EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2012 and 2011

(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, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

January 15, 2013

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2012 and August 31, 2011
(Dollars in thousands)

	2012	2011
ASSETS:		
Cash and cash equivalents	$ 509,994	$ 371,130
Patient accounts receivable, net	295,061	252,047
Student accounts receivable, net	44,207	36,778
Loans receivable, net	26,777	27,724
Contributions receivable, net	156,647	175,169
Accrued investment income receivable	6,651	8,713
Other receivables, net	244,908	245,297
Prepaid expenses, deferred charges and other assets	190,775	151,723
Investments	5,679,329	5,399,414
Interests in perpetual funds held by others	1,025,848	965,613
Property and equipment, net	2,663,442	2,428,226
Total assets	**$ 10,843,639**	**$ 10,061,834**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 413,338	$ 358,207
Liability for derivative instruments	217,595	140,173
Interest payable	27,617	22,750
Annuities payable	18,052	19,047
Bonds, notes and mortgages payable	1,890,733	1,788,431
Accrued liabilities for benefit obligations and professional liabilities	391,036	243,886
Deferred tuition and other revenue	388,913	345,362
Deposits held in custody for others	476,915	465,776
Government advances for federal loan programs	17,820	17,499
Total liabilities	3,842,019	3,401,131
Unrestricted net assets:		
Net assets controlled by Emory	2,842,668	2,787,217
Net assets related to noncontrolling interests	61,797	(6,698)
Total unrestricted net assets	2,904,465	2,780,519
Temporarily restricted net assets	2,524,915	2,383,388
Permanently restricted net assets	1,572,240	1,496,796
Total net assets	7,001,620	6,660,703
Total liabilities and net assets	**$ 10,843,639**	**$ 10,061,834**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended August 31, 2012 (with summarized financial information for the year ended 2011)

(Dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2012	Total August 31, 2011
OPERATING REVENUES:					
Tuition and fees	$ 512,680	-	-	$ 512,680	$ 483,251
Less: Scholarship allowances	(183,783)	-	-	(183,783)	(167,285)
Net tuition and fees	328,897	-	-	328,897	315,966
Endowment spending distribution	176,541	-	-	176,541	169,533
Other investment income designated for current operations	56,437	-	-	56,437	35,639
Gifts and contributions	42,639	-	-	42,639	38,169
Indirect cost recoveries	122,728	-	-	122,728	122,378
Grants and contracts	382,391	-	-	382,391	374,630
Net patient service revenue	2,418,359	-	-	2,418,359	1,999,823
Medical services	147,430	-	-	147,430	138,364
Sales and services of auxiliary operating activities	63,087	-	-	63,087	57,743
Independent operations	22,138	-	-	22,138	21,119
Patent and royalty revenue	5,760	-	-	5,760	6,819
Other revenue	87,254	-	-	87,254	81,612
Net assets released from restrictions	3,681	(3,681)	-	-	-
Total operating revenues	**3,857,342**	**(3,681)**	**-**	**3,853,661**	**3,361,796**
OPERATING EXPENSES:					
Salaries and fringe benefits	2,304,097	-	-	2,304,097	2,039,975
Student financial aid	9,297	-	-	9,297	10,649
Other operating expenses	1,258,270	-	-	1,258,270	1,063,333
Interest on indebtedness	74,822	-	-	74,822	75,451
Depreciation	203,110	-	-	203,110	170,727
Total operating expenses	**3,849,596**	**-**	**-**	**3,849,596**	**3,360,135**
NET OPERATING REVENUES/(EXPENSES):	**7,746**	**(3,681)**	**-**	**4,065**	**1,661**
NONOPERATING ACTIVITIES:					
Net unrealized gains on investments	23,945	30,445	54,385	108,775	270,769
Investment income and gains (losses) in excess of spending distribution for current operations	154,114	37,354	3,032	194,500	338,221
Investment management fees	(18,778)	(176)	(124)	(19,078)	(23,886)
Gifts and contributions	12,241	72,268	18,561	103,070	55,960
(Loss) gain on disposal of property and equipment	(11,564)	-	-	(11,564)	222
(Loss) gain on defeasance of debt	(15,058)	-	-	(15,058)	2,255
Change in fair value of derivative instruments	(77,422)	-	-	(77,422)	13,370
Other nonoperating items	48,722	5,317	(410)	53,629	(3,079)
Total nonoperating activities	**116,200**	**145,208**	**75,444**	**336,852**	**653,832**
CHANGE IN NET ASSETS	**123,946**	**141,527**	**75,444**	**340,917**	**655,493**
Less change in net assets related to noncontrolling interests	68,495	-	-	68,495	(4,872)
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**55,451**	**141,527**	**75,444**	**272,422**	**660,365**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended August 31, 2011

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2011
OPERATING REVENUES:				
Tuition and fees	$ 483,251	-	-	$ 483,251
Less: Scholarship allowances	(167,285)	-	-	(167,285)
Net tuition and fees	315,966	-	-	315,966
Endowment spending distribution	169,533	-	-	169,533
Other investment income designated for current operations	35,639	-	-	35,639
Gifts and contributions	38,169	-	-	38,169
Indirect cost recoveries	122,378	-	-	122,378
Grants and contracts	374,630	-	-	374,630
Net patient service revenue	1,999,823	-	-	1,999,823
Medical services	138,364	-	-	138,364
Sales and services of auxiliary operating activities	57,743	-	-	57,743
Independent operations	21,119	-	-	21,119
Patent and royalty revenue	6,819	-	-	6,819
Other revenue	81,613	-	-	81,613
Net assets released from restrictions	5,935	(5,935)	-	-
Total operating revenues	**3,367,731**	**(5,935)**	**-**	**3,361,796**
OPERATING EXPENSES:				
Salaries and fringe benefits	2,039,975	-	-	2,039,975
Student financial aid	10,649	-	-	10,649
Other operating expenses	1,063,333	-	-	1,063,333
Interest on indebtedness	75,451	-	-	75,451
Depreciation	170,727	-	-	170,727
Total operating expenses	**3,360,135**	**-**	**-**	**3,360,135**
NET OPERATING REVENUES/(EXPENSES):	**7,596**	**(5,935)**	**-**	**1,661**
NONOPERATING ACTIVITIES:				
Net unrealized gains on investments	30,666	57,781	182,322	270,769
Investment income and gains (losses) in excess of spending distribution for current operations	208,674	128,559	988	338,221
Investment management fees	(23,557)	(168)	(161)	(23,886)
Gifts and contributions	28,675	13,492	13,793	55,960
Gain on disposal of property and equipment	222	-	-	222
Gain on defeasance of debt	2,255	-	-	2,255
Change in fair value of derivative instruments	13,370	-	-	13,370
Other nonoperating items	658	(951)	(2,786)	(3,079)
Total nonoperating activities	**260,963**	**198,713**	**194,156**	**653,832**
CHANGE IN NET ASSETS	**268,559**	**192,778**	**194,156**	**655,493**
Less change in net assets related to noncontrolling interests	(4,872)	-	-	(4,872)
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**273,431**	**192,778**	**194,156**	**660,365**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 340,917	$ 655,493
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Nonoperating items:		
Net assets acquired in formation of Joint Operating Company	(99,769)	-
Gain on formation of the Joint Operating Company	(18,664)	-
Gain on acquisition of joint venture	-	(35,524)
Gifts restricted for long-term investment and capital projects	(109,351)	(17,681)
Net realized gains on sale of investments	(292,706)	(408,317)
Loss (gain) on disposal of property and equipment	11,564	(222)
Interests in perpetual funds held by others	(60,235)	(184,421)
Loss (gain) on defeasance of debt	15,058	(2,255)
Noncash items:		
Depreciation	203,110	170,727
Provision for uncollectible patients accounts receivable	98,533	88,201
Accretion/amortization of bond discounts/premiums	(3,705)	(15,802)
Net unrealized gains on investments	(37,057)	(87,228)
Actuarial adjustments for retiree pension and benefit plans	52,065	(39,438)
Change in fair value of derivative instruments	77,422	(13,370)
Gifts of securities and other assets	(62,642)	(34,884)
(Increase) decrease in operating assets, net of effects from formation of Joint Operating Company:		
Accounts and other receivables, net	(113,233)	(186,947)
Contributions receivable	18,522	(9,604)
Accrued investment income receivable	2,062	3,790
Prepaid expenses, deferred charges and other assets	67,979	(16,915)
Increase (decrease) in operating liabilities, net of effects from formation of Joint Operating Company:		
Accounts payable, accrued liabilities and interest payable	(6,249)	55,520
Accrued liabilities for benefit obligations and professional liabilities	47,705	5,655
Deferred tuition and other revenue	34,923	(8,850)
Net cash provided by (used in) operating activities	**166,249**	**(82,072)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements for loans to students	(3,879)	(3,204)
Repayment of loans from students	4,825	4,990
Proceeds from sales and maturities of investments	9,317,310	6,700,952
Purchases of investments	(9,204,820)	(6,320,094)
Cash received in formation of Joint Operating Company	71,953	-
Cash paid in formation of joint venture	-	(77,637)
Purchases of property, plant and equipment	(250,579)	(225,671)
Increase in deposits held in custody for others	11,139	47,703
Net cash (used in) provided by investing activities	**(54,050)**	**127,039**

(Continued)

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2012 and 2011

(Dollars in thousands)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	109,351	17,681
Proceeds from bonds and mortgages payable	130,979	229,203
Principal repayments of bonds and mortgages payable	(172,972)	(261,907)
Required posting of collateral	(40,691)	-
Decrease in annuities payable	(995)	(213)
Increase (decrease) in government advances for federal loan programs	321	(285)
Bond issuance costs	672	(270)
Net cash provided by (used in) financing activities	**26,665**	**(15,791)**
Net increase in cash and cash equivalents	**138,864**	**29,176**
Cash and cash equivalents at beginning of year	**371,130**	**341,954**
Cash and cash equivalents at end of year	**$ 509,994**	**$ 371,130**
Supplemental disclosure:		
Cash paid for interest	$ 71,497	$ 87,558
Property, plant and equipment acquisitions that were reflected in accounts payable	19,399	6,064

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 and research 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) four general and acute care hospitals (Emory University Hospital, Emory University Hospital Midtown, EHCA Johns Creek Hospital, LLC (EJCH), and Saint Joseph's Hospital of Atlanta (SJHA)), (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) three physician groups (The Emory Clinic, Inc., Emory Specialty Associates, LLC and the Medical Group at Saint Joseph's (SJMG) and one physician-group joint venture (Emory Children's Center, Inc.), (v) Emory Healthcare Corporate (EHC), and (vi) Saint Joseph's Translational Research Institute (SJTRI). 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, Saint Joseph's Hospital of Atlanta, Wesley Woods Geriatric Hospital and Wesley Woods Long Term Care Hospital are sometimes referred to herein as "the Hospitals."

Effective January 1, 2012, the System contributed EJCH to a joint operating company (JOC) under the name of Emory/Saint Joseph's, Inc. (ESJ) formed together with Saint Joseph's Health System (SJHS), in exchange for a 51% membership interest in the JOC. SJHS contributed SJHA, SJMG, SJTRI and certain other assets in exchange for its 49% membership interest in the JOC.

Included in the accounts of SJHA are Saint Joseph's Service Corporation (SJSC) and Saint Joseph's Real Estate Management, Inc. (SJRE). These for-profit subsidiaries own and operate certain assets on the Saint Joseph's Hospital campus.

(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 (U.S. GAAP).

Net assets and revenues, 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 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 their use 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/or donor restrictions are met.

(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 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

Emory funded loans to students are carried at estimated net realizable value. Loans receivable from students under certain governmental loan programs, carried at cost, can only be assigned to the federal government or its designees. In addition to Federal Direct Loans which do not flow through the financial statements, loans to qualified students are funded principally with government advances to Emory under the 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, medical services provided to other organizations and losses recoverable from reinsurers.

(e) Investments

Investments are reported at fair value, with the difference between fair value and cost (or fair value at date of gift) being recorded as unrealized gains (losses). The fair value of publicly traded fixed income and equity securities is based upon quoted market prices and published 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 (primarily hedge funds which are typically in the form of limited partnerships) are not as readily ascertainable and may require the use of estimates. 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. General partners typically value privately held companies at cost or an adjusted value based on a recent arm's length transaction. 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 the Emory Investment Management Office and are believed to present reasonable estimates of fair value at August 31, 2012 and 2011.

(f) Life Income, Gift Annuities, and Interest in Perpetual Funds 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. The fair value of these perpetual funds is recorded in the consolidated statements of financial position on August 31, 2012 and 2011 at $1,025.8 million and $965.6 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, 2012 and 2011, the assets of the Robert W. Woodruff Health Sciences Center Fund, Inc. were $935 million and $882 million, respectively. The majority of these assets are investments in the common stock of the Coca-Cola Company.

(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 issuances of bonds are being amortized over the life of the bonds on a method that approximates the effective-interest method. The costs, net of accumulated amortization, 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 are recognized in the fiscal year during which the academic services are rendered. The accompanying consolidated statements of financial position as of August 31, 2012 and 2011 reflect deferred fall semester revenues and expenses, which will be recognized as revenues and expenditures in fiscal 2013 and 2012, respectively.

(j) Contributions Revenue

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions restricted for capital projects, endowment funds and contributions under split-interest agreements or perpetual trusts are reported as nonoperating revenue. All other contributions are recorded as operating revenues. 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.

Donor-restricted contributions are reported as temporarily restricted or permanently restricted revenue that increases those net asset classes. 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 restrictions 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 to give are not recognized until they become unconditional, that is, when the conditions on which they depend are 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 3.0 - 3.5% of relevant Medicare revenues through initial audit and settlement of related cost reports, which is then reduced to 1.0 - 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.

(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. Unrelated business income of the University is reported on Form 990-T. As of August 31, 2012 and 2011, 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 variable rate debt. 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 in the consolidated statements of activities. Changes in the fair value of these exchanges are recognized as nonoperating changes in net assets in the 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 its defined benefit pension 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.

(p) New Accounting Pronouncements

During fiscal 2012, the University adopted the provisions of the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-23 (Topic 954): *Measuring Charity Care for Disclosure*. ASU 2010-23 amends Accounting Standards Codification (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.

During fiscal 2012, the University adopted the provisions of FASB ASU 2010-24 (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*. 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 that the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 did not have a material impact on the University's consolidated financial statements.

In July 2011, FASB issued ASU 2011-07 (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 University's presentation of the provision for uncollectible accounts by moving this item from operating expenses to deductions from gross patient service revenue. It also expands disclosure requirements related to policies for recognizing revenue, assessing contra revenue line items, and activity in the allowance for uncollectible accounts. The University expects to adopt this ASU in fiscal year 2013 and is currently evaluating what impact this ASU will have on the University's consolidated financial statements.

(q) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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.

(r) Conflict of Interest

University trustees, directors, principal officers and key employees 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.

(s) Reclassifications

Certain amounts previously reported have been reclassified to be consistent with the current year presentation.

(3) Contributions Receivable

Contributions receivable as of August 31 consist of the following (in thousands):

	2012	2011
Unconditional promises expected to be collected in:		
Less than one year	$ 59,848	18,844
One year to five years	117,744	191,222
Over five years	5,582	10
Gross contributions receivable	183,174	210,076
Less:		
Discount to present value	(16,005)	(23,482)
Allowance for uncollectible amounts	(10,522)	(11,425)
Contributions receivable, net	$ 156,647	175,169

At August 31, 2012, approximately 50% of the total unconditional promises to Emory are committed by two foundations with a long-standing history of support for Emory. Contributions receivable generally are discounted at rates ranging from 2.37% 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 5.74% and 5.44% respectively of gross contribution receivables as of August 31, 2012 and 2011.

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, 2012, $160 million had been received with the remaining $80 million reported in contributions receivable and temporarily restricted net assets.

As of August 31, 2012, the University had received bequest intentions of approximately $128 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:

	2012	2011
Managed care and other third-party payors	61%	53%
Medicare	29	34
Patients	5	8
Medicaid	5	5
	100%	100%

(5) Net Patient Service Revenue

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

- Medicare – Substantially all acute care and professional services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. The System is paid for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the System and audits by the Medicare fiscal intermediary. The System's cost reports have been audited and substantially settled for all fiscal years through August 31, 2006. Revenues from the Medicare program accounted for approximately 36% and 31% of the System's net patient service revenue for the years ended August 31, 2012 and 2011, 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, 2012 and 2011. 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 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):

		2012	2011
Gross patient service revenue	$	6,043,651	4,667,156
Less provisions for contractual and other adjustments		(3,625,292)	(2,667,333)
Net patient service revenue	$	2,418,359	1,999,823

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 reimbursement 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.

(6) Investments

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

		2012	2011
Short term investments and cash equivalents [a]	$	348,299	228,763
Fixed income securities:			
U.S. government securities [b]		392,853	423,138
Domestic bonds and long-term notes [c]		717,119	622,857
International bonds and long-term notes [d]		214,389	221,724
U.S. equity securities [e]		434,245	663,929
Non-U.S. equity securities [f]		597,424	633,548
Natural resources [g]		398,618	317,874
Private markets [h]		1,204,749	1,127,163
Hedged strategies [i,j,k]		1,078,474	891,345
Real estate investments [l]		286,633	266,451
Miscellaneous investments [m]		3,216	3,026
Total investments at fair value		5,676,019	5,399,818
Joint ventures (equity method)		3,310	(404)
Total investments	$	5,679,329	5,399,414

(a) Includes short-term U.S. Treasury 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, 2012 and 2011, $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 non-government 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. Fund managers have 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 and S&P 500 futures. Fund managers have 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. Fund managers have 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, commodities and related services businesses held in commingled limited partnership 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. Also includes marketable inflation hedging assets.

(h) Includes illiquid investments in venture capital, growth equity, buyout, mezzanine, and distressed debt held in commingled limited partnership 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. Fund managers have 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. Fund managers have 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 single or multi strategy hedge fund investments that invest both long and short primarily in U.S. equities, non-U.S. equities, commodities, and fixed income and can include the use of derivatives. 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 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 5 to 10 years.

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

At August 31, 2012 and 2011, cash equivalents of $327.0 million and $199.3 million, respectively, are included in investments and restricted for use by endowments and special projects.

The University's investment policies allow certain fund managers to use forward exchange contracts, currency hedges, and exchange agreements 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 distributions for current operations in the accompanying consolidated statements of activities.

Investment securities are exposed to several risks, such as interest rate, 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, some of 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 effect on the reported value of these investments.

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, and 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.

As of August 31, 2012, the estimated fair value of the University's alternative investments, the related unfunded commitments and limitations and restrictions on the University's ability to redeem or sell are summarized as follows (in thousands):

	2012	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedged strategies	$ 1,078,474	124,064	30 – over 365 days	5 – 180 days
Natural resources	398,618	61,183	N/A	N/A
Real estate investments	286,633	19,836	N/A	N/A
Private market investments	1,204,749	242,667	N/A	N/A
	$ 2,968,474	447,750		

Over the next five years, approximately 95% of the unfunded 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.

(7) Endowment Net Assets

The University's Endowment (Endowment) consists of approximately 1,600 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. The Endowment provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling the university to achieve its mission. Net assets associated with these endowment funds 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 approved the University's adoption of the State of Georgia Uniform Prudent Management of Institutional Funds Act (UPMIFA) which provides standards for managing investments of institutional funds and spending from endowments. 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

The endowment funds subject to UPMIFA are true endowments and do not include perpetual trusts and endowments held by others, long-term investments, annuity funds, and deposits held in custody and miscellaneous investments. Endowment funds are categorized in the following net asset classes as of August 31 (in thousands):

	2012		2011	
	Donor-Restricted	**Board-Designated**	**Donor-Restricted**	**Board-Designated**
Unrestricted	$ (30,265)	1,316,780	$ (31,426)	1,316,233
Temporarily restricted	2,180,307	—	2,114,142	—
Permanently restricted	586,627	—	568,335	—
Total endowment funds	$ 2,736,669	1,316,780	$ 2,651,051	1,316,233

Changes in endowment funds by net asset classification for the years ended August 31 are summarized as follows (in thousands):

	2012				
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	1,284,807	2,114,142	568,335	3,967,284
Investment return:					
Investment income		179,203	96,940	—	276,143
Net appreciation (depreciation)		(9,627)	29,654	—	20,027
Total investment return		169,576	126,594	—	296,170
Contributions		595	44	18,292	18,931
Appropriation for expenditure (1)		(131,929)	(60,473)	—	(192,402)
Transfers from board-designated funds for strategic initiatives		(36,534)	—	—	(36,534)
Endowment net assets, end of year	$	1,286,515	2,180,307	586,627	4,053,449

(1) Appropations for current operations are reflected in operating return and the remainder is included in nonoperating activities.

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

(1) Appropations for current operations are reflected in operating return and the remainder is included in nonoperating activities.

(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 $30.3 million and $31.4 million as of August 31, 2012 and 2011, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to book value 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. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain a total return of at least 8% (including inflation) over the long term. Over shorter time periods, 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. The Endowment's long-term target asset allocation is approved by the Investment Committee of the Board of Trustees. The portfolio is periodically rebalanced to the target weightings for each asset class.

(e) Relationship between Investment Objectives and Spending Policy

The University's Board of Trustees has established a spending policy that determines how endowment distributions are made. 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 2012 and 2011 was based on 4.75% of the average fair value of the endowment over the previous 12 months ending on December 31. The University considers the expected return on its endowment, including the effect of inflation in setting the annual appropriation amount. 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. The payout rate is approved annually by the Board of Trustees as part of the budget process.

(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, 2012 (dollars in thousands):

Type	Effective date	Notional amount	University pays	University receives
Basis [1]	08/04/2005	$ 250,000	68% of 3-month LIBOR plus 0.36%	SIFMA Muni Swap Index less 0.05%
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
Interest	04/19/2007	9,910	4.388%	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
Interest	12/01/2009	75,000	3.583%	68% of 3-month LIBOR

(1) Expired on September 1, 2011.

Net settlement transactions related to the exchange agreements described above resulted in interest expense totaling $20.1 million and $21.6 million during 2012 and 2011, respectively. The fair value of each exchange agreement 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, 2012, 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 is $217.6 million and $140.2 million on August 31, 2012 and 2011, respectively, for which Emory University had a requirement to post collateral in the amount of $40.7 million for 2012. There was no requirement to post collateral on August 31, 2011.

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

	2012		2011	
	Fair value[1]	**Gain (loss)[2]**	**Fair value[1]**	**Gain (loss)[2]**
August 4, 2005 Interest Rate Swap	$ (72,492)	(26,569)	(45,923)	4,240
August 4, 2005 Basis Swap [3]	—	92	(92)	659
August 23, 2005 Interest Rate Swap	(23,808)	(8,825)	(14,983)	1,720
April 19, 2007 Interest Rate Swap	(2,554)	(2,554)	—	—
December 1, 2007 Interest Rate Swap	(26,479)	(8,445)	(18,034)	1,505
May 1, 2008 Interest Rate Swap	(29,489)	(9,357)	(20,132)	1,698
December 1, 2008 Interest Rate Swap	(35,498)	(13,562)	(21,936)	2,595
December 1, 2009 Interest Rate Swap	(27,275)	(8,202)	(19,073)	953
	$ (217,595)	(77,422)	(140,173)	13,370

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

(2) Reported in nonoperating activities as change in fair value of derivative instruments.

(3) Expired on 9/1/2011.

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 statement of financial position. 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.

The fair value of derivative instruments included in investments is a net $39.7 million asset and a net $21.5 million liability as of August 31, 2012 and 2011, respectively, with the value primarily comprised of futures. The net gain of $84 million and $12.6 million associated with the derivatives is reflected in nonoperating activities in fiscal 2012 and 2011, respectively. The definition of these and other derivative instruments entered into by Emory or its external investment managers on its behalf are as follows:

(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. A 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. Purchased option contracts 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) 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. 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 at August 31, 2012 and 2011. 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. The carrying value of long-term debt reflected in the accompanying consolidated statements of financial position is approximately $1.9 billion and $1.8 billion at August 31, 2012 and 2011, respectively.

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 includes listed equities held in the name of the University, and excludes 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 includes 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, except those which, as a practical expedient, are carried at NAV as reported by investment managers.

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 and, as a practical expedient, are carried at NAV as reported by investment managers.

The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2012 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments and cash equivalents	$ 348,299	102,318	245,981	—
Fixed income securities:				
U.S. government securities	392,853	68,447	324,406	—
Domestic bonds and long term notes	717,119	343,903	373,181	35
International bonds and long term notes	214,389	(11)	214,400	—
U.S. equity securities	434,245	203,528	230,714	3
Non-U.S. equity securities	597,424	330,426	266,998	—
Natural resources	398,618	—	—	398,618
Private market investments	1,204,749	—	—	1,204,749
Hedged strategies	1,078,474	—	304,198	774,276
Real estate investments	286,633	78,341	5,025	203,267
Miscellaneous investments	3,216	3,216	—	—
Total investments (1)	5,676,019	1,130,168	1,964,903	2,580,948
Interest in perpetual funds held by others	1,025,848	—	—	1,025,848
Total assets (1)	$ 6,701,867	1,130,168	1,964,903	3,606,796
Financial liabilities:				
Derivative instruments - interest rate swaps	(217,595)	—	(217,595)	—
Deposits held in custody for others	(476,915)	—	(476,915)	—
Total liabilities	$ (694,510)	—	(694,510)	—

(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 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	—
Natural resources	317,874	—	—	317,874
Private market investments	1,127,163	—	—	1,127,163
Hedged strategies	891,345	—	219,328	672,017
Real estate investments	266,451	59,240	4,233	202,978
Miscellaneous investments	3,026	3,026	—	—
Total investments (1)	5,399,818	1,141,526	1,938,234	2,320,058
Interest in perpetual funds held by others	965,613	—	—	965,613
Total assets (1)	$ 6,365,431	1,141,526	1,938,234	3,285,671
Financial liabilities:				
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 University has $5.57 billion and $5.22 billion of investments and investments in perpetual funds held by others that fall into Levels 2 and 3 and are reported at estimated fair value at August 31, 2012 and 2011, respectively. 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 by the fund itself. The categorization of an investment within the hierarchy 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.

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 include 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, 2012 and 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, 2012 and 2011 (in thousands):

	Balance as of August 31, 2011	Net realized and unrealized gains (losses)	Purchases	Sales	Transfer in (out) Level 3	Balance as of August 31, 2012
Investments:						
Fixed income securities	$ 23	24	—	(12)	—	35
U.S. equity securities	3	—	—	—	—	3
Natural resources	317,874	54,917	44,656	(18,829)	—	398,618
Private market investments	1,127,163	14,038	316,846	(253,298)	—	1,204,749
Hedged strategies	672,017	41,789	307,973	(193,556)	(53,947)	774,276
Real estate investments	202,978	(3,495)	31,246	(27,462)	—	203,267
Total investments	2,320,058	107,273	700,721	(493,157)	(53,947)	2,580,948
Interest in perpetual funds held by others	965,613	54,433	—	—	5,802	1,025,848
Total assets	$ 3,285,671	161,706	700,721	(493,157)	(48,145)	3,606,796

Of the $107.3 million in Level 3 Net Realized and Unrealized Gains for investments for the year ended August 31, 2012, approximately $95.3 million is the unrealized gain associated with investments held by the University for the entire year. The transfers from Level 3 into Level 2 are comprised of $53.9 million in liquidity restriction changes.

	Balance as of August 31, 2010	Net realized and unrealized gains (losses)	Purchases	Sales	Transfer into Level 3	Balance as of August 31, 2011
Investments:						
Fixed income securities	$ 1,723	307	—	(2,007)	—	23
U.S. equity securities	3	—	—	—	—	3
Natural resources	277,695	21,066	39,928	(20,815)	—	317,874
Private market investments	1,009,759	54,695	188,811	(126,102)	—	1,127,163
Hedged strategies	625,952	54,072	127,491	(135,864)	366	672,017
Real estate investments	195,554	(3,331)	24,672	(13,917)	—	202,978
Total investments	2,110,686	126,809	380,902	(298,705)	366	2,320,058
Interest in perpetual funds held by others	781,192	184,421	—	—	—	965,613
Total assets	$ 2,891,878	311,230	380,902	(298,705)	366	3,285,671

Of the $126.8 million in Level 3 Net Realized and Unrealized Gains for investments for the year ended August 31, 2011, approximately $130.0 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.

(10) Property and Equipment

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

		2012	2011
Land and land improvements	$	173,460	154,736
Buildings and improvements		2,666,455	2,413,857
Equipment		1,760,920	1,457,823
Library and museum assets		313,858	296,568
Construction in progress		162,413	68,762
		5,077,106	4,391,746
Less accumulated depreciation		(2,413,664)	(1,963,520)
	$	2,663,442	2,428,226

Property and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. During 2012, plans to demolish buildings located on property owned by Emory were finalized, resulting in an impairment loss of $8.2 million.

The University has identified asset retirement obligations primarily from 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, 2012 and 2011 is $50.7 million and $49.7 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

(11) Long-Term Debt

Bonds, notes and mortgages payable, including unamortized premiums and discounts, consisted of the following at August 31 (dollars in thousands):

	Interest rate average	Final maturity		Outstanding principal 2012	Outstanding principal 2011
Tax-exempt fixed-rate revenue bonds:					
2011 Series A [1]	4.95%	September 1, 2041	$	236,980	238,278
2009 Series B [2]	4.73	September 1, 2035		231,308	238,329
2009 Series C	4.90	September 1, 2039		99,558	99,633
2008 Series C	4.96	September 1, 2038		124,231	124,299
2005 Series A	4.84	September 1, 2025		117,536	130,482
2002 Series A	4.67	September 1, 2033		49,068	55,305
2001 Series A	—	September 1, 2025		—	4,220
1998 Series B	5.00	November 1, 2033		7,767	7,757
Total tax-exempt fixed-rate revenue bonds				866,448	898,303
Tax-exempt variable-rate revenue bonds:					
2007 Series A [3]	1.13	November 15, 2028		11,090	—
2005 Series B	0.11	September 1, 2035		250,000	250,000
2005 Series C	0.11	September 1, 2036		281,575	281,575
Total tax-exempt variable-rate revenue bonds				542,665	531,575
Taxable fixed-rate revenue bonds:					
2009 Series A	5.63	September 1, 2019		249,016	248,875
1994 Series C	8.00	October 1, 2024		6,945	7,240
Series 1991	8.90	April 1, 2022		2,231	2,616
Total taxable fixed-rate revenue bonds				258,192	258,731
Taxable variable-rate revenue bonds:					
1999 Series B	0.22	November 1, 2029		11,085	11,415
1995 Series B	0.22	November 1, 2025		8,875	10,455
1994 Series B	0.16	October 1, 2024		11,100	11,605
Total taxable variable-rate revenue bonds				31,060	33,475
Commercial paper:					
2010 Program 1 - Tax-exempt	0.13	August 1, 2050		19,930	25,950
2008 Program 1 - Taxable	0.19	April 1, 2047		100,000	38,000
Total commercial paper				119,930	63,950
Other variable rate notes and mortgages	Various			2,288	2,397
Line of credit				70,150	—
Total bonds, notes and mortgages payable			$	1,890,733	1,788,431

(1) 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%.

(2) 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%.

(3) Interest rate reflected in the chart is calculated for the period that the University owned SJHA during fiscal 2012.

The University incurred interest expense of $74.8 million and $75.5 million in 2012 and 2011, respectively, net of capitalized interest of $2.0 million and $1.0 million in 2012 and 2011, respectively. During 2012, the average interest rate on University tax-exempt variable rate demand bonds (VRDB) and taxable debt was 0.11% and 0.19%, respectively. Related indices for this period were 0.15% for tax-exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.25% for taxable debt (London Interbank Offered Rate – LIBOR).

At August 31, 2012 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:		
2013	$	48,675
2014		28,795
2015		33,305
2016		30,675
2017		113,698
Thereafter		1,596,656
		1,851,804
Unamortized net premium		38,929
	$	1,890,733

On August 18, 2010, the University established a $400 million tax-exempt Commercial Paper program. The primary purpose of the program is to meet interim financing needs related to capital projects. As of August 31, 2012 and 2011, the University had outstanding balances of $19.9 million and $26.0 million, respectively, under this program. On September 4, 2012 the University issued an additional $28 million to refund $28.0 million of the Series 2002A Bonds.

In 2008, the University established a $100 million taxable Commercial Paper program. As of August 31, 2011, the University had an outstanding balance of $38 million. On June 28, 2012, the University issued an additional $62 million of the taxable Commercial Paper to refund 2009 Series debt, which resulted in an outstanding balance of $100 million in taxable Commercial Paper as of August 31, 2012.

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 two diversified facilities totaling $290 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2012, there were no draws against these lines of credit.

The University also has a $100 million line of credit and Emory Clinic has a $15 million line of credit at August 31, 2012. During fiscal 2012, $70 million was drawn against the University line of credit to refund portions of the outstanding 2009 and 2010 debt series. There have been no draws on the Clinic line of credit.

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, 2012 and 2011.

In conjunction with Emory Healthcare's 35% joint venture interest in Emory-Adventist, Inc. the University has guaranteed $7.3 million of a $20.8 million outstanding loan payable to Adventist Health System.

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, 2012, 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.

(12) Temporarily and Permanently Restricted Net Assets

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

		2012	2011
Appreciation on endowments restricted until appropriated	$	2,060,189	1,994,079
Term endowments		120,118	120,063
Contributions receivable, time and purpose restricted		133,874	152,870
Capital projects and other donor designations		202,162	108,777
Annuity and life income agreements		8,572	7,599
	$	2,524,915	2,383,388

Permanently restricted net assets include endowment funds subject to UPMIFA (note 7) as well as perpetual trusts and endowments held by others. Investments to be held in perpetuity reflect a reduction for contributions not yet received. Permanently restricted net assets as of August 31 are comprised of (in thousands):

		2012	2011
Investments to be held in perpetuity, the income from which is expendable for operating activities	$	1,534,074	1,459,830
Contributions receivable, restricted for endowment		22,773	22,299
Endowments requiring income to be added to the original gift until funds reach a stipulated balance		13,372	12,761
Annuity and life income agreements		2,021	1,906
	$	1,572,240	1,496,796

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.

(13) Investment Return

Investment returns, as reflected in the accompanying consolidated statements of activities, for August 31 are as follows (in thousands):

		2012	2011
Endowment spending distribution	$	176,541	169,533
Other investment income designated for current operations		56,437	35,639
Total operating return		232,978	205,172
Unrealized gains on investments, net		108,775	270,769
Investment income and net realized gains less spending distribution for current operations		194,500	338,221
Total nonoperating gain		303,275	608,990
Total investment return	$	536,253	814,162

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

		2012	2011
Investment income	$	133,811	134,361
Realized gains on investments		293,667	409,032
Unrealized gains on investments, net		108,775	270,769
Total investment return	$	536,253	814,162

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 $12.5 million and $18.0 million, and internal management fees (including staff expenses) totaled $6.6 million and $5.9 million in fiscal 2012 and 2011, respectively.

(14) 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. In fiscal 2012, Emory Healthcare increased the benefits provided to employees in connection with the curtailment of the pension plan. 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 $99.8 million and $79.2 million during 2012 and 2011, respectively, and is included in operating expense in the accompanying consolidated statements of activities.

(15) 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 follow (in thousands):

		2012	2011
Projected benefit obligation, beginning of year	$	189,120	186,054
Service cost - curtailed		8,255	24,274
Interest cost		10,596	10,077
Actuarial loss (gain)		48,353	(29,069)
Benefits paid		(2,811)	(2,216)
Projected benefit obligation, end of year	$	253,513	189,120

Given the fiscal 2011 decision to curtail the plan, the accumulated benefit obligation is the same as the projected benefit obligation, for both years.

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 follow (in thousands):

		2012	2011
Fair value of plan assets, beginning of year	$	146,346	106,458
Actual return on plan assets		18,754	13,819
Employer contributions		8,900	28,285
Benefits paid		(2,811)	(2,216)
Fair value of plan assets, end of year	$	171,189	146,346
Funded status (deficit)	$	(82,324)	(42,774)
Accrued pension cost recognized in the consolidated statements of financial position	$	(82,324)	(42,774)

The components of net periodic pension cost for 2012 and 2011 follow (in thousands):

		2012	2011
Service cost	$	8,255	24,274
Interest cost		10,596	10,077
Expected return on plan assets		(12,846)	(11,012)
Amortization of prior service cost		—	404
Recognized actuarial loss		1,508	3,536
Curtailment loss		—	1,008
	$	7,513	28,287

The amounts accumulated in unrestricted net assets for net unrecognized actuarial loss totaled $81.4 million and $40.4 million in fiscal 2012 and 2011, respectively.

A net loss of $6.7 million is expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2013.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2012 and 2011 follow:

	2012	2011
Discount rate	4.41%	5.64%
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation increase	n/a	3.50

Weighted average assumptions used to determine net periodic pension cost for 2012 and 2011 follow:

	2012	2011
Discount rate	5.64%	5.42%
Expected return on plan assets	8.00	8.00
Rate of compensation increase	n/a	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 following table summarizes the Plan's assets which are recorded at fair value as of August 31 (in thousands):

	2012					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ 61	61	—	—	—%	—%
U.S. equity securities	60,550	—	60,550	—	55	35
Debt securities	55,952	—	55,952	—	30	33
International equities	54,626	—	54,626	—	15	32
Total assets	$ 171,189	61	171,128	—	100%	100%

	2011					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ 41	41	—	—	—%	—%
U.S. equity securities	77,458	—	77,458	—	55	53
Debt securities	47,886	—	47,886	—	30	33
International equities	20,961	—	20,961	—	15	14
Total assets	$ 146,346	41	146,305	—	100%	100%

Cash Flows

Emory Healthcare does not expect to contribute to the Plan in fiscal 2013.

Expected Future Benefit Payments

Annual future benefit payments, excluding lump sum settlements, are expected to range from $3.0 million to $10.0 million, for the next five years.

Other Items

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

(16) Pension Plan – JOC

In connection with the formation of the JOC, the JOC assumed certain defined benefit pension liabilities covering certain employees of the contributed entities. Prior to formation of the JOC, the Plan was curtailed so that generally no further benefit accrual is provided for service after December 31, 2011. In addition, the JOC has agreed to provide for funding of the plan generally over the next 10 years, beginning in fiscal 2015, subject to certain terms and conditions.

At the time of the formation of the JOC and assumption of control over the JOC by the System, the System recognized as part of the business combination a liability representing the unfunded status of the SJHS Pension Plan, in accordance with FASB ASC 805-20, *Business Combinations – Identifiable Assets, Liabilities, and Any Noncontrolling Interest*. The SJHS Pension Plan is accounted for by the System as a multiple-employer plan in accordance with FASB ASC 715-30, *Defined Benefit Plans – Pension.*

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

		2012
Projected benefit obligation, December 31	$	121,654
Service cost		—
Interest cost		3,480
Actuarial loss		10,902
Benefits paid		(1,895)
Projected benefit obligation, end of year	$	134,141

Given the curtailment of the plan prior to the formation of the JOC, the accumulated benefit obligation at August 31, 2012 is the same as the projected benefit obligation.

The changes in fair value of plan assets, funded status of the plan, and the status of amounts recognized in Emory's accompanying consolidated statement of financial position as of August 31 follow (in thousands):

		2012
Fair value of plan assets, December 31	$	74,274
Actual return on plan assets		5,951
Benefits paid		(1,895)
Fair value of plan assets, end of year	$	78,330
Funded status (deficit)		(55,811)
Accrued pension cost	$	(55,811)

The components of net periodic pension cost follow (in thousands):

		2012
Service cost	$	—
Interest cost		3,480
Expected return on plan assets		(3,633)
Amortization of prior service cost		(292)
Recognized actuarial loss		863
Net periodic pension cost	$	418

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

		2012
Prior service cost	$	(15,312)
Net loss		72,011
	$	56,699

A net loss of $940 is expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2013.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statement of financial position for 2012 follow:

	2012
Discount rate	3.55%
Expected long-term rate of return on plan assets	7.50
Rate of compensation increase	n/a

Weighted average assumptions used to determine net periodic pension cost for 2012 follow:

	2012
Discount rate	4.35%
Expected return on plan assets	7.50
Rate of compensation increase	n/a

Plan Assets

Under the terms of the agreement forming the JOC, the assets of the SJHS Pension Plan formally remain assets of SJHS and the plan assets remain invested in the CHE Pension Investment Program. Accordingly, neither the JOC nor the System has discretion over the management of the plan assets. However, the plan assets related to the entities contributed to the JOC (and certain other employees leased to the JOC) are contractually required to be clearly separated from the plan assets of the other entities participating in the Catholic Health East Employee Pension Program. The SJHS Pension 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 SJHS Pension 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 SJHS Pension Plan's target asset allocation percentage for each asset category equals the annual return attribution by asset category.

The following table summarizes the Plan's assets which are recorded at fair value as of August 31, 2012 (in thousands):

		2012					
		Total fair value	**Fair value hierarchy Level 1**	**Level 2**	**Level 3**	**Target allocation**	**Total asset allocation**
Financial assets:							
Investments:							
Short-term investments and cash equivalents	$	4,219	4,219	—	—	5%	5%
U.S. equity securities		48,429	22,055	26,374	—	58	62
Debt securities		10,138	10,138	—	—	14	13
International equities		7,499	3,707	3,792	—	11	10
Managed funds		8,045	—	—	8,045	12	10
Total assets	$	78,330	40,119	30,166	8,045	100%	100%

Cash Flows

The System does not expect to contribute to the SJHS Pension Plan in fiscal 2013.

Expected Future Benefit Payments

Annual future benefit payments, excluding lump sum settlements, are expected to range from $3.0 million to $6.0 million, for the next five years.

Other Items

The System uses the straight-line method to amortize prior service cost.

(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.

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

	2012			2011
	Emory University	**Emory Healthcare**	**Total**	**Total**
APBO, beginning of year	$ 66,886	37,289	104,175	102,322
Service cost	1,447	743	2,190	2,401
Interest cost	3,721	2,079	5,800	5,473
Actuarial loss	9,058	5,001	14,059	(1,857)
Benefits paid	(3,608)	(1,433)	(5,041)	(4,813)
Retiree drug subsidy paid	510	219	729	649
APBO, end of year	$ 78,014	43,898	121,912	104,175

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

	2012			2011
	Emory University	**Emory Healthcare**	**Total**	**Total**
Fair value of plan assets, beginning of year	$ 42,513	17,825	60,338	58,853
Actual return on plan assets	3,376	1,556	4,932	6,272
Benefits paid by Emory	(2,920)	(1,433)	(4,353)	(5,436)
Retiree drug subsidy	510	219	729	649
Fair value of plan assets, end of year	$ 43,479	18,167	61,646	60,338
Funded status (deficit)	$ (34,535)	(25,731)	(60,266)	(43,837)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	$ (34,535)	(25,731)	(60,266)	(43,837)

Actuarial assumptions used to determine the values of the APBO at August 31, 2012 and 2011 and the benefit costs for years ended August 31, 2012 and 2011 included a discount rate of 4.41% and 5.64%, 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 2002. The estimated long-term rate of return on plan assets was 8.00% for the University and Emory Healthcare for both years ended August 31, 2012 and 2011. 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 were as follows (in thousands):

		2012			2011
		Emory University	Emory Healthcare	Total	Total
Service cost of benefits earned	$	1,447	743	2,190	2,401
Interest cost on APBO		3,721	2,079	5,800	5,473
Expected return on plan assets		(3,257)	(1,364)	(4,621)	(4,516)
Amortization of prior service cost		—	—	—	(1,537)
Recognized net actuarial loss		2,387	1,696	4,083	4,660
Net periodic postretirement benefit cost	$	4,298	3,154	7,452	6,481

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

		2012			2011
		Emory University	Emory Healthcare	Total	Total
Net unrecognized actuarial loss	$	44,083	24,625	68,708	58,916

In fiscal 2013, net unrecognized actuarial losses of $2.8 million for Emory University and $2.0 million for Emory Healthcare are expected to be amortized from unrestricted net assets into net periodic postretirement benefit credit.

Plan Assets

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 tables summarize the University's VEBA Trust assets as of August 31 (in thousands):

	2012					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ 12	12	—	—	—%	—%
U.S. equity securities	17,482	12,250	5,232	—	40	40
Debt securities	10,668	7,872	2,796	—	25	25
International equities	15,317	—	15,317	—	35	35
Total assets	$ 43,479	20,134	23,345	—	100%	100%

	2011					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ 1	1	—	—	—%	—%
U.S. equity securities	16,473	10,781	5,692	—	40	39
Debt securities	11,531	7,850	3,681	—	35	27
International equities	14,508	—	14,508	—	25	34
Total assets	$ 42,513	18,632	23,881	—	100%	100%

The following tables summarize Emory Healthcare's VEBA Trust assets as of August 31 (in thousands):

	2012					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ 12	12	—	—	—%	—%
U.S. equity securities	7,308	5,785	1,523	—	40	40
Debt securities	4,471	3,447	1,024	—	25	25
International equities	6,376	—	6,376	—	35	35
Total assets	$ 18,167	9,244	8,923	—	100%	100%

	2011					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Financial assets:						
Investments:						
Short-term investments and cash equivalents	$ (8)	(8)	—	—	—%	—%
U.S. equity securities	6,914	5,102	1,812	—	40	39
Debt securities	4,842	3,433	1,409	—	25	27
International equities	6,077	—	6,077	—	35	34
Total assets	$ 17,825	8,527	9,298	—	100%	100%

Cash Flows

Emory University and Emory Healthcare do not expect to contribute to their postretirement healthcare and life insurance benefit plans in 2013. Emory Healthcare plans to fund future retiree claims from VEBA Trust assets.

Expected Future Benefit Payments

Annual future benefit payments are expected to range from $3.0 million to $5.0 million for Emory University and from $1.5 million to $3.0 million for Emory Healthcare, for the next five years.

Expected Medicare Retiree Drug Subsidies

Medicare retiree drug subsidies for the next five years are expected to be less than $1.0 million and $500 thousand annually, for Emory University and Emory Healthcare plans, respectively.

(18) Charity Care and Community Benefits

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 and actual costs for services furnished under its charity and indigent care policies. The cost of charity care provided totaled approximately $72.1 million and $67.9 million for the years ended August 31, 2012 and 2011, respectively. The System estimated these costs by applying a ratio of cost to gross charges to the gross uncompensated charges associated with providing care to the charity patients.

As a corporate and community citizen, the System has a community responsibility to increase awareness of health issues affecting community citizens. Part of the commitment to its mission of excellence is in responding to the healthcare needs of residents in its service area. The System offers many wellness and educational services to the community at low and, in some cases, no cost. Health fairs are held throughout the year at convenient locations, providing various health screenings, such as blood pressure and cholesterol checks. A large number of educational programs are offered for all ages. The System operates 24-hour emergency rooms that provide care to all patients regardless of ability to pay. The costs for these services are included in operating expenses in the accompanying consolidated statements of activities.

(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 generally 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

The Consolidated Statements of Activities include the following functional expenses for the years ended August 31 (in thousands):

		2012	2011
Instruction	$	365,901	346,008
Research		405,681	410,395
Public service		69,308	61,568
Academic support		119,329	112,854
Student services		72,706	67,349
Institutional support		152,041	154,951
Scholarships and fellowships		12,704	14,085
Medical services		166,500	166,188
Healthcare services		2,427,950	1,971,080
Auxiliary enterprises		38,982	35,271
Independent operations		18,494	20,386
Total operating expenses	$	3,849,596	3,360,135

Costs related to the University's 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 2012 and 2011 were $152.9 million and $138.2 million, respectively. Fundraising costs were approximately $18.2 million and $16.0 million in 2012 and 2011, 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, 2011 through August 31, 2012	$	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. Certain 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) reinsures CCIC 100% 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 CAN layer described above.

Emory is insured for excess 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 $3 million in the aggregate for general liability, and $1 million per claim and in the aggregate for each of 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, each for a limit of $25 million per claim in the aggregate.

As of August 31, 2012 and 2011, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately $102.0 million (discounted at 2%) and $84.8 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 $445.0 million and $412.9 million representing CCI's investment in the University's long term investment pool as of August 31, 2012 and 2011, respectively.

(23) Acquisition of Joint Venture Interest

On February 28, 2011, the System acquired the 50% interest in EJCH held by its then joint 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 in fiscal 2011.

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
Due to third party payors		1,008
Long term debt		85,000
Other long term liabilities		28
Deferred revenue		57
Total liabilities assumed	$	92,942
Net assets acquired	$	90,239

(24) Formation of Emory/Saint Joseph's, Inc.

Effective December 31, 2011, the System entered into an agreement (the Contribution Agreement) with Saint Joseph's Health System to form a joint operating company under the name of Emory/Saint Joseph's, Inc. The JOC was formed to further the respective missions of the System and Catholic Health East, the sole corporate member of SJHS, to deliver high-quality healthcare services to patients in the North Metro Atlanta area. Under the Contribution Agreement, the System transferred to the JOC the assets and liabilities of EJCH in exchange for a 51% controlling ownership interest in the JOC. SJHS transferred to the JOC the assets and liabilities of SJHA, SJTRI, and SJMG. In addition, on the eighteen month anniversary of the closing date of the transaction, SJHS shall contribute and deliver to the JOC an additional amount in cash of $5.0 million which amount should be deemed a deferred payment of the SJHS contribution in consideration of the membership interest in the JOC. The Contribution Agreement attributed to SJHS a noncontrolling membership interest in the JOC of 49%.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed by the System from SJHS at the date of the transaction (in thousands):

Cash	$	71,953
Net patient accounts receivable		40,354
Property, plant and equipment		179,912
Intangible assets		29,200
Other assets		37,812
Total assets acquired	$	359,231
Accounts payable and accrued expenses		42,171
Due to third party payors		4,677
Long term debt		132,942
Accrued pension cost		47,380
Other liabilities		8,628
Total liabilities assumed	$	235,798
Temporarily restricted net assets	$	4,768
Unrestricted net assets contributed	$	118,665

A summary of EJCH assets and liabilities contributed by the System to the JOC as of December 31, 2011 follows (in thousands):

Cash	$	8,359
Net patient accounts receivable		14,070
Property, plant and equipment		147,115
Intangible assets		5,290
Other assets		4,095
Total assets acquired	$	178,929
Accounts payable and accrued expenses		3,964
Due to third party payors		1,011
Long term debt		83,954
Other liabilities		4,582
Total liabilities assumed	$	93,511
Net assets contributed	$	85,418

Because the System retains control of the EJCH assets and liabilities transferred to the JOC, the System did not recognize any gain or loss and measured those assets and liabilities at the carrying amounts immediately before the formation of the JOC.

As a result of the formation of the JOC, the System recorded a gain of $18.7 million representing the difference between the System's 51% interest in the unrestricted net assets of the JOC immediately upon its formation and the net assets of EJCH contributed by the System to the JOC. The gain is included in nonoperating joint venture income in the accompanying combined statement of operations in fiscal 2012.

The fair value of the noncontrolling interest as of December 31, 2011 was $95.0 million, which is net of the $5.0 million due from SJHS upon the eighteen month anniversary of the closing of the transaction.

(25) 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.

EUHM has recorded a net liability of $10.2 million and $10.7 million as of August 31, 2012 and 2011, 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 this partnership is accounted for using the equity method of 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 $0.6 million and $0.4 million as of August 31, 2012 and 2011, respectively, 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. The investment in Emory-Adventist is accounted for using the equity method of accounting.

(c) Emory Children's Center, Inc.

The University entered into a joint venture effective November 15, 2006 between Emory Children's Center, Inc. (ECC) and Children's Healthcare of Atlanta (CHOA) to coordinate various aspects of their mutual significant pediatric care operations. The agreement provides the University, through ECC, a 51% financial interest in the venture known as ECC and 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.

Effective July 1, 2013, the joint venture agreement with CHOA will be terminated, and all pediatric care operations will become the responsibility of CHOA.

(26) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2012 totaled $70.1 million. At August 31, 2011, commitments totaled $82.3 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.

(27) Subsequent Events

On October 1, 2012, the System entered into an agreement with Southern Regional Health System (SRHS) to provide management services for a five year period. The System will be responsible for the day to day operations of SRHS, as further defined in the agreement, and will be paid a fee equal to the cost of services provided plus 2% in the first 2 years, escalating to 3% in the fifth year. The Board of SRHS retains control of SRHS, including approval of budgets, certain capital expenditures, and issuance of debt.

The University has evaluated its subsequent events (events occurring after August 31, 2012) through January 15, 2013, which represents the date the consolidated financial statements were 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, 2012 and 2011

(Dollars in thousands)

		2012		2011
ASSETS:				
Cash and cash equivalents	$	381,908	$	300,983
Student accounts receivable, net		43,776		35,969
Loans receivable, net		26,777		27,724
Contributions receivable, net		156,647		175,169
Accrued investment income receivable		4,978		7,030
Other receivables, net		155,689		204,020
Prepaid expenses, deferred charges and other assets		159,478		117,806
Investments		5,454,156		5,194,900
Interests in perpetual funds held by others		1,025,848		965,613
Property and equipment, net		1,804,919		1,769,826
Due from affiliates		731,590		456,163
Total assets	**$**	**9,945,766**	**$**	**9,255,203**
LIABILITIES AND NET ASSETS:				
Accounts payable and accrued liabilities	$	157,498	$	156,204
Liability for derivative instruments		215,041		140,173
Interest payable		27,489		22,750
Annuities payable		18,052		19,047
Bonds, notes and mortgages payable		1,877,355		1,786,034
Accrued liabilities for benefit obligations and professional liabilities		68,031		55,358
Deferred tuition and other revenue		385,985		343,306
Deposits held in custody for others		476,915		465,776
Government advances for federal loan programs		17,820		17,499
Due to affiliates		373,278		220,457
Total liabilities		3,617,464		3,226,604
Unrestricted net assets		2,240,943		2,152,293
Temporarily restricted net assets		2,518,037		2,382,428
Permanently restricted net assets		1,569,322		1,493,878
Total net assets		6,328,302		6,028,599
Total liabilities and net assets	**$**	**9,945,766**	**$**	**9,255,203**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 2

STATEMENT OF ACTIVITIES - INFORMATION

Year ended August 31, 2012 (with summarized financial inforamtion for the year ended 2011)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2012	Total August 31, 2011
OPERATING REVENUES:					
Tuition and fees	$ 512,680	-	-	$ 512,680	$ 483,251
Less: Scholarship allowances	(183,783)	-	-	(183,783)	(167,285)
Net tuition and fees	328,897	-	-	328,897	315,966
Endowment spending distribution	176,541	-	-	176,541	169,533
Other investment income designated for current operations	49,741	-	-	49,741	30,583
Gifts and contributions	42,639	-	-	42,639	38,169
Indirect cost recoveries	122,728	-	-	122,728	122,378
Grants and contracts	382,391	-	-	382,391	374,630
Medical services	147,430	-	-	147,430	138,364
Sales and services of auxiliary operating activities	63,087	-	-	63,087	57,743
Independent operations	22,138	-	-	22,138	21,119
Patent and royalty revenue	5,760	-	-	5,760	6,819
Other revenue	33,884	-	-	33,884	42,935
Net assets released from restrictions	3,681	(3,681)	-	-	-
Total operating revenues	**1,378,917**	**(3,681)**	**-**	**1,375,236**	**1,318,239**
OPERATING EXPENSES:					
Salaries and fringe benefits	1,004,775	-	-	1,004,775	964,023
Student financial aid	9,297	-	-	9,297	10,649
Other operating expenses	251,333	-	-	251,333	255,414
Interest on indebtedness	49,073	-	-	49,073	56,223
Depreciation	107,168	-	-	107,168	102,746
Total operating expenses	**1,421,646**	**-**	**-**	**1,421,646**	**1,389,055**
NET OPERATING REVENUES/(EXPENSES):	**(42,729)**	**(3,681)**	**-**	**(46,410)**	**(70,816)**
NONOPERATING ACTIVITIES:					
Net unrealized gains on investments	20,057	30,445	54,385	104,887	266,500
Investment income and gains (losses) in excess of spending distribution for current operations	127,585	37,354	3,032	167,971	285,106
Investment management fees	(18,778)	(176)	(124)	(19,078)	(23,886)
Gifts and contributions	9,939	72,368	18,561	100,868	54,469
Loss (gain) on disposal of property and equipment	(11,517)	-	-	(11,517)	232
Gain on defeasance of debt	-	-	-	-	2,255
Change in fair value of derivative instruments	(74,868)	-	-	(74,868)	13,370
Other nonoperating items	(4,265)	(701)	(410)	(5,376)	(43,525)
Total nonoperating activities	**48,153**	**139,290**	**75,444**	**262,887**	**554,521**
Net transfers from affiliates	83,226	-	-	83,226	80,849
CHANGE IN NET ASSETS	**88,650**	**135,609**	**75,444**	**299,703**	**564,554**
BEGINNING NET ASSETS	2,152,293	2,382,428	1,493,878	6,028,599	5,464,045
ENDING NET ASSETS	**$ 2,240,943**	**$ 2,518,037**	**$ 1,569,322**	**$ 6,328,302**	**$ 6,028,599**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 3

STATEMENT OF ACTIVITIES - INFORMATION

Year Ended August 31, 2011

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2011
OPERATING REVENUES:				
Tuition and fees	$ 483,251	-	-	$ 483,251
Less: Scholarship allowances	(167,285)	-	-	(167,285)
Net tuition and fees	315,966	-	-	315,966
Endowment spending distribution	169,533	-	-	169,533
Other investment income designated for current operations	30,583	-	-	30,583
Gifts and contributions	38,169	-	-	38,169
Indirect cost recoveries	122,378	-	-	122,378
Grants and contracts	374,630	-	-	374,630
Medical services	138,364	-	-	138,364
Sales and services of auxiliary operating activities	57,743	-	-	57,743
Independent operations	21,119	-	-	21,119
Patent and royalty revenue	6,819	-	-	6,819
Other revenue	42,935	-	-	42,935
Net assets released from restrictions	5,935	(5,935)	-	-
Total operating revenues	**1,324,174**	**(5,935)**	**-**	**1,318,239**
OPERATING EXPENSES:				
Salaries and fringe benefits	964,023	-	-	964,023
Student financial aid	10,649	-	-	10,649
Other operating expenses	255,414	-	-	255,414
Interest on indebtedness	56,223	-	-	56,223
Depreciation	102,746	-	-	102,746
Total operating expenses	**1,389,055**	**-**	**-**	**1,389,055**
NET OPERATING REVENUES/(EXPENSES):	**(64,881)**	**(5,935)**	**-**	**(70,816)**
NONOPERATING ACTIVITIES:				
Net unrealized gains on investments	26,397	57,781	182,322	266,500
Investment income and gains (losses) in excess of spending distribution for current operations	155,559	128,559	988	285,106
Investment management fees	(23,557)	(168)	(161)	(23,886)
Gifts and contributions	26,722	13,954	13,793	54,469
Gain on disposal of property and equipment	232	-	-	232
Gain on defeasance of debt	2,255	-	-	2,255
Change in fair value of derivative instruments	13,370	-	-	13,370
Other nonoperating items	(38,676)	(2,053)	(2,796)	(43,525)
Total nonoperating activities	**162,302**	**198,073**	**194,146**	**554,521**
Net transfers from affiliates	80,849	-	-	80,849
CHANGE IN NET ASSETS	**178,270**	**192,138**	**194,146**	**564,554**
BEGINNING NET ASSETS	1,974,023	2,190,290	1,299,732	5,464,045
ENDING NET ASSETS	**$ 2,152,293**	**$ 2,382,428**	**$ 1,493,878**	**$ 6,028,599**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 4

STATEMENTS OF CASH FLOWS - INFORMATION

Years Ended August 31, 2012 and 2011

(Dollars in thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 299,703	$ 564,554
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Nonoperating items:		
Gifts restricted for long-term investment and capital projects	(109,351)	(17,681)
Net realized gain on sale of investments	(288,734)	(404,680)
Loss (gain) on disposal of property and equipment	11,517	(232)
Interests in perpetual funds held by others	(60,235)	(184,421)
Gain on defeasance of debt	-	(2,255)
Noncash items:		
Depreciation	107,168	102,746
Accretion/amortization of bond discounts/premiums	(3,324)	(15,802)
Net unrealized gains on investments	(91,033)	(82,959)
Change in fair value of derivative instruments	74,868	(13,370)
Gifts of securities and other assets	(62,642)	(34,884)
(Increase) decrease in:		
Accounts receivable, net	40,524	(78,583)
Contributions receivable	18,522	(9,604)
Accrued investment income receivable	2,052	(520)
Prepaid expenses, deferred charges and other assets	(1,653)	(10,167)
Due to/from affiliates	(122,606)	(74,927)
Increase (decrease) in:		
Accounts payable and interest payable	(13,366)	37,721
Accrued liabilities for benefit obligations and professional liabilities	12,673	(10,924)
Deferred tuition and other revenue	42,679	(5,188)
Net cash used in operating activities	**(143,238)**	**(241,176)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(3,879)	(3,203)
Repayment of loans from students	4,825	4,990
Proceeds from sales and maturities of investments	9,058,186	6,662,170
Purchases of investments	(8,875,033)	(6,320,094)
Purchases of property, plant and equipment	(134,379)	(101,146)
Increase in deposits held in custody for others	11,139	47,702
Net cash provided by investing activities	**60,860**	**290,419**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts restricted for long-term investment and capital projects	109,351	17,681
Proceeds from bonds and mortgages payable	132,150	229,185
Principal repayments of bonds and mortgages payable	(37,505)	(261,791)
Required posting of collateral	(40,691)	
Decrease in annuities payable	(995)	(213)
Increase (decrease) in government advances for federal loan programs	321	(285)
Bond issuance costs	672	(270)
Net cash provided by (used in) financing activities	**163,303**	**(15,693)**
Net increase in cash and cash equivalents	**80,925**	**33,550**
Cash and cash equivalents at beginning of year	**300,983**	**267,433**
Cash and cash equivalents at end of year	**$ 381,908**	**$ 300,983**

See accompanying independent auditors' report.