KPMG

EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2014 and 2013

(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 and subsidiaries (Emory University), which comprise the consolidated statements of financial position as of August 31, 2014 and 2013, 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 Consolidated 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, 2014 and 2013, and the changes in their net assets and their 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 19, 2014

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2014 and August 31, 2013
(Dollars in thousands)

	August 31, 2014	August 31, 2013
ASSETS:		
Cash and cash equivalents	$ 557,248	$ 463,353
Patient accounts receivable, net	342,011	324,297
Student accounts receivable, net	51,220	51,688
Loans receivable, net	28,467	26,722
Contributions receivable, net	135,667	190,992
Other receivables, net	240,351	228,288
Prepaid expenses, deferred charges and other assets	241,942	223,584
Investments	7,031,316	6,201,426
Interests in perpetual funds held by others	1,130,063	1,034,124
Property and equipment, net	2,852,580	2,777,055
Total assets	**$ 12,610,865**	**$ 11,521,529**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 416,835	$ 412,832
Deferred tuition and other revenue	426,661	406,867
Interest payable	29,817	26,470
Annuities payable	17,821	17,701
Bonds, notes and mortgages payable	1,955,399	1,993,007
Liability for derivative instruments	150,495	100,822
Accrued liabilities for benefit obligations and professional liabilities	456,447	401,170
Funds held in trust for others	643,902	531,536
Government advances for federal loan programs	17,802	17,764
Total liabilities	4,115,179	3,908,169
Unrestricted net assets:		
Net assets controlled by Emory	3,506,297	3,193,139
Net assets related to noncontrolling interests	66,580	63,965
Total unrestricted net assets	3,572,877	3,257,104
Temporarily restricted net assets	3,005,261	2,577,773
Permanently restricted net assets	1,917,548	1,778,483
Total net assets	8,495,686	7,613,360
Total liabilities and net assets	**$ 12,610,865**	**$ 11,521,529**

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2014 (with summarized financial information for the year ended 2013)

(Dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2014	Total August 31, 2013
OPERATING REVENUES:					
Tuition and fees	$ 592,385	$ -	$ -	$ 592,385	$ 544,183
Less: Scholarship allowances	(215,434)	-	-	(215,434)	(188,736)
Net tuition and fees	376,951	-	-	376,951	355,447
Endowment spending distribution	157,174	-	-	157,174	157,276
Distribution from perpetual funds	29,979	-	-	29,979	27,600
Other investment income designated for current operations	37,477	-	-	37,477	47,609
Gifts and contributions	50,606	-	-	50,606	50,202
Grants and contracts	365,653	-	-	365,653	379,403
Indirect cost recoveries	110,516	-	-	110,516	118,451
Net patient service revenue	2,549,902	-	-	2,549,902	2,540,856
Medical services	234,855	-	-	234,855	154,285
Sales and services of auxiliary enterprises	68,850	-	-	68,850	66,375
Independent operations	20,543	-	-	20,543	22,136
Other revenue	124,509	-	-	124,509	108,986
Net assets released from restrictions	7,412	(3,764)	-	3,648	-
Total operating revenues	**4,134,427**	**(3,764)**	**-**	**4,130,663**	**4,028,626**
OPERATING EXPENSES:					
Salaries and fringe benefits	2,543,034	-	-	2,543,034	2,460,153
Student financial aid	11,297	-	-	11,297	10,118
Other operating expenses	1,256,052	-	-	1,256,052	1,249,339
Interest on indebtedness	78,267	-	-	78,267	72,335
Depreciation	226,052	-	-	226,052	217,148
Total operating expenses	**4,114,702**	**-**	**-**	**4,114,702**	**4,009,093**
NET OPERATING REVENUES/(EXPENSES):	**19,725**	**(3,764)**	**-**	**15,961**	**19,533**
NONOPERATING ACTIVITIES:					
Investment return in excess of spending distribution for current operations	332,560	389,415	11,635	733,610	222,461
Change in undistributed income from perpetual funds held by others	-	-	95,939	95,939	8,276
Gifts and contributions	5,160	73,250	31,700	110,110	143,520
Net assets released from restrictions	28,305	(31,953)	-	(3,648)	-
Loss on disposal of property and equipment	(4,346)	-	-	(4,346)	(9,527)
Loss on defeasance of debt	-	-	-	-	(942)
Change in fair value of derivative instruments	(49,673)	-	-	(49,673)	116,773
Pension and postretirement benefit plans	(34,092)	-	-	(34,092)	71,548
Other nonoperating items, net	18,134	540	(209)	18,465	40,098
Total nonoperating activities	**296,048**	**431,252**	**139,065**	**866,365**	**592,207**
CHANGE IN NET ASSETS	**315,773**	**427,488**	**139,065**	**882,326**	**611,740**
Less change in net assets related to noncontrolling interests	2,615	-	-	2,615	2,168
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**$ 313,158**	**$ 427,488**	**$ 139,065**	**$ 879,711**	**$ 609,572**

See accompanying notes to consolidated financial statements

EMORY UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended August 31, 2013

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2013
OPERATING REVENUES:				
Tuition and fees	$ 544,183	$ -	$ -	$ 544,183
Less: Scholarship allowances	(188,736)	-	-	(188,736)
Net tuition and fees	355,447	-	-	355,447
Endowment spending distribution	157,276	-	-	157,276
Distribution from perpetual funds	27,600	-	-	27,600
Other investment income designated for current operations	47,609	-	-	47,609
Gifts and contributions	44,904	5,298	-	50,202
Grants and contracts	379,403	-	-	379,403
Indirect cost recoveries	118,451	-	-	118,451
Net patient service revenue	2,540,856	-	-	2,540,856
Medical services	154,285	-	-	154,285
Sales and services of auxiliary enterprises	66,375	-	-	66,375
Independent operations	22,136	-	-	22,136
Other revenue	108,986	-	-	108,986
Net assets released from restrictions	3,599	(3,599)	-	-
Total operating revenues	**4,026,927**	**1,699**	**-**	**4,028,626**
OPERATING EXPENSES:				
Salaries and fringe benefits	2,460,153	-	-	2,460,153
Student financial aid	10,118	-	-	10,118
Other operating expenses	1,249,339	-	-	1,249,339
Interest on indebtedness	72,335	-	-	72,335
Depreciation	217,148	-	-	217,148
Total operating expenses	**4,009,093**	**-**	**-**	**4,009,093**
NET OPERATING REVENUES/(EXPENSES):	**17,834**	**1,699**	**-**	**19,533**
NONOPERATING ACTIVITIES:				
Investment return in excess of spending distribution for current operations	90,715	83,236	48,510	222,461
Change in undistributed income from perpetual funds held by others	-	-	8,276	8,276
Gifts and contributions	2,476	12,387	128,657	143,520
Net assets released from restrictions	113,758	(113,758)	-	-
Loss on disposal of property and equipment	(9,527)	-	-	(9,527)
Loss on defeasance of debt	(942)	-	-	(942)
Change in fair value of derivative instruments	116,773	-	-	116,773
Pension and postretirement benefit plans	71,548	-	-	71,548
Other nonoperating items, net	(49,996)	69,294	20,800	40,098
Total nonoperating activities	**334,805**	**51,159**	**206,243**	**592,207**
CHANGE IN NET ASSETS	**352,639**	**52,858**	**206,243**	**611,740**
Less change in net assets related to noncontrolling interests	2,168	-	-	2,168
CHANGE IN NET ASSETS CONTROLLED BY EMORY	**$ 350,471**	**$ 52,858**	**$ 206,243**	**$ 609,572**

See accompanying notes to consolidated financial statements

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 882,326	$ 611,740
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net assets acquired in formation of Emory Rehabilitation Hospital	(4,125)	-
Gain on formation of the Emory Rehabilitation Hospital	(949)	-
Capital contributions from noncontrolling interests	(20,550)	(20,179)
Gifts and contributions for endowment and capital projects	(33,850)	(77,683)
Net realized gains on sale of investments	(416,749)	(275,030)
Loss on disposal of property and equipment	4,346	9,527
Interests in perpetual funds held by others	(95,939)	(8,276)
Loss on defeasance of debt	-	942
Depreciation	226,052	217,148
Provision for uncollectible patients accounts receivable	138,148	116,234
Accretion/amortization of bond discounts/premiums	(3,411)	7,058
Net unrealized gains on investments	(531,231)	(106,216)
Actuarial adjustments for retiree pension and benefit plans	24,892	(58,100)
Change in fair value of derivative instruments	49,673	(116,773)
Gifts of securities and other assets	(19,785)	(82,238)
(Increase) decrease in operating assets, net of effects from formation of Emory Rehabilitation Hospital:		
Accounts and other receivables, net	(167,457)	(136,331)
Contributions receivable for operations	(45,512)	(7,730)
Prepaid expenses, deferred charges and other assets	(13,248)	34,511
Increase (decrease) in operating liabilities, net of effects from formation of Joint Operating Company:		
Accounts payable, accrued liabilities and interest payable	5,636	(13,454)
Accrued liabilities for benefit obligations and professional liabilities	30,385	2,758
Deferred tuition and other revenue	19,794	17,954
Net cash provided by operating activities	**28,446**	**115,862**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements for loans to students	(6,239)	(4,859)
Repayment of loans from students	4,494	4,914
Proceeds from sales and maturities of investments	15,185,014	6,876,493
Purchases of investments	(15,047,139)	(6,927,685)
Cash received in formation of Emory Rehabilitation Hospital	1,083	-
Purchases of property, plant and equipment	(304,098)	(328,487)
Increase in deposits held in custody for others	112,366	54,621
Net cash used in investing activities	**(54,519)**	**(325,003)**

(Continued)

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

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts and contributions for endowment and capital projects	134,687	51,068
Proceeds from bonds and mortgages payable	28,300	398,865
Principal repayments of bonds and mortgages payable	(62,497)	(304,591)
Required posting of collateral	(600)	-
Decrease in annuities payable	120	(351)
Increase (decrease) in government advances for federal loan programs	38	(56)
Bond issuance costs	(630)	(1,844)
Capital contributions from noncontrolling interests	20,550	20,179
Net cash provided by financing activities	**119,968**	**163,270**
Net increase (decrease) in cash and cash equivalents	**93,895**	**(45,871)**
Cash and cash equivalents at beginning of year	**463,353**	**509,224**
Cash and cash equivalents at end of year	**$ 557,248**	**$ 463,353**
Supplemental disclosure:		
Cash paid for interest	$ 79,263	$ 76,816
Change in accounts payable attributable to property, plant and equipment purchases	1,551	(7,598)
Income taxes paid, net	242	-
Pledge payments received in form of securities and immediately sold	80,000	-

See accompanying notes to consolidated financial statements.

(1) Organization

Emory University (the University or Emory) is a private, coeducational, not-for-profit institution, located in Atlanta, Georgia. Founded in 1836, Emory owns and operates educational, research and healthcare facilities to support its mission. Emory provides educational services to approximately 7,800 undergraduate students and 6,700 graduate and professional students within its nine schools and colleges. Included within the University is the Emory Healthcare system, Emory Medical Care Foundation (EMCF) and Emory Innovations, LLC.

The Emory Healthcare system (the System or Emory Healthcare) consists of Emory Healthcare, Inc. (EHC), Emory University Hospital Midtown (EUHM), Emory University Hospital (EUH), EHCA Johns Creek Hospital, LLC (EJCH), Emory Saint Joseph's Hospital (ESJH), Saint Joseph's Translational Research Institute d/b/a T3 Laboratories (T3), The Emory Clinic, Inc. (TEC), Emory Children's Center, Inc. (ECC), Emory Specialty Associates, LLC (ESA), Emory Specialty Associates – Joint Operating Company (ESA-JOC), Wesley Woods Center of Emory University, Inc. (WWC), Emory Rehabilitation Hospital (ERH) and Clifton Casualty Insurance Company, Ltd. (CCIC). The System is in the process of legally dissolving WWC and expects that process to be completed during fiscal 2015.

The consolidated financial statements include the University and all other entities in which Emory has significant financial interest and control. All significant interentity 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 July 1, 2014, the System contributed certain assets and liabilities to a limited liability company under the name of ES Rehabilitation, LLC (ES Rehab), formed together with Select Medical Corporation (SMC), in exchange for a 51% controlling membership interest in ES Rehab. ES Rehab is also known as Emory Rehabilitation Hospital (ERH).

(2) Summary of Significant Accounting Policies

The following significant 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 donor imposed stipulations. Certain unrestricted net assets 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 donor 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 donor 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 donor-restricted endowment 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 that are not invested as part of the long-term investment assets. 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. 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 are not reported in 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.

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 by the fund manager 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, 2014 and 2013.

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 is 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.

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 time restrictions have elapsed.

(f) Fair Value Measurements

Fair value measurements reflected in the consolidated financial statements conceptually represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a hierarchy that prioritizes the inputs to fair value measurements based on the extent to which inputs to valuation techniques are observable in the marketplace. The hierarchy assigns a higher priority to observable inputs that reflect verifiable information obtained from independent sources, and a lower priority to unobservable inputs that would reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

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 fair value of fixed and variable rate debt maturities is determined by each bond's par amount outstanding multiplied by its price on an active exchange market.

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 largely 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 largely carried at NAV as reported by investment managers.

The majority of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using NAVs reported by fund managers as a practical expedient. For such investments, GAAP requires that classification within the fair value hierarchy be based on the University's ability to timely redeem its interest rather than on inputs used.

(g) Split Interest Agreements

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.

(h) Interests in Perpetual Funds Held by Others

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 flows from these funds and is recognized in beneficial interest in perpetual funds and as contribution revenue at the date such funds are established. The largest fund of this type consists primarily of shares of common stock of The Coca-Cola Company. 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, 2014 and 2013 at $1,130.1 million and $1,040.5 million, respectively.

(i) 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. 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; software and enterprise systems – 5 to 10 years; leasehold improvements – term of the lease; and library books – 10 years. Certain assets totaling $84.6 million, such as art, museum assets and rare books, are included in property and equipment on August 31, 2014, but are not depreciated.

(j) Bond Issuance Costs

Costs related to the registration and issuances of bonds are being amortized over the life of the bonds. The costs, net of accumulated amortization, are included in prepaid expenses, deferred charges and other assets in the consolidated statements of financial position and were $9.1 million and $9.7 million for August 31, 2014 and 2013, respectively.

(k) 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.

(l) 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 funds held by others 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 for a temporarily restricted contribution 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.

(m) 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. These grants and contract awards generally specify the purpose for which the funds are to be used. 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 expenditures incurred in advance of the receipt of funds.

Indirect cost recoveries are based on negotiated rates and represent recoveries of facilities and administrative costs incurred under grants and contracts agreements.

(n) 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. The Hospitals' estimates in this area may differ from actual experience, and those differences may be material.

(o) 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.

(p) 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 credit income of the University is reported on Form 990-T. As of August 31, 2014 and 2013, there were no material uncertain tax positions.

(q) Derivative Instruments

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.

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.

(r) 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.

(s) New Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This ASU requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effects of those arrangements on its financial position. The adoption of ASU 2011-11 during fiscal 2014 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 adoption of ASU 2012-05 during fiscal 2014 had no material impact on the University's consolidated financial statements.

(t) Use of Estimates

The preparation of the consolidated financial statements in conformity with 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, 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 is estimated by discounting the expected future cash flows at a risk-free rate which could have been obtained at the date of the gift.

(u) 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.

(v) Reclassifications

Certain 2013 amounts previously reported have been reclassified to be consistent with the 2014 presentation.

(3) Contributions Receivable

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

		2014	2013
Unconditional promises expected to be collected in:			
Less than one year	$	91,929	133,773
One year to five years		52,311	73,820
Over five years		3,126	4,860
Gross contributions receivable		147,366	212,453
Less:			
Allowance for uncollectible amounts		(4,358)	(11,853)
Discount to present value		(7,341)	(9,608)
Contributions receivable, net	$	135,667	190,992

At August 31, 2014 and 2013, the five largest outstanding donor pledge balances represented 61.6% and 73.8%, respectively, of Emory's gross contributions receivable. Contributions receivable are discounted at rates ranging from 1.16% to 9.24%.

As of August 31, 2014, the University had received bequest intentions of approximately $167.7 million. These intentions to give are not recognized as assets or revenues and, if received, will generally be restricted for purposes stipulated by the donor.

(4) Business and Credit Concentrations

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

	2014	2013
Managed care and other third-party payors	57%	57%
Medicare	32	32
Patients	7	6
Medicaid	4	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. Revenues from the Medicare program accounted for approximately 37% of the System's net patient service revenue for each of the years ended August 31, 2014 and 2013.
- 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, 2008. Revenues from the Medicaid program accounted for approximately 5% of the System's net patient service revenue for each of the years ended August 31, 2014 and 2013.

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):

		2014	2013
Gross patient service revenue	$	6,906,797	6,797,764
Less provisions for contractual and other adjustments		(4,218,747)	(4,140,674)
Less provisions for uncollectible accounts		(138,148)	(116,234)
Net patient service revenue	$	2,549,902	2,540,856

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, 2014 and 2013 from these major payor sources is as follows (in thousands):

		2014	2013
Third-party payors	$	2,609,538	2,549,805
Self-pay		78,511	107,285
Total	$	2,688,049	2,657,090

The impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, 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. 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):

		2014	2013
Short-term investments and cash equivalents [a]	$	249,197	422,802
Investments in securities:			
Global equity securities			
U.S. equity securities		363,230	293,668
Non-U.S. equity securities		194,239	239,325
Fixed income securities			
U.S. government securities		659,476	555,679
Domestic bonds and long-term notes [b]		239,750	256,653
International bonds and long-term notes [c]		78,677	75,308
Commingled funds - equity [d]		776,870	580,243
Commingled funds - fixed income [d]		756,409	582,433
Investments in funds:			
Hedged strategies [e]		1,599,617	1,308,995
Private market investments [f]		1,410,249	1,242,917
Real estate partnerships [g]		165,413	150,678
Natural resources [h]		522,088	489,337
Miscellaneous investments [i]		4,029	3,198
Derivatives [j]		9,679	(2,250)
Oil and gas properties		2,195	2,100
Total investments at fair value		7,031,118	6,201,086
Joint ventures (equity method)		198	340
Total investments	$	7,031,316	6,201,426

(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, 2014 and 2013, $30.1 million and $35.7 million, respectively, was posted as collateral (primarily related to derivatives' trading agreements) 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 fund structures 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 vehicles in which Emory is typically a limited partner or shareholder. The nature of the investments in this category is such that distributions are received through liquidation of the underlying assets of the funds. The fair value of the fund investments in this category have been estimated using the net asset value of the investments. It is estimated that underlying assets of the funds will be liquidated over the next 10 years.

(g) Includes illiquid investments in real estate assets, projects, or land held in commingled 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. The fair value of the fund investments in this category have been estimated using the net asset value of the investments. It is estimated that the underlying assets of the funds will be liquidated over the next 10 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, 2014 and 2013, cash equivalents of $230.1 million and $413.0 million, respectively, are included in investments and are 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, 2014, the related unfunded commitments of the University's alternative investments and limitations and restrictions on the University's ability to redeem or sell are summarized as follows (in thousands):

	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Hedged strategies	$ 7,500	30 – over 365 days	3 – 306 days
Private market investments	278,506	N/A	N/A
Real estate partnerships	177,598	N/A	N/A
Natural resources	135,573	N/A	N/A
	$ 599,177		

Over the next five years, approximately 85% 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 over 1,500 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. 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 several factors in making a determination to appropriate or accumulate donor-restricted endowment funds, including the duration and preservation of the fund, the purposes of the fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the University and the investment policies of the University.

The endowment funds subject to UPMIFA are true endowments and do not include perpetual funds held by others, long-term investments, annuity funds, and deposits held in custody and miscellaneous investments. Approximately 69.7% 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):

	2014			2013		
	Donor-Restricted	Board-Designated	Total	Donor-Restricted	Board-Designated	Total
Unrestricted	$ (4,062)	1,458,865	1,454,803	(27,910)	1,289,345	1,261,435
Temporarily restricted	2,727,955	—	2,727,955	2,342,859	—	2,342,859
Permanently restricted	731,633	—	731,633	671,611	—	671,611
Total endowment funds	$ 3,455,526	1,458,865	4,914,391	2,986,560	1,289,345	4,275,905

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, 2012	$	1,286,515	2,180,307	586,627	4,053,449
Investment return:					
Investment income		66,827	126,521	—	193,348
Realized and unrealized gain		42,866	81,716	—	124,582
Total investment return		109,693	208,237	—	317,930
Cash contributions		1,522	34	80,042	81,598
Transfer from board-designated funds for strategic initiatives		10,855	—	—	10,855
Appropriations for expenditure		(35,356)	(116,484)	—	(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
Investment return:					
Investment income		13,917	43,342	—	57,259
Realized and unrealized gain		232,281	508,716	—	740,997
Total investment return		246,198	552,058	—	798,256
Cash contributions		654	3	51,915	52,572
Transfer to board-designated funds for strategic initiatives		(3,927)	—	—	(3,927)
Appropriations for expenditure		(40,257)	(144,538)	—	(184,795)
Appropriations for capital purposes		(5,583)	(18,037)	—	(23,620)
Other (1)		(3,717)	(4,390)	8,107	—
Balance as of August 31, 2014	$	1,454,803	2,727,955	731,633	4,914,391

(1) Reflects reclassifications 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 $4.0 million and $27.9 million as of August 31, 2014 and 2013, 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 2014 and 2013 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

Investments

The University has executed derivative financial instruments in the normal course of its business. 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. Futures, options and other derivative instruments are used to adjust elements of investment exposures to various securities, markets and currencies without actually taking a position in the underlying asset.

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 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. Management does not consider the underlying counterparty risk from these arrangements to have a material impact on the financial position of the University.

Emory's net investment related derivative exposures, categorized by primary underlying risk, as of August 31, 2014 (in thousands):

		Gross Notional Amount (1)	Derivative Assets (2)	Derivative Liabilities (2)	Gains (Losses) (3)
Interest-rate contracts	$	286,403	1,359	(1,418)	(835)
Foreign exchange contracts		113,400	1,020	(137)	298
Equity contracts		844,333	11,255	(3,944)	123,312
Credit contracts		57,891	1,740	(196)	(28)
Total	$	1,302,027	15,374	(5,695)	122,747

Emory's net investment related derivative exposures, categorized by primary underlying risk, as of August 31, 2013 (in thousands):

		Gross Notional Amount (1)	Derivative Assets (2)	Derivative Liabilities (2)	Gains (Losses) (3)
Interest-rate contracts	$	173,054	1,410	(1,191)	(14)
Foreign exchange contracts		43,132	379	(405)	(70)
Equity contracts		607,600	—	(2,299)	116,473
Credit contracts		11,374	188	(166)	(607)
Total	$	835,160	1,977	(4,061)	115,782

(1) The notional amount is representative of the absolute value of the open contracts on August 31, 2014 and 2013

(2) Derivative assets less derivative liabilities for investment-related activities are presented as net in Note 6.

(3) Gains (losses) on derivatives are included in the Statements of Activities in "investment return in excess of spending distribution for current operations" in "non-operating activities".

Emory's investment related derivative assets and liabilities at August 31, 2014, by counterparty, are as follows (in thousands):

		Assets	Liabilities	Cash Collateral Held (Pledged)	Net Amount
Counterparty A	$	5,489	(105)	(28,260)	(22,876)
Counterparty B		3,383	(22)	—	3,361
Counterparty C		1,642	(3,947)	(367)	(2,672)
Counterparty D		1,147	(188)	254	1,213
All other		3,713	(1,433)	(1,767)	513
Total	$	15,374	(5,695)	(30,140)	(20,461)

Emory's investment related derivative assets and liabilities at August 31, 2013, by counterparty, are as follows (in thousands):

		Assets	Liabilities	Cash Collateral Held (Pledged)	Net Amount
Counterparty A	$	426	(450)	—	(24)
Counterparty B		393	(441)	2	(46)
Counterparty C		352	(23)	250	579
Counterparty D		274	(3)	—	271
All other		532	(3,144)	(33,686)	(36,298)
Total	$	1,977	(4,061)	(33,434)	(35,518)

Debt

As a component of the debt portfolio, the University entered into interest rate swap agreements that effectively convert a portion of variable rate debt to fixed rates and are used to manage interest rate risk. 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. Certain University derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investors Service and Standard and Poor's Ratings 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, 2014, the University's long term debt ratings exceeded these benchmarks.

At August 31, 2014, Emory had nine interest rate swap agreements expiring on various dates ranging from November 15, 2028 through December 1, 2042. These agreements require Emory to pay fixed interest rates to the counterparties varying from 3.238% to 4.388% in exchange for variable rate payments from the counterparties based on a percentage of the Three Month London Interbank Offered Rate (LIBOR).

Net settlement transactions related to the agreements described above resulted in interest expense totaling $21.0 million and $20.6 million during 2014 and 2013, respectively. The fair value of each exchange agreement is estimated based on pricing models that utilize significant observable inputs, such as relevant current interest rates, that reflect assumptions on the amount the University would receive or pay to terminate the agreement at the reporting date. As such, the University's exchange agreements are categorized as Level 2 in the fair value hierarchy.

The aggregate fair value of all derivative instruments with credit-risk related contingent features that are in a liability position was $150.5 million and $100.8 million on August 31, 2014 and 2013, respectively, for which Emory University had a requirement to post collateral in the amount of $0.6 million for 2014. Collateral postings are reported in prepaid expenses, deferred charges and other assets in the consolidated statements of financial position.

The following table summarizes the debt-related derivatives as of August 31 (in thousands):

Interest Rate Swaps		2014		2013	
Inception	Maturity	Liability Fair Value	Loss	Liability Fair Value	Gain
August 4, 2005	September 1, 2035	$ (48,237)	(17,360)	(30,877)	41,615
August 25, 2005	September 1, 2035	(16,110)	(5,791)	(10,319)	13,489
April 19, 2007	November 15, 2028	(1,765)	(226)	(1,539)	1,015
December 1, 2007	September 1, 2035	(18,836)	(5,471)	(13,365)	13,114
May 1, 2008	September 1, 2038	(21,452)	(6,124)	(15,328)	14,161
December 1, 2008	December 1, 2042	(24,863)	(9,216)	(15,647)	19,851
December 1, 2009	September 1, 2035	(19,232)	(5,485)	(13,747)	13,528
	Total	$ (150,495)	(49,673)	(100,822)	116,773

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 management, with consultation from third party financial advisors, 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. Emory has additional counterparty arrangements managed by funds in which Emory invests which are included in the general investment and fund manager monitoring activities for the funds.

Emory's debt-related derivative liabilities at August 31, 2014, by counterparty, are as follows (in thousands):

		Liabilities	Cash Collateral Held (Pledged)	Net Amount
Counterparty A	$	(18,836)	—	(18,836)
Counterparty B		(24,863)	—	(24,863)
Counterparty C		(32,177)	—	(32,177)
Counterparty D		(40,685)	(600)	(41,285)
Counterparty E		(32,170)	—	(32,170)
All other		(1,764)	—	(1,764)
Total	$	(150,495)	(600)	(151,095)

Emory's debt-related derivative liabilities at August 31, 2013, by counterparty, are as follows (in thousands):

		Liabilities	Cash Collateral Held (Pledged)	Net Amount
Counterparty A	$	(13,365)	—	(13,365)
Counterparty B		(15,647)	—	(15,647)
Counterparty C		(20,601)	—	(20,601)
Counterparty D		(29,076)	—	(29,076)
Counterparty E		(20,594)	—	(20,594)
All other		(1,539)	—	(1,539)
Total	$	(100,822)	—	(100,822)

(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 for both years ended August 31, 2014 and 2013, and is categorized as Level 2 liabilities. The carrying value of long term debt reflected in the accompanying consolidated statements of financial position is approximately $1.9 billion and $2.0 billion at August 31, 2014 and 2013, respectively.

The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2014 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Short-term investments and cash equivalents	$ 249,197	167,194	82,003	—
Investments in securities:				
Global equity securities				
U.S. equity securities	363,230	363,211	16	3
Non-U.S. equity securities	194,239	187,236	7,003	—
Fixed income securities:				
U.S. government securities	659,476	157	659,319	—
Domestic bonds and long-term notes	239,750	1,745	238,005	—
International bonds and long-term notes	78,677	—	78,093	584
Commingled funds - equity	776,870	48,802	728,068	—
Commingled funds - fixed income	756,409	554,858	201,551	—
Investments in funds:				
Hedged strategies	1,599,617	—	961,369	638,248
Private market investments	1,410,249	—	—	1,410,249
Real estate partnerships	165,413	—	—	165,413
Natural resources	522,088	—	64,037	458,051
Miscellaneous investments	4,029	648	3,381	—
Derivatives	9,679	5,687	3,992	—
Oil and gas properties	2,195	—	—	2,195
Total investments at fair value (1)	7,031,118	1,329,538	3,026,837	2,674,743
Interest in perpetual funds held by others (2)	1,130,063	—	—	1,130,063
Total assets at fair value(1)	$ 8,161,181	1,329,538	3,026,837	3,804,806
Financial liabilities:				
Derivative instruments - interest rate swaps	(150,495)	—	(150,495)	—
Deposits held in custody for others	(643,902)	—	(643,902)	—
Total liabilities at fair value	$ (794,397)	—	(794,397)	—

(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, 2013 (in thousands):

	Total fair value	Fair value hierarchy Level 1	Level 2	Level 3
Financial assets:				
Short-term investments and cash equivalents	$ 422,802	388,475	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	580,243	123,213	457,030	—
Commingled funds - fixed income	582,433	205,966	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	3,198	974	2,224	—
Derivatives	(2,250)	(2,487)	237	—
Oil and gas properties	2,100	—	—	2,100
Total investments at fair value (1)	6,201,086	1,250,238	2,421,691	2,529,157
Interest in perpetual funds held by others (2)	1,034,124	—	—	1,034,124
Total assets at fair value (1)	$ 7,235,210	1,250,238	2,421,691	3,563,281
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.

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 and exchange traded funds (ETFs).

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, money market funds, 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, 2014 and 2013, and for which the University does not believe the corresponding investments would be sold for an amount different from net asset value.

Due to the utilization of the practical expedient, approximately $1.0 billion of the assets reported at NAV 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.

Investments in funds measured at NAV that are not redeemable within 120 days are classified by the University in Level 3. Typically, such funds are structured as limited partnership or limited liability vehicles. Funds with hedged strategies generally offer redemption terms and often hold marketable securities in addition to certain illiquid investments. The determination of NAV by managers of private market, real estate and natural resources funds, which generally do not have redemption terms, generally requires the use of significant unobservable inputs because the underlying investments trade infrequently or not at all. Such investments may include, for example, private placements, distressed securities, and properties and other real interests. Inputs used by the fund mamagers 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, 2014 and 2013 (in thousands):

	Balance as of August 31, 2013	Net gains (losses)	Purchases	Sales	Transfer out of Level 3	Balance as of August 31, 2014
Investments in U.S. equity securities	$ 3	—	—	—	—	3
Investment in funds:						
Commingled funds-fixed income	—					—
Hedged strategies	724,557	122,878	149,100	(57,249)	(301,038)	638,248
Private market investments	1,229,173	305,090	222,562	(346,576)	—	1,410,249
Real estate partnerships	150,678	10,472	54,011	(49,791)	43	165,413
Natural resources	422,646	63,070	82,997	(103,154)	(7,508)	458,051
Oil and gas properties	2,100	95	—	—	—	2,195
International bonds & long-term notes	—	164	420	—	—	584
Total investments	2,529,157	501,769	509,090	(556,770)	(308,503)	2,674,743
Interest in perpetual funds held by others	1,034,124	95,939	—	—	—	1,130,063
Total assets	$ 3,563,281	597,708	509,090	(556,770)	(308,503)	3,804,806

Of the $494.9 million in Level 3 net realized and unrealized gains (losses) for investments for the year ended August 31, 2014, approximately $298.0 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, 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	8,276	—	—	—	1,034,124
Total assets	$	3,606,796	156,931	406,279	(309,148)	(297,577)	3,563,281

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.

(10) Property and Equipment

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

		2014	2013
Land and land improvements	$	174,689	176,234
Buildings and improvements		2,933,440	2,813,414
Equipment		1,958,375	1,842,770
Library and museum assets		359,492	336,267
Construction in progress		187,914	168,038
		5,613,910	5,336,723
Less accumulated depreciation		(2,761,330)	(2,559,668)
	$	2,852,580	2,777,055

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. There were no asset impairments for fiscal 2014. During fiscal 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, 2014 and 2013 is $55.4 million and $53.3 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position.

(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 2014	Outstanding principal 2013
Tax-exempt fixed-rate revenue bonds:				
2013 Series A	4.88%	October 1, 2043	$ 214,578	214,793
2011 Series A [(1)]	4.95	September 1, 2041	234,440	235,710
2009 Series B [(2)]	4.76	September 1, 2035	221,986	226,747
2009 Series C	4.90	September 1, 2039	99,410	99,484
2008 Series C	4.96	September 1, 2038	123,346	124,163
2005 Series A	4.86	September 1, 2025	71,591	89,050
2002 Series A	—	September 1, 2013	—	4,562
Total tax-exempt fixed-rate revenue bonds			965,351	994,509
Tax-exempt variable-rate revenue bonds:				
2013 Series B [(3)]	0.61	October 1, 2039	135,100	135,100
2013 Series C [(3)]	0.71	October 1, 2039	57,865	57,865
2007 Series A	0.97	November 15, 2028	7,271	7,115
2005 Series B	0.04	September 1, 2035	250,000	250,000
2005 Series C	0.05	September 1, 2036	124,150	124,150
Total tax-exempt variable-rate revenue bonds			574,386	574,230
Taxable fixed-rate revenue bonds:				
2009 Series A	5.63	September 1, 2019	249,297	249,156
1994 Series C	8.00	October 1, 2024	6,285	6,630
Series 1991	8.07	April 1, 2022	1,351	1,811
Total taxable fixed-rate revenue bonds			256,933	257,597
Taxable variable-rate revenue bonds:				
1999 Series B	0.14	November 1, 2029	10,355	10,730
1995 Series B	0.14	November 1, 2025	5,710	7,315
1994 Series B	0.16	October 1, 2024	9,975	10,560
Total taxable variable-rate revenue bonds			26,040	28,605
Commercial paper:				
2010 Program 1 - Tax-exempt	0.11	August 1, 2050	2,834	5,930
2008 Program 1 - Taxable	0.16	April 1, 2047	128,300	100,000
Total commercial paper			131,134	105,930
Other long term debt [(4)]	Various		1,555	2,769
Line of credit			—	29,367
Total bonds, notes and mortgages payable			$ 1,955,399	1,993,007

(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 to SIFMA.

(4) Included in other long term debt are the St. Joseph's capital leases.

The University incurred interest expense of $78.3 million and $72.3 million in 2014 and 2013, respectively, net of capitalized interest of $3.5 million and $2.7 million in 2014 and 2013, respectively. During 2014, the average interest rate on University tax exempt and taxable variable rate demand bonds (VRDB) was 0.05% and 0.16%, respectively. Related indices for this period were 0.06% for tax exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.16% for taxable debt (London Interbank Offered Rate – LIBOR).

At August 31, 2014 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:		
2015	$	17,625
2016		30,660
2017		117,863
2018		26,647
2019		26,088
Thereafter		1,695,949
		1,914,832
Unamortized net premium		40,567
	$	1,955,399

In 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, 2014 and 2013, the University had outstanding balances of $2.8 million and $5.9 million, respectively, under this program.

In 2008, the University established a $100 million taxable Commercial Paper program. In 2014, the University increased the program to $150 million. As of August 31, 2014 and 2013, the University had an outstanding balance of $128.3 and $100.0 million, respectively, under this program.

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 $200 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2014 and 2013, there were no draws against these lines of credit.

The University also has a $75 million line of credit and the Emory Clinic has a $15 million line of credit at August 31, 2014. During fiscal 2013, $29.0 million was drawn against the University line of credit to refund portions of the outstanding 2009 and 2010 debt series. There was no balance outstanding as of August 31, 2014. There were no draws on the Clinic line of credit for 2014 and 2013.

The University has two letters of credit with a commercial bank totaling $1.4 million. There were no draws against these letters of credit as of August 31, 2014 and 2013.

In conjunction with Emory Healthcare's 35% joint venture interest in Emory Adventist, Inc., the University has guaranteed $6.3 million of an $18.1 million outstanding loan payable to Adventist Health System. There were no required payments during fiscal 2014.

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, 2014, management believes that the University was in compliance with these covenants.

(12) Temporarily and Permanently Restricted Net Assets

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

	2014	2013
Appreciation on endowments restricted until appropriated	$ 2,603,231	2,218,138
Term endowments	124,724	124,721
Contributions receivable, time and purpose restricted	85,192	120,251
Capital projects and other donor designations	183,643	108,045
Annuity and life income agreements	8,471	6,618
	$ 3,005,261	2,577,773

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):

	2014	2013
Donor-restricted endowments	$ 731,633	671,611
Interests in perpetual funds held by others	1,130,063	1,034,124
Contributions receivable, restricted for endowment	50,475	70,741
Annuity and life income agreements	2,215	2,007
Split interest trusts	3,162	—
	$ 1,917,548	1,778,483

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):

		2014	2013
Endowment spending distribution for current operations	$	157,174	157,276
Distributions from perpetual funds		29,979	27,600
Other investment income designated for current operations		37,477	47,609
Total operating return		224,630	232,485
Realized gains on investments		416,749	132,053
Unrealized gains on investments, net		316,861	90,408
Change in undistributed income from perpetual funds held by others		95,939	8,276
Total nonoperating gain		829,549	230,737
Total investment return	$	1,054,179	463,222

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, internal staff expenses and consulting reviews) totaled $25.9 million and $23.3 million for fiscal 2014 and 2013, 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) Retirement and Deferred Compensation Plans

The University has a defined contribution plan under Internal Revenue Code (IRC) Section 403(b) covering certain employees and teaching staff. The University contributes an amount equal to 6% of each eligible employee's compensation to the plan as well as a supplemental contribution of 3% based on a 1.5 to 1 match of employee contributions of up to 2% of compensation. Emory Healthcare sponsors a retirement plan, covering most full time employees, under which annuities are purchased with contributions by Emory Healthcare and its employees. The benefits are vested only to the extent of the annuities purchased. The Emory Clinic (TEC) sponsors The Emory Clinic, Inc. Retirement Savings Plan (the Plan), covering all its employees, except those considered leased employees or those covered under collective bargaining agreements, as defined. The Plan provides for employees to make salary reduction contributions and for TEC to make discretionary contributions for 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 $118.5 million and $111.6 million during 2014 and 2013, respectively, and is included in operating expense in the accompanying consolidated statements of activities.

The University sponsors an IRC Section 457(b) Deferred Compensation Plan primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees who are eligible for participation and elect to make salary deferrals under the Deferred Compensation Plan. These assets are fully vested and available to the participating employees at the point of termination of employment from the University. As of August 31, 2014 and 2013, respectively, the University held other assets of $82.5 million and $65.5 million under the plan. These assets are included in other assets, which are designated by the University to pay future Salary Deferral Plan payments. The assets are held in separate investment funds for which $79.6 million and $63.0 million are classified as Level 1 and $2.9 million and $2.5 million are classified as Level 2 as of August 31, 2014 and 2013, respectively. Associated liabilities for the obligations of $82.5 million and $65.5 million as of August 31, 2014 and 2013, respectively, are included in accrued liabilities for benefit obligations and professional liabilities.

(15) Pension Plan

Emory Healthcare sponsors a defined benefit pension plan (the Plan). 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 JOC assumed certain defined benefit pension liabilities covering certain employees of the entities contributed to the JOC by SJHS (SJHS Pension Plan). The Plan was curtailed, effective December 31, 2011, and 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 obligations as of August 31 follow (in thousands):

		2014		2013	
		Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Projected benefit obligation, beginning of year	$	242,941	119,060	253,513	134,141
Interest cost		12,446	5,995	11,105	5,229
Actuarial loss (gain)		35,830	19,267	(17,814)	(16,900)
Benefits paid		(4,605)	(3,708)	(3,863)	(3,410)
Projected benefit obligation, end of year	$	286,612	140,614	242,941	119,060

Given the fiscal 2012 curtailment of the plans, the accumulated benefit obligations at August 31, 2014 and 2013 are the same as the projected benefit obligations.

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

		2014		2013	
		Emory Healthcare	**SJHS Pension Plan**	**Emory Healthcare**	**SJHS Pension Plan**
Fair value of plan assets, beginning of year	$	180,815	85,220	171,189	78,330
Actual return on plan assets		37,292	12,362	13,489	10,300
Employer contributions		1,951	—	—	
Benefits paid		(4,605)	(3,708)	(3,863)	(3,410)
Fair value of plan assets, end of year	$	215,453	93,874	180,815	85,220
Funded status - accrued pension cost recognized in the consolidated statements of financial position	$	(71,159)	(46,740)	(62,126)	(33,840)

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

		2014		2013	
		Emory Healthcare	**SJHS Pension Plan**	**Emory Healthcare**	**SJHS Pension Plan**
Interest cost	$	12,446	5,995	11,105	5,229
Expected return on plan assets		(13,930)	(6,243)	(13,303)	(5,715)
Amortization of prior service cost		—	(438)	—	(438)
Recognized actuarial loss		4,254	1,231	6,711	1,456
Net periodic pension cost	$	2,770	545	4,513	532

The amounts accumulated in unrestricted net assets for net unrecognized actuarial loss totaled $63.4 million and $55.1 million as of August 31, 2014 and 2013, respectively, for Emory Healthcare and $46.6 million and $34.2 million as of August 31, 2014 and 2013, respectively, for SJHS Pension Plan.

Emory Healthcare's net loss of $6.9 million and SJHS Pension Plan's net loss of $1.2 million are expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2015.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2014 and 2013 follow:

	2014		2013	
	Emory Healthcare	**SJHS Pension Plan**	**Emory Healthcare**	**SJHS Pension Plan**
Discount rate	4.33%	4.30%	5.17%	5.12%
Expected long-term rate of return on plan assets	8.00	7.50	8.00	7.50

Weighted average assumptions used to determine net periodic pension cost for 2014 and 2013 follow:

	2014		2013	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Discount rate	5.17%	5.12%	4.41%	3.80%
Expected return on plan assets	8.00	7.50	8.00	7.50

Emory Healthcare 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.

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

	2014				
	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	$ 319		319	—%	—%
Commingled funds - equity	149,560	—	149,560	70	70
Commingled funds - fixed income	65,574	—	65,574	30	30
Total investments	$ 215,453	—	215,453	100%	100%

	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%

SJHS Pension 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 Trinity Health 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 CHE Trinity Health 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.

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

	2014				
	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	$ 2,214	2,214	—	—%	3%
Commingled funds - equity	47,188	26,833	20,355	50	50
Commingled funds - fixed income	31,024	—	31,024	40	33
Managed funds	13,448	28	13,420	10	14
Total investments	$ 93,874	29,075	64,799	100%	100%

	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	$ 3,021	3,021	—	—%	4%
Commingled funds - equity	59,594	31,436	28,158	50	70
Commingled funds - fixed income	14,179	—	14,179	40	17
Managed funds	8,426	—	8,426	10	9
Total investments	$ 85,220	34,457	50,763	100%	100%

Cash Flows

Emory Healthcare does not expect to contribute to the Emory Healthcare Pension Plan in fiscal 2015 and expects to contribute $3.2 million to the SJHS Pension Plan in fiscal 2015.

Expected Future Benefit Payments

Emory Healthcare annual future benefit payments, excluding lump sum settlements, are expected to range from $5.5 million to $10.7 million, for the next five years. SJHS Pension Plan annual future benefit payments, excluding lump sum settlements, are expected to range from $4.7 million to $5.9 million, for the next five years.

Other Items

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

(16) Postretirement Healthcare and Life Insurance Benefits

The University and Emory Healthcare each fund a separate trust (VEBA Trust) for 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):

	2014			2013
	Emory University	Emory Healthcare	Total	Total
APBO, beginning of year	$ 69,674	38,504	108,178	121,912
Service cost	1,331	605	1,936	2,528
Interest cost	3,554	1,963	5,517	5,318
Plan changes	(265)	528	263	—
Actuarial loss (gain)	12,429	6,949	19,378	(17,554)
Benefits paid	(3,698)	(1,947)	(5,645)	(4,693)
Retiree drug subsidy paid	469	201	670	667
APBO, end of year	$ 83,494	46,803	130,297	108,178

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):

		2014			2013
		Emory University	Emory Healthcare	Total	Total
Fair value of plan assets, beginning of year	$	50,873	20,285	71,158	61,646
Actual return on plan assets		8,980	3,597	12,577	10,380
Benefits paid by Emory		—	(1,947)	(1,947)	(1,072)
Retiree drug subsidy		—	201	201	204
Fair value of plan assets, end of year	$	59,853	22,136	81,989	71,158
Funded status - accrued postretirement benefit cost recognized in the consolidated statements of financial position	$	(23,641)	(24,667)	(48,308)	(37,020)

Actuarial assumptions used to determine the values of the APBO and the benefit costs for years ended August 31, 2014 and 2013 included a discount rate of 4.33% and 5.17%, 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, 2014 and 2013. 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):

		2014			2013
		Emory University	Emory Healthcare	Total	Total
Service cost of benefits earned	$	1,331	605	1,936	2,528
Interest cost on APBO		3,554	1,963	5,517	5,318
Expected return on plan assets		(3,922)	(1,550)	(5,472)	(4,718)
Recognized net actuarial loss		1,577	1,106	2,683	4,850
Net periodic postretirement benefit cost	$	2,540	2,124	4,664	7,978

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

	2014			2013
	Emory University	Emory Healthcare	Total	Total
Net unrecognized actuarial loss	$ 32,695	18,040	50,735	41,279
Prior service cost	(265)	528	263	—
Total	32,430	18,568	50,998	41,279

In fiscal 2015, net unrecognized actuarial losses of $1.9 million for Emory University and $1.4 million for Emory Healthcare are expected to be amortized from unrestricted net assets into net periodic postretirement benefit cost.

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):

	2014				
	Total fair value	Fair value hierarchy Level 1	Fair value hierarchy Level 2	Target allocation	Total asset allocation
Investments:					
Commingled funds - equity	$ 45,502	17,860	27,642	75%	76%
Commingled funds - fixed income	14,351	8,235	6,116	25	24
Total investments	$ 59,853	26,095	33,758	100%	100%

	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	$ 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%

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

		2014				
		Total fair value	Fair value hierarchy Level 1	Level 2	Target allocation	Total asset allocation
Investments:						
Commingled funds - equity	$	16,609	8,076	8,533	75%	75%
Commingled funds - fixed income		5,527	3,605	1,922	25	25
Total investments	$	22,136	11,681	10,455	100%	100%

		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%

Cash Flows

Emory University and Emory Healthcare do not expect to contribute to their postretirement healthcare and life insurance benefit plans in 2015. Emory Healthcare plans to fund future retiree claims from VEBA Trust assets.

Expected Future Benefit Payments

Annual future benefit payments are expected to range from $3.0 million to $3.9 million for Emory University and from $1.6 million to $2.2 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.

(17) 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 $88.0 million and $80.2 million for the years ended August 31, 2014 and 2013, 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.

(18) Functional Expenses

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

		2014	2013
Instruction	$	377,491	364,527
Research		400,182	409,766
Public service		82,469	78,430
Academic support		131,113	120,790
Student services		76,848	72,913
Institutional support		178,765	165,745
Scholarships and fellowships		15,659	14,111
Medical services		244,016	176,035
Healthcare services		2,547,754	2,548,307
Auxiliary enterprises		41,790	39,627
Independent operations		18,615	18,842
Total operating expenses	$	4,114,702	4,009,093

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 2014 and 2013 were $181.5 million and $140.1 million, respectively. Fundraising costs, measured by the operating budgets for the function, were approximately $18.2 million in 2014 and 2013.

(19) 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.

As of August 31, 2014 and 2013, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately $107.6 million (discounted at 2%) and $106.0 million (discounted at 2%), respectively.

Emory has purchased layered excess and umbrella coverage beyond the amounts retained by CCIC, through various reinsurance carriers, for a total of $125.0 million per claim and in the aggregate.

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.

(20) 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.

Funds held in trust for others include $603.5 million and $496.0 million representing CCI's investment in the University's long-term investment portfolio of August 31, 2014 and 2013, respectively.

Effective July 1, 2014, the System entered into an agreement with SMC to form a limited liability company under the name of ES Rehabilitation, LLC (ES Rehab). ES Rehab, otherwise known as Emory Rehabilitation Hospital (ERH), was formed to better deliver high-quality, low-cost rehabilitative care to patients in the surrounding Atlanta area.

As a result of the formation of ES Rehab, the System recorded a gain of $949 thousand during fiscal 2014 representing the difference between the System's 51% interest in the unrestricted net assets of ES Rehab immediately upon its formation and the net assets contributed by the System to ES Rehab. The gain is included in nonoperating joint venture income in the accompanying consolidated statements of activities in fiscal 2014.The fair value of the noncontrolling interest as of July 1, 2014 was $4.1 million.

(21) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2014 totaled $92.0 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.

(22) Subsequent Events

The System has a 35% joint venture interest in Emory Adventist, Inc., which owns and operates Emory Adventist Hospital in Cobb County, Georgia. During fiscal 2014, the System and its partner in this joint venture, Adventist Health System, made the decision to close Emory-Adventist Hospital due to sustainability issues. The transition process toward closure is underway and is expected to be completed during fiscal 2015.

Emory has evaluated subsequent events after the statement of position date of August 31, 2014 through December 19, 2014, 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, 2014 and 2013

(Dollars in thousands)

	August 31, 2014	August 31, 2013
ASSETS:		
Cash and cash equivalents	$ 433,966	$ 364,636
Student accounts receivable, net	51,150	51,522
Loans receivable, net	28,467	26,722
Contributions receivable, net	135,667	190,992
Other receivables, net	151,471	135,359
Prepaid expenses, deferred charges and other assets	212,315	194,374
Investments	6,697,802	5,973,286
Interests in perpetual funds held by others	1,130,063	1,034,124
Property and equipment, net	1,915,843	1,865,437
Due from affiliates	490,004	386,886
Total assets	**$ 11,246,748**	**$ 10,223,338**
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	$ 166,197	$ 163,964
Deferred tuition and other revenue	422,780	403,413
Interest payable	29,690	26,343
Annuities payable	17,821	17,701
Bonds, notes and mortgages payable	1,946,573	1,983,124
Liability for derivative instruments	148,731	99,282
Accrued liabilities for benefit obligations and professional liabilities	145,113	120,682
Funds held in trust for others	643,902	531,536
Government advances for federal loan programs	17,802	17,764
Total liabilities	3,538,609	3,363,809
Unrestricted net assets	2,795,319	2,517,384
Temporarily restricted net assets	2,998,775	2,567,165
Permanently restricted net assets	1,914,045	1,774,980
Total net assets	7,708,139	6,859,529
Total liabilities and net assets	**$ 11,246,748**	**$ 10,223,338**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 2

STATEMENT OF ACTIVITIES - SUPPLEMENTARY INFORMATION

Year ended August 31, 2014 (with summarized financial information for the year ended 2013)

(Dollars in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2014	Total August 31, 2013
OPERATING REVENUES:					
Tuition and fees	$ 592,385	$ -	$ -	$ 592,385	$ 544,183
Less: Scholarship allowances	(215,434)	-	-	(215,434)	(188,736)
Net tuition and fees	376,951	-	-	376,951	355,447
Endowment spending distribution	157,174	-	-	157,174	157,276
Distributions from perpetual funds	29,979	-	-	29,979	27,600
Other investment income designated for current operations	34,804	-	-	34,804	44,513
Gifts and contributions	41,348	-	-	41,348	50,202
Grants and contracts	365,653	-	-	365,653	379,403
Indirect cost recoveries	110,516	-	-	110,516	118,451
Medical services	234,855	-	-	234,855	154,285
Sales and services of auxiliary enterprises	68,850	-	-	68,850	66,375
Independent operations	20,543	-	-	20,543	22,136
Other revenue	67,360	-	-	67,360	40,295
Net assets released from restrictions	7,412	(3,764)	-	3,648	-
Total operating revenues	**1,515,445**	**(3,764)**	**-**	**1,511,681**	**1,415,983**
OPERATING EXPENSES:					
Salaries and fringe benefits	1,112,192	-	-	1,112,192	1,032,973
Student financial aid	11,297	-	-	11,297	10,118
Other operating expenses	269,364	-	-	269,364	260,449
Interest on indebtedness	53,912	-	-	53,912	44,140
Depreciation	120,184	-	-	120,184	113,106
Total operating expenses	**1,566,949**	**-**	**-**	**1,566,949**	**1,460,786**
NET OPERATING REVENUES/(EXPENSES):	**(51,504)**	**(3,764)**	**-**	**(55,268)**	**(44,803)**
NONOPERATING ACTIVITIES:					
Investment return in excess of spending distribution for current operations	310,441	393,799	11,635	715,875	217,707
Change in undistributed income from perpetual funds held by others	-	-	95,939	95,939	8,276
Gifts and contributions	2,812	73,250	31,700	107,762	141,396
Net assets released from restrictions	28,305	(31,953)	-	(3,648)	-
Loss on disposal of property and equipment	(3,606)	-	-	(3,606)	(5,958)
Loss on defeasance of debt	-	-	-	-	(942)
Change in fair value of derivative instruments	(49,449)	-	-	(49,449)	115,759
Pension and postretirement plans	(9,200)	-	-	(9,200)	13,448
Other nonoperating items, net	(6,433)	278	(209)	(6,364)	13,620
Total nonoperating activities	**272,870**	**435,374**	**139,065**	**847,309**	**503,306**
Net transfers from affiliates	56,569	-	-	56,569	72,724
CHANGE IN NET ASSETS	**277,935**	**431,610**	**139,065**	**848,610**	**531,227**
BEGINNING NET ASSETS	2,517,384	2,567,165	1,774,980	6,859,529	6,328,302
ENDING NET ASSETS	**$ 2,795,319**	**$ 2,998,775**	**$ 1,914,045**	**$ 7,708,139**	**$ 6,859,529**

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)

Schedule 3

STATEMENTS OF CASH FLOWS - SUPPLEMENTARY INFORMATION

Years Ended August 31, 2014 and 2013

(Dollars in thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 848,610	$ 531,227
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts and contributions for endowment and capital projects	(33,850)	(77,683)
Net realized gain on sale of investments	(408,602)	(267,901)
Loss on disposal of property and equipment	3,606	5,958
Interests in perpetual funds held by others	(95,939)	(8,276)
Loss on defeasance of debt	-	942
Depreciation	120,184	113,106
Accretion/amortization of bond discounts/premiums	(3,592)	4,289
Net unrealized gains on investments	(520,845)	(111,238)
Change in fair value of derivative instruments	49,449	(115,759)
Gifts of securities and other assets	(19,785)	(82,238)
(Increase) decrease in:		
Accounts receivable, net	(15,740)	12,584
Contributions receivable for operations	(45,512)	(7,730)
Prepaid expenses, deferred charges and other assets	(16,711)	32,424
Increase (decrease) in:		
Accounts payable and interest payable	4,029	(6,481)
Accrued liabilities for benefit obligations and professional liabilities	24,431	(12,825)
Deferred tuition and other revenue	19,367	17,428
Net cash (used in) provided by operating activities	**(90,900)**	**27,827**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(6,239)	(4,859)
Repayment of loans from students	4,494	4,914
Proceeds from sales and maturities of investments	15,174,832	6,530,450
Purchases of investments	(14,950,116)	(6,582,455)
Purchases of property, plant and equipment	(172,645)	(167,781)
Increase in deposits held in custody for others	112,366	54,621
Decrease in investments held for affiliate	(185,646)	(6,876)
Net cash used in investing activities	**(22,954)**	**(171,986)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Gifts and contributions for endowment and capital projects	134,687	51,068
Proceeds from bonds and mortgages payable	28,300	398,865
Principal repayments of bonds and mortgages payable	(61,259)	(298,327)
Decrease (increase) in affiliate debt, net	82,528	(21,698)
Required posting of collateral	(600)	-
Increase (decrease) in annuities payable	120	(351)
Increase (decrease) in government advances for federal loan programs	38	(56)
Bond issuance costs	(630)	(1,844)
Net cash provided by financing activities	**183,184**	**127,657**
Net increase (decrease) in cash and cash equivalents	**69,330**	**(16,502)**
Cash and cash equivalents at beginning of year	**364,636**	**381,138**
Cash and cash equivalents at end of year	**$ 433,966**	**$ 364,636**
Supplemental disclosure:		
Cash paid for interest	$ 55,967	$ 48,821
Change in accounts payable attributable to property, plant and equipment purchases	1,551	(7,598)
Income taxes paid, net	242	-
Pledge payments received in form of securities and immediately sold	80,000	-

See accompanying independent auditors' report.