



**EMORY UNIVERSITY**

Consolidated Financial Statements and  
Supplementary Information

August 31, 2015 and 2014

(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, 2015 and 2014, 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 an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emory University as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



***Supplementary Information***

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

**KPMG LLP**

December 18, 2015

**EMORY UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
*August 31, 2015 and August 31, 2014*  
*(Dollars in thousands)*

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 607,163	\$ 557,248
Patient accounts receivable, net	367,433	342,011
Student accounts receivable, net	46,715	51,220
Loans receivable, net	28,411	28,467
Contributions receivable, net	92,724	135,667
Other receivables, net	241,639	240,351
Prepaid expenses, deferred charges and other assets	264,591	241,942
Investments	6,842,183	7,031,316
Interests in perpetual funds held by others	1,071,531	1,130,063
Property and equipment, net	2,883,412	2,852,580
<b>Total assets</b>	<b>\$ 12,445,802</b>	<b>\$ 12,610,865</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable and accrued liabilities	\$ 473,188	\$ 416,835
Liability for derivative instruments	176,791	150,495
Interest payable	28,955	29,817
Annuities payable	17,073	17,821
Bonds, notes and mortgages payable	1,914,808	1,955,399
Accrued liabilities for benefit obligations and professional liabilities	515,625	456,447
Deferred tuition and other revenue	440,272	426,661
Funds held in trust for others	645,996	643,902
Government advances for federal loan programs	17,834	17,802
<b>Total liabilities</b>	<b>4,230,542</b>	<b>4,115,179</b>
Unrestricted net assets:		
Net assets controlled by Emory	3,428,363	3,506,297
Net assets related to noncontrolling interests	78,344	66,580
<b>Total unrestricted net assets</b>	<b>3,506,707</b>	<b>3,572,877</b>
Temporarily restricted net assets	2,807,376	3,005,261
Permanently restricted net assets	1,901,177	1,917,548
<b>Total net assets</b>	<b>8,215,260</b>	<b>8,495,686</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,445,802</b>	<b>\$ 12,610,865</b>

See accompanying notes to consolidated financial statements.

# EMORY UNIVERSITY

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended August 31, 2015 (with summarized financial information for the year ended 2014)

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2015	Total August 31, 2014
<b>OPERATING REVENUES:</b>					
Tuition and fees	\$ 617,826	-	-	\$ 617,826	\$ 592,385
Less: Scholarship allowances	(221,694)	-	-	(221,694)	(215,434)
Net tuition and fees	396,132	-	-	396,132	376,951
Endowment spending distribution	165,880	-	-	165,880	157,174
Distribution from perpetual funds	32,490	-	-	32,490	29,979
Other investment income designated for current operations	41,266	-	-	41,266	37,477
Gifts and contributions	49,520	-	-	49,520	50,606
Grants and contracts	372,791	-	-	372,791	365,653
Indirect cost recoveries	113,945	-	-	113,945	110,516
Net patient service revenue	2,706,682	-	-	2,706,682	2,549,902
Medical services	267,327	-	-	267,327	234,855
Sales and services of auxiliary enterprises	71,743	-	-	71,743	68,850
Independent operations	22,006	-	-	22,006	20,543
Other revenue	167,254	-	-	167,254	124,509
Net assets released from restrictions	11,371	(5,030)	-	6,341	3,648
<b>Total operating revenues</b>	<b>4,418,407</b>	<b>(5,030)</b>	<b>-</b>	<b>4,413,377</b>	<b>4,130,663</b>
<b>OPERATING EXPENSES:</b>					
Salaries and fringe benefits	2,687,359	-	-	2,687,359	2,543,034
Student financial aid	11,699	-	-	11,699	11,297
Supplies and pharmaceuticals	657,482	-	-	657,482	595,640
Professional fees and purchased services	408,839	-	-	408,839	361,610
Other operating expenses	275,563	-	-	275,563	298,802
Interest on indebtedness	79,490	-	-	79,490	78,267
Depreciation	232,401	-	-	232,401	226,052
<b>Total operating expenses</b>	<b>4,352,833</b>	<b>-</b>	<b>-</b>	<b>4,352,833</b>	<b>4,114,702</b>
<b>NET OPERATING REVENUES/(EXPENSES):</b>	<b>65,574</b>	<b>(5,030)</b>	<b>-</b>	<b>60,544</b>	<b>15,961</b>
<b>NONOPERATING ACTIVITIES:</b>					
Investment return (less than) in excess of spending distribution for current operations	(136,661)	(171,080)	1,934	(305,807)	733,610
Change in undistributed income from perpetual funds held by others	-	-	(58,532)	(58,532)	95,939
Gifts and contributions	552	21,978	40,435	62,965	110,110
Net assets released from restrictions	36,298	(42,639)	-	(6,341)	(3,648)
Loss on disposal of property and equipment	(4,230)	-	-	(4,230)	(4,346)
Change in fair value of derivative instruments	(26,296)	-	-	(26,296)	(49,673)
Pension and postretirement benefit plans	(23,064)	-	-	(23,064)	(34,092)
Other nonoperating items, net	21,657	(1,114)	(208)	20,335	18,465
<b>Total nonoperating activities</b>	<b>(131,744)</b>	<b>(192,855)</b>	<b>(16,371)</b>	<b>(340,970)</b>	<b>866,365</b>
<b>CHANGE IN NET ASSETS</b>	<b>(66,170)</b>	<b>(197,885)</b>	<b>(16,371)</b>	<b>(280,426)</b>	<b>882,326</b>
Less change in net assets related to noncontrolling interests	11,764	-	-	11,764	2,615
<b>CHANGE IN NET ASSETS CONTROLLED BY EMORY</b>	<b>\$ (77,934)</b>	<b>\$ (197,885)</b>	<b>\$ (16,371)</b>	<b>\$ (292,190)</b>	<b>\$ 879,711</b>

See accompanying notes to consolidated financial statements

**EMORY UNIVERSITY**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**

Year ended August 31, 2014

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2014
<b>OPERATING REVENUES:</b>				
Tuition and fees	\$ 592,385	-	-	\$ 592,385
Less: Scholarship allowances	(215,434)	-	-	(215,434)
Net tuition and fees	376,951	-	-	376,951
Endowment spending distribution	157,174	-	-	157,174
Distribution from perpetual funds	29,979	-	-	29,979
Other investment income designated for current operations	37,477	-	-	37,477
Gifts and contributions	50,606	-	-	50,606
Grants and contracts	365,653	-	-	365,653
Indirect cost recoveries	110,516	-	-	110,516
Net patient service revenue	2,549,902	-	-	2,549,902
Medical services	234,855	-	-	234,855
Sales and services of auxiliary enterprises	68,850	-	-	68,850
Independent operations	20,543	-	-	20,543
Other revenue	124,509	-	-	124,509
Net assets released from restrictions	7,412	(3,764)	-	3,648
<b>Total operating revenues</b>	<b>4,134,427</b>	<b>(3,764)</b>	<b>-</b>	<b>4,130,663</b>
<b>OPERATING EXPENSES:</b>				
Salaries and fringe benefits	2,543,034	-	-	2,543,034
Student financial aid	11,297	-	-	11,297
Supplies and pharmaceuticals	595,640	-	-	595,640
Professional fees and purchased services	361,610	-	-	361,610
Other operating expenses	298,802	-	-	298,802
Interest on indebtedness	78,267	-	-	78,267
Depreciation	226,052	-	-	226,052
<b>Total operating expenses</b>	<b>4,114,702</b>	<b>-</b>	<b>-</b>	<b>4,114,702</b>
<b>NET OPERATING REVENUES/(EXPENSES):</b>	<b>19,725</b>	<b>(3,764)</b>	<b>-</b>	<b>15,961</b>
<b>NONOPERATING ACTIVITIES:</b>				
Investment return in excess of spending distribution for current operations	332,560	389,415	11,635	733,610
Change in undistributed income from perpetual funds held by others	-	-	95,939	95,939
Gifts and contributions	5,160	73,250	31,700	110,110
Net assets released from restrictions	28,305	(31,953)	-	(3,648)
Loss on disposal of property and equipment	(4,346)	-	-	(4,346)
Change in fair value of derivative instruments	(49,673)	-	-	(49,673)
Pension and postretirement benefit plans	(34,092)	-	-	(34,092)
Other nonoperating items, net	18,134	540	(209)	18,465
<b>Total nonoperating activities</b>	<b>296,048</b>	<b>431,252</b>	<b>139,065</b>	<b>866,365</b>
<b>CHANGE IN NET ASSETS</b>	<b>315,773</b>	<b>427,488</b>	<b>139,065</b>	<b>882,326</b>
Less change in net assets related to noncontrolling interests	2,615	-	-	2,615
<b>CHANGE IN NET ASSETS CONTROLLED BY EMORY</b>	<b>\$ 313,158</b>	<b>\$ 427,488</b>	<b>\$ 139,065</b>	<b>\$ 879,711</b>

See accompanying notes to consolidated financial statements

**EMORY UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended August 31, 2015 and 2014

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (280,426)	\$ 882,326
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net assets acquired in formation of Emory Rehabilitation Hospital	-	(4,125)
Gain on formation of the Emory Rehabilitation Hospital	-	(949)
Capital contributions from noncontrolling interests	(13,677)	(20,550)
Gifts and contributions for endowment and capital projects	3,794	(33,850)
Net realized gains on sale of investments	(281,593)	(416,749)
Net unrealized loss (gains) on investments	437,738	(531,231)
Loss on disposal of property and equipment	4,230	4,346
Interests in perpetual funds held by others	58,532	(95,939)
Depreciation and amortization	231,744	225,422
Provision for uncollectible patients accounts receivable	189,154	138,148
Accretion/amortization of bond discounts/premiums	(1,878)	(3,411)
Actuarial adjustments for retiree pension and benefit plans	23,064	24,892
Change in fair value of derivative instruments	26,296	49,673
Gifts of securities and other assets	(7,910)	(19,785)
Increase in operating assets, net of effects from FY 2014 formation of Emory Rehabilitation Hospital:		
Accounts and other receivables, net	(211,359)	(167,457)
Contributions receivable for operations	(10,068)	(45,512)
Prepaid expenses, deferred charges and other assets	(15,293)	(13,248)
Increase in operating liabilities:		
Accounts payable, accrued liabilities and interest payable	40,268	5,636
Accrued liabilities for benefit obligations and professional liabilities	36,114	30,385
Deferred tuition and other revenue	13,611	19,794
<b>Net cash provided by operating activities</b>	<u><b>242,341</b></u>	<u><b>27,816</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disbursements for loans to students	(4,863)	(6,239)
Repayment of loans from students	4,919	4,494
Proceeds from sales and maturities of investments	22,494,607	15,185,014
Purchases of investments	(22,453,709)	(15,047,139)
Cash received in formation of Emory Rehabilitation Hospital	-	1,083
Purchases of property, plant and equipment	(252,240)	(304,098)
Increase in deposits held in custody for others	2,094	112,366
<b>Net cash used in investing activities</b>	<u><b>(209,192)</b></u>	<u><b>(54,519)</b></u>

(Continued)

**EMORY UNIVERSITY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*Years Ended August 31, 2013 and 2012*

*(Dollars in thousands)*

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Gifts and contributions for endowment and capital projects	49,218	134,687
Proceeds from bonds and mortgages payable	-	28,300
Principal repayments of bonds and mortgages payable	(38,713)	(62,497)
Required posting of collateral	(6,700)	(600)
(Decrease) increase in annuities payable	(748)	120
Increase in government advances for federal loan programs	32	38
Capital contributions from noncontrolling interests	13,677	20,550
	<u>16,766</u>	<u>120,598</u>
<b>Net cash provided by financing activities</b>	<b>16,766</b>	<b>120,598</b>
<b>Net increase in cash and cash equivalents</b>	<b>49,915</b>	<b>93,895</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>557,248</b>	<b>463,353</b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 607,163</u></b>	<b><u>\$ 557,248</u></b>
 Supplemental disclosure:		
Cash paid for interest	\$ 82,769	\$ 79,263
Accounts payable attributable to property, plant and equipment purchases	15,223	13,352
Income taxes paid, net	368	242
Pledge payments received in form of securities and immediately sold	28,000	80,000

See accompanying notes to consolidated financial statements.



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

#### (1) Organization

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

The Emory Healthcare system (Emory Healthcare) consists of Emory Healthcare, Inc. (EHC), Emory University Hospital Midtown (EUHM), Emory University Hospital (EUH), EHCA Johns Creek Hospital, LLC (EJCH), Emory Saint Joseph's Hospital (ESJH), Saint Joseph's Translational Research Institute (SJTRI) d/b/a T3 Laboratories (T3), 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). Emory Healthcare is in the process of legally dissolving WWC and expects that process to be completed during fiscal 2016.

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

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

Effective July 1, 2014, Emory Healthcare contributed certain assets and liabilities to a limited liability company under the name of ES Rehabilitation, LLC (ES Rehab), formed together with Select Medical Corporation (SMC), in exchange for a 51% controlling membership interest in ES Rehab. ES Rehab is also known as Emory Rehabilitation Hospital (ERH).

#### (2) Summary of Significant Accounting Policies

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

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

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

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

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

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

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

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

**(a) *Cash Equivalents***

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

**(b) *Contributions Receivable***

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

**(c) *Loans Receivable, Net***

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

**(d) *Other Receivables, Net***

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

(e) **Investments**

Investments are reported at fair value and net asset value (NAV).

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 maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above.

Investments in funds primarily include investments in commingled equity and fixed income funds and other investments in funds (hedged strategies, private market investments, real estate partnerships and natural resources) and are reported at fair value as determined by the University in accordance with the University's valuation policies and procedures. The University has estimated the fair value of 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 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 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, 2015 and 2014.

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 cost for investments in securities. Additionally, gains and losses from realized and unrealized changes in the fair value of investments are reported in the consolidated statements of activities, as increases or decreases in unrestricted net assets, where there are no donor restrictions, or temporarily restricted net assets, until amounts have been appropriated and the donor-imposed time restrictions have elapsed.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

(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 is 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 due to early adoption by the University of ASU 2015-07, as discussed in (s) below.

(g) ***Split Interest Agreements***

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

**(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, 2015 and 2014 at \$1,071.5 million and \$1,130.1 million, respectively.

**(i) *Property and Equipment***

Land, buildings, and equipment are recorded at cost at the date of acquisition or fair value at the date of gift to the University. Depreciation expense is based on the straight-line method over the estimated useful lives of the assets. Useful lives are as follows: buildings – 10 to 60 years; land improvements and infrastructure – 5 to 40 years; moveable equipment – 3 to 20 years; fixed equipment – 3 to 30 years; software and enterprise systems – 5 to 10 years; leasehold improvements – term of the lease; and library books – 10 years. Certain assets totaling \$90.0 million and \$84.6 million, such as art, museum assets and rare books, are included in property and equipment on August 31, 2015 and August 31, 2014, respectively, but are not depreciated.

**(j) *Bond Issuance Costs***

Costs related to the registration and issuances of bonds are being amortized over the life of the bonds. The costs, net of accumulated amortization, are included in prepaid expenses, deferred charges and other assets in the consolidated statements of financial position and were \$8.4 million and \$9.1 million for August 31, 2015 and 2014, respectively.

**(k) *Tuition and Fees***

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

**(l) *Contributions Revenue***

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

Donor-restricted contributions are reported as temporarily restricted or permanently restricted revenue that increases those net asset classes. Expirations of temporary restrictions on net assets, such as the donor stipulation being met or the passage of time, are reported as net assets released from restrictions and reflect reclassifications from temporarily restricted net assets to unrestricted net assets. If the donor

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

stipulation for a temporarily restricted contribution is met in the year of the gift, the contribution is reflected in the unrestricted net asset class. Temporary restrictions on gifts to acquire long-lived assets are considered met in the period when the asset is placed in service. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are met.

**(m) *Grants and Contracts Revenue and Indirect Cost Recoveries***

Indirect cost recoveries and grants and contracts revenue are reported at the estimated net realizable amounts due from sponsoring agencies. These grants and contract awards generally specify the purpose for which the funds are to be used. Revenues from sponsored grants and contracts are recognized when allowable expenditures are incurred under such agreements. These revenues, primarily from the federal government, are recorded as unrestricted support. Amounts recorded in grants and contracts receivable are for grant expenditures incurred in advance of the receipt of funds.

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

**(n) *Net Patient Service Revenue***

Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenues on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Emory Healthcare's estimates in this area may differ from actual experience, and those differences may be material.

**(o) *Auxiliary Enterprises and Independent Operations***

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

**(p) *Income Taxes***

The University is recognized as a tax-exempt organization as defined in Section 501(c)(3) of the U.S. Internal Revenue Code (the Code) and is generally exempt from the federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. Unrelated business income of the University is reported on Form 990-T. As of August 31, 2015 and 2014, there were no material uncertain tax positions.

**(q) *Derivative Instruments***

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

**(r) Pension and Postretirement Benefits**

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

**(s) New Accounting Pronouncements**

In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. The University elected to adopt ASU 2015-07 as of and for the year ended August 31, 2015 and all prior periods presented in the notes to the consolidated financial statements (note 9).

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

In October 2012, the FASB issued ASU 2012-05 (Topic 230): *Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This ASU requires a not-for-profit (NFP) to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. The adoption of ASU 2012-05 during fiscal 2014 had no material impact on the University's consolidated financial statements.

**(t) Use of Estimates**

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

Significant items in the University's consolidated financial statements subject to such estimates and assumptions include valuations for certain investments without readily determinable fair values, the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for employee healthcare and workers' compensation claims, accrued professional and general liability

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

costs, estimated third-party settlements, and actuarially determined benefit liabilities related to the University's pension and other postretirement benefit plans. Depreciation expense is based on the estimated useful lives of the related assets. The carrying value of contributions to be received after one year is estimated by discounting the expected future cash flows at a risk-free rate which could have been obtained at the date of the gift.

#### (u) *Conflict of Interest 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 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>2015</u>	<u>2014</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 50,523	91,929
One year to five years	49,677	52,311
Over five years	350	3,126
	<u>100,550</u>	<u>147,366</u>
Less:		
Allowance for uncollectible amounts	(2,961)	(4,358)
Discount to present value	(4,865)	(7,341)
	<u>\$ 92,724</u>	<u>135,667</u>

At August 31, 2015 and 2014, the five largest outstanding donor pledge balances represented 63.7% and 61.6%, respectively, of Emory's gross contributions receivable. Contributions receivable are discounted at rates ranging from 1.46% to 9.24%.



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

As of August 31, 2015, the University had received bequest intentions of approximately \$55.8 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 southeastern United States. 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 programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, and other preferred provider arrangements and commercial insurance policies). The composition of net receivables from patients and third-party payors follows:

	<u>2015</u>	<u>2014</u>
Managed care and other third-party payors	58%	57%
Medicare	31	32
Patients	7	7
Medicaid	4	4
	<u>100%</u>	<u>100%</u>

#### (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% and 37% of Emory Healthcare's net patient service revenue for each of the years ended August 31, 2015 and 2014, respectively.
- Medicaid – Inpatient and professional services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid based upon cost reimbursement methodologies. Emory Healthcare's cost reports have been audited and substantially settled for all fiscal years through August 31, 2008. Revenue from the Medicaid program accounted for approximately 5% of Emory Healthcare's net patient service revenue for both years ended August 31, 2015 and 2014.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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):

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	\$ 7,637,741	6,906,797
Less provisions for contractual and other adjustments	(4,741,905)	(4,218,747)
Less provisions for uncollectible accounts	<u>(189,154)</u>	<u>(138,148)</u>
Net patient service revenue	<u>\$ 2,706,682</u>	<u>2,549,902</u>

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, 2015 and 2014 from these major payor sources is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Third-party payors	\$ 2,766,246	2,609,538
Self-pay	<u>129,590</u>	<u>78,511</u>
Total	<u>\$ 2,895,836</u>	<u>2,688,049</u>

The impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively, the Health Care Acts) is complicated and difficult to predict, but Emory Healthcare anticipates its reimbursement in the future will be affected by major elements of the Health Care Acts. Emory Healthcare continues to monitor developments in healthcare reform and participates actively in contemplating and designing new programs that are encouraged and/or required by the Health Care Acts.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

#### (6) Investments

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

	<b>2015</b>	<b>2014</b>
Short-term investments and cash equivalents <sup>(a)</sup>	\$ 260,208	249,197
Investments in securities:		
Global equity securities		
U.S. equity securities	422,283	363,230
Non-U.S. equity securities	191,480	194,239
Fixed income securities		
U.S. government securities	429,777	659,476
Domestic bonds and long-term notes <sup>(b)</sup>	158,758	239,750
International bonds and long-term notes <sup>(c)</sup>	42,297	78,677
Investments in private securities <sup>(d)</sup>	11,257	6,000
Commingled funds - equity <sup>(e)</sup>	677,404	692,701
Commingled funds - fixed income <sup>(e)</sup>	641,090	756,409
Investments in funds:		
Hedged strategies <sup>(f)</sup>	2,089,483	1,771,544
Private market investments <sup>(g)</sup>	1,208,804	1,316,490
Natural resources <sup>(h)</sup>	444,844	522,089
Real estate partnerships <sup>(i)</sup>	239,992	165,413
Derivatives <sup>(j)</sup>	10,278	9,679
Marketable real estate investments <sup>(k)</sup>	8,206	3,381
Oil and gas properties	2,255	2,195
Miscellaneous investments <sup>(l)</sup>	3,203	648
	6,841,619	7,031,118
Total investments at fair value		
Joint ventures (equity method)	564	198
Total investments	\$ 6,842,183	7,031,316

(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, 2015 and 2014, \$31.4 million and \$30.1 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.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

- (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 "sidepockets" 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. It is estimated that underlying assets of the funds will be liquidated over the next 10 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; however, certain liquid investments in natural resources may be subject to restrictions that limit the University's ability to withdraw capital until a certain "lock-up period" has expired. It is estimated that the underlying assets of the funds will be liquidated over the next 10 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. 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, 2015 and 2014, cash equivalents of \$260.2 million and \$230.1 million, respectively, are included in investments and are restricted for use by endowments and special projects.

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

investment income and gains (losses) in excess of spending distributions for current operations in the accompanying consolidated statements of activities.

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

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

As of August 31, 2015, the related unfunded commitments of the University's alternative investments and limitations and restrictions on the University's ability to redeem or sell are summarized as follows (in thousands):

	<b>Unfunded commitments</b>	<b>Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Private market investments	\$ 367,687	not eligible	not eligible
Real estate partnerships	246,169	not eligible	not eligible
Natural resources	193,603	30 - 90 days and not eligible	30 - 90 days and not eligible
	\$ 807,459		

Over the next five years, approximately 87% of the unfunded commitments are expected to be called by the general partners. Although the University is obligated to fund these commitments, many of these agreements allow resale. Funds to meet these commitments will be required over future years and are expected to be generated from existing endowment assets.

#### (7) **Endowment Net Assets**

The University's Endowment (Endowment) consists of over 1,500 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The Endowment provides stable financial support to a wide variety of programs and activities in perpetuity, playing a critical role in enabling the university to achieve its mission. Net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

**(a) Interpretation of Relevant Law**

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

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditures by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers several factors in making a determination to appropriate or accumulate donor-restricted endowment funds, including the duration and preservation of the fund, the purposes of the fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the University and the investment policies of the University.

The endowment funds subject to UPMIFA are true endowments and do not include perpetual funds held by others, long-term investments, annuity funds, and deposits held in custody and miscellaneous investments. Approximately 69.7% of the investments described in note 6 are classified as endowed net assets. Endowment funds are categorized in the following net asset classes as of August 31 (in thousands):

	2015			2014		
	Donor- Restricted	Board- Designated	Total	Donor- Restricted	Board- Designated	Total
Unrestricted	\$ (12,561)	1,416,626	1,404,065	(4,062)	1,458,865	1,454,803
Temporarily restricted	2,557,777	—	2,557,777	2,727,955	—	2,727,955
Permanently restricted	806,288	—	806,288	731,633	—	731,633
Total endowment funds	\$ 3,351,504	1,416,626	4,768,130	3,455,526	1,458,865	4,914,391

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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, 2013	\$ 1,261,435	2,342,859	671,611	4,275,905
Investment return:				
Investment income	13,917	43,342	—	57,259
Realized and unrealized gain	232,281	508,716	—	740,997
Total investment return	<u>246,198</u>	<u>552,058</u>	<u>—</u>	<u>798,256</u>
Cash contributions	654	3	51,915	52,572
Withdrawal of board-designated funds for strategic initiatives	(3,927)	—	—	(3,927)
Appropriations for expenditure	(40,257)	(144,538)	—	(184,795)
Appropriations for capital purposes	(5,583)	(18,037)	—	(23,620)
Other	<u>(3,717)</u>	<u>(4,390)</u>	<u>8,107</u>	<u>—</u>
Balance as of August 31, 2014	\$ 1,454,803	2,727,955	731,633	4,914,391
Investment return:				
Investment income	14,058	18,936	—	32,994
Realized and unrealized loss	<u>(11,833)</u>	<u>(63,020)</u>	<u>—</u>	<u>(74,853)</u>
Total investment return	2,225	(44,084)	—	(41,859)
Cash contributions	675	9	71,312	71,996
Additions of institutional funds for quasi endowments	51,864	—	—	51,864
Withdrawal of board-designated funds for strategic initiatives	(15,366)	—	—	(15,366)
Appropriations for expenditure	(79,259)	(113,936)	—	(193,195)
Appropriations for capital purposes	(6,086)	(13,615)	—	(19,701)
Other	<u>(4,791)</u>	<u>1,448</u>	<u>3,343</u>	<u>—</u>
Balance as of August 31, 2015	\$ <u>1,404,065</u>	<u>2,557,777</u>	<u>806,288</u>	<u>4,768,130</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 \$12.6 million and \$4.0 million as of August 31, 2015 and 2014, respectively. Subsequent gains that restore the fair value of the assets of the endowment fund to book value will be classified as an increase in unrestricted net assets.

**(c) Return Objectives and Risk Parameters**

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner to attain a total return of at least 8% (including inflation) over the long term. Over shorter time periods, the endowment assets performance will be measured versus a policy benchmark. The policy benchmark represents the weighted average

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

of benchmark returns to each asset class in the policy asset allocation. The performance objective is to outperform the policy benchmark by at least 50 basis points net of fees, on average. It is not expected that the performance target will be met for every three-year period.

**(d) *Strategies Employed for Achieving Objectives***

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

**(e) *Relationship between Investment Objectives and Spending Policy***

The University's Board of Trustees has established a spending policy that determines how endowment distributions are made. The University employs a total return endowment spending policy that establishes the amount of endowment investment return available to support current operating and capital needs. The distribution of endowment income in 2015 and 2014 was based on 4.75% of the average fair value of the endowment over the previous 12 months ending on December 31. The University considers the expected return on its endowment, including the effect of inflation in setting the annual appropriation amount. Accordingly, the University expects the current spending policy to allow its endowment to maintain its purchasing power if projected growth rates are achieved. Additional real growth will be provided through new gifts and any excess investment return. The payout rate is approved annually by the Board of Trustees as part of the budget process.

**(8) *Derivative Instruments and Hedging Activities***

**Investments**

The University has executed derivative financial instruments in the normal course of its business. Investment strategies employed by Emory and investment managers retained by Emory may incorporate the use of various derivative financial instruments with valuation risk. Emory uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Futures, options and other derivative instruments are used to adjust elements of investment exposures to various securities, markets and currencies without actually taking a position in the underlying asset.

These instruments expose Emory to risk of an unexpected movement in the fair value of the underlying security, a counterparty failing to meet its obligations, and, in certain circumstances, not being able to unwind a position at current fair value due to market illiquidity. Emory has established procedures to monitor and manage these risks. The purchase and sale of exchange traded derivatives require collateral deposits with a Futures Commission Merchant (FCM). In the event of an FCM's insolvency, recovery may be limited to Emory's pro rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total of cash and other equity deposited. Management does not consider the underlying



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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, 2015 (in thousands):

	<b>Gross Notional Amount</b> <sup>(1)</sup>	<b>Derivative Assets</b> <sup>(2)</sup>	<b>Derivative Liabilities</b> <sup>(2)</sup>	<b>Gains (Losses)</b> <sup>(3)</sup>
Interest-rate contracts	\$ 138,589	109	(313)	4,930
Foreign exchange contracts	424,491	17,208	(1,825)	34,161
Equity contracts	643,643	3,380	(8,469)	785
Credit contracts	39,057	526	(338)	(75)
<b>Total</b>	<b>\$ 1,245,780</b>	<b>21,223</b>	<b>(10,945)</b>	<b>39,801</b>

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

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

- (1) The notional amount is representative of the absolute value of the open contracts on August 31, 2015 and 2014
- (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 (less than) in excess of spending distribution for current operations" in "non-operating activities".

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Emory's investment related derivative assets and liabilities at August 31, 2015, by counterparty, are as follows (in thousands):

	<u>Assets</u>	<u>Liabilities</u>	<u>Cash Collateral Held (Pledged)</u>	<u>Net Amount</u>
Counterparty A	\$ 16,409	(335)	—	16,074
Counterparty B	3,377	(4,550)	—	(1,173)
Counterparty C	353	(347)	(360)	(354)
Counterparty D	318	(593)	(1,528)	(1,803)
All other	766	(5,120)	(29,489)	(33,843)
Total	<u>\$ 21,223</u>	<u>(10,945)</u>	<u>(31,377)</u>	<u>(21,099)</u>

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

	<u>Assets</u>	<u>Liabilities</u>	<u>Cash Collateral Held (Pledged)</u>	<u>Net Amount</u>
Counterparty A	\$ 5,489	(105)	(28,260)	(22,876)
Counterparty B	3,383	(22)	—	3,361
Counterparty C	1,642	(3,947)	(367)	(2,672)
Counterparty D	1,147	(188)	254	1,213
All other	3,713	(1,433)	(1,767)	513
Total	<u>\$ 15,374</u>	<u>(5,695)</u>	<u>(30,140)</u>	<u>(20,461)</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, 2015, the University's long term debt ratings exceeded these benchmarks.

At August 31, 2015, Emory had nine interest rate swap agreements expiring on various dates ranging from November 15, 2028 through December 1, 2042. These agreements require Emory to pay fixed interest rates to the counterparties varying from 3.238% to 4.388% in exchange for variable rate payments from the counterparties based on a percentage of the Three Month London Interbank Offered Rate (LIBOR).

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Net settlement transactions related to the agreements described above resulted in interest expense totaling \$20.9 million and \$21.0 million during 2015 and 2014, 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 \$176.8 million and \$150.5 million on August 31, 2015 and 2014, respectively, for which Emory University had a requirement to post collateral in the amount of \$6.7 million and \$0.6 million for 2015 and 2014, respectively. During 2015, Emory replaced a swap counterparty in an interest rate exchange agreement to another counterparty to maintain a diversified portfolio. 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):

<b>Interest Rate Swaps</b>		<b>2015</b>		<b>2014</b>	
<b>Inception</b>	<b>Maturity</b>	<b>Liability Fair Value</b>	<b>Loss</b>	<b>Liability Fair Value</b>	<b>Loss</b>
August 4, 2005	September 1, 2035	\$ (28,688)	(4,566)	(24,123)	(8,681)
August 4, 2005	September 1, 2035	—	—	(24,114)	(8,678)
August 25, 2005	September 1, 2035	(9,576)	(1,521)	(8,055)	(2,896)
August 25, 2005	September 1, 2035	—	—	(8,055)	(2,896)
April 19, 2007	November 15, 2028	(1,795)	(30)	(1,765)	(226)
December 1, 2007	September 1, 2035	(21,616)	(2,780)	(18,836)	(5,471)
May 1, 2008	September 1, 2038	(24,746)	(3,294)	(21,452)	(6,124)
December 1, 2008	December 1, 2042	(30,095)	(5,232)	(24,863)	(9,216)
December 1, 2009	September 1, 2035	(22,013)	(2,781)	(19,232)	(5,485)
June 23, 2015	September 1, 2035	(28,689)	(4,574)	—	—
June 23, 2015	September 1, 2035	(9,573)	(1,518)	—	—
	<b>Total</b>	<b>\$ (176,791)</b>	<b>(26,296)</b>	<b>(150,495)</b>	<b>(49,673)</b>

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

thresholds are crossed. Emory has additional counterparty arrangements managed by funds in which Emory invests, which are included in the general investment and fund manager monitoring activities for the funds.

Emory's debt-related derivative liabilities at August 31, 2015, by counterparty, are as follows (in thousands):

	<u>Liabilities</u>	<u>Cash Collateral Held (Pledged)</u>	<u>Net Amount</u>
Counterparty A	\$ (21,616)	—	(21,616)
Counterparty B	(30,095)	—	(30,095)
Counterparty C	(38,265)	—	(38,265)
Counterparty D	(46,759)	(6,700)	(53,459)
Counterparty E	—	—	—
Counterparty F	(38,262)	—	(38,262)
All other	(1,794)	—	(1,794)
Total	<u>\$ (176,791)</u>	<u>(6,700)</u>	<u>(183,491)</u>

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

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

#### (9) Fair Values of Assets and Liabilities

The carrying values for cash and cash equivalents, patient receivables, short term receivables, and short term payables approximate fair value because of the terms and relative short maturity of these financial instruments. Current year additions to contributions receivable and annuity and other split interest obligations carrying amounts approximate fair value because these instruments are recorded at estimated net present value and are categorized as Level 3 assets. Long term investments and deposits held in custody for others are reflected in the accompanying consolidated financial statements at fair value. It is not practicable to determine the fair value of loans receivable, comprised primarily of federally sponsored student loans, and government advances for federal loan programs due to significant government restrictions as to marketability, interest rates, and repayment terms of these loans. The estimated fair value of the University's long term debt, based on the quoted market prices for issues with similar terms and maturities, is approximately \$1.9 billion at both August 31, 2015 and 2014 and categorized as Level 2 liabilities. The

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

carrying value of long term debt reflected in the accompanying consolidated statements of financial position is approximately \$1.9 billion and \$2.0 billion for August 31, 2015 and 2014, respectively.

The following table summarizes the valuation of the University's assets and liabilities according to the fair value hierarchy levels as of August 31, 2015 (in thousands):

	Total fair value	Fair value hierarchy			
		Investments measured at NAV <sup>(3)</sup>	Level 1	Level 2	Level 3
Financial assets:					
Short-term investments and cash equivalents	\$ 260,208	—	251,535	8,673	—
Investments in securities:					
Global equity securities					
U.S. equity securities	422,283	—	421,786	494	3
Non-U.S. equity securities	191,480	—	185,342	6,138	—
Fixed income securities:					
U.S. government securities	429,777	—	166	429,611	—
Domestic bonds and long-term notes	158,758	—	1,716	156,642	400
International bonds and long-term notes	42,297	—	35	41,477	785
Investments in private securities	11,257	—	—	—	11,257
Commingled funds - equity	677,404	547,212	43,664	86,528	—
Commingled funds - fixed income	641,090	143,364	431,223	66,503	—
Investments in funds:					
Hedged strategies	2,089,483	2,089,483	—	—	—
Private market investments	1,208,804	1,208,125	—	—	679
Natural resources	444,844	444,844	—	—	—
Real estate partnerships	239,992	239,992	—	—	—
Derivatives					
Derivatives - options	10,278	—	11,389	(1,111)	—
Marketable real estate investments	8,206	—	234	7,972	—
Oil and gas properties	2,255	—	—	—	2,255
Miscellaneous investments	3,203	—	3,203	—	—
Total investments at fair value <sup>(1)</sup>	6,841,619	4,673,020	1,350,293	802,927	15,379
Interest in perpetual funds held by others <sup>(2)</sup>	1,071,531	—	—	—	1,071,531
Total assets at fair value	\$ 7,913,150	4,673,020	1,350,293	802,927	1,086,910
Financial liabilities:					
Derivative instruments - interest rate swaps	(176,791)	—	—	(176,791)	—
Deposits held in custody for others	(645,996)	—	—	(645,996)	—
Total liabilities at fair value	\$ (822,787)	—	—	(822,787)	—

(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.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

	Total fair value	Fair value hierarchy			
		Investments measured at NAV <sup>(3)</sup>	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Short-term investments and cash equivalents	\$ 249,197	—	167,194	82,003	—
<b>Investments in securities:</b>					
Global equity securities					
U.S. equity securities	363,230	—	363,211	16	3
Non-U.S. equity securities	194,239	—	187,236	7,003	—
<b>Fixed income securities:</b>					
U.S. government securities	659,476	—	157	659,319	—
Domestic bonds and long-term notes	239,750	—	1,745	238,005	—
International bonds and long-term notes	78,677	—	—	78,092	585
Investments in private securities	6,000	—	—	—	6,000
Commingled funds - equity	692,701	565,202	48,802	78,697	—
Commingled funds - fixed income	756,409	141,730	554,858	59,821	—
<b>Investments in funds:</b>					
Hedged strategies	1,771,544	1,771,544	—	—	—
Private market investments	1,316,490	1,315,731	—	—	759
Natural resources	522,089	521,881	—	208	—
Real estate partnerships	165,413	165,218	—	—	195
<b>Derivatives</b>					
Derivatives - options	9,679	—	5,687	3,992	—
Marketable real estate investments	3,381	—	—	3,381	—
Oil and gas properties	2,195	—	—	—	2,195
Miscellaneous investments	648	—	648	—	—
Total investments at fair value <sup>(1)</sup>	7,031,118	4,481,306	1,329,538	1,210,537	9,737
Interest in perpetual funds held by others <sup>(2)</sup>	1,130,063	—	—	—	1,130,063
Total assets at fair value	\$ 8,161,181	4,481,306	1,329,538	1,210,537	1,139,800
<b>Financial liabilities:</b>					
Derivative instruments - interest rate swaps	(150,495)	—	—	(150,495)	—
Deposits held in custody for others	(643,902)	—	—	(643,902)	—
Total liabilities at fair value	\$ (794,397)	—	—	(794,397)	—

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

(2) Primarily invested in The Coca Cola Company.

(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.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Investments made directly by the University whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include actively traded common and preferred stock, U.S. government fixed income instruments and non-U.S. government fixed income instruments. Level 1 investments may also include commingled funds 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, 2015 and August 31, 2014, approximately \$4.7 billion and \$4.5 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.

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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, 2015 and 2014 (in thousands):

	Balance as of August 31, 2014	Net gains (losses)	Purchases	Sales	Transfer out of Level 3	Balance as of August 31, 2015
Investments in U.S. equity securities	\$ 3	—	—	—	—	3
Domestic bonds & long-term notes	—	2	400	(2)	—	400
International bonds & long terms notes	585	(183)	390	(7)	—	785
Investments in private securities	6,000	257	5,000	—	—	11,257
Investment in funds:						
Private market investments	759	(228)	185	(37)	—	679
Real estate partnerships	195	4	—	(199)	—	—
Oil and gas properties	2,195	—	60	—	—	2,255
Total investments	9,737	(148)	6,035	(245)	—	15,379
Interest in perpetual funds held by others	1,130,063	(58,532)	—	—	—	1,071,531
Total assets	\$ 1,139,800	(58,680)	6,035	(245)	—	1,086,910

	Balance as of August 31, 2013	Net gains (losses)	Purchases	Sales	Transfer out of Level 3	Balance as of August 31, 2014
Investments in U.S. equity securities	\$ 3	—	—	—	—	3
International bonds & long terms notes	—	166	419	—	—	585
Investments in private securities	—	—	6,000	—	—	6,000
Investment in funds:						
Private market investments	587	(93)	265	—	—	759
Real estate partnerships	—	—	195	—	—	195
Oil and gas properties	2,100	95	—	—	—	2,195
Total investments	2,690	168	6,879	—	—	9,737
Interest in perpetual funds held by others	1,034,124	95,939	—	—	—	1,130,063
Total assets	\$ 1,036,814	96,107	6,879	—	—	1,139,800



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

#### (10) Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land and land improvements	\$ 174,774	174,689
Buildings and improvements	3,006,988	2,933,440
Equipment	2,066,387	1,958,375
Library and museum assets	382,075	359,492
Construction in progress	<u>229,659</u>	<u>187,914</u>
	5,859,883	5,613,910
Less accumulated depreciation	<u>(2,976,471)</u>	<u>(2,761,330)</u>
	<u>\$ 2,883,412</u>	<u>2,852,580</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 2015.

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, 2015 and 2014 is \$57.6 million and \$55.4 million, respectively, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial position.

**EMORY UNIVERSITY**

Notes to Consolidated Financial Statements

August 31, 2015 and 2014

**(11) Long-Term Debt**

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

	<u>Interest rate average</u>	<u>Final maturity</u>	<u>Outstanding principal</u>	
			<u>2015</u>	<u>2014</u>
Tax-exempt fixed-rate revenue bonds:				
2013 Series A	4.93%	October 1, 2043	\$ 209,412	214,578
2011 Series A <sup>(1)</sup>	4.95	September 1, 2041	233,170	234,440
2009 Series B <sup>(2)</sup>	4.78	September 1, 2035	217,051	221,986
2009 Series C	4.90	September 1, 2039	99,335	99,410
2008 Series C	4.96	September 1, 2038	124,027	123,346
2005 Series A	5.06	September 1, 2025	50,440	71,591
Total tax-exempt fixed-rate revenue bonds			<u>933,435</u>	<u>965,351</u>
Tax-exempt variable-rate revenue bonds:				
2013 Series B <sup>(3)</sup>	0.59	October 1, 2039	135,100	135,100
2013 Series C <sup>(3)</sup>	0.69	October 1, 2039	57,865	57,865
2007 Series A	0.98	November 15, 2028	7,453	7,271
2005 Series B	0.04	September 1, 2035	250,000	250,000
2005 Series C	0.04	September 1, 2036	124,150	124,150
Total tax-exempt variable-rate revenue bonds			<u>574,568</u>	<u>574,386</u>
Taxable fixed-rate revenue bonds:				
2009 Series A	5.63	September 1, 2019	249,438	249,297
1994 Series C	8.00	October 1, 2024	5,915	6,285
Series 1991	8.87	April 1, 2022	851	1,351
Total taxable fixed-rate revenue bonds			<u>256,204</u>	<u>256,933</u>
Taxable variable-rate revenue bonds:				
1999 Series B	0.11	November 1, 2029	9,955	10,355
1995 Series B	0.10	November 1, 2025	3,990	5,710
1994 Series B	0.18	October 1, 2024	9,355	9,975
Total taxable variable-rate revenue bonds			<u>23,300</u>	<u>26,040</u>
Commercial paper:				
2010 Program 1 - Tax-exempt	0.08	August 1, 2050	2,834	2,834
2008 Program 1 - Taxable	0.18	April 1, 2047	123,900	128,300
Total commercial paper			<u>126,734</u>	<u>131,134</u>
Other long term debt <sup>(4)</sup>	Various		567	1,555
Total bonds, notes and mortgages payable			<u>\$ 1,914,808</u>	<u>1,955,399</u>

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

- (1) Included in the 2011 Series Bonds is a 5 year maturity of \$92.2 million due on September 1, 2016 at an average interest rate of 4.88%.
- (2) Included in the 2009 Series Bonds is a medium-term maturity of \$43.0 million due on September 1, 2019 at an average interest rate of 4.68%.
- (3) Series 2013B and 2013C bonds are floating rate notes and interest rates are based on a spread to SIFMA.
- (4) Included in other long term debt are the St. Joseph's capital leases.

The University incurred interest expense of \$79.5 million and \$78.3 million in 2015 and 2014, respectively, net of capitalized interest of \$3.5 million in 2015 and 2014. During 2015, the average interest rate on University tax exempt and taxable variable rate demand bonds (VRDB) was 0.04% and 0.17%, respectively. Related indices for this period were 0.04% for tax exempt debt (The Securities Industry and Financial Markets Association Index – SIFMA) and 0.17% for taxable debt (London Interbank Offered Rate – LIBOR).

At August 31, 2015 the aggregate annual maturities of bonds, notes and mortgages payable for the next five years and thereafter are as follows (in thousands):

Payable in fiscal year:		
2016	\$	30,660
2017		113,628
2018		22,362
2019		22,133
2020		302,693
Thereafter		<u>1,387,231</u>
		1,878,707
Unamortized net premium		<u>36,101</u>
	\$	<u><u>1,914,808</u></u>

In 2010, the University established a \$400 million tax exempt Commercial Paper program. The primary purpose of the program is to meet interim financing needs related to capital projects. As of August 31, 2015 and 2014, the University had outstanding balances of \$2.8 million under this program.

In 2008, the University established a \$100 million taxable Commercial Paper program. In 2014, the University increased the program to \$150 million. As of August 31, 2015 and 2014, the University had an outstanding balance of \$123.9 and \$128.3 million, respectively, under this program.

The University has standby credit facilities to enable the University to purchase tendered variable rate debt in the event of a failed remarketing. Currently, it has two diversified facilities totaling \$200 million that are committed for this sole purpose and cannot be used for operating needs of the University. As of August 31, 2015 and 2014, there were no draws against these lines of credit.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

The University also has a \$75 million line of credit and the Emory Clinic has a \$15 million line of credit at August 31, 2015. There were no balances outstanding as of August 31, 2015. There were no draws on either line of credit for 2015 and 2014.

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, 2015 and 2014.

During fiscal year 2014, Emory Healthcare and Emory-Adventist Health System, made the decision to close Emory Adventist Hospital and sell the related real estate property during fiscal year 2015 due to sustainability issues. The closure process was completed during fiscal year 2015. As a result, the university's obligation to guarantee \$6.3 million of an \$18.1 million outstanding loan payable to Adventist Health System is no longer in place.

The terms of the University's long term debt provide for certain financial and nonfinancial covenants, including provisions as to the use of the proceeds, limits as to arbitrage and bond issue costs, and various other administrative requirements. At August 31, 2015, management believes that the University was in compliance with these covenants.

#### (12) Temporarily and Permanently Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Appreciation on endowments restricted until appropriated	\$ 2,432,747	2,603,231
Term endowments	125,030	124,724
Contributions receivable, time and purpose restricted	74,787	85,192
Capital projects and other donor designations	168,970	183,643
Annuity and life income agreements	5,842	8,471
	<u>\$ 2,807,376</u>	<u>3,005,261</u>

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

	<u>2015</u>	<u>2014</u>
Donor-restricted endowments	\$ 806,288	731,633
Interests in perpetual funds held by others	1,071,531	1,130,063
Contributions receivable, restricted for endowment	17,937	50,475
Annuity and life income agreements	1,874	2,215
Split interest trusts	3,547	3,162
	<u>\$ 1,901,177</u>	<u>1,917,548</u>

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

#### (13) Investment Return

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

	<u>2015</u>	<u>2014</u>
Endowment spending distribution for current operations	\$ 165,880	157,174
Distributions from perpetual funds	32,490	29,979
Other investment income designated for current operations	41,266	37,477
Total operating return	<u>239,636</u>	<u>224,630</u>
Realized gains on investments	281,593	416,749
Unrealized (losses) gains on investments, net	(587,400)	316,861
Change in undistributed income from perpetual funds held by others	(58,532)	95,939
Total nonoperating (loss) gain	<u>(364,339)</u>	<u>829,549</u>
Total investment return	<u>\$ (124,703)</u>	<u>1,054,179</u>

In addition to a core internal group of investment professionals dedicated to the management of Emory's investments, the University also employs external investment managers. External management fees paid directly (i.e., segregated investment account fees, custody fees, internal staff expenses and consulting reviews) totaled \$28.7 million and \$25.9 million for fiscal 2015 and 2014, respectively. Fees and expenses paid to investment managers related to investments in funds which are not segregated from earnings are recorded on the accrual basis and are netted against either the investment income or net asset values of the funds themselves.

#### (14) Retirement and Deferred Compensation Plans

The University has a defined contribution plan under Internal Revenue Code (IRC) Section 403(b) covering certain employees and teaching staff. The University contributes an amount equal to 6% of each eligible employee's compensation to the plan as well as a supplemental contribution of 3% based on a 1.5 to 1 match of employee contributions of up to 2% of compensation. Emory Healthcare sponsors a retirement plan, covering most full time employees, under which annuities are purchased with contributions by Emory Healthcare and its employees. The benefits are vested only to the extent of the annuities purchased. The Emory Clinic (TEC) sponsors The Emory Clinic, Inc. Retirement Savings Plan (the Plan), covering all its employees, except those considered leased employees or those covered under collective bargaining agreements, as defined. The Plan provides for employees to make salary reduction contributions and for TEC to make discretionary contributions for employees who have attained the age of 21 and are employees at the date the contribution is made. The Plan provides for contributions at an annual determined percentage of compensation and employees cliff vest in employer contributions after five years of service. Retirement

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

expense totaled \$118.9 million and \$118.5 million during 2015 and 2014, 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, 2015 and 2014, respectively, the University held other assets of \$86.0 million and \$82.5 million under the plan. These assets are included in other assets, which are designated by the University to pay future Salary Deferral Plan payments. The assets are held in separate investment funds for which \$83.1 million and \$79.6 million are classified as Level 1 as of August 31, 2015 and 2014, respectively, and \$2.9 million are classified as Level 2 as of both August 31, 2015 and 2014. Associated liabilities for the obligations of \$86.0 million and \$82.5 million as of August 31, 2015 and 2014, respectively, are included in accrued liabilities for benefit obligations and professional liabilities.

#### (15) Pension Plan

Emory Healthcare sponsors a defined benefit pension plan (the Plan). The plan was curtailed, effective December 31, 2011. The terms of the curtailment generally provide that no further benefit accrual under the Plan is provided for service after the effective date nor will new entrants into the Plan be permitted after the effective date.

The JOC assumed certain defined benefit pension liabilities covering certain employees of the entities contributed to the JOC by SJHS (SJHS Pension Plan). The Plan was curtailed, effective December 31, 2011, and the JOC has agreed to provide for funding of the plan, generally over 10 years, beginning in fiscal 2015, subject to certain terms and conditions.

At the time of the formation of the JOC and assumption of control over the JOC by 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, 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):

	2015		2014	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Projected benefit obligation, beginning of year	\$ 286,612	140,614	242,941	119,060
Interest cost	12,291	5,947	12,446	5,995
Actuarial loss (gain)	3,273	(2,357)	35,830	19,267
Benefits paid	(15,788)	(4,137)	(4,605)	(3,708)
Projected benefit obligation, end of year	\$ <u>286,388</u>	<u>140,067</u>	<u>286,612</u>	<u>140,614</u>

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Given the fiscal 2012 curtailment of the plans, the accumulated benefit obligations at August 31, 2015 and 2014 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):

	2015		2014	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Fair value of plan assets, beginning of year	\$ 215,453	93,874	180,815	85,220
Actual return on plan assets	(9,782)	(3,718)	37,292	12,362
Employer contributions	2,623	2,912	1,951	—
Benefits paid	(15,788)	(4,137)	(4,605)	(3,708)
Fair value of plan assets, end of year	<u>\$ 192,506</u>	<u>88,931</u>	<u>215,453</u>	<u>93,874</u>
Funded status - accrued pension cost recognized in the consolidated statements of financial position	<u>\$ (93,882)</u>	<u>(51,136)</u>	<u>(71,159)</u>	<u>(46,740)</u>

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

	2015		2014	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Interest cost	\$ 12,291	5,947	12,446	5,995
Expected return on plan assets	(15,349)	(6,484)	(13,930)	(6,243)
Amortization of prior service cost	—	(438)	—	(438)
Recognized actuarial loss	6,881	1,592	4,254	1,231
Net periodic pension cost	<u>\$ 3,823</u>	<u>617</u>	<u>2,770</u>	<u>545</u>

The amounts accumulated in unrestricted net assets for net unrecognized actuarial loss totaled \$84.9 million and \$63.4 million as of August 31, 2015 and 2014, respectively, for Emory Healthcare and \$53.2 million and \$46.6 million as of August 31, 2015 and 2014, respectively, for SJHS Pension Plan.

Emory Healthcare's net loss of \$6.3 million and SJHS Pension Plan's net loss of \$1.3 million are expected to be amortized from unrestricted net assets into net periodic pension cost in fiscal 2016.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated statements of financial position for 2015 and 2014 follow:

	2015		2014	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Discount rate	4.67%	4.62%	4.33%	4.30%
Expected long-term rate of return on plan assets	8.00	7.50	8.00	7.50

Weighted average assumptions used to determine net periodic pension cost for 2015 and 2014 follow:

	2015		2014	
	Emory Healthcare	SJHS Pension Plan	Emory Healthcare	SJHS Pension Plan
Discount rate	4.33%	4.30%	5.17%	5.12%
Expected return on plan assets	8.00	7.50	8.00	7.50

#### *Emory Healthcare Plan Assets*

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

The Plan's expected long-term rate of return on assets is determined by reviewing the historical return of each asset category comprising the Plan's target asset allocation.



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

		2015				
		Total fair value	Fair value hierarchy		Target allocation	Total asset allocation
		NAV	Level 1	Level 2		
Investments:						
Short-term investments and cash equivalents	\$	(220)	47	(267)	—	—%
Commingled funds - equity		135,078	135,078	—	—	70
Commingled funds - fixed income		57,648	57,648	—	—	30
Total investments	\$	192,506	192,773	(267)	—	100%
		2014				
		Total fair value	Fair value hierarchy		Target allocation	Total asset allocation
		NAV	Level 1	Level 2		
Investments:						
Short-term investments and cash equivalents	\$	319	—	319	—	—%
Commingled funds - equity		149,560	149,560	—	—	70
Commingled funds - fixed income		65,574	65,574	—	—	30
Total investments	\$	215,453	215,134	319	—	100%

### ***SJHS Pension Plan Assets***

Under the terms of the agreement forming the JOC, the assets of the SJHS Pension Plan formally remain assets of SJHS and the plan assets remain invested in the CHE Trinity Health Pension Investment Program. Accordingly, neither the JOC nor 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.



## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

	<b>2015</b>			<b>2014</b>
	<b>Emory University</b>	<b>Emory Healthcare</b>	<b>Total</b>	<b>Total</b>
APBO, beginning of year	\$ 83,494	46,803	130,297	108,178
Service cost	1,531	678	2,209	1,936
Interest cost	3,551	1,991	5,542	5,517
Plan changes	—	—	—	263
Actuarial loss (gain)	(255)	(1,897)	(2,152)	19,378
Benefits paid	(2,982)	(1,620)	(4,602)	(5,645)
Retiree drug subsidy paid	—	—	—	670
APBO, end of year	<u>\$ 85,339</u>	<u>45,955</u>	<u>131,294</u>	<u>130,297</u>

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):

	<b>2015</b>			<b>2014</b>
	<b>Emory University</b>	<b>Emory Healthcare</b>	<b>Total</b>	<b>Total</b>
Fair value of plan assets, beginning of year	\$ 59,853	22,136	81,989	71,158
Actual return on plan assets	(1,172)	(743)	(1,915)	12,577
Benefits paid by Emory	—	(1,482)	(1,482)	(1,947)
Retiree drug subsidy	—	—	—	201
Fair value of plan assets, end of year	<u>\$ 58,681</u>	<u>19,911</u>	<u>78,592</u>	<u>81,989</u>
Funded status - accrued postretirement benefit cost recognized in the consolidated statements of financial position	<u>\$ (26,658)</u>	<u>(26,044)</u>	<u>(52,702)</u>	<u>(48,308)</u>

Actuarial assumptions used to determine the values of the APBO and the benefit costs for years ended August 31, 2015 and 2014 included a discount rate of 4.67% and 4.33%, 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, 2015 and 2014. During fiscal year 2014, the University's Health Plan Steering Committee approved a change in the postretirement benefits plan whereby it will convert to a Medicare exchange model. The model will use a concierge service to assist participants with plan selection and will include a Health Reimbursement Account (HRA) of \$100 per month for each participant to help pay for the coverage. It will also provide

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

coverage of drug costs for participants in a Part D drug plan who have catastrophic, as defined, expenses. The effective date for this change is September 1, 2014.

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

	2015			2014
	Emory University	Emory Healthcare	Total	Total
Service cost of benefits earned	\$ 1,531	678	2,209	1,936
Interest cost on APBO	3,551	1,991	5,542	5,517
Expected return on plan assets	(4,669)	(1,706)	(6,375)	(5,472)
Recognized net actuarial loss	1,903	1,523	3,426	2,683
Net periodic postretirement benefit cost	\$ 2,316	2,486	4,802	4,664

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

	2015			2014
	Emory University	Emory Healthcare	Total	Total
Net unrecognized actuarial loss	\$ 36,349	17,171	53,520	50,735
Prior service cost	(236)	426	190	263
Total	36,113	17,597	53,710	50,998

In fiscal 2016, net unrecognized actuarial losses of \$2.3 million for Emory University and \$1.4 million for Emory Healthcare are expected to be amortized from unrestricted net assets into net periodic postretirement benefit cost.

#### ***Plan Assets***

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

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

	2015					
	Total fair value	Fair value hierarchy		Target allocation	Total asset allocation	
		NAV	Level 1			Level 2
Investments:						
Commingled funds - equity	44,138	26,880	17,258	—	75%	75%
Commingled funds - fixed income	14,543	6,209	8,334	—	25	25
Total investments	\$ 58,681	33,089	25,592	—	100%	100%
	2014					
	Total fair value	Fair value hierarchy		Target allocation	Total asset allocation	
		NAV	Level 1			Level 2
Investments:						
Commingled funds - equity	45,502	27,642	17,860	—	75%	76%
Commingled funds - fixed income	14,351	6,116	8,235	—	25	24
Total investments	\$ 59,853	33,758	26,095	—	100%	100%

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

	2015					
	Total fair value	Fair value hierarchy		Target allocation	Total asset allocation	
		NAV	Level 1			Level 2
Investments:						
Commingled funds - equity	\$ 14,796	7,693	7,103	—	75%	74%
Commingled funds - fixed income	5,115	1,784	3,331	—	25	26
Total investments	\$ 19,911	9,477	10,434	—	100%	100%
	2014					
	Total fair value	Fair value hierarchy		Target allocation	Total asset allocation	
		NAV	Level 1			Level 2
Investments:						
Commingled funds - equity	\$ 16,609	8,533	8,076	—	75%	77%
Commingled funds - fixed income	5,527	1,922	3,605	—	25	23
Total investments	\$ 22,136	10,455	11,681	—	100%	100%

### *Cash Flows*

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

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

#### *Expected Future Benefit Payments*

Annual future benefit payments are expected to range from \$3.1 million to \$3.9 million for Emory University and from \$1.7 million to \$2.1 million for Emory Healthcare, for the next five years.

#### **(17) Charity Care and Community Benefits**

Emory Healthcare provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because such operating companies do not pursue collection of amounts determined to qualify as charity care, such amounts are not included in net patient service revenue.

Records are maintained to identify and monitor the level of charity care provided. These records include the amount of charges foregone and actual costs for services furnished under its charity and indigent care policies. The cost of charity care provided totaled approximately \$66.5 million and \$88.0 million for the years ended August 31, 2015 and 2014, 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.

#### **(18) Functional Expenses**

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

	<u>2015</u>	<u>2014</u>
Instruction	\$ 403,378	377,491
Research	418,929	400,182
Public service	89,810	82,469
Academic support	152,928	131,113
Student services	83,202	76,848
Institutional support	203,567	178,765
Scholarships and fellowships	16,055	15,659
Medical services	231,519	244,016
Healthcare services	2,687,532	2,547,754
Auxiliary enterprises	45,113	41,790
Independent operations	<u>20,800</u>	<u>18,615</u>
Total operating expenses	<u>\$ 4,352,833</u>	<u>4,114,702</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 2015 and 2014 were \$183.4 million and \$181.5 million, respectively. Fundraising costs, measured by the operating budgets for the function, were approximately \$23.3 million and \$18.2 million in 2015 and 2014, respectively.

## EMORY UNIVERSITY

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

#### **(19) Medical Professional and General Liability Insurance Coverage**

CCIC, Emory Healthcare's wholly owned off-shore captive insurer, provides claims-made primary medical professional and general liability coverage for the University, the Hospitals, Emory Clinic, Emory Specialty Associates, and Wesley Woods Center.

As of August 31, 2015 and 2014, the University has recorded an accrual for estimated losses associated with all retained CCIC risks of approximately \$124.9 million (discounted at 2%) and \$107.6 million (discounted at 2%), respectively.

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

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

#### **(20) Related-Party Transactions**

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

Funds held in trust for others include \$609.9 million and \$603.5 million representing CCI's investment in the University's long-term investment portfolio of August 31, 2015 and 2014, respectively.

#### **(21) Commitments and Contingencies**

The University is in the process of constructing, renovating and equipping certain facilities for which the outstanding commitments at August 31, 2015 totaled \$34.3 million.

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

## **EMORY UNIVERSITY**

### Notes to Consolidated Financial Statements

August 31, 2015 and 2014

University would be liable for the excess. Management of the University believes any current pending lawsuit subjecting the University to liability would not have a materially adverse effect on the University's consolidated financial position.

#### **(22) Subsequent Events**

Emory has evaluated subsequent events after the statement of position date of August 31, 2015 through December 18, 2015, 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, 2015 and 2014*  
*(Dollars in thousands)*

Schedule 1

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 401,168	\$ 433,966
Student accounts receivable, net	46,715	51,150
Loans receivable, net	28,411	28,467
Contributions receivable, net	92,724	135,667
Other receivables, net	156,462	151,471
Prepaid expenses, deferred charges and other assets	200,324	212,315
Investments	6,534,779	6,697,802
Interests in perpetual funds held by others	1,071,531	1,130,063
Property and equipment, net	1,920,761	1,915,843
Due from affiliates	316,747	490,004
<b>Total assets</b>	<b>\$ 10,769,622</b>	<b>\$ 11,246,748</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable and accrued liabilities	\$ 179,447	\$ 166,197
Liability for derivative instruments	174,996	148,731
Interest payable	28,828	29,690
Annuities payable	17,073	17,821
Bonds, notes and mortgages payable	1,906,788	1,946,573
Accrued liabilities for benefit obligations and professional liabilities	122,271	145,113
Deferred tuition and other revenue	438,434	422,780
Funds held in trust for others	645,996	643,902
Government advances for federal loan programs	17,834	17,802
<b>Total liabilities</b>	<b>3,531,667</b>	<b>3,538,609</b>
Unrestricted net assets	2,682,463	2,795,319
Temporarily restricted net assets	2,657,818	2,998,775
Permanently restricted net assets	1,897,674	1,914,045
<b>Total net assets</b>	<b>7,237,955</b>	<b>7,708,139</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,769,622</b>	<b>\$ 11,246,748</b>

See accompanying independent auditors' report.

**EMORY UNIVERSITY (excluding Emory Healthcare)**
**Schedule 2**
**STATEMENT OF ACTIVITIES - SUPPLEMENTARY INFORMATION**
*Year ended August 31, 2015 ( with summarized financial information for the year ended 2014)*
*(Dollars in thousands)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total August 31, 2015	Total August 31, 2014
<b>OPERATING REVENUES:</b>					
Tuition and fees	\$ 617,826	-	-	\$ 617,826	\$ 592,385
Less: Scholarship allowances	(221,694)	-	-	(221,694)	(215,434)
Net tuition and fees	396,132	-	-	396,132	376,951
Endowment spending distribution	165,880	-	-	165,880	157,174
Distributions from perpetual funds	32,490	-	-	32,490	29,979
Other investment income designated for current operations	39,882	-	-	39,882	34,804
Gifts and contributions	36,945	-	-	36,945	41,348
Grants and contracts	372,791	-	-	372,791	365,653
Indirect cost recoveries	113,945	-	-	113,945	110,516
Medical services	267,327	-	-	267,327	234,855
Sales and services of auxiliary enterprises	71,743	-	-	71,743	68,850
Independent operations	22,006	-	-	22,006	20,543
Other revenue	85,130	-	-	85,130	67,360
Net assets released from restrictions	11,371	(5,030)	-	6,341	3,648
<b>Total operating revenues</b>	<b>1,615,642</b>	<b>(5,030)</b>	<b>-</b>	<b>1,610,612</b>	<b>1,511,681</b>
<b>OPERATING EXPENSES:</b>					
Salaries and fringe benefits	1,184,140	-	-	1,184,140	1,112,192
Student financial aid	11,699	-	-	11,699	11,297
Other operating expenses	286,667	-	-	286,667	269,364
Interest on indebtedness	58,321	-	-	58,321	53,912
Depreciation	124,474	-	-	124,474	120,184
<b>Total operating expenses</b>	<b>1,665,301</b>	<b>-</b>	<b>-</b>	<b>1,665,301</b>	<b>1,566,949</b>
<b>NET OPERATING REVENUES/(EXPENSES):</b>	<b>(49,659)</b>	<b>(5,030)</b>	<b>-</b>	<b>(54,689)</b>	<b>(55,268)</b>
<b>NONOPERATING ACTIVITIES:</b>					
Investment return (less than) in excess of spending distribution for current operations	(132,828)	(171,080)	1,934	(301,974)	715,875
Change in undistributed income from perpetual funds held by others	-	-	(58,532)	(58,532)	95,939
Gifts and contributions	(2,291)	21,977	40,435	60,121	107,762
Net assets released from restrictions	36,298	(42,639)	-	(6,341)	(3,648)
Loss on disposal of property and equipment	(4,485)	-	-	(4,485)	(3,606)
Change in fair value of derivative instruments	(26,265)	-	-	(26,265)	(49,449)
Pension and postretirement benefit plans	3,237	-	-	3,237	(9,200)
Other nonoperating items, net	8,522	(144,185)	(208)	(135,871)	(6,364)
<b>Total nonoperating activities</b>	<b>(117,812)</b>	<b>(335,927)</b>	<b>(16,371)</b>	<b>(470,110)</b>	<b>847,309</b>
Net transfers from affiliates	54,615	-	-	54,615	56,569
<b>CHANGE IN NET ASSETS</b>	<b>(112,856)</b>	<b>(340,957)</b>	<b>(16,371)</b>	<b>(470,184)</b>	<b>848,610</b>
<b>BEGINNING NET ASSETS</b>	2,795,319	2,998,775	1,914,045	7,708,139	6,859,529
<b>ENDING NET ASSETS</b>	<b>\$ 2,682,463</b>	<b>\$ 2,657,818</b>	<b>\$ 1,897,674</b>	<b>\$ 7,237,955</b>	<b>\$ 7,708,139</b>

See accompanying independent auditors' report.

## STATEMENTS OF CASH FLOWS - SUPPLEMENTARY INFORMATION

Years Ended August 31, 2015 and 2014

(Dollars in thousands)

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (470,184)	\$ 848,610
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Noncash equity transfer to affiliate	137,425	-
Gifts and contributions for endowment and capital projects	3,794	(33,850)
Net realized gain on sale of investments	(280,859)	(408,602)
Net unrealized loss (gains) on investments	434,871	(520,845)
Loss on disposal of property and equipment	4,485	3,606
Interests in perpetual funds held by others	58,532	(95,939)
Depreciation and amortization	123,817	119,554
Accretion/amortization of bond discounts/premiums	(2,060)	(3,592)
Change in fair value of derivative instruments	26,265	49,449
Gifts of securities and other assets	(7,910)	(19,785)
(Increase) decrease in:		
Accounts receivable, net	(556)	(15,740)
Contributions receivable for operations	(10,068)	(45,512)
Prepaid expenses, deferred charges and other assets	19,347	(16,711)
Increase (decrease) in:		
Accounts payable and interest payable	(2,837)	4,029
Accrued liabilities for benefit obligations and professional liabilities	(22,842)	24,431
Deferred tuition and other revenue	15,654	19,367
<b>Net cash provided (used in) by operating activities</b>	<b><u>26,874</u></b>	<b><u>(91,530)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Disbursements of loans to students	(4,863)	(6,239)
Repayment of loans from students	4,919	4,494
Proceeds from sales and maturities of investments	22,441,599	15,174,832
Purchases of investments	(22,424,678)	(14,950,116)
Purchases of property, plant and equipment	(118,652)	(172,645)
Increase in deposits held in custody for others	2,094	112,366
Decrease in investments held for affiliate	-	(185,646)
<b>Net cash used in investing activities</b>	<b><u>(99,581)</u></b>	<b><u>(22,954)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Gifts and contributions for endowment and capital projects	49,218	134,687
Proceeds from bonds and mortgages payable	-	28,300
Principal repayments of bonds and mortgages payable	(37,725)	(61,259)
Decrease (increase) in affiliate debt, net	35,832	82,528
Required posting of collateral	(6,700)	(600)
(Decrease) increase in annuities payable	(748)	120
Increase in government advances for federal loan programs	32	38
<b>Net cash provided by financing activities</b>	<b><u>39,909</u></b>	<b><u>183,814</u></b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b><u>(32,798)</u></b>	<b><u>69,330</u></b>
<b>Cash and cash equivalents at beginning of year</b>	<b><u>433,966</u></b>	<b><u>364,636</u></b>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 401,168</u></b>	<b><u>\$ 433,966</u></b>
Supplemental disclosure:		
Cash paid for interest	\$ 61,600	\$ 55,967
Accounts payable attributable to property, plant and equipment purchases	15,223	13,352
Income taxes paid, net	368	242
Pledge payments received in form of securities and immediately sold	28,000	80,000

See accompanying independent auditors' report.