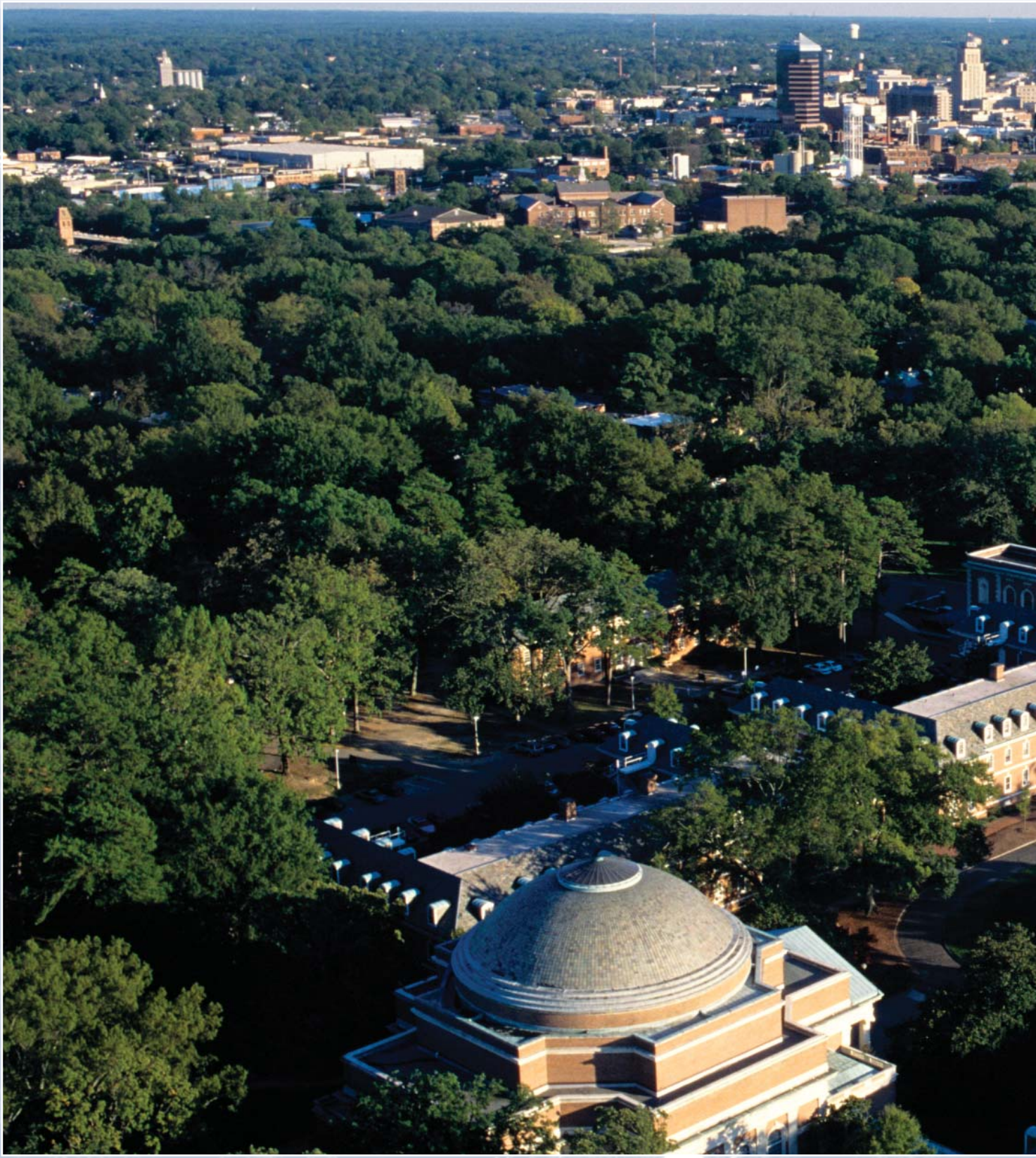
Duke UNIVERSITY


# **Financial Statements** 2006/2007

Duke UNIVERSITY



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## Duke University Financial Contacts


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*The cover of this report features* the Perkins/Bostock Library Gateway
*Facing page:* Aerial view of East Campus

# LETTER FROM THE Executive Vice President

Duke University is in a very strong financial position at the conclusion of Fiscal Year 2007.

As a result of exceptional endowment investment returns, increases in sponsored research funding, and record contributions from nearly 100,000 friends and alumni, the University's net asset base grew to $10.0 billion. For the seventh straight year, Duke University Health System reported a net operating surplus.

Duke Management Company generated outstanding returns on the University's investment portfolio. Our portfolio now exceeds $7.9 billion, including the University's endowment with a current market value of $5.3 billion. Over the last four years, the average return on Duke's long-term pooled investments was 20.5%, among the very best in higher education.

Revenue from government grants and contracts was $545.5 million, an 12% increase over the prior year. This increase was due, in part, to continued NIH funding for the Center for HIV/Aids Vaccine Immunology, a Duke-led global research effort. Duke continues to rank among the top research universities in the country (as measured by federal funding).

The University recorded $289.4 million in charitable gifts during fiscal year 2006-2007, a 3% increase over the previous year and the highest level of giving in the University's history. The increase was driven in large part by enthusiastic support for our Financial Aid Initiative, which reached nearly 75% of the $300 million goal.

Duke's strong financial position will enable us to direct significant resources toward the University's strategic goals, which include attracting and retaining outstanding faculty, engaging undergraduate and graduate students, enriching the arts, and transforming the campus with new and renovated facilities. Continued investment in these areas will position both our University and our students for a bright future.

Many individuals contributed to the recent performance and current financial health of the University. We appreciate their hard work and dedication to Duke.

Tallman Trask III
Executive Vice President

# Independent Auditors' Report

The Board of Trustees of Duke University:

We have audited the accompanying consolidated balance sheet of Duke University as of June 30, 2007, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Duke University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Duke University's 2006 consolidated financial statements and in our report dated September 5, 2006 we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Duke University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 Duke University as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements of Duke University taken as a whole. The supplementary information included in Schedules 1, 2, and 3 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

As discussed in Note 1(Q) to the financial statements, the University adopted the provisions of the Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R).*

KPMG LLP

Greensboro, North Carolina
September 28, 2007

# Consolidated Balance Sheet

JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2006)
(000'S OMITTED)

| | 2007 | 2006 |
|---|---|---|
| ***Assets:*** | | |
| Cash and cash equivalents | $ 234,665 | $ 273,276 |
| Cash held as collateral under securities lending transactions | 70,114 | 47,929 |
| Patient receivables, net | 256,475 | 249,465 |
| Other receivables, net | 195,474 | 192,828 |
| Prepaid expenses, deferred charges and inventories | 561,410 | 127,960 |
| Contributions receivable, net | 347,372 | 333,229 |
| Student loans receivable, net | 38,788 | 37,758 |
| Investments | 7,939,103 | 6,292,684 |
| Deposits with bond trustees | 135,982 | 61,258 |
| Land, buildings, and equipment, net | 2,165,247 | 2,015,016 |
| Interests in perpetual trusts held by others | 751,998 | 663,685 |
| Goodwill, net | 878 | 956 |
| **Total assets** | $ 12,697,506 | $ 10,296,044 |
| ***Liabilities:*** | | |
| Accounts payable | $ 313,267 | $ 277,544 |
| Accrued payroll and employee withholdings | 194,835 | 191,295 |
| Deferred revenues and deposits | 114,731 | 78,510 |
| Liability under securities lending transactions | 70,114 | 47,929 |
| Notes and bonds payable | 1,593,396 | 1,339,918 |
| Annuity and other split-interest obligations | 43,230 | 39,825 |
| Accrued postretirement/postemployment and other benefit obligations | 235,003 | 316,875 |
| Other liabilities | 103,766 | 109,042 |
| **Total liabilities** | 2,668,342 | 2,400,938 |
| ***Net Assets:*** | | |
| Unrestricted | 7,791,812 | 5,901,927 |
| Temporarily restricted | 166,416 | 186,591 |
| Permanently restricted | 2,070,936 | 1,806,588 |
| **Total net assets** | 10,029,164 | 7,895,106 |
| **Total liabilities and net assets** | $ 12,697,506 | $ 10,296,044 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Activities

YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)
(000'S OMITTED)

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | 2007 Total | 2006 Total |
|---|---|---|---|---|---|
| ***Operating revenues and support:*** | | | | | |
| Tuition and fees | $ 434,768 | $ … | $ … | $ 434,768 | $ 412,571 |
| Less student aid | (139,449) | … | … | (139,449) | (133,897) |
| | 295,319 | … | … | 295,319 | 278,674 |
| Grants, contracts and similar agreements: | | | | | |
| Government sources | 545,493 | … | … | 545,493 | 489,173 |
| The Private Diagnostic Clinic, PLLC | 65,811 | … | … | 65,811 | 64,159 |
| Other | 194,578 | … | … | 194,578 | 194,250 |
| **Total grants, contracts and similar agreements** | 805,882 | … | … | 805,882 | 747,582 |
| Contributions | 91,172 | … | … | 91,172 | 88,276 |
| Investment return designated for current operations: | | | | | |
| The Duke Endowment | 11,877 | … | … | 11,877 | 13,542 |
| Endowment spending | 149,045 | … | … | 149,045 | 132,185 |
| Other investment income | 208,809 | … | … | 208,809 | 166,990 |
| Auxiliary enterprises | 147,512 | … | … | 147,512 | 147,506 |
| Patient service revenue | 1,654,416 | … | … | 1,654,416 | 1,593,620 |
| Other | 198,347 | … | … | 198,347 | 170,420 |
| Net assets released from restrictions | 51,130 | (51,130) | … | … | … |
| **Total operating revenues and support** | 3,613,509 | (51,130) | … | 3,562,379 | 3,338,795 |
| ***Operating expenses:*** | | | | | |
| Salaries and wages | 1,528,707 | … | … | 1,528,707 | 1,424,905 |
| Employee benefits | 303,252 | … | … | 302,252 | 304,148 |
| Net postretirement/postemployment benefit credit | (8,435) | … | … | (8,435) | (2,822) |
| Student aid | 28,245 | … | … | 28,245 | 26,082 |
| Other operating expenses | 1,343,011 | … | … | 1,343,011 | 1,133,614 |
| Interest on indebtedness | 62,936 | … | … | 62,936 | 51,372 |
| Depreciation and amortization | 216,828 | … | … | 216,828 | 199,328 |
| Goodwill impairment | … | … | … | … | 102,565 |
| **Total operating expenses** | 3,474,544 | … | … | 3,474,544 | 3,239,192 |
| **Excess/(deficit) of operating revenues and support over/(under) operating expenses** | 138,965 | (51,130) | … | 87,835 | 99,603 |
| ***Nonoperating activities:*** | | | | | |
| Restricted contributions | … | 28,088 | 170,137 | 198,225 | 191,484 |
| Investment return in excess of amounts designated for current operations | 1,233,605 | 73 | 11,467 | 1,245,145 | 729,228 |
| (Loss) gain on perpetual trusts held by others and changes in split interest obligations | … | (1,642) | 84,257 | 82,615 | 48,137 |
| Other | 4,202 | 4,436 | (1,513) | 7,125 | 33,550 |
| **Change in net assets from nonoperating activities** | 1,237,807 | 30,955 | 264,348 | 1,533,110 | 1,002,399 |
| Cumulative effect of changes in accounting principles | 513,113 | … | … | 513,113 | (33,502) |
| **Increase (decrease) in net assets** | 1,889,885 | (20,175) | 264,348 | 2,134,058 | 1,068,500 |
| Net assets at beginning of year | 5,901,927 | 186,591 | 1,806,588 | 7,895,106 | 6,826,606 |
| **Net assets at end of year** | $ 7,791,812 | $ 166,416 | $ 2,070,936 | $10,029,164 | $ 7,895,106 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)
(000'S OMITTED)

| | 2007 | 2006 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Increase in net assets | $ 2,134,058 | $ 1,068,500 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 216,828 | 199,328 |
| Goodwill impairment | … | 102,565 |
| Cumulative effect of changes in accounting principles | (513,113) | 33,502 |
| Loss on extinguishment of debt | 17,778 | … |
| Loss on disposals of land, buildings, and equipment | 3,772 | 13,449 |
| Contributions of property | (4,461) | (1,500) |
| Restricted contributions received for long-term investment and capital projects | (183,877) | (161,275) |
| Permanently restricted investment return | (11,467) | (4,088) |
| Permanently restricted losses (gains) on other nonoperating items | 2,288 | (1,720) |
| Net realized and unrealized gains on investments | (1,233,678) | (725,140) |
| (Increase) decrease in: | | |
| Patient receivables, net | (7,010) | 2,088 |
| Other receivables, net | (2,646) | (25,835) |
| Prepaid expenses, deferred charges and inventories | (1,592) | (3,447) |
| Contributions receivable, net | (14,143) | (30,209) |
| Interests in perpetual trusts held by others | (88,313) | (50,578) |
| (Decrease) increase in: | | |
| Accounts payable | 35,723 | (9,198) |
| Accrued payroll and employee withholdings | 3,540 | 21,229 |
| Deferred revenues and deposits | 36,221 | 25,665 |
| Annuity and other split-interest obligations | 3,405 | 318 |
| Accrued postretirement/postemployment and other benefit obligations | (987) | 3,182 |
| Other liabilities | (5,276) | (42,164) |
| **Net cash provided by operating activities** | 387,050 | 414,672 |

# Consolidated Statement of Cash Flows (CONTINUED)

| | 2007 | 2006 |
|---|---|---|
| ***Cash flows from investing activities:*** | | |
| Purchases of investments | (9,665,598) | (7,425,585) |
| Proceeds from sales and maturities of investments | 9,252,857 | 6,908,108 |
| Change in collateral deposits under securities lending transactions, net | (22,185) | 50,738 |
| Change in obligation to return collateral under securities lending transactions, net | 22,185 | (50,738) |
| Purchases of land, buildings, and equipment | (366,568) | (402,331) |
| Proceeds from disposals of land, buildings, and equipment | 505 | 735 |
| Disbursements for loans to students | (8,065) | (7,820) |
| Repayments of loans by students | 7,035 | 9,155 |
| (Increase) decrease in deposits with bond trustees | (74,724) | 105,742 |
| **Net cash used in investing activities** | (854,558) | (811,996) |
| ***Cash flows from financing activities:*** | | |
| Restricted contributions received for long-term investment and capital projects | 183,877 | 161,275 |
| Permanently restricted investment return | 11,467 | 4,088 |
| Permanently restricted (losses) gains on other nonoperating items | (2,288) | 1,720 |
| Payments of notes and bonds payable | (504,641) | (54,075) |
| Proceeds from borrowings | 740,482 | 145,582 |
| **Net cash provided by financing activities** | 428,897 | 258,590 |
| **Net decrease in cash and cash equivalents** | **(38,611)** | **(138,734)** |
| Cash and cash equivalents at beginning of year | 273,276 | 412,010 |
| **Cash and cash equivalents at end of year** | $ 234,665 | $ 273,276 |
| ***Supplemental disclosure of cash flow information:*** | | |
| Cash paid for interest (net of amounts capitalized) | $ 56,909 | $ 45,315 |

See accompanying notes to consolidated financial statements.

French Family Science Center

(000'S OMITTED)

## Overview of Duke University

Duke University (Duke) is a private, coeducational, nonprofit institution located primarily in Durham, North Carolina, which owns and operates educational and research facilities (The University) as well as a health care system (DUHS). Duke is governed by a Board of Trustees with thirty-seven members, consisting of the President of Duke and thirty-six members drawn from private, public, and community interests.

The University's programs include undergraduate and graduate programs in Arts and Sciences, Engineering and Nursing and professional schools in Business, Medicine, Law, Divinity, Environment, Nursing, and programs in Allied Health.

DUHS is a North Carolina nonprofit corporation organized and controlled by Duke, operating health care facilities including Duke University Hospital, Durham Regional Hospital, Duke Raleigh Hospital, and related health care clinics (see Note 2). Collectively, the University and DUHS are referred to herein as "Duke."

## 1. Summary of Significant Accounting Policies

### A. BASIS OF PRESENTATION

The consolidated financial statements include the University, DUHS and all affiliates of DUHS, and all other entities in which Duke has a significant financial interest and over which Duke has control. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have, in all material respects, been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles.

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

**Permanently restricted** – Net assets subject to externally imposed restrictions that they be maintained permanently by Duke. Generally, the donors of these assets permit Duke to use all or part of the income earned on related investments for general or specific purposes.

**Temporarily restricted** – Net assets subject to externally imposed restrictions that may or will be met either by actions of Duke and/or the passage of time.

**Unrestricted** – Net assets not subject to externally imposed restrictions. Certain net assets classified as unrestricted are designated for specific purposes or uses under various internal operating and administrative arrangements of Duke.

Revenues from sources other than contributions, investment returns, and changes in fair value of interests in perpetual trusts held by others are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate classification of net assets. Contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit external stipulations. Gains and losses on perpetual trusts held by others are reported as increases or decreases in permanently restricted net assets.

Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions between the applicable classes of net assets in the consolidated statement of activities.

### B. CASH AND CASH EQUIVALENTS

Cash equivalents include all assets invested in the Short Term Account (STA). The STA maintains a weighted average quality rating of AA, AA equivalent, or better, as measured by Moody's, Standard and Poor's, and Fitch rating agencies. Duke utilizes the STA to fund daily cash needs and while some maturity dates may be more than ninety days, all securities can be liquidated without loss of principal, if necessary, within thirty days. The STA currently invests principally in a fund that holds fixed income securities, short-term U.S. Treasury securities, and other short-term, highly-liquid investments. The fund is expected to generate a return approximating the three-month U.S. Treasury bill rate. The fund investment can be liquidated without loss of principal within one day.

### C. CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions restricted for capital projects or permanent or term endowment funds and contributions under split-interest agreements or perpetual trusts are reported as nonoperating revenue. All other contributions are reported as operating revenue. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the funds are expended. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at a risk free rate which could have been obtained at the date of the gift. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions receivable based upon the administration's judgment and analysis of past collection experience and other relevant factors.

### D. NET PATIENT SERVICE REVENUE

DUHS recognizes revenue in the period in which services are rendered. DUHS has agreements with third-party payors that provide for payments to DUHS at amounts that are generally less than its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Accordingly, 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 under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified. DUHS patient accounts receivable are reported net of allowances for contractual adjustments and uncollectible accounts of $286,831 and $228,305 at June 30, 2007 and 2006, respectively.

### E. INVESTMENTS

Duke Management Company (DUMAC), a separate nonprofit support corporation organized and controlled by Duke, is responsible for managing Duke's investment assets. Investments are recorded at estimated fair value. In the case of certain less marketable investments, principally real estate and private investments, value is established based on either external events which substantiate a change in fair value or a reasonable methodology that exists to capture and quantify changes in fair value. In some instances, those changes in fair value may require use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for the investments existed. The estimated values, provided primarily by investment managers, are reviewed and evaluated by DUMAC personnel.

Duke's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in Duke's consolidated financial statements.

Duke utilizes the Long Term Pool (LTP) to invest its funds. The LTP invests in a diversified portfolio of debt, equity, and other investments. Participation in or withdrawal from the LTP is based on the fair value per unit at various specified dates during the year. The LTP is included in investments on the consolidated balance sheet.

All permanently restricted endowment net assets, long-term net assets functioning as endowment, and invested departmental working capital are managed in the LTP, unless special considerations or donor stipulations require that they be held separately.

Income and realized gains and losses on investments of working capital are reported as investment return included in operating revenues. Any excess of income and realized gains earned on investments held under split-interest agreements are reported as nonoperating revenues.

DUMAC also approves strategic use of derivatives by external investment managers to manage market risks. The most common strategies engaged by such managers are futures contracts, short sales, and hedges against currency translation risk for investments denominated in other than U.S. dollars. These derivative instruments are recorded at their respective fair values.

## F. ENDOWMENT INCOME DISTRIBUTION POLICY

Duke utilizes the total return concept (income yield and appreciation) in the management of its endowment. Duke has implemented a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. In accordance with Duke's policy, a predetermined endowment spending rate consistent with Duke's total return objective has been established and approved by the Board of Trustees. Should endowment yields prove to be insufficient to support this policy, the balance is provided from capital gains. Should endowment yields exceed the amounts necessary to maintain this objective, the balance is reinvested in the endowment. The endowment spending rate per unit is calculated at 5.5% of the average of the LTP unit market value for the previous three calendar year ends, subject to a 10.0% maximum annual growth in per unit spending. The administration has recommended and the Board of Trustees has approved, a maximum annual growth in per unit spending of 5.0% for the years ended June 30, 2007 and 2006. The effective spending rate per unit as a percentage of the beginning of year market value was 4.4% and 4.8% for the years ended June 30, 2007 and 2006, respectively.

Income and realized gains and losses used for the annual distribution under the spending policy described above are reported as investment return included in operating revenues. Income and realized gains and losses on nonpooled endowment funds, any excess (deficiency) of income and realized gains earned over the distributed amount for pooled endowment funds, and unrealized gains and losses on endowment funds, are reported as nonoperating revenues.

Additionally, the Board of Trustees has authorized the use of specific amounts of previously reinvested income, capital gains, and principal related to unrestricted funds functioning as endowment for special academic development initiatives. The endowment distributions reported in the consolidated statements of activities include these supplemental endowment distributions for special academic initiatives. Supplemental endowment distributions were $28,425 and $20,685 in fiscal years 2007 and 2006, respectively.

Duke also leverages investment returns to support operations through virtual equity dividends. These dividends are declared by the Executive Vice President under authority granted by the Board of Trustees, to transfer gains from certain non-endowed units of the LTP to the President's Strategic Investment Plan, which supports a variety of strategic initiatives at Duke. Other investment income reported in the consolidated statements of activities includes these virtual equity dividends, which totaled $65,565 and $50,582 in fiscal years 2007 and 2006, respectively.

## G. DEPOSITS WITH BOND TRUSTEES

Deposits with bond trustees consist of a debt service reserve fund and the unexpended proceeds of certain bonds payable. These funds are invested in short-term, highly liquid securities and the unexpended proceeds referred to above will be used for construction of certain facilities or payment of debt service.

## H. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are stated at cost at date of acquisition or fair value at date of donation. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives, except for leasehold improvements, which are amortized over the shorter of the expected useful life of the asset or related lease. Useful lives range from 5 to 25 years for land improvements, 10 to 80 years for buildings and utilities, 3 to 20 years for equipment, furniture and vessels, and 1 year for library acquisitions. Depreciation is not calculated on land, art collections, rare books, and construction in progress.

## I. INTERESTS IN PERPETUAL TRUSTS HELD BY OTHERS

The University is the beneficiary of certain perpetual trusts held and administered by outside trustees, including The Duke Endowment (see Note 4). These trust assets are reported at fair value which approximates the present value of future income from these trusts. The related net assets are classified as permanently restricted. Income distributions from these trusts are recorded as investment return designated for current operations.

## J. SPLIT-INTEREST AGREEMENTS

Duke's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which Duke serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors or other beneficiaries. Annuity and other split-interest liabilities are adjusted annually at the end of each fiscal year.

## K. INSURANCE

Insurance liabilities are recorded based upon the claim reserves considering historical claims experience, demographic factors, severity factors, expected trend rates and other actuarial assumptions. To mitigate a portion of its insurance risks, Duke maintains insurance for individual claims exceeding certain dollar limits. Provisions for estimated losses in excess of insurance limits are provided at the time such determinations are made. The reserves associated with the exposure to these liabilities, as well as the methods used in such evaluations, are reviewed by the administration for adequacy at the end of each reporting period and any adjustments are reflected in earnings.

## L. REFUNDABLE FEDERAL STUDENT LOANS

Funds provided by the United States Government under the Federal Perkins, Nursing and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government. The related balances of $33,839 and $34,150 at June 30, 2007 and 2006, respectively, are included in other liabilities on the consolidated balance sheet.

## M. TUITION AND FEES

Student tuition and fees are recorded as revenues during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by Duke for tuition and fees is reflected as a reduction of tuition and fee revenue. Student aid does not include payments made to students for services rendered to Duke.

## N. SPONSORED RESEARCH

Research grants and contracts normally provide for the recovery of direct and facilities and administrative costs, subject to adjustment based upon review by the granting agencies. Duke recognizes contract and grant income as the related direct costs are incurred. The recovery of facilities and administrative costs is recognized based on predetermined rates negotiated with the federal government through the fiscal year ending June 30, 2009. Facilities and administrative cost recovery revenues for the academic and support divisions of Duke were $159,223 and $149,480 in fiscal years 2007 and 2006, respectively.

### O. AUXILIARY ENTERPRISES

Auxiliary enterprises, including residence halls, food services, retail stores, and the Duke University Telecommunications Center, furnish services to students, faculty, and staff. Fee charges are directly related to the costs of services rendered.

### P. INCOME TAXES

Duke is a tax-exempt organization as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from 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.

### Q. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards Statement No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (Statement No. 158). Statement No. 158 requires an entity to recognize the funded status of defined benefit pension and other postretirement plans as a new asset or liability and to recognize changes in that funded status in the year in which changes occur through the statement of activities to the extent those changes are not included in the net periodic cost. The Statement was effective for Duke's fiscal year ended June 30, 2007 (see Notes 9 and 10).

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of FASB Statement 109. FIN 48 clarifies how companies should recognize, measure, present, and disclose uncertain tax positions. FIN 48 also provides guidance on derecognition, interest and penalties, and transition. FIN 48 will be effective for Duke on July 1, 2007.

### R. PRIOR YEAR SUMMARIZED FINANCIAL INFORMATION

The consolidated financial statements include certain prior year summarized comparative information which does not include sufficient detail to constitute a full presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Duke's consolidated financial statements for the year ended June 30, 2006 from which the summarized information was derived.

### S. USE OF ESTIMATES

The preparation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results ultimately could differ from the administration's estimates.

Significant items in Duke's consolidated financial statements subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, allowances for uncollectible accounts and contractual adjustments, reserves for employee healthcare and workers' compensation claims, accrued professional and general liability costs, estimated third-party settlements and actuarially determined benefit liabilities related to Duke's pension and other postretirement benefit plans.

### T. RECLASSIFICATIONS

Certain June 30, 2006 amounts have been reclassified to conform with changes in classifications adopted in fiscal year 2007.

## 2. Duke University Health System, Inc.

The financial position and results of operations of DUHS are consolidated into the financial results of Duke under financial statement presentation generally followed by colleges and universities. DUHS consists of:

- **Duke University Hospital** – a tertiary care teaching hospital located on the campus of Duke in Durham, North Carolina, licensed for 965 acute care and specialty beds, leased from Duke, operated by DUHS, providing patient care and medical education, and performing clinical research.
- **Durham Regional Hospital** – a full-service community hospital located in Durham, North Carolina, licensed for 369 acute care beds, leased from Durham County Hospital Corporation and Durham County, and operated by DUHS for an initial term of twenty (20) years commencing July 1, 1998.
- **Duke Raleigh Hospital** – a community hospital located in Raleigh, North Carolina, licensed for 186 acute care beds, leased from Duke, operated by DUHS, and providing patient care.
- **Duke HomeCare and Hospice (DHCH)** – having its principal offices in Durham, North Carolina and consisting of:
  - **Duke Home Infusion**, a full-range home infusion therapy program serving three (3) states that provides administration of intravenous medications in the patient's home.
  - **Duke Hospice**, providing hospice services in homes and long-term care facilities in nine (9) counties in central North Carolina and a six (6) bed inpatient facility in Hillsborough, North Carolina and offering a full range of bereavement services, including critical incident debriefings, to persons of all ages in central North Carolina who have suffered a loss due to death.
  - **Duke Home Health**, providing nursing, wound care, rehabilitation and home health aide services in patients' homes in central North Carolina.
- **Associated Health Services, Inc. (AHS)** – a North Carolina nonprofit corporation that operates an outpatient surgery facility located in Durham, North Carolina, licensed for eight (8) operating rooms, doing business as James E. Davis Ambulatory Surgical Center. During the term of the lease of Durham Regional Hospital, DUHS nominates and appoints a majority of the Board of Directors of AHS.
- **Duke University Affiliated Physicians, Inc. (DUAP)** – fifteen (15) primary care physician practices located in Durham, Alamance, Granville, Orange, Person, Vance, and Wake Counties, North Carolina, two (2) urgent care centers located in Durham County, and a pediatric practice with two (2) locations in Durham County.
- **Duke PRMO, LLC (Patient Revenue Management Organization) (PRMO)** – a limited liability company established to manage the clinical billing and accounts receivable activity of DUHS, the Private Diagnostic Clinic, PLLC (PDC) (see Note 3), and the School of Medicine.
- **Durham Casualty Company, Ltd. (DCC)** – a wholly owned subsidiary of DUHS domiciled in Bermuda, insuring a portion of the medical malpractice risks and patient general liability risks of DUHS clinical providers and the PDC.
- **Health System Medical Strategies, Inc. (HSMS)** – a wholly-owned for-profit subsidiary of DUHS providing initial marketing support and health related management services at two regional continuing care retirement communities. HSMS provides these services on a fee basis.

DUHS presents certain components of income such as investment income and unrestricted gifts as nonoperating income in its consolidated statement of operations. These items are reclassified as operating income in Duke's consolidated statement of activities to conform to financial statement presentation generally followed by colleges and universities.

On June 30, 2006, DUHS transferred $280,000 to the Duke University School of Medicine for academic and strategic support, in lieu of annual transfers planned for the ten-year period July 1, 2006 through June 30, 2016.

## 3. The Private Diagnostic Clinic, PLLC

The PDC is a professional limited liability company consisting of physicians practicing primarily within DUHS facilities and contiguous PDC clinics. The purpose of the PDC is to provide a structure independent from Duke in which the members of the physician faculty of the Duke University School of Medicine may engage in the private practice of medicine and still serve as members of the faculty of Duke conducting clinical teaching and medical research. Under a year-to-year contract between the PDC and Duke, the PDC: (1) reimburses Duke for the cost of employees, goods, and services furnished by Duke to the PDC; (2) pays a portion of its gross professional fee collections to Duke which is used to support academic programs in the clinical departments of the Duke University School of Medicine; and (3) pays a portion of its gross professional fee collections to Duke which is used for renovation, renewal, and replacement of capital assets within DUHS and the School of Medicine. These payments (excluding reimbursement amounts described in (1) above) are compensation for the use of space, facilities and equipment within DUHS and the School of Medicine, and for the goodwill derived from the association with Duke. These payments totaled $65,761 and $64,159 (including $50 and $0 paid to auxiliary enterprises) for the fiscal years ended June 30, 2007 and 2006, respectively, and are recognized in grants, contracts and similar agreements in the consolidated statement of activities.

## 4. The Duke Endowment

Duke is the principal beneficiary of The Duke Endowment and receives substantial support in the forms of operating income and discretionary grants. Established in 1924 by James Buchanan Duke, The Duke Endowment is a charitable trust created to promote philanthropic purposes by making grants for educational, health care, child care, and religious purposes within North and South Carolina. Duke has no equity interest in the principal of the trust, which had a fair value of approximately $3.2 billion at June 30, 2007.

While Duke and The Duke Endowment have a common heritage, each having been founded through the generosity of James Buchanan Duke, they are two separate entities, each with its own purposes, officers, and trustees. The Duke Endowment is required by its indenture to distribute to Duke a certain amount of income from the Original Corpus, Corpus Item VIII and Corpus Item XI, subject to a limited right to withhold by The Duke Endowment trustees. Through June 30, 2007, this right has never been exercised. At June 30, 2007 and 2006, the portion of The Duke Endowment from which Duke derives unrestricted income had a fair value of $649,944 and $573,630, respectively, and is included in permanently restricted net assets on Duke's consolidated balance sheet. Total income distributions from The Duke Endowment were $11,877 and $13,542 for the years ended June 30, 2007 and 2006, respectively.

The Duke Endowment indenture provides for additional trustee discretion with respect to the disbursement of endowment income to beneficiaries other than Duke, and to Duke out of accounts other than the Original Corpus, Corpus Item VIII and Corpus Item XI. Duke received discretionary distributions from The Duke Endowment of $62,816 and $40,424 for the fiscal years ended June 30, 2007 and 2006, respectively. Such amounts are reflected as contributions in the consolidated statement of activities.

Effective July 1, 2007, DUMAC will manage the investment assets of The Duke Endowment, in addition to the investment assets of Duke, as a pass through Limited Liability Corporation (LLC) for both members. The LLC will operate on a cost reimbursement basis, such cost to be shared between The Duke Endowment and Duke.

## 5. Contributions Receivable

Contributions receivable, net, are summarized as follows at June 30:

| | 2007 | 2006 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 134,809 | $ 152,352 |
| Between one year and five years | 243,481 | 204,626 |
| More than five years | 10,795 | 14,558 |
| | 389,085 | 371,536 |
| Less unamortized discount with interest rates ranging from 4.0% to 7.5% | (28,650) | (19,871) |
| Less allowance for uncollectible amounts | (13,063) | (18,436) |
| **Total** | $ 347,372 | $ 333,229 |

The allowance for uncollectible pledges was calculated at 3.4% and 5.0% of gross outstanding pledges at June 30, 2007 and 2006, respectively. The methodology for calculating the allowance is based on the administration's review of individually significant outstanding pledges and analysis of the aging of payment schedules for all outstanding pledges.

At June 30, 2007 and 2006, Duke had also received bequest intentions and certain other conditional promises to give of approximately $43,946 and $62,120, respectively. These intentions and conditional promises to give are not recognized as assets or revenues and, if they are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships or general operating support of a particular department or division of Duke.

## 6. Land, Buildings, and Equipment

Land, buildings, and equipment, net, is summarized as follows at June 30:

| | 2007 | 2006 |
|---|---|---|
| Land and land improvements | $ 175,718 | $ 153,916 |
| Buildings and utilities | 2,543,020 | 2,177,893 |
| Equipment, furniture and vessels | 1,029,001 | 976,147 |
| Library and art collections | 277,601 | 256,656 |
| Construction in progress | 191,813 | 326,334 |
| | 4,217,153 | 3,890,946 |
| Less accumulated depreciation | (2,051,906) | (1,875,930) |
| **Total** | $ 2,165,247 | $ 2,015,016 |

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Total net interest expense of $8,967 and $7,575 was capitalized in fiscal years 2007 and 2006, respectively.

Duke has identified conditional asset retirement obligations primarily for the costs of asbestos removal and disposal that will result from legal liability to remediate in the future. The liability was estimated using an inflation rate of 5.0% and discount rates ranging from 4.0% to 4.6%. The fair value liability for conditional asset retirement obligations recognized at June 30, 2007 and 2006 was $38,355 and $36,908, respectively.

# 7. Investments

The fair value of investments consists of the following at June 30, 2007 and 2006:

| | Long Term Pool | Non-Pooled Assets | 2007 Total | 2006 Total |
|---|---|---|---|---|
| Short-term investments | $ 256,494 | $ 11,932 | $ 268,426 | $ 290,155 |
| U.S. government securities | … | 10,765 | 10,765 | 14,447 |
| Real estate | 505,514 | 4,347 | 509,861 | 388,357 |
| Domestic bonds and long-term notes | … | 42,939 | 42,939 | 39,499 |
| Domestic stocks | 254,098 | 101,030 | 355,128 | 455,276 |
| International stocks | 1,926,661 | 23,343 | 1,950,004 | 1,271,153 |
| International bonds and long-term notes | 96,182 | 1,297 | 97,479 | 119,133 |
| Private investments | 1,433,819 | 4,971 | 1,438,790 | 1,034,313 |
| Hedged strategies | 3,205,288 | 25,549 | 3,230,837 | 2,649,378 |
| Other investments | 7 | 34,867 | 34,874 | 30,973 |
| **Total** | $ 7,678,063 | $ 261,040 | $ 7,939,103 | $ 6,292,684 |

Duke's investment activity for the years ended June 30 is as follows:

| | 2007 | 2006 |
|---|---|---|
| Net realized gains from sales of investments | $ 689,330 | $ 538,114 |
| Increase in unrealized appreciation | 867,194 | 459,828 |
| Total net gain | 1,556,524 | 997,942 |
| Investment income | 50,024 | 37,998 |
| **Total gains and income** | 1,606,548 | 1,035,940 |
| Included in the consolidated statement of activities as investment return designated for current operations: | | |
| Endowment spending | (149,045) | (132,185) |
| Investment income | (208,809) | (166,990) |
| Auxiliary enterprises | (3,549) | (7,537) |
| **Investment return in excess of amounts designated for current operations** | $ 1,245,145 | $ 729,228 |

The total return for the LTP (in which 97.8% and 97.5% of Duke's endowment was invested at June 30, 2007 and 2006, respectively) for the years ended June 30, 2007 and 2006 was 25.6% and 20.2%, net of external management fees but before internal costs. The total return for Duke's endowment, as such, is not calculated. Duke's traditionally defined endowment and similar funds consist of the following:

| | 2007 | 2006 |
|---|---|---|
| Permanent endowment funds, including accumulated gains | $ 3,192,150 | $ 2,527,967 |
| Funds functioning as endowment | 1,966,132 | 1,306,067 |
| Charitable remainder funds | 97,656 | 81,891 |
| **Total** | $ 5,255,938 | $ 3,915,925 |

External management fees paid directly (i.e. segregated investment accounts fees) totaled $10,920 and $5,351, and internal management fees totaled $10,256 and $9,369 in fiscal years 2007 and 2006.

Through an agreement with its primary investment custodian, the University participates in lending securities to brokers. Among other provisions that limit University risk, this agreement specifies that the custodian is responsible for managing strict borrower collateral requirements. Collateral generally is limited to cash, government securities, and irrevocable letters of credit. Depending on the type of securities being lent, minimum collateral ranges from 102% to 105% which requires daily marking-to-market. Both the investment custodian and security borrowers have the right to terminate a specific loan of securities at any time. Other than for an event of default, the investment custodian is prohibited from repledging or otherwise encumbering the pledged collateral in any fashion. The University receives lending fees and continues to earn interest and dividends on the loaned securities. At June 30, 2007 and 2006, Duke held $70,114 and $47,929 of cash and cash equivalents as collateral deposits for securities lending transactions. The collateral is included as an asset and the obligation to return such collateral is presented as a liability on the consolidated balance sheet. The securities on loan had an estimated fair value of $65,339 and $46,012 at June 30, 2007 and 2006, respectively.

# 8. Notes and Bonds Payable

Notes and bonds payable at June 30 consist of the following:

| | 2007 | 2006 |
|---|---|---|
| **Duke University Health System, Inc. Revenue Bonds:** | | |
| Series 1985 B – payable in 2015, with interest at a variable rate not to exceed 20.0% (actual interest rate at June 30, 2007 was 3.7%) | $ 43,500 | $ 43,500 |
| Series 1993 A – payable in 2023, with interest at a variable rate (actual interest rate at June 30, 2007 was 3.7%) (see Note 13) | 28,650 | 28,650 |
| Series 1996 C – payable in installments ranging from $2,458 to $2,795 through 2010, with fixed interest rates varying from 5.6% to 5.7% (average interest rate for fiscal year 2007 was 5.6%) | 7,867 | 10,114 |
| Series 1998 A – payable in installments ranging from $2,195 to $2,395 through 2010, with fixed interest rates varying from 4.5% to 4.7% (average interest rate for fiscal year 2007 was 4.6%) | 6,885 | 8,990 |
| Series 1998 B – payable in installments ranging from $5,125 to $5,590 through 2010, with fixed interest rates varying from 4.5% to 5.1% (average interest rate for fiscal year 2007 was 4.6%) | 16,070 | 20,975 |
| Series 2005 A, B, and C – payable in 2028, with interest at a variable rate not to exceed 12.0% (actual interest rate at June 30, 2007 was 3.7%) (see Note 13) | 322,140 | 322,140 |
| Series 2006 A, B, and C – payable in 2039, with interest at a variable rate not to exceed 15.0% (actual interest rate at June 30, 2007 was 4.0%) | 150,715 | … |
| **Duke University Health System, Inc. Taxable Bonds:** | | |
| Series 1996 A – repaid in 2007 | … | 1,220 |
| **Duke University Revenue Bonds:** | | |
| Series 1987 A – payable in 2017, with interest at a variable rate not to exceed 20.0% (actual interest rate at June 30, 2007 was 3.7%) | 18,900 | 18,900 |
| Series 1991 B – payable in 2021, with interest at a variable rate (actual interest rate at June 30, 2007 was 3.7%) | 40,000 | 40,000 |
| Series 1992 A – payable in 2027, with interest at a variable rate (actual interest rate at June 30, 2007 was 3.7%) | 35,240 | 35,240 |
| Series 2001 A – payable in installments of $6,134 in 2026, $6,645 in 2039 and $21,080 in 2041, with fixed interest rates of 5.1% and 5.3% (average interest rate for fiscal year 2007 was 5.2%) | 33,860 | 178,340 |
| Series 2005 A – payable in installments of $15,000 in 2039 and $192,665 in 2041, with fixed interest rates of 4.5% and 5.0% (average interest rate for fiscal year 2007 was 5.0%) | 207,665 | 207,665 |
| Series 2006 A – payable in installments ranging from $1,280 to $220,560 through 2044, with fixed interest rates ranging from 4.0% to 5.0% (average interest rate for fiscal year 2007 was 4.9%) | 383,290 | … |
| Series 2006 B – payable in 2042, with fixed interest rates ranging from 4.3% to 5.0% (average interest rate for fiscal year 2007 was 4.5%) | 128,435 | … |
| Series 1996 B – repaid in 2007 | … | 17,605 |
| Series 2002 A – repaid in 2007 | … | 121,000 |
| **Notes Payable:** | | |
| Taxable commercial paper note program, $200,000 authorized and tax-exempt bond anticipation program, $300,000 authorized: | | |
| Taxable issue, weighted average maturity and interest rate at June 30, 2007 of 15 days and 5.3%, respectively | 55,047 | 56,540 |
| Tax-exempt issue, weighted average maturity and interest rate at June 30, 2007 of 46 days and 3.7%, respectively | 39,091 | 128,917 |
| Note payable due in 2013 with interest at a variable rate of LIBOR plus 0.6% (actual interest rate at June 30, 2007 was 5.4%) | 25,000 | 25,000 |
| Non-revolving line of credit – repaid in 2007 | … | 57,000 |
| Various notes and capital leases | 29,915 | 17,507 |
| **Total notes and bonds payable** | 1,572,270 | 1,339,303 |
| Unamortized premium | 21,126 | 615 |
| **Net notes and bonds payable** | $1,593,396 | $1,339,918 |

Aggregate maturities of notes and bonds payable (excluding commercial paper) from 2008-2012 are $11,395, $11,534, $11,783, $15,085, and $15,345, respectively.

Duke capitalizes and amortizes the original issue premium and issue costs related to applicable bond issues on a method which approximates the interest method. At June 30, 2007 and 2006, unamortized bond issue costs of $7,907 and $6,087, respectively, are included in prepaid expenses, deferred charges and inventories on Duke's consolidated balance sheet. Additionally, unamortized original issue premium on related bonds of $21,126 and $615, respectively, is included in notes and bonds payable on Duke's consolidated balance sheet. Total amortization expense for issue costs and premiums was $243 and $566 for the years ended June 30, 2007 and 2006, respectively.

Duke had $6,380 at June 30, 2007 and 2006 in a mandatory debt service reserve fund designated to meet scheduled principal and interest payments on the Series 1985B DUHS Revenue Bonds. This amount is included in deposits with bond trustees on the accompanying consolidated balance sheet.

In November 2006, DUHS issued the Series 2006 A, B, and C bonds in the aggregate amount of $150,715 in order to refund the line of credit borrowings and finance certain capital improvements. The individual series amounts are $65,355 for 2006A, $65,360 for 2006B, and $20,000 for 2006C. In November 2006, the University issued Series 2006A bonds in the amount of $383,290. A portion of the University's Series 2006A bonds was used to refund the Series 1996B ($16,485) and Series 2001A ($144,480) bonds. In January 2007, the University issued Series B bonds in the amount of $128,435. The University's Series 2006B bonds were used to refund the Series 2002A bonds ($121,000).

The refundings meet the legal requirements for defeasance of the bond liability. Therefore, neither the escrow nor the refunded bonds are included on the consolidated balance sheet at June 30, 2007 and 2006. The refunding transaction resulted in a loss on extinguishment of debt of $17,778, which is included in other operating expenses in the consolidated statement of activities. The loss represents the write off of unamortized bond issue costs and discount on bonds payable related to the refunded bonds and the escrow funding requirements for principal and interest in excess of the face value of the bonds refunded. Total defeased obligations were $486,825 and $221,345 at June 30, 2007 and 2006, respectively.

Trust indentures underlying the Duke University Health System Revenue Bonds and the Duke University Health System Taxable Bonds contain certain covenants and restrictions, with respect to which the administration believes DUHS is in compliance at June 30, 2007 and 2006.

## 9. Pension and Other Postretirement Benefit Plans

Faculty and staff members of Duke are eligible to participate in a contributory defined contribution pension plan. For the years ended June 30, 2007 and 2006, Duke contributed $77,785 and $70,444, respectively, to this plan. Duke expects to contribute $84,340 to this plan in fiscal year 2008.

In addition, Duke has a noncontributory defined benefit pension plan for substantially all full-time non-exempt employees. Pension (income) expense for this plan for the years ended June 30, 2007 and 2006 amounted to ($2,959) and $15,869, respectively. The benefit for this plan is based on years of service and the employee's compensation during the last ten years of employment. Duke does not expect to contribute to this plan in fiscal year 2008.

The following table summarizes the allocation of assets available for plan benefits for the defined benefit pension plan at June 30:

| | 2007 | 2006 |
|---|---|---|
| Short-term investments | 4.7% | 7.4% |
| Real estate | 5.9 | 5.1 |
| Domestic stocks | 3.4 | 3.5 |
| International stocks | 27.1 | 27.3 |
| International bonds and long-term notes | 1.4 | 1.8 |
| Private investments | 17.1 | 17.3 |
| Hedged strategies | 40.4 | 37.6 |
| **Total** | 100.0% | 100.0% |

The pension plan's funded status allows an investment strategy that focuses on maximizing total return and places limited emphasis on liability matching and no emphasis on generating income. Over the long term, the plan's average asset allocation target is 40% global equity, 25% hedged strategies, 24% private investments (includes private equity and real estate), 10% fixed income, and 1% cash. The plan's diversification offers the expectation of higher and more stable returns.

At June 30, 2007 and 2006, the accumulated benefit obligation for the pension benefits was $622,417 and $572,026, respectively, which is less than the fair market value of the plan assets of $1,159,088 and $995,262 (as of the March 31, 2007 measurement date). At June 30, 2007, the plan is over funded in relation to accumulated benefits by $536,671.

The pension benefits expected to be paid in each year from 2008-2012 are $23,506, $24,681, $26,247, $28,509, and $31,066, respectively. The aggregate benefits expected to be paid in the five years from 2013-2017 are $206,398. The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30 and include estimated future employee service.

Duke also sponsors an unfunded, defined benefit postretirement medical plan that covers all full time employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree health care and for the health care of their dependents. Duke pays all benefits on a current basis. Employees hired after June 30, 2002 are not eligible for DUHS contributions to the cost of this benefit and must bear the full cost themselves if elected at retirement. As a healthcare provider, Duke utilizes an incremental cost approach to determine its liability for the postretirement medical plan. The total liability reflects estimated additional costs to provide healthcare benefits to retirees within DUHS facilities plus the full cost to provide healthcare benefits to retirees at facilities other than DUHS.

The postretirement benefits expected to be paid in each year from 2008-2012 are $7,625, $8,620, $9,752, $10,942, and $12,202, respectively. The aggregate benefits expected to be paid in the five years from 2013-2017 are $73,120. The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30 and include estimated future employee service. The Medicare retiree drug subsidy expected to be received in each year from 2008-2012 is $1,757, $2,028, $2,303, $2,597, and $2,910, respectively. The aggregate subsidies expected to be contributed in the five years from 2013-2017 are $21,220.

The measurement date for both the defined benefit pension plan and the postretirement health benefit plan is March 31.

The following tables provide a reconciliation of the changes in the plans' projected benefit obligations and fair value of assets:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| *Reconciliation of benefit obligation* | | | | |
| Obligation at July 1 | $ 652,893 | $ 644,778 | $ 131,973 | $ 149,838 |
| Service cost | 30,375 | 31,537 | 2,484 | 3,088 |
| Interest cost | 36,849 | 36,759 | 7,431 | 8,418 |
| Plan amendments | … | 5,379 | … | … |
| Actuarial (gain) loss | 6,136 | (42,554) | 10,028 | (22,460) |
| Benefit payments | (23,380) | (21,506) | (7,069) | (6,911) |
| Retiree drug subsidy payments | … | … | 373 | … |
| Administrative expenses (estimated) | (1,500) | (1,500) | … | … |
| **Obligation at June 30** | $ 701,373 | $ 652,893 | $ 145,220 | $ 131,973 |
| *Reconciliation of fair value for plan assets* | | | | |
| Fair value of plan assets at July 1 | $ 995,262 | $ 821,610 | $ … | $ … |
| Actual return on plan assets | 183,462 | 183,819 | … | … |
| Employer contributions | 4,974 | 12,265 | … | … |
| Participant contributions | 113 | 124 | … | … |
| Benefit payments | (23,380) | (21,506) | … | … |
| Administrative expenses | (1,343) | (1,050) | … | … |
| **Fair value of plan assets at measurement date** | $ 1,159,088 | $ 995,262 | $ … | $ … |
| *Funded status* | | | | |
| Funded status at June 30 | $ 457,715 | $ 342,369 | $ (145,220) | $ (131,973) |
| Unrecognized prior-service cost (asset) | … | 24,452 | … | (15,139) |
| Actuarial gain | … | (349,265) | … | (84,975) |
| Employer contributions after measurement date | … | 4,974 | … | … |
| **(Accrued benefit liability)/ net amount recognized** | $ 457,715 | $ 22,530 | $ (145,220) | $ (232,087) |

The following table provides the components of net periodic benefit cost for the plans for fiscal years 2007 and 2006:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | $ 30,375 | $ 31,537 | $ 2,484 | $ 3,088 |
| Interest cost | 36,849 | 36,759 | 7,431 | 8,418 |
| Expected return on plan assets | (66,908) | (55,857) | … | … |
| Amortization of prior-service cost (asset) | 3,446 | 3,542 | (1,800) | (7,201) |
| Expected participant contributions | (124) | (112) | … | … |
| Recognized actuarial gain | (6,597) | … | (7,401) | … |
| **Net periodic benefit (credit) cost** | $ (2,959) | $ 15,869 | $ 714 | $ 4,305 |

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The assumptions used in the measurement of Duke's benefit obligation and benefit cost are shown in the following table:

| | Pension Benefits | | | | Postretirement Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| Weighted average assumptions as of measurement date | Obligation | Cost | Obligation | Cost | Obligation | Cost | Obligation | Cost |
| Discount rate | 5.75 % | 5.75% | 5.75% | 5.75% | 5.75% | 5.75% | 5.75% | 5.75% |
| Expected return on plan assets | N/A | 8.50% | N/A | 8.50% | N/A | N/A | N/A | N/A |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% | 3.50% | N/A | N/A | N/A | N/A |

The expected return on pension plan assets is established at an amount that reflects the targeted asset allocation and expected returns for each component of the plan assets. The expected return was developed using a stochastic forecast model of inflation expectations and long-term real expected returns for each asset class. The result was reduced by 1.0% to reflect medium-term expectations and survey data for similar plans. The rate is reviewed annually and adjusted as appropriate to reflect changes in the expected market performance or in targeted asset allocation ranges.

In order to determine the benefit obligation as of June 30, 2007, a 9.0% annual rate of increase in the per capita costs of covered health care benefits was assumed, decreasing to an ultimate annual rate of increase of 5.0%. The benefit expense for fiscal year 2007 was driven by the rates used to determine the obligation at June 30, 2006, which were 9.0% decreasing to an ultimate rate of 5.0%.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effect:

| | 1.0% Increase | 1.0% Decrease |
|---|---|---|
| Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | $ 1,384 | $ (1,161) |
| Effect on the health care component of the accumulated postretirement benefit obligation | $ 20,292 | $ (16,661) |

Duke currently provides postemployment medical and life insurance benefits to former employees receiving long-term disability income benefits. The consolidated balance sheet includes a liability of $13,027 and $15,470 for this accrued postemployment benefit cost as of June 30, 2007 and 2006, respectively.

# 10. Change in Accounting Principle

On June 30, 2007, Duke adopted FASB Statement No. 158 (see Note 1(Q)). The incremental effects of applying the recognition provisions of Statement No. 158 on Duke's financial position as of June 30, 2007 follow:

| | Before application of Statement No. 158 | Adjustments | After application of Statement No. 158 |
|---|---|---|---|
| Prepaid pension asset | 25,487 | 432,228 | 457,715 |
| Postretirement and postemployment benefit obligation | (226,105) | 80,885 | (145,220) |
| **Total net assets** | 9,516,051 | 513,113 | 10,029,164 |

Beginning in fiscal year 2009 Statement No. 158 also requires that the assumptions used in measuring the annual pension and postretirement expense be determined as of the balance sheet date. The assumptions used to measure the annual pension and postretirement expenses are currently as of March 31.

# 11. Net Assets

Temporarily restricted net assets consist of the following at June 30:

| | 2007 | 2006 |
|---|---|---|
| Contributions for physical plant | $ 20,551 | $ 26,171 |
| Contributions for instruction, research and divisional support | 145,865 | 160,420 |
| **Temporarily restricted net assets** | $ 166,416 | $ 186,591 |

Permanently restricted net assets consist of the following at June 30:

| | 2007 | 2006 |
|---|---|---|
| Permanent endowment funds with income restricted for instruction, research and student aid | $ 1,104,878 | $ 961,389 |
| Contributions receivable for permanent endowment funds, net | 188,448 | 157,758 |
| Interests in perpetual trusts held by others | 751,998 | 663,685 |
| Annuity and other split-interest agreements | 9,745 | 8,046 |
| Student loan funds | 15,867 | 15,710 |
| **Permanently restricted net assets** | $ 2,070,936 | $ 1,806,588 |

# 12. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, patient receivables and other receivables approximate fair value because of the short maturity of these financial instruments. Contributions receivable and annuity and other split-interest obligations carrying amounts approximate fair value because these instruments are recorded at net present value. Investments, deposits with bond trustees, and interests in perpetual trusts held by others are reported at fair value as of the date of the consolidated financial statements. The carrying amount of student loans receivable under Duke loan programs approximates fair value, due to the rates and the relative short-term nature of the loans.

The carrying amounts of accounts payable, accrued payroll and employee withholdings and related accruals approximate fair value because of the short maturity of these financial instruments. The carrying amount of notes and bonds payable with variable interest rates approximates their fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality. The fair value of notes and bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value and carrying amount of these fixed rate bonds payable at June 30, 2007 approximated $798,660 and $784,072, respectively. The estimated fair value and carrying amount of these bonds payable at June 30, 2006 approximated $581,099 and $565,909, respectively.

# 13. Derivative and Other Financial Instruments

Duke has executed derivative financial instruments in the normal course of its business, but does not use them for trading purposes. Duke has six interest rate swap agreements that are designed to synthetically increase or decrease the variable rate exposure associated with its portfolio of debt. In addition, Duke has one basis swap agreement designed as a hedging technique to reduce the interest rate risk on variable rate indebtedness by utilizing the spread between the yield curves for taxable debt securities and tax-exempt municipal debt securities.

The following summarizes the general terms for each of Duke's swap agreements:

| | August 1993 Interest Rate Swap | November 2004 Interest Rate Swap | March 2005 Interest Rate Swap[3] | October 2005 Interest Rate Swap | November 2005 Interest Rate Swap | April 2007 Interest Rate Swap | July 2001 Basis Swap |
|---|---|---|---|---|---|---|---|
| Effective Date | August 5, 1993 | November 18, 2004 | May 19, 2005 | December 1, 2006 | November 15, 2005 | April 1, 2009 | July 6, 2001 |
| Associated variable rate debt | Series 1993A | Portfolio | Series 2005 | N/A | N/A | Portfolio | N/A |
| Term | 30 year | 3 year | 23 year | 7 year | 8 year | 30 year | 20 year |
| Notional amount | $28,650 | $25,000 | $322,140 | $7,000 | $25,000[5] | $200,000 | $400,000 |
| Rate Duke receives | SIFMA[1] | 3.44% | 61.52% of one-month LIBOR plus 0.28% | One-month LIBOR plus 0.60% | One-month LIBOR plus 0.60% | 67% of one-month LIBOR[2] | 72.125% of one-month LIBOR |
| Rate Duke pays | 5.09% | One-month LIBOR[2] | 3.60% | 5.63% | 5.10% | 3.67% | SIFMA[1] |
| Collateral provisions | 100% of Liability if >$500 | Combined[4] | Combined[4] | N/A | N/A | Combined[4] | Combined[4] |

The fair value of each swap is the estimated amount Duke would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The net fair value is included in prepaid expenses, deferred charges and inventories at June 30, 2007 and other liabilities at June 30, 2006. The change in fair value is included as a gain or loss in other nonoperating activities on the consolidated statement of activities. The net settlement amount incurred on the swaps is included in operating income on the consolidated statement of activities. The collateral to support the swaps is included in investments on the consolidated balance sheet.

The related financial information on each of these instruments is as follows:

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Fair Value | Gain (Loss) | Collateral Deposit | Fair Value | Gain (Loss) | Collateral Deposit |
| August 1993 Interest Rate Swap | $ (2,604) | $ (470) | $ 3,013 | $ (2,134) | $ 2,475 | $ 3,036 |
| November 2004 Interest Rate Swap | (185) | 557 | … | (742) | (438) | … |
| March 2005 Interest Rate Swap | 6,006 | (978) | … | 6,984 | 28,390 | … |
| October 2005 Interest Rate Swap | 133 | (62) | … | 195 | 195 | … |
| November 2005 Interest Rate Swap | 1,151 | (374) | … | 1,525 | 961 | … |
| April 2007 Interest Rate Swap | 3,606 | 3,606 | … | … | … | … |
| July 2001 Basis Swap | (134) | 6,673 | … | (6,807) | 12,028 | … |
| **Total** | $ 7,973 | $ 8,952 | $ 3,013 | $ (979) | $ 43,611 | $ 3,036 |

Duke is exposed to credit loss in the event of nonperformance by the counterparty to its swaps and to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis swap. Duke monitors the credit standing of its counterparties.

In addition, investment strategies employed by DUMAC incorporate the use of various derivative financial instruments with off balance sheet risk. DUMAC uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures as required under DUMAC policy to portions of the portfolio. Positions are expected to create gains or losses that, when combined with the applicable portion of the total investment portfolio, provide an expected result. The portfolio is exposed to certain counterparty credit risks associated with these instruments. DUMAC 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 to the maximum extent possible under normal trading practices. Such financial instruments as of June 30, 2007 and 2006 had a fair value of ($23,974) and $7,107, and a notional value of $2,094,555 and $1,297,795, respectively, and are recorded at fair value within investments.

[1] SIFMA represents the Securities Industry and Financial Markets Association Municipal Swap Index. Formerly known as the BMA Municipal Swap Index, SIFMA is the interest rate index used as a basis for repricing the Series 1993A variable rate bonds and is one of the indices of the July 2001 Basis Swap.

[2] LIBOR represents the London Interbank Offered Rate.

[3] Forward–starting floating-to-fixed interest rate swap.

[4] Duke and the counterparty are required to post collateral for combined fair value liability amounts in excess of $40,000 with regard to the November 2004, March 2005, April 2007 and July 2001 swaps.

[5] Original swap's effective date was June 2003, and had a notional value at June 30, 2005 of $15,000. This swap was revised effective November 15, 2005 with the terms outlined above.

In addition, DUMAC employs investment managers that enter Duke into derivative transactions including futures, options, swaps, and exchange contracts to obtain positions in a variety of domestic and international markets including equity, fixed income, commodities, currencies, interest rates, and indices. Such financial instruments as of June 30, 2007 and 2006 had a fair value of ($31,953) and $6,523 and a notional value of $289,708 and $402,779, respectively.

# 14. Functional Expenses

Expenses are reported in the consolidated statement of activities in natural categories. Functional expenses for each of the years ended June 30, 2007 and 2006 were categorized as follows:

| | 2007 | 2006 |
|---|---|---|
| Instruction and departmental research | $ 612,437 | $ 573,538 |
| Sponsored and separately budgeted research | 610,954 | 537,760 |
| Health care services | 1,216,124 | 1,155,707 |
| Libraries | 40,302 | 36,225 |
| Student services | 45,326 | 41,427 |
| General administration | 579,579 | 591,280 |
| Student aid | 32,127 | 29,381 |
| Auxiliary enterprises | 153,926 | 143,727 |
| Other | 183,769 | 130,147 |
| **Total operating expenses** | $ 3,474,544 | $ 3,239,192 |

Functional expenses are shown in categories recommended by the National Association of College and University Business Officers. Duke's primary program services are instruction and departmental research, sponsored and separately budgeted research, and health care services. Expenses reported as libraries, student services, general administration, student aid, and auxiliary enterprises are incurred in support of these primary program services.

Plant operation and maintenance expense is allocated to program and supporting activities based upon periodic assessment of facilities usage. Total amounts allocated in fiscal years 2007 and 2006 are $115,676 and $99,364, respectively.

# 15. Goodwill Impairment

In connection with the administration's assessment of the recoverability of goodwill, DUHS recorded a charge of $102,565 for the write-off of the remaining balance at June 30, 2006 of goodwill related to the acquisition of Duke Raleigh Hospital due to poor current and projected operating results. The amount of the charge was determined by the excess of the carrying value of the assets over the fair value of the underlying business as determined by discounting expected future cash flows and prices for comparable hospitals.

# 16. Commitments and Contingencies

## A. CONSTRUCTION AND PURCHASE COMMITMENTS

At June 30, 2007 and 2006, open contracts for the construction of physical properties amounted to $84,593 and $65,580, respectively, and outstanding purchase orders for normal operating supplies and equipment amounted to $29,741 and $47,419, respectively.

## B. OPERATING LEASES

Duke leases various machinery, equipment and office space under operating leases expiring at various dates through December 2020. Total rental expense in fiscal years 2007 and 2006 for all operating leases was $47,724 and $44,694, respectively.

Future minimum lease payments under noncancelable operating leases as of June 30, 2007 are as follows:

| Year | |
|---|---|
| 2008 | $ 49,990 |
| 2009 | 47,486 |
| 2010 | 40,678 |
| 2011 | 33,221 |
| 2012 | 31,663 |
| Thereafter | 167,943 |
| **Total minimum operating lease payments** | $ 370,981 |

## C. INVESTMENT COMMITMENTS

Duke is obligated under certain investment fund agreements to periodically advance additional funding up to specified levels. At June 30, 2007, Duke had future commitments of $1,972,062, which are likely to be called through 2012.

## D. MEDICAL MALPRACTICE COVERAGE

DCC (see Note 2) insures a portion of the medical malpractice risks and patient general liability risks of DUHS clinical providers and the PDC. The assets, liabilities, and results of operations for DCC have been reflected in the unrestricted net assets of Duke. DCC issued policies of insurance to its insureds with policy limits of $67,000. DCC reinsures with various commercial carriers amounts in excess of $7,000 per claim, subject to an aggregate buffer retention of $3,000 in excess of $7,000 DCC retention. This functions as a deductible whereby DCC pays the first $3,000 (aggregate per year) in excess of the $7,000 per claim retention, after which claim amounts in excess of the $7,000 are covered by reinsurance. Effective July 1, 2007, the total policy limits issued by DCC will be $107,000.

Professional liability risk of DUHS entities for time periods not included in the DCC program is generally covered by commercial policies.

## E. SELF-INSURANCE

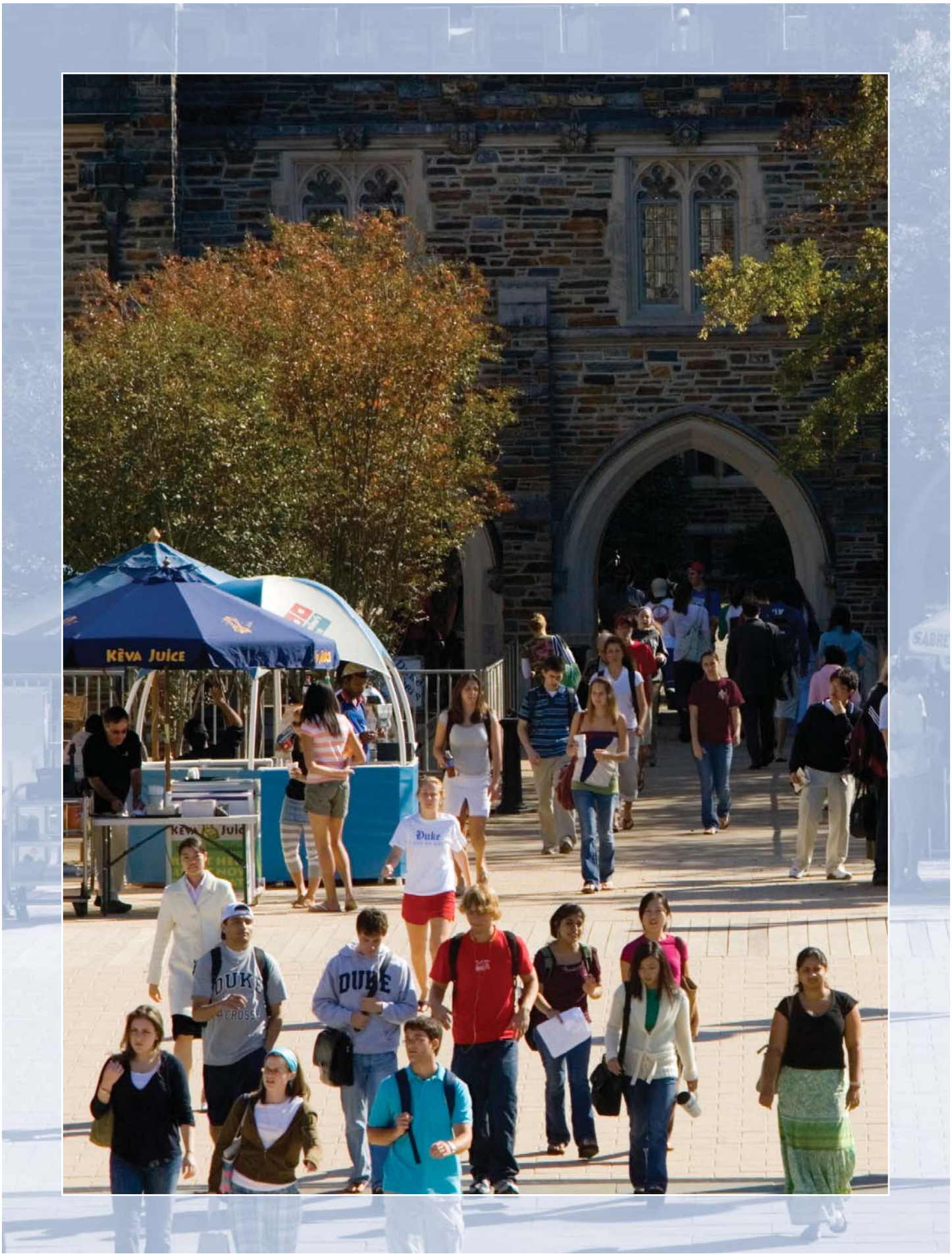
Duke provides employee healthcare benefits, long-term disability benefits, unemployment benefits, and workers' compensation benefits primarily though employer contributions, participant contributions, and excess loss insurance and manages those programs through third-party administrators. In the opinion of the administration, adequate provision has been made for related risks.

## F. LITIGATION

Duke is involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, the administration is of the opinion that the resolution of these matters will not have a material adverse effect on Duke's financial position.

## G. GOVERNMENT BILLING

In May 2006, DUHS voluntarily identified to the federal government concerns about compliance related to billing for services rendered to participants in clinical trials. DUHS has conducted an analysis of this matter with input from the government. The administration believes that the resolution of this liability will not result in a material impact on the consolidated financial statements.




West Campus Plaza

# Balance Sheet SCHEDULE 1

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION AT JUNE 30, 2006)
(000'S OMITTED)

| | 2007 | 2006 |
|---|---|---|
| ***Assets:*** | | |
| Cash and cash equivalents | $ 151,999 | $ 211,033 |
| Cash held as collateral under securities lending transactions | 70,114 | 47,929 |
| Other receivables, net | 162,042 | 145,955 |
| Prepaid expenses, deferred charge and inventories | 239,428 | 57,623 |
| Contributions receivable, net | 344,760 | 330,412 |
| Student loans receivable, net | 38,788 | 37,758 |
| Investments | 6,598,471 | 5,269,844 |
| Deposits with bond trustees | 84,015 | 54,805 |
| Land, buildings, and equipment, net | 1,568,402 | 1,453,020 |
| Interests in perpetual trusts held by others | 751,998 | 663,685 |
| **Total assets** | $ 10,010,017 | $ 8,272,064 |
| ***Liabilities:*** | | |
| Accounts payable | $ 114,790 | $ 101,546 |
| Accrued payroll and employee withholdings | 98,829 | 97,910 |
| Deferred revenues and deposits | 113,697 | 57,193 |
| Liability under securities lending transactions | 70,114 | 47,929 |
| Notes and bonds payable | 1,008,509 | 836,131 |
| Annuity and other split-interest obligations | 43,230 | 39,825 |
| Accrued postretirement/postemployment and other benefit obligations | 148,438 | 196,037 |
| Other liabilities | 79,001 | 79,116 |
| **Total liabilities** | 1,676,608 | 1,455,687 |
| ***Net Assets:*** | | |
| Unrestricted | 6,114,848 | 4,844,220 |
| Temporarily restricted | 158,699 | 176,190 |
| Permanently restricted | 2,059,862 | 1,795,967 |
| **Total net assets** | 8,333,409 | 6,816,377 |
| **Total liabilities and net assets** | $ 10,010,017 | $ 8,272,064 |

The supplementary information in this schedule presents the balance sheet of Duke University exclusive of the financial position of Duke University Health System, Inc.

See accompanying Independent Auditors' Report.

# Statement of Activities SCHEDULE 2

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006)
(000'S OMITTED)

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | 2007 Total | 2006 Total |
|---|---|---|---|---|---|
| ***Operating revenues and support:*** | | | | | |
| Tuition and fees | $ 433,627 | $ … | $ … | $ 433,627 | $ 411,401 |
| Less student aid | (139,449) | … | … | (139,449) | (133,897) |
| | 294,178 | … | … | 294,178 | 277,504 |
| Grants, contracts and similar agreements: | | | | | |
| Government sources | 544,684 | … | … | 544,684 | 488,577 |
| The Private Diagnostic Clinic, PLLC | 49,535 | … | … | 49,535 | 46,527 |
| Other | 194,279 | … | … | 194,279 | 194,015 |
| **Total grants, contracts and similar agreements** | 788,498 | … | … | 788,498 | 729,119 |
| Contributions | 83,651 | … | … | 83,651 | 83,343 |
| Investment return designated for current operations: | | | | | |
| The Duke Endowment | 11,877 | … | … | 11,877 | 13,542 |
| Endowment spending | 148,218 | … | … | 148,218 | 131,404 |
| Other investment income | 169,482 | … | … | 169,482 | 123,581 |
| Auxiliary enterprises | 147,512 | … | … | 147,512 | 147,506 |
| Other | 118,678 | … | … | 118,678 | 95,762 |
| Net assets released from restrictions | 43,608 | (43,608) | … | … | … |
| **Total operating revenues and support** | 1,805,702 | (43,608) | … | 1,762,094 | 1,601,761 |
| ***Operating expenses:*** | | | | | |
| Salaries and wages | 848,748 | … | … | 848,748 | 779,152 |
| Employee benefits | 174,278 | … | … | 174,278 | 167,926 |
| Net postretirement/postemployment benefit credit | (4,208) | … | … | (4,208) | (1,230) |
| Student aid | 28,230 | … | … | 28,230 | 26,165 |
| Other operating expenses | 585,757 | … | … | 585,757 | 456,620 |
| Interest on indebtedness | 41,020 | … | … | 41,020 | 30,881 |
| Depreciation and amortization | 149,013 | … | … | 149,013 | 133,657 |
| **Total operating expenses** | 1,822,838 | … | … | 1,822,838 | 1,593,171 |
| **(Deficit) excess of operating revenues and support (under) over operating expenses** | (17,136) | (43,608) | … | (60,744) | 8,590 |
| ***Nonoperating activities:*** | | | | | |
| Contributions | … | 28,088 | 170,137 | 198,225 | 191,484 |
| Investment return in excess of amounts designated for current operations | 1,014,816 | 73 | 11,138 | 1,026,027 | 575,275 |
| Gain (loss) on perpetual trusts held by others and changes in split interest obligations | … | (1,642) | 84,257 | 82,615 | 48,137 |
| Other | 1,981 | (402) | (1,637) | (58) | (8,551) |
| **Change in net assets from nonoperating activities** | 1,016,797 | 26,117 | 263,895 | 1, 306,809 | 806,345 |
| **Transfer of net assets from DUHS** | 25,983 | … | … | 25,983 | 298,003 |
| **Cumulative effect of changes in accounting principles** | 244,984 | … | … | 244,984 | (30,304) |
| **Increase (decrease) in net assets** | 1,270,628 | (17,491) | 263,895 | 1,517,032 | 1,082,634 |
| Net assets at beginning of year | 4,844,220 | 176,190 | 1,795,967 | 6,816,377 | 5,733,743 |
| **Net assets at end of year** | $ 6,114,848 | $ 158,699 | $ 2,059,862 | $ 8,333,409 | $ 6,816,377 |

The supplementary information in this schedule presents the statement of activities of Duke University exclusive of the operations of Duke University Health System, Inc.

See accompanying Independent Auditors' Report.

# Statement of Cash Flows SCHEDULE 3

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
YEAR ENDED JUNE 30, 2007
(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2006)
(000'S OMITTED)

| | 2007 | 2006 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Increase in net assets | $ 1,517,032 | $ 1,082,634 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 149,013 | 133,657 |
| Loss on extinguishment of debt | 17,778 | … |
| Loss on disposals of land, buildings and equipment | 1,565 | 13,146 |
| Cumulative effect of change in accounting principle | (244,984) | 30,304 |
| Ten-year academic support transfer from DUHS | … | (280,000) |
| Contributions of property | (4,461) | (1,500) |
| Restricted contributions received for long-term investment and capital projects | (183,877) | (154,620) |
| Permanently restricted investment return | (11,138) | (4,077) |
| Permanently restricted losses (gain) on other nonoperating items | 2,288 | (76) |
| Net realized and unrealized gains on investments | (1,014,889) | (571,198) |
| (Increase) decrease in: | | |
| Other receivables, net | (16,087) | (9,829) |
| Prepaid expenses, deferred charges and inventories | 13,195 | (2,582) |
| Contributions receivable, net | (14,348) | (36,864) |
| Interests in perpetual trusts held by others | (88,313) | (50,578) |
| (Decrease) increase in: | | |
| Accounts payable | 13,244 | 11,369 |
| Accrued payroll and employee withholdings | 919 | 8,946 |
| Deferred revenues and deposits | 56,504 | 13,182 |
| Annuity and other split-interest obligations | 3,405 | 318 |
| Accrued postretirement/postemployment and other benefit obligations | 2,241 | 4,080 |
| Other liabilities | (115) | 1,926 |
| **Net cash provided by operating activities** | 198,972 | 188,238 |

# Statement of Cash Flows SCHEDULE 3 (CONTINUED)

| | 2007 | 2006 |
|---|---|---|
| ***Cash flows from investing activities:*** | | |
| Purchases of investments | (8,032,112) | (6,227,147) |
| Proceeds from sales and maturities of investments | 7,718,374 | 5,820,309 |
| Change in collateral deposits under securities lending transactions, net | (22,185) | 50,738 |
| Change in obligation to return collateral under securities lending transactions, net | 22,185 | (50,738) |
| Purchases of land, buildings and equipment | (262,257) | (294,346) |
| Proceeds from disposals of land, buildings and equipment | 505 | 735 |
| Disbursements for loans to students | (8,065) | (7,820) |
| Repayments of loans by students | 7,035 | 9,155 |
| (Increase) decrease in deposits with bond trustees | (29,210) | 104,471 |
| **Net cash used in investing activities** | (605,730) | (594,643) |
| ***Cash flows from financing activities:*** | | |
| Restricted contributions received for long-term investment and capital projects | 183,877 | 154,620 |
| Permanently restricted investment return | 11,138 | 4,077 |
| Permanently restricted gains (losses) on other nonoperating items | (2,288) | 76 |
| Payments of notes and bonds payable | (424,163) | (42,435) |
| Proceeds from borrowings | 579,160 | 99,150 |
| **Net cash provided by financing activities** | 347,724 | 215,488 |
| Net decrease in cash and cash equivalents | (59,034) | (190,917) |
| Cash and cash equivalents at beginning of year | 211,033 | 401,950 |
| **Cash and cash equivalents at end of year** | $ 151,999 | $ 211,033 |

The supplementary information in this schedule presents the statement of cash flows of Duke University exclusive of the operations of Duke University Health System, Inc.

See accompanying Independent Auditors' Report.

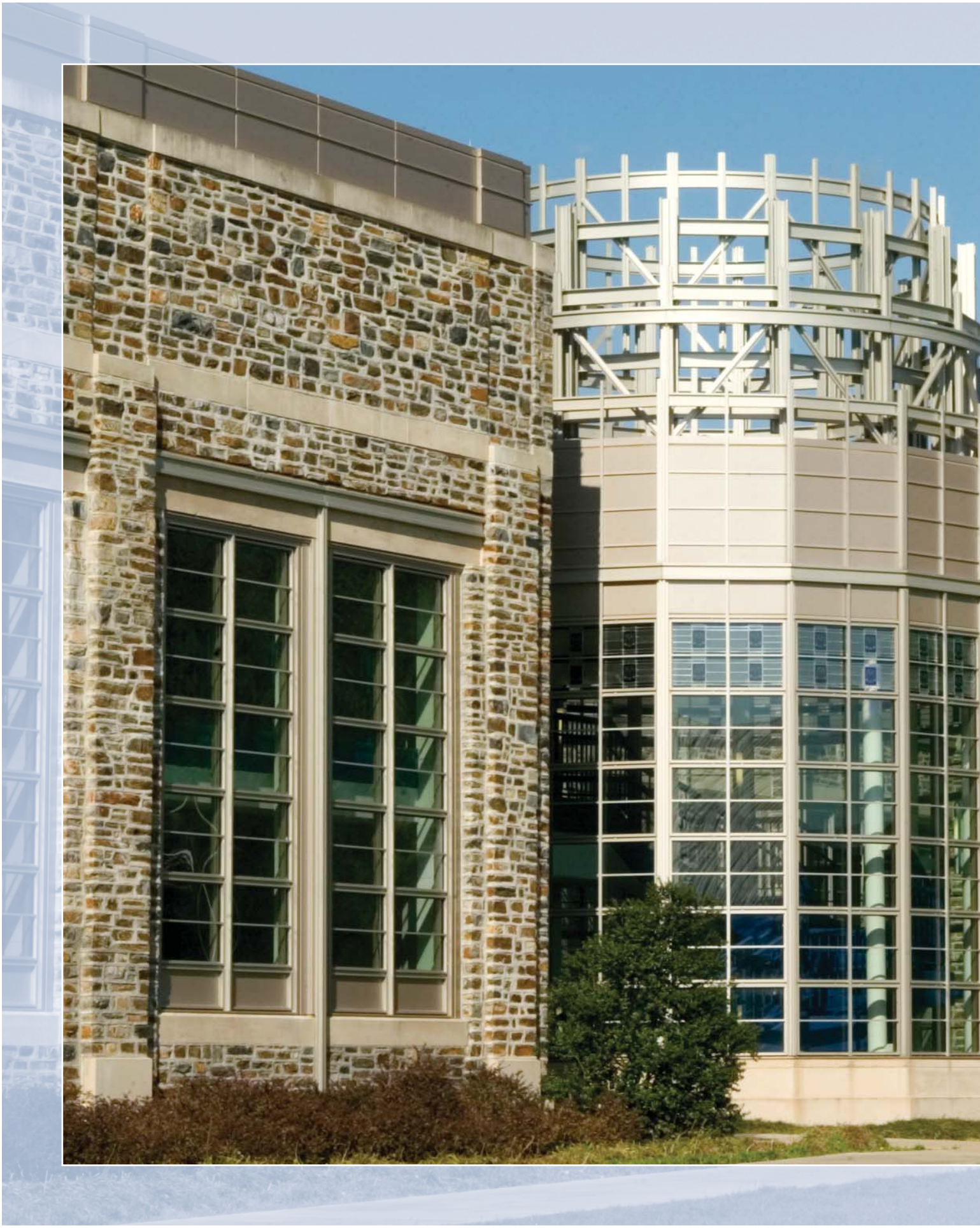
Nasher Museum of Art

| (UNAUDITED) (for the year ended June 30): | 2007 | 2006 | 2005 |
|---|---|---|---|
| **People:** | | | |
| Faculty (regular rank) | 2,664 | 2,583 | 2,524 |
| Total employees paid (1) | 40,497 | 39,311 | 37,680 |
| Total salaries and wages (000's limited) (2) | $ 1,528,707 | $ 1,424,905 | $ 1,322,176 |
| Benefits as a percentage of total compensation | 17.3% | 18.1% | 18.1% |
| **Education:** | | | |
| Enrollment (Fall term, in full-time equivalents) | | | |
| Undergraduate schools | 6,187 | 6,263 | 6,137 |
| Graduate and professional schools | 6,233 | 6,198 | 6,022 |
| Degrees conferred: | | | |
| Undergraduate schools | 1,649 | 1,670 | 1,601 |
| Graduate and professional schools | 2,425 | 2,349 | 2,180 |
| **Research:** | | | |
| Grants, contracts and similar agreements: | | | |
| Federal government sources (000's omitted) | $ 509,175 | $ 455,928 | $ 423,645 |
| Other government sources (000's omitted) | $ 36,318 | $ 33,245 | $ 33,801 |
| Other (000's omitted) | $ 260,389 | $ 258,409 | $ 255,325 |
| **Patient Care: (3) (4)** | | | |
| Adult discharges | 59,210 | 58,914 | 60,582 |
| Average adult length of stay (in days) | 5.8 | 5.8 | 5.6 |
| Number of surgical operations performed | 83,959 | 87,340 | 74,777 |
| Outpatient visits | 1,417,723 | 1,352,643 | 1,297,618 |
| Emergency room visits | 145,279 | 137,015 | 137,872 |
| **Financial:** | | | |
| Total assets (000's omitted) | $12,697,506 | $10,296,044 | $ 9,152,192 |
| Net assets (000's omitted) | $10,029,164 | $ 7,895,106 | $ 6,826,606 |
| Total operating expenses (000's omitted) | $ 3,474,544 | $ 3,239,192 | $ 2,957,357 |
| Notes and bonds payable (000's omitted) | $ 1,593,396 | $ 1,339,918 | $ 1,248,187 |
| Market value of endowment (000's omitted) (5) | $ 5,255,938 | $ 3,915,925 | $ 3,292,012 |
| Endowment funds per full-time equivalent student (5) | $ 423,183 | $ 314,254 | $ 270,747 |
| Long term pool/endowment total rate of return (5) (6) | 25.6% | 20.2% | 18.1% |
| **Physical plant (000's omitted):** | | | |
| Capital acquisitions (7) (8) | $ 345,434 | $ 405,231 | $ 365,655 |
| Total square feet of buildings (8) (9) | 14,827 | 14,224 | 13,518 |

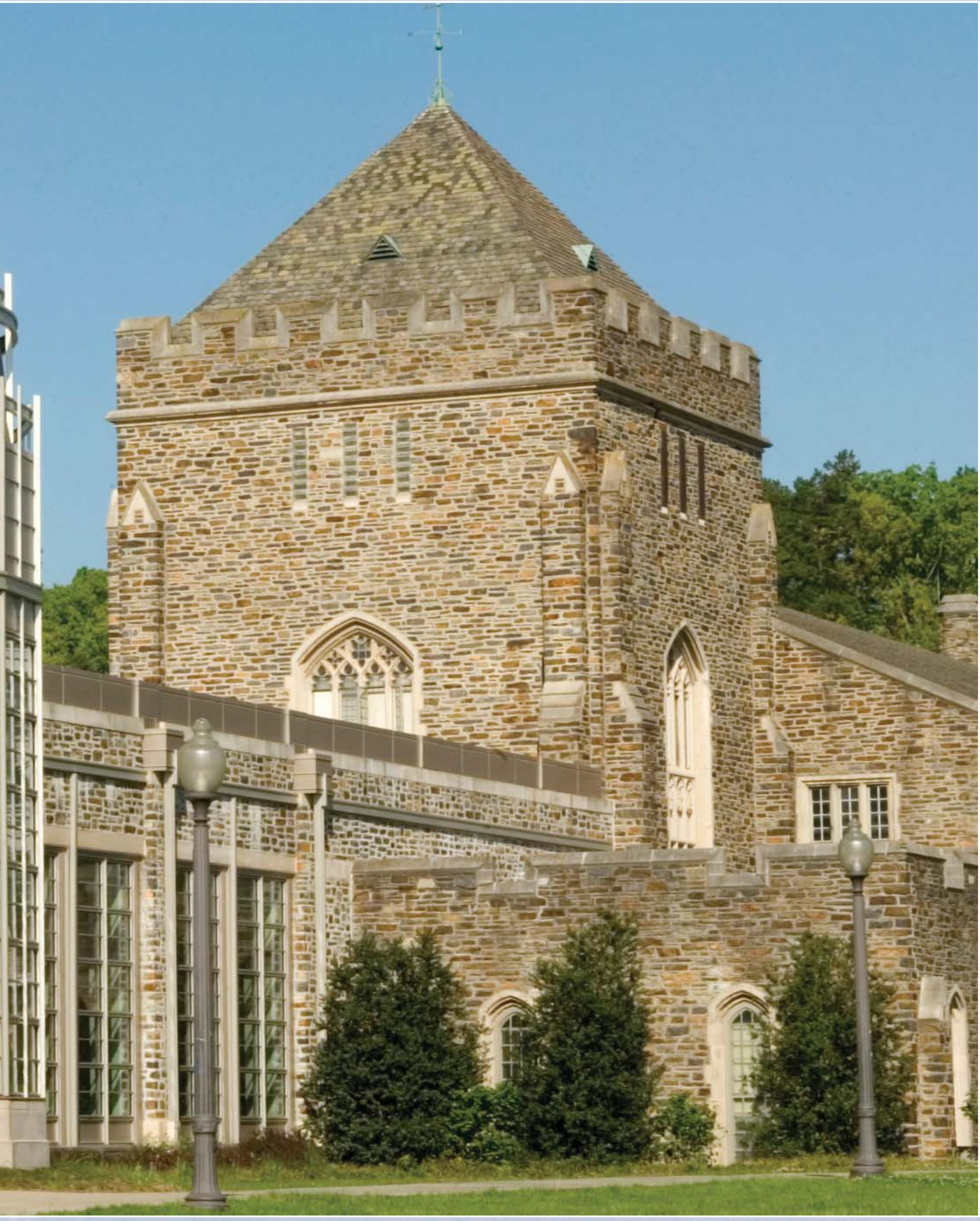
(1) Includes faculty (all ranks), staff and students compensated for service to Duke
(2) Includes salaries and wages not reported in the statement of activities, such as affiliated organizations
(3) Beginning in 1999, numbers reflect business acquisitions of DUHS
(4) Beginning in 1999, numbers include outpatient surgeries and other encounters not previously classified as outpatient visits
(5) Excludes Endowment Funds Held in Trust by Others
(6) Net of external management fees
(7) Beginning in 2000, the threshold for capitalization increased from $500 to $5,000
(8) Capital Acquisitions does not include the original acquisition value of Durham Regional and Duke Health Raleigh Hospitals
(9) Excluding parking garages

# The Growth of Duke 1998-2007

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| 2,477 | 2,364 | 2,290 | 2,243 | 2,159 | 2,146 | 2,094 |
| 36,632 | 36,048 | 35,948 | 34,975 | 31,539 | 31,164 | 30,386 |
| $ 1,251,813 | $ 1,160,483 | $ 1,103,419 | $ 967,755 | $ 842,422 | $ 792,698 | $ 741,731 |
| 17.6% | 18.0% | 17.5% | 17.7% | 18.1% | 18.2% | 18.1% |
| 6,066 | 6,095 | 5,916 | 5,990 | 6,202 | 6,125 | 6,109 |
| 5,999 | 5,689 | 5,588 | 5,273 | 4,969 | 4,789 | 4,838 |
| 1,582 | 1,557 | 1,615 | 1,592 | 1,561 | 1,568 | 1,653 |
| 2,125 | 2,004 | 1,926 | 1,841 | 1,754 | 1,717 | 1,770 |
| $ 385,204 | $ 346,587 | $ 293,886 | $ 246,999 | $ 228,782 | $ 209,063 | $ 191,541 |
| $ 27,818 | $ 24,856 | $ 25,211 | $ 17,925 | $ 11,308 | $ 16,480 | $ 16,414 |
| $ 233,570 | $ 227,664 | $ 222,542 | $ 207,487 | $ 230,018 | $ 142,356 | $ 172,205 |
| 59,536 | 59,302 | 59,728 | 58,577 | 59,342 | 55,768 | 37,400 |
| 5.6 | 5.6 | 5.6 | 5.7 | 5.8 | 6.0 | 6.6 |
| 72,958 | 69,624 | 60,973 | 58,076 | 57,134 | 55,044 | 27,190 |
| 1,219,013 | 1,161,090 | 1,187,421 | 1,243,838 | 1,164,386 | 1,102,760 | 866,953 |
| 135,923 | 139,499 | 141,591 | 138,716 | 129,282 | 118,554 | 54,208 |
| $ 8,035,107 | $ 7,338,216 | $ 7,111,598 | $ 7,245,946 | $ 6,860,158 | $ 5,482,349 | $ 4,441,697 |
| $ 6,053,528 | $ 5,298,555 | $ 5,019,054 | $ 5,298,004 | $ 5,359,977 | $ 3,959,439 | $ 3,624,709 |
| $ 2,725,831 | $ 2,562,187 | $ 2,416,710 | $ 2,342,613 | $ 2,139,766 | $ 1,946,548 | $ 1,556,790 |
| $ 981,508 | $ 941,097 | $ 859,533 | $ 745,976 | $ 732,875 | $ 803,110 | $ 481,975 |
| $ 2,832,922 | $ 2,565,162 | $ 2,440,878 | $ 2,576,524 | $ 2,754,261 | $ 1,759,636 | $ 1,432,703 |
| $ 234,805 | $ 217,682 | $ 212,176 | $ 228,760 | $ 246,555 | $ 161,227 | $ 130,876 |
| 18.0% | 6.6% | (3.8%) | (4.6%) | 58.8% | 23.1% | 20.3% |
| $ 331,252 | $ 288,917 | $ 264,074 | $ 186,293 | $ 187,991 | $ 321,257 | $ 200,257 |
| 13,290 | 12,996 | 12,587 | 12,253 | 12,364 | 12,233 | 10,498 |



Wilson Recreation Center



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