $12.5 million gift with the remaining $172.5 million reported in contributions receivable with fulfillment committed by 2011. The $9 million gift was paid in full in December 2006. The total remaining gift of $172.5 million is reported in temporarily restricted gifts in fiscal 2008.

At August 31, 2008, the University had received bequest intentions of approximately $73.1 million. These intentions to give are not recognized as assets or revenues and, if received, will generally be restricted for purposes stipulated by the donor.

(4) Business and Credit Concentrations

The System grants credit to patients, substantially all of whom reside in the southeastern United States. The System generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health programs, plans, or policies (e.g. Medicare, Medicaid, Blue Cross, and other preferred provider arrangements and commercial insurance policies). The mix of receivables from patients and third-party payors follows:

	2008	2007
Managed care and other third-party payors	55%	59%
Medicare	32	28
Patients	7	8
Medicaid	6	5
	100%	100%

(5) Net Patient Service Revenue

The System has agreements with governmental and other third-party payors that provide for reimbursement to the System at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the System's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

- Medicare – Substantially all acute care and professional services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. The System is paid for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the System and audits by the Medicare fiscal intermediary. The System's cost reports have been audited and substantially settled for all fiscal years through August 31, 2005. Revenues from the Medicare program accounted for approximately 32% and 30% of the System's net patient service revenue for the years ended August 31, 2008 and 2007, respectively.

- Medicaid – Inpatient and professional services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid based upon cost reimbursement methodologies. The System's cost reports have been audited and substantially settled for all fiscal years through August 31, 2004. Revenues from the Medicaid program accounted for approximately 3% of the System's net patient service revenue for both the years ended August 31, 2008 and 2007. Effective June 1, 2006, the System began contracting with certain managed care organizations to receive reimbursement for providing services to Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates.

The System participates in the State of Georgia Upper Payment Limit Program (the Program) with respect to certain qualifying physicians who practice at The Emory Clinic and The Emory Children's Center. In this respect, the System received and recognized as net patient service revenue $12.4 million in Program funds during fiscal 2008. The aggregate payment from the Program to the System was enabled by a related intergovernmental transfer to the State from an entity that purchases physician services from the System. There can be no assurance that the System will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

The System has also entered into other reimbursement arrangements providing for payment methodologies which include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem rates.

The composition of net patient service revenue follows (in thousands):

		2008	2007
Gross patient service revenue	$	3,485,388	3,195,300
Less provisions for contractual and other adjustments		(1,851,288)	(1,672,430)
	$	1,634,100	1,522,870

(6) Royalty Receivable

During 2002, the University settled a patent dispute with SmithKline-Beecham Corp., d/b/a GlaxoSmithKline and Shire Pharmaceuticals Group PLC. Pursuant to this agreement, the University and the inventors will receive a minimum of $7.5 million annually for six years and $5 million annually for the subsequent four years as royalty payments for 3TC drug sales. The University's portion of these future payments, which is recorded in other receivables in the accompanying consolidated statements of financial position, totaled approximately $8.7 million and $11 million as of August 31, 2008 and 2007, respectively. The long-term portion of this royalty receivable has been discounted based on rates ranging from 1.74% to 2.14%.

(7) Investments

The following table summarizes the fair value of investments as of August 31, 2008 and 2007 (in thousands):

	2008	2007
Short-term investments and cash equivalents whose use is restricted	$ 539,447	320,052
Fixed income securities	1,189,199	1,121,953
U.S. equity securities	1,770,550	2,173,563
Non-U.S. equity securities	837,363	1,151,005
Oil and gas properties	372,733	289,314
Private market investments	907,020	758,969
Marketable alternative investments	991,361	904,901
Real estate investments	309,226	320,616
Miscellaneous investments	70,021	79,816
	$ 6,986,920	7,120,189

Short-term investments include cash equivalents, whose use are subject to donor restrictions, debt service requirements, and capital planning and are not used in current operations. In addition, the University reclassified the amounts held in Commonfund for Short-Term Investments for fiscal 2008 and 2007 totaling $217.7 million and $86.8 million, respectively, from cash and cash equivalents into investments on the accompanying consolidated statements of financial position. This reclassification resulted from a review of the nature of the Commonfund investments and subsequent restrictions placed on the University's access to these funds during September and October 2008. As of November 24, 2008, the University had withdrawn $173 million of the August 31, 2008 Commonfund balance.

At August 31, 2008 and 2007, U.S. equity securities included investments in common stock of The Coca-Cola Company with a fair value totaling $0.7 billion and $0.7 billion, respectively. At August 31, 2008 and 2007, this represented 10.0% and 9.8%, respectively, of the fair value of all investments. These assets are primarily held in trusts that the University does not directly manage.

Due to the University's involvement in the development of the technology owned by GeoVax, Inc. (GeoVax), the University was the recipient of 233,905,253 shares of GeoVax Labs, Inc. (GOVX) common stock at the time of its initial public offering on September 28, 2006. As of August 31, 2008, the stock was trading at $0.15 per share. Until September 28, 2008, the University was subject to volume limitations based on total shares outstanding and trading activity which severely restrict the ability to sell all shares held at the published market value. The shares are recorded as an investment at a discounted value of $17.5 million instead of the published fair market value of $35.1 million. Management believes the discounted value is warranted due to the large percentage of outstanding shares owned by the University and the restrictions prohibiting the University from freely selling the shares in the capital market without significantly affecting the sales price. The discounted amount was determined using the theoretical value of a series of sequential put options on the common stock for purposes of determining the value of Emory's 32% common stock ownership. The put options are designed to capture the cost of assuring Emory's ability to realize the current market price. The valuation assumes the appropriate volatility is a multiple of the most recent historical volatility that corresponds to the maturity period.

The University's investment policies allow certain fund managers to use forward exchange contracts, currency hedges and swaps in order to reduce the volatility and manage market risk involved in its investment portfolio. These financial instruments are included in investments at fair value in the accompanying consolidated statements of financial position with the related gain or loss recognized as investment income and gains (losses) in excess of spending distribution for current operations in the accompanying consolidated statements of activities.

Investment securities are exposed to several risks, such as interest rates, currency, market and credit risks. The liquidity crisis that originally was linked principally to the sub-prime lending markets has spread to other segments of the credit markets in the U.S. and internationally. It is not possible at this time to predict the full impact or duration of the existing illiquid credit market conditions. The unstable market conditions and the resulting uncertainties contribute to additional risks associated with certain significant investment valuation estimates. Management continues to monitor the composition of its portfolio to assess the potential impact of these market conditions on the valuation of its investments.

Management is required to make certain estimates in the preparation of the consolidated financial statements. Among those potentially significant estimates are the valuation of private market investments, real estate, oil and gas properties, and certain alternative investments that invest in marketable securities. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. Management's estimates are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. The University believes that the carrying amounts of these investments are a reasonable estimate of fair value. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a material impact on the consolidated financial statements.

The University participates in a securities lending program. Securities are loaned on an overnight basis in exchange for collateral equal to at least 102% of the securities loaned. The University is indemnified in this arrangement by the agent for the lending program. Collateral held by the University related to such loaned securities as of August 31, 2008 and 2007 totaled $274.5 million and $370.5 million, respectively.

(8) Property and Equipment

Property and equipment at August 31, 2008 and 2007 are summarized as follows (in thousands):

	2008	2007
Land and land improvements	$ 131,073	114,977
Buildings and improvements	2,022,469	1,949,376
Equipment	1,011,173	950,775
Library and museum assets	243,978	225,097
Construction in progress	142,861	48,069
	3,551,554	3,288,294
Less accumulated depreciation	(1,496,483)	(1,370,452)
	$ 2,055,071	1,917,842

Depreciation expense totaled $144.4 million and $127.4 million during 2008 and 2007, respectively.

(9) Long-Term Debt

At August 31, 2008 and 2007, bonds, notes and mortgages payable, including unamortized premiums and discounts, consisted of the following (dollars in thousands):

	Interest Rate Average	Final Maturity	Outstanding Principal 2008	Outstanding Principal 2007
Tax-exempt fixed-rate revenue bonds:				
2008 Series B	4.75%	September 1, 2011	$ 104,274	$ —
2008 Series C	4.96%	September 1, 2038	124,504	—
2005 Series A	4.79%	September 1, 2025	153,002	160,183
2002 Series A	4.68%	September 1, 2033	102,847	108,552
2001 Series A	5.09%	September 1, 2025	180,035	188,978
2000 Series A	5.04%	November 1, 2018	19,211	22,831
1999 Series A	5.05%	November 1, 2019	17,436	28,840
1998 Series A	4.78%	November 1, 2021	10,724	12,442
1998 Series B	5.00%	November 1, 2033	7,724	7,713
1997 Series A	5.08%	n/a	—	13,837
1997 Series C	4.83%	November 1, 2010	537	698
Total tax-exempt fixed-rate revenue bonds			720,294	544,074
Tax-exempt variable-rate revenue bonds:				
2008 Series A	1.75%	September 1, 2043	98,935	—
2005 Series B	2.48%	September 1, 2035	250,000	250,000
2005 Series C	3.07%	September 1, 2036	281,575	281,575
2002 Series B	2.50%	September 1, 2033	21,390	24,045
2001 Series B	2.50%	September 1, 2033	77,390	79,430
2000 Series B	2.50%	November 1, 2035	85,625	88,285
Total tax-exempt variable-rate revenue bonds			814,915	723,335
Taxable fixed-rate revenue bonds:				
1994 Series C	8.00%	October 1, 2024	7,990	8,205
Series 1991	8.89%	April 1, 2022	7,711	9,141
Total taxable fixed-rate revenue bonds			15,701	17,346
Taxable variable-rate revenue bonds:				
1999 Series B	3.58%	November 1, 2029	12,300	12,560
1995 Series B	3.58%	November 1, 2025	15,080	16,415
1994 Series B	4.04%	October 1, 2024	12,925	13,310
Total taxable variable-rate revenue bonds			40,305	42,285

	Interest Rate Average	Final Maturity	Outstanding Principal 2008	2007
Tax-exempt commercial paper:				
2007 Program 1	2.36%		$ 74,592	$ 150,000
Total tax-exempt commercial paper			74,592	150,000
Multiple disbursement line of credit, due upon the sale collateralized student loans, variable interest rate			—	15,523
Multiple disbursement promissory notes, variable rate			7,293	—
Other variable rate notes and mortgage:		2013	2,611	2,689
		2009	23	—
Total bonds, notes and mortgages payable			$ 1,675,734	$ 1,495,252

The University incurred interest expense of $52.0 million and $55.3 million in 2008 and 2007, respectively. These amounts include capitalized interest of $1.4 million in both fiscal 2008 and 2007.

During 2008, the average interest rate on University tax-exempt variable rate demand bonds (VRDB), tax exempt auction rate certificates (ARCs) and taxable debt was 2.49%, 4.37% and 3.81%, respectively. Related indices for this period were 2.56% for tax-exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 3.56% for taxable debt (London Interbank Offered Rate – LIBOR). All ARCs were converted to variable rate demand obligations (VRDO) in April 2008 and there are no ARCs in the August 31, 2008 debt outstanding.

At August 31, 2008 the aggregate annual maturities of bonds, notes and mortgages payable for the next five years and thereafter are as follows (in thousands):

Payable in fiscal year:	
2009	$ 157,290
2010	60,265
2011	44,800
2012	242,410
2013	115,330
Thereafter	1,029,630
	$ 1,649,725
Unamortized net premium	26,009
	$ 1,675,734

As described above, certain of the University's revenue bonds bear interest at variable rates. As a component of the debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate revenue bond tranches to fixed rates. Significant terms of each of the swap agreements for August 31, 2008 are as follows (dollars in thousands):

Type	Effective date	Notional amount	University pays	University receives	Expiration date
Interest	08/04/2005	$ 250,000	3.238%	68% of 3-month LIBOR rate	09/01/2035
Interest	08/23/2005	80,000	3.255%	68% of 3-month LIBOR rate	09/01/2035
Basis	08/04/2005	250,000	68% of 3-month LIBOR rate plus 0.36%	SIFMA Muni Swap Index less 0.05%	09/01/2011
Interest	12/01/2009	75,000	3.583%	68% of 3-month LIBOR rate	09/01/2035
Interest	12/01/2007	75,000	3.549%	68% of 3-month LIBOR rate	09/01/2035
Interest	05/01/2008	75,000	3.607%	68% of 3-month LIBOR rate	09/01/2038
Interest	12/01/2008	100,000	3.286%	68% of 3-month LIBOR rate	12/01/2042
Constant Maturity	02/15/2009	62,500	1-month LIBOR	10-year ISDA minus 99.8 basis points	01/01/2037

Net settlement transactions related to the swap agreements described above resulted in interest expense totaling $3.8 million and interest income totaling $0.3 million during 2008 and 2007, respectively. The fair value of each swap is the estimated amount the University would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The net fair value represents a liability of $11.5 million and an asset of $22.3 million and is included in accounts payable and accrued liabilities as of August 31, 2008 and in other receivables as of August 31, 2007, respectively. The change in fair value is included as a gain or loss in other non-operating activities on the consolidated statement of activities. The University's swap arrangements are exposed to credit loss in the event of nonperformance by the counterparty and to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis swap. The University monitors the credit standing of its counterparties.

On April 18, 2007, the University established a Commercial Paper program of $400 million in tax-exempt notes and $100 million in taxable notes. A $150 million initial program order was implemented in fiscal 2007 and the current issued balance at August 31, 2008 is $75 million in tax-exempt Commercial Paper. The primary purpose of the program is to meet interim financing needs related to capital projects.

In August 2000, the University established a committed $170 million standby credit facility to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. There are now three diversified facilities totaling $525 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2008, there were no draws against this line of credit.

In December 2005, the University established a $50 million line of credit to fund professional and graduate loans under the Emory School as Lender program. Draws against this line of credit were $0.0 and $15.5 million at August 31, 2008 and 2007, respectively, collateralized by an equal amount of student loans receivable under this program. This line of credit is committed for the sole purpose of administering the Emory School as Lender program. All student loans under this program are covered by a forward purchase agreement. After November 30, 2008, no new loans will be made but the University will continue servicing existing serial borrowers at current rates.

The University also has a $30 million line of credit. Draws against this line of credit at August 31, 2008 were $7.3 million. There were no draws outstanding against this line of credit at August 31, 2007. The Emory Clinic has a $15 million line of credit against which there were no draws as of August 31, 2008 and 2007. Emory University has three letters of credit with a commercial bank totaling $2.4 million. There were no draws against these letters of credit as of August 31, 2008 and 2007.

In conjunction with Emory Healthcare's 35% joint venture interest in Emory-Adventist, Inc. the University has guaranteed $2.2 million of a $6.1 million outstanding line of credit between a commercial bank and Emory-Adventist. The University also has guarantee obligation of $4.7 million, representing a 35% share of the debt outstanding as of August 31, 2008, on revenue bonds issued by Emory-Adventist, Inc. in 1996. The University has guaranteed approximately $1.0 million of a $2.8 million outstanding line of credit associated with the 1996 bonds. The University has guaranteed $0.2 million, representing 35% of a $0.6 million loan. The University's potential liability for these obligations of Emory-Adventist, Inc. is limited to the amounts referenced above.

On September 1, 2006, The Carter Center, Inc. entered into a $1 million line of credit agreement with SunTrust Bank (see note 20). This line of credit carries a guarantee by Emory University of the entire $1 million and is expected to continue indefinite annual renewal.

The terms of the University's long-term debt provide for certain financial and nonfinancial covenants, including provisions as to the use of the proceeds, limits as to arbitrage and bond issue costs, and various other administrative requirements. At August 31, 2008, management believes that the University was in compliance with these covenants.

With regard to debt funding and in response to significant and recent economic changes altering the credit risk environment, the primary objectives of Emory's debt policy are to optimize its current and expected future debt structure and to maintain a diversified portfolio of debt within acceptable risk tolerances while decreasing the cost of capital. The policy is designed to manage the acquisition and allocation of debt as an important component of Emory's overall capital structure.

(10) Fair Value of Financial Instruments

The carrying values for cash and cash equivalents, patient receivables, short-term receivables and short-term payables approximate fair value because of the short maturity of these financial instruments. Contributions receivable and annuity and other split-interest obligations carrying amounts approximate fair value because these instruments are recorded at net present value. Long-term investments, assets held and liabilities under securities lending transactions and deposits held in custody for others are reflected in the accompanying consolidated financial statements at fair value at August 31, 2008 and 2007. It is not practicable to determine the fair value of loans receivables, comprised primarily of federally sponsored student loans, and government advances for federal loan programs due to significant government restrictions as to marketability, interest rates and repayment terms of these loans. The estimated fair value of the University's long-term debt, based on the quoted market prices for issues with similar terms and maturities, is approximately $1.68 billion and $1.48 billion at August 31, 2008 and 2007, respectively. The carrying value of long-term debt reflected in the accompanying consolidated statements of financial position is approximately $1.70 billion and $1.50 billion at August 31, 2008 and 2007, respectively.

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(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of August 31, 2008 and 2007 (in thousands):

		2008	2007
Term endowments	$	119,758	119,758
Contributions receivable, time and purpose restricted		193,140	239,327
Capital projects and other donor designations		108,410	69,584
Annuity and life income agreements		8,510	9,922
	$	429,818	438,591

Permanently restricted net assets as of August 31, 2008 and 2007 are comprised of (in thousands):

		2008	2007
Investments to be held in perpetuity, the income from which is expendable for operating activities	$	1,234,384	1,227,065
Contributions receivable, restricted for endowment		22,375	13,549
Endowments requiring income to be added to the original gift until funds reach a stipulated balance		11,664	16,068
Annuity and life income agreements		3,396	3,593
	$	1,271,819	1,260,275

Generally, the donors of these assets permit the University to use all or part of the income earned and net appreciation on related investments for general or specific purposes, such as scholarships, faculty salaries or other operational and administrative support.

(12) Investment Return

Investment return, as reflected in the accompanying consolidated statements of activities, for August 31, 2008 and 2007 is as follows (in thousands):

		2008	2007
Endowment spending distribution	$	173,640	164,252
Other investment income designated for current operations		35,969	48,277
Total operating return		209,609	212,529
Investment income and net gains in excess of spending distribution for current operations		172,627	241,025
Unrealized (losses) gains on investments, net		(479,674)	432,480
Total nonoperating return (loss)		(307,047)	673,505
Total return (loss)	$	(97,438)	886,034

The components of investment return (loss) for August 31, 2008 and 2007 are reflected below (in thousands):

		2008	2007
Investment income	$	122,676	52,598
Realized gains on investments		259,560	400,956
Unrealized (losses) gains on investments, net		(479,674)	432,480
Total return (loss)	$	(97,438)	886,034

The University employs a total return endowment spending policy that establishes the amount of endowment investment return available to support current operating and capital needs. The distribution of endowment income in 2008 and 2007 was based on 4.75% of the previous 12 months' average market value ending on December 31.

In addition to a core group of investment professionals dedicated to the management of Emory's endowment, Emory also employs external investment managers. External management fees paid directly (i.e. segregated investment account fees) totaled $15.4 million and $18.8 million, and internal management fees (including custody fees, consulting reviews and staff expenses) totaled $5.5 million and $4.8 million in fiscal years 2008 and 2007, respectively.

(13) Contributory Retirement Plans

The University and Emory University Hospital, Emory Crawford Long Hospital, and Wesley Woods Hospital have contributory retirement plans covering certain employees and teaching staff. The University contributes an amount equal to 6% of each eligible employee's compensation to the plan as well as a supplemental contribution of 3% based on a 1.5-to-1 match of employee contributions of up to 2% of

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compensation. Benefit plans for Emory University Hospital, Emory Crawford Long Hospital, Wesley Woods Center, the Emory Clinic staff (not including physicians), and Emory Children's Center are combined in a single Emory Healthcare benefit plan, which includes a noncontributory pension plan for all employees. The Emory Healthcare benefit plan also includes a contributory plan, contributions to which are based on a 1-to-1 match of employee contributions of up to 4% of compensation. Retirement expense totaled $59.7 million and $55.5 million during 2008 and 2007, respectively, and is included in operating expense in the accompanying consolidated statements of activities.

(14) Pension Plan

Emory Healthcare sponsors a defined benefit pension plan (the Plan) covering all employees who have attained the age of 21 and completed one year of service as defined in the Plan. Emory Healthcare contributes an amount sufficient to fund the Plan as determined by consulting actuaries. Plan assets generally consist of equity and fixed income securities. Emory Healthcare has elected a May 31 measurement date for actuarial calculations associated with financial reporting for the Plan.

The changes in the projected benefit obligation as of August 31, 2008 and 2007 follow (in thousands):

		2008	2007
Projected benefit obligation, beginning of year	$	69,178	47,255
Service cost		14,737	12,679
Interest cost		4,324	3,163
Actuarial loss		1,509	7,984
Benefits paid		(1,446)	(1,903)
Projected benefit obligation, end of year	$	88,302	69,178

The changes in the fair value of plan assets, funded status of the plan, and the status of amounts recognized in the accompanying consolidated statements of financial position as of August 31, 2008 and 2007 follow (in thousands):

		2008	2007
Fair value of plan assets, beginning of year	$	67,675	46,942
Actual return (loss) on plan assets		(2,200)	9,586
Employer contributions		13,543	13,050
Benefits paid		(1,446)	(1,903)
Fair value of plan assets, end of year	$	77,572	67,675
Funded status (deficit)	$	(10,730)	(1,503)
Employer contributions after measurement date		3,520	2,983
(Accrued) prepaid pension cost recognized in the consolidated statements of financial position	$	(7,210)	1,480

The components of net periodic pension cost for 2008 and 2007 follow (in thousands):

		2008	2007
Service cost	$	14,737	12,679
Interest cost		4,324	3,163
Expected return on plan assets		(5,534)	(4,233)
Amortization of prior service cost		552	552
Amortization of actuarial (gain)		—	(228)
	$	14,079	11,933

The amounts accumulated in unrestricted net assets follow (in thousands):

		2008	2007
Prior service cost	$	2,655	3,207
Net loss (gain)		4,555	(4,687)
	$	7,210	(1,480)

The following are expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2009 and 2008 (in thousands):

		2009	2008
Prior service cost	$	552	552
	$	552	552

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2008 and 2007 follow:

	2008	2007
Discount rate	6.80%	6.27%
Rate of compensation increase	3.50	3.50
Expected long-term rate of returns on plan assets	8.00	8.00

Weighted average assumptions used to determine net periodic pension cost for 2008 and 2007 follow:

	2008	2007
Discount rate	6.27%	6.71%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	3.50	3.50

Plan Assets

The Plan's investment objectives are to protect long-term asset value by applying prudent, low-risk, high-quality investment disciplines and to enhance the values by maximizing investment returns through active security management within the framework of the Plan's investment policy. Asset allocation strategies and investment management structure are designed to meet the Plan's investment objectives.

The Plan's expected long-term rate of return on assets is determined by reviewing the historical return of each asset category comprising the Plan's target asset allocation. This review produces an annual return assumption for each asset category. The product of the annual return assumption and the Plan's target asset allocation percentage for each asset category equals the annual return attribution by asset category.

The Plan's target and weighted average asset allocations follow:

	allocation	May 31	
	2008/2009	2008	2007
Plan assets:			
Cash and cash equivalents	0%	3%	0%
U.S. equity securities	55	54	56
Debt securities	30	28	29
International equity	15	15	15
Total	100%	100%	100%

Cash Flows

Emory Healthcare expects to contribute $15.4 million to the Plan in fiscal 2009.

Expected Future Benefit Payments

Benefit payments, excluding lump sum settlements, are expected to be paid as follows (in thousands):

		Benefit payments
2009	$	425
2010		709
2011		1,067
2012		1,527
2013		2,098
Thereafter		24,812

Other Items

Emory Healthcare uses the straight-line method to amortize prior service cost.

(15) Postretirement Healthcare and Life Insurance Benefits

Effective January 1, 2003, the University discontinued subsidizing retiree healthcare and life insurance benefits for new employees. All University employees hired prior to January 1, 2003 and certain employees of Emory Healthcare who meet age and service requirements continue to be eligible for the retiree benefits. The cost of providing these benefits is shared with retirees. Emory University has reserved the right to make further changes or terminate these benefit plans.

The University funds a trust (VEBA Trust) for these retiree health and life benefits. The assets of the VEBA Trust are invested primarily in equity and fixed income securities. The University funds these benefits only to the extent of current retiree claims.

Effective January 1, 2003, the VEBA Trust was split into two trusts: one for University retirees and the other for Emory Healthcare retirees. Effective September 1, 2005 and January 1, 2003, the University and Emory Healthcare, respectively, began funding retiree claims from trust assets.

The changes in the accumulated postretirement benefit obligation (APBO) as of August 31, 2008 and 2007 are as follows (in thousands):

		2008		
		Emory University	Emory Healthcare	Total
APBO, beginning of year	$	44,958	26,413	71,371
Service cost		1,293	716	2,009
Interest cost		2,781	1,637	4,418
Actuarial (gain)		(2,249)	(2,420)	(4,669)
Benefits paid		(2,589)	(1,185)	(3,774)
Retiree drug subsidy paid		393	164	557
APBO, end of year	$	44,587	25,325	69,912

		2007		
		Emory University	Emory Healthcare	Total
APBO, beginning of year	$	35,646	19,373	55,019
Service cost		1,044	529	1,573
Interest cost		2,328	1,272	3,600
Actuarial loss		8,302	6,277	14,579
Benefits paid		(2,362)	(1,038)	(3,400)
APBO, end of year	$	44,958	26,413	71,371

The changes in the fair value of plan assets, funded status of the plan and the status of the prepaid (accrued) postretirement benefit obligation recognized in the accompanying consolidated statements of financial position as of August 31, 2008 and 2007, are as follows (in thousands):

(Continued)

	2008		
	Emory University	Emory Healthcare	Total
Fair value of plan assets, beginning of year	$ 54,581	24,779	79,360
Actual return (loss) on plan assets	(596)	(189)	(785)
Employer contributions (reimbursements)	1,237	395	1,632
Benefits paid	(2,589)	(1,185)	(3,774)
Retiree drug subsidy	—	164	164
Fair value of plan assets, end of year	$ 52,633	23,964	76,597
Funded status (deficit)	$ 8,046	(1,361)	6,685
Employee reimbursement after the measurement date	(828)	(340)	(1,168)
Prepaid (accrued) postretirement benefit cost recognized in the consolidated statements of financial position	$ 7,218	(1,701)	5,517

	2007		
	Emory University	Emory Healthcare	Total
Fair value of plan assets, beginning of year	$ 48,147	21,345	69,492
Actual return on plan assets	9,135	4,121	13,256
Employer contributions (reimbursements)	(339)	351	12
Benefits paid	(2,362)	(1,038)	(3,400)
Fair value of plan assets, end of year	$ 54,581	24,779	79,360
Funded status (deficit)	$ 9,623	(1,634)	7,989
Employee reimbursement after the measurement date	(398)	(182)	(580)
Prepaid postretirement benefit cost recognized in the consolidated statements of financial position	$ 9,225	(1,816)	7,409

Actuarial assumptions used to determine the values of the APBO at August 31, 2008 and 2007 and the benefit costs for years ended August 31, 2008 and 2007 included a discount rate of 6.80% and 6.27%, respectively. Since the plan was amended on April 11, 2002 to limit the University's liability for future medical care cost increases to 4.00%, the per capita cost increase of healthcare benefits is capped at 4.00% beginning with fiscal year 2002. The estimated long-term rate of return on plan assets was 8.00% and 8.00% for the University and for Emory Healthcare for years ended August 31, 2008 and 2007, respectively. A graded plan participation for election of medical coverage upon retirement has been assumed. This payment schedule reflects the new plan design which will accelerate the increase in retiree contributions, which is expected to result in more retirees electing not to continue coverage under the University's plan. All University retirees are assumed to elect life insurance benefits, regardless of their medical plan election.

The components of net periodic postretirement benefit credit for years ended August 31, 2008 and 2007 were as follows (in thousands):

		2008		
		Emory University	**Emory Healthcare**	**Total**
Service cost of benefits earned	$	1,293	716	2,009
Interest cost on APBO		2,781	1,637	4,418
Expected return on plan assets		(4,263)	(1,935)	(6,198)
Amortization of prior service cost		(2,241)	(2,075)	(4,316)
Recognized net actuarial loss		457	854	1,311
Net periodic postretirement benefit credit	$	(1,973)	(803)	(2,776)

		2007		
		Emory University	**Emory Healthcare**	**Total**
Service cost of benefits earned	$	1,044	529	1,573
Interest cost on APBO		2,328	1,272	3,600
Expected return on plan assets		(3,776)	(1,674)	(5,450)
Amortization of prior service cost		(2,241)	(2,077)	(4,318)
Recognized net actuarial loss		305	615	920
Net periodic postretirement benefit credit	$	(2,340)	(1,335)	(3,675)

(Continued)

Plan Assets

The weighted average asset allocation of the University's postretirement healthcare and life insurance benefits at August 31, 2008 and 2007 were as follows:

	Target allocation 2008/2009		2008		2007	
	Emory University	**Emory Healthcare**	**Emory University**	**Emory Healthcare**	**Emory University**	**Emory Healthcare**
U.S. equity securities and indexes	40%	40%	40%	39%	40%	42%
Debt Securities	25	25	29	25	25	24
International equity	35	35	31	36	35	34
Total	100%	100%	100%	100%	100%	100%

The Investment Committee of the Emory University board of trustees approves the investment guidelines and asset allocation targets for the pension benefits and postretirement benefits plans. The primary objective of the funds is to ensure the solvency of the plans over time to meet plan obligations. The secondary objective is to meet or exceed the plans' actuarial assumed rate of return over time, without taking excess risk. The funds are diversified by asset class in accordance with established allocation targets and rebalanced as needed. Specific investments are apportioned to a combination of institutional pooled funds and mutual funds.

Cash Flows

Emory University and Emory Healthcare do not expect to contribute to their postretirement benefit plans in 2009. Both entities plan to fund future retiree claims from VEBA Trust assets.

Expected Future Benefit Payments

Benefit payments are expected to be paid as follows (in thousands):

	Emory University	Emory Healthcare	Total
2009	$ 2,774	1,253	4,027
2010	2,959	1,350	4,309
2011	3,128	1,455	4,583
2012	3,287	1,570	4,857
2013	3,470	1,700	5,170
Thereafter	20,681	11,036	31,717

(16) Charity Care

Emory Healthcare, Inc. and its operating companies provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because such operating companies do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenues.

Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. The amount of charity care provided, based on charges forgone, was $70.2 million and $70.0 million during fiscal years 2008 and 2007, respectively.

(17) Grants and Contracts

Grants and contracts from governmental units provide a major portion of funds for research, public service, and other university activities. These grant and contract awards generally specify the purpose for which the funds are to be used.

Federal government grants and contract revenues are recognized to the extent that the University incurs actual expenditures under program agreements with federal agencies. These revenues are recorded as unrestricted support. Amounts recorded in federal grants and contracts receivable are for grant expenses incurred in advance of the receipt of funds. Recovery of indirect costs has been recorded based on negotiated rates. Federal funds, together with the indirect costs, are subject to audit by the applicable agencies. In the opinion of management, any adjustment resulting from such audits would not be material to the consolidated financial statements.

(18) Functional Expenses

Expenses are reported in the accompanying consolidated statements of activities based on natural classification. Functional expenses for the years ended August 31, 2008 and 2007 are categorized as follows (in thousands):

	2008	2007
Instruction	$ 345,426	327,458
Research	350,620	304,857
Public service	28,479	25,998
Academic support	171,667	112,005
Student services	76,665	74,856
Institutional support	56,567	122,374
Scholarships and fellowships	11,759	10,724
Medical services	182,352	147,503
Healthcare services	1,538,317	1,477,040
Auxiliary enterprises	52,606	50,818
Independent operations	18,015	19,048
Total operating expenses	$ 2,832,473	2,672,681

Costs related to the operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon information reported in the latest space study and debt financing records. Fundraising costs were approximately $20 million and $19 million in 2008 and 2007, respectively.

(Continued)

(19) Medical Professional and General Liability Insurance Coverage

CCIC, Emory Healthcare's wholly owned off-shore captive insurer, provides claims-made primary medical professional and general liability coverage for the University, the Hospitals, Emory Clinic and Wesley Woods Center. Tail coverage is provided for ECC; effective September 1, 2006, the Emory Children's Center Joint Venture is insured on a stand-alone basis. The CCIC primary program provides limits as follows (in thousands):

	Per Claim Limits		Aggregate
	Professional	**General**	**(General Only)**
September 1, 2006 through August 31, 2007	$ 3,000	$ 1,000	$ 3,000
September 1, 2007 through August 31, 2008	$ 3,000	$ 1,000	$ 3,000

In excess of the primary professional liability limit of $3 million per claim, CCIC provides a buffer layer of $3 million per claim and in the aggregate.

Above the buffer layer, CCIC provides an excess layer of professional liability coverage which is 100% reinsured as follows:

(1) Berkley Medical Excess Underwriters (Berkley) reinsures CCIC 100% for a limit of $15 million per claim and in the aggregate, excess of the buffer layer, excess of the primary layer.

(2) Continental Casualty Company (CNA) and Lexington Insurance Company reinsure CCIC 100%, on a 50/50 basis, for a limit of $10 million per claim and in the aggregate, excess of the Berkley layer described above.

The Emory system is insured for excess general liability, employers' liability and automobile liability as follows:

(1) United Educators provides $25 million per claim excess of an underlying limit of $1 million per claim and in the aggregate for each of general liability, employers' liability, and automobile liability;

(2) Emory purchases umbrella coverage in the amount of $100 million per claim and in the aggregate which provides excess coverage over United Educators and the CNA layers described above. Total excess coverage over the Clifton primary program is $125 million.

As of August 31, 2008 and 2007, the University has recorded an accrual for estimated losses associated with all retained CCIC risks, discounted at 5%, of $72.2 million and $126.5 million, respectively. On an undiscounted basis, the liability totaled $80.3 million and $147.3 million for fiscal 2008 and 2007, respectively. The reduction from fiscal 2007 to fiscal 2008 in the University's accrual for such losses is principally due to significantly favorable experience in the University's professional and general liability risk portfolio that has emerged during fiscal 2008. Therefore, the University's related accounting

(Continued)

estimates, determined in consultation with the University's consulting actuaries, were modified during fiscal 2008 to reflect both currently observed and expected experience.

The estimated liability for professional and general liability claims will be significantly affected if current and future claims differ from historical trends. While the University monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its professional and general liability accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. In the opinion of the University, adequate provision has been made for the related risk.

(20) Related-Party Transactions

The Carter Center, Inc. (CCI) is a nonprofit organization founded by former United States President Jimmy Carter which sponsors various domestic and international programs. The board of trustees of CCI is comprised of 22 members including the University President and 9 other members appointed by the University's board of trustees. The University's board of trustees has the authority to approve amendments to CCI's articles of incorporation and bylaws and to approve the annual and capital budgets of CCI. The University provides administrative support to CCI and has an economic interest in CCI but does not exercise control over the organization.

Deposits held in custody for others include $372.2 million and $371.2 million representing CCI's investment in the University's long term investment pool as of August 31, 2008 and 2007, respectively.

The Clifton Corridor Transportation Management Association (CCTMA) works with other agencies, including other Transportation Management Associations (TMAs), The Clean Air Campaign, and many other related agencies, to address common transportation concerns in the Clifton Corridor area by promoting alternative forms of transportation. The CCTMA board of directors is comprised of thirteen members, with six of the seats held by employees of the University. The University provides administrative support to CCTMA and has an economic interest in CCTMA but does not exercise control over the organization.

The CCTMA provides services to all operating units of Emory University and other employer members located within a three-mile radius from the intersection of Clifton Road and Haygood Drive in DeKalb County. CCTMA membership includes the Centers for Disease Control and Prevention, Children's Healthcare of Atlanta at Egleston, Emory University, the University Inn, the Veterans Administration (VA) Medical Center, and the VA Regional Office.

As of August 31, 2008 and 2007, the University reflected a liability with the CCTMA of $0.3 million and $0.3 million, respectively, which is reported in deposits held in custody.

(21) Emory Healthcare – Investment in Partnerships

(a) EHCA, LLC

On February 1, 1999, EHC entered into a joint venture with HCA, Inc. (f/k/a Columbia/HCA). Pursuant to the joint venture, EHC and HCA formed a limited liability company named EHCA, LLC. On January 1, 2003, the joint venture was restructured such that EHCA, LLC, pursuant to a long-term agreement, leases two of HCA's Atlanta-area hospitals. Under the terms of the joint venture, EHC is contractually responsible for the medical management and other clinical oversight associated with the activities of EHCA, LLC. HCA is contractually responsible for the operational management of the facilities. EHC received a $16.7 million payment at the inception of the joint venture for Emory University or EHC branding on all of the hospital facilities. In both fiscal 2008 and 2007, $1.1 million was recognized as revenue from accretion of the inception payment. Beginning in fiscal 2009, EHC will generally recognize $0.40 million annually through the expiration of the agreement in fiscal 2024. HCA is entitled to all profits of EHCA, LLC until its initial capital contribution of $16.7 million is recovered. At that time, EHC is entitled to 40% of the profits. In addition, EHC does not share any of the losses of the joint venture. As a result, EHC has not recorded any profits or losses associated with EHCA, LLC since its inception. As EHC does not have any ownership interest in EHCA, LLC, no balances of EHCA, LLC are recorded in the accompanying consolidated financial statements.

(b) Crawford Long – CPI, LLC

Emory Crawford Long Hospital (ECL) entered into an equal partnership with Cousins Properties, Inc. (Cousins) to construct and operate a medical office tower (MOT). The MOT was completed and occupied by tenants in 2003, and the property is managed by Cousins.

Condensed financial information of the partnership follows (in thousands):

		Eight months ended August 31, 2008	Year ended December 31, 2007
Balance sheet:			
Cash	$	2,027	1,085
Property and equipment		36,555	38,187
Other assets		1,027	577
Current liabilities		(2,514)	(1,121)
Notes payable		(50,966)	(51,558)
Partners’ deficit	$	(13,871)	(12,830)
Income statement:			
Revenue	$	7,565	10,752
Expenses		(6,446)	(9,274)
Net income	$	1,119	1,478

During 2003, the partnership issued a note payable and distributed the proceeds to the partners. ECL’s portion of the distribution was in excess of its investment in the partnership. ECL has recorded a net liability of $9.1 million and $8.3 million as of August 31, 2008 and 2007, respectively, for its portion of partners’ deficit, which is included in other long-term liabilities in the accompanying consolidated statements of financial position. The investment in partnership is accounted for using the equity method of accounting.

The difference between ECL’s portion of partners’ deficit above and the amount recorded as other long-term liabilities in the accompanying consolidated statements of financial position for 2008 and 2007 is principally attributable to ECL’s contribution of certain intangible assets associated with

ECL's prior ownership of the general physical location of the project, the value of which is appropriately not recognized in ECL's own partnership accounting.

(c) Emory-Adventist, Inc.

The University has a 35% joint venture interest in Emory-Adventist, Inc. (Emory-Adventist), which owns and operates Emory-Adventist Hospital in Cobb County, Georgia. As of August 31, 2008 and 2007, EHC has recognized a net asset of $256 thousand and a net liability of $215 thousand, respectively, for its portion of the Emory-Adventist net assets (accumulated deficit). During 2008 and 2007, EHC recognized losses of $54 thousand and $550 thousand, respectively, from its equity interest related to the joint venture. In addition, Emory-Adventist has $22.0 million of outstanding debt as of August 31, 2008, of which EHC guarantees $7.7 million, representing a 35% share of the outstanding debt.

Condensed financial information of the aforementioned partnership follows (in thousands):

		Eight months ended August 31, 2008	Year ended December 31, 2007
Balance Sheet:			
Cash and investments	$	4,458	4,522
Accounts receivable		3,644	3,334
Property and equipment, net		17,702	18,164
Other assets		2,980	2,941
Current liabilities		(13,725)	(14,227)
Long-term liabilities		(14,228)	(15,034)
Temporarily restricted net assets		(101)	(71)
Net assets (deficit)	$	730	(371)
Income statement:			
Revenue	$	35,843	47,858
Expenses		(34,747)	(49,800)
Net income (loss)	$	1,096	(1,942)

The investment in Emory-Adventist is accounted for using the equity method of accounting.

(d) EHCA Johns Creek, LLC

During fiscal 2005, the University entered into an agreement with HCA to form a new joint venture, EHCA Johns Creek, LLC (Johns Creek), to build and operate a new 110-bed acute care hospital in the Johns Creek area of north Fulton County. Johns Creek is a 50/50 joint venture, with HCA and the

University each having equal economic ownership and governance rights. As of August 31, 2008 and 2007, the University has recognized a net asset of $60.1 million and $69.1 million, respectively, for its portion of the Johns Creek net assets. During 2008 and 2007, the University recognized losses of $6.4 million and $11.1 million, respectively, related to the joint venture. The University accounts for its interest in Johns Creek using the equity method.

Through August 31, 2008, the University has made approximately $84.0 million in capital contributions to Johns Creek. Johns Creek commenced operations on February 1, 2007 and under the terms of related agreements, the University is obligated to make (and anticipates making) additional capital contributions to fund their share of any losses of the venture's operations. Other key terms and provisions of the joint venture follow:

- The University and HCA each appoint 50% of the total of ten Johns Creek directors, with voting by class as opposed to individual directors.
- Certain defined matters, including approval of all capital and operating budgets, certain contracts (including leases), capital expenditures above a certain threshold, and changes in services, must all be brought to the Board of Directors for approval.
- Certain "exit" provisions exist that allow either party to "put" its interest, at fair value, to the other at any time following the third anniversary of the new hospital.
- HCA will manage and operate the new hospital (generally providing corporate divisional services similar to those provided to other HCA hospitals) for a fee defined as 2% of net revenues.
- The University will provide clinical oversight and management services (principally consisting of a medical director and clinical Advisory Board constitution) at an hourly rate, subject to a cap.

(Continued)

Condensed balance sheet information of Johns Creek follows (in thousands):

	Eight months ended August 31, 2008	Year ended December 31, 2007
Balance Sheet:		
Cash and cash equivalents	$ 109	$ 54
Net patient receivables	5,191	7,768
Other current assets	3,390	4,369
Property and equipment, net	137,224	142,413
Other assets	89	98
Current liabilities	(6,611)	(6,839)
Long-term liabilities	(19,059)	(9,695)
Partner's equity	$ 120,333	$ 138,168
Income statement:		
Revenue	45,118	43,072
Expenses	(52,570)	(66,744)
Net loss	$ (7,452)	$ (23,672)

(e) Pediatric Faculty Group

The University entered into a joint venture effective November 15, 2006 between Emory Children's Center, Inc. (ECC) and Children's Healthcare of Atlanta (CHOA) to coordinate various aspects of their mutual significant pediatric care operations. The agreement provides the University, through ECC, a 51% financial interest in the venture known as the Pediatric Faculty Group (PFG) and provides that CHOA will fund losses of the venture up to contractually predefined limits of $6.2 million in PFG's fiscal 2007 and $5.2 million in both PFG's fiscal 2008 and fiscal 2009. The financial position of the venture and the results of its operations are consolidated with ECC's financial position and results of operations in the accompanying consolidated financial statements.

(22) Asset Retirement Obligations

The University has identified asset retirement obligations primarily from contractual commitments to remove asbestos and lead paint in University facilities at the time of major renovation or demolition. The fair value liability for asset retirement obligations at August 31, 2008 and 2007 is $34.7 million and $32.1 million, respectively.

Activity for the University's asset retirement obligations for the years ended August 31 follows (in thousands):

		2008	2007
Balance at beginning of year	$	32,063	28,908
Change in asset retirement obligations		2,827	3,155
Obligations settled in current period		(177)	—
Balance at end of year	$	34,713	32,063

(23) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2008 totaled $85.4 million. At August 31, 2007, commitments totaled $45.5 million.

The University also had outstanding commitments of $759 million as of August 31, 2008 for investment of endowment assets in venture capital, real estate, and oil and gas limited partnership agreements. Although the University is obligated to fund these commitments, many of these agreements allow "exit with penalty" and/or resale. Funds to meet these commitments will be required over future years and will be generated from rebalancing the endowment asset allocation, as well as donor gifts and existing endowment assets.

Lawsuits and claims have been filed against the University in the ordinary course of business. As one of the nation's largest research universities and academic medical centers, the University has active litigation that takes several forms. In addition, the University is subject to many federal and state regulations and, as a result, there may be one or more pending government investigations ongoing at any time. While the outcome of many of these actions is not presently determinable, it is the opinion of management that any resulting liability from these actions will not have a material adverse effect on the consolidated financial position or operating results of the University. Although the University has a comprehensive program of primary and excess insurance, if a final judgment were entered in any action in excess of its insurance coverage, the University would be liable for the excess. Management of the University believes that no currently pending lawsuit subjecting the University to liability would have a materially adverse effect on the University.

(24) Grady Memorial Hospital

The Emory University School of Medicine is a major supplier of the physicians and house staff at Grady Memorial Hospital based in Atlanta, GA. As one of the largest public hospitals in the Southeast, Grady is an internationally recognized teaching hospital with a historic commitment to the health needs of the most vulnerable. As a result of mounting financial pressures, Grady made organizational leadership and governance changes in fiscal year 2008 to address financial and operational constraints. While the hospital's ability to fully pay the University for services performed prior to December 2007 per the contractual agreement is uncertain, it has timely paid 2008 amounts due to the University. The University has established an allowance that management believes is adequate to protect against potential uncollectible amount related to pre-2008 services performed.

(25) Leases and Development Agreements

The University, Cousins Properties, Inc. and Gables Apartments are in the process of entering into ground leases and related development agreements to develop approximately 15 acres along Clifton Road directly across from the Centers for Disease Control and Prevention. The plans allow for approximately 800 housing units (rental and for-sale), office, retail, work space, green space, and natural and other amenities.

(26) Conflict of Interest

University trustees, senior administrators, and certain research faculty may periodically be directly or indirectly associated with companies doing business with the University. The University requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with the University. The annual disclosures cover these key officials and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict. Written conflict of interest policies for the University require, among other things, that no member of a governing board may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether the University does business with an entity in which that member (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm’s length, for good and sufficient consideration, based on terms that are fair and reasonable to the University, and in accordance with applicable conflict of interest laws.

(27) Subsequent Events

The economic downturn in the U.S. and global economy has resulted in market value declines in the University’s Endowment portfolio. From August 31, 2008 through October 31, 2008, the University’s Endowment has declined by approximately 15.3%.

(Continued)

SUPPLEMENTARY INFORMATION

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 1

STATEMENTS OF FINANCIAL POSITION - INFORMATION

August 31, 2008 and 2007

(Dollars in thousands)

		2008		2007
ASSETS:				
Cash and cash equivalents	$	-	$	14,657
Cash held as collateral under securities lending transactions		274,510		370,488
Student accounts receivable, net		50,747		49,861
Loans receivable, net		34,597		50,891
Contributions receivable, net		215,515		252,876
Accrued investment income receivable		8,161		7,213
Other receivables, net		124,284		147,408
Prepaid expenses, deferred charges and other assets		109,930		89,993
Investments		6,593,557		6,704,564
Property and equipment, net		1,570,051		1,459,269
Due from affiliates		399,712		383,470
Total assets	**$**	**9,381,064**	**$**	**9,530,690**
LIABILITIES AND NET ASSETS:				
Liability under securities lending transactions	$	274,510	$	370,488
Accounts payable and accrued liabilities		202,434		139,996
Interest payable		13,306		15,224
Annuities payable		21,548		23,146
Bonds, notes, and mortgages payable		1,673,100		1,492,563
Accrued liabilities for benefit obligations and professional liabilities		27,712		25,064
Deferred tuition and other revenue		219,500		203,710
Deposits held in custody for others		438,786		419,779
Government advances for federal loan programs		17,723		18,794
Due to affiliates		157,894		171,345
Total liabilities		3,046,513		2,880,109
Unrestricted net assets		4,642,568		4,961,121
Temporarily restricted net assets		429,412		438,433
Permanently restricted net assets		1,262,571		1,251,027
Total net assets		6,334,551		6,650,581
Total liabilities and net assets	**$**	**9,381,064**	**$**	**9,530,690**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare) **Schedule 2**

STATEMENT OF ACTIVITIES - INFORMATION

Year Ended August 31, 2008 (with summarized financial information for the year ended 2007)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2008	Total August 31, 2007
OPERATING REVENUES:					
Tuition and fees	$ 400,123	$ -	$ -	$ 400,123	$ 366,997
Less: scholarship allowances	(115,205)	-	-	(115,205)	(105,920)
Net tuition and fees	284,918	-	-	284,918	261,077
Endowment spending distribution	173,640	-	-	173,640	164,252
Other investment income designated for current operations	35,969	-	-	35,969	48,277
Gifts and contributions	45,880	-	-	45,880	36,437
Indirect cost recoveries	93,848	-	-	93,848	87,364
Government grants and contracts	256,966	-	-	256,966	213,870
Other grants and contracts	51,676	-	-	51,676	61,904
Medical services	148,511	-	-	148,511	132,074
Auxiliary enterprises	57,716	-	-	57,716	54,630
Independent operations	22,659	-	-	22,659	21,332
Patent and royalty revenue	10,801	-	-	10,801	6,020
Other revenue	29,443	-	-	29,443	24,776
Net assets released from restrictions	5,905	(5,905)	-	-	-
Total operating revenues	**1,217,932**	**(5,905)**	**-**	**1,212,027**	**1,112,013**
OPERATING EXPENSES:					
Salaries and fringe benefits	847,807	-	-	847,807	792,585
Student financial aid	11,759	-	-	11,759	10,724
Other operating expenses	324,417	-	-	324,417	293,600
Interest on indebtedness	33,419	-	-	33,419	35,507
Depreciation	87,920	-	-	87,920	73,974
Total operating expenses	**1,305,322**	**-**	**-**	**1,305,322**	**1,206,390**
NET OPERATING REVENUES/(EXPENSES)	**(87,390)**	**(5,905)**	**-**	**(93,295)**	**(94,377)**
NON-OPERATING REVENUES/(EXPENSES):					
Net unrealized (losses) gains on investments	(416,568)	(2,790)	(32,577)	(451,935)	415,357
Investment income and gains in excess of spending distribution for current operations	154,373	633	8,818	163,824	253,384
Investment management fees	(20,634)	(147)	(147)	(20,928)	(23,571)
Gifts and contributions	4,097	3,971	34,429	42,497	299,314
Loss on disposal of property and equipment	(8,993)	-	-	(8,993)	(18,973)
Other non-operating items	(16,166)	(4,783)	1,021	(19,928)	9,802
Total non-operating revenues/(expenses)	**(303,891)**	**(3,116)**	**11,544**	**(295,463)**	**935,313**
Net transfers from affiliates	72,728	-	-	72,728	78,634
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**(318,553)**	**(9,021)**	**11,544**	**(316,030)**	**919,570**
Cumulative effect of change in accounting principle	-	-	-	-	(3,863)
CHANGE IN NET ASSETS AFTER CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**(318,553)**	**(9,021)**	**11,544**	**(316,030)**	**915,707**
BEGINNING NET ASSETS	**4,961,121**	**438,433**	**1,251,027**	**6,650,581**	**5,734,874**
ENDING NET ASSETS	**$ 4,642,568**	**$ 429,412**	**$ 1,262,571**	**$ 6,334,551**	**$ 6,650,581**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 3

STATEMENT OF ACTIVITIES - INFORMATION

Year Ended August 31, 2007

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2007
OPERATING REVENUES:				
Tuition and fees	$ 366,997	$ -	$ -	$ 366,997
Less: scholarship allowances	(105,920)	-	-	(105,920)
Net tuition and fees	261,077	-	-	261,077
Endowment spending distribution	164,252	-	-	164,252
Other investment income designated for current operations	48,277	-	-	48,277
Gifts and contributions	36,437	-	-	36,437
Indirect cost recoveries	87,364	-	-	87,364
Government grants and contracts	213,870	-	-	213,870
Other grants and contracts	61,904	-	-	61,904
Medical services	132,074	-	-	132,074
Auxiliary enterprises	54,630	-	-	54,630
Independent operations	21,332	-	-	21,332
Patent and royalty revenue	6,020	-	-	6,020
Other revenue	24,776	-	-	24,776
Net assets released from restrictions	20,844	(20,844)	-	-
Total operating revenues	**1,132,857**	**(20,844)**	**-**	**1,112,013**
OPERATING EXPENSES:				
Salaries and fringe benefits	792,585	-	-	792,585
Student financial aid	10,724	-	-	10,724
Other operating expenses	293,600	-	-	293,600
Interest on indebtedness	35,507	-	-	35,507
Depreciation	73,974	-	-	73,974
Total operating expenses	**1,206,390**	**-**	**-**	**1,206,390**
NET OPERATING REVENUES/(EXPENSES)	**(73,533)**	**(20,844)**	**-**	**(94,377)**
NON-OPERATING REVENUES/(EXPENSES):				
Net unrealized (losses) gains on investments	$ 313,021	879	101,457	415,357
Investment income and gains in excess of spending				0
distribution for current operations	243,125	253	10,006	253,384
Investment management fees	(23,312)	(122)	(137)	(23,571)
Gifts and contributions	11,760	272,187	15,367	299,314
Loss on disposal of property and equipment	(18,973)	-	-	(18,973)
Other non-operating items	10,881	(1,042)	(37)	9,802
Total non-operating revenues/(expenses)	**536,502**	**272,155**	**126,656**	**935,313**
Net transfers from affiliates	78,634	-	-	78,634
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**541,603**	**251,311**	**126,656**	**919,570**
Cumulative effect of change in accounting principle	(3,863)	-	-	(3,863)
CHANGE IN NET ASSETS AFTER CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	**537,740**	**251,311**	**126,656**	**915,707**
BEGINNING NET ASSETS	**4,423,381**	**187,122**	**1,124,371**	**5,734,874**
ENDING NET ASSETS	**$ 4,961,121**	**$ 438,433**	**$ 1,251,027**	**$ 6,650,581**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 4

STATEMENTS OF CASH FLOWS - INFORMATION

Years Ended August 31, 2008 and 2007

(Dollars in thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (316,030)	$ 915,707
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Nonoperating items:		
Gifts restricted for long-term investment and capital projects	(43,933)	(74,681)
Net realized gain on sale of investments	(247,630)	(405,232)
Loss on disposal of property and equipment	8,993	18,973
Noncash items:		
Depreciation	87,920	73,974
Accretion/amortization of bond discounts/premiums	2,985	1,116
Net unrealized losses (gains) on investments	451,935	(415,357)
Gifts of securities and other assets	(5,502)	(10,437)
Gifts of securities and other assets for long-term investment and capital projects	(35,000)	(49,000)
Gifts of property, plant and equipment	(1,738)	(1,492)
Cumulative effect of change in accounting principle	-	3,863
(Increase) decrease in:		
Accounts receivable, net	22,238	(8,622)
Contributions receivable	37,361	(208,964)
Accrued investment income receivable	(948)	6,527
Prepaid expenses, deferred charges and other assets	(19,563)	(5,608)
Due to/from affiliates	(29,693)	157,582
Increase (decrease) in:		
Accounts payable and interest payable	60,520	1,555
Accrued liabilities for benefit obligations and professional liabilities	2,648	(795)
Deferred tuition and other revenue	15,790	14,220
Net cash (used in) provided by operating activities	**(9,647)**	**13,329**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(3,979)	(13,333)
Repayment of loans from students	20,273	6,345
Proceeds from sales and maturities of investments	7,467,769	4,258,086
Purchases of investments	(7,520,565)	(4,354,699)
Change in collateral deposits under securities lending transactions	95,978	(66,422)
Change in obligation to return collateral under securities lending transactions	(95,978)	66,422
Purchases of property, plant and equipment	(205,957)	(173,143)
Increase in deposits held in custody for others	19,007	67,585
Net cash used in investing activities	**(223,452)**	**(209,159)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	43,933	74,681
Proceeds from bonds and mortgages payable	327,978	158,069
Principal repayments of bonds and mortgages payable	(150,426)	(60,999)
(Decrease) increase in annuities payable	(1,598)	3,425
Decrease in government advances for federal loan programs	(1,071)	(138)
Bond issuance costs	(374)	-
Net cash provided by financing activities	**218,442**	**175,038**
Net decrease in cash and cash equivalents	**(14,657)**	**(20,792)**
Cash and cash equivalents at beginning of year	**14,657**	**35,449**
Cash and cash equivalents at end of year	**$ -**	**$ 14,657**

See accompanying independent auditors' report.