KPMG

EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Emory University:

We have audited the accompanying consolidated financial statements of Emory University, which comprise the consolidated statements of financial position as of August 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud of error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Emory University as of August 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

December 20, 2013
Atlanta, Georgia

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2013 and August 31, 2012
(Dollars in thousands)

	2013	2012
ASSETS:		
Cash and cash equivalents	$ 464,140	$ 509,994
Patient accounts receivable, net	324,297	295,061
Student accounts receivable, net	51,688	44,207
Loans receivable, net	26,869	26,777
Contributions receivable, net	190,992	156,647
Accrued investment income receivable	7,740	6,651
Other receivables, net	228,141	244,908
Prepaid expenses, deferred charges and other assets	158,108	190,775
Investments	6,186,495	5,679,329
Interests in perpetual funds held by others	1,040,528	1,025,848
Property and equipment, net	2,777,055	2,663,442
Total assets	**$ 11,456,053**	**$ 10,843,639**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 412,832	$ 413,338
Liability for derivative instruments	100,822	217,595
Interest payable	26,470	27,617
Annuities payable	17,701	18,052
Bonds, notes and mortgages payable	1,993,007	1,890,733
Accrued liabilities for benefit obligations and professional liabilities	335,694	391,036
Deferred tuition and other revenue	406,867	388,913
Deposits held in custody for others	531,536	476,915
Government advances for federal loan programs	17,764	17,820
Total liabilities	3,842,693	3,842,019
Unrestricted net assets:		
Net assets controlled by Emory	3,193,139	2,842,668
Net assets related to noncontrolling interests	63,965	61,797
Total unrestricted net assets	3,257,104	2,904,465
Temporarily restricted net assets	2,577,773	2,524,915
Permanently restricted net assets	1,778,483	1,572,240
Total net assets	7,613,360	7,001,620
Total liabilities and net assets	**$ 11,456,053**	**$ 10,843,639**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended August 31, 2013 (summarized financial information for the year ended 2012)
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2013	Total August 31, 2012
OPERATING REVENUES:					
Tuition and fees	$ 544,183	-	-	$ 544,183	$ 512,680
Less: Scholarship allowances	(188,736)	-	-	(188,736)	(183,783)
Net tuition and fees	355,447	-	-	355,447	328,897
Endowment spending distribution	151,840	-	-	151,840	149,759
Distributions from perpetual trusts	27,600			27,600	25,792
Other investment income designated for current operations	53,045	-	-	53,045	57,427
Gifts and contributions	44,904	5,298	-	50,202	42,639
Grants and contracts	379,403	-	-	379,403	382,391
Indirect cost recoveries	118,451	-	-	118,451	122,728
Net patient service revenue	2,540,856	-	-	2,540,856	2,319,826
Medical services	154,285	-	-	154,285	147,430
Sales and services of auxiliary enterprises	66,375	-	-	66,375	63,087
Independent operations	22,136	-	-	22,136	22,138
Other revenue	108,986	-	-	108,986	93,014
Net assets released from restrictions	3,599	(3,599)	-	-	-
Total operating revenues	**4,026,927**	**1,699**	**-**	**4,028,626**	**3,755,128**
OPERATING EXPENSES:					
Salaries and fringe benefits	2,460,153	-	-	2,460,153	2,304,097
Student financial aid	10,118	-	-	10,118	9,297
Other operating expenses	1,249,339	-	-	1,249,339	1,159,737
Interest on indebtedness	72,335	-	-	72,335	74,822
Depreciation	217,148	-	-	217,148	203,110
Total operating expenses	**4,009,093**	**-**	**-**	**4,009,093**	**3,751,063**
NET OPERATING REVENUES/(EXPENSES):	**17,834**	**1,699**	**-**	**19,533**	**4,065**
NONOPERATING ACTIVITIES:					
Investment return in excess of spending distribution for current operations	113,225	83,379	57,430	254,034	303,275
Investment management fees	(22,510)	(143)	(644)	(23,297)	(19,078)
Gifts and contributions	2,476	12,387	128,657	143,520	103,070
Net assets released from restrictions for capital purposes	113,758	(113,758)	-	-	-
Loss on disposal of property and equipment	(9,527)	-	-	(9,527)	(11,564)
Loss on defeasance of debt	(942)	-	-	(942)	(15,058)
Change in fair value of derivative instruments	116,773	-	-	116,773	(77,422)
Pension and postretirement benefit plans	71,548			71,548	(57,929)
Acquisition of net assets in formation of Joint Operating Company	-	-	-	-	99,769
Other nonoperating items, net	(49,996)	69,294	20,800	40,098	11,789
Total nonoperating activities	**334,805**	**51,159**	**206,243**	**592,207**	**336,852**
CHANGE IN NET ASSETS	**352,639**	**52,858**	**206,243**	**611,740**	**340,917**
Less change in net assets related to noncontrolling interests	2,168	-	-	2,168	68,495
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**350,471**	**52,858**	**206,243**	**609,572**	**272,422**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended August 31,2012

(Dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2012
OPERATING REVENUES:				
Tuition and fees	$ 512,680	-	-	$ 512,680
Less: Scholarship allowances	(183,783)	-	-	(183,783)
Net tuition and fees	328,897	-	-	328,897
Endowment spending distribution	149,759	-	-	149,759
Distributions from perpetual trusts	25,792			25,792
Other investment income designated for current operations	57,427	-	-	57,427
Gifts and contributions	42,639	-	-	42,639
Grants and contracts	382,391	-	-	382,391
Indirect cost recoveries	122,728	-	-	122,728
Net patient service revenue	2,319,826	-	-	2,319,826
Medical services	147,430	-	-	147,430
Sales and services of auxiliary enterprises	63,087	-	-	63,087
Independent operations	22,138	-	-	22,138
Other revenue	93,014	-	-	93,014
Net assets released from restrictions	3,681	(3,681)	-	-
Total operating revenues	**3,758,809**	**(3,681)**	**-**	**3,755,128**
OPERATING EXPENSES:				
Salaries and fringe benefits	2,304,097	-	-	2,304,097
Student financial aid	9,297	-	-	9,297
Other operating expenses	1,159,737	-	-	1,159,737
Interest on indebtedness	74,822	-	-	74,822
Depreciation	203,110	-	-	203,110
Total operating expenses	**3,751,063**	**-**	**-**	**3,751,063**
NET OPERATING REVENUES/(EXPENSES):	**7,746**	**(3,681)**	**-**	**4,065**
NONOPERATING ACTIVITIES:				
Investment return in excess of spending distribution for current operations	178,059	67,799	57,417	303,275
Investment management fees	(18,778)	(176)	(124)	(19,078)
Gifts and contributions	12,241	72,268	18,561	103,070
Loss on disposal of property and equipment	(11,564)	-	-	(11,564)
Loss on defeasance of debt	(15,058)	-	-	(15,058)
Change in fair value of derivative instruments	(77,422)	-	-	(77,422)
Pension and postretirement benefit plans	(57,929)			(57,929)
Acquisition of net assets in formation of Joint Operating Company	99,769			99,769
Other nonoperating items, net	6,882	5,317	(410)	11,789
Total nonoperating activities	**116,200**	**145,208**	**75,444**	**336,852**
CHANGE IN NET ASSETS	**123,946**	**141,527**	**75,444**	**340,917**
Less change in net assets related to noncontrolling interests	68,495	-	-	68,495
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**55,451**	**141,527**	**75,444**	**272,422**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2013 and 2012
(Dollars in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 611,740	$ 340,917
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net assets acquired in formation of Joint Operating Company	-	(99,769)
Gain on formation of the Joint Operating Company	-	(18,664)
Capital contributions from noncontrolling interests	(20,179)	-
Gifts and contributions for endowment and capital projects	(77,683)	(109,351)
Net realized gains on sale of investments	(275,030)	(292,706)
Loss on disposal of property and equipment	9,527	11,564
Interests in perpetual funds held by others	(14,680)	(60,235)
Loss on defeasance of debt	942	15,058
Depreciation	217,148	203,110
Provision for uncollectible patients accounts receivable	116,234	98,533
Accretion/amortization of bond discounts/premiums	7,058	(3,705)
Net unrealized gains on investments	(107,301)	(37,057)
Actuarial adjustments for retiree pension and benefit plans	(58,100)	52,065
Change in fair value of derivative instruments	(116,773)	77,422
Gifts of securities and other assets	(82,238)	(62,642)
(Increase) decrease in operating assets, net of effects from formation of Joint Operating Company:		
Accounts and other receivables, net	(136,184)	(113,233)
Contributions receivable for operations	(7,730)	(7,543)
Accrued investment income receivable	(1,089)	2,062
Prepaid expenses, deferred charges and other assets	34,511	67,979
Increase (decrease) in operating liabilities, net of effects from formation of Joint Operating Company:		
Accounts payable, accrued liabilities and interest payable	(13,454)	(6,249)
Accrued liabilities for benefit obligations and professional liabilities	2,758	47,705
Deferred tuition and other revenue	17,954	34,923
Net cash provided by operating activities	**107,431**	**140,184**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements for loans to students	(5,006)	(3,879)
Repayment of loans from students	4,914	4,825
Proceeds from sales and maturities of investments	6,876,493	9,317,310
Purchases of investments	(6,919,090)	(9,204,820)
Cash received in formation of Joint Operating Company	-	71,953
Purchases of property, plant and equipment	(328,487)	(250,579)
Increase in deposits held in custody for others	54,621	11,140
Net cash used in investing activities	**(316,555)**	**(54,050)**

(Continued)

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2013 and 2012

(Dollars in thousands)

	2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts and contributions for endowment and capital projects	51,068	135,416
Proceeds from bonds and mortgages payable	398,865	130,979
Principal repayments of bonds and mortgages payable	(304,591)	(172,972)
Required posting of collateral	-	(40,691)
Decrease in annuities payable	(351)	(995)
Increase (decrease) in government advances for federal loan programs	(56)	321
Bond issuance costs	(1,844)	672
Capital contributions from noncontrolling interests	20,179	-
Net cash provided by financing activities	**163,270**	**52,730**
Net (decrease) increase in cash and cash equivalents	**(45,854)**	**138,864**
Cash and cash equivalents at beginning of year	**509,994**	**371,130**
Cash and cash equivalents at end of year	**$ 464,140**	**$ 509,994**
Supplemental disclosure:		
Cash paid for interest	$ 76,816	$ 71,497
Property, plant and equipment acquisitions that were reflected in accounts payable	11,801	19,399

See accompanying notes to consolidated financial statements.

(1) Organization

Emory University (the University or Emory) is a not-for-profit institution, located in Atlanta, Georgia, which owns and operates educational and research facilities, the Emory Healthcare system, Clifton Casualty Insurance Company Ltd. (CCIC), Emory Innovations, LLC and Emory Medical Care Foundation (EMCF).

The Emory Healthcare system (the System or Emory Healthcare) consists of:

(1) four general and acute care hospitals (Emory University Hospital, Emory University Hospital Midtown, EHCA Johns Creek Hospital, LLC (EJCH), and Emory Saint Joseph's Hospital (ESJH))

(2) a geriatric hospital and a long term care hospital (Wesley Woods Geriatric Hospital and Wesley Woods Long Term Care Hospital)

(3) an intermediate care nursing home (Budd Terrace), and an independent and assisted living facility for seniors (Wesley Woods Towers)

(4) three physician groups (The Emory Clinic, Inc., Emory Specialty Associates, LLC and Emory Specialty Associates – Joint Operating Company) and one physician-group joint venture (Emory Children's Center, Inc.) terminated July 1, 2013

(5) Emory Healthcare Corporate (EHC)

(6) Saint Joseph's Translational Research Institute (SJTRI).

The consolidated financial statements include the University and all other entities in which Emory has significant financial interest and control. All significant intercompany accounts and transactions have been eliminated in consolidation.

Emory University Hospital, Emory University Hospital Midtown, EHCA Johns Creek Hospital, LLC, Emory Saint Joseph's Hospital, Wesley Woods Geriatric Hospital and Wesley Woods Long Term Care Hospital are sometimes referred to herein as "the Hospitals."

Effective December 31, 2011, the System contributed EJCH to a joint operating company (JOC) under the name of Emory/Saint Joseph's, Inc. (ESJ) formed together with Saint Joseph's Health System (SJHS), in exchange for a 51% membership interest in the JOC. SJHS contributed ESJH, certain physician practices which are included in the accounts of Emory Specialty Associates – Joint Operating Company, SJTRI and certain other assets in exchange for its 49% membership interest in the JOC.

Included in the accounts of ESJH are Saint Joseph's Service Corporation (SJSC) and Saint Joseph's Real Estate Management, Inc. (SJRE). These for-profit subsidiaries own and operate certain assets on the ESJH campus. Effective August 31, 2013, the assets of SJSC and SJRE were merged into ESJH.

(2) Summary of Significant Accounting and Reporting Policies

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

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

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

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

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

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

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

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

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

(a) Cash Equivalents

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

(b) Contributions Receivable

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Contributions to be received after one year, net of an allowance for uncollectible amounts, are discounted to their present value at a risk-adjusted rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor, and other relevant factors.

(c) Loans Receivable, Net

Emory funded loans to students are carried at estimated net realizable value. Loans receivable from students under certain governmental loan programs, carried at cost, can only be assigned to the federal government or its designees. In addition to Federal Direct Loans which do not flow through the financial statements, loans to qualified students are funded principally with government advances to Emory under the Perkins, Nursing and Health Professions Student Loan Programs.

(d) Other Receivables, Net

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

(e) Investments

Investments are reported at fair value, with the difference between fair value and cost (or fair value at date of gift) being recorded as unrealized gains (losses).

Investments in securities include both U.S. and non-U.S. equities and fixed income instruments. Fair value for these investments is measured based upon quoted prices in active markets, if available. If the market is inactive, fair value is determined by underlying managers and reviewed by the University after considering various sources of information. Due to variations in trading volumes and the lack of quoted market prices for fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above.

Investments in funds primarily include investments in commingled equity and fixed income funds and other investments in funds (hedged strategies, private market investments, real estate partnerships and natural resources) and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures. The University has estimated the fair value of its investments in investment funds on the basis of the net asset value (NAV) per share of the investment (or its equivalent), as a practical expedient, if a) the underlying investment manager's calculation of NAV is fair value based, and b) the NAV has been calculated as of the University's fiscal year end date. If the reported NAV is not as of the University's fiscal year end date or is not fair value based, the University will adjust the NAV, if deemed necessary. If the University determines it is not practicable to calculate an adjusted NAV, the practical expedient will not be utilized and other valuation methodologies will be used. Real estate partnerships and funds are valued based on appraisals of properties held and conducted by third party appraisers retained by the general partner or investment manager. General partners of oil and gas partnerships also use third party appraisers to value properties. Valuations provided by the general partners and investment managers are evaluated by the Emory Investment Management Office and are believed to present reasonable estimates of fair value at August 31, 2013 and 2012.

The University has $5.99 billion and $5.57 billion of investments and interests in perpetual funds held by others that fall into Levels 2 and 3 and are reported at estimated fair value at August 31, 2013 and 2012, respectively. Due to the utilization of the practical expedient, approximately $3.5 million of the assets reported at net realizable value were classified as Level 2 because they are redeemable within 120 days under current terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to inherent uncertainty of fair value, such estimates of fair value may differ from values that would have been applied had a readily available market existed and those differences could be material. Although a secondary market exists for these investments, the market 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 the University were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and that discount could be significant.

The University's investments in investment funds are subject to the terms of the respective funds' agreements, private placement memoranda, and other governing agreements of such funds. These terms are typical for hedge fund and private equity arrangements. The University's investments are also subject to management and performance fees as specified in such funds' agreements. Additionally, such funds in which the University invests may restrict both the transferability of the University's interest and the University's ability to withdraw. In light of such restrictions imposed, an investment in these funds should be viewed as illiquid and subject to liquidity risk. The agreements related to investments in investment funds provide for compensation to the managers in the form of management fees and performance incentive fees, which are generally up to 2% annually of net assets and up to 20% of net profits earned, respectively.

Investments are exposed to several risks, such as interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

Investment transactions are accounted for on the trade date basis. Dividend income is recognized on the ex-dividend date and interest income is recognized on the accrual basis. Realized gains and losses are determined by the specific identification method for investments in investment funds and average cost for investments in securities. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported in the consolidated statements of activities, as increases or decreases in unrestricted net assets, where there are no donor restrictions, or temporarily restricted net assets, until amounts have been appropriated and the donor-imposed or regulatory time restrictions have elapsed. Premiums and discounts on fixed income securities are amortized into income using the effective interest method.

(f) Split Interest Agreements and Interests in Perpetual Funds Held by Others

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

The University is also the beneficiary of certain perpetual funds held and administered by others. The value of the funds' assets (or Emory's share when there are other beneficiaries) is considered a reasonable estimate of the present value of the estimated future cash receipts from these funds and is recognized in beneficial interest in perpetual funds and as contribution revenue at the date such trusts are established. The carrying value of Emory's interest is adjusted annually for changes in fair value. The fair value of these perpetual funds is recorded in the consolidated statements of financial position on August 31, 2013 and 2012 at $1,040.5 million and $1,025.8 million, respectively.

Included in these perpetual funds are the assets of the Robert W. Woodruff Health Sciences Center Fund, Inc. The Robert W. Woodruff Health Sciences Center Fund, Inc. is a tax-exempt entity established in 1996 to make grants and carry on other activities to support and benefit the Robert W. Woodruff Health Sciences Center, a division of the University which includes its medical and nursing schools, medical research laboratories and hospitals. At August 31, 2013 and 2012, the assets of the Robert W. Woodruff Health Sciences Center Fund, Inc. were $951 million and $935 million, respectively. The majority of these assets are investments in the common stock of The Coca-Cola Company.

(g) Property and Equipment

Land, buildings, and equipment are recorded at cost at the date of acquisition or fair value at the date of gift to the University. Interest expense, net of interest earnings, on borrowings is capitalized during project construction periods as part of property cost. Depreciation expense is based on the straight-line method over the estimated useful lives of the assets. Useful lives are as follows: buildings – 10 to 60 years; land improvements and infrastructure – 5 to 40 years; moveable equipment – 3 to 20 years; fixed equipment – 3 to 30 years; leasehold improvements – term of the lease; and library books – 10 years.

(h) Bond Issuance Costs

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

(i) Tuition and Fees

Tuition and fee revenues are recognized in the fiscal year during which the academic services are rendered. Student tuition and fees received in advance of services to be rendered are reported as deferred revenue. Student aid provided by the University for tuition and fees is reflected as a reduction of gross tuition and fee revenue.

(j) Contributions Revenue

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions restricted for capital projects, endowment funds, and contributions under split-interest agreements or perpetual trusts are reported as nonoperating revenue. All other contributions are recorded as operating revenues. Unconditional promises to give, with payments due in future periods, are recorded as increases in temporarily or permanently restricted assets at the estimated present value of future cash flows, net of an allowance for uncollectible pledges.

Donor-restricted contributions are reported as temporarily restricted or permanently restricted revenue that increases those net asset classes. Expirations of temporary restrictions on net assets, such as the donor stipulation being met or the passage of time, are reported as net assets released from restrictions and reflect reclassifications from temporarily restricted net assets to unrestricted net assets. If the donor stipulation is met in the year of the gift, the contribution is reflected in the unrestricted net asset class. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met.

(k) Grants and Contracts Revenue and Indirect Cost Recoveries

Indirect cost recoveries and grants and contracts revenue are reported at the estimated net realizable amounts due from sponsoring agencies. Grants and contracts from governmental units provide a major portion of funds for research, public service, and other university activities. These grants and contract awards generally specify the purpose for which the funds are to be used.

Indirect cost recoveries are based on negotiated rates and represent recoveries of facilities and administrative costs incurred under grants and contracts agreements. Revenues from sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements. These revenues, primarily from the federal government, are recorded as unrestricted support. Amounts recorded in grants and contracts receivable are for grant expenses incurred in advance of the receipt of funds.

(l) Net Patient Service Revenue

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

With respect to reserves for third-party payor cost report audits and anticipated settlements, the Hospitals routinely reserve 3.0 - 3.5% of relevant Medicare revenues through initial audit and settlement of related cost reports, which is then reduced to 1.0 - 1.5% of revenues until the related statutory reopening periods have expired (generally, three years from the date of initial settlement). The Hospitals have historically provided such reserves in recognition of the complexity of relevant reimbursement regulations, the volatility of related settlement processes, and an increasingly provocative overall healthcare regulatory environment, and believe that such policy properly provides for the Hospitals' routine exposures in this area consistent with industry-specific accounting principles and practices. In any event, the Hospitals' estimates in this area will differ from actual experience, and those differences may be material.

(m) Auxiliary Enterprises and Independent Operations

Auxiliary enterprises include residence halls, food service, bookstore and parking operations which provide services to students, faculty and staff. Fee charges are directly related to the costs of services provided. Independent operations include an externally managed conference center, hotel, and a fitness center. Fee charges are based on market rates for the services provided.

(n) Income Taxes

The University is recognized as a tax-exempt organization as defined in Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and is generally exempt from the federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. Unrelated business income of the University is reported on Form 990-T. As of August 31, 2013 and 2012, there were no material uncertain tax positions.

(o) Derivative Instruments

The University will from time to time utilize interest rate exchanges to hedge interest rate market exposure of variable rate debt. The University uses the accrual method to account for the interest rate exchanges in connection with the underlying bonds. The difference between amounts paid and received under such agreements is reported in interest expense in the consolidated statements of activities. Changes in the fair value of these exchanges are recognized as nonoperating changes in net assets in the consolidated statements of activities.

Certain investment strategies used by the University and its investment managers incorporate various derivative financial instruments in order to reduce volatility, manage market risk, and enhance investment returns. Changes in the fair value of these instruments are recognized as nonoperating investment gains or losses in the consolidated statements of activities.

(p) Pension and Postretirement Benefits

The University recognizes the funded status of its defined benefit pension and postretirement benefit plans as an asset or liability and recognizes changes in funded status during the year in which the changes occur as changes in unrestricted net assets.

(q) New Accounting Pronouncements

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

Subtopic 954-605, *Health Care Entities – Revenue Recognition*, and requires that cost be used as the measurement basis for charity care disclosure purposes. The method used to estimate such costs as well as any funds received to offset or subsidize charity care services provided is disclosed. The adoption of ASU 2010-23 did not have a material impact on the University's consolidated financial statements.

During fiscal 2012, the University adopted the provisions of FASB ASU 2010-24 (Topic 954): *Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 amends ASC Subtopic 954-450, *Health Care Entities – Contingencies*, to clarify that a health care entity should not net insurance recoveries against a related liability and that the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 did not have a material impact on the University's consolidated financial statements.

During fiscal 2013, the University adopted the provisions of FASB ASU 2011-07 (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. This ASU requires the reclassification of the provision for uncollectible accounts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). It also requires enhanced disclosure about policies for recognizing revenue and assessing uncollectible accounts, and disclosures of patient service revenue and qualitative and quantitative information about changes in the allowance for uncollectible accounts. The adoption of ASU 2011-07 did not have a material impact on the University's consolidated financial statements.

During fiscal 2013, the University adopted the provisions of ASU 2011-04 (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The standard includes changes to certain provisions of valuation guidance by clarifying existing rules and expanding required disclosures. The adoption of ASU 2011-04 had no material impact on the University's consolidated financial statements.

In October 2012, the FASB issued ASU 2012-05 (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires a not-for-profit (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. The University plans to adopt this ASU in fiscal 2014 and does not expect this change to have a material impact on the University's consolidated financial statements.

(r) Use of Estimates

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

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

(s) Conflict of Interest

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

(t) Reclassifications

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

(3) Contributions Receivable

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

		2013	2012
Unconditional promises expected to be collected in:			
Less than one year	$	133,773	59,848
One year to five years		73,820	117,744
Over five years		4,860	5,582
Gross contributions receivable		212,453	183,174
Less:			
Allowance for uncollectible amounts		(11,853)	(10,522)
Discount to present value		(9,608)	(16,005)
Contributions receivable, net	$	190,992	156,647

At August 31, 2013 and 2012, the five largest outstanding donor pledge balances represented 73.8% and 73.0%, respectively, of Emory's gross contributions receivable. Contributions receivable generally are discounted at rates ranging from 1.16% to 9.24%.

The methodology for calculating an allowance for uncollectible contributions receivable is based upon management's analysis of the aging of payment schedules for all outstanding pledges over $1 million and other factors, including donor history and quality. This review resulted in allowances for uncollectible amounts totaling 5.58% and 5.74% respectively of gross contribution receivables as of August 31, 2013 and 2012.

In November 2006, the University received a gift from the Robert W. Woodruff Foundation, Inc. for $240 million to support the University's future Healthcare facility projects. As of August 31, 2013, $160 million had been received with the remaining $80 million reported in contributions receivable and temporarily restricted net assets.

As of August 31, 2013, the University had received bequest intentions of approximately $160 million. These intentions to give are not recognized as assets or revenues and, if received, will generally be restricted for purposes stipulated by the donor.

(4) Business and Credit Concentrations

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

	2013	2012
Managed care and other third-party payors	57%	61%
Medicare	32	29
Patients	6	5
Medicaid	5	5
	100%	100%

(5) Net Patient Service Revenue

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

- Medicare – Substantially all acute care and professional services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain types of exempt services and other defined payments related to Medicare beneficiaries are paid based upon cost reimbursement or other retroactive-determination methodologies. The System is paid for retroactively determined items at tentative rates, with final settlement determined after submission of annual cost reports by the System and audits by the Medicare fiscal intermediary. The System's cost reports have been audited and substantially settled for all fiscal years through August 31, 2007. Revenues from the Medicare program accounted for approximately 37% and 36% of the System's net patient service revenue for the years ended August 31, 2013 and 2012, respectively.
- Medicaid – Inpatient and professional services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid based upon cost reimbursement methodologies. The System's cost reports have been audited and substantially settled for all fiscal years through August 31, 2007. Revenues from the Medicaid program accounted for approximately 5% and 3% of the System's net patient service revenue for the years ended August 31, 2013 and 2012, respectively. The System contracts with certain managed care organizations in providing services to Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diem rates.

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

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

		2013	2012
Gross patient service revenue	$	6,797,764	6,043,651
Less provisions for contractual and other adjustments		(4,140,674)	(3,625,292)
Subtotal		2,657,090	2,418,359
Less provisions for uncollectible accounts		(116,234)	(98,533)
Net patient service revenue	$	2,540,856	2,319,826

The System recognizes patient service revenue associated with services provided to patients with third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for community financial aid, the System recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of the System's uninsured patients are unable or unwilling to pay for the services provided. Thus, the System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized during the years ended August 31, 2013 and 2012 from these major payor sources is as follows (in thousands):

		2013	2012
Third-party payors	$	2,549,805	2,235,999
Self-pay		107,285	182,360
Total	$	2,657,090	2,418,359

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

(6) Investments

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

		2013	2012
Short-term investments and cash equivalents [(a)]	$	413,955	473,648
Investments in securities:			
Global equity securities			
U.S. equity securities		293,668	241,075
Non-U.S. equity securities		239,325	306,044
Fixed income securities			
U.S. government securities		555,679	511,628
Domestic bonds and long-term notes [(b)]		256,653	338,529
International bonds and long-term notes [(c)]		75,308	96,953
Commingled funds - equity [(d)]		576,593	433,287
Commingled funds - fixed income [(d)]		579,999	378,351
Investments in funds:			
Hedged strategies [(e)]		1,308,995	1,031,119
Private market investments [(f)]		1,242,917	1,209,163
Real estate partnerships [(g)]		150,678	152,980
Natural resources [(h)]		489,337	493,026
Miscellaneous investments [(i)]		2,362	3,216
Derivatives [(j)]		(2,250)	3,737
Oil and gas properties		2,100	2,100
Marketable real estate investments		836	1,163
Total investments at fair value		6,186,155	5,676,019
Joint ventures (equity method)		340	3,310
Total investments	$	6,186,495	5,679,329

(a) Includes short-term U.S. Treasury securities with maturities of less than one year, as well as funds that invest in these types of investments. At August 31, 2013 and 2012, $35.7 million and $36.9, respectively, was posted as collateral and thus not readily available for use.

(b) Includes investments in non-government debt securities. 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.

(c) Includes fixed income investments in non-U.S.debt securities such as government bonds, corporate bonds, bank loans, and asset backed securities.

(d) Includes professionally managed pooled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (i.e., mutual funds and collective trusts).

(e) Includes investments in unitized funds that pursue multiple strategies to diversify risks and reduce volatility. Fund managers have the ability to shift investments across a wide variety of sectors, geographies, and strategies and from a net long position to a net short position. The fair values of the fund investments in this category have been estimated using the net asset value of the investments.

(f) Includes illiquid investments in venture capital, growth equity, buyout, mezzanine, distressed debt and reinsurance held in commingled limited partnership vehicles. 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 11 years.

(g) Includes illiquid investments in real estate assets, projects, or land held in commingled limited partnership funds. The fair value of these investments is calculated from the net asset value of Emory's ownership interests in these funds. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 9 years.

(h) Includes illiquid investments in timber, mining, energy, farmland, commodities and related services businesses held in commingled limited partnership funds. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. It is estimated that the underlying assets of the funds will be liquidated over the next 10 years.

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

(j) Includes investments in derivative instruments including both exchange traded and over the counter futures, forwards, swaps, options, rights and warrants valued at the fair market value of each underlying instrument.

At August 31, 2013 and 2012, cash equivalents of $413.0 million and $327.0 million, respectively, are included in investments and restricted for use by endowments and special projects.

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

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

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

As of August 31, 2013, the estimated fair value of the University's alternative investments, the related unfunded commitments and limitations and restrictions on the University's ability to redeem or sell are summarized as follows (in thousands):

	2013	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedged strategies	$ 1,308,995	60,000	30 – over 365 days	3 – 180 days
Private market investments	1,242,917	240,020	N/A	N/A
Real estate partnerships	150,678	90,569	N/A	N/A
Natural resources	489,337	128,812	N/A	N/A
	$ 3,191,927	519,401		

Over the next five years, approximately 78% of the unfunded commitments are expected to be called by the general partners. Although the University is obligated to fund these commitments, many of these agreements allow resale. Funds to meet these commitments will be required over future years and are expected to be generated from existing endowment assets.

(7) Endowment Net Assets

The University's Endowment (Endowment) consists of approximately 1,600 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The Endowment provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling the university to achieve its mission. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the University has approved the University's adoption of the State of Georgia Uniform Prudent Management of Institutional Funds Act (UPMIFA) which provides standards for managing investments of institutional funds and spending from endowments. The University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

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

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

The endowment funds subject to UPMIFA are true endowments and do not include perpetual trusts and endowments held by others, long-term investments, annuity funds, and deposits held in custody and miscellaneous investments. Approximately 69% of the investments described in note 6 are classified as endowed net assets. Endowment funds are categorized in the following net asset classes as of August 31 (in thousands):

	2013		2012	
	Donor-Restricted	**Board-Designated**	**Donor-Restricted**	**Board-Designated**
Unrestricted	$ (27,910)	1,289,345	(30,265)	1,316,780
Temporarily restricted	2,342,859	—	2,180,307	—
Permanently restricted	671,611	—	586,627	—
Total endowment funds	$ 2,986,560	1,289,345	2,736,669	1,316,780

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

		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of August 31, 2011	$	1,284,807	2,114,142	568,335	3,967,284
Investment return:					
Investment income		197,858	67,762	—	265,620
Unrealized (loss) gain		(13,747)	36,096	—	22,349
Total investment return		184,111	103,858	—	287,969
Contributions		595	44	18,292	18,931
Transfer from board-designated funds for strategic initiatives		(36,534)	—	—	(36,534)
Appropriations for expenditure		(112,022)	(37,737)	—	(149,759)
Appropriations for capital purposes		(34,442)	—	—	(34,442)
Balance as of August 31, 2012	$	1,286,515	2,180,307	586,627	4,053,449
Investment return:					
Investment income		112,269	81,201	—	193,470
Unrealized gain		72,015	52,445	—	124,460
Total investment return		184,284	133,646	—	317,930
Contributions		1,522	34	80,042	81,598
Transfer to board-designated funds for strategic initiatives		10,855	—	—	10,855
Appropriations for expenditure		(109,947)	(41,893)	—	(151,840)
Appropriations for capital purposes		(36,087)	—	—	(36,087)
Other [(1)]		(75,707)	70,765	4,942	—
Balance as of August 31, 2013	$	1,261,435	2,342,859	671,611	4,275,905

(1) Reflects adjustments resulting from review of historical quasi endowment classification.

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the donor’s original contribution. Deficiencies of this nature that are reported in unrestricted net assets were $27.9 million and $30.3 million as of August 31, 2013 and 2012, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to book value will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain a total return of at least 8% (including inflation) over the long term. Over shorter time periods, the endowment assets performance will be measured versus a policy benchmark. The policy benchmark represents the weighted average of benchmark returns to each asset class in the policy asset allocation. The performance objective is to outperform the policy benchmark by at least 50 basis points net of fees, on average. It is not expected that the performance target will be met for every three-year period.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University employs a diversified asset allocation strategy across global equities, fixed income, marketable alternatives, and private investments to achieve its long-term return objectives within prudent risk constraints. The Endowment's long-term target asset allocation is approved by the Investment Committee of the Board of Trustees. The portfolio is periodically rebalanced to the target weightings for each asset class.

(e) Relationship between Investment Objectives and Spending Policy

The University's Board of Trustees has established a spending policy that determines how endowment distributions are made. The University employs a total return endowment spending policy that establishes the amount of endowment investment return available to support current operating and capital needs. The distribution of endowment income in 2013 and 2012 was based on 4.75% of the average fair value of the endowment over the previous 12 months ending on December 31. The University considers the expected return on its endowment, including the effect of inflation in setting the annual appropriation amount. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power if projected growth rates are achieved. Additional real growth will be provided through new gifts and any excess investment return. The payout rate is approved annually by the Board of Trustees as part of the budget process.

(8) Derivative Instruments and Hedging Activities

The University has executed derivative financial instruments in the normal course of its business. As a component of the debt portfolio, the University entered into interest rate swap agreements that effectively convert certain variable rate debt to fixed rates.

The following table summarizes the general terms for each of the University's interest rate swap agreements as of August 31, 2013 (dollars in thousands):

Effective date	Notional amount	University pays	University receives	Expiration date
08/04/2005	$ 250,000	3.238%	68% of 3-month LIBOR	09/01/2035
08/23/2005	80,000	3.255%	68% of 3-month LIBOR	09/01/2035
04/19/2007	9,885	4.388%	67% of 3-month LIBOR+0.81%	11/15/2028
12/01/2007	75,000	3.549%	68% of 3-month LIBOR	09/01/2035
05/01/2008	75,000	3.607%	68% of 3-month LIBOR	09/01/2038
12/01/2008	100,000	3.286%	68% of 3-month LIBOR	12/01/2042
12/01/2009	75,000	3.583%	68% of 3-month LIBOR	09/01/2035

Net settlement transactions related to the agreements described above resulted in interest expense totaling \$20.6 million and \$20.1 million during 2013 and 2012, respectively. The fair value of each agreement is the estimated amount the University would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit worthiness of the exchange counterparties. The University's exchange agreements are categorized as Level 2 in the fair value hierarchy. The University's exchange arrangements are exposed to credit loss in the event of nonperformance by the counterparty and to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis exchange. The University monitors the credit standing of its counterparties.

Certain University derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard and Poor's Rating Service. If the ratings of the University's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At August 31, 2013, the University's long-term debt ratings exceeded these benchmarks.

The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position was $100.8 million and $217.6 million on August 31, 2013 and 2012, respectively, for which Emory University had a requirement to post collateral in the amount of $40.7 million for 2012. There was no requirement to post collateral for 2013. Collateral postings are reported in prepaid expenses, deferred charges and other assets in the consolidated statements of financial position.

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

	2013		2012	
	Fair value(1)	Gain(2)	Fair value(1)	Gain (loss)(2)
August 4, 2005 Interest Rate Swap	$ (30,877)	41,615	(72,492)	(26,569)
August 4, 2005 Basis Swap (3)	—	—	—	92
August 23, 2005 Interest Rate Swap	(10,319)	13,489	(23,808)	(8,825)
April 19, 2007 Interest Rate Swap	(1,539)	1,015	(2,554)	(2,554)
December 1, 2007 Interest Rate Swap	(13,365)	13,114	(26,479)	(8,445)
May 1, 2008 Interest Rate Swap	(15,328)	14,161	(29,489)	(9,357)
December 1, 2008 Interest Rate Swap	(15,647)	19,851	(35,498)	(13,562)
December 1, 2009 Interest Rate Swap	(13,747)	13,528	(27,275)	(8,202)
Total	$ (100,822)	116,773	(217,595)	(77,422)

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

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

(3) Expired on 9/1/2011.

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

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

During fiscal 2013 and 2012, Emory or external investment managers on Emory's behalf, entered into swap agreements, futures contracts, or forward contracts, and acquired warrants or rights representing long notional exposure of $724.2 million and $1,055.4 million and short notional exposure of ($101.8) million and ($804.2) million at August 31, 2013 and 2012, respectively, to increase, reduce or otherwise modify investment exposures. These instruments expose Emory to risk of an unexpected movement in the fair value of the underlying security, a counterparty failing to meet its obligations, and, in certain circumstances, not being able to unwind a position at current fair market value due to market illiquidity. Emory has established procedures to monitor and manage these risks.

The purchase and sale of exchange traded derivatives require collateral deposits with a Futures Commission Merchant (FCM). In the event of an FCM's insolvency, recovery may be limited to Emory's pro rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total of cash and other equity deposited.

(9) Fair Values of Assets and Liabilities

The carrying values for cash and cash equivalents, patient receivables, short-term receivables, and short-term payables approximate fair value because of the terms and relative short maturity of these financial instruments. Current year additions to contributions receivable and annuity and other split-interest obligations carrying amounts approximate fair value because these instruments are recorded at estimated net present value and are categorized as Level 3 assets. Long-term investments and deposits held in custody for others are reflected in the accompanying consolidated financial statements at fair value. It is not practicable to determine the fair value of loans receivable, comprised primarily of federally sponsored student loans, and government advances for federal loan programs due to significant government restrictions as to marketability, interest rates, and repayment terms of these loans. The estimated fair value of the University's long-term debt, based on the quoted market prices for issues with similar terms and maturities, is approximately $1.9 billion and $1.8 billion at August 31, 2013 and 2012, respectively. The fair value of fixed and variable rate debt maturities is determined by each bond's par amount outstanding multiplied by its price on an actively traded market and are categorized as Level 1 liabilities. The carrying value of long-term debt reflected in the accompanying consolidated statements of financial position is approximately $2.0 billion and $1.9 billion at August 31, 2013 and 2012, respectively.

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

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The type of investments in Level 1 includes listed equities held in the name of the University.

Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 includes those in which the University is a unit of account holder within a fund that holds underlying assets that are traded in active exchange markets with readily available pricing, except those which, as a practical expedient, are carried at NAV as reported by investment managers.

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

The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2013 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Short-term investments and cash equivalents	$ 413,955	379,628	34,327	—
Investments in securities:				
Global equity securities				
U.S. equity securities	293,668	293,660	5	3
Non-U.S. equity securities	239,325	239,325	—	—
Fixed income securities:				
U.S. government securities	555,679	—	555,679	—
Domestic bonds and long-term notes	256,653	1,112	255,541	—
International bonds and long-term notes	75,308	—	75,308	—
Commingled funds - equity	576,593	119,563	457,030	—
Commingled funds - fixed income	579,999	203,532	376,467	—
Investments in funds:				
Hedged strategies	1,308,995	—	584,438	724,557
Private market investments	1,242,917	—	13,744	1,229,173
Real estate partnerships	150,678	—	—	150,678
Natural resources	489,337	—	66,691	422,646
Miscellaneous investments	2,362	974	1,388	—
Derivatives	(2,250)	(2,487)	237	—
Oil and gas properties	2,100	—	—	2,100
Marketable real estate investments	836	—	836	—
Total investments at fair value (1)	6,186,155	1,235,307	2,421,691	2,529,157
Interest in perpetual funds held by others (2)	1,040,528	—	—	1,040,528
Total assets at fair value(1)	$ 7,226,683	1,235,307	2,421,691	3,569,685
Financial liabilities:				
Derivative instruments - interest rate swaps	(100,822)	—	(100,822)	—
Deposits held in custody for others	(531,536)	—	(531,536)	—
Total liabilities at fair value	$ (632,358)	—	(632,358)	—

(1) Certain investments in joint ventures carried under the equity method of accounting are not reported at fair value and thus not included in the table above (see note 6).

(2) Primarily invested in The Coca-Cola Company.

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

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Short-term investments and cash equivalents	$ 473,648	227,667	245,981	—
Investments in securities:				
Global equity securities				
U.S. equity securities	241,075	240,242	830	3
Non-U.S. equity securities	306,044	294,708	11,336	—
Fixed income securities:				
U.S. government securities	511,628	68,446	443,182	—
Domestic bonds and long-term notes	338,529	29,470	309,059	—
International bonds and long-term notes	96,953	—	96,953	—
Commingled funds - equity	433,287	85,448	347,839	—
Commingled funds - fixed income	378,351	177,816	200,500	35
Investments in funds:				
Hedged strategies	1,031,119	—	303,822	727,297
Private market investments	1,209,163	—	—	1,209,163
Real estate partnerships	152,980	—	—	152,980
Natural resources	493,026	—	3,656	489,370
Miscellaneous investments	3,216	3,216	—	—
Derivatives	3,737	3,154	583	—
Oil and gas properties	2,100	—	—	2,100
Marketable real estate investments	1,163	—	1,163	—
Total investments at fair value (1)	5,676,019	1,130,167	1,964,904	2,580,948
Interest in perpetual funds held by others (2)	1,025,848	—	—	1,025,848
Total assets at fair value (1)	$ 6,701,867	1,130,167	1,964,904	3,606,796
Financial liabilities:				
Derivative instruments - interest rate swaps	(217,595)	—	(217,595)	—
Deposits held in custody for others	(476,915)	—	(476,915)	—
Total liabilities at fair value	$ (694,510)	—	(694,510)	—

(1) Certain investments in joint ventures carried under the equity method of accounting are not reported at fair value and thus not included in the table above (see note 6).

(2) Primarily invested in The Coca-Cola Company.

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

Investments that trade in markets that are considered to be active, but are based on dealer quotations or alternative pricing sources supported by observable inputs or investments that trade in markets that are not considered to be active, but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. Alternative pricing sources include quotations from market participants and pricing models which are based on accepted industry modeling techniques. These investments include U.S. investment-grade and below investment-grade debt securities, international corporate bonds, mortgage-backed securities, asset-backed securities, senior loans and bank loans, most derivative contracts other than futures, and commingled fund investments that would otherwise be classified Level 3 but for which the University had the ability to redeem at net asset value on or within 120 days after August 31, 2013 and 2012, and for which the University does not believe the corresponding investments would be sold for an amount different from net asset value.

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

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

The categorization of an investment within the hierarchy does not necessarily correspond to the perceived risk of that investment. The funds and the University use inputs in applying various valuation techniques that are assumptions which market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, operating statistics, specific and broad credit data, liquidity statistics, recent transactions, earnings forecasts, future cash flows, market multiples, discount rates and other factors.

The following tables summarize the University's Level 3 reconciliation as of August 31, 2013 and 2012 (in thousands):

		Balance as of August 31, 2012	Net gains (losses)	Purchases	Sales	Transfer out of Level 3	Balance as of August 31, 2013
Investments in U.S. equity securities	$	3	—	—	—	—	3
Investment in funds:							
Commingled funds-fixed income		35	10	2,065	(2,065)	(45)	—
Hedged strategies		727,297	87,850	213,389	(34,336)	(269,643)	724,557
Private market investments		1,209,163	88,307	131,424	(199,721)	—	1,229,173
Real estate partnerships		152,980	525	19,726	(22,553)	—	150,678
Natural resources		489,370	(28,037)	39,675	(50,473)	(27,889)	422,646
Oil and gas properties		2,100	—	—	—	—	2,100
Total investments		2,580,948	148,655	406,279	(309,148)	(297,577)	2,529,157
Interest in perpetual funds held by others		1,025,848	14,680	—	—	—	1,040,528
Total assets	$	3,606,796	163,335	406,279	(309,148)	(297,577)	3,569,685

Of the \$148.7 million in Level 3 net realized and unrealized gains (losses) for investments for the year ended August 31, 2013, approximately \$110.6 million is the unrealized gain associated with investments held by the University for the entire year. The transfers from Level 3 into Level 2 reflect liquidity restriction changes.

		Balance as of August 31, 2011	Net gains (losses)	Purchases	Sales	Transfer out of Level 3	Balance as of August 31, 2012
Investments in U.S. equity securities	$	3	—	—	—	—	3
Investment in funds:							
Commingled funds-fixed income		23	29	—	(17)	—	35
Hedged strategies		686,150	27,694	265,064	(197,664)	(53,947)	727,297
Private market investments		1,113,031	29,567	315,755	(249,190)	—	1,209,163
Real estate partnerships		147,081	(4,088)	31,246	(21,259)	—	152,980
Natural resources		371,040	54,706	88,656	(25,032)	—	489,370
Oil and gas properties		2,730	(630)	—	—	—	2,100
Total investments		2,320,058	107,278	700,721	(493,162)	(53,947)	2,580,948
Interest in perpetual funds held by others		965,613	60,235	—	—	—	1,025,848
Total assets	$	3,285,671	167,513	700,721	(493,162)	(53,947)	3,606,796

Of the \$107.3 million in Level 3 net realized and unrealized gains (losses) for investments for the year ended August 31, 2012, approximately \$95.3 million is the unrealized gain associated with investments held by the University for the entire year. The transfers from Level 3 into Level 2 reflect liquidity restriction changes.

(10) Property and Equipment

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

		2013	2012
Land and land improvements	$	176,234	173,460
Buildings and improvements		2,813,414	2,666,455
Equipment		1,842,770	1,760,920
Library and museum assets		336,267	313,858
Construction in progress		168,038	162,413
		5,336,723	5,077,106
Less accumulated depreciation		(2,559,668)	(2,413,664)
	$	2,777,055	2,663,442

Property and equipment is reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. During 2013, plans to demolish buildings located on property owned by Emory were finalized, resulting in an impairment loss of $4.5 million.

The University has identified asset retirement obligations primarily from commitments to remove asbestos and lead paint in University facilities at the time of major renovation or demolition. The liability was estimated using an inflation rate of 5.00% and discount rate of 4.74%. The liability for asset retirement obligations at August 31, 2013 and 2012 is $53.3 million and $50.7 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated financial statements.

(11) Long-Term Debt

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

	Interest rate average	Final maturity	Outstanding principal 2013	Outstanding principal 2012
Tax-exempt fixed-rate revenue bonds:				
2013 Series A	4.88%	October 1, 2043	$ 214,793	—
2011 Series A [1]	4.95	September 1, 2041	235,710	236,980
2009 Series B [2]	4.74	September 1, 2035	226,747	231,308
2009 Series C	4.90	September 1, 2039	99,484	99,558
2008 Series C	4.96	September 1, 2038	124,163	124,231
2005 Series A	4.83	September 1, 2025	89,050	117,536
2002 Series A	4.51	September 1, 2013	4,562	49,068
1998 Series B		November 1, 2033	—	7,767
Total tax-exempt fixed-rate revenue bonds			994,509	866,448
Tax-exempt variable-rate revenue bonds:				
2013 Series B [3]	0.61	October 1, 2039	135,100	—
2013 Series C [3]	0.71	October 1, 2039	57,865	—
2007 Series A	1.01	November 15, 2028	9,884	11,090
2005 Series B	0.11	September 1, 2035	250,000	250,000
2005 Series C	0.11	September 1, 2036	124,150	281,575
Total tax-exempt variable-rate revenue bonds			576,999	542,665
Taxable fixed-rate revenue bonds:				
2009 Series A	5.63	September 1, 2019	249,156	249,016
1994 Series C	8.00	October 1, 2024	6,630	6,945
Series 1991	8.90	April 1, 2022	1,811	2,231
Total taxable fixed-rate revenue bonds			257,597	258,192
Taxable variable-rate revenue bonds:				
1999 Series B	0.18	November 1, 2029	10,730	11,085
1995 Series B	0.18	November 1, 2025	7,315	8,875
1994 Series B	0.17	October 1, 2024	10,560	11,100
Total taxable variable-rate revenue bonds			28,605	31,060
Commercial paper:				
2010 Program 1 - Tax-exempt	0.15	August 1, 2050	5,930	19,930
2008 Program 1 - Taxable	0.17	April 1, 2047	100,000	100,000
Total commercial paper			105,930	119,930
Other variable rate notes and mortgages	Various		—	2,288
Line of credit			29,367	70,150
Total bonds, notes and mortgages payable			$ 1,993,007	1,890,733

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

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

(3) Series 2013B and 2013C bonds are floating rate notes and interest rates are based on a spread SIFMA.

The University incurred interest expense of $72.3 million and $74.8 million in 2013 and 2012, respectively, net of capitalized interest of $1.3 million and $2.0 million in 2013 and 2012, respectively. During 2013, the average interest rate on University tax-exempt and taxable variable rate demand bonds (VRDB) was 0.11% and 0.18%, respectively. Related indices for this period were 0.13% for tax-exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.20% for taxable debt (London Interbank Offered Rate – LIBOR).

At August 31, 2013 the aggregate annual maturities of bonds, notes and mortgages payable for the next five years and thereafter are as follows (in thousands):

Payable in fiscal year:		
2014	$	33,620
2015		18,110
2016		29,610
2017		118,128
2018		26,597
Thereafter		1,722,782
		1,948,847
Unamortized net premium		44,160
	$	1,993,007

During 2013, the University refunded portions of its 2002A Series Bonds, 2005A Series Bonds and 2010 Tax Exempt Commercial Paper program totaling $57.5 million with proceeds from the University's issuance of 2013A Series Bonds. The University also refunded portions of its 2005C Series Bonds totaling $157.4 million with proceeds from the University's issuance of 2013 B and C Series bonds. The University incurred an accounting loss of $942 thousand on the refunding of the extinguished portions of the bonds, which is included in the nonoperating losses in the accompanying 2013 consolidated statement of activities.

On August 18, 2010, the University established a $400 million tax-exempt Commercial Paper program. The primary purpose of the program is to meet interim financing needs related to capital projects. As of August 31, 2013 and 2012, the University had outstanding balances of $5.9 million and $19.9 million, respectively, under this program.

In 2008, the University established a $100 million taxable Commercial Paper program. As of both August 31, 2013 and 2012, the University had an outstanding balance of $100 million.

The University has standby credit facilities to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. Currently, it has two diversified facilities totaling $290 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2013 and 2012, there were no draws against these lines of credit.

The University also has a $100 million line of credit and the Emory Clinic has a $15 million line of credit at August 31, 2013. During fiscal 2012, $70 million was drawn against the University line of credit to refund portions of the outstanding 2009 and 2010 debt series. During fiscal 2013, the University line of credit was reduced by $41 million. As of August 31, 2013, the University line of credit outstanding was $29 million. There have been no draws on the Clinic line of credit for 2013 and 2012.

The University has two letters of credit with a commercial bank totaling $2.1 million. There were no draws against these letters of credit as of August 31, 2013 and 2012.

In conjunction with Emory Healthcare's 35% joint venture interest in Emory-Adventist, Inc., the University has guaranteed $6.7 million of a $19.2 million outstanding loan payable to Adventist Health System.

The terms of the University's long-term debt provide for certain financial and nonfinancial covenants, including provisions as to the use of the proceeds, limits as to arbitrage and bond issue costs, and various other administrative requirements. At August 31, 2013, management believes that the University was in compliance with these covenants.

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

(12) Temporarily and Permanently Restricted Net Assets

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

		2013	2012
Appreciation on endowments restricted until appropriated	$	2,218,138	2,060,189
Term endowments		124,721	120,118
Contributions receivable, time and purpose restricted		120,251	133,874
Capital projects and other donor designations		108,045	202,162
Annuity and life income agreements		6,618	8,572
	$	2,577,773	2,524,915

Permanently restricted net assets include endowment funds subject to UPMIFA (note 7) as well as perpetual trusts and endowments held by others. Permanently restricted net assets as of August 31 are comprised of (in thousands):

		2013	2012
Donor-restricted endowments	$	671,611	586,627
Interests in perpetual funds held by others		1,034,124	960,819
Contributions receivable, restricted for endowment		70,741	22,773
Annuity and life income agreements		2,007	2,021
	$	1,778,483	1,572,240

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

(13) Investment Return

Investment return, including interest on perpetual funds, as reflected in the accompanying consolidated statements of activities, for August 31 is as follows (in thousands):

		2013	2012
Endowment spending distribution for current operations	$	151,840	149,759
Distributions from perpetual funds		27,600	25,792
Other investment income designated for current operations		53,045	57,427
Total operating return		232,485	232,978
Unrealized gains on investments, net		107,301	37,057
Unrealized gains on perpetual funds, net		14,680	56,863
Realized gains on investments		132,053	209,355
Total nonoperating gain		254,034	303,275
Total investment return	$	486,519	536,253

In addition to a core internal group of investment professionals dedicated to the management of Emory's investments, the University also employs external investment managers. External management fees paid directly (i.e., segregated investment account fees, custody fees, and consulting reviews) totaled \$13.5 million and \$12.5 million, and internal management fees (including staff expenses) totaled \$9.8 million and \$6.6 million as of August 31, 2013 and 2012, respectively. Fees and expenses paid to investment managers related to investments in funds which are not segregated from earnings are recorded on the accrual basis and are netted against either the investment income or net asset values of the funds themselves.

(14) Contributory Retirement Plans

The University has a contributory retirement plan covering certain employees and teaching staff. The University contributes an amount equal to 6% of each eligible employee's compensation to the plan as well as a supplemental contribution of 3% based on a 1.5-to-1 match of employee contributions of up to 2% of compensation. Emory Healthcare sponsors a retirement plan, covering most full-time employees, under which annuities are purchased with contributions by Emory Healthcare and its employees. The benefits are vested only to the extent of the annuities purchased. In fiscal 2012, Emory Healthcare increased the benefits provided to employees in connection with the curtailment of the pension plan. The Emory Clinic (TEC) sponsors The Emory Clinic, Inc. Retirement Savings Plan (the Plan), covering all its employees, except those considered leased employees or those covered under collective bargaining agreements, as defined. The Plan provides for employees to make salary reduction contributions and for TEC to make discretionary contributions to employees who have attained the age of 21 and are employees at the date the contribution is made. The Plan provides for contributions at an annual determined percentage of compensation and employees cliff vest in employer contributions after five years of service. Retirement expense totaled $111.6 million and $99.8 million during 2013 and 2012, respectively, and is included in operating expense in the accompanying consolidated statements of activities.

(15) Pension Plan

Emory Healthcare sponsors a defined benefit pension plan (the Plan) covering all employees who have attained the age of 21 and completed one year of service as defined in the Plan. Emory Healthcare contributes an amount sufficient to fund the Plan as determined by consulting actuaries. Plan assets generally consist of equity and fixed income securities. Emory Healthcare measures its participation in the Plan at August 31. The plan was curtailed in fiscal 2012, effective December 31, 2011. The terms of the curtailment generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date.

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

		2013	2012
Projected benefit obligation, beginning of year	$	253,513	189,120
Service cost - curtailed		—	8,255
Interest cost		11,105	10,596
Actuarial (gain) loss		(17,814)	48,353
Benefits paid		(3,863)	(2,811)
Projected benefit obligation, end of year	$	242,941	253,513

Given the fiscal 2012 curtailment of the plan, the accumulated benefit obligation at August 31, 2013 and 2012 is the same as the projected benefit obligation.

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

		2013	2012
Fair value of plan assets, beginning of year	$	171,189	146,346
Actual return on plan assets		13,489	18,754
Employer contributions		—	8,900
Benefits paid		(3,863)	(2,811)
Fair value of plan assets, end of year	$	180,815	171,189
Funded status - accrued pension cost recognized in the consolidated statements of financial position	$	(62,126)	(82,324)

The components of net periodic pension cost as of August 31 follow (in thousands):

		2013	2012
Service cost	$	—	8,255
Interest cost		11,105	10,596
Expected return on plan assets		(13,303)	(12,846)
Recognized actuarial loss		6,711	1,508
Net periodic pension cost	$	4,513	7,513

The amounts accumulated in unrestricted net assets for net unrecognized actuarial loss totaled $55.1 million and $79.9 million as of August 31, 2013 and 2012, respectively.

A net loss of $4.3 million is expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2014.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2013 and 2012 follow:

	2013	2012
Discount rate	5.17%	4.41%
Expected long-term rate of return on plan assets	8.00	8.00

Weighted average assumptions used to determine net periodic pension cost for 2013 and 2012 follow:

	2013	2012
Discount rate	4.41%	5.64%
Expected return on plan assets	8.00	8.00

Plan Assets

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

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

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

	2013				
	Total fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2	Target allocation	Total asset allocation
Investments:					
Short-term investments and cash equivalents	$ 448	122	326	—%	—%
Commingled funds - equity	125,111	—	125,111	70	69
Commingled funds - fixed income	55,256	—	55,256	30	31
Total investments	$ 180,815	122	180,693	100%	100%

	2012				
	Total fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2	Target allocation	Total asset allocation
Investments:					
Short-term investments and cash equivalents	$ 61	61	—	—%	—%
Commingled funds - equity	115,176	—	115,176	70	67
Commingled funds - fixed income	55,952	—	55,952	30	33
Total investments	$ 171,189	61	171,128	100%	100%

Cash Flows

Emory Healthcare expects to contribute $2.0 million to the Plan in fiscal 2014.

Expected Future Benefit Payments

Annual future benefit payments, excluding lump sum settlements, are expected to range from $4.4 million to $9.5 million, for the next five years.

Other Items

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

(16) Pension Plan – JOC

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

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

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

		2013	2012
Projected benefit obligation, beginning of year	$	134,141	121,654
Interest cost		5,229	3,480
Actuarial (gain) loss		(16,900)	10,902
Benefits paid		(3,410)	(1,895)
Projected benefit obligation, end of year	$	119,060	134,141

Given the curtailment of the plan prior to the formation of the JOC, the accumulated benefit obligation at August 31, 2013 and 2012 is the same as the projected benefit obligation.

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

		2013	2012
Fair value of plan assets, beginning of year	$	78,330	74,274
Actual return on plan assets		10,300	5,951
Benefits paid		(3,410)	(1,895)
Fair value of plan assets, end of year	$	85,220	78,330
Funded status - accrued pension cost	$	(33,840)	(55,811)

The components of net periodic pension cost as of August 31 follow (in thousands):

		2013	2012
Interest cost	$	5,229	3,480
Expected return on plan assets		(5,715)	(3,633)
Amortization of prior service cost		(438)	(292)
Recognized actuarial loss		1,457	863
Net periodic pension cost	$	533	418

The amounts accumulated in unrestricted net assets as of August 31 follow (in thousands):

		2013	2012
Prior service cost	$	(14,874)	(15,312)
Net loss		49,070	72,011
	$	34,196	56,699

A net loss of $0.8 million is expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2014.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statement of financial position for 2013 and 2012 follow:

	2013	2012
Discount rate	5.12%	3.55%
Expected long-term rate of return on plan assets	7.50	7.50

Weighted average assumptions used to determine net periodic pension cost for 2013 and 2012 follow:

	2013	2012
Discount rate	3.80%	4.35%
Expected return on plan assets	7.50	7.50

Plan Assets

Under the terms of the agreement forming the JOC, the assets of the SJHS Pension Plan formally remain assets of SJHS and the plan assets remain invested in the CHE Pension Investment Program. Accordingly, neither the JOC nor the System has discretion over the management of the plan assets. However, the plan assets related to the entities contributed to the JOC (and certain other employees leased to the JOC) are contractually required to be clearly separated from the plan assets of the other entities participating in the Catholic Health East Employee Pension Program. The SJHS Pension Plan's investment objectives are to protect long-term asset value by applying prudent, low-risk, high-quality investment disciplines and to enhance the values by maximizing investment returns through active security management within the framework of the plan's investment policy. Asset allocation strategies and investment management structure are designed to meet the plan's investment objectives.

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

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

	2013					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Investments:						
Short-term investments and cash equivalents	$ 3,021	3,021	—	—	5%	4%
Commingled funds - equity	59,594	31,436	28,158	—	69	70
Commingled funds - fixed income	14,179	—	14,179	—	14	17
Managed funds	8,426	—	—	8,426	12	9
Total investments	$ 85,220	34,457	42,337	8,426	100%	100%

	2012					
	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3	Target allocation	Total asset allocation
Investments:						
Short-term investments and cash equivalents	$ 4,219	4,219	—	—	5%	5%
Commingled funds - equity	55,928	25,762	30,166	—	69	72
Commingled funds - fixed income	10,138	10,138	—	—	14	13
Managed funds	8,045	—	—	8,045	12	10
Total investments	$ 78,330	40,119	30,166	8,045	100%	100%

For the year ended August 31, 2013 and the eight month period ended 2012, the changes in investments classified as Level 3 are as follows:

	Managed Funds 2013	2012
Balance, beginning of period	$ 8,045	7,895
Realized and unrealized gains, net	667	1,166
Purchases	2,206	1,975
Sales	(2,040)	(2,494)
Net transfers out	(452)	(497)
Balance, end of period	$ 8,426	8,045

Cash Flows

The System does not expect to contribute to the SJHS Pension Plan in fiscal 2014.

Expected Future Benefit Payments

Annual future benefit payments, excluding lump sum settlements, are expected to range from $4.0 million to $5.2 million, for the next five years.

Other Items

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

(17) Postretirement Healthcare and Life Insurance Benefits

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

The University and Emory Healthcare each fund a separate trust (VEBA Trust) for these retiree health and life benefits. The assets of the VEBA Trust are invested primarily in equity and fixed income securities. The University funds these benefits only to the extent of current retiree claims. The University measures its participation in the VEBA Trust at August 31.

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

	2013			2012
	Emory University	Emory Healthcare	Total	Total
APBO, beginning of year	$ 78,014	43,898	121,912	104,175
Service cost	1,705	823	2,528	2,190
Interest cost	3,403	1,915	5,318	5,800
Actuarial (gain) loss	(10,290)	(7,264)	(17,554)	14,059
Benefits paid	(3,621)	(1,072)	(4,693)	(5,041)
Retiree drug subsidy paid	463	204	667	729
APBO, end of year	$ 69,674	38,504	108,178	121,912

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

		2013			2012
		Emory University	Emory Healthcare	Total	Total
Fair value of plan assets, beginning of year	$	43,479	18,167	61,646	60,338
Actual return on plan assets		7,394	2,986	10,380	4,932
Benefits paid by Emory		—	(1,072)	(1,072)	(4,353)
Retiree drug subsidy		—	204	204	729
Fair value of plan assets, end of year	$	50,873	20,285	71,158	61,646
Funded status - accrued postretirement benefit cost recognized in the consolidated statements of financial position	$	(18,801)	(18,219)	(37,020)	(60,266)

Actuarial assumptions used to determine the values of the APBO and the benefit costs for years ended August 31, 2013 and 2012 included a discount rate of 5.17% and 4.41%, respectively. Since the plan was amended on April 11, 2002 to limit the University's liability for future medical care cost increases to 4.00%, the per capita cost increase of healthcare benefits is capped at 4.00% beginning with fiscal 2002. The estimated long-term rate of return on plan assets was 8.00% for the University and Emory Healthcare for both years ended August 31, 2013 and 2012. A graded plan participation for election of medical coverage upon retirement has been assumed. This payment schedule reflects the new plan design which will accelerate the increase in retiree contributions, which is expected to result in more retirees electing not to continue coverage under the University's plan. All University retirees are assumed to elect life insurance benefits, regardless of their medical plan election.

The components of net periodic postretirement benefit cost for years ended August 31 were as follows (in thousands):

		2013			2012
		Emory University	Emory Healthcare	Total	Total
Service cost of benefits earned	$	1,705	823	2,528	2,190
Interest cost on APBO		3,403	1,915	5,318	5,800
Expected return on plan assets		(3,333)	(1,385)	(4,718)	(4,621)
Recognized net actuarial loss		2,829	2,021	4,850	4,083
Net periodic postretirement benefit cost	$	4,604	3,374	7,978	7,452

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

	2013			2012
	Emory University	Emory Healthcare	Total	Total
Net unrecognized actuarial loss	$ 26,901	14,378	41,279	68,708

In fiscal 2014, net unrecognized actuarial losses of $1.6 million for Emory University and $1.1 million for Emory Healthcare are expected to be amortized from unrestricted net assets into net periodic postretirement benefit credit.

Plan Assets

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

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

	2013				
	Total fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2	Target allocation	Total asset allocation
Investments:					
Commingled funds - equity	$ 39,154	15,787	23,367	75%	77%
Commingled funds - fixed income	11,719	—	11,719	25	23
Total investments	$ 50,873	15,787	35,086	100%	100%

	2012				
	Total fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2	Target allocation	Total asset allocation
Investments:					
Short-term investments and cash equivalents	$ 12	12	—	—%	—%
Commingled funds - equity	32,799	12,250	20,549	75	75
Commingled funds - fixed income	10,668	7,872	2,796	25	25
Total investments	$ 43,479	20,134	23,345	100%	100%

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

2013		Total fair value	Fair value hierarchy Level 1	Level 2	Target allocation	Total asset allocation
Investments:						
Commingled funds - equity	$	15,584	7,460	8,124	75%	77%
Commingled funds - fixed income		4,701	—	4,701	25	23
Total investments	$	20,285	7,460	12,825	100%	100%

2012		Total fair value	Fair value hierarchy Level 1	Level 2	Target allocation	Total asset allocation
Investments:						
Short-term investments and cash equivalents	$	12	12	—	—%	—%
Commingled funds - equity		13,684	5,785	7,899	75	75
Commingled funds - fixed income		4,471	3,447	1,024	25	25
Total investments	$	18,167	9,244	8,923	100%	100%

Cash Flows

Emory University and Emory Healthcare do not expect to contribute to their postretirement healthcare and life insurance benefit plans in 2014. Emory Healthcare plans to fund future retiree claims from VEBA Trust assets.

Expected Future Benefit Payments

Annual future benefit payments are expected to range from $3.7 million to $4.7 million for Emory University and from $1.8 million to $2.5 million for Emory Healthcare, for the next five years.

Expected Medicare Retiree Drug Subsidies

Medicare retiree drug subsidies for the next five years are expected to be less than $1.0 million annually for the plans.

(18) Charity Care and Community Benefits

Emory Healthcare 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 included in net patient service revenue.

Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges foregone and actual costs for services furnished under its charity and indigent care policies. The cost of charity care provided totaled approximately $80.2 million and $72.1 million for the years ended August 31, 2013 and 2012, respectively. The System estimated these costs by applying a ratio of cost to gross charges to the gross uncompensated charges associated with providing care to the charity patients.

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

(19) Functional Expenses

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

		2013	2012
Instruction	$	364,527	365,901
Research		409,766	405,681
Public service		78,430	69,308
Academic support		120,790	119,329
Student services		72,913	72,706
Institutional support		165,745	152,041
Scholarships and fellowships		14,111	12,704
Medical services		176,035	166,500
Healthcare services		2,548,307	2,329,417
Auxiliary enterprises		39,627	38,982
Independent operations		18,842	18,494
Total operating expenses	$	4,009,093	3,751,063

Costs related to the University's operation and maintenance of property, including depreciation of property and equipment and interest on related debt, are allocated to program and supporting activities based upon information reported in the latest space study and debt financing records. Total amounts allocated in 2013 and 2012 were $140.1 million and $152.9 million, respectively. Fundraising costs were approximately $18.2 million in 2013 and 2012.

(20) Medical Professional and General Liability Insurance Coverage

CCIC, Emory Healthcare's wholly owned off-shore captive insurer, provides claims-made primary medical professional and general liability coverage for the University, the Hospitals, Emory Clinic, Emory Specialty Associates, and Wesley Woods Center. Tail coverage is provided for the Emory Children's Center for claims arising from incidents occurring prior to September 1, 2006. For the period of

September 1, 2006 – July 1, 2013, ECC was insured on a stand-alone basis; effective July 1, 2013, Children's Healthcare of Atlanta assumed responsibility for insuring ECC for Medical Professional and General Liability Insurance. The CCIC primary program provides limits as follows (in thousands):

		Per claim limits		Aggregate
		Professional	**General**	**(general only)**
September 1, 2012 through August 31, 2013	$	3,000	1,000	3,000
September 1, 2011 through August 31, 2012	$	3,000	1,000	3,000

In excess of the primary professional liability limit of $3 million per claim, CCIC provides a buffer layer of $3 million per claim and in the aggregate. Certain Emory Specialty Associate physicians are insured for primary professional liability insurance through MAG Mutual Insurance Company for limits ranging from $1 million to $2 million per claim and $3 million to $4 million in the aggregate. These individual limits provide underlying coverage to the CCIC primary limit of $3 million per claim.

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

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

(2) Continental Casualty Company (CNA) reinsures CCIC 100% for a limit of $10 million per claim and in the aggregate, excess of the Berkley layer described above.

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

Emory is insured for excess general liability, employers' liability, international liability, and automobile liability through United Educators which provides a limit of $35 million per claim excess of an underlying limit of $1 million per claim and $3 million in the aggregate for general liability, and $1 million per claim and in the aggregate for each of employers' liability, international liability and automobile liability.

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

As of August 31, 2013 and 2012, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately $106.0 million (discounted at 2%) and $102.0 million (discounted at 2%), respectively.

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

(21) Related-Party Transactions

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

Deposits held in custody for others include \$496.0 million and \$445.0 million representing CCI's investment in the University's long-term investment pool as of August 31, 2013 and 2012, respectively.

(22) Emory/Saint Joseph's, Inc.

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

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

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

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

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

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

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

The fair value of the noncontrolling interest as of December 31, 2011 was $95.0 million, which is net of the $5.0 million due from SJHS upon the eighteen month anniversary of the closing of the transaction. SJHS contributed and delivered the $5.0 million obligation to the JOC on June 30, 2013.

(23) Emory Healthcare – Investments

(a) Emory University Hospital Midtown – CPI, LLC

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

(b) Emory-Adventist, Inc.

The University has a 35% joint venture interest in Emory-Adventist, Inc. (Emory-Adventist), which owns and operates Emory-Adventist Hospital in Cobb County, Georgia. The investment in Emory-Adventist is accounted for using the equity method of accounting.

(c) Emory Children's Center, Inc.

The University entered into a joint venture effective November 15, 2006 between Emory Children's Center, Inc. (ECC) and Children's Healthcare of Atlanta (CHOA) to coordinate various aspects of their mutual significant pediatric care operations. The agreement provided the University, through ECC, a 51% financial interest in the venture known as ECC and provided that CHOA would fund 50% of the total losses of the joint venture.

Effective July 1, 2013, the joint venture agreement with CHOA was terminated and all pediatric care operations became the responsibility of CHOA. The transition agreement requires a 120 day run out of working capital, with a final settlement notice to CHOA within 45 days.

(d) Gwinnett Cardiovascular Services, LLC

Gwinnett Cardiovascular Services, LLC (GCS) was formed in April 2008 by Gwinnett Hospital System, Inc. (GHS) and ESJH to promote cardiovascular health and wellness in Gwinnett County. ESJH and GHS each obtained a 50% membership interest in the joint venture. ESJH's investment in GCS was contributed to the JOC as part of the transaction described in note 22. ESJH is not responsible for any losses of GCS in excess of ESJH's original contribution to joint venture.

(24) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2013 totaled $103.3 million.

Lawsuits and claims have been filed against the University in the ordinary course of business. As one of the nation's largest research universities and academic medical centers, the University has active litigation that takes several forms. The University's policy is to accrue for litigation and claims when such amounts are probable and can be reasonably estimated based on consultation with external legal counsel and Emory General Counsel review. In addition, the University is subject to many federal and state regulations and, as a result, there may be one or more pending government investigations ongoing at any time. While the outcome of many of these actions is not presently determinable, it is the opinion of management that any resulting liability from these actions will not have a material adverse effect on the consolidated financial position or operating results of the University. The University also has a comprehensive program of primary and excess insurance, if a final judgment were entered in any action in excess of its insurance coverage; the University would be liable for the excess. Management of the University believes any current pending lawsuit subjecting the University to liability would not have a materially adverse effect on the University's consolidated financial position.

(25) Subsequent Events

In May 2013, the System signed a term sheet with Select Medical Corporation (Select) for the formation of two joint ventures: rehabilitation joint venture (Rehab JV) and long term acute care hospital joint venture (LTACH JV). The Rehab JV would be owned 51% by the System and 49% by Select. The System would contribute the 56 rehabilitation beds from EUH, 16 rehabilitation beds from WWC, and the assets of the outpatient rehabilitation clinics at EUH and WWC. Select would contribute 21 outpatient rehabilitation clinics in the Atlanta area. The LTACH JV would be owned 95% by Select and 5% by the System. The System would contribute 28 long-term acute care beds located on the Wesley Woods Campus and Select would contribute its 30 bed Select Specialty Hospital – Atlanta, and its 40-bed Regency Hospital of South Atlanta. The related contribution and operating agreements for both joint ventures are expected to be finalized in calendar year 2014.

Emory has evaluated subsequent events after the statement of position date of August 31, 2013 through December 20, 2013, the date the consolidated financial statements were issued. No additional matters were identified for recognition or disclosure.

SUPPLEMENTARY INFORMATION

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 1

STATEMENTS OF FINANCIAL POSITION - SUPPLEMENTARY INFORMATION

August 31, 2013 and 2012

(Dollars in thousands)

	2013	2012
ASSETS:		
Cash and cash equivalents	$ 365,423	$ 381,908
Student accounts receivable, net	51,522	43,776
Loans receivable, net	26,869	26,777
Contributions receivable, net	190,992	156,647
Accrued investment income receivable	7,152	4,978
Other receivables, net	135,212	155,689
Prepaid expenses, deferred charges and other assets	128,898	159,478
Investments	5,958,943	5,454,156
Interests in perpetual funds held by others	1,040,528	1,025,848
Property and equipment, net	1,865,437	1,804,919
Due from affiliates	777,528	731,590
Total assets	**$ 10,548,504**	**$ 9,945,766**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 163,964	$ 157,498
Liability for derivative instruments	99,282	215,041
Interest payable	26,343	27,489
Annuities payable	17,701	18,052
Bonds, notes and mortgages payable	1,983,124	1,877,355
Accrued liabilities for benefit obligations and professional liabilities	55,206	68,031
Deferred tuition and other revenue	403,413	385,985
Deposits held in custody for others	531,536	476,915
Government advances for federal loan programs	17,764	17,820
Due to affiliates	390,642	373,278
Total liabilities	3,688,975	3,617,464
Unrestricted net assets	2,517,384	2,240,943
Temporarily restricted net assets	2,567,165	2,518,037
Permanently restricted net assets	1,774,980	1,569,322
Total net assets	6,859,529	6,328,302
Total liabilities and net assets	**$ 10,548,504**	**$ 9,945,766**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 2

STATEMENT OF ACTIVITIES - SUPPLEMENTARY INFORMATION

Year ended August 31, 2013 (with summarized financial information for the year ended 2012)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2013	Total August 31, 2012
OPERATING REVENUES:					
Tuition and fees	$ 544,183	-	-	$ 544,183	$ 512,680
Less: Scholarship allowances	(188,736)	-	-	(188,736)	(183,783)
Net tuition and fees	355,447	-	-	355,447	328,897
Endowment spending distribution	151,840	-	-	151,840	149,759
Distributions from perpetual trusts	27,600			27,600	25,792
Other investment income designated for current operations	49,949	-	-	49,949	50,731
Gifts and contributions	44,904	5,298	-	50,202	42,639
Grants and contracts	379,403	-	-	379,403	382,391
Indirect cost recoveries	118,451	-	-	118,451	122,728
Medical services	154,285	-	-	154,285	147,430
Sales and services of auxiliary enterprises	66,375	-	-	66,375	63,087
Independent operations	22,136	-	-	22,136	22,138
Other revenue	40,295	-	-	40,295	39,644
Net assets released from restrictions	3,599	(3,599)	-	-	-
Total operating revenues	**1,414,284**	**1,699**	**-**	**1,415,983**	**1,375,236**
OPERATING EXPENSES:					
Salaries and fringe benefits	1,032,973	-	-	1,032,973	1,004,775
Student financial aid	10,118	-	-	10,118	9,297
Other operating expenses	260,449	-	-	260,449	251,333
Interest on indebtedness	44,140	-	-	44,140	49,073
Depreciation	113,106	-	-	113,106	107,168
Total operating expenses	**1,460,786**	**-**	**-**	**1,460,786**	**1,421,646**
NET OPERATING REVENUES/(EXPENSES):	**(46,502)**	**1,699**	**-**	**(44,803)**	**(46,410)**
NONOPERATING ACTIVITIES:					
Investment return in excess of spending distribution for current operations	109,056	83,379	56,845	249,280	272,858
Investment management fees	(22,510)	(143)	(644)	(23,297)	(19,078)
Gifts and contributions	333	12,406	128,657	141,396	100,868
Net assets released from restrictions for capital purposes	113,758	(113,758)	-	-	-
Loss on disposal of property and equipment	(5,958)	-	-	(5,958)	(11,517)
Loss on defeasance of debt	(942)	-	-	(942)	-
Change in fair value of derivative instruments	115,759	-	-	115,759	(74,868)
Pension and postretirement benefit plans	13,448	-	-	13,448	(5,864)
Other nonoperating items, net	(72,725)	65,545	20,800	13,620	488
Total nonoperating activities	**250,219**	**47,429**	**205,658**	**503,306**	**262,887**
Net transfers from affiliates	72,724	-	-	72,724	83,226
CHANGE IN NET ASSETS	**276,441**	**49,128**	**205,658**	**531,227**	**299,703**
BEGINNING NET ASSETS	2,240,943	2,518,037	1,569,322	6,328,302	6,028,599
ENDING NET ASSETS	**$ 2,517,384**	**$ 2,567,165**	**$ 1,774,980**	**$ 6,859,529**	**$ 6,328,302**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 3

STATEMENTS OF CASH FLOWS - SUPPLEMENTARY INFORMATION

Years Ended August 31, 2013 and 2012

(Dollars in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 531,227	$ 299,703
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts and contributions for endowment and capital projects	(77,683)	(109,351)
Net realized gain on sale of investments	(267,901)	(288,734)
Loss on disposal of property and equipment	5,958	11,517
Interests in perpetual funds held by others	(14,680)	(60,235)
Loss on defeasance of debt	942	-
Depreciation	113,106	107,168
Accretion/amortization of bond discounts/premiums	4,289	(3,324)
Net unrealized gains on investments	(111,238)	(91,033)
Change in fair value of derivative instruments	(115,759)	74,868
Gifts of securities and other assets	(82,238)	(62,642)
(Increase) decrease in:		
Accounts receivable, net	12,731	40,524
Contributions receivable for operations	(7,730)	(7,543)
Accrued investment income receivable	(2,174)	2,052
Prepaid expenses, deferred charges and other assets	32,424	(1,653)
Increase (decrease) in:		
Accounts payable and interest payable	(6,481)	(13,366)
Accrued liabilities for benefit obligations and professional liabilities	(12,825)	12,673
Deferred tuition and other revenue	17,428	42,679
Net cash provided by (used in) operating activities	**19,396**	**(46,697)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(5,006)	(3,878)
Repayment of loans from students	4,914	4,825
Proceeds from sales and maturities of investments	6,530,450	9,058,186
Purchases of investments	(6,573,860)	(8,875,033)
Purchases of property, plant and equipment	(167,781)	(134,379)
Increase in deposits held in custody for others	54,621	11,139
Decrease in investments held for affiliate	(6,876)	(6,253)
Net cash (used in) provided by investing activities	**(163,538)**	**54,607**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts and contributions for endowment and capital projects	51,068	135,416
Proceeds from bonds and mortgages payable	398,865	132,150
Principal repayments of bonds and mortgages payable	(298,327)	(37,505)
Increase in affiliate debt, net	(21,698)	(116,353)
Required posting of collateral	-	(40,691)
Decrease in annuities payable	(351)	(995)
(Decrease) increase in government advances for federal loan programs	(56)	321
Bond issuance costs	(1,844)	672
Net cash provided by financing activities	**127,657**	**73,015**
Net (decrease) increase in cash and cash equivalents	**(16,485)**	**80,925**
Cash and cash equivalents at beginning of year	**381,908**	**300,983**
Cash and cash equivalents at end of year	**$ 365,423**	**$ 381,908**

See accompanying independent auditors' report.