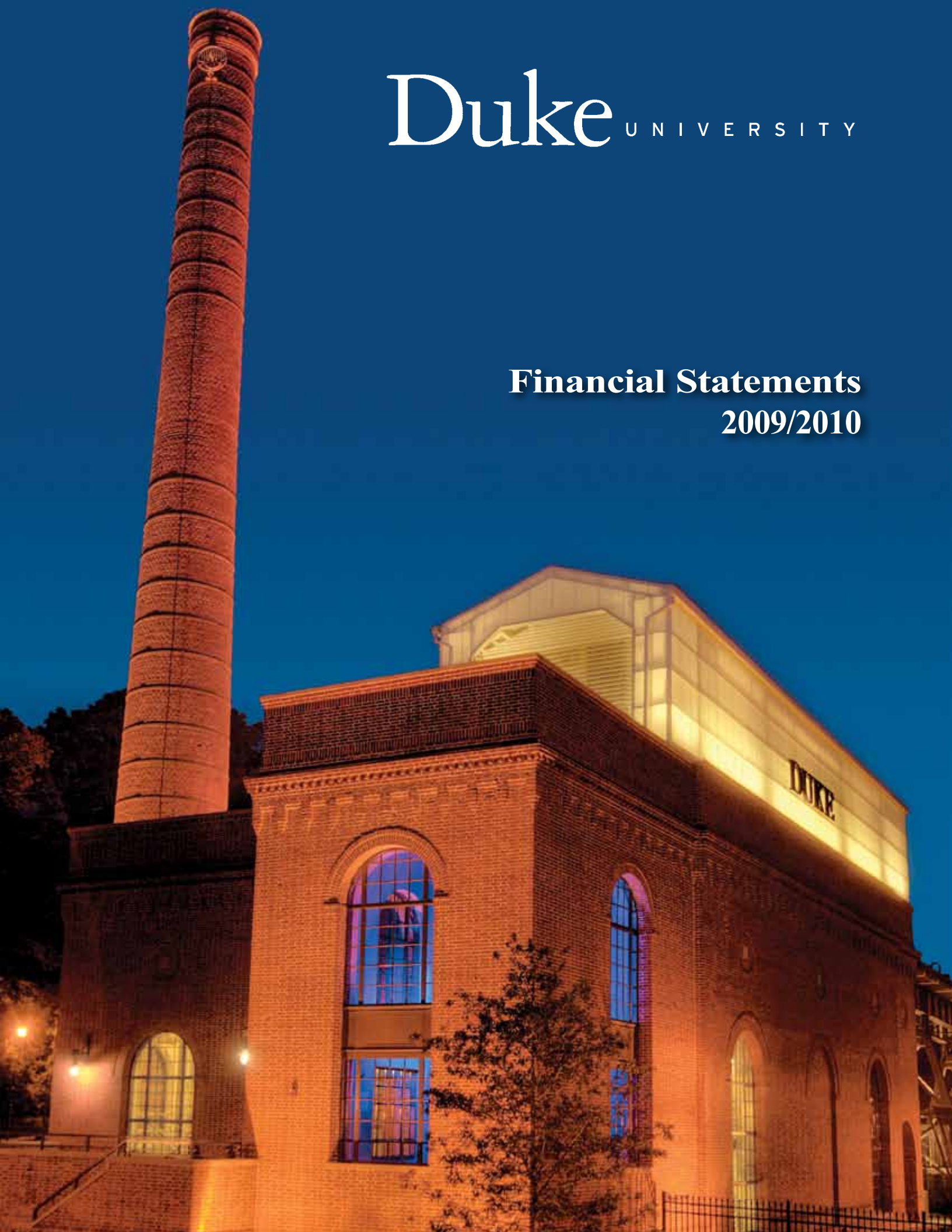
Duke UNIVERSITY

# Financial Statements 2009/2010



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Duke University Financial Contacts

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Vice President for Finance and Treasurer

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*The cover of this report features the University East Campus Steam Plant.*

*The facing page features the incoming freshman class of 2010 on East Campus.*

# Letter from The Executive Vice President

Since the founding of the University in 1924, the faculty, staff, and friends of Duke have demonstrated a propensity to confront and overcome challenges and to consistently achieve progress with respect to core missions of education, research, and patient care. The actions taken during fiscal 2010 represent important first steps toward achieving stability following the financial challenges of the previous year; however, continued focus will be necessary to ensure that resources are available to meet current and future institutional priorities.

The University's endowment, which declined in value by more than 25% in fiscal 2009, rebounded in fiscal 2010 thanks largely to a total return of 13.2% on the University's long-term investment pool. The endowment stands at $4.8 billion as of June 30, 2010, down from a high of $6.1 billion in 2008. Due to the conservative endowment spending during years of market value growth, the impact of the fiscal 2009 market value decline on Duke's operations has been less than many of our peers.

Duke's entrepreneurial faculty and academic leaders increased Duke's programmatic revenue in fiscal 2010, even as Duke delivered increased institutional aid to students and their families, many of whom are experiencing their own financial challenges. Need-blind admission remains a firm commitment of the administration and Board of Trustees.

Government and private sponsorship of Duke's research activities continues to expand, partially reflecting resources garnered through the American Recovery and Reinvestment Act (ARRA). Although below historical highs, philanthropic support returned to levels experienced by Duke for the better part of the last decade.

Last year, the University embarked upon an intensive multi-year process of examining and restructuring a variety of administrative processes and services. This effort, which encompasses the entire University, involves the identification and implementation of strategic process improvements and reductions in ongoing operating expenses.

The University has reduced its non-faculty personnel base by the equivalent of approximately 450 positions in addition to reducing non-personnel spending by $15 million in fiscal 2010. Construction activity has been limited to projects with secured sources of funding. To date, Duke has been successful in minimizing the impact of these changes on our core activities and culture.

Duke University Health System (DUHS) continues to deliver superior financial results and has launched a strategic expansion for Duke Hospital and a new comprehensive cancer center. DUHS' demonstrated strong support of the School of Medicine remains a critical enabler of sustained excellence in both the academic medical and research realms.

The faculty and staff of Duke will remain focused on the prudent, prioritized use of our financial resources. I thank them for their diligence as we continue to move forward with confidence.

Tallman Trask III
Executive Vice President

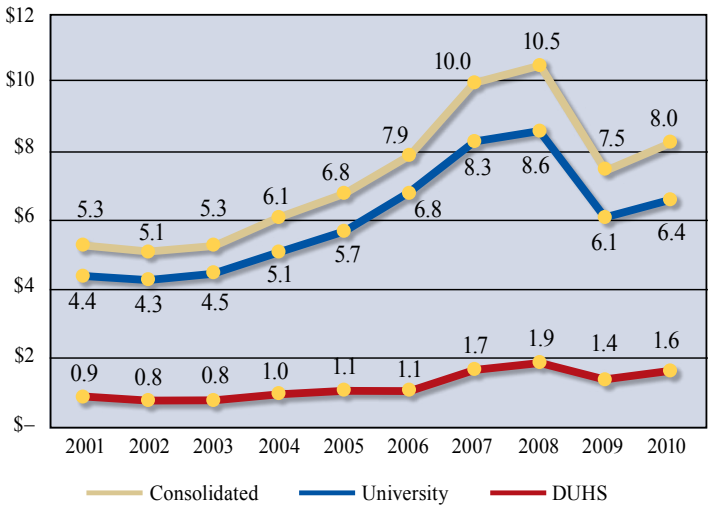
# Discussion of Financial Results for Fiscal Year 2010

The Discussion of Financial Results (the Discussion) includes highly summarized data and should, therefore, be read in conjunction with the accompanying consolidated financial statements, notes, and supplementary schedules. All figures presented within the Discussion are consolidated and inclusive of Duke University Health System (DUHS) unless specifically designated otherwise.

## Net Assets

Duke's consolidated net asset base increased by $469 million in fiscal 2010 to $8.0 billion as of June 30, 2010. The primary drivers of the fiscal 2010 increase were a 13.2% return on the University's investment portfolio and positive operating returns of DUHS. The fiscal 2010 results partially offset the fiscal 2009 net assets decline, which essentially returned the consolidated net asset balance to levels last experienced in fiscal 2006. Despite the fiscal 2009 decline, as of June 30, 2010, consolidated net assets have grown 51% in the last ten (10) years, due primarily to outstanding investment returns, generous philanthropic support from our alumni and other donors, superior operating results of DUHS, and prudent management of our internal resources.

**Consolidated Net Assets ($ in billions)**




The following table summarizes the major components of net assets activity in fiscal 2010 and fiscal 2009:

**Summary of Changes in Consolidated Net Assets**
(in millions)

| | 2010 | 2009 |
|---|---|---|
| Operating results – University | $ (89) | $ (182) |
| Operating results – Health System | 258 | 220 |
| Non-operating results: | | |
| Investment return (loss) | 461 | (2,366) |
| Restricted contributions | 27 | 19 |
| Change in funded status of defined benefit plans | (169) | (438) |
| Interests in perpetual trusts held by others and split interest obligations | 31 | (213) |
| Other | (50) | (51) |
| Total increase (decrease) in consolidated net assets | 469 | (3,011) |
| Total consolidated net assets | $ 7,982 | $ 7,513 |

The operating results of the University and DUHS are detailed independently later in the Discussion. Non-operating activities of Duke resulted in an increase of $300 million to the consolidated net asset base and include:

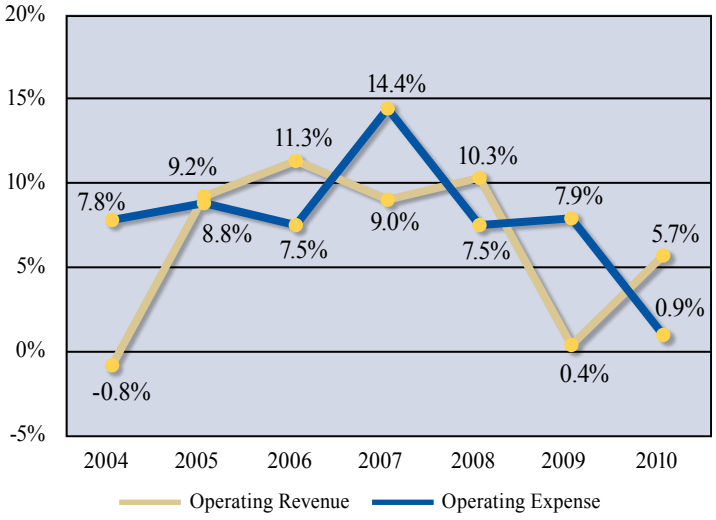
- Unrealized and realized gains generated from investments including the University's endowment ($461 million).
- Restricted contributions received for endowment and capital projects ($27 million).
- Change in funded status of Duke's defined benefit plans ($169 million decrease).
- Gains from the University's interests in perpetual trusts held by others, primarily The Duke Endowment, and changes in split interest obligations ($31 million).
- Other ($50 million decrease), including mark-to-market declines on debt-related interest and basis swaps of DUHS, primarily.

## University Operating Performance

The operating results of the University, exclusive of DUHS, are presented in the supplemental Statement of Activities (Schedule 2 on page 43) following the notes to the consolidated financial statements. University operating activities for fiscal 2010 include all revenues and expenses that support teaching and research efforts, as well as other priorities of the University.

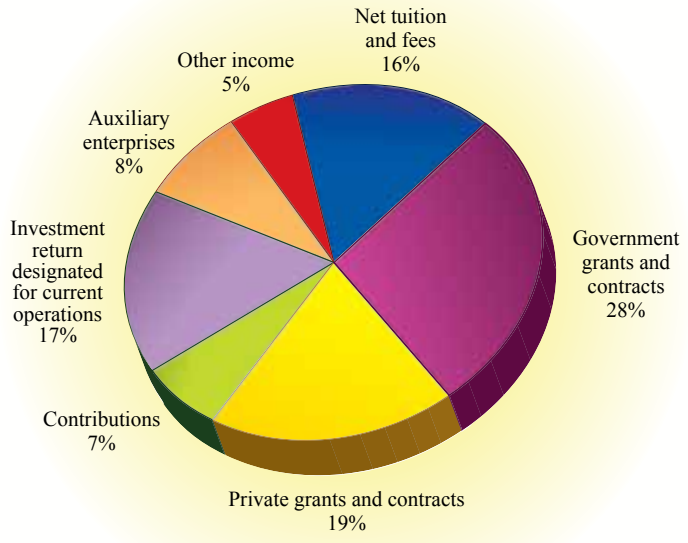
The fiscal 2010 operating results of the University were improved significantly compared to those of fiscal 2009, reflecting the campus-wide response to the financial challenges of fiscal 2009.

**Year-to-Year Change in University Operating Revenue and Expense (%)**




Total operating revenues for the University improved 5.7%, increasing $111 million to $2.04 billion in fiscal 2010. The University's major revenue components are summarized below:

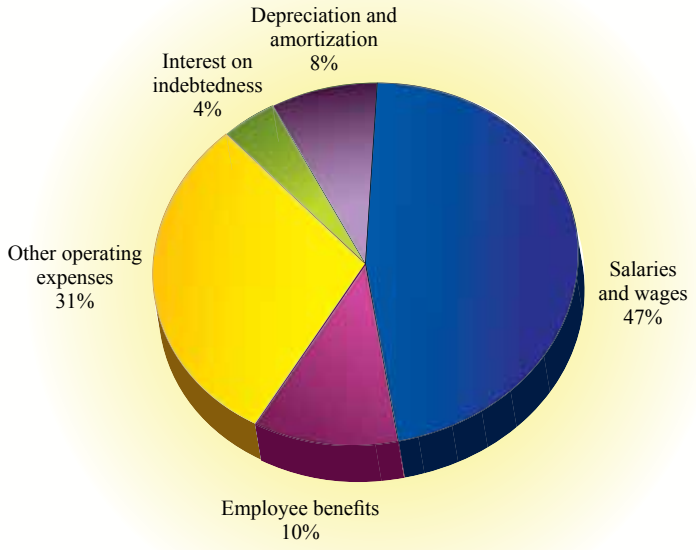
**FY 2010 University Operating Revenues by Source – $2.04 billion**




- Grants and contracts revenue, which increased approximately 11% in fiscal 2010, represents the largest component of University revenue (47%) and is covered in detail within the "Sponsored Programs" segment of this Discussion.
- Investment return designated for current operations, consisting of endowment spending distributions, returns on other invested funds, and distributions from The Duke Endowment, totaled $337 million in fiscal 2010, a 4% increase from the prior year. Spending distributions from Duke's Long-Term Pool (LTP), which have been an important source of revenue in support of short-term and long-term strategic initiatives across Duke, will likely be impacted in future years by the market downturn experienced in fiscal 2009. This potential impact is covered in more detail within the "Investments/Endowments" segment of this Discussion
- Net tuition and fees of $331 million represented 16% of University operating revenue in fiscal 2010. Gross tuition and fees ($528 million) increased $34 million, or 7%, over the prior year, reflecting modest rate increases combined with increased enrollment in some programs.
- Student financial aid, which includes assistance provided to undergraduate, graduate and professional students, is presented as a discount to tuition and fees for financial assistance related to tuition and fees ($196 million) and as an operating expense ($31 million) for all other financial assistance, including stipends. Total student financial aid increased $26 million, or 13%, in fiscal 2010, reflecting the administration's continued commitment to need-blind admission and ensuring the affordability of a Duke education to all qualified applicants.

Total operating expenses for the University increased $19 million, less than 1%, to $2.13 billion in fiscal 2010. The major components of University operating expenses are summarized below:

**FY 2010 University Operating Expenses – $2.13 billion**



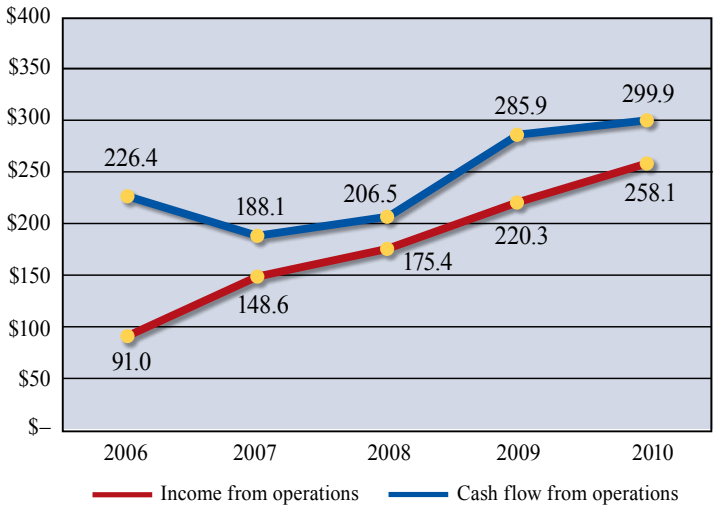
- Salaries and wages totaled $996 million, a $17 million increase compared to fiscal 2009. This modest increase primarily reflects growth of the research enterprise and one-time supplementary payments to qualifying faculty and staff earning less than $50,000 annually. These increases were offset partially by a net non-faculty personnel reduction during the year.
- Employee benefits totaled $223 million, a $5 million decline compared to fiscal 2009, due to a one-time expense incurred in fiscal 2009 related to an early retirement incentive and its 300 participants. Absent the impact of that one-time expense, employee benefits would have increased approximately $12 million, or 6%, in fiscal 2010 due to significantly higher health care and pharmacy costs.
- Interest on indebtedness of $84 million represents 4% of total operating expenses. The increase of $22 million, or 35%, over the prior year is primarily the result of additional interest associated with approximately $750 million of fixed rate bonds issued in fiscal 2009 (Series 2009A and 2009B), which are described in Note 8 to the consolidated financial statements.
- Depreciation and amortization expense of $173 million represented 8% of total operating expenses in fiscal 2010 and virtually no increase from the prior year total, reflecting the administration's decision to delay capital projects.
- Other operating expenses declined $14 million, or 2%, from the prior year. The decline is due primarily to administrative efforts to reduce non-personnel spending. The most notable declines related to spending on professional services, materials and supplies, and minor acquisitions and repairs on non-sponsored funds.

## DUHS Operating Performance

As detailed in Note 2 to the consolidated financial statements, DUHS operates as a controlled affiliate of the University and manages all of the University's clinical health operations and facilities. The financial results and financial position of DUHS are consolidated into the financial statements of Duke under financial statement presentation requirements governing colleges and universities. This differs from financial statement presentation requirements governing health care organizations and used by DUHS in their separately issued financial statements.

In fiscal 2010, for the tenth consecutive year, DUHS generated net operating income. The fiscal 2010 net operating income of $258 million for DUHS represents an increase of $38 million, or 17%, over fiscal 2009.

**DUHS Operating Income and Cash Flow ($ in millions)[1]**




DUHS net patient service revenue, which represents 48% of Duke's consolidated operating revenues, increased 7% to $2.04 billion in fiscal 2010. Inpatient volumes, measured in number of adult discharges, remained flat relative to 2009, with an increase of 0.2%. While adult discharges were down slightly at Durham Regional and capacity constrained Duke University Hospital, Duke Raleigh Hospital realized a 12% growth in discharges in fiscal 2010, following an 18% increase in fiscal 2009. The on-going implementation of the DUHS Wake County strategy to increase the primary care and specialty care presence in Wake County significantly influenced the Duke Raleigh Hospital inpatient results. Outpatient volumes increased 12% over fiscal 2009. This increase was expected and included in the fiscal 2010 budget. New primary care clinics and converted hospital based clinics coming online throughout the year resulted in 10% of this increase. Year-to-year growth in other outpatient services accounted for the remaining 2% of this growth. Emergency room visits increased 2% and total surgical procedures increased 5%.

DUHS provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because DUHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or included in patient accounts receivable. In fiscal 2010, DUHS provided charity care with an estimated cost of $64 million, an increase of 34% over fiscal year 2009. In late fiscal 2009, DUHS expanded its charity care policy to provide greater levels of discounted care to a broader charity patient base. This revised policy was in effect for all of fiscal 2010. The largest provision of charity care services takes place in the emergency room.

[1] Certain components of nonoperating income in the DUHS consolidated statement of operations are reclassified as operating income in Duke's consolidated statement of activities in order to conform to financial statement presentation generally followed by colleges and universities. Investment income represents the primary component with $50 million reclassified in fiscal 2010. DUHS reported operating income of $209 million for fiscal 2010 within the DUHS consolidated statement of operations. DUHS reported cash flow from operations of $269 million for fiscal 2010 within the DUHS consolidated statement of cash flows.

DUHS operating expenses increased 4% to $1.94 billion in fiscal 2010. Labor expenses, which represent 53% of DUHS total operating expenses, increased 8%. Patient volume increases, clinic additions and conversions, and program changes resulted in an increase in full-time equivalent employees in DUHS of 6%. All other expense categories increased a net total of 1%. Included in this net 1% increase in other expenses is a reduction in bad debt expense of $37.5 million, or 50% from fiscal 2009. Many uncollectible accounts that would have been classified as bad debt prior to the 2009 charity care policy change now qualify for a charity discount, resulting in the shifting of these write-offs from bad debt to charity. Excluding this decrease in bad debt expense, all non-labor expense categories increased 5%, in line with the 2010 budget.

In an effort to improve efficiency and patient throughput, particularly at Duke University Hospital where capacity constraints exist, DUHS embarked on a margin improvement initiative to increase operating income beginning in March 2008. The original margin improvement initiative was expanded due to the worsening economic climate in late 2008 and early 2009. The margin improvement effort continues and is anticipated to generate $91 million of ongoing annual savings in fiscal 2011 over the base program year fiscal 2009 budget. As a result of these initiatives, fiscal 2010 financial performance was improved by approximately $65 million relative to fiscal 2009 actual results.

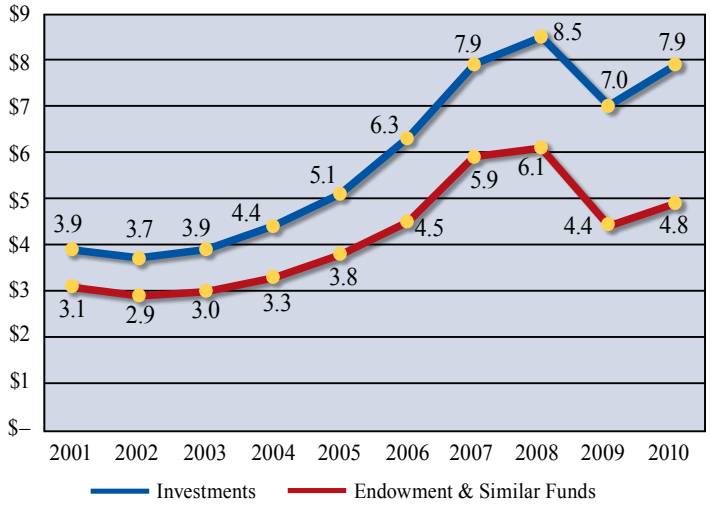
DUHS operating income margins and positive cash flows from operating activities over the last five (5) years, combined with returns on its investment in the University's LTP, allowed DUHS to make net academic support transfers of $424 million to the University during this time period, including a $280 million transfer to the School of Medicine in fiscal 2006. DUHS continued its history of providing annual support for University-based, faculty research and education with a net transfer to the University of $39 million in fiscal 2010.

## Investments/Endowments

Responsibility for managing Duke's investment portfolio rests with DUMAC, LLC (DUMAC), a separate limited liability company organized and controlled by Duke. DUMAC invests Duke's assets across domestic and international asset groups, principally through investment advisory firms and partnerships. Growth of the investment and endowment base is a critical factor in maintaining Duke's financial strength and flexibility to meet current needs and fund future initiatives.

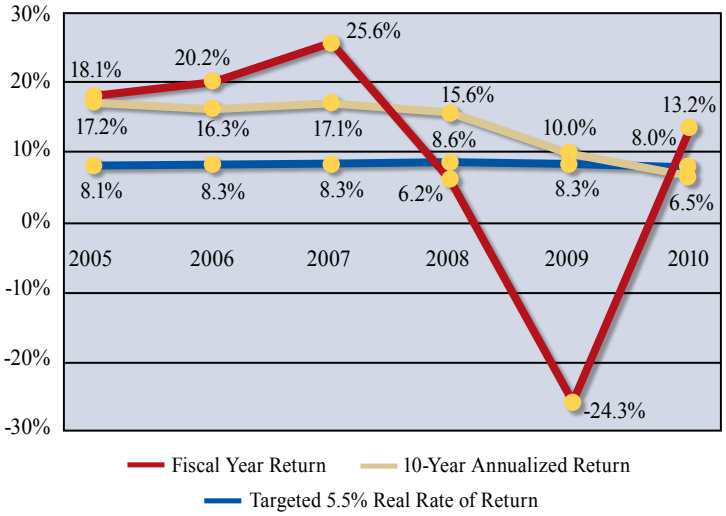
Duke's investment portfolio has grown significantly over the last ten (10) years and stands at approximately $7.9 billion as of June 30, 2010. Endowment and similar funds (including interests in perpetual trusts held by others), representing approximately $4.8 billion of this total, support the current and future operations of academic departments, libraries and other facilities, and a variety of faculty-led initiatives.

**Growth of Investments & Endowment**
**(June 30 values, $ in billions)**




For fiscal 2010, the LTP, in which 98% of the endowment is invested, returned 13.2%. DUMAC seeks to achieve an annualized real rate of return of at least 5.5% net of fees to fund the University's spending rate and to allow the growth of the endowment after considering the effects of inflation. Long-term expansion of the investment portfolio, including endowment, will enable Duke to continue to meet its spending needs while increasing the purchasing power of the endowment over time, despite periodic downturns such as that experienced in fiscal 2009.

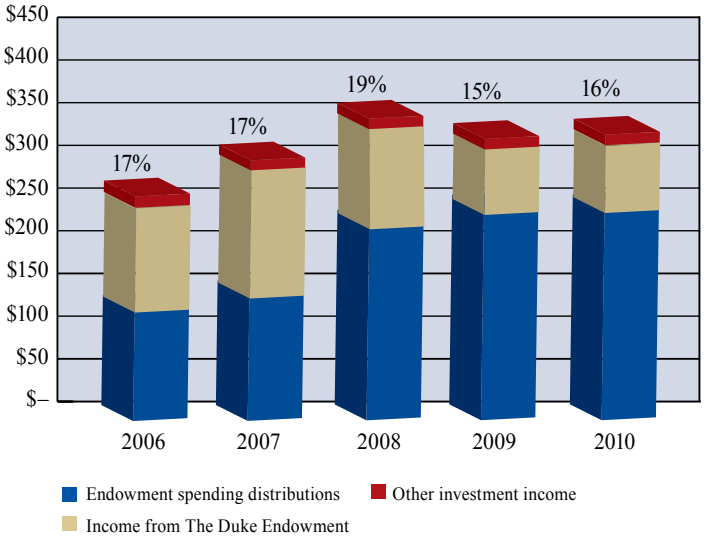
**Investment Returns**



To balance current and future needs, the University employs investment and spending policies designed to provide an appropriate flow of income to the operating budget while preserving the future purchasing power of the endowment assets in perpetuity. The spending rate is approved by the Board of Trustees and is currently set at a rate of 5.5% of the average of the LTP unit market value for the previous three (3) calendar year-ends, subject to a 10% maximum annual growth in per unit spending. A 5.75% rate is utilized for endowments and quasi-endowments that support financial aid.

As Duke's investment base, including the endowment, has grown over the last ten (10) years, investment returns have become a larger contributor to the current operations of the University. Investment returns supporting operations, which include endowment spending, withdrawals from quasi-endowments, distributions from The Duke Endowment, and income from invested working capital, grew from 13% of total University (excluding DUHS) operating expense to almost 19% in the five (5) years preceding fiscal 2009. The impact of the fiscal 2009 economic environment on investment returns reduced this support to 16% of operating expenses.

**Investment Return Supporting Current Operations (in millions and as a % of University Operating Expenses)**



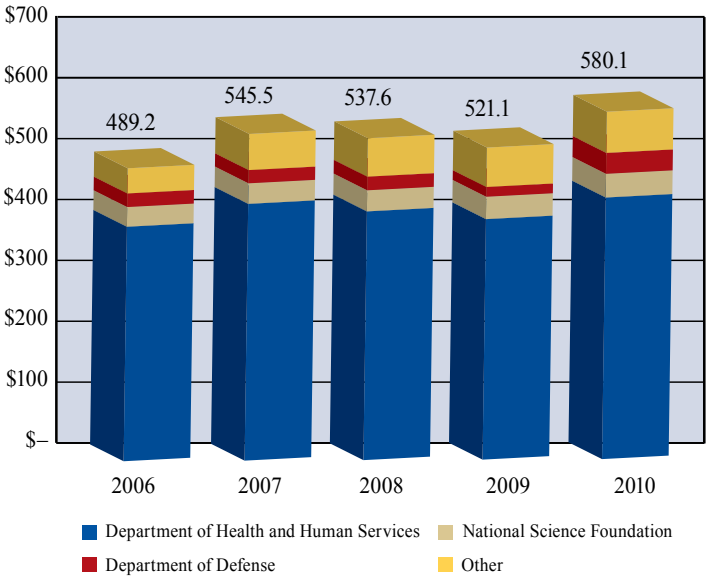

DUHS accounts for $1.6 billion of Duke's cash and investment portfolio, which primarily represents unrestricted working capital, reinvested operating surpluses, and associated appreciation. Early in fiscal 2010, DUHS and DUMAC received the necessary Board approvals to create a separate, single-owner pool for DUHS' investments. The Health System Pool (HSP) was established April 1, 2010 with the intent of providing additional liquidity to DUHS relative to its prior ownership interest in the LTP.

In fiscal 2009, the total return on the LTP was negative 24.3%. That decline had an adverse impact on virtually all components of investment returns that support operations. As a result, support for operations from such investment returns are expected to experience continued downward pressure in the coming years.

## Sponsored Programs

The University conducts research in a collaborative interdisciplinary environment among its schools. The School of Medicine is one of the largest biomedical research enterprises in the country with programs focused on the causes, prevention, and treatment of human disease. Campus-based schools under the Provost continue to increase their research activity, with total sponsored awards increasing 16% from fiscal 2009 to fiscal 2010.

**Government Grants and Contracts ($ in millions)**




The United States Government is the largest source of grant and contract funding for the University. Other external sources include state and local governments, industry, foundations, and private sources. Duke's government-sourced grant and contract funding has grown 26% in the last five (5) years, and represented 28% of the University's total operating revenue in fiscal 2010.

In February 2009, the United States Congress passed the American Recovery and Reinvestment Act (ARRA), which includes more than $15 billion in new scientific research funding. Duke has been aggressively pursuing opportunities in this area, and has been awarded approximately $195 million in projects since April 2009, with a significant number of additional applications outstanding as of June 30, 2010. The majority of these awards are from the National Institutes of Health (NIH) and the National Science Foundation (NSF).

In fiscal 2010, total grant and contract revenue from government sources was $580 million, an 11% increase from the fiscal 2009 total. The increase primarily reflects the ARRA funding of $52 million recognized during the year. Non-ARRA revenue from federal sources increased slightly in fiscal 2010 compared to fiscal 2009.

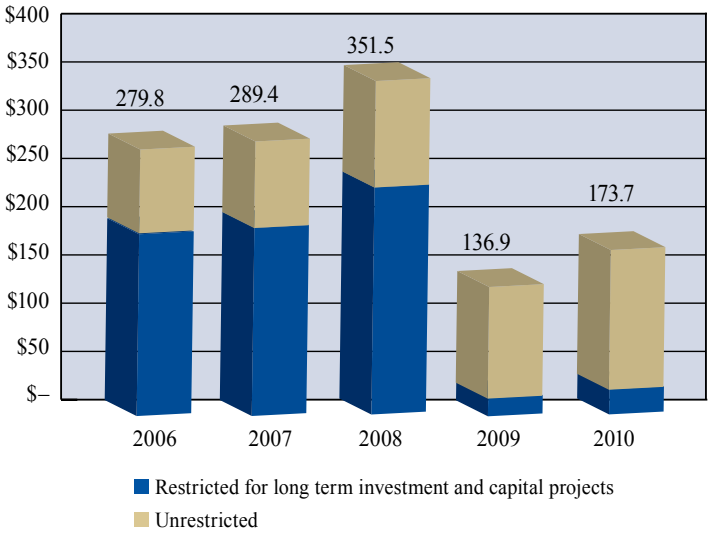
Total grants and contracts from all sources increased $93 million, or 10%, compared to fiscal 2009. In addition to ARRA, the increase was primarily driven by industry and private awards in support of clinical research. Duke Clinical Research Institute is the primary recipient of this funding, and remains the world's largest academic clinical research organization.

## Philanthrophy

Contribution revenue reported within the consolidated financial statements is calculated based on generally accepted accounting principles (GAAP). This differs from philanthropic support reported by Duke according to the guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines are focused on philanthropic distributions of private resources for public good, and represent the development-reporting standard for colleges and universities.

The generosity of nearly 100,000 donors in fiscal 2010 is helping keep Duke at the forefront of academics, research, and patient care. Under CASE guidelines, philanthropic support was the third highest in Duke history at $345 million, up $44 million over fiscal 2009. Fiscal 2010 totals included a significant one-time gift of $17 million to the School of Medicine for Pediatrics, which was the result of a bequest from a medical alumnus. On a GAAP-basis, Duke recorded $174 million in contribution revenue, including pledges, during fiscal 2010, representing a 27% increase from the fiscal 2009 total.

**Contributions ($ in millions)**




A reconciliation of the CASE and GAAP totals is provided below (in millions):

| | |
|---|---|
| Cash gifts per CASE (cash basis) | $ 345 |
| Amounts included in grants, contracts and similar agreements (gifts per CASE) | (95) |
| Grants and gifts from The Duke Endowment (gifts per CASE) | (13) |
| Net fiscal 2010 change in pledges[2] | (63) |
| Total consolidated contributions per GAAP statements | $ 174 |

Additional information on GAAP reporting of contribution revenue and contribution receivables is provided in Notes 1 (C) and 5 of the consolidated financial statements, respectively.

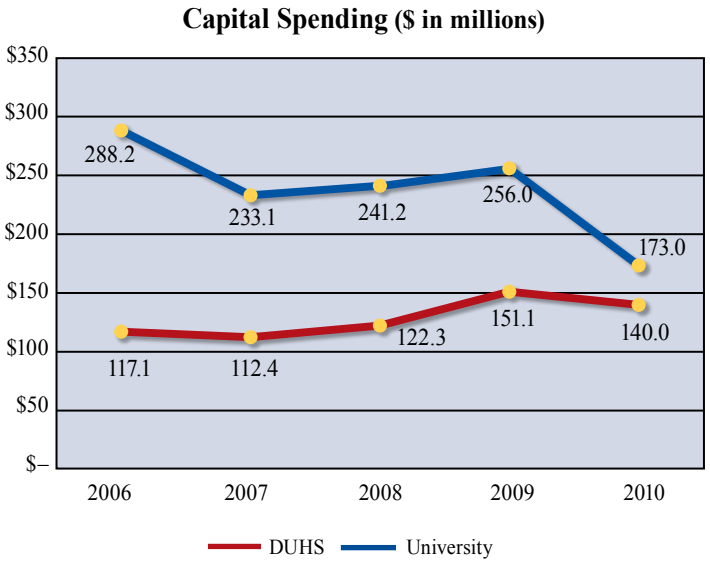
The University's Giving to Duke Annual Report, which details philanthropic cash receipts during the year, will be available at http://giving.duke.edu/info/annualreports/ in October 2010.

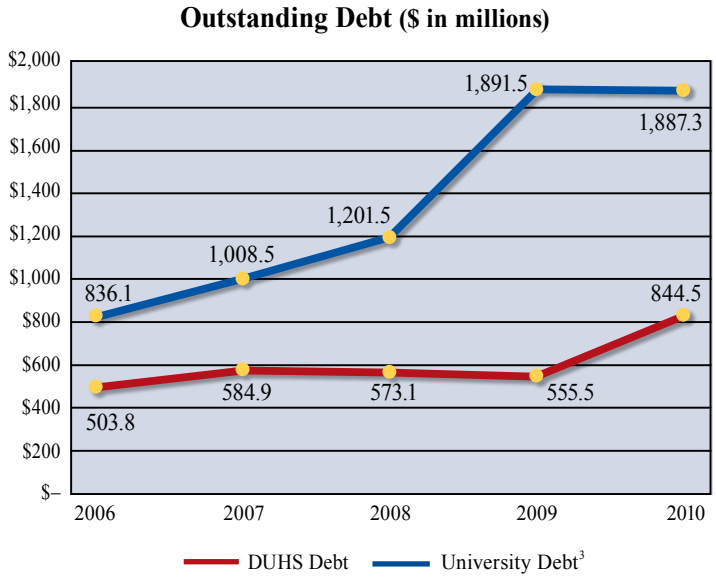
## Capital Spending and Debt

Over the last decade, the University's net investment in land, buildings, and equipment increased by over $1 billion, as Duke added in excess of one million square feet of new or renovated living, teaching, and research space. In response to the current economic environment, the administration of the University limited capital investment to projects where the related sources of funding have been secured. Major capital activity in 2010 included renovations to the Few residential quad as well as completion of the East Campus Steam Plant. The Steam Plant project demonstrated Duke's commitment to sustainability and allowed the University to reduce its use of coal by approximately 70% while burning cleaner natural gas.

DUHS has increased its net investment in property and equipment by approximately $451 million since its creation in 1999. While owned and controlled by the University, DUHS operates under a different business model and has different budgetary considerations. DUHS plans to spend $1.2 billion over the next five (5) years on facilities and technology in order to meet its strategic needs. This includes a comprehensive Cancer Center and a major expansion of Duke University Hospital's critical care and surgery platforms, which will include state-of-the-art imaging facilities. The new facility, to be called Duke Medicine Pavilion, reflects Duke's commitment to meeting the needs of patients from throughout the World, while further enhancing the University's teaching and research missions.

[2] Includes changes to previously reported multi-year pledges, pledges receivable due to new multi-year commitments, and other fiscal 2010 adjustments.




Both the University and DUHS have issued various forms of debt as a primary source of capital project funding. Formal comprehensive debt policies provide guidelines for the use of long-term financing, commercial paper, and derivative transactions (in the form of interest rate and other swaps) in order to optimize the debt portfolios. Effective and responsible debt portfolio management enables Duke to execute its strategic plans for facilities while preserving working capital. The University and DUHS hold ratings of Aa1 and Aa2 with Moody's and AA+ and AA with Standard & Poor's, respectively.

In November 2009, DUHS issued $180 million of fixed-rate tax exempt bonds (2009A Series) through the North Carolina Medical Care Commission (NCMCC). In addition, DUHS issued $120 million of fixed-rate tax exempt bonds (2010A Series) through the NCMCC in April 2010. Proceeds from both issuances are being used to partially finance the cost of additional DUHS facilities included in the $1.3 billion capital plan. DUHS indebtedness (excluding a $128 million capital lease for Durham Regional Hospital) totaled $845 million as of June 30, 2010.

## Looking Ahead

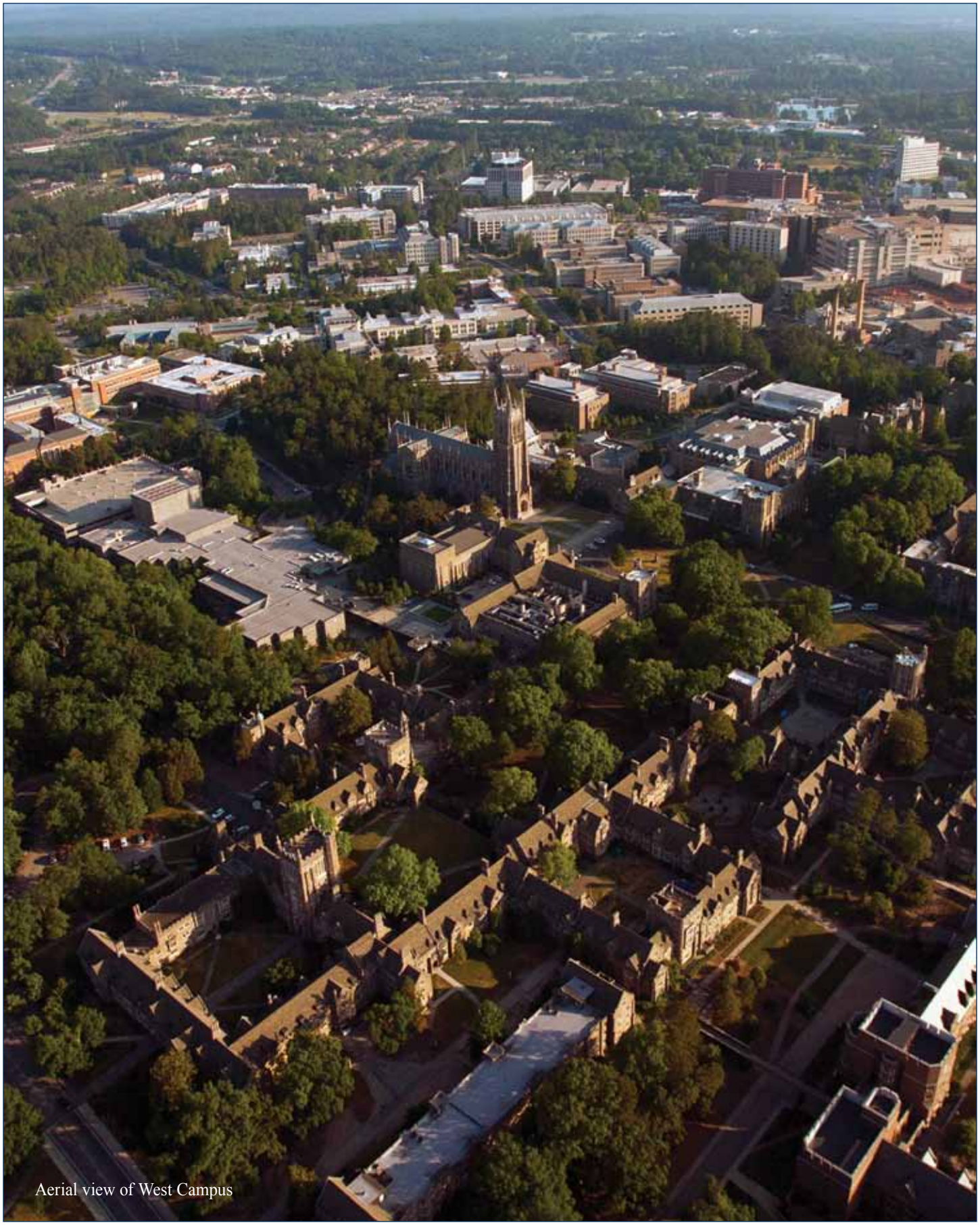
As of June 30, 2010, Duke's overall financial position is solid, despite the significant financial pressures experienced in fiscal 2009. Fiscal 2010 represented an important step toward full financial recovery, but much work remains for Duke to fully realize its short and long-term aspirations.

In fiscal 2011, a sense of urgency remains to refocus and reshape the University in order to protect its current financial health and commitment to our most important priorities. This includes:

- Strategic investment in new programs and other revenue enhancement opportunities.
- Identifying and eliminating administrative inefficiencies.
- Cost containment efforts around key cost drivers, including vacancy management and employee benefit programs.
- Responding to the critical need for more space on the Duke University Hospital Campus in which to accommodate volume growth in patient care, facilitate research, and train the next generation of medical leaders.

The administration will continue to proactively address financial and other challenges by operating with a strong sense of fiscal responsibility and prudent, thoughtful decision making.

[3] Includes $500 million of taxable debt issued in fiscal 2009, the proceeds of which have not been spent and are included within Investments on the University balance sheet as of June 30, 2009 and 2010.



Aerial view of West Campus

**KPMG LLP**
Suite 400
300 North Greene Street
Greensboro, NC 27401

## Independent Auditors' Report

The Board of Trustees of Duke University:

We have audited the accompanying consolidated balance sheet of Duke University (Duke) as of June 30, 2010, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of Duke'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's 2009 consolidated financial statements and in our report dated October 2, 2009 we expressed an unqualified opinion on those consolidated financial statements, which included an explanatory paragraph that indicated the University adopted the provisions of the Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements*, (included in ASC Topic 820, *Fair Value Measurements and Disclosures*). In addition, Duke adopted FASB Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2010, 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.

KPMG LLP

Greensboro, North Carolina
October 6, 2010

# Consolidated Balance Sheet

**JUNE 30, 2010**
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR JUNE 30, 2009)**
**(000'S OMITTED)**

| | 2010 | 2009 |
|---|---|---|
| ***Assets:*** | | |
| Cash and cash equivalents | $ 251,146 | $ 260,040 |
| Patient receivables, net | 272,501 | 256,971 |
| Other receivables, net | 208,181 | 195,180 |
| Prepaid expenses, deferred charges and inventories | 189,685 | 277,466 |
| Contributions receivable, net | 242,070 | 368,191 |
| Student loans receivable, net | 42,626 | 42,147 |
| Investments | 7,890,265 | 6,958,837 |
| Deposits with bond trustees | 248,083 | 88,940 |
| Land, buildings, and equipment, net | 2,596,455 | 2,546,672 |
| Interests in perpetual trusts held by others | 575,518 | 534,534 |
| Goodwill, net | 644 | 722 |
| **Total assets** | $ 12,517,174 | $11,529,700 |
| ***Liabilities:*** | | |
| Accounts payable | $ 350,648 | $ 354,684 |
| Accrued payroll and employee withholdings | 247,886 | 237,501 |
| Deferred revenues and deposits | 194,927 | 190,491 |
| Notes and bonds payable | 2,860,265 | 2,579,924 |
| Annuity and other split-interest obligations | 41,331 | 39,930 |
| Accrued postretirement/postemployment and other benefit obligations | 334,971 | 263,898 |
| Minority interest | 264,898 | 143,322 |
| Other liabilities | 240,693 | 206,971 |
| **Total liabilities** | 4,535,619 | 4,016,721 |
| ***Net Assets:*** | | |
| Unrestricted | 4,299,682 | 3,978,062 |
| Temporarily restricted | 1,651,892 | 1,515,528 |
| Permanently restricted | 2,029,981 | 2,019,389 |
| **Total net assets** | 7,981,555 | 7,512,979 |
| **Total liabilities and net assets** | $ 12,517,174 | $11,529,700 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Activities

**YEAR ENDED JUNE 30, 2010**
**(WITH SUMMARIZED FINANCIAL INFORMATION**
**FOR THE YEAR ENDED JUNE 30, 2009)**
**(000'S OMITTED)**

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | 2010 Total | 2009 Total |
|---|---|---|---|---|---|
| ***Operating revenues and support:*** | | | | | |
| Tuition and fees | $ 530,020 | $ … | $ … | $ 530,020 | $ 495,874 |
| Less student aid | (196,499) | … | … | (196,499) | (165,833) |
| | 333,521 | … | … | 333,521 | 330,041 |
| Grants, contracts and similar agreements: | | | | | |
| Government sources | 580,065 | … | … | 580,065 | 521,083 |
| The Private Diagnostic Clinic, PLLC | 66,402 | … | … | 66,402 | 57,789 |
| Other | 339,426 | … | … | 339,426 | 314,462 |
| | 985,893 | … | | 985,893 | 893,334 |
| Contributions | 118,791 | 28,401 | … | 147,192 | 117,554 |
| Investment return designated for current operations: | | | | | |
| The Duke Endowment | 12,500 | … | … | 12,500 | 12,501 |
| Endowment spending | 246,059 | … | … | 246,059 | 250,768 |
| Other investment income | 127,825 | … | … | 127,825 | 131,078 |
| Auxiliary enterprises | 157,627 | … | … | 157,627 | 153,817 |
| Net patient service revenue | 2,036,987 | … | … | 2,036,987 | 1,907,298 |
| Other | 196,351 | … | … | 196,351 | 217,846 |
| Net assets released from restrictions | 36,897 | (36,897) | … | … | … |
| **Total operating revenues and support** | 4,252,451 | (8,496) | … | 4,243,955 | 4,014,237 |
| ***Operating expenses:*** | | | | | |
| Salaries and wages | 1,839,731 | … | … | 1,839,731 | 1,772,762 |
| Employee benefits | 403,159 | … | … | 403,159 | 383,513 |
| Net postretirement/postemployment benefit expense (credit) | 2,722 | … | … | 2,722 | (140) |
| Student aid | 30,909 | … | … | 30,909 | 35,136 |
| Other operating expenses | 1,417,681 | … | … | 1,417,681 | 1,437,134 |
| Interest on indebtedness | 117,459 | … | … | 117,459 | 90,836 |
| Depreciation and amortization | 263,503 | … | … | 263,503 | 256,187 |
| **Total operating expenses** | 4,075,164 | … | … | 4,075,164 | 3,975,428 |
| **Excess (deficit) of operating revenues and support over (under) operating expenses** | 177,287 | (8,496) | … | 168,791 | 38,809 |
| ***Nonoperating activities:*** | | | | | |
| Restricted contributions | … | 13,639 | 12,877 | 26,516 | 19,319 |
| Net assets released from restriction | 7,134 | (7,134) | … | … | … |
| Investment return in excess of (less than) amounts designated for current operations | 298,917 | 142,522 | 19,658 | 461,097 | (2,366,038) |
| Nonperiodic changes in defined benefit plans | (168,897) | … | … | (168,897) | (438,175) |
| (Losses) gains on perpetual trusts held by others and changes in split interest obligations | … | (4,167) | 34,945 | 30,778 | (214,554) |
| Other | 7,179 | … | (56,888) | (49,709) | (50,623) |
| **Change in net assets from nonoperating activities** | 144,333 | 144,860 | 10,592 | 299,785 | (3,050,071) |
| **Change in net assets** | 321,620 | 136,364 | 10,592 | 468,576 | (3,011,262) |
| Net assets at beginning of year | 3,978,062 | 1,515,528 | 2,019,389 | 7,512,979 | 10,524,241 |
| **Net assets at end of year** | $4,299,682 | $1,651,892 | $2,029,981 | $7,981,555 | $ 7,512,979 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

**YEAR ENDED JUNE 30, 2010**
**(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**
**(000'S OMITTED)**

| | 2010 | 2009 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Change in net assets | $ 468,576 | $ (3,011,262) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 263,503 | 256,187 |
| Nonperiodic changes in defined benefit plans | 168,897 | 438,175 |
| Provision for bad debt | 37,814 | 75,334 |
| Change in fair value of derivative instruments | 23,297 | 50,890 |
| Loss on disposals of land, buildings, and equipment | 2,192 | 1,499 |
| Contributions of property | (2,438) | (1,544) |
| Restricted contributions received for long-term investment and capital projects | (152,637) | (73,624) |
| Permanently restricted investment return | (19,658) | (20,015) |
| Permanently restricted returns on other nonoperating items | 61,526 | (2,033) |
| Net realized and unrealized losses (gains) on investments | (441,439) | 2,386,053 |
| Minority interest in gains (losses) of subsidiary | 29,265 | (21,368) |
| (Increase) decrease in: | | |
| Patient receivables, net | (53,344) | (75,686) |
| Other receivables, net | (13,001) | 31,400 |
| Prepaid expenses, deferred charges and inventories | (24,170) | (37,423) |
| Contributions receivable, net | 126,121 | 54,305 |
| Interests in perpetual trusts held by others | (40,984) | 217,146 |
| (Decrease) increase in: | | |
| Accounts payable | (4,036) | (12,491) |
| Accrued payroll and employee withholdings | 10,385 | 23,593 |
| Deferred revenues and deposits | 4,436 | 44,518 |
| Annuity and other split-interest obligations | 1,401 | (4,745) |
| Accrued postretirement/postemployment and other benefit obligations | 13,396 | 24,571 |
| Other liabilities | 10,425 | (15,365) |
| **Net cash provided by operating activities** | 469,527 | 328,115 |

# Consolidated Statement of Cash Flows (CONTINUED)

| | 2010 | 2009 |
|---|---|---|
| ***Cash flows from investing activities:*** | | |
| Purchases of investments | (16,539,284) | (31,818,688) |
| Proceeds from sales and maturities of investments | 16,049,295 | 30,998,932 |
| Purchases of land, buildings, and equipment | (313,015) | (392,917) |
| Proceeds from disposals of land, buildings, and equipment | 81 | 68 |
| Disbursements for loans to students | (6,994) | (8,397) |
| Repayments of loans by students | 6,515 | 9,493 |
| Decrease (increase) in deposits with bond trustees | (159,143) | (29,659) |
| **Net cash used in investing activities** | (962,545) | (1,241,168) |
| ***Cash flows from financing activities:*** | | |
| Restricted contributions received for long-term investment and capital projects | 152,637 | 73,624 |
| Permanently restricted investment return | 19,658 | 20,015 |
| Permanently restricted returns on other nonoperating items | (61,526) | 2,033 |
| Payments of notes and bonds payable | (22,836) | (190,355) |
| Proceeds from borrowings | 303,880 | 880,533 |
| Payments to minority interest | (61,871) | (40,505) |
| Proceeds from minority interest in subsidiary | 154,182 | 13,278 |
| **Net cash provided by financing activities** | 484,124 | 758,623 |
| **Net change in cash and cash equivalents** | (8,894) | (154,430) |
| Cash and cash equivalents at beginning of year | 260,040 | 414,470 |
| **Cash and cash equivalents at end of year** | $ 251,146 | $ 260,040 |
| ***Supplemental disclosure of cash flow information:*** | | |
| Cash paid for interest (net of amounts capitalized) | $ 111,829 | $ 72,565 |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

(000'S OMITTED)

## Overview of Duke University

Duke University 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 Duke University Health System, Inc. (DUHS). Collectively, the University and DUHS are referred to herein as "Duke." The University is governed by a Board of Trustees (the Board) with thirty-seven members, consisting of the President of the University 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, Nursing, and Public Policy and professional schools in Business, Divinity, Environment, Law, Medicine and Nursing, as well as 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).

## 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 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 (GAAP).

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. Donor-restricted endowments include endowments for instruction, research, and student aid, as well as charitable remainder funds that will ultimately be used to establish a permanent endowment.

**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.

Operating results (change in unrestricted net assets from operating activity) in the consolidated statements of activities reflect all transactions that change unrestricted net assets, except for non-operating activity related to realized and unrealized gains and losses on investments in excess of amounts appropriated for expenditure, nonperiodic changes in defined benefit plans, changes in the fair value of derivative financial instruments, and certain other non-recurring items.

Revenues from sources other than contributions, investment returns, changes in fair value of interests in perpetual trusts held by others, and changes in split interest obligations 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 reported as increases in unrestricted net assets.

Gains and losses on investments are generally reported as increases or decreases in temporarily restricted net assets when either time restricted or restricted by explicit external stipulations. However, when such losses result in the market value of a donor-restricted endowment fund declining below the related historic dollar value, the difference between the market and historic dollar values is reflected within unrestricted net assets. 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), which Duke utilizes to fund daily cash needs. The STA currently invests in short-term U.S. Treasury securities, and other short-term, highly-liquid investments, all of which can be liquidated within thirty (30) days. The investments held in the STA maintain a weighted average quality rating of AA, AA equivalent, or better, as measured by Moody's, Standard and Poor's, and Fitch rating agencies. The STA is expected to generate a return approximating the three-month U.S. Treasury bill rate. Cash and cash equivalents that are part of the LTP or the Health System Pool (HSP) are shown within investments as these funds are not used for operating needs.

### 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 adjusted rate which could have been obtained at the date of the gift, adjusted based on an analysis of market data for comparable assets. 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, 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 $425,440 and $393,753 at June 30, 2010 and 2009, respectively.

## E. INVENTORIES

Inventories are included in prepaid expenses, deferred charges, and inventories on the consolidated balance sheet, and primarily include drugs and supplies. Inventories are valued at the lower of average cost or fair value.

## F. INVESTMENTS

DUMAC, LLC (DUMAC), a separate limited liability company organized and controlled by Duke, is responsible for managing investment assets for Duke, The Duke Endowment , and the Employees' Retirement Plan of Duke University (the ERP). Duke controls an investment vehicle of which The Duke Endowment and the ERP have minority interests. Their share of these assets (predominately investments) and a corresponding liability for their minority interest are included on Duke's consolidated balance sheet, and total $257,178 and $138,144 as of June 30, 2010 and 2009, respectively. Duke has $5.0 billion of investments that are reported at estimated fair value. For all of those investments, Duke has applied a practical expedient and concluded that the net asset value reported by the underlying fund approximates the fair value of the investment, unless it is probable that all or a portion of the investment will be sold for an amount different from net asset value. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of Duke's interests in the funds. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is therefore reasonably possible that if Duke were to sell these investments in the secondary market a buyer may require a discount to the reported net asset value, and the discount could be significant. The estimated fair values, provided primarily by investment managers, are reviewed and evaluated by DUMAC personnel.

Duke is obligated under certain investment fund agreements to periodically advance additional funding up to specified levels. At June 30, 2010, Duke had future commitments of $1.4 billion, which are likely to be called at various dates through 2015.

Duke's investments include various types of investment securities and investment vehicles. Investment securities are exposed to several risks, including liquidity, currency, interest rate, credit and market risks.

Liquidity risk represents the possibility that Duke may not be able to rapidly adjust the size of its portfolio holdings in times of high volatility and financial stress at a reasonable price. If Duke was forced to dispose of an illiquid investment at an inopportune time, it might be forced to do so at a substantial discount to fair value.

Duke invests in alternative investments, which can be highly illiquid. Under adverse market or economic conditions, the secondary market for certain of these alternative investments could contract. As a result, Duke could find it more difficult to sell these securities or may only be able to sell the securities at prices lower than if such securities were widely traded.

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

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

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

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 diversified portfolios of debt, equity, and other investments known as the LTP and HSP to invest its funds. During fiscal 2010, DUMAC established an investment pool for DUHS, called the HSP, separate from the Duke University LTP. The HSP is structured to provide more liquidity for DUHS than is available within the LTP. DUHS' share of readily marketable investments in the LTP were transferred from the LTP to the HSP. LTP investments in illiquid assets were placed in a transitional pool, the Duke University Unitized

Legacy Pool (ULP), owned by the LTP and HSP in their respective proportions. As investments in the ULP mature, cash will be returned to the LTP and HSP. DUHS will continue to invest its endowment funds in the LTP. Both the LTP and HSP are included in investments on the consolidated balance sheet.

All permanently restricted endowment net assets, long-term net assets functioning as an endowment, and invested departmental working capital are managed in the LTP or HSP, 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 the 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 (see Note 13).

## G. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, patient receivables, and other receivables approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying amount of annuity and other split-interest obligations approximate fair value because these instruments are recorded at estimated net present value of future cash flows. Investments, deposits with bond trustees, pension plan assets, 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 relatively short maturity of these financial instruments. The carrying amount of notes and bonds payable with variable interest rates approximates 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, 2010 approximated $2,118,033 and $1,996,450, respectively. The estimated fair value and carrying amount of these bonds payable at June 30, 2009 approximated $1,707,319 and $1,708,233, respectively.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets.

**Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements.

## H. ENDOWMENT

Duke's endowment consists of approximately 4,000 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### *Spending 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. 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 attain 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 (3) calendar year ends, subject to a 10.0% maximum annual growth in per-unit spending.

For the year ended June 30, 2009 (fiscal 2009), the Board approved the creation of separate spending rates for financial aid endowments and non-financial aid endowments. Financial aid endowments received a one-time 28.0% increase over the prior year's spending rate, while non-financial aid endowments were subject to a maximum annual growth in per-unit spending of 5.0%. For the year ended June 30, 2010 (fiscal 2010), the effective spending rate per unit as a percentage of the beginning of year market value was 7.2% for financial aid endowments and 5.8% for non-financial aid endowments. For fiscal 2009, the effective spending rate was 5.1% for financial aid endowments and 4.2% for non-financial aid endowments.

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 activities.

Additionally, the Board 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 and to support the operations and maintenance of certain facilities. The endowment distributions reported in the

consolidated statements of activities and the effective spending rates detailed above include these supplemental endowment distributions. Supplemental endowment distributions were $65,141 and $75,709 in fiscal 2010 and fiscal 2009, respectively.

Duke also leverages investment returns to support operations through virtual equity dividends. These dividends are available for discretionary spending and are declared by the Executive Vice President under authority granted by the Board, to transfer gains from certain non-endowed units of the LTP to the President's Strategic Initiative Fund, which supports a variety of strategic initiatives at Duke. Due to the economic downturn, investment returns on these nonendowed units has not been sufficient to generate dividends in fiscal 2010 and fiscal 2009.

### *Return Objectives and Risk Parameters*

Duke has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that must be held in perpetuity or for a donor-specified period, as well as Board designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 70% of the S&P 500 and 30% of the Barclays Capital Aggregate Bond Index. Duke expects its endowment funds, over long time periods, to provide an average annual real rate of return of approximately 5%. Actual returns in any given year may vary from this amount.

### *Interpretation of Relevant Law*

In July 2006, the National Conference of Commissioners on Uniform State Laws approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as an updated version of the Uniform Management of Institutional Funds Act (UMIFA). UMIFA, in effect in North Carolina since 1985, provided a prudent standard for the spending of the net appreciation of a donor-restricted endowment fund and imposed a spending floor of a fund's book value (referred to as "historic dollar value" in UMIFA). UPMIFA became law and replaced UMIFA in North Carolina effective March 19, 2009 and provides, among other things, expanded spending flexibility by allowing, subject to a standard of prudence, the institution to spend from an endowment fund without regard to the book value of the corpus of the fund. This flexibility under UPMIFA allows an expenditure that lowers the value of the corpus of an endowment fund below its book value, which was not allowed under UMIFA.

In fiscal 2009, upon the adoption of FASB Staff Position FAS 117-1, *"Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds"* (FSP FAS 117-1), Duke reclassified $1.2 billion (unrealized appreciation and gains as of March 31, 2009) of donor-restricted endowment funds from unrestricted net assets to temporarily restricted net assets. Also included in Duke's financial statements are enhanced disclosures about endowments (both donor-restricted funds and board-designated funds).

The Board has decided to continue to require the preservation of the book value of endowment funds absent explicit donor stipulations to the contrary. Duke therefore classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Duke in a manner consistent with the standard of prudence prescribed by UPMIFA. The amounts appropriated for expenditure are based on endowment spending rate per unit and the number of units for each fund. The spending rate is approved by the Board as part of Duke's operating budget.

### *Funds with Deficiencies*

From time to time, the market value of assets associated with permanently restricted funds may fall below the level that the donor or UPMIFA requires Duke to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets, and totaled $54,943 and $79,991 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, and from appropriations to certain programs as approved by the Board. Subsequent gains that restore the market value of such funds to the required level will be classified as an increase in unrestricted net assets within the nonoperating activities section of the consolidated statement of activities. At June 30, 2010 and 2009, the amount of deficiencies that related to donor-restricted endowment funds, excluding charitable remainder funds, was $49,635 and $72,916, respectively (see Note 11).

## I. DEPOSITS WITH BOND TRUSTEES

Deposits with bond trustees consist of debt service funds 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.

## J. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are stated at cost at date of acquisition or fair value at date of donation. Property and equipment under capital leases are initially valued and recorded based on the present value of minimum lease payments. 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 term of the 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, motor vehicles, furniture and vessels, and 1 year for library acquisitions. Depreciation is not calculated on land, art collections, rare books, and construction in progress. Property and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

## K. 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.

## L. 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 recorded at their present value using the IRS discount rate for each gift and the 90CM Mortality table.

## M. 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 self-insured 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.

## N. 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 $35,061 and $35,419 at June 30, 2010 and 2009, respectively, are included in other liabilities on the consolidated balance sheet.

## O. TUITION AND FEES

Student tuition and fees are recorded as revenue 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.

## P. 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 grant and contract revenue as the related direct costs are incurred. The recovery of facilities and administrative costs is recognized based on predetermined rates negotiated with the United States Government through fiscal 2009. Facilities and administrative cost recovery revenue for the academic and support divisions of Duke were $177,959 and $163,538 in fiscal 2010 and fiscal 2009, respectively. Effective July 1, 2009, the University operated under a provisional rate using the same rates and conditions as were used for fiscal 2009.

## Q. 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.

## R. INCOME TAXES

Duke is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, Duke is exempt from Federal income taxes to the extent provided under Section 501 of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. As of June 30, 2010 there were no uncertain tax positions.

## S. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, *"Fair Value Measurements"* (Statement No. 157), included in ASC Topic 820. In conjunction with the adoption of Statement No. 157, Duke elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *"Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)"* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends Statement No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to Statement No. 157. Duke adopted the measurement provisions of this statement in fiscal 2009 (see Note 12), and the disclosure requirements in fiscal 2010 (see Note 7).

In March 2008, the FASB issued Statement No. 161, *"Disclosures about Derivative Instruments and Hedging Activities – an amendment of FAS Statement No. 133"* (Statement No. 161), included in ASC sub-Topic 815-10, Derivatives and Hedging. Statement No. 161 requires entities that utilize derivative instruments to provide qualitative disclosures about their objectives and strategies for using such instruments, as well as any details of credit-risk-related contingent features contained within derivatives. Statement No. 161 also requires entities to disclose additional information about the amounts and location of derivatives within the financial statements, how the provisions of FASB Statement No. 133 have been applied, and the impact that hedges have on the entity's financial position, financial performance, and cash flows. Duke adopted the additional disclosure requirements of this statement in fiscal 2010 (see Note 13).

In December 2008, the FASB issued Staff Position FAS 132(R)-1, *"Employers' Disclosures about Postretirement Benefit Plan Assets"* (FSP FAS 132(R)-1), included in ASC Topic 715, *Compensation-Retirement Plans*. FSP FAS 132(R)-1 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or

other postretirement plan. FSP FAS 132(R)-1 also includes a technical amendment to FASB Statement No 132 (R), effective immediately, which requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of activities is presented. The disclosures about plan assets required by FSP FAS 132(R)-1 are effective for Duke in fiscal 2010. Duke has disclosed net periodic benefit cost in its Benefit Plans footnote (Note 10).

In December 2008, the FASB issued ASC Topic 715: Compensation-Retirement Plans (ASC Topic 715). ASC Topic 715 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. ASC Topic 715 also includes a technical amendment which requires nonpublic entities to disclose net periodic benefit cost for each annual period for which a statement of operations is presented. The disclosures about plan assets required by ASC Topic 715 are effective for Duke in fiscal 2010 (see Note 10).

In June 2009, FASB issued Statement No. 168, *"The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles"* (Statement No. 168). Statement No. 168 replaced FASB Statement No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"*, and established the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Duke adopted this statement in fiscal 2010, and will begin using the new codification references for all new accounting pronouncements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, *"Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements"* (ASU 2010-06). ASU 2010-06 requires separate disclosure for the amounts and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also requires entities to present separately information about purchases, sales, issuances, and settlements. The ASU also clarifies existing disclosures for each class of assets and liabilities as well as the valuation techniques and inputs used to measure fair value for recurring and nonrecurring Level 2 or Level 3 fair value measurements. ASU 2010-06 will be effective for Duke for the fiscal year beginning July 1, 2010.

In January 2010, the FASB issued Accounting Standards Update 2010-7, *"Mergers and Acquisitions"* (ASU 2010-7). ASU 2010-7 provides guidance on accounting for a combination of not-for-profit entities, which is a transaction or other event that results in a not-for-profit entity initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. ASU 2010-7 is effective for mergers or acquisitions occurring on or after December 15, 2009, and did not have a material impact on Duke during fiscal 2010.

## T. PRIOR YEAR SUMMARIZED FINANCIAL INFORMATION

The consolidated financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a full presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Duke's consolidated financial statements for fiscal 2009 from which the summarized information was derived.

## U. USE OF ESTIMATES

The preparation of the consolidated financial statements in accordance with GAAP 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 receivables 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.

## V. RECLASSIFICATIONS

Certain June 30, 2009 amounts have been reclassified to conform with changes in classifications adopted in fiscal 2010.

Duke Men's Lacrosse 2010 NCAA Championship game.

## 2. Principles of Consolidation

The financial position and results of operations of DUHS and all other entities in which Duke has a significant financial interest are included in the consolidated financial statements herein using presentation generally followed by colleges and universities. All significant intercompany balances and transactions have been eliminated in consolidation.

DUHS consists of:

- **Duke University Hospital** – a quaternary care teaching hospital located on the campus of Duke in Durham, North Carolina, licensed for 943 acute care and specialty beds, leased from Duke, operated by DUHS, providing patient care and serving as a site for medical education provided by the Duke University School of Medicine, and clinical research conducted by the Duke University School of Medicine.
- **Durham Regional Hospital** – a full-service community hospital located in Durham, North Carolina, licensed for 369 acute care beds, leased from Durham County, and operated by DUHS with a current term of forty (40) years.
- **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 & 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 patients' homes.
  - ➤ **Duke Hospice**, providing hospice services in homes and long-term care facilities in nine (9) counties in central North Carolina, a six (6) bed inpatient facility in Hillsborough, North Carolina, a twelve (12) bed inpatient facility in Durham, NC 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)** – a North Carolina nonprofit corporation, doing business as Duke Primary Care, consisting of twenty (20) primary care physician practices located in Durham, Alamance, Granville, Orange, Person, Vance, and Wake Counties, North Carolina, five (5) 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 Duke University School of Medicine (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 (2) 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 the consolidated statement of activities herein to conform to financial statement presentation generally followed by colleges and universities.

Duke Corporate Education (DukeCE) is a support corporation of Duke that was created to operate the corporate executive management education business of the Fuqua School of Business. DukeCE designs, develops, and implements customized education experiences for businesses. DukeCE's corporate operations are based in Durham, North Carolina. DukeCE also has international subsidiaries located in England, India, and South Africa.

## 3. The Private Diagnostic Clinic, PLLC (the PDC)

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 separate from Duke in which the members of the physician faculty of the 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 contract between the PDC and Duke, the PDC; (1) makes payments for nonprofessional services and employees supplied by Duke to the PDC; (2) pays rent for the PDC's use of space; and (3) makes payments for the goodwill and other benefits derived from the PDC's association with Duke. A substantial portion of the payments is used by Duke to support academic programs in the clinical departments of the School of Medicine. These payments totaled $66,686 and $57,997 for fiscal 2010 and fiscal 2009, respectively, and are recognized as revenue in grants, contracts and similar agreements in the consolidated statement of activities.

## 4. The Duke Endowment

Duke is a named beneficiary of The Duke Endowment and receives substantial support in the forms of unrestricted operating support 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 Carolina and South Carolina.

While Duke and The Duke Endowment have a common heritage, each having been founded through the generosity of James Buchanan Duke, they are two (2) separate entities, each with its own purposes, office, officers, and trustees. The Duke Endowment has been required by its indenture to distribute certain amounts of income to Duke 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, 2010, this right to withhold has never been exercised.

The Duke Endowment trustees now invest for total return in accordance with current investment practices, with the result that (a) the distinction between "principal" and "income" in the traditional sense can no longer be readily identified, if at all, and (b) the traditional "income" that can be identified is often inadequate to meet beneficiary needs. Accordingly, by an Order dated December 15, 2009, the Superior Court of Mecklenburg County, North Carolina further broadened the authority of the Duke Endowment trustees to distribute principal to its beneficiaries.

Unrestricted operating support from The Duke Endowment was $12,500 and $12,501 for fiscal 2010 and fiscal 2009, respectively. Such amounts are reflected in investment returns designated for current operations in the consolidated statement of activities.

Duke received discretionary grants from The Duke Endowment of $34,009 and $26,466 for fiscal 2010 and fiscal 2009, respectively. Such amounts are reflected as contribution revenue in the consolidated statement of activities.

At June 30, 2010 and 2009, the portion of The Duke Endowment's net assets included in permanently restricted net assets on Duke's consolidated balance sheet, and from which Duke derives unrestricted operating support, had a fair value of $494,320 and $457,107 respectively. Duke has no equity interest in the principal of The Duke Endowment trust, which had a fair value of approximately $2.4 billion at June 30, 2010.

## 5. Contributions Receivable

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

| | 2010 | 2009 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 148,951 | $ 191,275 |
| Between one year and five years | 134,434 | 229,184 |
| More than five years | 5,742 | 6,433 |
| | 289,127 | 426,892 |
| Less unamortized discount with interest rates ranging from 0.3% to 7.5% | (7,838) | (12,147) |
| Less allowance for uncollectible amounts | (39,219) | (46,554) |
| **Total** | $ 242,070 | $ 368,191 |

The effective allowance for uncollectible pledges was 14.4% and 11.3% of gross outstanding pledges at June 30, 2010 and 2009, respectively. The methodology for calculating the allowance is based on the administration's review of individually significant outstanding pledges, analysis of the aging of payment schedules for all outstanding pledges, as well as other factors including current economic conditions.

At June 30, 2010 and 2009, the twelve (12) largest outstanding donor pledge balances represented 67% and 65%, respectively of Duke's gross contributions receivable.

At June 30, 2010 and 2009, Duke had also received bequest intentions and certain other conditional promises to give of approximately $66,872 and $57,170, respectively. These intentions and conditional promises to give are not recognized as assets or revenues on the consolidated financial statements. If the related funds 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.

At June 30, 2010, Duke had $70,304 in net pledges to endowments supported by agreements that contain language that does not meet relevant accounting guidance for revenue recognition; therefore, they have been removed from contributions receivable on the consolidated balance sheet. Of the $70,304, $13,416 related to pledges made in fiscal 2010, while the remaining $56,888 related to pledges made prior to July 1, 2009. Therefore, the $13,416 is reported on the statement of activities as a reduction of permanently restricted contributions revenue, while the $56,888 is reported as a reduction of permanently restricted other non-operating activity. Payments on these pledges will be recorded as revenue in the year in which they are received.

## 6. Land, Buildings, and Equipment

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

| | 2010 | 2009 |
|---|---|---|
| Land and land improvements | $ 224,042 | $ 214,223 |
| Buildings and utilities | 3,279,585 | 3,103,401 |
| Equipment, furniture and vessels | 1,219,548 | 1,164,605 |
| Library and art collections | 330,733 | 311,674 |
| Construction in progress | 213,445 | 213,043 |
| | 5,267,353 | 5,006,946 |
| Less accumulated depreciation | (2,670,898) | (2,460,274) |
| **Total** | $ 2,596,455 | $ 2,546,672 |

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 $9,836 and $4,353 was capitalized in fiscal 2010 and fiscal 2009, respectively.

Duke has identified conditional asset retirement obligations primarily related to the costs of asbestos removal and disposal that will result from future remediation activity. The liability was estimated using an inflation rate of 5.0% and discount rates ranging from 3.9% to 4.6%. The liability for conditional asset retirement obligations recognized at June 30, 2010 and 2009 was $41,140 and $39,862, respectively. This liability is reported as a part of other liabilities on the consolidated balance sheet.

## 7. Investments

The fair value of investments consists of the following at June 30, 2010 and 2009:

| | 2010 | 2009 | As of June 30, 2010 Unfunded Commitments | Redemption Frequency (in days) (if currently eligible)[1] | Redemption notice period (in days) |
|---|---|---|---|---|---|
| Short-term investments[a] | $ 697,424 | $ 203,502 | $ … | daily | 1 |
| U.S. Government securities[b] | 98,955 | 265,501 | … | daily | 1 |
| Domestic bonds and long-term notes[c] | 954,973 | 832,790 | 12 | 98% 1 to 30 | 1 to 30 |
| International bonds and long-term notes[d] | 95,438 | 78,762 | … | 1 to 30 days | 16 |
| Domestic stocks[e] | 688,992 | 440,346 | … | 49% 1 to 30<br>37% 31 to 90<br>13% over 365 | 1 to 90 |
| International stocks[f] | 1,532,713 | 1,255,844 | 5,821 | 30% 1 to 30<br>48% 31 to 90<br>14% 91 to 365 | 1 to 90 |
| Hedged strategies: | | | | | |
| Equity oriented[g] | 262,572 | 729,815 | … | 12% 1 to 30<br>65% 31 to 90<br>20% 91 to 365 | 30 to 95 |
| Credit oriented[h] | 483,500 | 415,738 | 39,926 | 21% 1 to 90<br>17% 91 to 365<br>62% over 365 | 30 to 180 |
| Multi-strategy and other[i] | 538,196 | 599,894 | 10,103 | 33% 1 to 90<br>22% 91 to 365<br>45% over 365 | 7 to 180 |
| Private capital[j] | 1,036,700 | 860,867 | 437,841 | N/A | N/A |
| Real estate[k] | 723,660 | 626,398 | 556,964 | N/A | N/A |
| Real assets[l] | 683,015 | 587,068 | 379,550 | N/A | N/A |
| Other investments | 94,127 | 62,312 | … | N/A | N/A |
| **Total investments** | $ 7,890,265 | $ 6,958,837 | $ 1,430,217 | | |

Total investments includes The Duke Endowment's and the ERP's portion of an investment vehicle controlled by Duke (See Note 1(F)). As of June 30, 2010 and 2009 these amounts were $257,178 and $138,144, respectively. Absent these non-controlling interests, Duke's total LTP investment was $5,436,120 and $5,974,231 as of June 30, 2010 and 2009, respectively. As of June 30, 2010 DUHS' investments managed separately by DUMAC totaled $1,344,408. Prior to fiscal 2010, all of DUHS investments were managed by DUMAC in the LTP.

[1] Based on current terms, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreement.

**(a)** Includes short-term U.S. Treasury debt securities with maturities of less than one year, and other short-term, highly-liquid debt securities, and funds that invest in these types of investments. At June 30, 2010 and 2009, $36,756 and $22,545 respectively, was posted as collateral and thus not readily available for use.

**(b)** Includes investments in U.S. Treasury and agency debt securities with maturities of more than one year and funds that invest in these types of investments. At June 30, 2010 and 2009, $22,831 and $19,921 respectively, was posted as collateral and thus not readily available for use.

**(c)** Includes investments in non-government debt securities with maturities of more than one year. Investments consist primarily of credit-oriented securities including U.S. investment-grade and below investment-grade debt securities. Other investments include mortgage-backed securities, asset-backed securities, repurchase agreements, senior loans, and bank loans. This category also includes funds that invest in these types of investments.

**(d)** Includes investments in funds that invest in non-U.S. government debt securities with maturities of more than one year. Management of the funds has the ability to shift investments from developed to emerging markets and from a net long position to a net short position. These funds generally have a high net long position. The fair values of the fund investments in this category have been estimated using the net asset value per share of the investments.

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

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

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

**(h)** Includes investments in hedge funds that invest both long and short primarily in credit-oriented securities. The administration and management of the funds has the ability to shift investments from a net long position to a net short position. Investments include investment-grade and below investment-grade debt securities, mortgage-backed securities, asset-backed securities, repurchase agreements, senior loans, and bank loans. These funds generally have a low net long position. The fair values of the fund investments in this category have been estimated using the net asset value per share of the investments.

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

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

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

**(l)** Includes illiquid investments in timber, oil and gas production, mining, energy, and related services businesses held directly, in separately managed accounts, or in commingled limited partnership funds. The fair value of these investments is calculated from the net asset value of Duke's ownership interests in these funds. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 6 to 12 years.

Duke's investment activity for the years ended June 30 is detailed below:

| | 2010 | 2009 |
|---|---|---|
| Net realized gains (losses) from sales of investments | $ 467,591 | $ (284,825) |
| Changes in unrealized appreciation (depreciation) | 301,265 | (1,750,503) |
| Total net gain (loss) | 768,856 | (2,035,328) |
| Investment income | 66,161 | 51,624 |
| **Total gains (losses) and income** | 835,017 | (1,983,704) |
| Included in the consolidated statement of activities as investment return designated for current operations: | | |
| Endowment spending | (246,059) | (250,768) |
| Other investment income | (127,825) | (131,078) |
| Other | (36) | (488) |
| **Investment return in excess of (less than) amounts designated for current operations** | $ 461,097 | $ (2,366,038) |

The total return for the LTP (in which 98.2% of Duke's endowment was invested at June 30, 2010 and 2009) for fiscal 2010 and fiscal 2009 was 13.2% and (24.3%), respectively, 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:

| | 2010 | 2009 |
|---|---|---|
| Donor restricted endowment funds, including accumulated gains | $ 2,735,045 | $ 2,487,770 |
| Funds functioning as endowment | 1,513,009 | 1,418,441 |
| Charitable remainder funds | 83,018 | 77,630 |
| **Total** | $ 4,331,072 | $ 3,983,841 |

External management fees paid directly (i.e. segregated investment account fees) totaled $14,196 and $10,961, and internal management fees totaled $8,535 and $9,364 in fiscal 2010 and fiscal 2009, respectively.

## 8. Notes and Bonds Payable

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

| | 2010 | 2009 |
|---|---|---|
| **Duke University Revenue Bonds: Tax-Exempt Bonds** | | |
| **Series 1987 A** – payable in installments ranging from $6,000 to $6,900 from 2016 to 2018, with interest at a variable rate not to exceed 20.0% (actual interest rate at June 30, 2010 was 0.2%) | $ 18,900 | $ 18,900 |
| **Series 1991 B** – payable in installments of $8,000 from 2018 to 2022, with interest at a variable rate (actual interest rate at June 30, 2010 was 0.3%) | 40,000 | 40,000 |
| **Series 1992 A** – payable in installments ranging from $7,000 to $7,240 from 2023 to 2027, with interest at a variable rate (actual interest rate at June 30, 2010 was 0.2%) | 35,240 | 35,240 |
| **Series 2001 A** – payable in installments ranging from $6,134 to $14,435 from 2027 through 2042, with fixed interest rates of 5.1% and 5.3% (average interest rate for fiscal 2010 was 5.2%) | 33,860 | 33,860 |
| **Series 2005 A** – payable in installments ranging from $47,865 to $82,785 from 2040 to 2042, with fixed interest rates of 4.5% and 5.0% (average interest rate for fiscal 2010 was 5.0%) | 207,665 | 207,665 |
| **Series 2006 A** – payable in installments ranging from $1,385 to $112,970 through 2045, with fixed interest rates ranging from4.0% to 5.0% (average interest rate for fiscal 2010 was 4.9%) | 379,400 | 380,740 |
| **Series 2006 B** – payable in 2043, with fixed interest rates ranging from 4.3% to 5.0% (average interest rate for fiscal 2009 was 4.5%) | 128,435 | 128,435 |
| **Series 2009 B** – payable in installments of $120,530 in 2038 and $126,560 in 2039, with a fixed interest rate of 5.0% (average interest rate for fiscal 2010 was 5.0%) | 247,090 | 247,090 |
| **Duke University Taxable Bonds:** | | |
| **Series 2007 A** – payable in $100,000 installments in 2036 and 2037, with a fixed interest rate of 5.9% (average interest rate for fiscal 2010 was 5.9%) | 200,000 | 200,000 |
| **Series 2009 A** – payable in installments of $250,000 in 2014 and 2019, with fixed interest rates ranging from 4.2% to 5.2% (average interest rate for fiscal 2010 was 4.7%) | 500,000 | 500,000 |
| **Duke University Health System, Inc. Revenue Bonds:** | | |
| **Series 1985 B** – payable in installments of $8,700 from 2011 to 2015, with interest at a variable rate not to exceed 20.0% (actual interest rate at June 30, 2010 was 0.3%) | 43,500 | 43,500 |
| **Series 1993 A** – payable in installments ranging from $5,160 to $6,330 from 2019 to 2023, with interest at a variable rate (actual interest rate at June 30, 2010 was 0.3%) (see Note 13) | $ 28,650 | $ 28,650 |
| **Series 2005 A, B, and C** – each series in the principal amount of $107,380 payable in installments ranging from $6,210 to $11,240 from 2016 through 2028, with interest at a variable rate not to exceed 12.0% (actual interest rates at June 30, 2010 were 0.2%) (see Note 13) | 322,140 | 322,140 |
| **Series 2006 A, B, and C** – payable in installments ranging from $5,000 to $12,755 from 2011 through 2039, with interest at a variable rate not to exceed 15.0% (actual interest rates at June 30, 2010 were 0.6%) | 150,715 | 150,715 |
| **Series 2009 A** – payable in installments ranging from $6,635 to $28,260 from 2029 to 2042, with fixed interest rates ranging from 4.8% to 5.0% (average interest rate for fiscal 2010 was 5.0%) | 180,000 | … |
| **Series 2010A** – payable in installments ranging from $6,095 to $11,575 from 2029 to 2042, with fixed interest rates ranging from 4.5% to 5.0% (average interest rate for fiscal 2010 was 4.9%) | 120,000 | … |
| **Series 1996 C, 1998 A, and 1998 B** – repaid in fiscal 2010 | … | 10,443 |
| **Notes Payable:** | | |
| Taxable commercial paper note program ($200,000 authorized, $0 outstanding) and tax-exempt bond anticipation program ($300,000 authorized): | | |
| Tax-exempt issue, weighted average maturity and interest rate at June 30, 2010 of 60.7 days and 0.3%, respectively | 26,549 | 32,405 |
| Note payable due in 2013 with interest at a variable rate of LIBOR plus 0.6% (actual interest rate at June 30, 2010 was 1.0%) | 25,000 | 25,000 |
| Note payable due in 2014 with interest at a variable rate of LIBOR plus 0.6% (actual interest rate at June 30, 2010 was 1.0%) | 6,510 | 6,660 |
| Capital lease obligations | 131,718 | 137,002 |
| Various notes | 11,034 | 6,352 |
| **Total notes and bonds payable** | 2,836,406 | 2,554,797 |
| Unamortized premium | 23,859 | 25,127 |
| **Net notes and bonds payable** | $ 2,860,265 | $ 2,579,924 |

In fiscal 2009, DUHS entered into an extension and modification to an existing lease and an operating extension and modification agreement for the Durham Regional Hospital facility. The extended and modified lease is a forty (40) year evergreen lease and is accounted for as a capital lease at the initial amount of $133,912.

As of June 30, 2010 and 2009, Duke had letter of credit agreements totaling $270,000 and $350,000, respectively. As of June 30, 2010 and 2009, there were no outstanding borrowings under the letter of credit agreement.

Aggregate maturities of notes and bonds payable (excluding commercial paper) from 2011-2015 are $15,085, $15,345, $16,020, $266,525, and $17,025, respectively.

Duke capitalizes and amortizes the original issue premium and issue costs related to applicable bond issues in a manner that approximates the interest method. At June 30, 2010 and 2009, unamortized bond issue costs of $15,880 and $12,669, 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 $23,859 and $25,127, respectively, is included in notes and bonds payable on Duke's consolidated balance sheet. Total amortization expense for issue (discounts)/costs and premiums was $29 and ($178) for fiscal 2010 and fiscal 2009, respectively.

Duke had $6,380 at June 30, 2010 and 2009 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 January 2009, the University issued Series 2009A bonds in the amount of $500,000 to support University operations.

In February 2009, the University issued Series 2009B bonds in the amount of $247,090. The Series 2009B bonds were used to repay $109,568 of maturing commercial paper, and the remaining proceeds have been placed on deposit with a bond trustee and are being used to finance on-going construction projects.

In November 2009, DUHS issued through the North Carolina Medical Care Commission (NCMCC) fixed-rate tax exempt bonds in the amount of $180,000 (Series 2009A). In April 2010, DUHS issued through the NCMCC fixed-rate tax exempt bonds in the amount of $120,000 (Series 2010A). Proceeds from both issuances are being used to finance the cost of additional DUHS facilities and to pay certain expenses of issuing the bonds.

In prior fiscal years, Duke defeased certain obligations by irrevocably placing assets with a trustee to pay principal and interest on the obligations as they become due. Total defeased obligations were $265,480 at June 30, 2010 and 2009.

Trust indentures underlying the Duke University Health System Revenue Bonds contain certain covenants and restrictions.

DUHS maintains liquidity facilities and other instruments to support the remarketability of certain variable rate revenue bonds within its portfolio. Illiquidity in the variable rate credit markets impacted the ability to remarket certain of DUHS' Series 2005 variable rate bonds during fiscal 2009. Bonds in the amount of $183,960 were temporarily converted to Bank Bonds and then subsequently remarketed to third parties. Bank Bonds carry interest at the prime rate and increase an additional 2% should the Bank Bonds remain outstanding beyond 180 days. DUHS' Series 2005 Bank Bonds are subject to mandatory redemption one (1) year from issuance. DUHS' Series 2006 variable rate bonds are subject to mandatory redemption on December 1, 2011 if not successfully remarketed prior to that date. As of June 30, 2010 all DUHS debt is being successfully remarketed and there are no Bank Bonds.

## 9. Commitments and Contingencies

### A. CONSTRUCTION AND PURCHASE COMMITMENTS

At June 30, 2010 and 2009, open contracts for the construction of physical properties amounted to $407,970 and $135,901, respectively, and outstanding purchase orders for normal operating supplies and equipment amounted to $31,175 and $27,275, respectively. In March 2010, DUHS signed a Guaranteed Maximum Price (GMP) contract in the amount of $242,000 representing 43% of the estimated total cost of $559,300 to construct a major tertiary care addition to Duke University Hospital, referred to as Duke Medicine Pavilion. In August 2009, DUHS signed a GMP contract in the amount of $113,746 representing 52% of the estimated total cost of $219,508 to build a new cancer center. These projects will be partially funded with proceeds from the 2009A and 2010A DUHS revenue bonds.

### B. LEASES

Duke leases various machinery, equipment and buildings under operating and capital leases expiring at various dates through December 2021. Total rental expense in fiscal 2010 and fiscal 2009 for all operating leases was $63,068 and $62,031, respectively.

Future minimum lease payments under noncancelable capital and operating leases as of June 30, 2010 are as follows:

| Year | Capital Leases | Operating Leases | Total |
|---|---|---|---|
| 2011 | $ 9,110 | $ 65,284 | $ 74,394 |
| 2012 | 9,251 | 56,143 | 65,394 |
| 2013 | 9,377 | 51,114 | 60,491 |
| 2014 | 9,524 | 46,981 | 56,505 |
| 2015 | 13,237 | 43,368 | 56,605 |
| Thereafter | 354,159 | 193,038 | 547,197 |
| **Total minimum lease payments** | 404,658 | 455,928 | 860,586 |
| Less sublease rentals from the PDC | … | (74,227) | (74,227) |
| Total minimum payments less sublease | 404,658 | $ 381,701 | $ 786,359 |
| Less: Interest portion | (272,940) | | |
| Capital lease obligations | $ 131,718 | | |

### C. 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. Policy limits for the years ended June 30, 2010 and 2009 were $110,000 per incident and $160,000 in the aggregate for fiscal 2010 and $163,000 in fiscal 2009. DCC limits its exposure to loss through reinsurance and excess loss agreements.

Estimated professional liability costs represent the estimated cost of professional liability in 2010 and 2009 for reported claims incurred in the DCC program. DCC evaluates its estimated professional liability on a discounted actuarial basis. The discount rate at June 30, 2010 and 2009 is 3.5%. Accrued professional liability costs as of June 30, 2010 and 2009 amounted to $71,652 and $73,853, respectively. Cash, investments, and other receivables in this amount have been designated by DUHS to settle these claims. Also included in estimated professional liability costs are estimated claims incurred but not reported related to DUHS in the amounts of $8,458 and $9,409 as of June 30, 2010 and 2009, respectively.

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

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

### D. 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 the related risks within accrued payroll and employee withholdings or accrued postretirement/ postemployment and other benefit obligations on Duke's consolidated balance sheet.

### E. 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.

Laws and regulations governing Medicare, Medicaid, and other Federal programs are complex and subject to interpretation. Duke, in part through its compliance program, seeks to ensure compliance with such laws and regulations, and to rectify instances of noncompliance with governmental program rules. Duke believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on Duke's consolidated financial statements. Compliance with such laws and regulations is subject to future government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the Medicare, Medicaid, and other Federal programs.

## 10. Pension and Other Postretirement Benefit Plans

Faculty and exempt staff members of Duke are eligible to participate in a contributory defined contribution pension plan. For fiscal 2010 and fiscal 2009, Duke contributed $108,950 and $99,123, respectively, to this plan. Duke expects to contribute $103,006 to this plan in fiscal 2011.

In addition, Duke has a noncontributory defined benefit pension plan for substantially all full-time non-exempt employees. Pension income for this plan for fiscal 2010 and fiscal 2009 amounted to $8,176 and $5,008, respectively. This income resulted primarily from the expected return on plan assets in excess of service and interest cost. The benefit for this plan is based on years of service and the employee's compensation during the last ten (10) years of employment. Due to the over-funded status of the plan, Duke did not make contributions during fiscal 2010 and 2009. Duke expects to contribute $6,065 in fiscal 2011.

Effective January 1, 2009 a cost-of-living adjustment was given to those retirees, or their beneficiaries, who retired prior to July 1, 2007.

In fiscal 2009, the University offered a retirement incentive plan to select University employees who participate in the defined benefit pension plan and were age 50 or older with at least ten (10) years of service at Duke. Approximately 300 employees accepted the retirement incentive. Included in the fiscal 2009 periodic cost for retirement benefits, the University recorded special termination cost of $17,548 and $763 for the pension plan and the postretirement medical plan, respectively.

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

| | 2010 | 2009 |
|---|---|---|
| Short-term investments | 3.6% | 6.2% |
| U. S. Government securities | 1.9 | 2.0 |
| Domestic bonds and long term notes | 9.0 | 8.6 |
| International bonds and long-term notes | 1.9 | 2.0 |
| Domestic stocks | 7.4 | 8.8 |
| International stocks | 21.7 | 19.4 |
| Hedged strategies | | |
| Equity oriented | 9.7 | 8.9 |
| Credit oriented | 7.4 | 7.1 |
| Multi-strategy and other | 7.9 | 9.3 |
| Private capital | 11.7 | 10.8 |
| Real estate | 7.6 | 7.4 |
| Real assets | 9.9 | 9.5 |
| Other | 0.3 | 0.0 |
| **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 exposure target is 38% equity (public and private investments in companies), 13% commodity (direct commodity exposure, commodity related equities, and private investments in energy, power, infrastructure and timber), 13% real estate (private real estate and REITs), 13% credit (investment-grade bonds, corporate bonds, bank debt, asset backed securities, etc.) 13% rates (public obligations including treasuries and agencies) and 10% inflation (U.S. Treasury Inflation Protected Securities and non-U.S. inflation linked bonds).

The fair value of Duke's assets available for pension benefits as of the June 30, 2010 measurement date is as follows:

| | Level 1 | Level 2 | Level 3 | 2010 Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and cash equivalents | $ 102 | $ … | $ … | $ 102 |
| Investments: | | | | |
| Short-term investments | (16) | 37,221 | … | 37,205 |
| U.S. Government securities | 120 | 19,453 | … | 19,573 |
| Domestic bonds and long-term notes | 77,686 | 12,579 | 2,225 | 92,490 |
| International bonds and long-term notes | … | 19,970 | … | 19,970 |
| Domestic stocks | 30,656 | 37,110 | 8,313 | 76,079 |
| International stocks | 42,067 | 125,565 | 55,209 | 222,841 |
| Hedged strategies: | | | | |
| Equity oriented | 9,976 | 53,607 | 36,192 | 99,775 |
| Credit oriented | 7,017 | 10,943 | 58,104 | 76,064 |
| Multi-strategy and other | 952 | 27,856 | 52,768 | 81,576 |
| Private capital | 379 | … | 119,507 | 119,886 |
| Real estate | 3 | … | 78,536 | 78,539 |
| Real assets | 13 | … | 101,664 | 101,677 |
| Other investments | (1,358) | 3,346 | … | 1,988 |
| Total investments | 167,495 | 347,650 | 512,518 | 1,027,663 |
| **Total assets** | $ 167,597 | $ 347,650 | $ 512,518 | $ 1,027,765 |

The fair value of Duke's pension assets available for benefits as of the June 30, 2009 measurement date is as follows:

| | Level 1 | Level 2 | Level 3 | 2009 Total |
|---|---|---|---|---|
| **Asset category:** | | | | |
| Investments: | | | | |
| Short-term investments | $ (242) | $ 58,830 | $ … | $ 58,588 |
| U.S. Government securities | … | 18,516 | … | 18,516 |
| Domestic bonds and long-term notes | 65,365 | … | 15,855 | 81,220 |
| International bonds and long-term notes | … | … | 18,757 | 18,757 |
| Domestic stocks | 35,312 | 464 | 48,010 | 83,786 |
| International stocks | 38,403 | 426 | 145,561 | 184,390 |
| Hedged strategies: | | | | |
| Equity oriented | 10,074 | … | 74,090 | 84,164 |
| Credit oriented | 1,840 | … | 65,872 | 67,712 |
| Multi-strategy and other | 3,749 | … | 84,581 | 88,330 |
| Private capital | 13 | … | 102,095 | 102,108 |
| Real estate | 11 | … | 70,380 | 70,391 |
| Real assets | 13 | … | 91,326 | 91,339 |
| Other investments | (14) | 78 | … | 64 |
| **Total assets** | $ 154,524 | $ 78,314 | $ 716,527 | $ 949,365 |
| **Liabilities:** | | | | |
| Due to Duke University | $ 3,149 | $ … | $ … | $ 3,149 |

The following table presents additional information about the Level 3 pension benefit assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that Duke has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

| | Balance as of June 30, 2009 | Net realized and unrealized gains (losses) | Net purchases and sales | Transfers to Level 2 | Balance as of June 30, 2010 |
|---|---|---|---|---|---|
| Investments: | | | | | |
| Domestic bonds and long-term notes | $ 15,855 | $ 821 | $ (1,872) | $ (12,579) | $ 2,225 |
| International bonds and long-term notes | 18,757 | 1,213 | … | (19,970) | … |
| Domestic stocks | 48,010 | 10,537 | (13,009) | (37,225) | 8,313 |
| International stocks | 145,561 | 30,188 | 4,567 | (125,107) | 55,209 |
| Hedged strategies: | | | | | |
| Equity oriented | 74,090 | 7,340 | 12,751 | (57,989) | 36,192 |
| Credit oriented | 65,872 | 14,430 | (11,255) | (10,943) | 58,104 |
| Multi-strategy and other | 84,581 | 11,122 | (15,079) | (27,856) | 52,768 |
| Private capital | 102,095 | 14,869 | 2,543 | … | 119,507 |
| Real estate | 70,380 | (7,273) | 15,429 | … | 78,536 |
| Real assets | 91,326 | 8,022 | 2,316 | … | 101,664 |
| **Total** | $ 716,527 | $ 91,269 | $ (3,609) | $ (291,669) | $ 512,518 |

Investments for which the pension plan had the ability to redeem at net asset value on or within 90 days after June 30, 2010 were transferred from Level 3 to Level 2. The change in unrealized gains related to Level 3 assets still held at June 30, 2010 was $34,464, and was recorded within nonperiodic changes in defined benefit plans on the consolidated statement of activities.

At June 30, 2010 and 2009, the accumulated benefit obligation for the pension benefits was $870,492 and $711,380, respectively, which is less than the fair market value of the plan assets of $1,027,765 and $946,216. At June 30, 2010 and 2009, the plan is over funded in relation to accumulated benefits by $157,273 and $234,836, respectively.

The pension benefits expected to be paid in each year from 2011-2015 are $38,907, $40,512, $42,316, $44,990, and $48,136, respectively. The aggregate benefits expected to be paid in the five years from 2016-2020 are $306,627. 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 2011-2015 are $11,631, $13,044, $14,246, $15,501, and $16,772, respectively. The aggregate benefits expected to be paid in the five years from 2016-2020 are $102,395. 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 2011-2015 is $2,186, $2,581, $3,100, $3,643 and $4,208, respectively. The aggregate subsidies expected to be received in the five years from 2016-2020 are $30,822. The current portion of the post retirement obligation at June 30, 2010 was $9,445.

The measurement date for both the defined benefit pension plan and the postretirement health benefit plan is June 30.

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

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| *Reconciliation of benefit obligation* | | | | |
| Obligation at July 1 | $ 781,627 | $ 729,224 | $ 166,100 | $ 142,922 |
| Service cost | 29,176 | 30,287 | 2,431 | 2,022 |
| Interest cost | 51,535 | 47,156 | 10,939 | 9,086 |
| Special temination benefits | … | 17,548 | … | 763 |
| Plan amendment | … | 11,007 | … | … |
| Actuarial (gain) loss | 137,491 | (24,183) | 57,739 | 17,609 |
| Benefit payments | (36,038) | (27,912) | (10,375) | (8,141) |
| Retiree drug subsidy payments | … | … | 2,230 | 1,839 |
| Administrative expenses (estimated) | (2,000) | (1,500) | … | … |
| **Obligation at June 30** | $ 961,791 | $ 781,627 | $ 229,064 | $ 166,100 |
| *Reconciliation of fair value for plan assets* | | | | |
| Fair value of plan assets at July 1 | $ 946,216 | $ 1,302,981 | $ … | $ … |
| Actual return on plan assets | 119,293 | (326,968) | … | … |
| Participant contributions | 120 | 117 | … | … |
| Benefit payments | (36,038) | (27,912) | … | … |
| Administrative expenses | (1,826) | (2,002) | … | … |
| **Fair value of plan assets at June 30** | $ 1,027,765 | $ 946,216 | $ … | $ … |
| *Funded status* | | | | |
| **Net amount recognized (accrued benefit liability)** | $ 65,974 | $ 164,589 | $ (229,064) | $ (166,100) |

The following table provides the components of net periodic benefit cost (credit) for the plans for fiscal 2010 and fiscal 2009:

| | Pension Benefits | | Postretirement Benefits | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Service cost | $ 29,176 | $ 30,287 | $ 2,431 | $ 2,022 |
| Interest cost | 51,535 | 47,156 | 10,939 | 9,086 |
| Expected return on plan assets | (84,005) | (87,354) | … | … |
| Amortization of prior-service cost (asset) | 4,484 | 4,484 | (1,596) | (1,596) |
| Expected participant contributions | (121) | (115) | … | … |
| Recognized actuarial gain | (9,245) | (17,014) | (2,745) | (4,800) |
| Cost of special termination benefits | … | 17,548 | … | 763 |
| **Net periodic benefit (credit) cost** | $ (8,176) | $ (5,008) | $ 9,029 | $ 5,475 |

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. The expected amortization of prior-service cost (asset) for fiscal 2011 is $4,357 and ($1,596) for the pension benefits and postretirement benefits, respectively. Unrecognized prior-service cost (asset) were $18,738 and ($8,067) and unrecognized actuarial gains (losses) were $26,262 and ($11,485) for the pension benefits and postretirement benefits, respectively, as of June 30, 2010.

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

| | Pension Benefits | | | | Postretirement Benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | 2010 | | 2009 | | 2010 | | 2009 | |
| Weighted average assumptions as of measurement date | Obligation | Cost | Obligation | Cost | Obligation | Cost | Obligation | Cost |
| Discount rate | 5.75% | 6.75% | 6.75% | 6.50% | 5.75% | 6.75% | 6.75% | 6.50% |
| 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, 2010, the per capita costs of covered health care benefits was assumed to increase 7.8% for non-Medicare eligible employees and 10.0% for Medicare eligible employees, decreasing to an ultimate annual rate of increase of 5.0% by 2016. The benefit expense for fiscal 2010 was driven by the rates used to determine the obligation at June 30, 2009, which were 7.5% decreasing to an ultimate rate of 5.0% by 2015.

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 | $ 2,229 | $ (1,786) |
| Effect on the health care component of the accumulated postretirement benefit obligation | $ 37,136 | $ (29,939) |

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 $19,229 and $17,365 for this accrued postemployment benefit cost as of June 30, 2010 and 2009, respectively.

## 11. Net Assets

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

| | 2010 | 2009 |
|---|---|---|
| Contributions for physical plant | $ 26,944 | $ 17,305 |
| Unrealized gains on donor-restricted endowments | 1,428,771 | 1,286,254 |
| Annuity and other split-interest agreements | 5,213 | 5,215 |
| Contributions for instruction, research and divisional support | 183,602 | 199,928 |
| Other | 7,362 | 6,826 |
| **Temporarily restricted net assets** | $ 1,651,892 | $ 1,515,528 |

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

| | 2010 | 2009 |
|---|---|---|
| Instruction, research, and student aid: | | |
| Permanent endowment funds | $ 1,367,107 | $ 1,281,442 |
| Contributions receivable, net | 40,179 | 152,263 |
| Interests in perpetual trusts held by others | 575,518 | 534,534 |
| Total instruction, research, and student aid | 1,982,804 | 1,968,239 |
| Annuity and other split-interest agreements | 30,050 | 34,287 |
| Student loan funds | 17,127 | 16,863 |
| **Permanently restricted net assets** | $ 2,029,981 | $ 2,019,389 |

Endowment net assets, excluding charitable remainder funds consist of the following at June 30, 2010:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2010 Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (49,635) | $ 1,417,573 | $ 1,367,107 | $ 2,735,045 |
| Board-designated endowment funds | 1,513,009 | … | … | 1,513,009 |
| Interests in perpetual trusts held by others | … | … | 575,518 | 575,518 |
| **Total endowed net assets** | $ 1,463,374 | $ 1,417,573 | $ 1,942,625 | $ 4,823,572 |

Endowment net assets, excluding charitable remainder funds consist of the following at June 30, 2009:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2009 Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ (72,916) | $ 1,279,244 | $ 1,281,442 | $ 2,487,770 |
| Board-designated endowment funds | 1,418,441 | … | … | 1,418,441 |
| Interests in perpetual trusts held by others | … | … | 534,534 | 534,534 |
| **Total endowed net assets** | $ 1,345,525 | $ 1,279,244 | $ 1,815,976 | $ 4,440,745 |

Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance as of June 30, 2008 | $ 4,164,573 | $ … | $ 1,959,171 | $ 6,123,744 |
| Net asset reclassification based on accounting change | (1,240,076) | 1,240,076 | … | … |
| Investment return: | | | | |
| Investment income | 84,637 | 132,083 | 23,150 | 239,870 |
| Net (depreciation) appreciation in market value | (1,569,213) | 39,168 | (215,568) | (1,745,613) |
| Total investment (loss) return | (1,484,576) | 171,251 | (192,418) | (1,505,743) |
| Contributions | 494 | … | 49,223 | 49,717 |
| New Board designated endowment funds | 23,795 | … | … | 23,795 |
| Appropriation of endowment assets for expenditure | (118,685) | (132,083) | … | (250,768) |
| Balance as of June 30, 2009 | 1,345,525 | 1,279,244 | 1,815,976 | 4,440,745 |
| Investment return: | | | | |
| Investment income | 105,718 | 137,962 | 19,658 | 263,338 |
| Net appreciation in market value | 99,655 | 138,329 | 41,288 | 279,272 |
| Total investment return | 205,373 | 276,291 | 60,946 | 542,610 |
| Contributions | 472 | … | 65,703 | 66,175 |
| New Board designated endowment funds | 20,101 | … | … | 20,101 |
| Appropriation of endowment assets for expenditure | (108,097) | (137,962) | … | (246,059) |
| Balance as of June 30, 2010 | $ 1,463,374 | $ 1,417,573 | $ 1,942,625 | $ 4,823,572 |

## 12. Fair Value Measurements

The following is a summary of the levels within the fair value hierarchy for Duke's assets:

| Fair Value as of June 30, 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and cash equivalents | $ 251,146 | $ … | $ … | $ 251,146 |
| Deposits with bond trustees | 248,083 | … | … | 248,083 |
| Investments: | | | | |
| Short-term investments | 276,389 | 421,035 | … | 697,424 |
| U.S. Government securities | 23,089 | 75,866 | … | 98,955 |
| Domestic bonds and long-term notes | 14,325 | 899,529 | 41,119 | 954,973 |
| International bonds and long-term notes | … | 97,218 | (1,780) | 95,438 |
| Domestic stocks | 409,322 | 197,508 | 82,162 | 688,992 |
| International stocks | 513,080 | 683,728 | 335,905 | 1,532,713 |
| Hedged strategies: | | | | |
| Equity oriented | 22,344 | 61,028 | 179,200 | 262,572 |
| Credit oriented | 32,171 | 40,204 | 411,125 | 483,500 |
| Multi-strategy and other | 13,100 | 167,260 | 357,836 | 538,196 |
| Private capital | 1,815 | … | 1,034,885 | 1,036,700 |
| Real estate | 91 | … | 723,569 | 723,660 |
| Real assets | 12 | … | 683,003 | 683,015 |
| Other investments | 14,215 | 54,226 | 25,686 | 94,127 |
| Total investments | 1,319,953 | 2,697,602 | 3,872,710 | 7,890,265 |
| Interests in perpetual trusts held by others | … | … | 575,518 | 575,518 |
| **Total assets** | $ 1,819,182 | $ 2,697,602 | $ 4,448,228 | $ 8,965,012 |
| **Liabilities:** | | | | |
| Interest rate and basis swaps | $ … | $ 108,334 | $ … | $ 108,334 |

| Fair Value as of June 30, 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Cash and cash equivalents | $ 260,040 | $ … | $ … | $ 260,040 |
| Deposits with bond trustees | 88,940 | … | … | 88,940 |
| Investments: | | | | |
| Short-term investments | 113,834 | 89,668 | … | 203,502 |
| U.S. Government securities | 137,950 | 127,551 | … | 265,501 |
| Domestic bonds and long-term notes | 23,962 | 685,183 | 123,645 | 832,790 |
| International bonds and long-term notes | 149 | … | 78,613 | 78,762 |
| Domestic stocks | 200,631 | 34,528 | 205,187 | 440,346 |
| International stocks | 338,488 | 4,345 | 913,011 | 1,255,844 |
| Hedged strategies: | | | | |
| Equity oriented | 387,838 | 39,596 | 302,381 | 729,815 |
| Credit oriented | 12,395 | … | 403,343 | 415,738 |
| Multi-strategy and other | 29,925 | … | 569,969 | 599,894 |
| Private capital | 405 | … | 860,462 | 860,867 |
| Real estate | 500 | … | 625,898 | 626,398 |
| Real assets | 21 | … | 587,047 | 587,068 |
| Other investments | 20,233 | 16,450 | 25,629 | 62,312 |
| Total investments | 1,266,331 | 997,321 | 4,695,185 | 6,958,837 |
| Interests in perpetual trusts held by others | … | … | 534,534 | 534,534 |
| **Total assets** | $ 1,615,311 | $ 997,321 | $ 5,229,719 | $ 7,842,351 |
| **Liabilities:** | | | | |
| Interest rate and basis swaps | $ … | $ 85,037 | $ … | $ 85,037 |

The following table presents additional information about Level 3 assets measured at fair value. Both observable and unobservable inputs may be used to determine the fair value of positions that Duke has classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category in the table below may include changes in fair value that were attributable to both observable and unobservable inputs.

| | Balance as of June 30, 2009 | Net realized and unrealized gains and losses | Net purchases and sales | Transfers to Level 2 | Balance as of June 30, 2010 |
|---|---|---|---|---|---|
| Investments: | | | | | |
| Domestic bonds and long-term notes | $ 123,645 | $ 9,463 | $ (5,695) | $ (86,294) | $ 41,119 |
| International bonds and long-term notes | 78,613 | 6,239 | 3,664 | (90,296) | (1,780) |
| Domestic stocks | 205,187 | 52,214 | (25,649) | (149,590) | 82,162 |
| International stocks | 913,011 | 177,888 | (57,100) | (697,894) | 335,905 |
| Hedged strategies: | | | | | |
| Equity oriented | 302,381 | 16,686 | 19,549 | (159,416) | 179,200 |
| Credit oriented | 403,343 | 92,776 | (44,790) | (40,204) | 411,125 |
| Multi-strategy and other | 569,969 | 66,422 | (111,295) | (167,260) | 357,836 |
| Private capital | 860,462 | 132,001 | 42,422 | … | 1,034,885 |
| Real estate | 625,898 | (35,097) | 132,768 | … | 723,569 |
| Real assets | 587,047 | 36,631 | 59,325 | … | 683,003 |
| Other investments | 25,629 | 10,890 | (10,833) | … | 25,686 |
| Total investments | 4,695,185 | 566,113 | 2,366 | (1,390,954) | 3,872,710 |
| Interests in perpetual trusts held by others | 534,534 | 40,984 | … | … | 575,518 |
| **Total** | $ 5,229,719 | $ 607,097 | $ 2,366 | $ (1,390,954) | $ 4,448,228 |

Investments for which Duke had the ability to redeem at net asset value on or within 90 days after June 30, 2010 were transferred from Level 3 to Level 2. The change in net unrealized gain (losses) related to Level 3 assets still held at June 30, 2010 was $423,102. As of June 30, 2010 $382,118 was recorded in investment return in excess of amounts designated for current operations and $40,984 was recorded in loss on perpetual trusts held by others and changes in split interest obligations on the consolidated statement of activities.

## 13. Derivative and Other Financial Instruments

Duke has executed derivative financial instruments in the normal course of its business. Duke has five (5) 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 (1) 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 table summarizes the general terms for each of Duke's swap agreements:

| | August 1993 Interest Rate Swap | March 2005 Interest Rate Swap | October 2005 Interest Rate Swap | November 2005 Interest Rate Swap | April 2007 Interest Rate Swap | July 2001 Basis Swap |
|---|---|---|---|---|---|---|
| Effective Date | August 5, 1993 | May 19, 2005 | December 1, 2006 | November 15, 2005 | April 1, 2009 | July 6, 2001 |
| Associated variable rate debt | Series 1993A | Series 2005 A/B/C | N/A | N/A | Portfolio[6] | N/A |
| Term | 30 year | 23 year | 7 year | 8 year | 30 year | 20 year |
| Notional amount | $28,650 | $322,140 | $7,000 | $25,000[4] | $200,000 | $400,000 |
| Rate Duke receives | SIFMA[1] | 61.52% of one-month LIBOR[2] plus 0.28% | One-month LIBOR[2] plus 0.60% | One-month LIBOR[2] plus 0.60% | 67% of one-month LIBOR[2] | 72.125% of one-month LIBOR[2] |
| Rate Duke pays | 5.09% | 3.60% | 5.63% | 5.10% | 3.72% | SIFMA[1] |
| Collateral provisions | 100% of liability if >$500 | Combined[3] | N/A | N/A | $30,000[5] | Combined[3] |

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 other liabilities. 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.

During fiscal 2009, DUHS was required to post collateral. The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position on June 30, 2010 is $105,030 for which DUHS has posted collateral of $19,884 in the normal course of business. If the credit-risk related features underlying these agreements were triggered on June 30, 2010, DUHS would be required to post an additional $85,146 of collateral to its counterparties.

| Derivatives not designated as hedging instruments under under Statement No. 133 | 2010 | | 2009 | |
|---|---|---|---|---|
| | Fair Value[7] | Gain (Loss)[8] | Fair Value[7] | Loss[8] |
| August 1993 Interest Rate Swap | $ (6,651) | $ (1,630) | $ (5,021) | $ (958) |
| March 2005 Interest Rate Swap | (46,619) | (15,195) | (31,424) | (17,936) |
| October 2005 Interest Rate Swap | (807) | (124) | (683) | (389) |
| November 2005 Interest Rate Swap | (2,497) | (489) | (2,008) | (1,542) |
| April 2007 Interest Rate Swap | (33,404) | (8,162) | (25,242) | (17,840) |
| July 2001 Basis Swap | (18,356) | 2,303 | (20,659) | (12,225) |
| **Total** | $ (108,334) | $ (23,297) | $ (85,037) | $ (50,890) |

[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] Duke and the counterparty are required to post collateral for combined fair value liability amounts in excess of $40,000 with regard to the March 2005 and July 2001 swaps.
[4] 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.
[5] Threshold is $35,000 in year 1, reducing to $20,000 in year 4 and beyond, based on current credit ratings.
[6] Notional amount of the April 2007 Interest Rate Swap declines coincident with the principal payment schedules for the Series 1985 and Series 2006 bonds. The residual portion is $5,785.
[7] Balance sheet location is other liabilities.
[8] Location of change in fair value of derivative instruments recognized in other nonoperating activities.

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

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

Certain DUHS derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of DUHS' debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At June 30, 2010, DUHS's long-term debt ratings exceeded these benchmarks.

Investment strategies employed by DUMAC and investment managers retained 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 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.

During the year ended June 30, 2010 Duke, or external investment managers on Duke's behalf, entered into:

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

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

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

**(c)** Swap agreements, including, equity, index, interest rate, credit default, option and variance swaps as part of its investment strategies to gain exposure to and, in some cases, hedge against changes in stock prices, interest rate levels, credit strength of specified companies, and market volatility. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon, or calculated by, reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

During the term of the swap contracts, changes in value are recognized as unrealized gains or losses by marking the contracts to market. Duke records a realized gain (loss) when periodic payments are received or made.

Loss may result from the failure of the counterparty to the swap contract failing to comply with the terms of the swap contract. Such loss is generally limited to the aggregate of the unrealized gain on the swap contract less collateral held or plus any collateral posted with the counterparty. Duke considers the creditworthiness of its swap contract counterparties in evaluating potential credit risk. Additionally, risks may arise from unanticipated movements in the fair value of the underlying securities and the lack of market liquidity to unwind the positions at current fair values.

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

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

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

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

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

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

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

The Durham-Toyama Sister Cities Japanese Pavilion in Sarah P. Duke Gardens.

At June 30, 2010, the volume of Duke's derivative activities based on their notional amounts and number of contracts, categorized by primary underlying risk, are as follows:

| | Long exposure | | Short exposure | |
|---|---|---|---|---|
| **Primary underlying risk** | **Notional amounts** | **Number of contracts** | **Notional amounts** | **Number of contracts** |
| Equity Price: | | | | |
| Options | $ 685,773 | 43,772 | $ 493,821 | 5,661 |
| Equity swaps | 194,586 | 83 | 36,660 | 41 |
| Index swaps | … | … | 84,178 | 15 |
| Warrants | 13,323 | 29 | … | … |
| Futures contracts | 190 | 729 | 47,088 | 802 |
| | 893,872 | 44,613 | 661,747 | 6,519 |
| Interest Rate: | | | | |
| Interest rate swaps | 37,163 | 14 | … | … |
| Futures contracts | … | … | 659,130 | 5,466 |
| | 37,163 | 14 | 659,130 | 5,466 |
| Commodity Price: | | | | |
| Futures contracts | 260,139 | 7,158 | … | … |
| Credit: | | | | |
| Credit default swaps | … | … | 255,903 | 82 |
| Swaptions | 6,707 | 5 | … | … |
| | 6,707 | 5 | 255,903 | 82 |
| Foreign currency exchange rate: | | | | |
| Futures contracts | 484,088 | 488 | … | … |
| Forward contracts | 562,084 | 49 | 144,087 | 20 |
| | 1,046,172 | 537 | 144,087 | 20 |
| **Total** | $ 2,244,053 | 52,327 | $ 1,720,867 | 12,087 |

The following table identifies the fair value amounts of derivative instruments included in investments categorized by primary underlying risk at June 30, 2010. Balances are presented on a gross basis, prior to the application of counterparty netting. Total derivative assets and liabilities, and their related gains or losses are adjusted on an aggregate basis to take into consideration the effects of master netting arrangements with its counterparties.

| **Primary underlying risk** | **Derivative assets** | **Derivative liabilities** | **Gain (loss)** |
|---|---|---|---|
| Equity Price: | | | |
| Options | $ 14,861 | $ (1,118) | $ 882 |
| Equity swaps | 6,220 | (14,839) | 3,356 |
| Index swaps | 4,574 | (70) | 1,183 |
| Warrants | 14,310 | … | 840 |
| Futures contracts | 1,233 | (26) | 1,578 |
| Rights | … | … | 392 |
| | 41,198 | (16,053) | 8,231 |
| Interest Rate: | | | |
| Interest rate swaps | 229 | (1,577) | (1,346) |
| Futures contracts | 141 | (2,081) | (58,768) |
| | 370 | (3,658) | (60,114) |
| Commodity Price: | | | |
| Futures contracts | 1,988 | (1,623) | 17,320 |
| Credit: | | | |
| Credit default swaps | 13,275 | (1,263) | (2,926) |
| Swaptions | 1,894 | … | (2,515) |
| | 15,169 | (1,263) | (5,441) |
| Foreign currency exchange rate: | | | |
| Futures contracts | 1,046 | … | 2,652 |
| Forward contracts | 7,545 | (2,647) | (14) |
| | 8,591 | (2,647) | 2,638 |
| **Total** | $ 67,316 | $ (25,244) | $ (37,366) |

## 14. Functional Expenses

Expenses are reported in the consolidated statement of activities in natural categories. Functional expenses for fiscal 2010 and fiscal 2009 were categorized as follows:

| | 2010 | 2009 |
|---|---|---|
| Instruction and departmental research | $ 750,478 | $ 744,197 |
| Sponsored and separately budgeted research | 720,118 | 685,704 |
| Health care services | 1,446,818 | 1,394,530 |
| Libraries | 44,039 | 42,093 |
| Student services | 44,552 | 46,248 |
| General administration | 663,476 | 625,996 |
| Student aid | 36,603 | 41,431 |
| Auxiliary enterprises | 176,076 | 177,637 |
| Other | 193,004 | 217,592 |
| **Total operating expenses** | $ 4,075,164 | $ 3,975,428 |

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 2010 and fiscal 2009 were $110,884 and $126,655, respectively.

## 15. Charity Care

DUHS provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because such operating companies do not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenues. Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges foregone for services and supplies furnished under the charity care policy. The amount of charity care provided, based on charges forgone, was $205,353 and $145,114 during fiscal 2010 and fiscal 2009, respectively.

## 16. Concentration on Credit Risk

DUHS grants credit without collateral to its patients, most of whom are insured under third-party payor agreements.

## 17. Conflicts of Interest Transactions

Members of Duke's governing boards and senior administration may, from time to time, be associated, either directly or indirectly, with companies doing business with Duke.

There are written conflict of interest policies for both the University and DUHS that require, among other things, that no member of a governing board may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each governing board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether Duke does business with an entity in which that member (or an immediate family member) has a material financial interest. When such relationships exist, measures are taken to mitigate any actual or perceived conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and for the benefit of Duke, and in accordance with applicable conflict of interest laws. No such associations that have been disclosed are considered to be significant.

For members of the senior administration, Duke requires annual disclosure of significant financial interests in, or employment or consulting relationships with, entities doing business with Duke. These annual disclosures cover both the members of the senior administration and their immediate family members. When such relationships exist, measures are taken to appropriately manage the actual or perceived conflict in the best interests of Duke.

## 18. Medical Resident FICA Receivable

In March 2010, the Internal Revenue Service (IRS) announced an administrative determination to accept the position that medical residents are exempt from Federal Insurance Contributions Act (FICA) taxes for calendar years 1991 to 2002. Accordingly, the administration calculated a gross refund of $37.6 million due from the IRS to Duke. The administration applied a 30% reserve to the gross balance, primarily to cover calendar years 1991 to 1993, for which the IRS has not acknowledged receipt of a protective claim from Duke. Duke anticipates receiving this refund within the next two years. As of June 30, 2010, this amount is reflected in other receivables on the consolidated balance sheet and other nonoperating activity on the consolidated statement of activities.

## 19. Subsequent Events

Duke has evaluated subsequent events from the balance sheet date through October 6, 2010, the date at which the financial statements were available to be issued, and determined that there are no additional items to disclose.

# Balance Sheet SCHEDULE 1

**THE UNIVERSITY (SUPPLEMENTARY INFORMATION)**
**JUNE 30, 2010**
**(WITH SUMMARIZED FINANCIAL INFORMATION AT JUNE 30, 2009)**
**(000'S OMITTED)**

| | 2010 | 2009 |
|---|---|---|
| ***Assets:*** | | |
| Cash and cash equivalents | $ 149,162 | $ 146,778 |
| Other receivables, net | 179,077 | 158,171 |
| Prepaid expenses, deferred charge and inventories | 80,703 | 107,846 |
| Contributions receivable, net | 223,781 | 352,191 |
| Student loans receivable, net | 42,626 | 42,147 |
| Investments | 6,388,381 | 5,776,980 |
| Deposits with bond trustees | 19,404 | 82,370 |
| Land, buildings, and equipment, net | 1,719,379 | 1,719,314 |
| Interests in perpetual trusts held by others | 575,518 | 534,534 |
| **Total assets** | $ 9,378,031 | $ 8,920,331 |
| ***Liabilities:*** | | |
| Accounts payable | $ 129,681 | $ 137,328 |
| Accrued payroll and employee withholdings | 116,714 | 115,705 |
| Deferred revenues and deposits | 191,020 | 188,441 |
| Notes and bonds payable | 1,887,291 | 1,891,500 |
| Annuity and other split-interest obligations | 41,331 | 39,930 |
| Accrued postretirement/postemployment and other benefit obligations | 207,965 | 164,209 |
| Minority interest | 264,898 | 143,322 |
| Other liabilities | 130,070 | 119,086 |
| **Total liabilities** | 2,968,970 | 2,799,521 |
| ***Net Assets:*** | | |
| Unrestricted | 2,782,818 | 2,630,017 |
| Temporarily restricted | 1,607,027 | 1,481,977 |
| Permanently restricted | 2,019,216 | 2,008,816 |
| **Total net assets** | 6,409,061 | 6,120,810 |
| **Total liabilities and net assets** | $ 9,378,031 | $ 8,920,331 |

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, 2010
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2009)
(000'S OMITTED)

| | Unrestricted Net Assets | Temporarily Restricted Net Assets | Permanently Restricted Net Assets | 2010 Total | 2009 Total |
|---|---|---|---|---|---|
| ***Operating revenues and support:*** | | | | | |
| Tuition and fees | $ 527,997 | $ … | $ … | $ 527,997 | $ 494,150 |
| Less student aid | (196,499) | … | … | (196,499) | (165,833) |
| | 331,498 | … | … | 331,498 | 328,317 |
| Grants, contracts and similar agreements: | | | | | |
| Government sources | 579,002 | … | … | 579,002 | 519,669 |
| The Private Diagnostic Clinic, PLLC | 50,148 | … | … | 50,148 | 40,686 |
| Other | 339,305 | … | … | 339,305 | 314,247 |
| | 968,455 | … | … | 968,455 | 874,602 |
| Contributions | 121,193 | 18,517 | … | 139,710 | 117,251 |
| Investment return designated for current operations: | | | | | |
| The Duke Endowment | 12,500 | … | … | 12,500 | 12,501 |
| Endowment spending | 244,892 | … | … | 244,892 | 249,596 |
| Other investment income | 79,395 | … | … | 79,395 | 61,311 |
| Auxiliary enterprises | 157,627 | … | … | 157,627 | 153,817 |
| Other | 110,721 | … | … | 110,721 | 136,242 |
| Net assets released from restrictions | 36,897 | (36,897) | … | … | … |
| **Total operating revenues and support** | 2,063,178 | (18,380) | … | 2,044,798 | 1,933,637 |
| ***Operating expenses:*** | | | | | |
| Salaries and wages | 995,640 | … | … | 995,640 | 978,828 |
| Employee benefits | 223,327 | … | … | 223,327 | 228,802 |
| Net postretirement/postemployment benefit expense (credit) | 3,185 | … | … | 3,185 | (1,330) |
| Student aid | 30,909 | … | … | 30,909 | 35,136 |
| Other operating expenses | 623,527 | … | … | 623,527 | 638,063 |
| Interest on indebtedness | 84,179 | … | … | 84,179 | 62,561 |
| Depreciation and amortization | 173,343 | … | … | 173,343 | 173,086 |
| **Total operating expenses** | 2,134,110 | … | … | 2,134,110 | 2,115,146 |
| **Deficit of operating revenues and support under operating expenses** | (70,932) | (18,380) | … | (89,312) | (181,509) |
| ***Nonoperating activities:*** | | | | | |
| Restricted contributions | … | 10,350 | 12,735 | 23,085 | 15,023 |
| Net assets released from restrictions | 7,089 | (7,089) | … | … | … |
| Investment return in excess of (less than) amounts designated for current operations | 214,950 | 141,290 | 19,623 | 375,863 | (1,948,658) |
| Nonperiodic changes in defined benefit plans | (64,945) | … | … | (64,945) | (213,749) |
| (Losses) gains on perpetual trusts held by others and changes in split interest obligations | … | (1,121) | 34,930 | 33,809 | (214,554) |
| Other | 27,211 | … | (56,888) | (29,677) | (1,308) |
| **Change in net assets from nonoperating activities** | 184,305 | 143,430 | 10,400 | 338,135 | (2,363,246) |
| **Transfer of net assets from DUHS** | 39,428 | … | … | 39,428 | 33,923 |
| **Change in net assets** | 152,801 | 125,050 | 10,400 | 288,251 | (2,510,832) |
| Net assets at beginning of year | 2,630,017 | 1,481,977 | 2,008,816 | 6,120,810 | 8,631,642 |
| **Net assets at end of year** | $2,782,818 | $1,607,027 | $2,019,216 | $6,409,061 | $ 6,120,810 |

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, 2010**
**(WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED JUNE 30, 2009)**
**(000'S OMITTED)**

| | 2010 | 2009 |
|---|---|---|
| ***Cash flows from operating activities:*** | | |
| Change in net assets | $ 288,251 | $ (2,510,832) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 173,343 | 173,086 |
| Loss on disposals of land, buildings and equipment | 1,803 | 1,144 |
| Nonperiodic changes in defined benefit plans | 64,945 | 213,749 |
| Change in fair value of derivative instruments | 613 | 1,931 |
| Contributions of property | (2,438) | (1,544) |
| Restricted contributions received for long-term investment and capital projects | (151,495) | (68,558) |
| Permanently restricted investment return | (19,623) | (20,530) |
| Permanently restricted returns on other nonoperating items | 61,541 | (2,023) |
| Net realized and unrealized losses (gains) on investments | (356,240) | 1,969,188 |
| Minority interest in losses of subsidiary | 29,265 | (21,368) |
| Decrease (increase) in: | | |
| Other receivables, net | (20,906) | 25,659 |
| Prepaid expenses, deferred charges and inventories | (5,239) | (22,124) |
| Contributions receivable, net | 128,410 | 53,535 |
| Interests in perpetual trusts held by others | (40,984) | 217,146 |
| (Decrease) increase in: | | |
| Accounts payable | (7,647) | (31,342) |
| Accrued payroll and employee withholdings | 1,009 | 9,903 |
| Deferred revenues and deposits | 2,579 | 43,840 |
| Annuity and other split-interest obligations | 1,401 | (4,745) |
| Accrued postretirement/postemployment and other benefit obligations | 10,630 | 13,748 |
| Other liabilities | 10,371 | 2,324 |
| **Net cash provided by operating activities** | 169,589 | 42,187 |

# Statement of Cash Flows SCHEDULE 3 (CONTINUED)

| | 2010 | 2009 |
|---|---|---|
| ***Cash flows from investing activities:*** | | |
| Purchases of investments | (12,355,330) | (26,729,059) |
| Proceeds from sales and maturities of investments | 12,100,169 | 26,066,814 |
| Purchases of land, buildings and equipment | (173,016) | (243,589) |
| Proceeds from disposals of land, buildings and equipment | 81 | 68 |
| Disbursements for loans to students | (6,994) | (8,397) |
| Repayments of loans by students | 6,515 | 9,493 |
| (Increase) decrease in deposits with bond trustees | 62,966 | (52,824) |
| **Net cash used in investing activities** | (365,609) | (957,494) |
| ***Cash flows from financing activities:*** | | |
| Restricted contributions received for long-term investment and capital projects | 151,495 | 68,558 |
| Permanently restricted investment return | 19,623 | 20,530 |
| Permanently restricted returns on other nonoperating items | (61,541) | 2,023 |
| Payments of notes and bonds payable | (7,929) | (172,815) |
| Proceeds from borrowings | 4,445 | 863,425 |
| Payments to minority interest | (61,871) | (40,505) |
| Proceeds from minority interest in subsidiary | 154,182 | 13,278 |
| **Net cash provided by financing activities** | 198,404 | 754,494 |
| Net change in cash and cash equivalents | 2,384 | (160,813) |
| Cash and cash equivalents at beginning of year | 146,778 | 307,591 |
| **Cash and cash equivalents at end of year** | $ 149,162 | $ 146,778 |

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.

| (UNAUDITED) (for the year ended June 30): | 2010 | 2009 | 2008 |
|---|---|---|---|
| **People:** | | | |
| Faculty (regular rank) | 3,019 | 2,877 | 2,730 |
| Total employees paid (1) | 43,715 | 42,736 | 41,599 |
| Total salaries and wages (000's omitted) | $1,839,731 | $1,772,762 | $1,653,613 |
| Benefits as a percentage of total compensation | 18.5% | 18.2% | 17.6% |
| **Education:** | | | |
| Enrollment (fall term, in full-time equivalents): | | | |
| Undergraduate schools | 6,307 | 6,358 | 6,294 |
| Graduate and professional schools | 7,093 | 6,650 | 6,447 |
| Degrees conferred: | | | |
| Undergraduate schools | 1,670 | 1,745 | 1,621 |
| Graduate and professional schools | 2,776 | 2,641 | 2,454 |
| **Research:** | | | |
| Grants, contracts and similar agreements: | | | |
| Federal government sources (000's omitted) | $ 535,228 | $ 480,328 | $ 499,304 |
| Other government sources (000's omitted) | $ 44,837 | $ 40,755 | $ 38,257 |
| Other (000's omitted) | $ 405,828 | $ 372,251 | $ 331,264 |
| **Patient Care:** | | | |
| Adult discharges | 60,951 | 60,846 | 59,555 |
| Average adult length of stay (in days) | 5.9 | 5.8 | 5.9 |
| Number of surgical operations performed | 85,512 | 81,233 | 78,656 |
| Outpatient visits | 1,811,955 | 1,616,956 | 1,488,278 |
| Emergency room visits | 164,889 | 161,201 | 151,649 |
| **Financial:** | | | |
| Total assets (000's omitted) | $12,517,174 | $11,529,700 | $13,673,323 |
| Net assets (000's omitted) | $7,981,555 | $7,512,979 | $10,524,241 |
| Total operating expenses (000's omitted) | $4,075,164 | $3,975,428 | $3,697,600 |
| Notes and bonds payable (000's omitted) | $2,860,265 | $2,579,924 | $1,774,661 |
| Market value of endowment (000's omitted) (2) | $4,823,572 | $4,440,745 | $6,123,744 |
| Endowment funds per full-time equivalent student (2) | $ 359,968 | $ 341,386 | $ 480,633 |
| Long term pool/endowment total rate of return (2) (3) | 13.2% | (24.3%) | 6.2% |
| **Physical plant (000's omitted):** | | | |
| Capital acquisitions (3) (5) | $ 311,010 | $ 522,852 | $ 363,502 |
| Total square feet of buildings (5) (6) | 15,522 | 15,622 | 15,205 |

(1) Includes faculty (all ranks), staff and students compensated for service to Duke
(2) As reported to the National Association of College and University Business Officers (NACUBO). Includes endowment funds held in trust by others
(3) Net of external management fees
(4) Beginning in 2000, the threshold for capitalization increased from $500 to $5,000
(5) Includes the original acquisition value of Durham Regional Hospital beginning in 2009, but does not include Duke Raleigh Hospital
(6) Excluding parking garages

# The Growth of Duke 2001-2010

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| 2,664 | 2,583 | 2,524 | 2,477 | 2,364 | 2,290 | 2,243 |
| 40,497 | 39,311 | 37,680 | 36,632 | 36,048 | 35,948 | 34,975 |
| $1,554,660 | $ 1,424,905 | $ 1,322,176 | $ 1,251,813 | $ 1,160,483 | $ 1,103,419 | $ 967,755 |
| 17.3% | 18.1% | 18.1% | 17.6% | 18.0% | 17.5% | 17.7% |
| | | | | | | |
| 6,187 | 6,263 | 6,137 | 6,066 | 6,095 | 5,916 | 5,990 |
| 6,233 | 6,198 | 6,022 | 5,999 | 5,689 | 5,588 | 5,273 |
| | | | | | | |
| 1,649 | 1,670 | 1,601 | 1,582 | 1,557 | 1,615 | 1,592 |
| 2,425 | 2,349 | 2,180 | 2,125 | 2,004 | 1,926 | 1,841 |
| | | | | | | |
| $ 509,175 | $ 455,928 | $ 423,645 | $ 385,204 | $ 346,587 | $ 293,886 | $ 246,999 |
| $ 36,318 | $ 33,245 | $ 33,801 | $ 27,818 | $ 24,856 | $ 25,211 | $ 17,925 |
| $ 260,389 | $ 258,409 | $ 255,325 | $ 233,570 | $ 227,664 | $ 222,542 | $ 207,487 |
| | | | | | | |
| 59,210 | 58,914 | 60,582 | 59,536 | 59,302 | 59,728 | 58,577 |
| 5.8 | 5.8 | 5.6 | 5.6 | 5.6 | 5.6 | 5.7 |
| 83,959 | 87,340 | 74,777 | 72,958 | 69,624 | 60,973 | 58,076 |
| 1,412,726 | 1,352,643 | 1,297,618 | 1,219,013 | 1,161,090 | 1,187,421 | 1,243,838 |
| 141,598 | 137,015 | 137,872 | 135,923 | 139,499 | 141,591 | 138,716 |
| | | | | | | |
| $12,697,506 | $ 10,296,044 | $ 9,152,192 | $ 8,035,107 | $ 7,338,216 | $ 7,111,598 | $ 7,245,946 |
| $10,029,164 | $ 7,895,106 | $ 6,826,606 | $ 6,053,528 | $ 5,298,555 | $ 5,119,154 | $ 5,290,004 |
| $3,474,544 | $ 3,239,192 | $ 2,957,357 | $ 2,725,831 | $ 2,562,187 | $ 2,416,710 | $ 2,342,613 |
| $1,593,396 | $ 1,339,918 | $ 1,248,187 | $ 981,508 | $ 941,097 | $ 859,533 | $ 745,976 |
| $5,910,280 | $ 4,497,718 | $ 3,826,153 | $ 3,313,859 | $ 3,017,261 | $ 2,927,478 | $ 3,131,375 |
| $ 475,868 | $ 360,944 | $ 314,677 | $ 274,667 | $ 256,047 | $ 254,475 | $ 278,023 |
| 25.6% | 20.2% | 18.1% | 18.0% | 6.6% | (3.8%) | (4.6%) |
| | | | | | | |
| $ 345,434 | $ 405,231 | $ 365,655 | $ 331,252 | $ 288,917 | $ 264,074 | $ 186,293 |
| 14,827 | 14,224 | 13,518 | 13,290 | 12,996 | 12,587 | 12,253 |


The Duke Men's Basketball 2010 NCAA Championship team.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221
222
121
NATIONAL CHAMPIONS
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