EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

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, 2011 and 2010, and the related consolidated statements of activities, changes in net assets, 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, 2011 and 2010, 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.

As discussed in note 2(p) to the consolidated financial statements, the University and Emory Healthcare, Inc. changed its method of accounting for noncontrolling interests as a result of the adoption of Accounting Standards Update No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which amended Accounting Standards Codification 958, *Not-for-Profit Entities*. The fiscal 2010 financial statements were restated to reflect the adoption and new presentation of noncontrolling interests.

Our audits for the years ended August 31, 2011 and 2010 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 basic 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, 2011 and 2010.

KPMG LLP

December 21, 2011

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2011 and August 31, 2010
(Dollars in thousands)

	2011	2010
ASSETS:		
Cash and cash equivalents	$ 363,759	$ 341,954
Patient accounts receivable, net	252,047	225,825
Student accounts receivable, net	36,778	46,128
Loans receivable, net	27,724	29,510
Contributions receivable, net	175,169	165,565
Accrued investment income receivable	8,713	12,503
Other receivables, net	252,668	155,630
Prepaid expenses, deferred charges and other assets	151,723	128,053
Investments	5,399,414	5,249,843
Interests in perpetual funds held by others	965,613	781,192
Property and equipment, net	2,428,226	2,262,731
Total assets	**$ 10,061,834**	**$ 9,398,934**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 357,113	$ 283,203
Liability for derivative instruments	140,173	153,543
Interest payable	22,750	29,760
Annuities payable	19,047	19,260
Bonds, notes and mortgages payable	1,788,431	1,839,164
Accrued liabilities for benefit obligations and professional liabilities	243,886	277,669
Deferred tuition and other revenue	346,456	355,268
Deposits held in custody for others	465,776	418,073
Government advances for federal loan programs	17,499	17,784
Total liabilities	3,401,131	3,393,724
Unrestricted net assets:		
Net assets controlled by Emory	2,787,217	2,513,786
Net assets related to noncontrolling interests	(6,698)	(1,826)
Total unrestricted net assets	2,780,519	2,511,960
Temporarily restricted net assets	2,383,388	2,190,610
Permanently restricted net assets	1,496,796	1,302,640
Total net assets	6,660,703	6,005,210
Total liabilities and net assets	**$ 10,061,834**	**$ 9,398,934**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2011 (with summarized financial information for the year ended 2010)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2011	Total August 31, 2010
OPERATING REVENUES:					
Tuition and fees	$ 483,251	-	-	$ 483,251	$ 448,689
Less: Scholarship allowances	(167,285)	-	-	(167,285)	(151,732)
Net tuition and fees	315,966	-	-	315,966	296,957
Endowment spending distribution	169,533	-	-	169,533	176,642
Other investment income designated for current operations	35,639	-	-	35,639	33,269
Gifts and contributions	38,169	-	-	38,169	39,494
Indirect cost recoveries	122,378	-	-	122,378	112,886
Government grants and contracts	374,630	-	-	374,630	344,975
Medical services	138,364	-	-	138,364	137,460
Sales and services of auxiliary operating activities	65,342	-	-	65,342	60,648
Independent operations	21,119	-	-	21,119	20,251
Net patient service revenue	1,999,823	-	-	1,999,823	1,844,943
Patent and royalty revenue	6,819	-	-	6,819	6,258
Other revenue	81,613	-	-	81,613	69,008
Net assets released from restrictions	5,935	(5,935)	-	-	-
Total operating revenues	**3,375,330**	**(5,935)**	**-**	**3,369,395**	**3,142,791**
OPERATING EXPENSES:					
Salaries and fringe benefits	2,039,975	-	-	2,039,975	1,867,293
Student financial aid	10,649	-	-	10,649	11,625
Other operating expenses	1,070,932	-	-	1,070,932	1,033,755
Interest on indebtedness	75,451	-	-	75,451	61,445
Depreciation	170,727	-	-	170,727	159,236
Total operating expenses	**3,367,734**	**-**	**-**	**3,367,734**	**3,133,354**
NET OPERATING REVENUES/(EXPENSES):	**7,596**	**(5,935)**	**-**	**1,661**	**9,437**
NONOPERATING REVENUES/(EXPENSES):					
Net unrealized gains on investments	30,666	57,781	182,322	270,769	164,087
Investment income and gains in excess of spending distribution for current operations	117,426	128,559	1,210	247,195	111,928
Investment management fees	(23,557)	(168)	(161)	(23,886)	(20,092)
Gifts and contributions	28,675	13,492	13,793	55,960	28,380
Gain (loss) on disposal of property and equipment	222	-	-	222	(158)
Gain on defeasement of debt	2,255	-	-	2,255	167
Change in fair value of derivative instruments	13,370	-	-	13,370	(81,906)
Other nonoperating items	91,906	(951)	(3,008)	87,947	(127,265)
Total nonoperating revenues/(expenses)	**260,963**	**198,713**	**194,156**	**653,832**	**75,141**
CHANGE IN NET ASSETS	**268,559**	**192,778**	**194,156**	**655,493**	**84,578**
Change in net assets related to noncontrolling interests	4,872	-	-	4,872	(9)
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**273,431**	**192,778**	**194,156**	**660,365**	**84,569**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2010

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2010
OPERATING REVENUES:				
Tuition and fees	$ 448,689	-	-	$ 448,689
Less: Scholarship allowances	(151,732)	-	-	(151,732)
Net tuition and fees	296,957	-	-	296,957
Endowment spending distribution	176,642	-	-	176,642
Other investment income designated for current operations	33,269	-	-	33,269
Gifts and contributions	39,494	-	-	39,494
Indirect cost recoveries	112,886	-	-	112,886
Government grants and contracts	344,975	-	-	344,975
Medical services	137,460	-	-	137,460
Sales and services of auxiliary operating activities	60,648	-	-	60,648
Independent operations	20,251	-	-	20,251
Net patient service revenue	1,844,943	-	-	1,844,943
Patent and royalty revenue	6,258	-	-	6,258
Other revenue	69,008	-	-	69,008
Net assets released from restrictions	22,166	(22,166)	-	-
Total operating revenues	**3,164,957**	**(22,166)**	**-**	**3,142,791**
OPERATING EXPENSES:				
Salaries and fringe benefits	1,867,293	-	-	1,867,293
Student financial aid	11,625	-	-	11,625
Other operating expenses	1,033,755	-	-	1,033,755
Interest on indebtedness	61,445	-	-	61,445
Depreciation	159,236	-	-	159,236
Total operating expenses	**3,133,354**	**-**	**-**	**3,133,354**
NET OPERATING REVENUES/(EXPENSES):	**31,603**	**(22,166)**	**-**	**9,437**
NONOPERATING REVENUES/(EXPENSES):				
Net unrealized gains on investments	20,281	17,885	125,921	164,087
Investment income and gains in excess of spending distribution for current operations	77,805	32,355	1,768	111,928
Investment management fees	(19,798)	(168)	(126)	(20,092)
Gifts and contributions	9,020	3,185	16,175	28,380
Loss on disposal of property and equipment	(158)	-	-	(158)
Gain on defeasement of debt	167	-	-	167
Change in fair value of derivative instruments	(81,906)	-	-	(81,906)
Other nonoperating items	(56,705)	(26,752)	(43,808)	(127,265)
Total nonoperating revenues/(expenses)	**(51,294)**	**26,505**	**99,930**	**75,141**
CHANGE IN NET ASSETS	**(19,691)**	**4,339**	**99,930**	**84,578**
Change in net assets related to noncontrolling interests	(9)	-	-	(9)
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**(19,700)**	**4,339**	**99,930**	**84,569**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years Ended August 31, 2011 and 2010
(Dollars in thousands)

	Unrestricted Net Assets Controlled by the University	Unrestricted Net Assets Related to Noncontrolling Interests	Total Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
Net assets as of August 31, 2009	**$ 2,533,486**	**$ -**	**$ 2,533,486**	**$ 2,186,271**	**$ 1,202,710**	**$ 5,922,467**
Adjustment to present noncontrolling interest as required by new accounting standard	-	(1,835)	(1,835)	-	-	(1,835)
Net assets as of August 31, 2009, as adjusted	**$ 2,533,486**	**$ (1,835)**	**$ 2,531,651**	**$ 2,186,271**	**$ 1,202,710**	**$ 5,920,632**
Excess revenues over (under) expenses	(19,700)	(6,043)	(25,743)	4,339	99,930	78,526
Payments by noncontrolling interests	-	6,052	6,052	-	-	6,052
Change in total net assets	(19,700)	9	(19,691)	4,339	99,930	84,578
Net assets as of August 31, 2010	**$ 2,513,786**	**(1,826)**	**2,511,960**	**2,190,610**	**1,302,640**	**6,005,210**
Excess of revenues over (under) expenses	273,431	(6,698)	266,733	192,778	194,156	653,667
Payments by noncontrolling interests	-	1,826	1,826	-	-	1,826
Change in total net assets	273,431	(4,872)	268,559	192,778	194,156	655,493
Net assets as of August 31, 2011	$ **2,787,217**	$ **(6,698)**	$ **2,780,519**	$ **2,383,388**	$ **1,496,796**	$ **6,660,703**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2011 and 2010

(Dollars in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 655,493	$ 84,578
Adjustments to reconcile change in net assets to net cash		
(used in) provided by operating activities:		
Nonoperating items:		
Gifts restricted for long-term investment and capital projects	(114)	(42)
Net realized gains on sale of investments	(409,032)	(223,942)
(Gain) loss on disposal of property and equipment	(222)	158
Proceeds from constant maturity swap settlement	-	7,805
Noncash items:		
Depreciation	170,727	159,236
Accretion/amortization of bond discounts/premiums	(15,802)	(6,119)
Net unrealized gains on investments	(270,769)	(164,087)
Change in fair value of derivative instruments	(13,370)	81,906
Gifts of securities and other assets	(34,884)	(1,339)
Gifts of property, plant and equipment	-	(42)
(Increase) decrease in:		
Accounts and other receivables, net	(113,910)	28,549
Contributions receivable	(9,604)	27,399
Accrued investment income receivable	3,790	(3,240)
Prepaid expenses, deferred charges and other assets	(23,400)	25,509
Interests in perpetual funds held by others	(184,421)	(67,215)
Increase (decrease) in:		
Accounts payable and interest payable	60,836	(79,624)
Accrued liabilities for benefit obligations and professional liabilities	(33,783)	75,248
Deferred tuition and other revenue	(8,812)	70,184
Net cash (used in) provided by operating activities	**(227,277)**	**14,922**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements for loans to students	(3,204)	(2,278)
Repayment of loans from students	4,990	4,771
Proceeds from sales and maturities of investments	6,885,208	5,430,192
Purchases of investments	(6,320,094)	(5,196,793)
Purchases of property, plant and equipment	(329,936)	(217,330)
Increase in deposits held in custody for others	47,703	28,606
Net cash provided by (used in) investing activities	**284,667**	**47,168**

(Continued)

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2010 and 2009

(Dollars in thousands)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	114	42
Proceeds from bonds and mortgages payable	226,948	14,450
Principal repayments of bonds and mortgages payable	(261,879)	(148,989)
(Decrease) increase in annuities payable	(213)	403
(Decrease) increase in government advances for federal loan programs	(285)	79
Bond issuance costs	(270)	-
Net cash used in financing activities	**(35,585)**	**(134,015)**
Net increase (decrease) in cash and cash equivalents	**21,805**	**(71,925)**
Cash and cash equivalents at beginning of year	**341,954**	**413,879**
Cash and cash equivalents at end of year	**$ 363,759**	**$ 341,954**

Supplemental disclosure:		
Cash paid for interest	$ 87,558	$ 77,664
Property, plant and equipment acquisitions that were reflected in accounts payable	6,064	16,591

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 University Hospital Midtown, and EHCA Johns Creek Hospital, LLC, which became 100% owned in February 2011 (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 University Hospital Midtown, EHCA Johns Creek Hospital, LLC, 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). Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of externally imposed restrictions. Accordingly, net assets of the University are classified and reported as follows:

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 net assets released from restrictions and shown as reclassifications between the applicable classes of net assets.

Income and realized and unrealized gains on investments of permanently restricted net assets are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- As increases in temporarily restricted net assets until appropriated for expenditure by the University and donor restrictions for their use are met.

Included in ASC Subtopic 958-205, *Presentation of Financial Statements*, gains and losses on investments are reported as increases or decreases in temporarily restricted net assets, when either time restricted or restricted by explicit external stipulations, except when such losses result in the market value of a donor-restricted endowment fund declining below the related book value, in which case the difference between the fair market value and book values is reflected within unrestricted net assets.

(a) Cash Equivalents

Cash equivalents consist primarily of short-term money market mutual funds and treasury bills with original maturities of 90 days or less. These amounts are carried at cost, which approximates fair value. Cash and cash equivalents that are part of the long-term pool are shown within investments as those funds generally are not used for daily operating purposes.

(b) Contributions Receivable

Contributions, including unconditional promises to give, are recognized in the period received. Contributions restricted for capital projects or permanent or term endowment funds and contributions under split-interest agreements or perpetual trusts are reported as nonoperating revenue. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year, net of an allowance for uncollectible amounts, are discounted to their present value at a risk-adjusted rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, and other relevant factors.

(c) Loans Receivable, Net

Loans to students from Emory are carried at estimated net realizable value. Loans receivable from students under governmental loan programs, 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, 2011 and 2010. Loans to qualified students are funded principally with government advances to Emory under the Federal Direct Loan, Perkins, Nursing and Health Professions Student Loan Programs.

(d) Other Receivables, Net

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

(e) Investments

Investments are carried at fair value, with the difference between fair value and cost (the 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 that 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. Those net asset values are determined by the investment managers and are reviewed and evaluated by the Emory Investment Management Office.

Investments in private partnership interests are valued using the most current information provided by the general partner and then evaluated by Emory. 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, 2011 and 2010.

(f) 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 beneficial interest in perpetual funds 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.

(g) Property and Equipment

Land, buildings, and equipment are recorded at cost at the date of acquisition 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. Useful lives are as follows: buildings – 10 to 60 years; land improvements and infrastructure – 5 to 40 years; moveable equipment – 3 to 20 years; fixed equipment – 3 to 30 years; leasehold improvements – term of the lease; and library books – 10 years.

(h) Bond Issuance Costs

Costs related to the registration and issuance of bonds are carried at cost less accumulated amortization, are being amortized over the life of the bonds on a method that approximates the effective-interest method, and are included in prepaid expenses, deferred charges and other assets in the consolidated statements of financial position.

(i) 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, 2011 and 2010 reflect deferred fall semester revenues and expenditures, which will be recognized as revenues and expenditures in fiscal years 2012 and 2011, respectively.

(j) Contributions Revenue

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 nonoperating 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 in the unrestricted net asset class. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. Conditional promises are recorded when donor conditions are substantially met.

(k) 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 3.5% 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 initial settlement). The Hospitals have historically provided such reserves in recognition of the complexity of relevant reimbursement regulations, the volatility of related settlement processes, and an increasingly provocative overall healthcare regulatory environment, 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 2011 and 2010, net patient service revenue increased by approximately $4.0 million and $8.7 million, respectively, due to adjustment of previously estimated third-party payor reserves that are no longer necessary as a result of final settlements, years that are no longer subject to audits, reviews, and investigations, and new reserves established in accordance with the System's stated policy.

(l) 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. As of August 31, 2011 and 2010, there were no material uncertain tax positions.

(m) 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.

(n) Derivative Instruments

The University will from time to time utilize interest rate exchanges to hedge interest rate market exposure of the underlying bonds. The University does not use derivative financial instruments for speculative or trading purposes. The University uses the accrual method to account for the interest rate exchanges in connection with the underlying bonds. The difference between amounts paid and received under such agreements is reported in interest expense on a functional basis in the statements of activities. Changes in the fair value of these exchanges are recognized as changes in net assets in the accompanying consolidated statements of activities.

Certain investment strategies used by the University and its investment managers incorporate various derivative financial instruments.

(o) Pension and Postretirement Benefits

The University recognizes the funded status of their defined benefit plans and postretirement benefit plans as an asset or liability and recognizes changes in funded status during the year in which the changes occur as changes in unrestricted net assets for not-for-profit organizations.

(p) New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standard Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 requires separate disclosure for the amounts and reasons for significant transfers in and out of defined fair value measurement hierarchies. ASU 2010-06 also requires entities to separately present information about purchases, sales, issuances, and settlements. The ASU also clarifies existing disclosures for each class of assets and liabilities as well as the valuation techniques and inputs used to measure fair value for recurring and nonrecurring hierarchy levels of fair value measurements (see note 10). ASU 2010-06 was effective for the University for the fiscal year beginning September 1, 2010. The University will change its presentation to separately disclose information about purchases, sales, issuances and settlements during fiscal year 2012, as required.

In January 2010, the FASB issued ASU 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which amends ASC 958, *Not-for-Profit Entities*. The amendments in this standard provide guidance on accounting for combinations of not-for-profit entities (NFP). It defines a merger of a NFP as one in which one NFP cedes control to another NFP. In the case of a merger, the carryover method applies, which requires combining the assets and liabilities as of the merger date. Combinations are accounted for as acquisitions when consideration is transferred to the former owner or designee. Acquisitions are accounted for by applying fair market values to acquired assets and liabilities, including identifiable intangible assets and the recognition of goodwill in the case of NFPs with operations not predominantly supported by contributions. Any resulting goodwill is analyzed for impairment annually or if business conditions indicate an analysis is necessary, and is no longer amortized. The guidance requires that noncontrolling ownership interests in subsidiaries held by parties other than the parent be clearly identified, labeled, and presented in the combined balance sheets within net assets, but separate from the parent's net assets. In addition, the standard requires that a combined schedule of changes in net assets attributable to the parent and noncontrolling interests be provided for each class of net assets for which a noncontrolling interest exists during the reporting period. The System adopted ASU 2010-07 in fiscal year 2011, and has recast it's previously presented fiscal 2010 combined financial statements to reflect the new presentation of noncontrolling interests.

The FASB recently issued an ASU 2011-08, *Intangibles – Goodwill and Other* (Topic 350), that permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test described above. If an entity concludes, based on the qualitative assessment, that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it is not required to perform the two-step impairment test for that reporting unit. The ASU's objective is to simplify how an entity tests goodwill for impairment. The System has early adopted this ASU upon its September 2011 issuance.

The FASB issued ASU 2010-23, *Health Care Entities* (Topic 954): *Measuring Charity Care for Disclosure*, in August 2010. ASU 2010-23 amends ASC Subtopic 954-605, *Health Care Entities – Revenue Recognition*, to require that cost be used as the measurement basis for charity care disclosure purposes. The method used to estimate such costs as well as any funds received to offset or subsidize charity services provided should also be disclosed. The System expects to adopt this ASU in fiscal 2012 and is currently evaluating what impact this ASU will have on the System's combined financial statements.

The FASB issued ASU 2010-24, *Health Care Entities* (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*, in August 2010. ASU 2010-24 amends ASC Subtopic 954-450, *Health Care Entities – Contingencies*, to clarify that a health care entity should not net insurance recoveries against a related liability and the claim liability should be determined without consideration of insurance recoveries. The ASU is effective for the System's fiscal 2012, and the System is currently evaluating what impact this ASU will have on the System's combined financial statements.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities* (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU will change the System's presentation of provision for uncollectible accounts in the combined statements of operations, moving this item from operating expenses to deductions from gross patient service revenue. It also expands disclosures regarding policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts. The System expects to adopt this ASU in fiscal year 2013 and is currently evaluating what impact this ASU will have on the System's combined financial statements.

(q) 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, accruals for asset retirement obligations, 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.

(3) Contributions Receivable

Contributions receivable as of August 31, 2011 and 2010 consist of the following (in thousands):

		2011	2010
Unconditional promises expected to be collected in:			
Less than one year	$	18,844	15,214
One year to five years		191,222	191,084
Over five years		10	292
Total contributions receivable, gross		210,076	206,590
Less:			
Unamortized discount		(23,482)	(30,000)
Allowance for uncollectible amounts		(11,425)	(11,025)
Contributions receivable, net	$	175,169	165,565

Approximately 70% of the total unconditional promises to Emory are committed by two foundations with a long-standing history of support for Emory. 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, 2011 and 2010 generally are discounted on rates ranging from 2.36% to 8.75%.

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 5.44% and 5.34% respectively of contribution receivable as of August 31, 2011 and 2010.

In November 2006, the University received a gift from the Robert W. Woodruff Foundation, Inc. for $240 million to support the University's future Healthcare facility projects. As of August 31, 2011, $100 million has been received with the remaining $140 million reported in contributions receivable and temporarily restricted gifts.

At August 31, 2011, the University had received bequest intentions of approximately $116.7 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 net receivables from patients and third-party payors follows:

	2011	2010
Managed care and other third-party payors	53%	51%
Medicare	34	36
Patients	8	6
Medicaid	5	7
	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, 2006. Revenues from the Medicare program accounted for approximately 31% and 30% of the System's net patient service revenue for the years ended August 31, 2011 and 2010, 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, 2006. Revenues from the Medicaid program accounted for approximately 3% of the System's net patient service revenue for both the years ended August 31, 2011 and 2010. The System contracts with certain managed care organizations in 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 $5.0 million and

$3.9 million in Program funds during fiscal 2011 and 2010, respectively. The aggregate payment from the Program to the System was enabled by a related intergovernmental transfer to the State of Georgia 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):

		2011	2010
Gross patient service revenue	$	4,667,156	4,168,648
Less provisions for contractual and other adjustments		(2,667,333)	(2,323,705)
Net patient service revenue	$	1,999,823	1,844,943

In the spring of 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) were signed into law. The impact of the Health Care acts is complicated and difficult to predict, but the System anticipates its reimbursements in the future will be affected by major elements of the Health Care Acts designed to (1) increase insurance coverage, (2) change provider and payor behavior, and (3) encourage alternative delivery models. Many healthcare reform variables remain unknown and are, among other things, dependent on implementation by federal and state governments and reactions by providers, payors, employers, and individuals. The System continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

The Health Information Technology for Economic and Clinical Health (HITECH) Act was enacted as part of the American Recovery and Reinvestment Act of 2009 and signed into law in February 2009. In the context of the HITECH Act, the System must implement a certified Electronic Health Record (EHR) in an effort to promote the adoption and "meaningful use" of health information technology (HIT). The HITECH Act includes significant monetary incentives and payment penalties meant to encourage the adoption of EHR technology. The System anticipates that its current efforts at implementing an enterprise-wide EHR will enable its compliance with the meaningful use objectives mandated in the HITECH legislation.

(6) Investments

The following table summarizes the fair value of investments as of August 31, 2011 and 2010 (in thousands):

		2011	2010
Cash equivalents [a]	$	228,763	263,221
Fixed income securities:			
U.S. government securities [b]		423,138	360,836
Domestic bonds and long-term notes [c]		622,857	944,131
International bonds and long-term notes [d]		221,724	115,161
U.S. equity securities [e]		663,929	490,099
Non-U.S. equity securities [f]		633,548	639,366
Oil and gas properties [g]		317,874	277,695
Private markets [h]		1,127,163	1,009,759
Hedged absolute return [i]		513,203	454,040
Long/short strategy [j]		205,281	309,677
Other strategy [k]		172,861	128,331
Real estate investments [l]		266,451	199,861
Miscellaneous investments [m]		3,026	2,688
Total investments at fair value		5,399,818	5,194,865
Joint ventures (equity method)		(404)	54,978
Total investments	$	5,399,414	5,249,843

[a] Includes short-term U.S. Treasury debt securities with maturities of less than one year and other short-term, highly liquid debt securities, as well as funds that invest in these types of investments. At August 31, 2011 and 2010, $27.4 million was posted as collateral and thus not readily available for use.

[b] Includes investments in U.S. Treasury and agency debt securities with maturities of more than one year and funds that invest in these types of investments.

[c] Includes investments in nongovernment debt securities with maturities of more than one year. Investments consist primarily of credit-oriented securities including U.S. investment-grade and below investment-grade debt securities. Other investments include mortgage-backed securities, asset-backed securities, repurchase agreements, senior loans, and bank loans.

[d] Includes investments in funds that invest in non-U.S. Government debt securities with maturities of more than one year and funds that invest in these types of investments. Management of the funds has the ability to shift investments from non-U.S. developed to emerging markets. The fair values of some of the fund investments in this category have been estimated using the net asset value per share of the investments.

(e) Includes investments in U.S. common stocks and funds that invest primarily in U.S. common stocks. The administration and management of the funds has the ability to shift investments from value to growth strategies and from small capitalization to large capitalization stocks. The fair values of some of the fund investments in this category have been estimated using the net asset value per share of the investments.

(f) Includes investments in non-U.S. common stocks and funds that invest primarily in non-U.S. common stocks. The administration and management of the funds has the ability to shift investments from value to growth strategies, from small capitalization to large capitalization stocks, and from developed non-U.S. markets to emerging markets. The fair values of some of the investments in this category have been estimated using the net asset value per share of the investments.

(g) Includes illiquid investments in timber, mining, energy, and related services businesses held in commingled limited partnership funds. The fair value of these investments is calculated from Emory's ownership interests in these funds. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 6 to 12 years.

(h) Includes illiquid investments in venture capital, growth equity, buyout, mezzanine, and distressed debt held in commingled limited partnership funds. The fair value of these investments is calculated from Emory's ownership interests in these funds. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 4 to 8 years.

(i) Includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge fund composite portfolio includes common stocks, credit-oriented securities and arbitrage investments. The administration and management of the funds has the ability to shift investments across strategies and from a net long position to a net short position. These funds generally have a low net long position. The fair values of the fund investments in this category have been estimated using the net asset value per share of the investments.

(j) Includes long and short investments in U.S. and non-U.S. hedge funds that invest both long and short primarily in U.S. and non-U.S. common stocks. The administration and management of the funds has the ability to shift investments from value to growth strategies, from small capitalization stocks to large capitalization stocks, from U.S. to non-U.S. stocks, and from a net long position to a net short position. These funds generally have a low net long position. The fair values of the fund investments in this category have been estimated using the net asset value per share of the investments.

(k) Includes various hedge fund investments that invest both long and short primarily in non-U.S. common stocks, fixed income arbitrage with the use of derivatives and multi strategy funds of funds. The fair values of the fund investments in this category have been estimated using the net asset value per share of the investments.

(l) Includes illiquid investments in real estate assets, projects, or land held in commingled limited partnership funds. The fair value of these investments is calculated from the net asset value of Emory's ownership interests in these funds. The nature of the investments in this category such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 5 to 10 years.

(m) Other investments in mutual funds not included in the endowment and other similar funds.

At August 31, 2011 and 2010, cash equivalents included in investments of $199.3 million and $234.8 million, respectively, are restricted for use by endowments and special projects.

At August 31, 2011 and 2010, U.S. equity securities included investments in common stock of The Coca-Cola Company with a fair value totaling $0.9 billion and $0.7 billion, respectively. At August 31, 2011 and 2010, this represented 15.2% and 13.7%, respectively, of the fair value of the investment portfolio, including beneficial interest in perpetual funds. 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. In April 2010, GeoVax had a 1:50 reverse stock split. As of August 31, 2011, the University owned 4,621,405 shares. The stock closed on August 31, 2011, at $0.85 per share. Rule 144 of the 1933 Securities Act places restrictions on the sale of these securities, including volume limitations based on total shares outstanding. In addition, the securities hold restrictions that would transfer to market participants upon sale. Management believes a discounted value is warranted as these factors severely restrict the University's ability to freely sell the shares in the capital market at the published market value. The shares are recorded as an investment at a discounted value of $1.4 million instead of the published fair market value of $3.9 million. 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 29.4% 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 exchanges 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. Management continues to monitor the composition of its portfolio to assess the potential impact of market conditions on the valuation of its investments.

Liquidity risk represents the possibility that the University may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If the University was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value. The University invests in alternative investments, which can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could contract further. As a result, the University could find it more difficult to sell these securities or may only be able to sell the securities at prices lower than if such securities were widely traded.

The University may hold investments denominated in currencies other than the U.S. dollar. Thus, there is exposure to currency risk because the value of the investments denominated in other currencies may fluctuate due to changes in currency exchange rates, and this can have an adverse affect on the reported value of assets and liabilities denominated in currencies other than the U.S. dollar.

The University's investment portfolio is subject to interest rate and credit risks for certain securities whose valuation would be impacted by changes in interest rates. The portfolios are also subject to the risk where the issuer of the security is not able to pay interest or repay principal when it is due.

The value of securities held by the University may decline in response to certain economic events, including those events impacting entities whose securities are owned and included in the investment portfolio. Those events impacting valuation may include (but are not limited to) economic changes, market fluctuations, regulatory changes, global and political instability, currency, interest rate, and commodity price fluctuations. The University attempts to manage this risk through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions.

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 also had outstanding commitments of $496.4 million and $542.2 million as of August 31, 2011 and August 31, 2010, respectively, for investment of endowment assets in private markets, real estate, and oil and gas limited partnership agreements. Over the next five years, approximately 95% of the outstanding commitments are expected to be called by the general partners. Although the University is obligated to fund these commitments, many of these agreements allow resale. Funds to meet these commitments will be required over future years and are expected to be generated from existing endowment assets.

As of August 31, 2011, the estimated fair value of the University's alternative investments totaled $2.6 billion. The limitations and restrictions on the University's ability to redeem or sell these investments vary by investment type. Based upon the terms and conditions in effect at August 31, 2011, the University's alternative investments can be redeemed or sold as follows (in thousands):

	2011	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedge strategies:				
Absolute return strategy	$ 513,203	66,400	30 – over 365 days	5 – 180 days
Long/short equity strategy	205,281	—	30 – 365 days	5 – 90 days
Other strategy	172,861	—	90 – 365 days	90 – 180 days
Oil and gas properties	317,874	84,135	N/A	N/A
Real estate investments	266,451	54,222	N/A	N/A
Joint ventures	(404)	—	N/A	N/A
Private market investments	1,127,163	291,641	N/A	N/A
	$ 2,602,429	496,398		

(7) Endowment Net Assets

The University's endowment consists of approximately 1,500 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the State of Georgia Uniform Prudent Management of Institutional Funds Act (UPMIFA) as providing among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the University to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was previously not allowed. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Endowment net assets consist of the following at August 31, 2011 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (31,426)	2,114,142	568,335	2,651,051
Board-designated endowment funds	1,316,233	—	—	1,316,233
	$ 1,284,807	2,114,142	568,335	3,967,284

Endowment net assets consist of the following at August 31, 2010 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (48,720)	1,928,802	555,800	2,435,882
Board-designated endowment funds	1,199,918	—	—	1,199,918
	$ 1,151,198	1,928,802	555,800	3,635,800

Changes in endowment net assets for the year ended August 31, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2010	$ 1,151,198	1,928,802	555,800	3,635,800
Investment return:				
Investment income	190,026	191,405	—	381,431
Net appreciation (depreciation)	55,211	56,041	—	111,252
Total investment return	245,237	247,446	—	492,683
Contributions	17,736	15	12,535	30,286
Appropriation of endowment assets for expenditure	(128,189)	(62,121)	—	(190,310)
Transfers to (from) board-designated funds	(1,175)	—	—	(1,175)
Endowment net assets, August 31, 2011	$ 1,284,807	2,114,142	568,335	3,967,284

Changes in endowment net assets for the year ended August 31, 2010 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, September 1, 2009	$ 1,104,896	1,880,194	539,526	3,524,616
Investment return:				
Investment income	152,474	79,493	—	231,967
Net appreciation (depreciation)	30,069	16,271	—	46,340
Total investment return	182,543	95,764	—	278,307
Contributions	41	—	16,274	16,315
Appropriation of endowment assets for expenditure	(151,575)	(47,156)	—	(198,731)
Transfers to create board-designated funds	15,293	—	—	15,293
Endowment net assets, August 31, 2010	$ 1,151,198	1,928,802	555,800	3,635,800

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the donor's original contribution. Deficiencies of this nature that are reported in unrestricted net assets were $31.4 million and $48.7 million as of August 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs deemed prudent by the Board of Trustees consistent with the standard of prudence prescribed by UPMIFA. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain a real total return of at least 6% over the long term. Over shorter time periods (rolling three years), the endowment assets performance will be measured versus a policy benchmark. The policy benchmark represents the weighted average of benchmark returns to each asset class in the policy asset allocation. The performance objective is to outperform the policy benchmark by at least 50 basis points net of fees, on average. It is not expected that the performance target will be met for every three-year period.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University employs a diversified asset allocation strategy across global equities, fixed income, marketable alternatives, and private investment to achieve its long-term return objectives within prudent risk constraints.

(e) Relationship between Investment Objectives and Spending Policy

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 2011 and 2010 was based on a target of 4.75% of the previous 12 months' average market value ending on December 31. In establishing these policies, the University considers the expected return on its endowment. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power if projected growth rates are achieved. Additional real growth will be provided through new gifts and any excess investment return.

(8) Derivative Instruments and Hedging Activities

The University has executed derivative financial instruments in the normal course of its business.

As a component of the debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate debt to fixed rates.

The following table summarizes the general terms for each of the University's exchange agreements as of August 31, 2011 and 2010 (dollars in thousands):

Type	Effective date		Notional amount	University pays	University receives
Interest	08/04/2005	$	250,000	3.238%	68% of 3-month LIBOR
Interest	08/23/2005		80,000	3.255%	68% of 3-month LIBOR
Basis (1)	08/04/2005		250,000	68% of 3-month LIBOR plus 0.36%	SIFMA Muni Swap Index less 0.05%
Interest	12/01/2009		75,000	3.583%	68% of 3-month LIBOR
Interest	12/01/2007		75,000	3.549%	68% of 3-month LIBOR
Interest	05/01/2008		75,000	3.607%	68% of 3-month LIBOR
Interest	12/01/2008		100,000	3.286%	68% of 3-month LIBOR
Constant Maturity (2)	02/15/2009		62,500	1 month LIBOR	10 year International Swaps and Derivatves Association (ISDA) minus 998.8 basis points

(1) Expired on September 1, 2011.

(2) On December 29, 2009, the University terminated its Constant Maturity exchange agreement.

Net settlement transactions related to the exchange agreements described above resulted in interest expense totaling $21.6 million and $19.7 million during 2011 and 2010, respectively. The fair value of each exchange is the estimated amount the University would receive or pay to terminate the exchange agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the exchange counterparties. The University's exchange agreements are categorized as Level 2 in the fair value hierarchy. The University's exchange 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 exchange. The University monitors the credit standing of its counterparties.

Certain University derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At August 31, 2011, the University's long-term debt ratings exceeded these benchmarks.

The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on August 31, 2011 is $140.2 million for which Emory University had no requirement to post collateral. If the credit risk related features underlying these agreements were triggered on August 31, 2011, Emory University would have been required to post $25.2 million. In fiscal year 2012 the liability position associated with those derivative instruments grew to a fair value level of $205 million, for which the University was required to post collateral of $22.8 million to two counterparties.

The following table summarizes the derivatives not designated as hedging instruments as of August 31, 2011 and 2010 (in thousands):

	2011		2010	
	Fair value[1]	**Gain (loss)**[2]	**Fair value**[1]	**Gain (loss)**[2]
August 4, 2005 Interest Rate Swap	$ (45,923)	4,240	(50,161)	(30,344)
August 23, 2005 Interest Rate Swap	(14,983)	1,720	(16,704)	(10,101)
August 4, 2005 Basis Swap [4]	(92)	659	(752)	692
December 1, 2009 Interest Rate Swap	(19,073)	953	(20,026)	(10,622)
December 1, 2007 Interest Rate Swap	(18,034)	1,505	(19,539)	(9,689)
May 1, 2008 Interest Rate Swap	(20,132)	1,698	(21,830)	(10,311)
December 1, 2008 Interest Rate Swap	(21,936)	2,595	(24,531)	(14,244)
February 15, 2009 Constant Maturity Swap[3]	—	—	—	2,713
	$ (140,173)	13,370	(153,543)	(81,906)

(1) Reported as liability for derivative instruments on the consolidated Statement of Financial Position.

(2) Reported in nonoperating revenues and expenses as change in fair value of derivative instruments.

(3) The Constant Maturity Swap was terminated on December 29, 2009 resulting in a $0.4 million reduction in interest on indebtedness and $7.8 million gain recorded in nonoperating revenues and expenses as a change in fair value of derivative instruments during fiscal year 2010.

(4) The August 4, 2005 basis swap expired on 9/1/2011, subsequent to fiscal year 2011.

The following tables identify the fair value amounts of derivative instruments included in investments categorized by primary underlying risk at August 31, 2011 and 2010 (in thousands). Balances are presented on a gross basis, prior to the application of counterparty netting. Total derivative assets and liabilities, and their related gains or losses are adjusted on an aggregate basis to take into consideration the effects of master netting arrangements with its counterparties.

	Fair Values of Derivative Instruments at August 31, 2011			
	Asset Derivatives		Liability Derivatives	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Interest rate contracts:				
Swaptions	Investments	$ 1,456	Investments	$ (2,550)
Swaps	Investments	565	Investments	(618)
Futures	Investments	142	Investments	(217)
		2,163		(3,385)
Foreign exchange contracts:				
Options	Investments	14	Investments	(4)
Forward contracts	Investments	4,813	Investments	(5,756)
Credit contracts:				
Swaps	Investments	46	Investments	(162)
Equity contracts:				
Swaps	Investments	—	Investments	(7,869)
Warrants	Investments	2,145	Investments	—
Other contracts:				
Options	Investments	1	Investments	(39)
Futures	Investments	—	Investments	(12,390)
Futures-Clifton Casualty	Assets	—	Liabilities	(1,079)
Total derivatives		$ 9,182		$ (30,684)

	Fair Values of Derivative Instruments at August 31, 2010			
	Asset Derivatives		**Liability Derivatives**	
	Balance sheet location	**Fair value**	**Balance sheet location**	**Fair value**
Interest rate contracts:				
Swaptions	Investments	$ 255	Investments	$ (883)
Swaps	Investments	36,342	Investments	(38,787)
Futures	Investments	25	Investments	(16)
		36,622		(39,686)
Foreign exchange contracts:				
Forward contracts	Investments	2,694	Investments	(3,789)
Credit contracts:				
Swaps	Investments	410	Investments	(417)
Equity contracts:				
Options	Investments	—	Investments	(30)
Other contracts:				
Futures	Investments	—	Investments	(2,300)
Futures-Clifton Casualty	Assets	—	Liabilities	(779)
Total derivatives		$ 39,726		$ (47,001)

	2011 asset derivatives		
	Location of gain (loss) recognized in income on derivative		Amount of gain (loss) recognized in income on derivative
Interest rate contracts:			
Options	Nonoperating Revenues/(Expenses)	$	—
Swaptions	Nonoperating Revenues/(Expenses)		(258)
Swaps	Nonoperating Revenues/(Expenses)		78
Futures	Nonoperating Revenues/(Expenses)		(151)
			(331)
Foreign exchange contracts:			
Options	Nonoperating Revenues/(Expenses)		(3)
Forward contracts	Nonoperating Revenues/(Expenses)		(3,439)
Credit contracts:			
Swaps	Nonoperating Revenues/(Expenses)		(395)
Equity contracts:			
Options	Nonoperating Revenues/(Expenses)		4
Rights	Nonoperating Revenues/(Expenses)		74
Warrants	Nonoperating Revenues/(Expenses)		261
Swaps	Nonoperating Revenues/(Expenses)		(11,759)
Other contracts:			
Options	Nonoperating Revenues/(Expenses)		(38)
Futures	Nonoperating Revenues/(Expenses)		24,471
Futures-Clifton Casualty	Operating Revenues/(Expenses)		3,760
Total		$	12,605

	2010 asset derivatives		
	Location of gain (loss) recognized in income on derivative		**Amount of gain (loss) recognized in income on derivative**
Interest rate contracts:			
Options	Nonoperating Revenues/(Expenses)	$	9
Swaptions	Nonoperating Revenues/(Expenses)		264
Swaps	Nonoperating Revenues/(Expenses)		(378)
Futures	Nonoperating Revenues/(Expenses)		1,360
			1,255
Foreign exchange contracts:			
Forward contracts	Nonoperating Revenues/(Expenses)		1,175
Credit contracts:			
Swaps	Nonoperating Revenues/(Expenses)		4
Equity contracts:			
Options	Nonoperating Revenues/(Expenses)		436
Other contracts:			
Options	Nonoperating Revenues/(Expenses)		33
Futures	Nonoperating Revenues/(Expenses)		4,896
Futures-Clifton Casualty	Operating Revenues/(Expenses)		(2,997)
Total		$	4,802

Emory is exposed to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis swap.

Emory is exposed to financial loss in the event of nonperformance by counterparty to any of the financial instruments described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on Emory's consolidated balance sheet. Emory controls this counterparty credit risk by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction, monitoring for any change in the credit standing of its counterparty during the life of the transaction, and requiring collateral be posted when predetermined thresholds are crossed.

Investment strategies employed by Emory and investment managers retained by Emory may incorporate the use of various derivative financial instruments with off balance sheet risk. Emory uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio.

During the year ended August 31, 2011, Emory or external investment managers on Emory's behalf, entered into:

(a) **Forward contracts** with various counterparties to obtain exposure to foreign currency exchange rate movements, and in other cases, to hedge against certain foreign currency exchange rate risks resulting from non-U.S. dollar denominated investment securities. Forward contracts are contracts in which the seller agrees to exchange specified currencies on a specified date at a specified rate or to make cash settlement for the value of the agreement at expiration. Risks associated with forward currency contracts are the inability of counterparties to meet the terms of their contracts and movements in exchange rates. Gains and losses on forward transactions are recorded based on changes in fair value. Emory has established procedures to actively monitor and manage market and credit risks.

(b) **Futures contracts** to hedge exposure to equity price and interest rate movements and to obtain exposure to movements in the exchange rates of certain currencies, prices of certain commodities, and equities prices. Futures contracts are agreements in which the seller agrees to either make delivery of specified assets on a specified future date at a specified price or make cash settlement for the value of the agreement at expiration. Emory's maximum loss exposure for purchased contracts is the notional value of the contracts. Emory has unlimited liability on contracts sold. Emory has established procedures to actively monitor and manage market and credit risks.

The purchase and sale of futures contracts requires margin deposits with a Futures Commission Merchant (FCM). The Commodity Exchange Act requires an FCM to segregate all customer transactions and assets from the FCM's proprietary activities. A customer's cash and other equity deposited with an FCM are considered commingled with all other customer funds subject to the FCM's segregation requirements. In the event of an FCM's insolvency, recovery may be limited to Emory's pro rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total of cash and other equity deposited.

(c) **Swap agreements**, including equity, index, interest rate, credit default, option, and variance swaps as part of its investment strategies to gain exposure to and, in some cases, hedge against changes in stock prices, interest rate levels, credit strength of specified companies, and market volatility. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon, or calculated by, reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference, subject to a predetermined threshold limit, being paid by one party to the other. During the term of the swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to market. Emory records a realized gain or loss when periodic payments are received or made. Loss may result from the failure of the counterparty to the swap contract failing to comply with the terms of the swap contract. Such loss is generally limited to the aggregate of the unrealized gain on the swap contract less collateral held or plus any collateral posted with the counterparty. Emory considers the creditworthiness of its swap contract counterparties in evaluating potential credit risk. Additionally, risks may arise from unanticipated movements in the fair value of the underlying securities and the lack of market liquidity to unwind the positions at current fair values.

(d) **Option contracts** (including swaptions, which are options on swaps) to obtain exposure to price movements of certain financial instruments and as economic hedges against certain equity positions held in its portfolio. Option contracts purchased give Emory the right, but not the obligation, to buy or sell within a limited time, a financial instrument, commodity, or currency at a contracted price. Option contracts may also be settled in cash, based on the difference between the contracted price and market price at the exercise date. The value of an option has two components: time value and intrinsic value. An option expires on a certain date and as the expiration date approaches, the time value of an option will decline. In addition, if the stock underlying the option declines in price, the intrinsic value of an “in the money” option will decline. Further, if the price of the stock underlying the option does not exceed the strike price of the option on the expiration date, the option will expire worthless. As a result, there is the potential for Emory to lose its entire investment in an option.

Options written (sold) by Emory obligate Emory to buy or sell within a limited time, a financial instrument, commodity, or currency at a contracted price. Alternatively, Emory can settle in cash, based on the difference between the contracted price and market price at the exercise date. All options expose Emory to market risk for changes in the financial instrument underlying the written option.

Emory is exposed to counterparty risk in that the seller of an option contract might not sell or purchase the underlying asset as agreed under the terms of the option contract. The maximum exposure to loss from counterparty risk for Emory is the fair value of the contracts and the premiums paid to purchase its open option contracts. Emory considers the creditworthiness of the intermediary counterparty to its option transactions in evaluating potential credit risk.

(e) **Transactions where Emory received rights from its portfolio companies** upon an investment in a debt or equity of a company. The rights provide Emory with exposure, and potential gains from, depreciation or appreciation of the portfolio company’s share price. Rights entitle the holder to buy stock of the issuing company at a specified price. Changes in the value of the rights are recognized as unrealized gains or losses by at the end of each day’s trading. If the right is exercised, the new stock is assigned a cost basis at the strike price and the right is marked to zero. If the right is sold, Emory records a realized gain or loss.

(f) **Transactions where Emory received warrants from its portfolio companies** upon an investment in the debt or equity of a company. The warrants provide Emory with exposure and potential gains upon appreciation of the portfolio company’s share price.

The value of a warrant has two components: time value and intrinsic value. A warrant expires on a certain date and as that date approaches, the time value of a warrant will decline. In addition, if the stock underlying the warrant declines in price, the intrinsic value of an “in the money” warrant will decline. Further, if the price of the stock underlying the warrant does not exceed the strike price of the warrant on the expiration date, the warrant will expire worthless. As a result, there is the potential for Emory to lose its entire investment in a warrant.

Emory is exposed to counterparty risk in that the issuer of warrants may fail to settle its exercised warrants. The maximum loss from counterparty risk for Emory is the fair value of the contracts and the purchase price of the warrants. Emory considers the effects of counterparty risk when determining the fair value of its investments in warrants.

(9) Interests in Perpetual Funds Held by Others

The University has interests in perpetual funds held and administered by others including certain perpetual trusts and other funds. The fair value of these perpetual funds is recorded in the consolidated statements of financial position on August 31, 2011 and 2010 at $965.6 million and $781.2 million, respectively.

Included in these perpetual funds are the assets of the Robert W. Woodruff Health Sciences Center Fund, Inc. The Robert W. Woodruff Health Sciences Center Fund, Inc. is a tax-exempt entity established in 1996 to make grants and carry on other activities to support and benefit the Robert W. Woodruff Health Sciences Center, a division of the University which includes its medical and nursing schools, medical research laboratories and hospitals. At August 31, 2011 and 2010, the assets of the Robert W. Woodruff Health Sciences Center Fund, Inc. were $882 million and $703 million, respectively.

(10) Fair Values of Assets and Liabilities

The carrying values for cash and cash equivalents, patient receivables, short-term receivables, and short-term payables approximate fair value because of the terms and relative 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 estimated net present value. Long-term investments and deposits held in custody for others are reflected in the accompanying consolidated financial statements at fair value at August 31, 2011 and 2010. 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 $1.8 billion and $1.9 billion at August 31, 2011 and 2010, respectively. The fair value of fixed and variable rate debt maturities is determined by each bond's par amount outstanding multiplied by its price on an actively traded market as of August 31, 2011 and 2010. The carrying value of long-term debt reflected in the accompanying consolidated statements of financial position is approximately $1.8 billion at August 31, 2011 and 2010. Reflected in the carrying value of long-term debt is a series of Capital Appreciation Bonds in which the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. The University's carrying value of long-term debt reflected in the accompanying consolidated statements of financial position includes the accreted book value of $2.6 million. The ultimate maturity value of this series of bonds is $5.9 million.

Assets and liabilities measured and reported at fair value are classified and disclosed within one of the following categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The type of investments in Level 1 included listed equities held in the name of the University, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 include those in which the University is a unit of account holder within a fund that holds underlying assets that are traded in active exchange markets with readily available pricing.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table summarizes the valuation of the University's assets and liabilities which are recorded at fair value according to the fair value hierarchy levels as of August 31, 2011 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 228,763	228,357	406	—
Fixed income securities:				
U.S. government securities	423,138	—	423,138	—
Domestic bonds and long term notes	622,857	194,229	428,605	23
International bonds and long term notes	221,724	—	221,724	—
U.S. equity securities	663,929	382,041	281,885	3
Non-U.S. equity securities	633,548	274,633	358,915	—
Oil and gas properties	317,874	—	—	317,874
Private market investments	1,127,163	—	—	1,127,163
Marketable alternative investments:				
Hedged absolute return strategy	513,203	—	155,535	357,668
Hedged long/short equity strategy	205,281	—	63,793	141,488
Hedged other strategy	172,861	—	—	172,861
Real estate investments	266,451	59,240	4,233	202,978
Miscellaneous investments	3,026	3,026	—	—
Total investments	5,399,818	1,141,526	1,938,234	2,320,058
Beneficial interest in perpetual funds	965,613	—	—	965,613
Total assets [1]	$ 6,365,431	1,141,526	1,938,234	3,285,671

	Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3
Financial liabilities:				
Other liabilities and deferrals:				
Derivative instruments - interest rate swaps	(140,173)	—	(140,173)	—
Derivative instruments - futures contracts	(1,079)	—	(1,079)	—
Deposits held in custody for others	(465,776)	—	(465,776)	—
Total liabilities	$ (607,028)	—	(607,028)	—

(1) Certain investments in joint ventures carried under the equity method of accounting are not reported at fair value and thus not included in the table above.

The following table summarizes the valuation of the University's assets and liabilities which are recorded at fair value according to the fair value hierarchy levels as of August 31, 2010 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 263,221	263,221	—	—
Fixed income securities:				
U.S. government securities	360,836	2,818	358,018	—
Domestic bonds and long term notes	944,131	115,829	826,579	1,723
International bonds and long term notes	115,161	736	114,425	—
U.S. equity securities	490,099	452,467	37,629	3
Non-U.S. equity securities	639,366	187,702	451,664	—
Oil and gas properties	277,695	—	—	277,695
Private market investments	1,009,759	—	—	1,009,759
Marketable alternative investments:				
Hedged absolute return strategy	454,040	—	102,755	351,285
Hedged long/short equity strategy	309,677	—	149,476	160,201
Hedged other strategy	128,331	—	13,865	114,466
Real estate investments	199,861	—	4,307	195,554
Miscellaneous investments	2,688	2,688	—	—
Total investments	5,194,865	1,025,461	2,058,718	2,110,686
Beneficial interest in perpetual funds	781,192	—	—	781,192
Total assets (1)	$ 5,976,057	1,025,461	2,058,718	2,891,878

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial liabilities:				
Other liabilities and deferrals:				
Derivative instruments - interest rate swaps	(153,543)	—	(153,543)	—
Derivative instruments - futures contracts	(779)	—	(779)	—
Deposits held in custody for others	(418,073)	—	(418,073)	—
Total liabilities	$ (572,395)	—	(572,395)	—

(1) Certain investments in joint ventures carried under the equity method of accounting are not reported at fair value and thus not included in the table above.

The University has $4.95 billion of investments and beneficial interest in perpetual funds that fall into levels 2 and 3 and are reported at estimated fair value. Unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value, the University has applied a practical expedient and concluded that the net asset value reported by the underlying fund approximates the fair value of these investments.

While the University's investment in these funds is classified as Level 2 or 3, the underlying investments of the fund may be classified Level 1 in the fund itself. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment to the investor and does not necessarily correspond to the perceived risk of that investment. The funds and the University use inputs in applying various valuation techniques that are assumptions which market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates and other factors.

Underlying fund investments made directly by the University whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include actively traded common and preferred stock, U.S. government fixed income instruments and non-U.S. government fixed income instruments. Level 1 investments may also included futures contracts, listed mutual funds, exchange traded funds (ETFs) and money market funds.

Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. Alternative pricing sources include quotations from market participants and pricing models which are based on accepted industry modeling techniques. These investments include U.S. investment-grade and below investment-grade debt securities, international corporate bonds, mortgage-backed securities, asset-backed securities, senior loans and bank loans, most derivative contracts other than futures, and commingled fund investments that would otherwise be classified Level 3 but for which the University had the ability to redeem at net asset value on or within 120 days after August 31, 2011.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments include limited partnerships, private placement investments, and commingled fund investments. Inputs used may include the original transaction price, recent transactions in the same or similar market, completed or pending third-party transactions in the underlying investment or comparable issuers, and subsequent rounds of financing. When observable prices are not available these investments are valued using one or more valuation techniques described below.

- Market Approach: This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- Income Approach: This approach determines a valuation by discounting future cash flows.
- Cost Approach: This approach is based on the principle of substitution and the concept that a market participant would not pay more than the amount that would currently be required to replace the asset. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value.

The following tables summarize the University's Level 3 reconciliation as of August 31, 2011 and 2010 (in thousands):

		Balance as of August 31, 2010	Net realized and unrealized gains (losses)	Net Purchases, (Sales) and Settlements	Transfer into Level 3	Amortization premiums and discounts	Balance as of August 31, 2011
Investments:							
Fixed income securities	$	1,723	307	(2,012)	—	5	23
U.S. equity securities		3	—	—	—	—	3
Oil and gas properties		277,695	21,066	19,113	—	—	317,874
Private market investments		1,009,759	54,695	62,709	—	—	1,127,163
Hedge absolute return strategy		351,285	36,205	(30,188)	366	—	357,668
Hedge long/short strategy		160,201	8,587	(27,300)	—	—	141,488
Hedge other strategy		114,466	9,280	49,115	—	—	172,861
Real estate investments		195,554	(3,331)	10,755	—	—	202,978
Total investments		2,110,686	126,809	82,192	366	5	2,320,058
Benefical interest in perpetual funds		781,192	184,421	—	—	—	965,613
Total assets	$	2,891,878	311,230	82,192	366	5	3,285,671

Of the $311.2 million in Level 3 Net Realized and Unrealized Gains (Losses) for the period ending August 31, 2011, approximately $266.1 million is the unrealized gain associated with investments held by the University for the entire year. The transfers from Level 2 into Level 3 are comprised of $0.4 million in liquidity restriction changes.

	Balance as of August 31, 2009	Net realized and unrealized gains (losses)	Net Purchases, (Sales) and Settlements	Transfer into Level 3	Amortization premiums and discounts	Balance as of August 31, 2010
Investments:						
Fixed income securities	$ 3,185	(1,339)	(401)	233	45	1,723
U.S. equity securities	3	—	—	—	—	3
Oil and gas properties	253,045	(5,536)	30,186	—	—	277,695
Private market investments	862,530	49,941	97,288	—	—	1,009,759
Hedge absolute return strategy	62,124	16,267	10,000	262,894	—	351,285
Hedge long/short strategy	—	—	—	160,201	—	160,201
Hedge other strategy	68,758	13,595	—	32,113	—	114,466
Real estate investments	198,633	(23,416)	20,337	—	—	195,554
Total investments	1,448,278	49,512	157,410	455,441	45	2,110,686
Beneficial interest in perpetual funds	713,977	67,215	—	—	—	781,192
Total assets	$ 2,162,255	116,727	157,410	455,441	45	2,891,878

Of the $116.7 million in Level 3 Net Realized and Unrealized Gains (Losses) for the period ending August 31, 2010, approximately $118.5 million is the unrealized gain associated with investments held by the University for the entire year. The transfers from Level 2 into Level 3 are comprised of $455.4 million of investments re-characterized from Level 2 due to a prior year change in the University's liquidity definition.

(11) Property and Equipment

Property and equipment at August 31, 2011 and 2010 are summarized as follows (in thousands):

	2011	2010
Land and land improvements	$ 154,736	137,545
Buildings and improvements	2,413,857	2,301,522
Equipment	1,457,823	1,250,188
Library and museum assets	296,568	277,572
Construction in progress	68,762	54,325
	4,391,746	4,021,152
Less accumulated depreciation	(1,963,520)	(1,758,421)
	$ 2,428,226	2,262,731

Depreciation expense totaled $170.7 million and $159.2 million during 2011 and 2010, respectively.

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 liability was estimated using an inflation rate of 5.00% and discount rate of 4.74%. The liability for asset retirement obligations at August 31, 2011 and 2010 is $49.7 million and $48.0 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

(12) Long-Term Debt

At August 31, 2011 and 2010, bonds, notes and mortgages payable, including unamortized premiums and discounts, consisted of the following (dollars in thousands):

	Interest rate average	Final maturity	Outstanding principal 2011	Outstanding principal 2010
Tax-exempt fixed-rate revenue bonds:				
2011 Series A [2]	4.95%	September 1, 2041	$ 238,278	—
2009 Series B [1]	4.73	September 1, 2035	238,329	245,044
2009 Series C	4.90	September 1, 2039	99,633	99,708
2008 Series B	4.75	September 1, 2011	—	100,951
2008 Series C	4.96	September 1, 2038	124,299	124,367
2005 Series A	4.83	September 1, 2025	130,482	138,183
2002 Series A	4.65	September 1, 2033	55,305	83,993
2001 Series A	4.10	September 1, 2025	4,220	134,810
2000 Series A	5.00	November 1, 2018	—	12,269
1999 Series A	5.09	November 1, 2019	—	8,795
1998 Series B	5.00	November 1, 2033	7,757	7,746
1997 Series C	4.90	November 1, 2010	—	185
Total tax-exempt fixed-rate revenue bonds			898,303	956,051
Tax-exempt variable-rate revenue bonds:				
2005 Series B	0.18	September 1, 2035	250,000	250,000
2005 Series C	0.18	September 1, 2036	281,575	281,575
Total tax-exempt variable-rate revenue bonds			531,575	531,575
Taxable fixed-rate revenue bonds:				
2009 Series A	5.63	September 1, 2019	248,875	248,735
1994 Series C	8.00	October 1, 2024	7,240	7,510
Series 1991	8.91	April 1, 2022	2,616	4,461
Total taxable fixed-rate revenue bonds			258,731	260,706

	Interest rate average	Final maturity	Outstanding principal 2011	2010
Taxable variable-rate revenue bonds:				
1999 Series B	0.24	November 1, 2029	11,415	11,730
1995 Series B	0.24	November 1, 2025	10,455	12,110
1994 Series B	0.25	October 1, 2024	11,605	12,075
Total taxable variable-rate revenue bonds			33,475	35,915
Tax-exempt commercial paper:				
2010 Program 1	0.26	August 1, 2050	25,950	14,450
Total tax-exempt commercial paper			25,950	14,450
Taxable commercial paper:				
2008 Program 1	0.27	April 1, 2047	38,000	38,000
Total taxable commercial paper			38,000	38,000
Other variable rate notes and mortgage	Various	2013	2,397	2,467
Total bonds, notes and mortgages payable			$ 1,788,431	1,839,164

(1) Included in the 2009 Series Bonds is a medium-term maturity of $43.0 million due on September 1, 2019 at an average interest rate of 4.68%.

(2) Included in the 2011 Series Bonds is a 5 year maturity of $92.2 million due on September 1, 2016 at an average interest rate of 4.88%.

The University incurred interest expense of $75.5 million and $61.4 million in 2011 and 2010, respectively. These amounts include capitalized interest of $1.0 million and $15.7 million in 2011 and 2010, respectively. During 2011, the average interest rate on University tax-exempt variable rate demand bonds (VRDB) and taxable debt was 0.18% and 0.25%, respectively. Related indices for this period were 0.23% for tax-exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.24% for taxable debt (London Interbank Offered Rate – LIBOR).

At August 31, 2011 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:		
2012	$	95,435
2013		51,072
2014		28,795
2015		33,305
2016		30,675
Thereafter		1,506,896
		1,746,178
Unamortized net premium		42,253
	$	1,788,431

The University established a Commercial Paper program of $400 million in tax-exempt notes and $100 million in taxable notes in fiscal 2007. On September 23, 2009, the University paid off $62 million of the taxable Commercial Paper which left an outstanding balance of $38 million which remains outstanding as of August 31, 2011. On August 18, 2010, the University established a $400 million tax-exempt Commercial Paper program to replace the 2007 Commercial Paper program. On that date, the University issued $14.5 million of tax-exempt Commercial Paper to refund $7.5 million of outstanding 2007 Commercial Paper and $7.0 million of the outstanding Series 1998A bonds. On November 1, 2010, the University issued an additional $11.5 million of tax-exempt Commercial Paper to refund all of the University's Series 1999A and 2000A fixed rate bonds. As of August 31, 2011, the University has $26.0 million in tax-exempt Commercial Paper outstanding. The primary purpose of the program is to meet interim financing needs related to capital projects.

The University incurred an accounting loss on bond refunding transactions associated with the 2010 tax-exempt commercial paper program totaling $0.4 million and $0.2 million in 2011 and 2010, respectively. The loss on refunding is included in nonoperating losses in the accompanying 2011 and 2010 consolidated statement of activities.

The University has standby credit facilities to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. Currently, it has three diversified facilities totaling $350 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2011, there were no draws against these lines of credit.

The University also has a $45 million line of credit. There were no draws against this line of credit at August 31, 2011 and 2010. The Emory Clinic has a $15 million line of credit against which there were no draws as of August 31, 2011 and 2010. Emory University has two letters of credit with a commercial bank totaling $2.1 million. There were no draws against these letters of credit as of August 31, 2011 and 2010.

During 2011, the University extinguished portions of its 2001 and 2002 Series Bonds and all of its 2008 Series Bonds totaling $237 million with proceeds of its 2011 Series Bonds. The University incurred an accounting gain on the revenue bond refunding transaction totaling $2.6 million which relates principally to the present value differential associated with the advance refunding deposit and ultimate call dates associated with the refunded bonds. This gain on refunding is included in nonoperating section of the accompanying 2011 consolidated statement of activities.

In conjunction with Emory Healthcare's 35% joint venture interest in Emory-Adventist, Inc. the University has guaranteed $7.4 million of a $21.1 million outstanding note between a commercial bank and Emory-Adventist. The University has guaranteed $0.1 million, representing 35% of an additional $0.3 million loan. The University's potential liability for these obligations of Emory-Adventist, Inc. is limited to the amounts referenced above.

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, 2011, 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.

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following as of August 31, 2011 and 2010 (in thousands):

		2011	2010
Appreciation on endowments restricted until appropriated	$	1,994,079	1,808,905
Term endowments		120,063	119,897
Contributions receivable, time and purpose restricted		152,870	144,559
Capital projects and other donor designations		108,777	108,409
Annuity and life income agreements		7,599	8,840
	$	2,383,388	2,190,610

Permanently restricted net assets as of August 31, 2011 and 2010 are comprised of (in thousands):

		2011	2010
Investments to be held in perpetuity, the income from which is expendable for operating activities	$	1,459,830	1,265,507
Contributions receivable, restricted for endowment		22,299	21,006
Endowments requiring income to be added to the original gift until funds reach a stipulated balance		12,761	12,808
Annuity and life income agreements		1,906	3,319
	$	1,496,796	1,302,640

Generally, the donors of these restricted gifts 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.

(14) Investment Return

Investment return, as reflected in the accompanying consolidated statements of activities, for August 31, 2011 and 2010 is as follows (in thousands):

		2011	2010
Endowment spending distribution	$	169,533	176,642
Other investment income designated for current operations		35,639	33,269
Total operating return		205,172	209,911
Investment income and net realized gains less spending distribution for current operations		247,195	111,928
Unrealized gains on investments, net		270,769	164,087
Total nonoperating gain		517,964	276,015
Total gain	$	723,136	485,926

The components of investment return for August 31, 2011 and 2010 are reflected below (in thousands):

		2011	2010
Investment income	$	43,335	97,897
Realized gains on investments		409,032	223,942
Unrealized gains on investments, net		270,769	164,087
Total investment return	$	723,136	485,926

In addition to a core group of investment professionals dedicated to the management of Emory's endowment, the University also employs external investment managers. External management fees paid directly (i.e. segregated investment account fees, custody fees, and consulting reviews) totaled \$18.0 million and \$14.6 million, and internal management fees (including staff expenses) totaled \$5.9 million and \$5.5 million in fiscal years 2011 and 2010, respectively.

(15) Contributory Retirement Plans

The University has a contributory retirement plan 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 compensation. Emory Healthcare sponsors a retirement plan, covering most full-time employees, under which annuities are purchased with contributions by Emory Healthcare and its employees. The benefits are vested only to the extent of the annuities purchased. The Emory Clinic (TEC) sponsors The Emory Clinic, Inc. Retirement Savings Plan (the Plan), covering all its employees, except those considered leased employees or those covered under collective bargaining agreements, as defined. The Plan provides for employees to make salary reduction contributions and for TEC to make discretionary contributions to employees who have attained the age of 21 and are employees at the date the contribution is made. The Plan provides for contributions at an annual determined percentage of compensation and employees cliff vest in employer contributions after five years of service. Retirement expense totaled \$79.2 million and \$76.0 million during 2011 and 2010, respectively, and is included in operating expense in the accompanying consolidated statements of activities.

(16) 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 measures its participation in the Plan at August 31.

On May 25, 2011, the System's board approved the curtailment of the Plan, effective December 31, 2011. The terms of the curtailment generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date. The financial impact of the curtailment was recognized in the System's fiscal 2011 combined financial statements in net periodic pension cost. A discount rate of 5.84% was used to measure obligations at the curtailment date.

The changes in the projected benefit obligation as of August 31, 2011 and 2010 follow (in thousands):

		2011	2010
Projected benefit obligation, beginning of year	$	186,054	122,221
Service cost		24,274	17,968
Interest cost		10,077	8,046
Actuarial (gain) loss		(29,069)	39,686
Benefits paid		(2,216)	(1,867)
Projected benefit obligation, end of year	$	189,120	186,054

Given the fiscal 2011 curtailment of the plan, the accumulated benefit obligation at August 31, 2011 is the same as the projected benefit obligation.

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, 2011 and 2010 follow (in thousands):

		2011	2010
Fair value of plan assets, beginning of year	$	106,458	85,210
Actual return on plan assets		13,819	4,778
Employer contributions		28,285	18,337
Benefits paid		(2,216)	(1,867)
Fair value of plan assets, end of year	$	146,346	106,458
Funded status (deficit)	$	(42,774)	(79,596)
Accrued pension cost recognized in the consolidated statements of financial position	$	(42,774)	(79,596)

The components of net periodic pension cost for 2011 and 2010 follow (in thousands):

		2011	2010
Service cost	$	24,274	17,968
Interest cost		10,077	8,046
Expected return on plan assets		(11,012)	(8,638)
Amortization of prior service cost		404	552
Recognized actuarial loss		3,536	409
Curtailment loss		1,008	—
	$	28,287	18,337

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

		2011	2010
Prior service cost	$	—	1,412
Net unrecognized actuarial loss		40,409	75,068
	$	40,409	76,480

A net loss of $1.5 million is expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2012.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2011 and 2010 follow:

	2011	2010
Discount rate	5.64%	5.42%
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	3.50	3.50

Weighted average assumptions used to determine net periodic pension cost for 2011 and 2010 follow:

	2011	2010
Discount rate	5.42%	6.62%
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:

	Target allocation	Plan assets at August 31,	
	2011/2012	2011	2010
Plan assets:			
Cash and cash equivalents	—%	—%	1%
U.S. equity securities	55	53	54
Debt securities	30	33	29
International equity	15	14	16
Total	100%	100%	100%

Cash Flows

Emory Healthcare expects to contribute $12.0 million to the Plan in fiscal 2012.

Expected Future Benefit Payments

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

	Benefit payments
2012	$ 2,542
2013	3,604
2014	4,891
2015	6,419
2016	8,198
Thereafter	73,026

Other Items

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

The following table summarizes the Plan's assets which are recorded at fair value as of August 31, 2011 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 41	41	—	—
U.S. equity securities	77,458	—	77,458	—
Debt securities	47,886	—	47,886	—
International equities	20,961	—	20,961	—
Total assets	$ 146,346	41	146,305	—

The following table summarizes the Plan's assets which are recorded at fair value as of August 31, 2010 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 1,500	1,500	—	—
U.S. equity securities	56,377	—	56,377	—
Debt securities	33,062	—	33,062	—
International equities	15,519	—	15,519	—
Total assets	$ 106,458	1,500	104,958	—

(17) 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 and Emory Healthcare each fund a separate 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. The University measures its participation in the VEBA Trust at August 31.

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, 2011 and 2010 are as follows (in thousands):

	2011		
	Emory University	**Emory Healthcare**	**Total**
APBO, beginning of year	$ 64,981	37,341	102,322
Service cost	1,557	844	2,401
Interest cost	3,473	2,000	5,473
Actuarial loss	(247)	(1,610)	(1,857)
Benefits paid	(3,328)	(1,485)	(4,813)
Retiree drug subsidy paid	450	199	649
APBO, end of year	$ 66,886	37,289	104,175

	2010		
	Emory University	**Emory Healthcare**	**Total**
APBO, beginning of year	$ 52,208	28,938	81,146
Service cost	1,260	679	1,939
Interest cost	3,404	1,892	5,296
Actuarial gain	10,751	6,971	17,722
Benefits paid	(3,059)	(1,324)	(4,383)
Retiree drug subsidy paid	417	185	602
APBO, end of year	$ 64,981	37,341	102,322

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, 2011 and 2010, are as follows (in thousands):

		2011		
		Emory University	**Emory Healthcare**	**Total**
Fair value of plan assets, beginning of year	$	40,922	17,931	58,853
Actual return on plan assets		4,341	1,931	6,272
Benefits paid		(3,200)	(2,236)	(5,436)
Retiree drug subsidy		450	199	649
Fair value of plan assets, end of year	$	42,513	17,825	60,338
Funded status (deficit)	$	(24,373)	(19,464)	(43,837)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	$	(24,373)	(19,464)	(43,837)

		2010		
		Emory University	**Emory Healthcare**	**Total**
Fair value of plan assets, beginning of year	$	40,911	18,577	59,488
Actual return (loss) on plan assets		2,666	1,233	3,899
Benefits paid		(3,072)	(2,064)	(5,136)
Retiree drug subsidy		417	185	602
Fair value of plan assets, end of year	$	40,922	17,931	58,853
Funded status (deficit)	$	(24,059)	(19,410)	(43,469)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position		(24,059)	(19,410)	(43,469)

Actuarial assumptions used to determine the values of the APBO at August 31, 2011 and 2010 and the benefit costs for years ended August 31, 2011 and 2010 included a discount rate of 5.64% and 5.42%, 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% for the

University and for Emory Healthcare for both years ended August 31, 2011 and 2010. 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 cost for years ended August 31, 2011 and 2010 were as follows (in thousands):

	2011		
	Emory University	**Emory Healthcare**	**Total**
Service cost of benefits earned	$ 1,557	844	2,401
Interest cost on APBO	3,473	2,000	5,473
Expected return on plan assets	(3,141)	(1,375)	(4,516)
Amortization of prior service cost	(758)	(779)	(1,537)
Recognized net actuarial loss	2,680	1,980	4,660
Net periodic postretirement benefit cost	$ 3,811	2,670	6,481

	2010		
	Emory University	**Emory Healthcare**	**Total**
Service cost of benefits earned	$ 1,260	679	1,939
Interest cost on APBO	3,404	1,892	5,296
Expected return on plan assets	(3,151)	(1,433)	(4,584)
Amortization of prior service cost	(2,241)	(2,075)	(4,316)
Recognized net actuarial loss	1,950	1,444	3,394
Net periodic postretirement benefit cost	$ 1,222	507	1,729

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

	2011		
	Emory University	**Emory Healthcare**	**Total**
Prior service (credit)	$ —	—	—
Net unrecognized actuarial loss	37,531	21,385	58,916
	$ 37,531	21,385	58,916

	2010		
	Emory University	**Emory Healthcare**	**Total**
Prior service (credit)	$ (758)	(779)	(1,537)
Net unrecognized actuarial loss	41,658	25,531	67,189
	$ 40,900	24,752	65,652

The following are expected to be amortized from unrestricted net assets into net periodic postretirement benefit credit in fiscal 2012 and 2011 (in thousands):

	2012		
	Emory University	**Emory Healthcare**	**Total**
Prior service cost	$ —	—	—
Net unrecognized actuarial loss	2,387	1,696	4,083
	$ 2,387	1,696	4,083

	2011		
	Emory University	**Emory Healthcare**	**Total**
Prior service cost	$ (758)	(779)	(1,537)
Net unrecognized actuarial loss	2,680	1,980	4,660
	$ 1,922	1,201	3,123

Plan Assets

The asset allocation of the University's postretirement healthcare and life insurance benefits trust at August 31, 2011 and 2010 were as follows:

	Target allocation 2011/2012		2011		2010	
	Emory University	Emory Healthcare	Emory University	Emory Healthcare	Emory University	Emory Healthcare
U.S. equity securities	40%	40%	40%	39%	38%	38%
Debt securities	35	25	35	27	29	28
International equities	25	35	25	34	33	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 investments 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.

The following table summarizes the University's VEBA Trust assets as of August 31, 2011 (in thousands):

	Total fair value	Fair value hierarchy		
		Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 1	1	—	—
U.S. equity securities	16,473	10,781	5,692	—
Debt securities	11,531	7,850	3,681	—
International equities	14,508	—	14,508	—
Total assets	$ 42,513	18,632	23,881	—

The following table summarizes University's VEBA Trust assets as of August 31, 2010 (in thousands):

		Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Short-term investments and cash equivalents	$	7	7	—	—
U.S. equity securities		15,567	9,549	6,018	—
Debt securities		11,708	7,583	4,125	—
International equities		13,640	—	13,640	—
Total assets	$	40,922	17,139	23,783	—

The following table summarizes Emory Healthcare's VEBA Trust assets as of August 31, 2011 (in thousands):

		Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Short-term investments and cash equivalents	$	(8)	(8)	—	—
U.S. equity securities		6,914	5,102	1,812	—
Debt securities		4,842	3,433	1,409	—
International equities		6,077	—	6,077	—
Total assets	$	17,825	8,527	9,298	—

The following table summarizes Emory Healthcare's VEBA Trust assets as of August 31, 2010 (in thousands):

		Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:					
Investments:					
Short-term investments and cash equivalents	$	1	1	—	—
U.S. equity securities		6,875	4,513	2,362	—
Debt securities		4,929	3,316	1,613	—
International equities		6,126	—	6,126	—
Total assets	$	17,931	7,830	10,101	—

Cash Flows

Emory University and Emory Healthcare do not expect to contribute to their postretirement healthcare and life insurance benefit plans in 2012. 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
2012	$	3,608	1,560	5,168
2013		3,882	1,711	5,593
2014		4,126	1,873	5,999
2015		4,355	2,046	6,401
2016		4,587	2,234	6,821
2017-2021		26,753	14,333	41,086

Expected Medicare Retiree Drug Subsidies

Medicare retiree drug subsidies are expected to be received as follows (in thousands):

		Emory University	Emory Healthcare	Total
2012	$	668	258	926
2013		752	298	1,050
2014		823	343	1,166
2015		889	388	1,277
2016		956	434	1,390
2017-2021		5,823	3,080	8,903

(18) 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 $192.8 million and $167.8 million during fiscal years 2011 and 2010, respectively.

(19) 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.

(20) Functional Expenses

Expenses are reported in the accompanying consolidated statements of activities based on natural classification. Functional expenses for the years ended August 31, 2011 and 2010 are categorized as follows (in thousands):

		2011	2010
Instruction	$	346,008	365,547
Research		410,395	390,670
Public service		61,568	47,672
Academic support		112,854	109,857
Student services		67,349	76,061
Institutional support		154,951	107,885
Scholarships and fellowships		14,085	15,011
Medical services		166,188	168,388
Healthcare services		1,971,080	1,794,556
Auxiliary enterprises		42,870	40,910
Independent operations		20,386	16,797
Total operating expenses	$	3,367,734	3,133,354

Functional expenses are shown in categories recommended by the National Association of College and University Business Officers. The University's primary program services are instruction, sponsored and departmental research, and health care services. Expenses reported as public service, academic support student services, institutional support, scholarships and fellowships, auxiliary enterprises and independent operations are incurred in support of these primary program services.

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. Total amounts allocated in 2011 and 2010 were $138.2 million and $147.7 million, respectively. Fundraising costs were approximately $16.0 million and $18.0 million in 2011 and 2010, respectively.

(21) 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, Emory Specialty Associates, 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, 2009 through August 31, 2010	$	3,000	1,000	3,000
September 1, 2010 through August 31, 2011	$	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. Selected Emory Specialty Associate physicians are insured for primary professional liability insurance through MAG Mutual Insurance Company or The Doctor's Company, for limits ranging from $1 million to $2 million per claim and $3 million to $4 million in the aggregate. These individual policies provide underlying coverage to the CCIC primary limit of $3 million per claim.

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

(1) Berkley Insurance Company (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.

(3) Zurich American Insurance Company reinsures CCIC 100% for a limit of $10 million per claim and in the aggregate, excess of the CNA and Lexington layer described above.

Emory is insured for general liability, employers' liability, international liability, and automobile liability through United Educators which provides a limit of $35 million per claim excess of an underlying limit of $1 million per claim and in the aggregate for each of general liability, employers' liability, international liability and automobile liability.

Emory purchases umbrella coverage, 100% reinsurance of CCIC, in the amount of $90 million per claim and in the aggregate above the United Educators and Zurich layers described above. The umbrella also provides excess coverage for helipad liability and non-owned aircraft liability, which is purchased commercially for a per claim limit each of $25 million.

As of August 31, 2011 and 2010, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately $84.8 million (discounted at 2%) and $75.0 million (discounted at 2%), respectively.

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. The University management believes adequate provision has been made for the related risk.

(22) 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 minor 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 $412.9 million and $359.4 million representing CCI's investment in the University's long term investment pool as of August 31, 2011 and 2010, 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, Georgia. 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, 2011 and 2010, the University reflected a liability with the CCTMA of $0.4 million and $0.3 million, respectively, which is reported in deposits held in custody.

(23) Acquisition of Joint Venture Interest

On February 28, 2011, the System acquired the 50% interest in EJCH held by its venture partner HCA Holdings, Inc. (HCA). HCA and the System were previously joint venture partners in EHCA, LLC

(EHCA), whereby EHCA leased one of HCA's Atlanta-area hospitals, Eastside Medical Center (Eastside), HCA provided operational management of EHCA facilities, and EHC provided medical management and other clinical oversight for EHCA activities.

Consideration for the System's acquisition of HCA's 50% interest in EJCH was comprised of a cash payment of $60.0 million and the System's ownership interest in the Eastside venture described above. Additionally, the EHCA agreement was dissolved and the unamortized deferred revenue from a related payment made by HCA to the System at inception of the original EHCA agreement, totaling approximately $5.3 million, was recognized as nonoperating joint venture income in fiscal 2011.

The System recorded a gain on the acquisition totaling approximately $35.5 million, generally representing the amount by which the fair value of the former HCA interest in EJCH exceeded the acquisition consideration. The gain is included in nonoperating joint venture income in the combined statement of operations.

As part of the acquisition transaction, the System also acquired a related medical office building for a cash payment of $25.0 million, which amount approximated the fair value of the acquired real estate assets.

With its acquisition of HCA's 50% interest in EJCH, the System has included the assets, liabilities and operations of EJCH in its combined financial statements, and eliminated its former equity interest in EHCA, from the acquisition date. The following table summarizes the opening balance sheet of EJCH, including the acquired medical office building, at the acquisition date (in thousands):

Cash	$	6
Due from HCA - working capital settlement		1,357
Intercompany receivable		6,000
Net patient accounts receivable		11,560
Inventories		3,809
Property and equipment		154,639
Other assets		5,810
Total assets acquired	$	183,181
Accounts payable and accrued expenses		6,849
Current portion of long-term debt		8
Due to third party payors		1,008
Long term debt		85,020
Deferred revenue		57
Total liabilities assumed	$	92,942
Net assets acquired	$	90,239

(24) Emory Healthcare – Investment in Partnerships

(a) Emory University Hospital Midtown – CPI, LLC

Emory University Hospital Midtown (EUHM) 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, 2011 (unaudited)	Year ended December 31, 2010 (audited by other auditors)
Balance sheet:			
Cash	$	1,897	2,184
Property and equipment, net		30,308	31,663
Other assets		665	561
Current liabilities		(1,840)	(1,047)
Notes payable		(47,995)	(48,701)
Partners' deficit	$	(16,965)	(15,340)
Income statement:			
Revenue	$	7,971	11,414
Expenses		(6,395)	(9,474)
Net income	$	1,576	1,940

During 2003, the partnership issued a note payable and distributed the proceeds to the partners. EUHM's portion of the distribution was in excess of its investment in the partnership. EUHM has recorded a net liability of $10.7 million and $10.2 million as of August 31, 2011 and 2010, 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 EUHM's portion of partners' deficit otherwise derived from the table above and the amount recorded as other long-term liabilities in the accompanying consolidated statements of financial position for 2011 and 2010 is principally attributable to EUHM's contribution of certain intangible assets associated with EUHM's prior ownership of the general physical location of the project, the value of which is appropriately not recognized in EUHM's own partnership accounting.

(b) 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. EHC has recorded a net liability of $0.4 million as of August 31, 2011 for its portion of the Emory-Adventist unrestricted net deficit, which is included in other long-term liabilities in the accompanying consolidated statements of financial position. EHC has recognized a net asset of $1.0 thousand at August 31, 2010 for its portion of the Emory-Adventist unrestricted net assets.

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

		Eight months ended August 31, 2011 (unaudited)	Year ended December 31, 2010 (audited by other auditors)
Balance sheet:			
Cash and investments	$	5,030	4,186
Accounts receivable		2,724	2,843
Property and equipment, net		14,930	15,759
Other assets		2,372	2,619
Current liabilites		(5,361)	(4,595)
Long-term liabilities		(20,825)	(21,830)
Temporarily restricted net assets		(24)	(78)
Accumulated unrestricted net deficit	$	(1,154)	(1,096)
Income statement:			
Revenue	$	35,077	58,932
Expenses		(35,710)	(62,124)
Net loss	$	(633)	(3,192)

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

(c) 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 joint venture known as the Pediatric Faculty Group (PFG) and provides that CHOA will fund losses of the venture up to contractually pre-defined limit of approximately $5.8 million in PFG’s fiscal 2010. Beginning in fiscal 2011, the University’s PFG funding plan provides that CHOA will fund 50% of the total losses of the joint venture. 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.

(25) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2011 totaled $82.3 million. At August 31, 2010, commitments totaled $22.2 million.

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. The University's policy is to accrue for litigation and claims when such amounts are probable and can be reasonably estimated based on consultation with external legal counsel and Emory General Counsel review. 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. The University also 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's consolidated financial position.

(26) 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, the amounts were converted to a note receivable totaling $22.5 million in October 2009 to establish an agreed-upon payment plan with Grady administration. The University has established an allowance that management believes is adequate to protect against any potential uncollectible amounts related to the balance in the outstanding note receivable.

(27) Leases and Development Agreements

The University, Cousins Properties, Inc. and Gables Apartments entered 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 for a property referred to as Emory Point. The plan allows for approximately 800 housing units (rental and for-sale), office, retail, work space, green space, and natural and other amenities.

(28) 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.

(29) Subsequent Events

In the spring of 2011, EHC and Saint Joseph's Health System (SJHS) agreed to form a Joint Operating Company (JOC) of which EHC will be a 51% owner and SJHS will be a 49% owner. On December 2, 2011, EHC and SJHS entered into a Contribution Agreement, which sets forth certain terms of the formation of the JOC, including both parties' contribution of sole membership in certain currently existing operating divisions (subject to maximum debt assumed), specified cash contributions, and working capital commitments. The formation of the JOC is expected to be consummated during the second fiscal quarter of the year ending August 31, 2012. While there is important additional detail resident in the Contribution Agreement, in general, it is anticipated that EHC will contribute its interest in EJCH and SJHS will contribute its interest in certain hospital and other care delivery assets to the JOC.

In connection with the anticipated transaction, EHC and SJHS entered into an Earnest Money, Termination Fee and Exclusivity Agreement on August 16, 2011, whereby each party has deposited $7.5 million into a respective escrow account. If either party terminates the anticipated transaction, that party's escrow deposit will be released to the other party. EHC's escrow deposit is included in prepaid expenses, deferred charges and other assets at August 31, 2011 in the accompanying consolidated statements of financial position.

The University has evaluated its subsequent events (events occurring after August 31, 2011) through December 21, 2011, which represents the date the consolidated financial statements were available to be issued and determined that all significant events and disclosures are included in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 1

STATEMENTS OF FINANCIAL POSITION - INFORMATION

August 31, 2011 and 2010

(Dollars in thousands)

	August 31, 2011	August 31, 2010
ASSETS:		
Cash and cash equivalents	$ 293,612	$ 267,433
Student accounts receivable, net	35,969	45,096
Loans receivable, net	27,724	29,510
Contributions receivable, net	175,169	165,565
Accrued investment income receivable	7,030	6,510
Other receivables, net	211,391	116,310
Prepaid expenses, deferred charges and other assets	117,806	107,369
Investments	5,194,900	5,014,453
Interests in perpetual funds held by others	965,613	781,192
Property and equipment, net	1,769,826	1,765,130
Due from affiliates	456,163	381,356
Total assets	**$ 9,255,203**	**$ 8,679,924**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 155,110	$ 105,409
Liability for derivative instruments	140,173	153,543
Interest payable	22,750	29,760
Annuities payable	19,047	19,260
Bonds, notes and mortgages payable	1,786,034	1,836,697
Accrued liabilities for benefit obligations and professional liabilities	55,358	66,282
Deferred tuition and other revenue	344,400	348,494
Deposits held in custody for others	465,776	418,073
Government advances for federal loan programs	17,499	17,784
Due to affiliates	220,457	220,577
Total liabilities	3,226,604	3,215,879
Unrestricted net assets	2,152,293	1,974,023
Temporarily restricted net assets	2,382,428	2,190,290
Permanently restricted net assets	1,493,878	1,299,732
Total net assets	6,028,599	5,464,045
Total liabilities and net assets	**$ 9,255,203**	**$ 8,679,924**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 2

STATEMENT OF ACTIVITIES - INFORMATION

Year Ended August 31, 2011 (with summarized financial information for the year ended 2010)

(Dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2011	Total August 31, 2010
OPERATING REVENUES:					
Tuition and fees	$ 483,251	-	-	$ 483,251	$ 448,689
Less: Scholarship allowances	(167,285)	-	-	(167,285)	(151,732)
Net tuition and fees	315,966	-	-	315,966	296,957
Endowment spending distribution	169,533	-	-	169,533	176,642
Other investment income designated for current operations	30,583	-	-	30,583	25,602
Gifts and contributions	38,169	-	-	38,169	39,494
Indirect cost recoveries	122,378	-	-	122,378	112,886
Government grants and contracts	374,630	-	-	374,630	344,976
Medical services	138,364	-	-	138,364	137,460
Sales and services of auxiliary operating activities	65,342	-	-	65,342	60,648
Independent operations	21,119	-	-	21,119	20,251
Patent and royalty revenue	6,819	-	-	6,819	6,258
Other revenue	42,935	-	-	42,935	30,900
Net assets released from restrictions	5,935	(5,935)	-	-	-
Total operating revenues	**1,331,773**	**(5,935)**	**-**	**1,325,838**	**1,252,074**
OPERATING EXPENSES:					
Salaries and fringe benefits	964,023	-	-	964,023	906,191
Student financial aid	10,649	-	-	10,649	11,625
Other operating expenses	263,013	-	-	263,013	277,643
Interest on indebtedness	56,223	-	-	56,223	42,767
Depreciation	102,746	-	-	102,746	100,572
Total operating expenses	**1,396,654**	**-**	**-**	**1,396,654**	**1,338,798**
NET OPERATING REVENUES/(EXPENSES):	**(64,881)**	**(5,935)**	**-**	**(70,816)**	**(86,724)**
NONOPERATING REVENUES/(EXPENSES):					
Net unrealized gains on investments	26,397	57,781	182,322	266,500	151,953
Investment income and gains in excess of spending distribution for current operations	64,311	128,559	1,210	194,080	102,550
Investment management fees	(23,557)	(168)	(161)	(23,886)	(20,092)
Gifts and contributions	26,722	13,954	13,793	54,469	26,104
Gain on disposal of property and equipment	232	-	-	232	440
Gain on defeasement of debt	2,255	-	-	2,255	167
Change in fair value of derivative instruments	13,370	-	-	13,370	(81,906)
Other nonoperating items	52,572	(2,053)	(3,018)	47,501	(66,728)
Total nonoperating revenues/(expenses)	**162,302**	**198,073**	**194,146**	**554,521**	**112,488**
Net transfers from affiliates	80,849	-	-	80,849	86,292
CHANGE IN NET ASSETS	**178,270**	**192,138**	**194,146**	**564,554**	**112,056**
BEGINNING NET ASSETS	1,974,023	2,190,290	1,299,732	5,464,045	5,351,989
ENDING NET ASSETS	**$ 2,152,293**	**$ 2,382,428**	**$ 1,493,878**	**$ 6,028,599**	**$ 5,464,045**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 3

STATEMENT OF ACTIVITIES - INFORMATION

Year Ended August 31, 2010

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2010
OPERATING REVENUES:				
Tuition and fees	$ 448,689	-	-	$ 448,689
Less: Scholarship allowances	(151,732)	-	-	(151,732)
Net tuition and fees	296,957	-	-	296,957
Endowment spending distribution	176,642	-	-	176,642
Other investment income designated for current operations	25,602	-	-	25,602
Gifts and contributions	39,494	-	-	39,494
Indirect cost recoveries	112,886	-	-	112,886
Government grants and contracts	344,976	-	-	344,976
Medical services	137,460	-	-	137,460
Sales and services of auxiliary operating activities	60,648	-	-	60,648
Independent operations	20,251	-	-	20,251
Patent and royalty revenue	6,258	-	-	6,258
Other revenue	30,900	-	-	30,900
Net assets released from restrictions	22,166	(22,166)	-	-
Total operating revenues	**1,274,240**	**(22,166)**	**-**	**1,252,074**
OPERATING EXPENSES:				
Salaries and fringe benefits	906,191	-	-	906,191
Student financial aid	11,625	-	-	11,625
Other operating expenses	277,643	-	-	277,643
Interest on indebtedness	42,767	-	-	42,767
Depreciation	100,572	-	-	100,572
Total operating expenses	**1,338,798**	**-**	**-**	**1,338,798**
NET OPERATING REVENUES/(EXPENSES):	**(64,558)**	**(22,166)**	**-**	**(86,724)**
NONOPERATING REVENUES/(EXPENSES):				
Net unrealized gains on investments	8,147	17,885	125,921	151,953
Investment income and gains in excess of spending distribution for current operations	68,427	32,355	1,768	102,550
Investment management fees	(19,798)	(168)	(126)	(20,092)
Gifts and contributions	6,966	2,963	16,175	26,104
Gain on disposal of property and equipment	440	-	-	440
Gain on defeasement of debt	167	-	-	167
Change in fair value of derivative instruments	(81,906)	-	-	(81,906)
Other nonoperating items	(2,622)	(26,638)	(37,468)	(66,728)
Total nonoperating revenues/(expenses)	**(20,179)**	**26,397**	**106,270**	**112,488**
Net transfers from affiliates	86,292	-	-	86,292
CHANGE IN NET ASSETS	**1,555**	**4,231**	**106,270**	**112,056**
BEGINNING NET ASSETS	1,972,468	2,186,059	1,193,462	5,351,989
ENDING NET ASSETS	**$ 1,974,023**	**$ 2,190,290**	**$ 1,299,732**	**$ 5,464,045**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 4

STATEMENTS OF CASH FLOWS - INFORMATION

Years Ended August 31, 2011 and 2010

(Dollars in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 564,554	$ 112,056
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Nonoperating items:		
Gifts restricted for long-term investment and capital projects	(114)	(42)
Net realized gain on sale of investments	(405,395)	(223,942)
Gain on disposal of property and equipment	(232)	(440)
Proceeds from constant maturity swap settlement	-	7,805
Noncash items:		
Depreciation	102,746	100,572
Accretion/amortization of bond discounts/premiums	(15,802)	(6,119)
Net unrealized gains on investments	(266,500)	(151,953)
Change in fair value of derivative instruments	(13,370)	81,906
Gifts of securities and other assets	(34,884)	(1,339)
Gifts of property, plant and equipment	-	(42)
(Increase) decrease in:		
Accounts receivable, net	(85,954)	15,228
Contributions receivable	(9,604)	27,399
Accrued investment income receivable	(520)	792
Prepaid expenses, deferred charges and other assets	(10,167)	25,115
Interests in perpetual funds held by others	(184,421)	(67,215)
Due to/from affiliates	(74,927)	19,580
Increase (decrease) in:		
Accounts payable and interest payable	36,627	(72,887)
Accrued liabilities for benefit obligations and professional liabilities	(10,924)	25,284
Deferred tuition and other revenue	(4,094)	69,339
Net cash (used in) provided by operating activities	**(412,981)**	**(38,903)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(3,204)	(2,278)
Repayment of loans from students	4,990	4,771
Proceeds from sales and maturities of investments	6,846,426	5,430,194
Purchases of investments	(6,320,094)	(5,194,184)
Purchases of property, plant and equipment	(101,146)	(159,709)
Increase in deposits held in custody for others	47,703	28,606
Net cash provided by investing activities	**474,675**	**107,400**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	114	42
Proceeds from bonds and mortgages payable	226,930	14,450
Principal repayments of bonds and mortgages payable	(261,791)	(148,906)
(Decrease) increase in annuities payable	(213)	403
(Decrease) increase in government advances for federal loan programs	(285)	79
Bond issuance costs	(270)	-
Net cash used in financing activities	**(35,515)**	**(133,932)**
Net increase (decrease) in cash and cash equivalents	**26,179**	**(65,435)**
Cash and cash equivalents at beginning of year	**267,433**	**332,868**
Cash and cash equivalents at end of year	**$ 293,612**	**$ 267,433**

See accompanying independent auditors' report.