



EMORY UNIVERSITY

Consolidated Financial Statements and
Supplementary Information

August 31, 2017 and 2016

(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, 2017 and 2016, 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 or error.

Auditors' Responsibility

Our responsibility is to express 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 and subsidiaries as of August 31, 2017 and 2016, 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, 2017

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
August 31, 2017 and August 31, 2016
(Dollars in thousands)

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
ASSETS:		
Cash and cash equivalents	\$ 51,113	\$ 492,549
Patient accounts receivable, net	364,376	375,966
Student accounts receivable, net	57,713	47,972
Loans receivable, net	24,921	26,672
Contributions receivable, net	80,407	99,674
Other receivables, net	246,286	239,858
Prepaid expenses, deferred charges and other assets	310,799	348,058
Investments	8,043,880	6,917,239
Interests in perpetual funds held by others	1,244,906	1,170,348
Property and equipment, net	3,102,848	3,009,906
Total assets	<u>\$ 13,527,249</u>	<u>\$ 12,728,242</u>
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	\$ 595,228	\$ 538,509
Deferred tuition and other revenue	431,735	468,813
Interest payable	29,271	28,307
Liability for derivative instruments	188,612	268,735
Bonds and notes payable	1,992,454	1,862,330
Accrued liabilities for benefit obligations and professional liabilities	565,699	595,466
Funds held in trust for others	747,109	665,215
Annuities payable	14,921	15,579
Government advances for federal loan programs	18,721	18,724
Total liabilities	<u>4,583,750</u>	<u>4,461,678</u>
Unrestricted net assets:		
Net assets controlled by Emory	3,960,429	3,537,370
Net assets related to noncontrolling interests	96,633	81,273
Total unrestricted net assets	<u>4,057,062</u>	<u>3,618,643</u>
Temporarily restricted net assets	2,722,596	2,602,814
Permanently restricted net assets	2,163,841	2,045,107
Total net assets	<u>8,943,499</u>	<u>8,266,564</u>
Total liabilities and net assets	<u>\$ 13,527,249</u>	<u>\$ 12,728,242</u>

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended August 31, 2017 (with summarized financial information for the year ended 2016)
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2017	Total August 31, 2016
OPERATING REVENUES AND OTHER SUPPORT:					
Tuition and fees	\$ 675,179	-	-	\$ 675,179	\$ 640,025
Less: Scholarship allowances	(253,897)	-	-	(253,897)	(232,208)
Net tuition and fees	421,282	-	-	421,282	407,817
Endowment spending distribution	179,696	-	-	179,696	172,261
Distribution from perpetual funds	34,873	-	-	34,873	33,199
Other investment income designated for current operations	72,622	-	-	72,622	57,499
Gifts and contributions	44,550	-	-	44,550	51,849
Grants and contracts	470,375	-	-	470,375	400,030
Indirect cost recoveries	131,012	-	-	131,012	122,148
Net patient service revenue	3,174,419	-	-	3,174,419	2,935,464
Medical services	301,404	-	-	301,404	273,896
Sales and services of auxiliary enterprises	74,464	-	-	74,464	72,688
Independent operations	23,097	-	-	23,097	23,440
Other revenue	163,133	-	-	163,133	153,580
Net assets released from restrictions	44,477	(15,093)	-	29,384	31,395
Total operating revenues and other support	5,135,404	(15,093)	-	5,120,311	4,735,266
OPERATING EXPENSES:					
Salaries and fringe benefits	3,055,127	-	-	3,055,127	2,875,003
Student financial aid	13,159	-	-	13,159	14,774
Professional fees and purchased services	503,309	-	-	503,309	463,513
Supplies and pharmaceuticals	757,407	-	-	757,407	712,016
Other operating expenses	341,749	-	-	341,749	285,720
Interest on indebtedness	81,476	-	-	81,476	78,487
Depreciation	247,302	-	-	247,302	237,857
Total operating expenses	4,999,529	-	-	4,999,529	4,667,370
NET OPERATING ACTIVITIES:	135,875	(15,093)	-	120,782	67,896
NONOPERATING ACTIVITIES, NET:					
Investment return in excess of (less than) spending distribution for current operations	179,573	177,417	3,123	360,113	(37,709)
Change in undistributed income from perpetual funds held by others	-	-	74,558	74,558	98,817
Gifts and contributions	5,964	25,465	41,335	72,764	87,210
Loss on disposal of property and equipment	(11,494)	-	-	(11,494)	(3,678)
Loss on defeasance of debt	(8,659)	-	-	(8,659)	-
Change in fair value of derivative instruments	80,123	-	-	80,123	(91,944)
Pension and postretirement benefit plans	23,017	-	-	23,017	(45,712)
Other nonoperating items, net	(7,174)	2,571	(282)	(4,885)	7,819
Net assets released from restrictions	41,194	(70,578)	-	(29,384)	(31,395)
Total nonoperating activities, net	302,544	134,875	118,734	556,153	(16,592)
CHANGE IN NET ASSETS	438,419	119,782	118,734	676,935	51,304
Less change in net assets related to noncontrolling interests	15,360	-	-	15,360	2,929
CHANGE IN NET ASSETS CONTROLLED BY EMORY	\$ 423,059	\$ 119,782	\$ 118,734	\$ 661,575	\$ 48,375

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
Year ended August 31, 2016
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2016
OPERATING REVENUES AND OTHER SUPPORT:				
Tuition and fees	\$ 640,025	-	-	\$ 640,025
Less: Scholarship allowances	(232,208)	-	-	(232,208)
Net tuition and fees	407,817	-	-	407,817
Endowment spending distribution	172,261	-	-	172,261
Distribution from perpetual funds	33,199	-	-	33,199
Other investment income designated for current operations	57,499	-	-	57,499
Gifts and contributions	51,849	-	-	51,849
Grants and contracts	400,030	-	-	400,030
Indirect cost recoveries	122,148	-	-	122,148
Net patient service revenue	2,935,464	-	-	2,935,464
Medical services	273,896	-	-	273,896
Sales and services of auxiliary enterprises	72,688	-	-	72,688
Independent operations	23,440	-	-	23,440
Other revenue	153,580	-	-	153,580
Net assets released from restrictions	39,469	(8,074)	-	31,395
Total operating revenues and other support	4,743,340	(8,074)	-	4,735,266
OPERATING EXPENSES:				
Salaries and fringe benefits	2,875,003	-	-	2,875,003
Student financial aid	14,774	-	-	14,774
Professional fees and purchased services	463,513	-	-	463,513
Supplies and pharmaceuticals	712,016	-	-	712,016
Other operating expenses	285,720	-	-	285,720
Interest on indebtedness	78,487	-	-	78,487
Depreciation	237,857	-	-	237,857
Total operating expenses	4,667,370	-	-	4,667,370
NET OPERATING ACTIVITIES:	75,970	(8,074)	-	67,896
NONOPERATING ACTIVITIES, NET:				
Investment return (less than) in excess of spending distribution for current operations	50,785	(89,420)	926	(37,709)
Change in undistributed income from perpetual funds held by others	-	-	98,817	98,817
Gifts and contributions	2,098	40,862	44,250	87,210
Loss on disposal of property and equipment	(3,678)	-	-	(3,678)
Change in fair value of derivative instruments	(91,944)	-	-	(91,944)
Pension and postretirement benefit plans	(45,712)	-	-	(45,712)
Other nonoperating items, net	7,290	592	(63)	7,819
Net assets released from restrictions	117,127	(148,522)	-	(31,395)
Total nonoperating activities, net	35,966	(196,488)	143,930	(16,592)
CHANGE IN NET ASSETS	111,936	(204,562)	143,930	51,304
Less change in net assets related to noncontrolling interests	2,929	-	-	2,929
CHANGE IN NET ASSETS CONTROLLED BY EMORY	\$ 109,007	\$ (204,562)	\$ 143,930	\$ 48,375

See accompanying notes to consolidated financial statements.

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 676,935	\$ 51,304
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Capital contributions from noncontrolling interests	802	3,587
Contributions for endowment and capital projects	(17,000)	(29,902)
Net realized gains on sale of investments	(351,422)	(101,009)
Net unrealized gains on investments	(228,118)	(20,769)
Loss on disposal of property and equipment	11,494	3,678
Interests in perpetual funds held by others	(74,558)	(98,817)
Loss on defeasance of debt	8,659	-
Depreciation and amortization	247,302	237,857
Provision for uncollectible patients accounts receivable	196,904	183,518
Accretion/amortization of bond discounts/premiums and issuance costs	(2,627)	(1,798)
Actuarial adjustments for retiree pension and benefit plans	(23,017)	45,712
Change in fair value of derivative instruments	(80,123)	91,944
Decrease (increase) in operating assets:		
Accounts and other receivables, net	(201,483)	(191,527)
Contributions receivable for operations, net	20,334	10,600
Prepaid expenses, deferred charges and other assets	(29,243)	(24,326)
Increase (decrease) in operating liabilities:		
Accounts payable, accrued liabilities and interest payable	53,090	48,374
Accrued liabilities for benefit obligations and professional liabilities	(6,750)	34,129
Deferred tuition and other revenue	(37,078)	28,541
Net cash provided by operating activities	<u>164,101</u>	<u>271,096</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements for loans to students	(2,933)	(3,226)
Repayment of loans from students	4,684	4,965
Proceeds from sales and maturities of investments	13,016,971	8,900,249
Purchases of investments	(13,564,072)	(8,853,527)
Purchases of property, plant and equipment	(347,145)	(351,730)
Increase in funds held in trust for others	81,894	19,219
Net cash used in investing activities	<u>(810,601)</u>	<u>(284,050)</u>

(Continued)

EMORY UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended August 31, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received from contributions for endowment and capital projects	15,933	12,352
Proceeds from bonds payable	491,171	-
Principal repayments of bonds payable	(365,776)	(42,249)
Required refund (posting) of collateral for debt-related derivatives	66,502	(67,572)
Decrease in annuities payable	(658)	(1,494)
(Decrease) increase in government advances for federal loan programs	(3)	890
Bond issuance costs	(1,303)	-
Capital distributions to noncontrolling interests	(802)	(3,587)
	<u>205,064</u>	<u>(101,660)</u>
Net cash provided (used in) by financing activities		
	<u>205,064</u>	<u>(101,660)</u>
Net decrease in cash and cash equivalents	(441,436)	(114,614)
Cash and cash equivalents at beginning of year	492,549	607,163
	<u>492,549</u>	<u>607,163</u>
Cash and cash equivalents at end of year	\$ 51,113	\$ 492,549
	<u>\$ 51,113</u>	<u>\$ 492,549</u>
 Supplemental disclosure:		
Cash paid for interest	\$ 83,455	\$ 81,799
Change in accrued liabilities attributable to property, plant and equipment purchases	10,477	16,299
Income taxes (refunded) paid, net	(235)	1,760
Pledge payments received in form of securities and immediately sold	34,452	33,756

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

August 31, 2017 and 2016

(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 7,900 undergraduate students and 7,300 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 (Emory Healthcare) consists of Emory Healthcare, Inc. (EHC) and its controlled operating companies, including 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 (SJTRI) d/b/a T3 Laboratories (T3) (sold in 2016), The Emory Clinic, Inc. (TEC), 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 consolidated financial statements include the University and all other entities in which Emory has significant financial interest and control. All significant inter-entity accounts and transactions have been eliminated in consolidation.

EUH, EUHM, EJCH and ESJH are sometimes referred to herein, collectively, as “the Hospitals.”

(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 (see note 7). 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

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August 31, 2017 and 2016

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.

Revenues earned, expenses incurred, and returns made available for the University's operating purposes of teaching, research, patient care, and other programs and services are components of the net operating revenues/expenses presented in the consolidated statement of activities. The University considers the following items to be nonoperating: gifts and contributions for capital and long-term investment and the related net assets released from restriction, investment return in excess of or less than spending distribution for current operations, actuarial gain or loss on annuity obligations, gain or loss on disposal of property and equipment, loss of defeasance of debt, change in fair value of derivative instruments, pension and postretirement related changes other than net periodic cost, gain or loss from affiliates (equity method), and other, net.

(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 credit-adjusted rates. 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.

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(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 U.S. and non-U.S. equities and fixed income instruments, both publicly traded and privately held. 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 income, the fair value of fixed income 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 the majority 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 or fund administrator 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 as of the University's fiscal year end date, the practical expedient will not be utilized and other valuation methodologies will be used. Typically, real estate partnerships and similar funds are valued based on appraisals of underlying 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, 2017 and 2016.

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.

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

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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, if there are no donor restrictions, or in temporarily restricted net assets, until amounts have been appropriated and the donor-imposed time restrictions have elapsed. Changes in the fair value of these instruments are recognized as nonoperating investment gains or losses in the consolidated statements of activities.

(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.

Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 also includes certain positions in which the University is a unit of account holder within a fund or account that holds underlying assets that are traded in active exchange markets with readily available pricing.

Level 3 – Valuations for assets and liabilities that are unobservable and 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.

The majority of the University's investments are held through limited partnerships and commingled funds, for which fair value is estimated using the NAVs reported by the investment managers as a practical expedient. Such investments have not been categorized within the fair value hierarchy.

(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

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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, 2017 and 2016 at \$1,244.9 million and \$1,170.3 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 – 3 to 10 years; leasehold improvements – term of the lease; and library books – 10 years. Certain assets totaling \$99.0 million and \$93.1 million, such as art, museum assets and rare books, are included in property and equipment on August 31, 2017 and August 31, 2016, respectively, but are not depreciated.

(j) *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.

(k) *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

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not recognized until they become unconditional; that is, when the conditions on which they depend are met.

(l) *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.

(m) *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. Emory Healthcare's estimates in this area may differ from actual experience, and those differences may be material.

(n) *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.

(o) *Income Taxes*

The University is recognized as a tax-exempt organization as defined in Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and is generally exempt from the federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. Unrelated business income of the University is reported on Form 990-T. As of August 31, 2017 and 2016, there were no material uncertain tax positions.

(p) *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. Such instruments are reflected at fair value. Changes in the fair value of these instruments are recognized as nonoperating investment gains or losses in the consolidated statements of activities.

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The University will from time to time utilize interest rate swap agreements to hedge interest rate market exposure of variable rate debt. The University uses the accrual method to account for the interest rate swap agreements 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 swap agreements are recognized as nonoperating changes in net assets in the consolidated statements of activities.

(q) 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.

(r) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity also should disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard is effective for the University for fiscal years beginning after December 15, 2017 (as amended in August 2015 by ASU No. 2015-14, *Deferral of Effective Date*). The University has not yet completed its assessment of the impact of the new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2018. The University has not yet determined the impact of the new standard on its current policies for lessee accounting.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities* (ASU 2016-14). ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The University is in the process of assessing the impact of the new guidance on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-02, *Not-for-Profit Entities - Consolidation* (Subtopic 958-810) which provides further guidance around when a not-for-profit entity that is a general partner

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or a limited partner should consolidate a for-profit partnership or similar legal entity once the amendments in Accounting Standards Update 2015-02, *Consolidation* (Topic 810): Amendments to the Consolidation Analysis, become effective. It also clarifies that the amendments in the new guidance on classifying and measuring financial instruments in ASU 2016-01 were not intended to affect the ability of not-for-profit entities with investments in certain for-profit entities to elect to measure those investments at fair value. The new standard is effective for the University for fiscal years beginning after December 15, 2017. The University is in the process of assessing the impact of the new guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires companies to present the service cost component of net benefit cost in the income statement line items where they report compensation cost, and all other components of net benefit cost in the income statement separately from the service cost component and outside of operating income, if this subtotal is presented. Additionally, the service cost component will be the only component that can be capitalized. The new standard is effective for fiscal years beginning after December 15, 2018. It also requires retrospective application for the amendments related to the presentation of the service cost component and other components of net benefit cost, and prospective application for the amendments related to the capitalization requirements for the service cost components of net benefit cost. The University is in the process of assessing the impact of the new guidance on its consolidated financial statements.

(s) ***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.

(t) ***Conflict of Interest Policies***

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

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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.

(3) Contributions Receivable

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

	<u>2017</u>	<u>2016</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 35,953	58,900
One year to five years	52,171	42,473
Over five years	<u>3,671</u>	<u>9,610</u>
Gross contributions receivable	91,795	110,983
Less:		
Allowance for uncollectible amounts	(2,516)	(3,101)
Discount to present value	<u>(8,872)</u>	<u>(8,208)</u>
Contributions receivable, net	<u>\$ 80,407</u>	<u>99,674</u>

At August 31, 2017 and 2016, the five largest outstanding donor pledge balances represented 42.0% and 50.0%, respectively, of Emory's gross contributions receivable. Contributions receivable are discounted at rates ranging from 1.79% to 9.25%.

As of August 31, 2017, the University had received bequest intentions and conditional promises of approximately \$22.0 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

Emory Healthcare grants credit to patients, substantially all of whom reside in the service areas. Emory Healthcare 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 insurance programs, plans, or policies (e.g., Medicare, Medicaid, Managed Care, capitated, and other

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preferred provider arrangements and commercial insurance policies). The composition of net receivables from patients and third-party payors follows:

	2017	2016
Managed care and other third-party payors	54%	53%
Medicare	38	37
Patients	4	5
Medicaid	4	5
	100%	100%

(5) Net Patient Service Revenue

Emory Healthcare has agreements with governmental and other third-party payors that provide for reimbursement to Emory Healthcare at amounts different from established rates. Contractual adjustments under third-party reimbursement programs represent the difference between Emory Healthcare'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. Revenue from the Medicare program accounted for approximately 41% of Emory Healthcare's net patient service revenue for both years ended August 31, 2017 and 2016.
- 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. Emory Healthcare's cost reports have been audited and substantially settled for all fiscal years through August 31, 2013. Revenue from the Medicaid program accounted for approximately 4% of Emory Healthcare's net patient service revenue for both years ended August 31, 2017 and 2016.

Emory Healthcare 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):

	2017	2016
Gross patient service revenue	\$ 9,106,824	8,343,096
Less provisions for contractual and other adjustments	(5,735,501)	(5,224,114)
Less provisions for uncollectible accounts	(196,904)	(183,518)
Net patient service revenue	\$ 3,174,419	2,935,464

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Emory Healthcare 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 financial assistance in accordance with Emory Healthcare's established charity/indigent care policy, Emory Healthcare recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of Emory Healthcare's uninsured patients are unable or unwilling to pay for the services provided. Thus, Emory Healthcare 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, 2017 and 2016 from these major payor sources is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Third-party payors	\$ 3,173,150	2,988,727
Self-pay	198,173	130,255
Total	<u>\$ 3,371,323</u>	<u>3,118,982</u>

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(6) Investments

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

	<u>2017</u>	<u>2016</u>
Short-term investments and cash equivalents ^(a)	\$ 427,137	341,498
Investments in securities:		
Global equity securities		
U.S. equity securities	437,527	361,078
Non-U.S. equity securities	141,152	173,445
Fixed income securities		
U.S. government securities	897,719	491,649
Domestic bonds and long-term notes ^(b)	431,770	122,384
International bonds and long-term notes ^(c)	174,647	21,485
Investments in private securities ^(d)	16,287	14,765
Commingled funds - equity ^(e)	762,567	656,602
Commingled funds - fixed income ^(e)	442,598	673,550
Investments in funds:		
Hedged strategies ^(f)	2,251,918	2,177,099
Private market investments ^(g)	1,261,446	1,083,857
Natural resources ^(h)	518,985	457,842
Real estate partnerships ⁽ⁱ⁾	281,497	326,869
Derivatives ^(j)	(9,572)	192
Marketable real estate investments ^(k)	1,881	1,928
Oil and gas properties	680	680
Miscellaneous investments ^(l)	—	7
	<u>8,038,239</u>	<u>6,904,930</u>
Total investments at fair value		
Joint ventures (equity method)	<u>5,641</u>	<u>12,309</u>
	<u>\$ 8,043,880</u>	<u>6,917,239</u>
Total investments		

(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, 2017 and 2016, \$24.2 million and \$25.3 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.

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- (d) Includes investments in private securities not held through a traditional fund or commingled vehicle.
- (e) 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).
- (f) 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. Certain investments in hedged strategies may be subject to restrictions that limit the University's ability to withdraw capital until i) a certain "lock-up period" has expired or ii) until certain underlying investments designated as "illiquid" in "side pockets" are sold. In addition, this class includes investments that may be subject to restrictions that limit the amount that the University is able to withdraw as of a given redemption date.
- (g) 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. As of August 31, 2017, it is estimated that underlying assets of the funds will be liquidated over the next 12 years.
- (h) Includes investments in timber, mining, energy, farmland, commodities and related services businesses held through liquid and illiquid fund structures. The nature of the investments in this category is largely such that distributions are received through liquidation of the underlying assets of the funds. As of August 31, 2017, it is estimated that the underlying assets of the funds will be liquidated over the next 8 years.
- (i) 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. As of August 31, 2017, it is estimated that the underlying assets of the funds will be liquidated over the next 9 years.
- (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.
- (k) Includes miscellaneous investments in real estate such as land gifts.
- (l) Includes other investments in mutual funds not included in the endowment and other similar funds.

At August 31, 2017 and 2016, cash equivalents of \$427.1 million and \$341.5 million, respectively, are included in investments and restricted for investment activity within the investment portfolio. The Investment Policy for the long-term asset portfolio contains an allocation to cash equivalents with a range of 0.0% to 6.0%.

The University's investment policy allows fund managers to use foreign exchange contracts, currency hedges, and other derivative transactions to reduce volatility and manage market risk in investment portfolios. 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.

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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, 2017, the related unfunded commitments of the University's alternative investments valued using the practical expedient 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	\$ 40,000	30 days - over 2 years	3 - 306 days
Private market investments	1,027,760	not eligible	not eligible
Real estate partnerships	324,869	not eligible	not eligible
Natural resources	118,010	30 days or not eligible	30-90 days or not eligible
	<u>\$ 1,510,639</u>		

Unfunded commitments are expected to be called by funds within five years of fund inception.

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Investment return as reflected in the accompanying consolidated statements of activities for August 31 is as follows (in thousands):

	<u>2017</u>	<u>2016</u>
Investment income, net	\$ 32,891	70,273
Realized and unrealized gains, net	<u>579,540</u>	<u>121,778</u>
Total investment return	<u>612,431</u>	<u>192,051</u>
Operating		
Endowment spending distribution	179,696	172,261
Other investment income designated for current operations	<u>72,622</u>	<u>57,499</u>
Total operating return	252,318	229,760
Nonoperating		
Investment return in excess of (less than) spending distribution for current operations	<u>360,113</u>	<u>(37,709)</u>
Total investment return	<u>\$ 612,431</u>	<u>192,051</u>

The University employs an internal core group of investment professionals dedicated to the management of Emory's investments and external investment managers.

(7) **Endowment Net Assets**

The University's Endowment (Endowment) consists of over 1,900 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

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prescribed by UPMIFA. In accordance with UPMIFA, 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. As of August 31, 2017, approximately 62.4% 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):

	2017			2016		
	Donor- Restricted	Board- Designated	Total	Donor- Restricted	Board- Designated	Total
Unrestricted	\$ (7,779)	1,498,575	1,490,796	(19,893)	1,398,999	1,379,106
Temporarily restricted	2,642,490	—	2,642,490	2,467,363	—	2,467,363
Permanently restricted	881,625	—	881,625	837,814	—	837,814
Total endowment funds	\$ 3,516,336	1,498,575	5,014,911	3,285,284	1,398,999	4,684,283

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance as of August 31, 2015	\$ 1,404,065	2,557,777	806,288	4,768,130
Investment return:				
Investment income	10,122	29,302	—	39,424
Realized and unrealized gain, net	23,200	24,351	—	47,551
Total investment return	<u>33,322</u>	<u>53,653</u>	<u>—</u>	<u>86,975</u>
Cash contributions	369	2	29,701	30,072
Transfers of institutional funds for quasi endowments	28,423	—	—	28,423
Withdrawal of board-designated funds for strategic initiatives	(3,666)	—	—	(3,666)
Appropriations for expenditure	(74,791)	(130,002)	—	(204,793)
Appropriations for capital purposes	(7,096)	(13,762)	—	(20,858)
Other	<u>(1,520)</u>	<u>(305)</u>	<u>1,825</u>	<u>—</u>
Balance as of August 31, 2016	\$ 1,379,106	2,467,363	837,814	4,684,283
Investment return:				
Investment income	2,807	16,021	—	18,828
Realized and unrealized gain, net	134,226	350,647	—	484,873
Total investment return	<u>137,033</u>	<u>366,668</u>	<u>—</u>	<u>503,701</u>
Cash contributions	1,100	—	41,206	42,306
Additions of funds for endowments	—	—	2,647	2,647
Transfers of institutional funds for quasi endowments	23,747	(258)	—	23,489
Withdrawal of board-designated funds for strategic initiatives	(5,555)	—	—	(5,555)
Appropriations for expenditure	(51,147)	(162,998)	—	(214,145)
Appropriations for capital purposes	(6,421)	(15,394)	—	(21,815)
Other	<u>12,933</u>	<u>(12,891)</u>	<u>(42)</u>	<u>—</u>
Balance as of August 31, 2017	\$ <u>1,490,796</u>	<u>2,642,490</u>	<u>881,625</u>	<u>5,014,911</u>

(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 \$7.8 million and \$19.9 million as of August 31, 2017 and 2016, 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.

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(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 within risk tolerances of the University to provide an expected total return in excess of spending and inflation over the long-term.

(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 2017 and 2016 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, swaps 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

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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, 2017 (in thousands):

	Gross Notional Amount ⁽¹⁾	Derivative Assets ⁽²⁾	Derivative Liabilities ⁽²⁾	Gains (Losses) ⁽³⁾
Interest-rate contracts	\$ 1,103,290	1,087	(1,017)	6,492
Foreign exchange contracts	511,563	814	(2,260)	(2,637)
Equity contracts	883,547	5,464	(16,513)	31,649
Credit contracts	142,905	2,947	(94)	1,763
Total	\$ 2,641,305	10,312	(19,884)	37,267

Emory's net investment related derivative exposures, categorized by primary underlying risk, as of August 31, 2016 (in thousands):

	Gross Notional Amount ⁽¹⁾	Derivative Assets ⁽²⁾	Derivative Liabilities ⁽²⁾	Gains (Losses) ⁽³⁾
Interest-rate contracts	\$ 45,753	88	(112)	3,734
Foreign exchange contracts	26,920	64	(254)	(2,301)
Equity contracts	119,444	559	(106)	(5,664)
Credit contracts	890	—	(47)	39
Total	\$ 193,007	711	(519)	(4,192)

- (1) The notional amount is representative of the absolute value of the open contracts on August 31, 2017 and 2016.
- (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 (less than) spending distribution for current operations" in "nonoperating activities".

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Emory's investment related derivative assets and liabilities at August 31, 2017, by counterparty, are as follows (in thousands):

	<u>Assets</u>	<u>Liabilities</u>	<u>Cash Collateral Held (Pledged)</u>
Counterparty A	\$ 9,403	(17,590)	(71,536)
Counterparty B	310	(138)	246
Counterparty C	221	(339)	(150)
Counterparty D	146	(1,012)	(856)
Counterparty E	72	(69)	—
All other	160	(736)	36
Total	<u>\$ 10,312</u>	<u>(19,884)</u>	<u>(72,260)</u>

Emory's investment related derivative assets and liabilities at August 31, 2016, by counterparty, are as follows (in thousands):

	<u>Assets</u>	<u>Liabilities</u>	<u>Cash Collateral Held (Pledged)</u>
Counterparty A	\$ 565	(116)	(25,103)
Counterparty B	50	(237)	—
Counterparty C	50	—	—
Counterparty D	36	(121)	(82)
Counterparty E	7	(6)	—
All other	3	(39)	(120)
Total	<u>\$ 711</u>	<u>(519)</u>	<u>(25,305)</u>

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, 2017, the University's long-term debt ratings exceeded these benchmarks.

At August 31, 2017, 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

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to the counterparties varying from 3.328% 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 \$17.4 million and \$19.6 million during 2017 and 2016, 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 \$188.6 million and \$268.7 million on August 31, 2017 and 2016, respectively, for which Emory University had a requirement to post collateral in the amount of \$7.8 million and \$74.3 million for 2017 and 2016, respectively. 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		2017		2016	
Inception	Maturity	Liability Fair Value	Unrealized Gain (Loss)	Liability Fair Value	Unrealized Gain (Loss)
August 4, 2005	September 1, 2035	\$ (30,551)	13,442	(43,993)	(15,305)
August 25, 2005	September 1, 2035	(10,177)	4,593	(14,770)	(5,194)
April 19, 2007	November 15, 2028	(1,569)	505	(2,074)	(279)
December 1, 2007	September 1, 2035	(22,462)	9,084	(31,546)	(9,930)
May 1, 2008	September 1, 2038	(25,976)	10,624	(36,600)	(11,854)
December 1, 2008	December 1, 2042	(33,031)	15,983	(49,014)	(18,919)
December 1, 2009	September 1, 2035	(22,841)	9,133	(31,974)	(9,961)
June 23, 2015	September 1, 2035	(31,492)	12,502	(43,994)	(15,305)
June 23, 2015	September 1, 2035	(10,513)	4,257	(14,770)	(5,197)
	Total	\$ <u>(188,612)</u>	<u>80,123</u>	<u>(268,735)</u>	<u>(91,944)</u>

Emory is exposed to financial loss in the event of nonperformance by a counterparty to any of the financial instruments described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on 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.

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Emory's debt-related derivative liabilities at August 31, 2017, by counterparty, are as follows (in thousands):

	Liabilities	Cash Collateral Held (Pledged)
Counterparty A	\$ (22,462)	—
Counterparty B	(33,031)	—
Counterparty C	(40,728)	—
Counterparty D	(48,817)	(6,500)
Counterparty E	(42,005)	(1,270)
All other	(1,569)	—
Total	\$ (188,612)	(7,770)

Emory's debt-related derivative liabilities at August 31, 2016, by counterparty, are as follows (in thousands):

	Liabilities	Cash Collateral Held (Pledged)
Counterparty A	\$ (31,546)	—
Counterparty B	(49,014)	(7,500)
Counterparty C	(58,763)	(17,392)
Counterparty D	(68,574)	(28,800)
Counterparty E	(58,764)	(20,580)
All other	(2,074)	—
Total	\$ (268,735)	(74,272)

(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 funds held in trust 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.

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The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2017 (in thousands):

	Total fair value	Investments measured at NAV ⁽³⁾	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Short-term investments and cash equivalents	\$ 427,137	—	389,429	37,708	—
Investments in securities:					
Global equity securities					
U.S. equity securities	437,527	—	437,362	137	28
Non-U.S. equity securities	141,152	—	140,831	321	—
Fixed income securities:					
U.S. government securities	897,719	—	163	897,556	—
Domestic bonds and long-term notes	431,770	—	1,628	429,020	1,122
International bonds and long-term notes	174,647	—	37	174,610	—
Investments in private securities	16,287	—	—	—	16,287
Commingled funds - equity	762,567	366,617	133,757	262,193	—
Commingled funds - fixed income	442,598	—	293,450	149,148	—
Investments in funds:					
Hedged strategies	2,251,918	2,251,918	—	—	—
Private market investments	1,261,446	1,260,729	—	—	717
Natural resources	518,985	518,985	—	—	—
Real estate partnerships	281,497	281,497	—	—	—
Derivatives	(9,572)	—	4,806	(14,378)	—
Marketable real estate investments	1,881	—	207	1,674	—
Oil and gas properties	680	—	—	—	680
Total investments ⁽¹⁾	8,038,239	4,679,746	1,401,670	1,937,989	18,834
Interest in perpetual funds held by others ⁽²⁾	1,244,906	—	—	—	1,244,906
Total assets at fair value	\$ 9,283,145	4,679,746	1,401,670	1,937,989	1,263,740
Financial liabilities:					
Derivative instruments - interest rate swaps	(188,612)	—	—	(188,612)	—
Funds held in trust for others	(747,109)	—	—	(747,109)	—
Total liabilities at fair value	\$ (935,721)	—	—	(935,721)	—

(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.

(3) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2016 (in thousands):

	Total fair value	Investments measured at NAV ⁽³⁾	Fair value hierarchy		
			Level 1	Level 2	Level 3
Financial assets:					
Short-term investments and cash equivalents	\$ 341,498	—	340,194	1,304	—
Investments in securities:					
Global equity securities					
U.S. equity securities	361,078	—	360,766	309	3
Non-U.S. equity securities	173,445	—	167,103	5,835	507
Fixed income securities:					
U.S. government securities	491,649	—	163	491,486	—
Domestic bonds and long-term notes	122,384	—	1,626	119,646	1,112
International bonds and long-term notes	21,485	—	39	21,446	—
Investments in private securities	14,765	—	—	—	14,765
Commingled funds - equity	656,602	319,668	78,092	258,842	—
Commingled funds - fixed income	673,550	—	452,715	220,835	—
Investments in funds:					
Hedged strategies	2,177,099	2,177,099	—	—	—
Private market investments	1,083,857	1,083,199	—	—	658
Natural resources	457,842	457,842	—	—	—
Real estate partnerships	326,869	326,869	—	—	—
Derivatives	192	—	266	(74)	—
Marketable real estate investments	1,928	—	254	1,674	—
Oil and gas properties	680	—	—	—	680
Miscellaneous investments	7	—	7	—	—
Total investments ⁽¹⁾	<u>6,904,930</u>	<u>4,364,677</u>	<u>1,401,225</u>	<u>1,121,303</u>	<u>17,725</u>
Interest in perpetual funds held by others ⁽²⁾	<u>1,170,348</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,170,348</u>
Total assets at fair value	<u>\$ 8,075,278</u>	<u>4,364,677</u>	<u>1,401,225</u>	<u>1,121,303</u>	<u>1,188,073</u>
Financial liabilities:					
Derivative instruments - interest rate swaps	(268,735)	—	—	(268,735)	—
Funds held in trust for others	<u>(665,215)</u>	<u>—</u>	<u>—</u>	<u>(665,215)</u>	<u>—</u>
Total liabilities at fair value	<u>\$ (933,950)</u>	<u>—</u>	<u>—</u>	<u>(933,950)</u>	<u>—</u>

- (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.
- (3) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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,

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U.S. government fixed income instruments and non-U.S. government fixed income instruments. Level 1 investments may also include commingled funds such as listed mutual funds, futures contracts, 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 structures with quoted market prices.

Investments that do not trade in active markets and for which values are instead derived from significant unobservable inputs are classified within Level 3. However, as of August 31, 2017 and August 31, 2016, approximately \$4.7 billion and \$4.4 billion, respectively, of the University's investments are held through limited partnerships and commingled vehicles for which fair value is estimated using NAVs reported by the fund managers as a practical expedient, and thus are not categorized in the fair value hierarchy.

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, 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 managers 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.

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

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these investments in the secondary market, a buyer may require a discount to the reported net asset value, and that discount could be significant.

The categorization or omission 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, 2017 and 2016 (in thousands):

	Balance as of August 31, 2016	Net gains (losses)	Purchases	Sales	Transfer in (out) of Level 3	Balance as of August 31, 2017
Investments in U.S. equity securities	\$ 3	(46)	72	(1)	—	28
Non-U.S. equity securities	507	113	—	(620)	—	—
Domestic bonds & long-term notes	1,112	17	—	(7)	—	1,122
Investments in private securities	14,765	18,574	—	(17,052)	—	16,287
Investment in funds:						
Private market investments	658	15	31	(92)	105	717
Oil and gas properties	680	—	—	—	—	680
Total investments	17,725	18,673	103	(17,772)	105	18,834
Interest in perpetual funds held by others	1,170,348	74,558	—	—	—	1,244,906
Total assets	\$ 1,188,073	93,231	103	(17,772)	105	1,263,740

	Balance as of August 31, 2015	Net gains (losses)	Purchases	Sales	Transfer in (out) of Level 3	Balance as of August 31, 2016
Investments in U.S. equity securities	\$ 3	—	—	—	—	3
Non-U.S. equity securities	—	(24)	531	—	—	507
Domestic bonds & long-term notes	400	(6)	—	(8)	726	1,112
International bonds & long terms notes	785	(287)	74	(572)	—	—
Investments in private securities	14,257	—	508	—	—	14,765
Investment in funds:						
Private market investments	679	(61)	40	—	—	658
Oil and gas properties	2,255	(1,575)	—	—	—	680
Total investments	18,379	(1,953)	1,153	(580)	726	17,725
Interest in perpetual funds held by others	1,071,531	98,817	—	—	—	1,170,348
Total assets	\$ 1,089,910	96,864	1,153	(580)	726	1,188,073

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(10) Property and Equipment

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

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 201,696	201,898
Buildings and improvements	3,376,910	3,164,393
Equipment	2,308,381	2,171,703
Library and museum assets	414,132	392,350
Construction in progress	214,071	265,145
	<u>6,515,190</u>	<u>6,195,489</u>
Less accumulated depreciation	<u>(3,412,342)</u>	<u>(3,185,583)</u>
	<u>\$ 3,102,848</u>	<u>3,009,906</u>

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 year 2017 and 2016.

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, 2017 and 2016 is \$63.0 million and \$59.9 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position.

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(11) Long-Term Debt

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

	<u>Average interest rate</u>	<u>Final maturity</u>	<u>Outstanding principal</u>	
			<u>2017</u>	<u>2016</u>
Tax-exempt fixed-rate revenue bonds:				
2016 Series A	4.62%	October 1, 2046	\$ 130,030	—
2016 Series B	4.17	October 1, 2043	221,710	—
2013 Series A	4.95	October 1, 2043	191,415	195,735
2011 Series A	4.95	September 1, 2041	121,500	213,650
2009 Series B ⁽¹⁾	4.79	September 1, 2035	200,530	205,290
2009 Series C	4.93	September 1, 2039	95,060	96,505
2008 Series C ⁽²⁾	4.96	September 1, 2038	—	122,460
2005 Series A ⁽²⁾	4.15	September 1, 2025	—	33,835
Total tax-exempt fixed-rate revenue bonds			<u>960,245</u>	<u>867,475</u>
Tax-exempt variable-rate revenue bonds:				
2013 Series B ⁽³⁾	1.01	October 1, 2039	135,100	135,100
2013 Series C ⁽³⁾	1.38	October 1, 2039	57,865	57,865
2007 Series A	1.47	November 15, 2028	9,770	9,800
2005 Series B	0.71	September 1, 2035	250,000	250,000
2005 Series C	0.71	September 1, 2036	124,150	124,150
Total tax-exempt variable-rate revenue bonds			<u>576,885</u>	<u>576,915</u>
Taxable fixed-rate revenue bonds:				
2009 Series A	5.63	September 1, 2019	250,000	250,000
1994 Series C	8.00	October 1, 2024	5,080	5,515
Series 1991	8.85	April 1, 2022	243	306
Total taxable fixed-rate revenue bonds			<u>255,323</u>	<u>255,821</u>
Taxable variable-rate revenue bonds:				
1999 Series B	0.87	November 1, 2029	9,085	9,535
1995 Series B	0.87	November 1, 2025	2,115	2,280
1994 Series B	0.79	October 1, 2024	7,970	8,690
Total taxable variable-rate revenue bonds			<u>19,170</u>	<u>20,505</u>
Commercial paper:				
2010 Program 1 - Tax-exempt	0.81	August 1, 2050	2,834	2,834
2008 Program 1 - Taxable	0.84	April 1, 2047	108,394	112,278
Total commercial paper			<u>111,228</u>	<u>115,112</u>
Other long-term debt ⁽⁴⁾	Various		379	630
Unamortized bond premiums			80,642	36,310
Unamortized bond discounts			(2,325)	(2,647)
Bond issuance costs			(9,093)	(7,791)
Total bonds and notes payable			<u>\$ 1,992,454</u>	<u>1,862,330</u>

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- (1) 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%.
- (2) Series 2008C and 2005A bonds were refunded with proceeds from the University's issuance of 2016B Series bonds.
- (3) Series 2013B and 2013C bonds are floating rate notes and interest rates are based on a spread to one month LIBOR and SIFMA, respectively.
- (4) Included in other long-term debt are the St. Joseph's capital leases.

The University incurred interest expense of \$81.5 million and \$78.5 million in 2017 and 2016, respectively, net of capitalized interest of \$0.8 million and \$0.7 million in 2017 and 2016. During 2017, the average interest rate on University tax-exempt and taxable variable rate demand bonds (VRDB) was 0.71% and 0.87%, respectively. Related indices for this period were 0.74% for tax-exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.87% for taxable debt (London Interbank Offered Rate – LIBOR).

During 2017, the University refunded its 2008C and 2005A Series Bonds totaling \$147.2 million with proceeds from the University's issuance of 2016B Series Bonds. The University incurred an accounting loss of \$8.7 million on the refunding of the extinguishment of the 2008C and 2005A Series Bonds which is included in the nonoperating activities in the accompanying 2017 consolidated statement of activities.

At August 31, 2017 the aggregate annual maturities of bonds and notes payable for the next five years and thereafter are as follows (in thousands):

Payable in fiscal year:		
2018	\$	22,247
2019		21,873
2020		302,418
2021		18,614
2022		13,461
Thereafter		<u>1,544,617</u>
		1,923,230
Unamortized net premium		78,317
Unamortized net bond issuance costs		<u>(9,093)</u>
	\$	<u><u>1,992,454</u></u>

In 2010, the University established a \$400.0 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, 2017 and 2016, the University had outstanding balances of \$2.8 million under this program.

In 2008, the University established a \$100.0 million taxable Commercial Paper program for general financial needs. In 2014, the University increased the program to \$150.0 million. As of August 31, 2017 and 2016, the University had an outstanding balance of \$108.4 million and \$112.3 million, respectively, under this program.

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The University has a standby credit facility to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. Currently, it has one diversified facility totaling \$150.0 million that is committed for this sole purpose and cannot be used for operating needs of the University. There were no draws against this line of credit in 2017 and 2016.

The University also has a \$75.0 million line of credit at August 31, 2017. There was no balance outstanding as of August 31, 2017. There were no draws on either line of credit in 2017 or 2016.

The University has two letters of credit with a commercial bank totaling \$1.7 million. There were no draws against these letters of credit as of August 31, 2017 and 2016.

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 issuance costs, and various other administrative requirements. At August 31, 2017 and 2016, 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):

	2017	2016
Appreciation on endowments restricted until appropriated	\$ 2,517,580	2,342,332
Term endowments	124,910	125,031
Contributions receivable, time and purpose restricted	48,447	67,983
Restricted for capital projects and other donor purposes	24,518	60,230
Annuity and life income agreements	7,141	7,238
	\$ 2,722,596	2,602,814

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

	2017	2016
Donor-restricted endowments	\$ 881,625	837,814
Interests in perpetual funds held by others	1,244,906	1,170,348
Contributions receivable, restricted for endowment	31,961	31,691
Annuity and life income agreements	2,081	2,019
Split-interest trusts	3,268	3,235
	\$ 2,163,841	2,045,107

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.

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(13) 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 three years of service. Retirement expense totaled \$131.6 million and \$129.8 million during 2017 and 2016, 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, 2017 and 2016, respectively, the University held other assets of \$115.7 million and \$98.9 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 \$106.0 million and \$90.0 million are classified as Level 1 as of August 31, 2017 and 2016, respectively, \$3.0 million and \$2.9 million are classified as Level 2 as of August 31, 2017 and 2016, respectively, and \$6.7 million and \$6.3 million are classified as Level 3 as of August 31, 2017 and 2016. Associated liabilities for the obligations of \$115.7 million and \$98.9 million as of August 31, 2017 and 2016, respectively, are included in accrued liabilities for benefit obligations and professional liabilities.

(14) Pension Plan

Emory Healthcare sponsors a defined benefit pension plan (the Plan). The Plan was curtailed, 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 year 2015, subject to certain terms and conditions.

At the time of the formation of the JOC and assumption of control over the JOC by Emory Healthcare, Emory Healthcare 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*,

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Liabilities, and Any Noncontrolling Interest. The SJHS Pension Plan is accounted for by Emory Healthcare 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):

	2017		2016	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Projected benefit obligation, beginning of year	\$ 324,577	160,393	286,388	140,067
Interest cost	10,605	6,042	13,221	6,358
Actuarial (gain) loss	(1,131)	(6,498)	31,502	18,401
Benefits paid	(7,176)	(5,247)	(6,534)	(4,433)
Projected benefit obligation, end of year	<u>\$ 326,875</u>	<u>154,690</u>	<u>324,577</u>	<u>160,393</u>

Given the fiscal year 2012 curtailment of the plans, the accumulated benefit obligations at August 31, 2017 and 2016 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):

	2017		2016	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Fair value of plan assets, beginning of year	\$ 213,181	99,096	192,506	88,931
Actual return on plan assets	19,666	10,197	21,514	8,908
Employer contributions	9,447	6,270	5,695	5,690
Benefits paid	(7,176)	(5,247)	(6,534)	(4,433)
Fair value of plan assets, end of year	<u>\$ 235,118</u>	<u>110,316</u>	<u>213,181</u>	<u>99,096</u>
Funded status - accrued pension cost recognized in the consolidated statements of financial position	<u>\$ (91,757)</u>	<u>(44,374)</u>	<u>(111,396)</u>	<u>61,297</u>

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

	2017		2016	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Interest cost	\$ 10,605	6,042	13,221	6,358
Expected return on plan assets	(17,156)	(6,971)	(15,657)	(6,254)
Amortization of prior service cost	3,061	(438)	2,503	(438)
Recognized actuarial loss	2,576	2,196	6,270	1,756
Net periodic pension cost	<u>\$ (914)</u>	<u>829</u>	<u>6,337</u>	<u>1,422</u>

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The amounts accumulated in unrestricted net assets for net unrecognized actuarial loss totaled \$92.5 million and \$101.8 million as of August 31, 2017 and 2016, respectively, for Emory Healthcare and \$56.2 million and \$67.7 million as of August 31, 2017 and 2016, respectively, for SJHS Pension Plan.

Emory Healthcare's net loss of \$2.3 million and SJHS Pension Plan's net loss of \$1.4 million are expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal year 2018.

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2017 and 2016 follow:

	2017		2016	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Discount rate	4.07%	4.07%	3.83%	3.83%
Expected long-term rate of return on plan assets	8.00	7.00	8.00	7.00

Weighted average assumptions used to determine net periodic pension cost for 2017 and 2016 follow:

	2017		2016	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Discount rate	3.83%	3.83%	4.67%	4.62%
Expected return on plan assets	8.00	7.00	8.00	7.00

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.

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

		2017				
		Total fair value	Fair value hierarchy		Target allocation	Total asset allocation
			Level 1	Level 2		
Investments:						
Short-term investments and cash equivalents	\$	354	(332)	686	—%	—%
Commingled funds - equity		163,270	—	163,270	70	70
Commingled funds - fixed income		71,494	—	71,494	30	30
Total investments	\$	<u>235,118</u>	<u>(332)</u>	<u>235,450</u>	<u>100%</u>	<u>100%</u>
		2016				
		Total fair value	Fair value hierarchy		Target allocation	Total asset allocation
			Level 1	Level 2		
Investments:						
Short-term investments and cash equivalents	\$	384	(267)	651	—%	—%
Commingled funds - equity		148,103	—	148,103	70	70
Commingled funds - fixed income		64,694	—	64,694	30	30
Total investments	\$	<u>213,181</u>	<u>(267)</u>	<u>213,448</u>	<u>100%</u>	<u>100%</u>

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 Emory Healthcare 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.

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Notes to Consolidated Financial Statements

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

	2017				
	Total	Fair value hierarchy		Target	Total asset
	fair value	Level 1	Level 2	allocation	allocation
Investments:					
Short-term investments and cash equivalents	\$ 3,990	1,868	2,122	—%	4%
Commingled funds - equity	54,671	23,190	31,481	50	49
Commingled funds - fixed income	35,868	—	35,868	40	33
Managed funds	15,787	—	15,787	10	14
Total investments	<u>\$ 110,316</u>	<u>25,058</u>	<u>85,258</u>	<u>100%</u>	<u>100%</u>
	2016				
	Total	Fair value hierarchy		Target	Total asset
	fair value	Level 1	Level 2	allocation	allocation
Investments:					
Short-term investments and cash equivalents	\$ 4,523	1,850	2,673	—%	4%
Commingled funds - equity	48,830	16,790	32,040	50	49
Commingled funds - fixed income	32,315	—	32,315	40	33
Managed funds	13,428	—	13,428	10	14
Total investments	<u>\$ 99,096</u>	<u>18,640</u>	<u>80,456</u>	<u>100%</u>	<u>100%</u>

Cash Flows

Emory Healthcare expects to contribute \$6.0 million to the Emory Healthcare Pension Plan in fiscal year 2018 and expects to contribute \$0.2 million to the SJHS Pension Plan in fiscal year 2018.

Expected Future Benefit Payments

Emory Healthcare annual future benefit payments, excluding lump sum settlements, are expected to range from \$8.1 million to \$13.2 million for the next five years. SJHS Pension Plan annual future benefit payments, excluding lump sum settlements, are expected to range from \$5.7 million to \$7.1 million for the next five years.

Other Items

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

(15) 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 each fiscal year.

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August 31, 2017 and 2016

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

	2017			2016
	Emory University	Emory Healthcare	Total	Total
APBO, beginning of year	\$ 103,184	57,932	161,116	131,294
Service cost	1,644	664	2,308	1,984
Interest cost	3,326	1,855	5,181	6,018
Actuarial (gain) loss	(2,130)	(472)	(2,602)	26,677
Benefits paid	(3,393)	(1,378)	(4,771)	(4,857)
APBO, end of year	\$ 102,631	58,601	161,232	161,116

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):

	2017			2016
	Emory University	Emory Healthcare	Total	Total
Fair value of plan assets, beginning of year	\$ 60,916	19,500	80,416	78,592
Actual return on plan assets	7,293	2,330	9,623	3,556
Benefits paid by Emory	—	(1,378)	(1,378)	(1,732)
Fair value of plan assets, end of year	\$ 68,209	20,452	88,661	80,416
Funded status - accrued postretirement benefit cost recognized in the consolidated statements of financial position	\$ (34,422)	(38,149)	(72,571)	(80,700)

Actuarial assumptions used to determine the values of the APBO and the benefit costs for years ended August 31, 2017 and 2016 included a discount rate of 4.11% and 3.85%, 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%. 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, 2017 and 2016. During fiscal year 2014, the University's Health Plan Steering Committee approved a change in the postretirement benefits plan whereby it converted to a Medicare exchange model. The model uses a concierge service to assist participants with plan selection and includes a Health Reimbursement Account (HRA) of \$100 per month for each participant to help pay for the coverage. It also provides coverage of drug costs for participants in a Part D drug plan who have catastrophic, as defined, expenses. The effective date for this change was September 1, 2014.

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Notes to Consolidated Financial Statements

August 31, 2017 and 2016

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

	2017			2016
	Emory University	Emory Healthcare	Total	Total
Service cost of benefits earned	\$ 1,644	664	2,308	1,984
Interest cost on APBO	3,326	1,855	5,181	6,018
Expected return on plan assets	(4,738)	(1,480)	(6,218)	(6,093)
Recognized net actuarial loss	3,392	2,734	6,126	3,778
Net periodic postretirement benefit cost	\$ 3,624	3,773	7,397	5,687

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

	2017			2016
	Emory University	Emory Healthcare	Total	Total
Net unrecognized actuarial loss	\$ 43,957	24,297	68,254	79,703
Prior service cost	(176)	222	46	118
Total	43,781	24,519	68,300	79,821

In fiscal year 2018, net unrecognized actuarial losses of \$2.2 million for Emory University and \$2.2 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.

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August 31, 2017 and 2016

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

		2017						
		Total fair value	NAV	Fair value hierarchy		Target allocation	Total asset allocation	
				Level 1	Level 2			
Investments:								
Commingled funds - equity	\$	52,714	15,026	13,656	24,032	75%	77%	
Commingled funds - fixed income		15,495	—	8,968	6,527	25	23	
Total investments	\$	<u>68,209</u>	<u>15,026</u>	<u>22,624</u>	<u>30,559</u>	100%	100%	
		2016						
		Total fair value	NAV	Fair value hierarchy		Target allocation	Total asset allocation	
				Level 1	Level 2			
Investments:								
Commingled funds - equity		45,717	13,059	12,071	20,587	75%	75%	
Commingled funds - fixed income		15,199	—	8,731	6,468	25	25	
Total investments	\$	<u>60,916</u>	<u>13,059</u>	<u>20,802</u>	<u>27,055</u>	100%	100%	

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

		2017						
		Total fair value	NAV	Fair value hierarchy		Target allocation	Total asset allocation	
				Level 1	Level 2			
Investments:								
Commingled funds - equity	\$	15,377	—	4,563	10,814	75%	75%	
Commingled funds - fixed income		5,075	—	3,067	2,008	25	25	
Total investments	\$	<u>20,452</u>	<u>—</u>	<u>7,630</u>	<u>12,822</u>	100%	100%	
		2016						
		Total fair value	NAV	Fair value hierarchy		Target allocation	Total asset allocation	
				Level 1	Level 2			
Investments:								
Commingled funds - equity	\$	14,653	—	4,031	10,622	75%	75%	
Commingled funds - fixed income		4,847	—	2,990	1,857	25	25	
Total investments	\$	<u>19,500</u>	<u>—</u>	<u>7,021</u>	<u>12,479</u>	100%	100%	

Cash Flows

Emory Healthcare plans to fund future retiree claims from VEBA Trust assets.

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Notes to Consolidated Financial Statements

August 31, 2017 and 2016

Expected Future Benefit Payments

Annual future benefit payments are expected to range from \$3.1 million to \$4.3 million for Emory University and from \$1.9 million to \$2.7 million for Emory Healthcare, for the next five years.

(16) 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 \$74.7 million and \$72.8 million for the years ended August 31, 2017 and 2016, respectively. Emory Healthcare 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.

(17) Functional Expenses

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

	<u>2017</u>	<u>2016</u>
Instruction	\$ 454,276	448,333
Research	490,306	443,787
Public service	102,796	96,409
Academic support	162,308	155,049
Student services	95,017	88,081
Institutional support	199,057	217,710
Scholarships and fellowships	17,668	18,764
Medical services	263,842	214,817
Healthcare services	3,145,643	2,919,448
Auxiliary enterprises	46,554	43,100
Independent operations	<u>22,062</u>	<u>21,872</u>
Total operating expenses	<u>\$ 4,999,529</u>	<u>4,667,370</u>

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 space study, conducted the second half of calendar year 2014, and debt financing records. Total amounts allocated in 2017 and 2016 were \$192.0 million and \$182.4 million, respectively. Fundraising costs were approximately \$34.1 million and \$30.9 million in 2017 and 2016, respectively.

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August 31, 2017 and 2016

(18) 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, 2017 and 2016, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately \$121.5 million (discounted at 2%) and \$131.0 million (discounted at 2%), respectively.

Emory has purchased layered excess and umbrella insurance and reinsurance coverage beyond the amounts retained by CCIC, through various carriers, for a total of \$128.0 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. University management believes adequate provision has been made for the related risk.

(19) Related-Party Transactions

The Carter Center, Inc. (CCI) is a nonprofit organization founded by former United States President Jimmy Carter and Rosalynn Carter which sponsors various domestic and international programs. The Board of Trustees of CCI is comprised of 16 to 28 members, including its founders, and others as elected half by the University, including the University President, and half by the Carter Center class trustees. The University's Board of Trustees has the authority to approve amendments to CCI's articles of incorporation and bylaws.

Funds held in trust for others include \$708.4 million and \$628.8 million representing CCI's investment in the University's long-term investment portfolio of August 31, 2017 and 2016, respectively.

(20) Commitments and Contingencies

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2017 totaled \$68.2 million.

Expenditures and indirect costs related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. The amounts, if any, of expenditures, which may be disallowed by the granting agencies cannot be determined at this time, although management expects they will not have a material effect on the University's consolidated financial statements.

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

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August 31, 2017 and 2016

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; however 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.

(21) Subsequent Events

Emory has evaluated subsequent events after the consolidated statement of financial position date of August 31, 2017 through December 19, 2017, the date the consolidated financial statements were issued. No additional matters were identified for recognition or disclosure.

SUPPLEMENTARY INFORMATION

EMORY UNIVERSITY (excluding Emory Healthcare)
STATEMENTS OF FINANCIAL POSITION - SUPPLEMENTARY INFORMATION
August 31, 2017 and August 31, 2016
(Dollars in thousands)

Schedule 1

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
ASSETS:		
Cash and cash equivalents	\$ (341,279)	\$ 186,065
Student accounts receivable, net	57,713	47,972
Loans receivable, net	24,921	26,672
Contributions receivable, net	80,407	99,674
Other receivables, net	142,864	125,790
Prepaid expenses, deferred charges and other assets	230,259	275,214
Investments	7,698,190	6,594,513
Interests in perpetual funds held by others	1,244,906	1,170,348
Property and equipment, net	1,953,229	1,962,513
Due from affiliates	487,291	388,647
Total assets	<u>\$ 11,578,501</u>	<u>\$ 10,877,408</u>
LIABILITIES AND NET ASSETS:		
Accounts payable and accrued liabilities	\$ 200,502	\$ 185,932
Deferred tuition and other revenue	429,085	466,869
Interest payable	29,145	28,182
Liability for derivative instruments	187,042	266,661
Bonds and notes payable	1,984,348	1,854,126
Accrued liabilities for benefit obligations and professional liabilities	151,075	145,907
Funds held in trust for others	747,109	665,215
Annuities payable	14,921	15,579
Government advances for federal loan programs	18,721	18,724
Total liabilities	<u>3,761,948</u>	<u>3,647,195</u>
Unrestricted net assets	2,952,126	2,643,649
Temporarily restricted net assets	2,704,860	2,545,560
Permanently restricted net assets	2,159,567	2,041,004
Total net assets	<u>7,816,553</u>	<u>7,230,213</u>
Total liabilities and net assets	<u>\$ 11,578,501</u>	<u>\$ 10,877,408</u>

See accompanying independent auditors' report.

EMORY UNIVERSITY (excluding Emory Healthcare)
Schedule 2
STATEMENT OF ACTIVITIES - SUPPLEMENTARY INFORMATION
Year ended August 31, 2017 (with summarized financial information for the year ended 2016)
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2017	Total August 31, 2016
OPERATING REVENUES AND OTHER SUPPORT:					
Tuition and fees	\$ 675,179	-	-	\$ 675,179	\$ 640,025
Less: Scholarship allowances	(253,897)	-	-	(253,897)	(232,208)
Net tuition and fees	421,282	-	-	421,282	407,817
Endowment spending distribution	179,696	-	-	179,696	172,261
Distributions from perpetual funds	34,873	-	-	34,873	33,199
Other investment income designated for current operations	65,138	-	-	65,138	55,120
Gifts and contributions	44,285	-	-	44,285	32,042
Grants and contracts	470,375	-	-	470,375	400,030
Indirect cost recoveries	131,012	-	-	131,012	122,148
Medical services	301,404	-	-	301,404	273,896
Sales and services of auxiliary enterprises	74,464	-	-	74,464	72,688
Independent operations	23,097	-	-	23,097	23,440
Other revenue	56,620	-	-	56,620	52,632
Net assets released from restrictions	44,477	(15,093)	-	29,384	31,395
Total operating revenues and other support	1,846,723	(15,093)	-	1,831,630	1,676,668
OPERATING EXPENSES:					
Salaries and fringe benefits	1,312,353	-	-	1,312,353	1,242,738
Student financial aid	13,159	-	-	13,159	14,774
Other operating expenses	364,020	-	-	364,020	303,725
Interest on indebtedness	59,887	-	-	59,887	56,933
Depreciation	133,516	-	-	133,516	129,752
Total operating expenses	1,882,935	-	-	1,882,935	1,747,922
NET OPERATING ACTIVITIES:	(36,212)	(15,093)	-	(51,305)	(71,254)
NONOPERATING ACTIVITIES, NET:					
Investment return in excess of (less than) spending distribution for current operations	164,916	177,355	2,952	345,223	(51,164)
Change in undistributed income from perpetual funds held by others	-	-	74,558	74,558	98,817
Gifts and contributions	3,050	25,527	41,335	69,912	84,298
Loss on disposal of property and equipment	(11,510)	-	-	(11,510)	(6,932)
Loss on defeasance of debt	(8,659)	-	-	(8,659)	-
Change in fair value of derivative instruments	79,619	-	-	79,619	(91,666)
Pension and postretirement benefit plans	5,523	-	-	5,523	(12,517)
Other nonoperating items, net	(5,696)	(2,422)	(282)	(8,400)	10,552
Net assets released from restrictions	(3,317)	(26,067)	-	(29,384)	(31,395)
Total nonoperating activities, net	223,926	174,393	118,563	516,882	(7)
Net transfers from affiliates	120,763	-	-	120,763	63,519
CHANGE IN NET ASSETS	308,477	159,300	118,563	586,340	(7,742)
BEGINNING NET ASSETS	2,643,649	2,545,560	2,041,004	7,230,213	7,237,955
ENDING NET ASSETS	\$ 2,952,126	\$ 2,704,860	\$ 2,159,567	\$ 7,816,553	\$ 7,230,213

See accompanying independent auditors' report.

STATEMENTS OF CASH FLOWS - SUPPLEMENTARY INFORMATION

Years Ended August 31, 2017 and 2016

(Dollars in thousands)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 586,340	\$ (7,742)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contributions for endowment and capital projects	(17,000)	(29,902)
Net realized gain on sale of investments	(348,883)	(86,234)
Net unrealized gain on investments	(219,897)	(25,905)
Loss on disposal of property and equipment	11,510	6,932
Interests in perpetual funds held by others	(74,558)	(98,817)
Loss on defeasance of debt	8,659	-
Depreciation and amortization	133,516	129,752
Accretion/amortization of bond discounts/premiums and issuance costs	(2,809)	(1,980)
Change in fair value of derivative instruments	(79,619)	91,665
Decrease (increase) in:		
Accounts and other receivables, net	(26,815)	29,415
Contributions receivable for operations, net	20,334	10,600
Prepaid expenses, deferred charges and other assets	(21,547)	(15,749)
(Decrease) increase in:		
Accounts payable, accrued liabilities and interest payable	10,940	(9,231)
Accrued liabilities for benefit obligations and professional liabilities	5,168	23,636
Deferred tuition and other revenue	(37,784)	28,435
Net cash (used in) provided by operating activities	<u>(52,445)</u>	<u>44,875</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disbursements of loans to students	(2,933)	(3,226)
Repayment of loans from students	4,684	4,965
Proceeds from sales and maturities of investments	12,993,489	8,866,599
Purchases of investments	(13,528,386)	(8,814,194)
Purchases of property, plant and equipment	(131,149)	(163,366)
Increase in funds held in trust for others	81,894	19,219
Increase in investments held for affiliate	170	601
Net cash used in investing activities	<u>(582,231)</u>	<u>(89,402)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds received from contributions for endowment and capital projects	15,933	12,352
Proceeds from bonds payable	491,171	-
Principal repayments of bonds payable	(365,496)	(42,251)
Disbursements to affiliate for capital projects	(44,511)	(92,915)
(Increase) decrease in affiliate debt, net	(54,303)	20,414
Required refund (posting) of collateral for debt related derivatives	66,502	(67,572)
Decrease in annuities payable	(658)	(1,494)
(Decrease) increase in government advances for federal loan programs	(3)	890
Bond issuance costs	(1,303)	-
Net cash provided by (used in) financing activities	<u>107,332</u>	<u>(170,576)</u>
Net decrease in cash and cash equivalents	<u>(527,344)</u>	<u>(215,103)</u>
Cash and cash equivalents at beginning of year	<u>186,065</u>	<u>401,168</u>
Cash and cash equivalents at end of year	<u>\$ (341,279)</u>	<u>\$ 186,065</u>
Supplemental disclosure:		
Cash paid for interest	\$ 61,865	\$ 60,244
Accounts payable attributable to property, plant and equipment purchases	10,477	15,070
Income taxes (refunded) paid, net	(235)	1,760
Pledge payments received in form of securities and immediately sold	34,452	33,756

See accompanying independent auditors' report.