



DUKE UNIVERSITY

OMB Circular A-133 Reports

Year ended June 30, 2013

EIN #1 – 56-053-2129

DUKE UNIVERSITY
OMB Circular A-133 Reports

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Duke University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Duke University, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Duke University as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013 on our consideration of Duke University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duke University's internal control over financial reporting and compliance.

KPMG LLP

October 8, 2013

Consolidated Balance Sheets

JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
Assets:		
Cash and cash equivalents	\$ 377,493	\$ 526,160
Accounts receivable, net	563,675	593,916
Prepaid expenses, inventories, and other assets	158,393	144,523
Contributions receivable, net	430,104	315,645
Investments	9,420,139	8,375,005
Investments attributable to noncontrolling interests	535,512	358,383
Deposits with bond trustees	77,268	230,282
Land, buildings, and equipment, net	3,276,533	2,979,525
Interests in perpetual trusts held by others	697,816	647,713
Total assets	<u>\$ 15,536,933</u>	<u>\$14,171,152</u>
Liabilities:		
Accounts payable and accrued payrolls	\$ 682,931	\$ 669,395
Deferred revenues and deposits	161,821	169,908
Notes and bonds payable	2,662,461	2,652,451
Annuity and other split-interest obligations	43,663	42,888
Accrued postretirement/postemployment and other benefit obligations	282,486	497,194
Other liabilities	267,913	335,951
Total liabilities	4,101,275	4,367,787
Net Assets:		
Unrestricted:		
Net assets attributable to Duke	6,025,805	5,089,219
Net assets attributable to noncontrolling interests	535,512	363,147
Total unrestricted net assets	6,561,317	5,452,366
Temporarily restricted	2,339,182	2,027,612
Permanently restricted	2,535,159	2,323,387
Total net assets	<u>11,435,658</u>	<u>9,803,365</u>
Total liabilities and net assets	<u>\$ 15,536,933</u>	<u>\$ 14,171,152</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

YEARS ENDED JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
Unrestricted Net Assets:		
<i>Operating revenues:</i>		
Tuition and fees	\$ 642,354	\$ 610,744
Less student aid	(250,270)	(237,821)
Tuition and fees, net	392,084	372,923
Grants, contracts and similar agreements:		
Government sources	584,951	589,013
The Private Diagnostic Clinic, PLLC	99,339	99,847
Other	406,456	374,572
Total grants, contracts and similiar agreements	1,090,746	1,063,432
Contributions	110,900	88,189
Investment return designated for current operations:		
The Duke Endowment	12,500	12,500
Endowment spending	295,119	269,582
Other investment income	63,324	65,012
Total investment return designated for operations	370,943	347,094
Auxiliary enterprises	175,968	170,312
Net patient service revenue	2,385,597	2,329,696
Other	207,252	202,439
Net assets released from restrictions	41,486	37,839
Total operating revenues	4,774,976	4,611,924
<i>Operating expenses:</i>		
Salaries and wages	2,076,650	1,973,818
Employee benefits	512,381	466,014
Student aid	38,682	34,971
Other operating expenses	1,658,892	1,634,493
Interest expense	100,676	97,166
Depreciation and amortization	282,980	279,130
Total operating expenses	4,670,261	4,485,592
Excess of operating revenues over operating expenses	104,715	126,332

Consolidated Statements of Activities (CONTINUED)

	2013	2012
Nonoperating activities:		
Net assets released from restrictions	\$ 24,810	\$ 13,621
Investment return in excess of (less than) amounts designated for current operations	481,024	(149,609)
Nonperiodic changes in defined benefit plans	256,518	(381,925)
Other, net	69,519	(52,649)
Change in unrestricted net assets from nonoperating activities	831,871	(570,562)
Change in unrestricted net assets attributable to Duke	936,586	(444,230)
Change in unrestricted net assets attributable to the noncontrolling interests	172,365	(13,589)
Change in unrestricted net assets	1,108,951	(457,819)
Temporarily Restricted Net Assets:		
Contributions	123,373	64,787
Net assets released from restrictions	(66,296)	(51,460)
Investment return in excess of (less than) amounts designated for current operations	255,181	(136,270)
Other, net	(688)	(27,167)
Change in temporarily restricted net assets	311,570	(150,110)
Permanently Restricted Net Assets:		
Contributions	159,804	138,496
Investment return in excess of amounts designated for current operations	4,032	13,673
Gains (losses) on perpetual trusts held by others	50,103	(36,628)
Other, net	(2,167)	(15,595)
Change in permanently restricted net assets	211,772	99,946
Change in total net assets	1,632,293	(507,983)
Net assets at beginning of year	9,803,365	10,311,348
Net assets at end of year	\$ 11,435,658	\$ 9,803,365
Certain amounts disaggregated above are presented below in the aggregate:		
Contributions	\$ 394,077	\$ 291,472
Investment return	1,111,180	74,888

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED JUNE 30, 2013 AND 2012
(DOLLARS IN THOUSANDS)

	2013	2012
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 1,632,293	\$ (507,983)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in net assets related to noncontrolling interests, net	(172,365)	13,589
Depreciation and amortization	282,980	279,130
Nonperiodic changes in defined benefit plans	(256,518)	381,925
Provision for bad debt	75,071	118,351
Change in fair value of swap instruments	(46,926)	55,188
Loss on disposals of land, buildings, and equipment	7,254	2,829
Contributions of property	...	(418)
Restricted contributions received for long-term investment and capital projects	(168,718)	(166,358)
Permanently restricted investment return	(4,032)	(13,673)
Permanently restricted losses on other nonoperating items	2,167	9,203
Net realized and unrealized (gains) losses on investments	(1,042,030)	4,904
(Gains) losses on interests in perpetual trusts	(50,103)	41,093
Change in:		
Accounts receivable, net	(43,119)	(101,711)
Prepaid expenses, inventories, and other assets	(14,392)	(14,146)
Contributions receivable, net	(114,961)	(72,300)
Accounts payable and accrued payrolls	13,536	34,851
Deferred revenues and deposits	(8,087)	(27,157)
Annuity and other split-interest obligations	775	(214)
Accrued postretirement/postemployment and other benefit obligations	41,810	11,926
Other liabilities	(21,112)	16,358
Net cash provided by operating activities	113,523	65,387

Consolidated Statements of Cash Flows (CONTINUED)

	2013	2012
<i>Cash flows from investing activities:</i>		
Purchases of investments	(12,258,584)	(11,687,768)
Proceeds from sales and maturities of investments	12,122,123	12,056,312
Purchases of land, buildings, and equipment	(587,565)	(561,310)
Proceeds from disposals of land, buildings, and equipment	58	289
Disbursements for loans to students	(6,913)	(6,251)
Repayments of loans by students	5,704	6,981
Decrease (increase) in deposits with bond trustees	153,014	(138,021)
Net cash used in investing activities	(572,163)	(329,768)
<i>Cash flows from financing activities:</i>		
Restricted contributions received for long-term investment and capital projects	168,718	166,358
Permanently restricted investment return	4,032	13,673
Permanently restricted losses on other nonoperating items	(2,167)	(9,203)
Principal payments on notes and bonds payable	(82,428)	(495,939)
Proceeds from borrowings	93,225	794,709
Payments to noncontrolling interests	...	(12,726)
Proceeds from noncontrolling interests	128,593	9,495
Net cash provided by financing activities	309,973	466,367
Net change in cash and cash equivalents	(148,667)	201,986
Cash and cash equivalents at beginning of year	526,160	324,174
Cash and cash equivalents at end of year	\$ 377,493	\$ 526,160
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid for interest (net of amounts capitalized)	\$ 126,067	\$ 96,174

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(DOLLARS IN THOUSANDS)

1. Overview of Duke University

Duke University is a private, coeducational, nonprofit institution located primarily in Durham, North Carolina, which owns and operates educational and research facilities (the University). Duke University Health System, Inc. (DUHS), a North Carolina nonprofit corporation, is a controlled affiliate of the University. Collectively, the University and DUHS are referred to herein as “Duke.” The University is governed by a Board of Trustees (the Board) with thirty-seven members, consisting of the President of the University and thirty-six members representing private, public, and community interests.

The University’s programs include undergraduate and graduate programs in Arts and Sciences, Engineering, Nursing, and Public Policy and professional schools in Business, Divinity, Environment, Law, Medicine, and Nursing, as well as programs in Allied Health.

DUHS operates a health care system consisting principally of:

- **Duke University Hospital** – a quaternary care teaching hospital located on the campus of Duke in Durham, North Carolina, licensed for 957 acute care and specialty beds, leased from the University, operated by DUHS, providing patient care and serving as a site for medical education provided by the Duke University School of Medicine (School of Medicine) and clinical research conducted by the School of Medicine.
- **Duke Regional Hospital** – a full-service community hospital located in Durham, North Carolina, licensed for 369 acute care

beds, leased from Durham County, and operated by DUHS under agreements with concurrent terms of forty (40) years.

- **Duke Raleigh Hospital** – a community hospital located in Raleigh, North Carolina, licensed for 186 acute care beds, leased from the University, operated by DUHS, and providing patient care.
- **Duke University Affiliated Physicians, Inc. (DUAP)** – a North Carolina nonprofit corporation, doing business as Duke Primary Care, consisting of twenty (20) primary care physician practices located in Alamance, Chatham, Durham, Granville, Orange, Vance, and Wake Counties, North Carolina, five (5) urgent care centers located in Durham and Wake Counties, and a pediatric practice with two (2) locations in Durham County.
- **Durham Casualty Company, Ltd. (DCC)** – a wholly owned subsidiary of DUHS, domiciled in Bermuda, insuring a portion of the medical malpractice risks and patient general liability risks of DUHS clinical providers and the The Private Diagnostic Clinic, PLLC (PDC) (see Note 12).

The consolidated financial statements include the University, DUHS and all other entities in which Duke has a significant financial interest and control.

All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of Duke have been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles (GAAP). Based on the existence or absence of externally imposed restrictions, Duke classifies resources into three categories: unrestricted, temporarily restricted and permanently restricted net assets.

Unrestricted net assets are free of externally imposed restrictions. All revenues, gains, and losses that are not temporarily or permanently restricted by external parties are included in this classification. All expenses are reported as decreases in unrestricted net assets.

Temporarily restricted net assets are subject to externally imposed restrictions that will be met either by actions of Duke or the passage of time. These net assets include unconditional pledges, split-interest agreements and accumulated appreciation on donor-restricted endowments which have not yet been appropriated by the Board of Trustees for expenditure.

Permanently restricted net assets are subject to externally imposed restrictions that require they be maintained permanently by Duke. Generally, the donors of these assets permit Duke to use all or part of the income earned on related investments for general or specific purposes. These net assets include unconditional

pledges, donor-restricted endowments (at historical value), split-interest agreements, and interests in perpetual trusts held by others.

Expirations of temporary restrictions on net assets (i.e., the externally stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions in the consolidated statements of activities. Contributions, including unconditional promises to give, are recognized as revenue in the period received. Contributions for acquisition or construction of plant facilities are released from restrictions in the period in which the assets are placed in service. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in unrestricted net assets.

Operating results (change in unrestricted net assets from operating activity) in the consolidated statements of activities reflect all transactions that change unrestricted net assets, except for investment return in excess of or less than amounts designated for current operations, nonperiodic changes in defined benefit plans, changes in the fair value of derivative financial instruments, and certain nonrecurring items.

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 Duke'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.

The three levels of the hierarchy of inputs used to measure fair value are described briefly as follows:

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

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Unobservable inputs for the asset or liability, used in situations in which little or no market activity exists for the asset or liability at the measurement date.

The categorization of fair value measurements by level of the hierarchy is based upon the lowest level input that is significant to the overall fair value measurement for a given asset or liability.

Fair value measurements of investments for which the measurement was based on net asset value (NAV) (or its equivalent) as provided by an external manager are categorized within Level 2 to the extent such investments were redeemable with the manager at the NAV (or its equivalent) at the reporting date or within the near term (defined by Duke as within approximately 90 days of the reporting date). Measurements of any such investments that were not redeemable at the reporting date or within the near term, whether by nature of the investment or as a result of unexpired terms or conditions restricting redemption at the reporting date, are categorized within Level 3.

In the event that changes in the inputs used in the fair value measurement of an asset or liability results in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

Cash and Cash Equivalents

Cash equivalents include certain assets invested in the Short Term Account (STA), all of which can be liquidated within thirty (30) days. Duke utilizes the STA to fund daily cash needs, and such assets, reported at fair value, primarily consist of short-term U.S. Treasury securities, other short-term, highly-liquid investments, and certain fixed income securities. Cash and cash equivalents that are managed as part of Duke's investments are reported within investments, as these funds are not used for operating needs.

Prepaid Expenses, Inventories, and Other Assets

Prepaid expenses, inventories, and other assets primarily include inventories, which are valued at the lower of average cost or fair value.

Contributions Receivable

Pledges that represent unconditional promises to give are recognized at fair value as contributions—either temporarily restricted or

permanently restricted—in the period such promises are made by donors. Contributions recognized as such during the year ended June 30, 2009 and subsequent periods are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan. Contributions recognized in prior periods under such commitments were recorded at a discount based on a U.S. Treasury rate. Amortization of the discounts is recorded as additional contribution revenue. Allowance is made for uncollectible contributions based upon management's expectations regarding collection of outstanding promises to give and past collection experience. These inputs represent Level 3 inputs on the fair value hierarchy.

In contrast to unconditional promises as described above, conditional promises are not recorded until donor conditions are substantially met.

Investments

DUMAC, Inc. (DUMAC), a separate nonprofit support corporation organized and controlled by the University, is responsible for managing investment assets for Duke, The Duke Endowment (see Note 12) and the Employees' Retirement Plan of Duke University (the ERP).

Valuation – Investments are recorded at estimated fair value. For investments made directly by Duke whose values are based on quoted market prices in active markets, the market price of the investment is used to report fair value. For shares in mutual funds, fair values are based on share prices reported by the funds as of the last business day of the fiscal year. Duke's interests in alternative investment funds such as fixed income, equities, hedged strategies, private capital, and real assets are generally reported at the NAV reported by the fund managers. As of June 30, 2013 and 2012, Duke has approximately \$5.9 billion and \$5.8 billion, respectively, of fund investments that are classified as Levels 2 and 3, and are reported at NAV. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, Duke has concluded, as a practical expedient, that the NAV approximates fair value.

Risks – Duke's investments are exposed to several risks, including liquidity, currency, interest rate, credit, and market risks.

Duke attempts to manage these risks through diversification, ongoing due diligence of fund managers, and monitoring of economic conditions. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in Duke's consolidated financial statements.

Derivatives are used by Duke and external investment managers to manage market risks. The most common derivative strategies engaged in are total return swaps, futures contracts, and short sales. These derivative instruments are recorded at their respective fair values (see Note 11).

Investment Pools – Duke utilizes investment pools known as the University's Long Term Pool (LTP) and the Health System Pool (HSP) to make University and DUHS investments in diversified portfolios of debt, equity, and other investments. The HSP is structured to provide more liquidity for DUHS than is available within the LTP. Both the LTP and HSP are included in investments on the consolidated balance sheets.

Reporting – Income and realized gains and losses on investments of working capital are reported as investment return included

in operating revenues. Any excess of income and realized and unrealized gains earned on investments above the spending rate (see Note 7), including split-interest agreements, are reported as nonoperating revenues.

Investments Attributable to Noncontrolling Interests

Duke controls pooled investment vehicles in which The Duke Endowment and the ERP have noncontrolling interests. These noncontrolling interests are consolidated in the accompanying financial statements. During the year ended June 30, 2013 (fiscal 2013) and the year ended June 30, 2012 (fiscal 2012), the noncontrolling interests contributed \$128,593 and \$9,495, respectively. Additionally, in fiscal 2013 and 2012, Duke made payments of \$0 and \$12,726, respectively, to the noncontrolling interests. For the years ended June 30, 2013 and 2012, investment returns (losses) related to the noncontrolling interests were \$43,772 and (\$10,358), respectively. These amounts are included within investments attributable to noncontrolling interests and net assets attributable to noncontrolling interests on the consolidated balance sheets (see Note 5).

Deposits with Bond Trustees

Deposits with bond trustees consist of debt service funds and the unexpended proceeds of certain bonds payable, which will be used for construction of certain facilities or payment of debt service. These funds are reported at fair value and are invested in short-term, highly liquid securities considered Level 2 in the fair value hierarchy.

Land, Buildings, and Equipment

Land, buildings, and equipment are stated at cost at the date of acquisition or fair value at the date of donation. Property and equipment under capital leases are initially valued and recorded based on the present value of minimum lease payments. Useful lives range from 5 to 25 years for land improvements, 10 to 80 years for buildings and utilities, 5 to 10 years for computer software, 3 to 20 years for equipment, motor vehicles, furniture and vessels, and 1 year for library acquisitions. Depreciation is calculated on the straight-line basis over the assets' estimated useful lives, except for leasehold improvements and property and equipment held under capital leases, which are amortized over the shorter of the expected useful life of the asset or term of the related lease. Depreciation is not calculated on land, art collections, rare books, and construction in progress.

Conditional asset retirement obligations related to legal requirements to perform certain future activities associated with the retirement, disposal, or abandonment of assets are accrued utilizing site specific surveys to estimate the net present value for applicable future costs, e.g., asbestos abatement or removal. Duke reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value.

Interests in Perpetual Trusts Held by Others and Split-Interest Agreements

Duke is the beneficiary of certain perpetual trusts held and administered by outside trustees, including The Duke Endowment (see Note 12). These trust interests are reported at fair value, based on the value of the underlying assets, which approximates the present value of future income from these trusts. As such, these assets fall within Level 3 of

the hierarchy of fair value inputs. Income distributions from these trusts are recorded as investment return designated for current operations. For fiscal 2013 and fiscal 2012, \$50,103 and \$(36,628) was recorded in gains (losses) on perpetual trusts held by others on the consolidated statements of activities, respectively.

Duke's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which Duke serves as trustee. Assets held in these trusts are included in investments. Contribution revenues are recognized at the date the trusts are established after recording liabilities for the present value of the estimated future payments to be made to the donors or other beneficiaries. Annuity and other split-interest liabilities are recorded at their present value.

Debt-Related Derivative Instruments

Duke utilizes derivative instruments in a limited manner outside of its investment portfolio. As described in Note 11, interest rate swap agreements are used to manage interest rate risk associated with variable rate bond obligations. These instruments are reported in other liabilities on the consolidated balance sheets at fair value. Fair value is estimated based on pricing models that utilize significant observable inputs, such as relevant interest rates, that reflect assumptions market participants would use in pricing the instruments. As such, these liabilities fall within Level 2 of the hierarchy of fair value inputs. The change in fair value is included as a gain or loss in other nonoperating activities on the consolidated statements of activities. The net settlement amount incurred on the swaps is included in interest expense on the consolidated statements of activities.

Refundable Federal Student Loans

Funds provided by the United States Government (U.S. Government) under the Federal Perkins, Nursing, and Health Professions Student Loan programs are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the U.S. Government. The related balances of \$34,541 and \$34,288 at June 30, 2013 and 2012, respectively, are included in other liabilities on the consolidated balance sheets.

Revenue Recognition

Duke's significant revenue recognition policies are:

Tuition and fees, net – Student tuition and fees are recorded as revenue during the year that the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by Duke for tuition and fees is reflected as a reduction of gross tuition and fee revenue. Student aid does not include payments made to students for services rendered to Duke.

Grants and contracts – Revenues from sponsored grants and contracts, including facilities and administrative (F&A) costs recovery, are recognized when allowable expenditures are incurred under such agreements. F&A cost recovery represents reimbursement, primarily from the federal government, of F&A costs on sponsored activities. Duke's federal F&A costs recovery rate for research was 57.0% in fiscal 2013 and fiscal 2012.

Net patient service revenue (net of contractual allowances and discounts) – Patient service revenue is recognized in the period in which services are rendered. DUHS has agreements with third-party payors that provide for payments to DUHS at amounts that

are generally less than its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Accordingly, net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as changes to estimates become known and tentative and final settlement adjustments are identified.

Auxiliary enterprises – Auxiliary enterprises, including residence halls, food services, retail stores, and telecommunications, furnish services to students, faculty, and staff. Fee charges are directly related to the costs of services rendered.

Income Taxes

Duke is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). As such, Duke is exempt from federal income taxes to the extent provided under Section 501 of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. As of June 30, 2013, there were no material uncertain tax positions.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve*

3. Accounts Receivable

Accounts receivable consists of the following at June 30:

	2013	2012
Patient receivables	\$ 305,367	\$ 287,120
Student loan receivables	41,952	40,743
Other receivables	216,356	266,053
Accounts receivable, net	<u>\$ 563,675</u>	<u>\$ 593,916</u>

Patient receivables are reported net of allowances for contractual adjustments and uncollectible accounts of \$549,749 and \$485,358 at June 30, 2013 and 2012, respectively. DUHS receives supplemental

4. Contributions Receivable

Contributions receivable are summarized as follows at June 30:

	2013	2012
Unconditional promises expected to be collected in:		
Less than one year	\$ 144,509	\$ 92,879
Between one year and five years	262,569	191,028
More than five years	71,300	76,676
	478,378	360,583
Allowance for uncollectible amounts	(29,147)	(28,645)
Unamortized discount with interest rates ranging from 0.2% to 7.5%	(19,127)	(16,293)
Total	<u>\$ 430,104</u>	<u>\$ 315,645</u>

Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU requires the reason for the fair value measurement to be disclosed and a description of the valuation techniques and the inputs used for all Level 2 and Level 3 fair value measurements. It also requires all transfers between levels of the fair value hierarchy to be separately reported and described. Duke adopted ASU 2011-04 in fiscal 2013.

Use of Estimates

The preparation of the consolidated financial statements in accordance with GAAP requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses during the reporting period as well as the disclosure of contingent assets and liabilities. Actual results ultimately could differ from the administration's estimates.

Reclassifications

Certain June 30, 2012 amounts have been reclassified to conform with changes in classifications adopted in fiscal 2013.

Subsequent Events

Duke has evaluated subsequent events from the balance sheet date through October 8, 2013, the date on which the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

Medicaid payments from the State of North Carolina through a federally approved disproportionate share program (Medicaid DSH). The Medicaid DSH payments are part of the Medicaid Program and are designed to offset a portion of the Medicaid losses. Amounts recognized in net patient service revenue related to fiscal 2013 and fiscal 2012 were \$126,535 and \$159,811, respectively. The Medicaid assessment payments recorded in other operating expenses were \$47,797 and \$64,047 for fiscal 2013 and fiscal 2012, respectively. There can be no assurance that DUHS will continue to qualify for future participation in this program or that the program will not be discontinued or materially modified.

The methodology for calculating the allowance is based on the administration's review of individually significant outstanding pledges, analysis of the aging of payment schedules for all outstanding pledges, as well as other factors including current economic conditions.

At June 30, 2013 and 2012, the 10 largest outstanding donor pledge balances represented 53% and 58%, respectively, of Duke's gross contributions receivable.

At June 30, 2013 and 2012, Duke had also received bequest intentions and conditional promises to give of approximately \$90,328 and \$84,244, respectively. These intentions and conditional promises to give are not recognized as assets or revenues in the consolidated financial statements. If the related funds are received, they will generally be restricted for specific purposes stipulated by the donors, primarily endowments for faculty support, scholarships, or general operating support of a particular department or division of Duke.

5. Investments

The fair value of investments, including noncontrolling interests (see Note 2) consists of the following at June 30:

	2013	2012
Short-term investments	\$ 1,704,263	\$ 1,292,214
U.S. Government securities	38,654	51,848
Fixed income	564,378	452,334
Equities	2,976,830	2,378,083
Hedged strategies	1,068,867	1,103,267
Private capital	1,627,612	1,581,924
Real assets	1,883,103	1,798,944
Other	91,944	74,774
Total investments	\$ 9,955,651	\$ 8,733,388

Duke's total LTP investment was \$6,997,739 and \$6,374,553 as of June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, DUHS's investment in the HSP totaled \$2,050,661 and \$1,654,074, respectively.

Short-term investments include short-term U.S. Treasury and other highly liquid debt securities with maturities of less than one year. At June 30, 2013 and 2012, \$83,742 and \$50,738, respectively, was posted as collateral for derivatives and thus not readily available for use.

U.S. Government securities includes investments in U.S. Treasury and agency debt securities with maturities of more than one year and funds that invest in these types of investments. At June 30, 2013 and 2012, \$3,504 and \$27,402, respectively, was posted as collateral and thus not readily available for use.

Fixed income includes non-government U.S. and non-U.S. debt securities.

Equities includes U.S. and non-U.S. stocks and funds that invest predominantly long but also short stocks.

Hedged strategies includes both long and short investments in U.S. and non-U.S. stocks, credit-oriented securities, and arbitrage strategies.

Private capital includes illiquid investments in venture capital, buyouts, and credit. Distributions are received through liquidation of the underlying assets of the funds which are anticipated to occur over the next 4 to 10 years.

Real assets includes illiquid investments in residential and commercial real estate, oil and gas production, energy, other commodities, and related services businesses. Distributions are received through liquidations of the underlying assets of the funds which are anticipated to occur over the next 5 to 12 years.

Investment return

Investment return as reflected in the consolidated statements of activities is summarized as follows for the years ended June 30:

	2013	2012
Investment income	\$ 56,650	\$ 67,680
Realized and unrealized gains (losses), net	1,042,030	(4,904)
Total investment return	\$ 1,098,680	\$ 62,776

OPERATING

Endowment spending	\$ 295,119	\$ 269,582
Other investment income	63,324	65,012
Other	...	388
Total operating return	\$ 358,443	\$ 334,982

NONOPERATING

Investment return in excess of (less than) amounts designated for current operations	740,237	(272,206)
Total investment return	\$ 1,098,680	\$ 62,776

The total return for the LTP (in which 98.6% of Duke's endowment was invested at June 30, 2013 and 2012) for fiscal 2013 and fiscal 2012 was 13.5% and 1.0%, respectively, net of external management fees but before internal costs. The total return for Duke's endowment, as such, is not calculated.

External management fees paid directly (i.e. segregated investment account fees) totaled \$21,133 and \$16,902, and internal management fees totaled \$12,202 and \$8,785 in fiscal 2013 and fiscal 2012, respectively.

The following is a summary of the levels within the fair value hierarchy for Duke's investments at June 30:

Fair Value as of June 30, 2013	Level 1	Level 2	Level 3	Total	Redemption frequency (in days) (if currently eligible) ¹	Redemption notice period (in days)
Short-term investments	\$ 861,019	\$ 843,244	\$...	\$ 1,704,263	daily	1
U.S. Government securities	35,023	3,631	...	38,654	daily	1
Fixed income	31,831	505,491	27,056	564,378	1 to 30 (78%)	1 to 30
Equities	1,407,914	1,310,437	258,479	2,976,830	1 to 90 (92%)	1 to 90
Hedged strategies	21,554	475,649	571,664	1,068,867	30 to >365	2 to 95
Private capital	3,737	...	1,623,875	1,627,612	N/A	N/A
Real assets	3,915	...	1,879,188	1,883,103	N/A	N/A
Other	50,543	37,647	3,754	91,944	N/A	N/A
Total investments	\$ 2,415,536	\$ 3,176,099	\$ 4,364,016	\$ 9,955,651		

Fair Value as of June 30, 2012	Level 1	Level 2	Level 3	Total	Redemption frequency (in days) (if currently eligible) ¹	Redemption notice period (in days)
Short-term investments	\$ 596,699	\$ 695,515	\$...	\$ 1,292,214	daily	1
U.S. Government securities	48,267	3,581	...	51,848	daily	1
Fixed income	(77,744)	517,426	12,652	452,334	1 to 30 (88%)	1 to 30
Equities	949,290	1,128,293	300,500	2,378,083	1 to 90 (90%)	1 to 90
Hedged strategies	11,397	490,548	601,322	1,103,267	1 to >365	7 to 180
Private capital	2,793	...	1,579,131	1,581,924	N/A	N/A
Real assets	6,853	...	1,792,091	1,798,944	N/A	N/A
Other	43,807	26,596	4,371	74,774	N/A	N/A
Total investments	\$ 1,581,362	\$ 2,861,959	\$ 4,290,067	\$ 8,733,388		

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

	Balance as of June 30, 2012	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out)	Balance as of June 30, 2013
Fixed income	\$ 12,652	\$ 959	\$ 40,985	\$ (28,495)	\$ 955	\$ 27,056
Equities	300,500	47,294	42,088	(114,586)	(16,817)	258,479
Hedged strategies	601,322	97,833	24,600	(177,152)	25,061	571,664
Private capital	1,579,131	202,534	217,953	(375,743)	...	1,623,875
Real assets	1,792,091	119,125	258,192	(290,220)	...	1,879,188
Other	4,371	...	1,338	(1,955)	...	3,754
Total Level 3 investments	\$ 4,290,067	\$ 467,745	\$ 585,156	\$ (988,151)	\$ 9,199	\$ 4,364,016

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

	Balance as of June 30, 2011	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers in (out)	Balance as of June 30, 2012
Fixed income	\$ 7,547	\$ 3,843	\$ 194,257	\$ (198,821)	\$ 5,826	\$ 12,652
Equities	403,359	(36,289)	36,986	(74,668)	(28,888)	300,500
Hedged strategies	810,051	18,754	40,313	(149,606)	(118,190)	601,322
Private capital	1,489,420	83,968	245,161	(240,804)	1,386	1,579,131
Real assets	1,691,034	6,157	324,781	(229,881)	...	1,792,091
Other	12,148	(1)	1,861	(35)	(9,602)	4,371
Total Level 3 investments	\$ 4,413,559	\$ 76,432	\$ 843,359	\$ (893,815)	\$ (149,468)	\$ 4,290,067

During fiscal 2013 and fiscal 2012, transfers of (\$1,533) and (\$138,117), respectively, were made between Level 2 and Level 3 related to changes in liquidity. In fiscal 2013, Level 1 and Level 2 securities totaling \$7,236 and \$3,911, respectively, became private, restricted, or not priced publicly and were consequently transferred to Level 3. In fiscal 2012, Level 1 and Level 2 securities totaling \$13,465 and \$542, respectively, became private, restricted, or not priced publicly and were consequently transferred to Level 3. During fiscal 2013, Level 3 securities totaling \$415 reorganized into tradable Level 1 securities. In addition, during fiscal 2012, Level 3 securities totaling \$20,545 and \$4,813 reorganized into Level 1 and Level 2 securities, respectively. There were no transfers between Level 1 and Level 2 investments during fiscal 2013 and fiscal 2012. The change in net unrealized gains and losses related to Level 3 assets still held at June 30, 2013 and 2012 was \$504,850 and \$34,733, respectively, recorded in investment return in excess of amounts designated for current operations.

6. Net Assets

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

	2013	2012
Appreciation on donor-restricted endowments	\$ 1,999,974	\$ 1,750,041
Contributions for physical plant	175,686	147,620
Contributions for instruction, research and divisional support	128,879	102,306
Annuity and other split-interest agreements	26,897	20,777
Other	7,746	6,868
Temporarily restricted net assets	\$ 2,339,182	\$ 2,027,612

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

	2013	2012
Instruction, research, and student aid:		
Donor-restricted endowments and investments	\$ 1,592,108	\$ 1,511,408
Contributions receivable, net	181,564	104,773
Interests in perpetual trusts held by others	697,816	647,713
Total instruction, research, and student aid	2,471,488	2,263,894
Annuity and other split-interest agreements	47,092	43,040
Student loan funds	16,579	16,453
Permanently restricted net assets	\$ 2,535,159	\$ 2,323,387

7. Endowment

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

Interpretation of Relevant Law

The Board has decided to continue to require the preservation of the historic dollar value of endowment funds absent explicit donor stipulations to the contrary. Duke therefore classifies as permanently restricted net assets (a) the original value of gifts donated to the

permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Appreciation on donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Duke in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The amounts appropriated for expenditure are based on endowment spending rate per unit and the number of units for each fund. The spending rate is approved by the Board as part of Duke's operating budget.

Endowment net assets consist of the following at June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
Donor-restricted endowment funds	\$...	\$ 1,999,974	\$ 1,521,701	\$ 3,521,675
Board-designated endowment funds	1,821,482	...	...	1,821,482
Interests in perpetual trusts held by others	...	...	697,816	697,816
Total endowed net assets	<u>\$ 1,821,482</u>	<u>\$ 1,999,974</u>	<u>\$ 2,219,517</u>	<u>\$ 6,040,973</u>

Endowment net assets consist of the following at June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total
Donor-restricted endowment funds	\$ (3,158)	\$ 1,750,041	\$ 1,448,610	\$ 3,195,493
Board-designated endowment funds	1,711,990	...	...	1,711,990
Interests in perpetual trusts held by others	...	...	647,713	647,713
Total endowed net assets	<u>\$ 1,708,832</u>	<u>\$ 1,750,041</u>	<u>\$ 2,096,323</u>	<u>\$ 5,555,196</u>

Spending Policy

Duke utilizes the total return concept (income yield and appreciation) in the management of its endowment. Duke has implemented a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. In accordance with Duke's policy, a predetermined endowment spending rate consistent with Duke's total return objective has been established and approved by the Board. Should endowment returns prove to be insufficient to support this policy, the balance is provided from accumulated capital gains. Should endowment returns exceed the amounts necessary to attain this objective, the balance is reinvested in the endowment. The endowment spending rate per unit is calculated at 5.5% of the average of the LTP unit market value for the previous three (3) calendar year ends for non-financial aid endowments, and 5.75% for financial aid endowments; subject to a 10.0% maximum annual growth in per-unit spending. The annual distribution under the spending policy described above is reported as investment return included in operating revenues. Additionally, the Board authorized the use of specific amounts of previously reinvested income, capital gains, and principal related to unrestricted funds functioning as endowment for special academic development initiatives and to support the operations and maintenance of certain facilities. The endowment spending amounts reported in the

consolidated statements of activities include supplemental endowment distributions totaling \$83,320 and \$64,623 in fiscal 2013 and fiscal 2012, respectively.

Return Objectives and Risk Parameters

Under the policy approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 70% of the Russell 3000 and 30% of the Barclays Capital Aggregate Bond Index. Duke expects its endowment funds, over long time periods, to provide an average annual real rate of return of approximately 5.5%. Actual returns in any given year may vary from this amount.

Funds with Deficiencies

From time to time, the fair value of assets associated with a permanently restricted fund may fall below the fund's original value. Deficiencies of this nature are reported in unrestricted net assets. Subsequent gains that restore the fair value of such funds to the required level are classified as an increase in unrestricted net assets within the nonoperating activities section of the consolidated statements of activities.

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2011	\$ 1,778,161	\$ 1,882,829	\$ 2,086,387	\$ 5,747,377
Investment return:				
Investment income	10,901	21,993	...	32,894
Net (depreciation) appreciation in fair value	(2,971)	8,113	(40,545)	(35,403)
Total investment return (loss)	7,930	30,106	(40,545)	(2,509)
Contributions	...	...	50,481	50,481
New Board designated endowment funds	29,429	...	...	29,429
Appropriations for expenditure	(106,688)	(162,894)	...	(269,582)
Balance as of June 30, 2012	\$ 1,708,832	\$ 1,750,041	\$ 2,096,323	\$ 5,555,196
Investment return:				
Investment income	8,665	17,965	...	26,630
Net appreciation in fair value	213,527	402,094	45,955	661,576
Total investment return	222,192	420,059	45,955	688,206
Contributions	...	...	77,239	77,239
New Board designated endowment funds	15,451	...	...	15,451
Appropriations for expenditure	(124,993)	(170,126)	...	(295,119)
Balance as of June 30, 2013	\$ 1,821,482	\$ 1,999,974	\$ 2,219,517	\$ 6,040,973

8. Pension and Other Postretirement Benefit Plans

Defined Contribution Retirement Savings Plan

Faculty and exempt staff members of Duke are eligible to participate in a defined contribution retirement plan. For fiscal 2013 and fiscal 2012, Duke contributed \$125,188 and \$117,801, respectively, to this plan. Duke expects to contribute \$129,572 to this plan in fiscal 2014.

Defined Benefit Pension Plan and Postretirement Health Benefit Plan

Duke has a noncontributory defined benefit pension plan for substantially all full-time non-exempt employees. The benefit for this plan is based on years of service and the employee's compensation during the last 10 years of employment. Duke expects to contribute \$21,978 to the plan in fiscal 2014.

At June 30, 2013 and 2012, the accumulated benefit obligation for the pension benefits was \$1,213,648 and \$1,228,401 respectively. At June 30, 2013, the plan was over funded in relation to accumulated benefits by \$117,815. At June 30, 2012, the plan was under funded in relation to accumulated benefits by \$34,608.

Duke also sponsors an unfunded, defined benefit postretirement medical plan that covers all full-time employees who elect coverage and satisfy the plan's eligibility requirements when they retire. The plan is contributory with retiree contributions established as a percentage of the total cost for retiree health care and for the health care of their dependents. Duke pays all benefits on a current basis. DUHS employees hired after June 30, 2002 are not eligible for DUHS contributions to the cost of this benefit and must bear the full cost themselves if elected at retirement. As a healthcare provider, Duke

utilizes an incremental cost approach to determine its liability for the postretirement medical plan. The total liability reflects estimated additional costs to provide healthcare benefits to retirees within DUHS facilities plus the full cost to provide healthcare benefits to retirees at facilities other than DUHS.

The measurement date for both the defined benefit pension plan and the postretirement health benefit plan is June 30. Duke recognizes the full funded status of its defined benefit pension and other postretirement benefit plans in the consolidated balance sheets. Accordingly, the liability for pension benefits as recognized in the balance sheets represents the deficit of the actuarially determined projected benefit obligation (PBO) under the fair value of plan assets at year end. The liability for other postretirement benefits as recognized in the balance sheets represents the actuarially determined accumulated postretirement benefit obligation (APBO) at year end.

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

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
<i>Reconciliation of benefit obligation</i>				
Obligation at beginning of year	\$ 1,352,330	\$ 1,025,032	\$ 211,809	\$ 177,904
Service cost	60,554	43,419	4,927	3,057
Interest cost	56,554	57,742	8,880	10,003
Actuarial (gain) loss	(90,183)	269,018	(73,725)	28,809
Benefit payments	(41,753)	(40,881)	(5,720)	(9,295)
Retiree drug subsidy payments	...	...	...	1,331
Administrative expenses (estimated)	(2,000)	(2,000)	...	...
Obligation at end of year	<u>\$ 1,335,502</u>	<u>\$ 1,352,330</u>	<u>\$ 146,171</u>	<u>\$ 211,809</u>
<i>Reconciliation of fair value for plan assets</i>				
Fair value of plan assets at beginning of year	\$ 1,193,793	\$ 1,218,034	\$...	\$...
Actual return on plan assets	163,347	5,482	...	...
Employer contributions	17,925	12,866	...	...
Participant contributions	144	152	...	...
Benefit payments	(41,753)	(40,881)	...	...
Administrative expenses	(1,993)	(1,860)	...	...
Fair value of plan assets at end of year	<u>\$ 1,331,463</u>	<u>\$ 1,193,793</u>	<u>\$...</u>	<u>\$...</u>
<i>Funded status</i>				
Net accrued benefit liability	\$ (4,039)	\$ (158,537)	\$ (146,171)	\$ (211,809)

The following table provides the components of net periodic benefit cost (reported as employee benefits in the consolidated statements of activities) for the plans for fiscal 2013 and fiscal 2012:

	Pension Benefits		Postretirement Benefits	
	2013	2012	2013	2012
Service cost	\$ 60,554	\$ 43,419	\$ 4,927	\$ 3,057
Interest cost	56,554	57,742	8,880	10,003
Expected return on plan assets	(91,084)	(90,282)	...	...
Amortization of prior-service cost (asset)	2,887	4,202	(471)	(1,084)
Expected participant contributions	(157)	(126)	...	...
Recognized actuarial loss (gain)	17,938	...	...	(2,665)
Net periodic benefit cost	<u>\$ 46,692</u>	<u>\$ 14,955</u>	<u>\$ 13,336</u>	<u>\$ 9,311</u>

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. The expected amortization of prior-service cost (asset) for fiscal 2014 is \$1,700 and (\$1,795) for the pension benefits and postretirement benefits, respectively. The expected amortization of actuarial losses for fiscal 2014 is \$4,133 and (\$6,746) for the pension benefits and postretirement benefits, respectively. Unrecognized prior-service cost (asset) were \$7,291 and (\$4,916) and unrecognized actuarial (losses) gains were (\$18,541) and \$88,821 for the pension benefits and postretirement benefits, respectively, as of June 30, 2013. Unrecognized prior-service cost (asset) were \$10,179 and (\$5,387) and unrecognized actuarial (losses) gains were (\$198,919) and \$15,096 for the pension benefits and postretirement benefits, respectively, as of June 30, 2012.

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

	Pension Benefits				Postretirement Benefits			
	2013		2012		2013		2012	
Weighted average assumptions as of measurement date	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Discount rate	4.75%	4.25%	4.25%	5.75%	4.75%	4.25%	4.25%	5.75%
Expected return on plan assets	N/A	8.50%	N/A	8.50%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.00%	3.00%	3.00%	3.50%	N/A	N/A	N/A	N/A

In order to determine the benefit obligation as of June 30, 2013, the per capita costs of covered health care benefits was assumed to increase 9.0% for non-Medicare eligible employees and 8.1% for Medicare eligible employees, declining to an ultimate annual rate of increase of 5.0% by 2023. The benefit expense for fiscal 2013 was driven by the rates used to determine the obligation at June 30, 2012, which were 9.5% for non-Medicare eligible employees and 8.5% for Medicare eligible employees declining to an ultimate rate of 5.0% by 2023.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A 1.0% change in assumed health care cost trend rates would have the following effect:

	1.0% Increase	1.0% Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 2,517	\$ (2,000)
Effect on the health care component of the accumulated postretirement benefit obligation	\$ 16,778	\$ (14,235)

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2013 are as follows:

	Pension benefits	Postretirement benefits
2014	\$ 44,172	\$ 7,775
2015	46,250	8,438
2016	48,913	8,964
2017	52,505	9,590
2018	56,945	9,987

Projected aggregate payments for pension benefits and postretirement benefits for the five year period ending June 30, 2023 are \$363,954 and \$52,799, respectively.

Defined Benefit Pension Plan Assets

The pension plan's investment strategy focuses on maximizing total return and places limited emphasis on liability matching and no emphasis on generating income. Over the long term, the plan's average exposure target is 49% equity (public and private investments in companies), 13% commodity (direct commodity exposure, commodity related equities, and private investments in energy, power, infrastructure and timber), 11% real estate (private real estate and REITs), 13% credit (investment-grade bonds, corporate bonds, bank debt, asset backed securities, etc.), 5% rates (public obligations including treasuries and agencies), and 9% other (U.S. Treasury Inflation Protected Securities,

non-U.S. inflation linked bonds, and absolute return oriented hedge funds).

The expected return on pension plan assets is established at an amount that reflects the targeted asset allocation and expected returns for each component of the plan assets. The expected return was developed using a stochastic forecast model of long-term expected returns for each asset class. The rate is reviewed periodically and adjusted, as appropriate, to reflect changes in the expected market performance or in targeted asset allocation ranges.

The fair value of Duke's plan assets available for pension benefits, delineated by level in the fair value hierarchy, as of the June 30, 2013 measurement date is as follows:

	Level 1	Level 2	Level 3	2013 Total
Investments:				
Short-term investments	\$ (257)	\$ 141,939	\$...	\$ 141,682
Fixed income	(411)	85,508	...	85,097
Equities	114,319	221,275	38,353	373,947
Hedged strategies	245	177,294	103,550	281,089
Private capital	559	...	192,746	193,305
Real assets	584	...	253,264	253,848
Other	(409)	2,904	...	2,495
Total investments	<u>\$ 114,630</u>	<u>\$ 628,920</u>	<u>\$ 587,913</u>	<u>\$ 1,331,463</u>

The fair value of Duke's plan assets available for pension benefits, delineated by level in the fair value hierarchy, as of the June 30, 2012 measurement date is as follows:

	Level 1	Level 2	Level 3	2012 Total
Investments:				
Short-term investments	\$ 677	\$ 110,943	\$...	\$ 111,620
Fixed income	(21,411)	108,499	...	87,088
Equities	72,920	208,113	45,805	326,838
Hedged strategies	821	143,858	104,363	249,042
Private capital	352	...	180,192	180,544
Real assets	1,002	...	235,817	236,819
Other	348	1,494	...	1,842
Total investments	<u>\$ 54,709</u>	<u>\$ 572,907</u>	<u>\$ 566,177</u>	<u>\$ 1,193,793</u>

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

	Balance as of June 30, 2012	Net realized and unrealized gains	Purchases	Sales	Net transfers out	Balance as of June 30, 2013
Investments:						
Fixed income	\$...	\$ 2	\$ 1,092	\$ (1,094)	\$...	\$...
Equities	45,805	15,025	9,803	(18,687)	(13,593)	38,353
Hedged strategies	104,363	16,601	6,100	(20,332)	(3,182)	103,550
Private capital	180,192	24,621	27,561	(39,628)	...	192,746
Real assets	235,817	20,668	33,134	(36,355)	...	253,264
Total	<u>\$ 566,177</u>	<u>\$ 76,917</u>	<u>\$ 77,690</u>	<u>\$ (116,096)</u>	<u>\$ (16,775)</u>	<u>\$ 587,913</u>

	Balance as of June 30, 2011	Net realized and unrealized gains (losses)	Purchases	Sales	Net transfers (out) in	Balance as of June 30, 2012
Investments:						
Fixed income	\$...	\$ 24	\$ 2,909	\$ (2,933)	\$...	\$...
Equities	59,297	(5,341)	1,397	(5,979)	(3,569)	45,805
Hedged strategies:	131,171	2,193	8,688	(28,078)	(9,611)	104,363
Private capital	161,486	15,167	30,878	(27,589)	250	180,192
Real assets	220,212	3,383	38,923	(26,701)	...	235,817
Total	<u>\$ 572,166</u>	<u>\$ 15,426</u>	<u>\$ 82,795</u>	<u>\$ (91,280)</u>	<u>\$ (12,930)</u>	<u>\$ 566,177</u>

During fiscal 2013 and fiscal 2012, transfers of (\$16,775) and \$13,180, respectively, were made between Level 2 and Level 3 related to changes in liquidity. During fiscal 2012, Level 1 investments totaling \$250 became private, restricted, or not priced publicly and were consequently transferred to Level 3. The change in unrealized gains related to Level 3 assets still held at June 30, 2013 and 2012 was \$66,417 and \$34,430, respectively, and was recorded within nonperiodic changes in defined benefit plans on the consolidated statements of activities. There were no transfers between Level 1 and Level 2 investments during fiscal 2013 or fiscal 2012.

9. Land, Buildings, and Equipment

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

	2013	2012
Land and land improvements	\$ 248,299	\$ 243,812
Buildings and utilities	3,790,823	3,662,554
Computer software	335,081	249,582
Equipment, furniture and vessels	1,232,237	1,162,488
Library and art collections	390,112	369,217
Construction in progress	688,089	449,260
	6,684,641	6,136,913
Accumulated depreciation	(3,408,108)	(3,157,388)
Total	<u>\$ 3,276,533</u>	<u>\$ 2,979,525</u>

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned through the temporary investment of project borrowings. Total net interest cost of \$19,672 and \$11,734 was capitalized in fiscal 2013 and fiscal 2012, respectively.

Duke has identified conditional asset retirement obligations primarily related to the costs of asbestos removal and disposal that will result from future remediation activity. The liability was estimated using inflation rates ranging from 3.4% to 5.0% and discount rates ranging from 2.7% to 4.6%. The liability for conditional asset retirement obligations recognized at June 30, 2013 and 2012 was \$49,081 and \$47,699, respectively. This liability is reported as a part of other liabilities on the consolidated balance sheets.

10. Notes and Bonds Payable

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

	Fiscal year of maturity	Effective interest rate	Outstanding principal	
			2013	2012
University Tax-Exempt Bonds:				
Variable-rate bonds				
Series 1987A	2018	0.1%	\$ 18,900	\$ 18,900
Series 1991B	2022	0.1%	40,000	40,000
Series 1992A	2027	0.1%	35,240	35,240
Fixed-rate bonds				
Series 2005A	2042	5.0%	207,665	207,665
Series 2006A	2045	4.9%	375,080	376,570
Series 2006B	2043	4.5%	128,435	128,435
Series 2009B	2039	5.0%	247,090	247,090
University Taxable Bonds:				
Fixed-rate bonds				
Series 2007A	2037	5.9%	200,000	200,000
DUHS Tax-Exempt Bonds:				
Variable-rate bonds				
Series 1985B (Note 11)	N/A	N/A	...	26,100
Series 1993A (Note 11)	N/A	N/A	...	28,650
Series 2005A, B, and C (Note 11)	2028	4.2%	322,140	322,140
Series 2006A, B, and C (Note 11)	2039	4.2%	134,685	140,515
Series 2012B (see Note 11)	2023	6.1%	28,650	...
Series 2012C (see Note 11)	2015	4.3%	10,875	...
Fixed-rate bonds				
Series 2009A	2042	5.0%	180,000	180,000
Series 2010A	2042	5.0%	120,000	120,000
Series 2012A	2042	4.6%	293,360	300,000
Tax-exempt commercial paper	<1 year	0.2%	48,150	48,015
Taxable commercial paper	<1 year	0.2%	58,867	17,754
Other notes payable	Various	Various	44,460	44,054
Capital lease obligations	Various	Various	127,359	128,392
Unamortized premium			41,505	42,931
Notes and bonds payable			<u>\$ 2,662,461</u>	<u>\$ 2,652,451</u>

Proceeds from the 2012B and 2012C bonds refunded the 1993A and 1985B bonds respectively, and were issued in a bank-bought index floating rate mode and purchased by a commercial bank. The 2012B bonds retained the original amortization schedule of the 1993A bonds and the 2012C bonds retained the original amortization schedule of the 1985B bonds, as adjusted to reflect the reduced principal due in 2015. On June 28, 2012, DUHS issued through the North Carolina Medical Care Commission fixed-rate tax-exempt bonds in the par amount of \$300,000. Proceeds from the issuance are being used to finance the cost of additional DUHS facilities and pay certain expenses of issuing the bonds.

As of June 30, 2013 and 2012, Duke had letter of credit agreements totaling \$275,000. As of June 30, 2013 and 2012, there were no outstanding borrowings under the letter of credit agreements.

The carrying amount of notes and bonds payable with variable interest rates approximates fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality.

The fair value of notes and bonds payable with fixed interest rates is based on rates assumed to be currently available for bond issues with similar terms and average maturities. The estimated fair value and carrying amount of these fixed rate bonds payable at June 30,

2013 approximated \$1,826,014 and \$1,751,630, respectively. The estimated fair value and carrying amount of these fixed rate bonds payable at June 30, 2012 approximated \$1,963,852 and \$1,759,760, respectively. Fair value measurements of notes and bonds payable are based on observable interest rates and maturity schedules that fall within Level 2 of the hierarchy of fair value inputs. Aggregate maturities of notes and bonds payable are as follows:

Year	Principal Payments
2014	\$ 167,233
2015	16,565
2016	29,935
2017	30,910
2018	40,680
Thereafter	2,208,274
Total principal payments	\$ 2,493,597

Duke capitalizes and amortizes the original issue premium and issue costs related to applicable bond issues in a manner that

approximates the interest method. At June 30, 2013 and 2012, unamortized bond issue costs of \$12,962 and \$13,541, respectively, are included in prepaid expenses, inventories, and other assets on Duke's consolidated balance sheets. Total amortization expense for issue costs and (discounts)/premiums was (\$904) and (\$330) for fiscal 2013 and fiscal 2012, respectively and is included in depreciation and amortization expense in the consolidated statements of activities.

At June 30, 2012, DUHS had \$6,497 in a mandatory debt service reserve fund designated to meet scheduled principal and interest payments on the Series 1985B DUHS Revenue Bonds. During 2013, DUHS paid down the outstanding principal on the 1985B bonds with this debt service reserve fund.

In prior fiscal years, Duke defeased certain obligations by irrevocably placing assets with a trustee to pay principal and interest on the obligations as they become due. Total defeased obligations were \$0 and \$121,000 at June 30, 2013 and 2012, respectively.

Trust indentures underlying the DUHS Revenue Bonds contain certain covenants and restrictions.

11. Derivative and Other Financial Instruments

Investment strategies employed by DUMAC and investment managers retained by DUMAC incorporate the use of various derivative financial instruments. DUMAC uses these instruments for a number of investment purposes, including hedging or altering exposure to certain asset classes and cost-effectively adding exposures to portions of the portfolio. Positions are expected to create gains or losses that, when combined with the applicable portion of the total investment portfolio, provide an expected result.

During fiscal 2013 and 2012 Duke, or external investment managers on Duke's behalf, entered into swap agreements, futures contracts, or

forward contracts, and acquired warrants or rights representing long notional exposure of \$5,536,417 and \$2,186,726 and short notional exposure of \$2,234,953 and \$1,512,661 at June 30, 2013 and 2012, respectively, to increase, reduce or otherwise modify investment exposures. These instruments expose Duke to risk of an unexpected movement in the fair value of the underlying security, a counterparty failing to meet its obligations, and, in certain circumstances, not being able to unwind a position at current fair market value due to market illiquidity. Duke has established procedures to monitor and manage these risks.

Duke's net derivative exposures, categorized by primary underlying risk, are as follows:

Primary underlying risk as of June 30, 2013	Net Notional amounts	Derivative assets	Derivative liabilities	Gain
Equity Price ¹	\$ 789,284	\$ 44,442	\$ (40,918)	\$ 122,276
Interest Rate ²	1,952,777	5,548	(4,035)	3,018
Commodity Price ³	405,430	476	(5,621)	889
Credit ⁴	196,622	16,958	(1,760)	3,160
Foreign currency exchange rate ⁵	(42,649)	11,456	(3,529)	9,811
Total	<u>\$ 3,301,464</u>	<u>\$ 78,880</u>	<u>\$ (55,863)</u>	<u>\$ 139,154</u>

Primary underlying risk as of June 30, 2012	Net Notional amounts	Derivative assets	Derivative liabilities	Gain (loss)
Equity Price ¹	\$ 137,266	\$ 45,214	\$ (15,313)	\$ 9,682
Interest Rate ²	(703,190)	547	(1,103)	(16,471)
Commodity Price ³	358,046	15,001	(201)	(26,122)
Credit ⁴	7,105	12,572	(2,163)	13,306
Foreign currency exchange rate ⁵	874,838	4,295	(1,375)	(23,117)
Total	<u>\$ 674,065</u>	<u>\$ 77,629</u>	<u>\$ (20,155)</u>	<u>\$ (42,722)</u>

¹ Includes options, swaps, warrants, futures contracts and rights.

² Includes options, swaps and futures contracts.

³ Includes futures contracts.

⁴ Includes credit default swaps and swaptions.

⁵ Includes options, futures and forward contracts.

In addition, Duke has executed derivative financial instruments in the normal course of managing its debt portfolio using long term strategies. Duke has interest rate swap agreements that are designed to synthetically decrease the variable rate exposure associated with its portfolio of debt. In addition, Duke has a swap agreement designed to reduce the interest rate risk on variable rate indebtedness by utilizing the spread between the yield curves for taxable debt securities and tax-exempt municipal debt securities.

The following table summarizes the general terms for each of Duke's swap agreements:

Effective date	Associated debt series	Maturity date	Current notional amount	Rate Duke pays	Rate Duke receives
Interest rate:					
August 12, 1993	2012B	June 2023	\$ 28,650	5.09%	SIFMA
May 19, 2005	2005 A/B/C	June 2028	\$ 322,140	3.60%	61.5% of one-month LIBOR plus 0.28%
November 15, 2005	N/A	June 2013	\$ 25,000	5.10%	one-month LIBOR plus 0.60%
December 1, 2006	N/A	December 2013	\$ 7,000	5.63%	one-month LIBOR plus 0.60%
April 1, 2009	Portfolio ¹	June 2039	\$ 157,870	3.72%	67.0% of one-month LIBOR
Basis:					
July 6, 2001	N/A	July 2021	\$ 400,000	SIFMA	72.13% of one-month LIBOR

The fair value of each swap is the estimated amount Duke would receive or pay to terminate the swap agreement at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The net fair value is included in other liabilities on the consolidated balance sheets. The change in fair value is included as a gain or loss in other nonoperating activities on the consolidated statements of activities. The net settlement amount incurred on the swaps is included in interest expense on the consolidated statements of activities. The collateral to support the swaps is included in investments on the consolidated balance sheets. The debt derivative instruments contain

cross-collateralization provisions that require each counterparty to post collateral if the fair value meets certain thresholds.

The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a liability position on June 30, 2013 and 2012 was \$93,448 and \$139,026, respectively, for which DUHS has posted collateral of \$3,504 and \$27,402, respectively, in the normal course of business. If the credit-risk related features underlying these agreements were triggered on June 30, 2013 and 2012, DUHS would have been required to post an additional \$89,944 and \$111,624, respectively, of collateral to its counterparties.

Financial Information Related to Swap Agreements	2013		2012	
	Fair Value	Gain	Fair Value	(Loss) Gain
August 1993 Interest Rate Swap	\$ (6,974)	\$ 2,355	\$ (9,329)	\$ (2,921)
May 2005 Interest Rate Swap	(47,514)	21,841	(69,355)	(30,005)
November 2005 Interest Rate Swap	...	1,061	(1,061)	912
December 2006 Interest Rate Swap	(146)	287	(433)	228
April 2009 Interest Rate Swap	(32,974)	18,407	(51,381)	(25,442)
July 2001 Basis Swap	(5,986)	2,975	(8,961)	2,040
Total	\$ (93,594)	\$ 46,926	\$ (140,520)	\$ (55,188)

The counterparty on the April 2009 Interest Rate Swap may exercise an early termination right on April 1, 2016, and every seven years thereafter, until 2037. In the event this right is exercised, DUHS may revoke it, at which time the DUHS collateral threshold reduces to zero for the remainder of the swap agreement.

Duke is exposed to financial loss in the event of nonperformance by a counterparty to any of the financial instruments described above. General market conditions could impact the credit standing of the counterparties and, therefore, potentially impact the value of the instruments on Duke's consolidated balance sheets. Duke controls this counterparty credit risk by considering the credit rating, business risk, and reputation of any counterparty before entering into a transaction,

monitoring for any change in the credit standing of its counterparty during the life of the transaction, and requiring collateral be posted when predetermined thresholds are crossed. Duke is also exposed to interest rate risk driven by factors influencing the spread between the taxable and tax-exempt market interest rates on its basis swap.

DUHS derivative instruments contain provisions requiring long-term, unsecured debt to be maintained at specified credit ratings from Moody's Investor Service and Standard & Poor's Rating Service. If the ratings of DUHS's debt were to fall below certain benchmarks, the counterparty could request immediate payment on derivatives in net liability positions. At June 30, 2013, DUHS's long-term debt ratings exceeded these requirements.

¹ Notional amount of the April 2009 Interest Rate Swap declines coincident with the principal payment schedules for the Series 2012C and Series 2006 A/B/C bonds. The residual portion is \$5,785.

12. Affiliated Organizations

The Private Diagnostic Clinic, PLLC (the PDC)

The PDC is a professional limited liability company consisting of physicians practicing primarily within DUHS facilities and contiguous PDC clinics. The purpose of the PDC is to provide a structure separate from Duke in which the members of the physician faculty of the School of Medicine may engage in the private practice of medicine and still serve as members of the faculty of Duke conducting clinical teaching and medical research. Under a contract between the PDC and Duke, the PDC: (1) makes payments for nonprofessional services and employees supplied by Duke to the PDC; (2) pays rent for the PDC's use of space; and (3) makes payments for the goodwill and other benefits derived from the PDC's association with Duke. A substantial portion of the payments is used by Duke to support academic programs in the clinical departments of the School of Medicine. These payments totaled \$62,252 and \$65,045 for fiscal 2013 and fiscal 2012, respectively, and are recognized as revenue in grants, contracts and similar agreements in the consolidated statements of activities.

The Duke Endowment

Duke is a named beneficiary of The Duke Endowment and receives substantial support from The Duke Endowment in the forms of unrestricted operating support and discretionary grants. Established in 1924 by James Buchanan Duke, The Duke Endowment is a charitable trust created to promote philanthropic purposes by making grants for educational, health care, child care, and religious purposes within North Carolina and South Carolina.

While Duke and The Duke Endowment have a common heritage, each having been founded through the generosity of James Buchanan Duke, they are 2 separate entities, each with its own purposes, office, officers, and trustees. The Duke Endowment

has been required by its indenture to distribute certain amounts of income to Duke from the Original Corpus, Corpus Item VIII, and Corpus Item XI, subject to a limited right to withhold by The Duke Endowment trustees. Through June 30, 2013, this right to withhold has never been exercised.

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

Unrestricted operating support from The Duke Endowment was \$12,500 for fiscal 2013 and fiscal 2012. Such amounts are reflected in investment return designated for current operations in the consolidated statements of activities.

Duke received discretionary grants from The Duke Endowment of \$40,883 and \$43,386 for fiscal 2013 and fiscal 2012, respectively. Such amounts are included in contributions in the consolidated statements of activities.

At June 30, 2013 and 2012, the portion of The Duke Endowment's net assets included in permanently restricted net assets on Duke's consolidated balance sheets, and from which Duke derives unrestricted operating support, had a fair value of \$603,418 and \$563,294 respectively. Duke has no equity interest in the principal of The Duke Endowment trust, which had a fair value of approximately \$3.1 billion at June 30, 2013.

13. Functional Expenses

Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses for fiscal 2013 and fiscal 2012 were categorized as follows:

	2013	2012
Health care services	\$ 1,714,011	\$ 1,667,957
Instruction and departmental research	909,591	894,363
General administration	843,311	750,860
Sponsored and separately budgeted research	858,825	841,716
Auxiliary enterprises	202,869	198,555
Student services	51,660	47,316
Libraries	44,730	42,468
Student aid	45,264	42,357
Total operating expenses	\$ 4,670,261	\$ 4,485,592

Functional expenses are shown in categories recommended by the National Association of College and University Business Officers. Duke's primary program services are health care services, instruction and departmental research, and sponsored and separately budgeted research. Expenses reported as general administration, auxiliary enterprises, student services, libraries, and student aid are incurred in support of these primary program services.

Plant operation and maintenance expense is allocated to program and supporting activities based upon periodic assessment of facilities usage. Total amounts allocated in fiscal 2013 and fiscal 2012 were \$123,993 and \$127,504, respectively.

14. Charity Care

DUHS provides services at a free or substantially discounted rate to patients who are approved under the guidelines of its charity care policy. Services qualifying for charity care consideration include emergent and medically necessary services as determined by a DUHS physician. Patient household income in relation to the federal poverty guidelines and the equity value of real property assets is included in the determination for charity care qualification. While charity care

is excluded from net patient service revenue and receivables, DUHS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone and estimated costs incurred for services and supplies furnished under its charity care policy and other equivalent service statistics. Costs incurred are estimated based on the ratio of total operating expenses to gross charges applied to charity care charges.

15. Concentration of Credit Risk

DUHS grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The related gross receivables at June 30, 2013 included approximately 40%

and 48% from commercial payors and U.S. Government sources, respectively, and at June 30, 2012 included approximately 43% and 46%, respectively.

16. Managing Conflicts of Interest

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

Duke maintains written conflict of interest policies for both the University and DUHS that require, among other things, that no member of a governing board may participate in any decision in which he or she (or an immediate family member) has a material financial interest. Each governing board member is required to certify compliance with the conflict of interest policy on an annual basis and indicate whether Duke does business with an entity in which that member (or an immediate family member) has a material financial interest. When such relationships exist, measures, including written management plans, are taken to mitigate any actual or perceived

conflict, including requiring that such transactions be conducted at arm's length, for good and sufficient consideration, based on terms that are fair and reasonable to and in the best interests of Duke, and in accordance with applicable conflict of interest laws and policies in effect. No such associations that have been disclosed are considered to be material to the consolidated financial statements.

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

17. Commitments and Contingencies

Construction and Purchase Commitments

At June 30, 2013 and 2012, open contracts for the construction of physical properties amounted to \$239,887 and \$249,667, respectively, and outstanding purchase orders for normal operating supplies and equipment amounted to \$21,198 and \$27,464, respectively.

Leases

Duke leases various machinery, equipment and buildings under operating leases expiring at various dates through 2029. Total rental expense in fiscal 2013 and fiscal 2012 for all operating leases was \$73,319 and \$75,771, respectively.

Future minimum lease payments under noncancelable capital and operating leases as of June 30, 2013 are as follows:

Year	Capital Leases	Operating Leases	Total
2014	\$ 9,443	\$ 76,545	\$ 85,988
2015	9,590	72,876	82,466
2016	9,739	64,614	74,353
2017	9,898	60,046	69,944
2018	10,062	55,156	65,218
Thereafter	316,893	205,891	522,784
Total minimum lease payments	365,625	535,128	900,753
Less sublease rentals by the PDC	...	(26,013)	(26,013)
Total minimum payments less subleases	365,625	\$ 509,115	\$ 874,740
Less: Interest portion	(238,266)		
Capital lease obligations	\$ 127,359		

Medical Malpractice Coverage

DCC (see Note 1) insures a portion of the medical malpractice risks and patient general liability risks of DUHS clinical providers and the PDC. The assets, liabilities, and results of operations for DCC have been reflected in the unrestricted net assets of Duke. Policy limits for the years ended June 30, 2013 and 2012 were \$110,000 per incident and \$155,000 and \$160,000 in the aggregate, respectively. DCC limits its exposure to loss through reinsurance and excess loss agreements.

Estimated professional liability costs include the estimated cost of professional liability in fiscal 2013 and 2012 for reported claims incurred in the DCC program. DCC evaluates its estimated professional liability on a discounted actuarial basis. The discount rate at June 30, 2013 and 2012 is 3.5%. Accrued professional liability costs as of June 30, 2013 and 2012 amounted to \$60,368 and \$64,639, respectively. Cash, investments, and other receivables in this amount have been designated by DUHS to settle these claims. Also included in estimated professional liability costs are estimated claims incurred but not reported related to DUHS in the amounts of \$8,252 and \$9,017 as of June 30, 2013 and 2012, respectively.

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

Self-Insurance

Duke provides employee healthcare benefits, long-term disability benefits, unemployment benefits, and workers' compensation benefits primarily through employer contributions, participant contributions,

and excess loss insurance, and manages those programs through third-party administrators. In the opinion of the administration, adequate provision has been made for the related risks within accrued payroll and employee withholdings or accrued postretirement/postemployment and other benefit obligations on Duke's consolidated balance sheets.

Partnership Investment Commitments

There were \$1.2 billion of commitments to private capital and real asset investments as of June 30, 2013. These funds may be drawn down over the next several years upon request by the general partners. Duke expects to finance these commitments with available cash and expected proceeds from the sales of securities.

Contingencies

Duke is involved in various legal actions occurring in the normal course of activities. While the final outcomes cannot be determined at this time, the administration is of the opinion that the resolution of these matters will not have a material adverse effect on Duke's financial position.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE
AWARDS AND OMB CIRCULAR A-133 REPORTS**

DUKE UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Federal Award Expenditures:			
Research and Development Cluster:			
Department of Health and Human Services:			
ARRA - Accelerating Adoption of Comparative Effectiveness Research	93.726	—	\$ 775,150
Agency for Healthcare Research and Quality	93.RD	—	2,698,907
Biomedical Advanced Research and Development Authority	93.RD	—	7,685,888
Centers for Disease Control and Prevention	93.RD	—	2,167,991
Centers for Medicare & Medicaid Services	93.RD	—	1,694,535
ARRA - Comparative Effectiveness Research AHRQ	93.715	—	98,767
ARRA - Compete - HF	93.HHSA290200500321	—	709,695
ARRA - Comprehensive EPC CER for Effective Health Care	93.HHSA 290-200710066	—	924,424
ARRA - Endometrial Cancer TCGA Project	93.HHSN2612010000191	—	66,455
ARRA - Follow-up of the Multimodal Treatment Study of Children with ADHD (MTA)	93.HSN271200800009C	—	81,758
Food and Drug Administration	93.RD	—	2,095,593
Health Resources and Services Administration	93.RD	—	2,204,680
National Institutes of Health	93.RD	—	343,418,186
Substance Abuse and Mental Health Services Administration	93.RD	—	457,530
ARRA - TCGA - Breast Cancer	93.HHSN2612010000231	—	80,026
ARRA - Trans-NIH Recovery Act Research Support	93.701	—	6,994,703
Pass-through programs from:			
ABT Associates	93.RD	—	10,506
Advanced Liquid Logic	93.RD	—	573,243
Aeolus Pharmaceuticals	93.RD	—	270,106
Alamance County	93.RD	—	114,647
Alamance Social Services	93.RD	—	228,581
Albert Einstein College of Medicine of Yeshiva University	93.RD	—	126,027
Alliance Behavioral Health Care	93.RD	—	157,911
Altarium Institute	93.RD	—	124,864
American Academy of Pediatrics	93.RD	—	23,310
ARRA - American College Cardiology Foundation *	93.701	—	66,642
American College of Radiology	93.RD	—	49,839
ARRA - American College of Radiology *	93.701	—	(7,248)
American College of Radiology Imaging Network	93.RD	—	80,495
ARRA - American College of Radiology Imaging Network *	93.701	—	(360)
American College of Surgeons Oncology Group	93.RD	—	3,891
American Federation for Aging Research	93.RD	—	65,593
American Institute for Research	93.RD	—	(4)
AMPLX Pharmaceuticals	93.RD	—	36,643
Angion Biomedical Corporation	93.RD	—	(6,123)
Annias Immunotherapeutics	93.RD	—	68,655
Argos Therapeutics, Inc.	93.RD	—	33,981
ASCO Cancer Foundation	93.RD	—	13,839
Association of American Medical Colleges	93.RD	—	20,802
Atlas Research, LLC.	93.RD	—	138,907
Axio Research Corporation	93.RD	—	168,307
Baylor College of Medicine	93.RD	—	1,667,071
Benayora Research Institute	93.RD	—	134,895
Beth Israel Deaconess Medical Center	93.RD	—	4,083
Blood Center of Wisconsin	93.RD	—	10,719
Boston University	93.RD	—	199,146
ARRA - Boston University *	93.701	—	62
ARRA - Brain Plasticity *	93.701	—	67,920
Brandeis University	93.RD	—	173,724
Brigham and Women's Hospital	93.RD	—	1,493,523
Burnham Institute of Medical Research	93.RD	—	296,147
California Institute of Technology	93.RD	—	251,082
Cambridge Health Alliance	93.RD	—	21,280
Camras Vision, Inc.	93.RD	—	66,546
Carnegie Mellon University	93.RD	—	70,449
Case Western Reserve University	93.RD	—	116,058
Cedar-Sinai Medical Center	93.RD	—	38,850
Center to Protect Workers' Rights	93.RD	—	138,710
Children's Hospital and Medical Center	93.RD	—	9
ARRA - Children's Hospital and Research Center *	93.701	—	470
Children's Hospital Boston	93.RD	—	1,083,580
Children's Hospital Los Angeles	93.RD	—	212
Children's Hospital Philadelphia	93.RD	—	434,488
ARRA - Children's Hospital Philadelphia *	93.701	—	38,588
Children's Mercy Hospital	93.RD	—	30,493

DUKE UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Cincinnati Children's Hospital	93.RD	—	\$ 3,924
Cleveland Clinic Foundation	93.RD	—	41,650
Cognosci, Inc.	93.RD	—	(17,018)
Collagen Medical	93.RD	—	4,662
Columbia University	93.RD	—	256,718
Constella Group, LLC	93.RD	—	274
ARRA - Creighton University *	93.701	—	353,465
Cytex Therapeutics, Inc.	93.RD	—	4,788
Dana-Farber Cancer Institute	93.RD	—	471,089
Dekk-Tec	93.RD	—	28,587
East Carolina University	93.RD	—	3,796
EMMES Corporation	93.RD	—	104,624
Emory University	93.RD	—	12,966
EPIVAX, Inc	93.RD	—	75,953
Family Health International	93.RD	—	105,787
Feinstein Institute for Medical Research	93.RD	—	13,050
Foundation for the National Institutes of Health	93.RD	—	659
Fred Hutchinson Cancer Research Center	93.RD	—	1,748,849
Georgetown University	93.RD	—	262,779
George Washington University	93.RD	—	224,128
Georgia Institute of International Health	93.RD	—	110,197
Grassroots Biotech, Inc.	93.RD	—	57,151
Harvard Pilgrim Healthcare	93.RD	—	418,460
Harvard University	93.RD	—	122,640
Health Research Education Trust	93.RD	—	39,846
Health Research, Inc.	93.RD	—	109,815
Heart Imaging Technologies, LLC	93.RD	—	225,382
Henry Ford Health System	93.RD	—	47,578
Hudsonalpha Institute for Biotechnology	93.RD	—	125,629
Humanetics Corporation	93.RD	—	65,410
Imquest Biosciences, Inc.	93.RD	—	556,839
Indiana University	93.RD	—	148,712
Institute for Clinical Research	93.RD	—	61,353
Intelligent Automation, Inc.	93.RD	—	19,591
J David Gladstone Institutes	93.RD	—	297,299
Jackson State University	93.RD	—	9,735
JAEB Center for Health Research	93.RD	—	171,311
Johns Hopkins University	93.RD	—	1,016,470
KAI Pharmaceuticals, Inc.	93.RD	—	98,014
Kaiser Foundation	93.RD	—	42,545
Kilimanjaro Christian Medical Center	93.RD	—	290,544
Lawrence Berkeley National Lab	93.RD	—	141,172
Lifepoint Hospitals	93.RD	—	377,694
Lifescitech	93.RD	—	13,707
Lumicell Diagnostics	93.RD	—	18,058
Lurie Children's Hospital	93.RD	—	5,431
Macro International, Corp.	93.RD	—	33,013
Massachusetts General Hospital	93.RD	—	38,348
ARRA - Massachusetts General Hospital *	93.701	—	(4,319)
Massachusetts Institute of Technology	93.RD	—	100,511
Mayo Clinic	93.RD	—	1,073,897
Mayo Clinic Rochester	93.RD	—	2,821,910
ARRA - Mayo Clinic Rochester *	93.701	—	17,485
Medical College of Wisconsin	93.RD	—	9,750
Medical University of South Carolina	93.RD	—	44,035
MEDISPIN, Inc.	93.RD	—	(11,274)
Meharry Medical College	93.RD	—	48,265
Memorial Sloan-Kettering	93.RD	—	64,729
Moffitt Cancer Center	93.RD	—	425,724
Moi University	93.RD	—	212,717
Montefiore Medical Center	93.RD	—	672,849
ARRA - Montefiore Medical Center *	93.701	—	637
Mt. Sinai Medical Center	93.RD	—	923,495
ARRA - Mt. Sinai Medical Center *	93.701	—	18,951
National Association of Chronic Disease	93.RD	—	56,248
National Fragile X Foundation	93.RD	—	7,166
National Jewish Medical and Research Center	93.RD	—	58,519
National Marrow Donor Program	93.RD	—	103,196
Nationwide Children's Hospital	93.RD	—	170,122
Neurop, Inc.	93.RD	—	8,312

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Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
New England Research Institute	93.RD	—	\$ 127,802
New Folder Consulting	93.RD	—	12,527
New York School of Medicine	93.RD	—	113,684
North Carolina Central University	93.RD	—	126,942
North Carolina Department of Health and Human Services	93.RD	—	290,918
North Carolina Department of Public Instruction	93.RD	—	56,846
North Carolina State University	93.RD	—	171,683
Northern California Institute for Research and Education	93.RD	—	26,525
Northwestern University	93.RD	—	264,016
Ohio State University Research Foundation	93.RD	—	153,897
Optima Neuroscience, Inc.	93.RD	—	19,531
Ordway Research Institute	93.RD	—	(811)
Palo Alto Institute for Research	93.RD	—	118,105
Paxvax Corporation	93.RD	—	14,234
Physical Sciences, Inc.	93.RD	—	105,944
Premitec, Inc.	93.RD	—	96,344
Prevent Blindness America	93.RD	—	(13,131)
Profusa, Inc.	93.RD	—	(5,555)
Purdue University	93.RD	—	30,394
Qualify Biological, Inc.	93.RD	—	22,011
Radiation Effects Research Foundation	93.RD	—	464,014
Radiological Society of North America	93.RD	—	30,360
ARRA - Research Foundation of SUNY *	93.701	—	10,452
Research Foundation Mental Hygiene	93.RD	—	205,251
Research Triangle Institute	93.RD	—	381,989
Rice University	93.RD	—	157,976
SAIC-Frederick, Inc.	93.RD	—	729,976
ARRA - SAIC-Frederick, Inc.*	93.701	—	17,884
Sarcoma Alliance for Research	93.RD	—	11,107
Social and Scientific Systems, Inc.	93.RD	—	19,531
Southeast Techninventures	93.RD	—	101,873
ARRA - St. John Health *	93.701	—	(378)
St. Jude Children's Research Hospital	93.RD	—	181,269
St. Luke's Roosevelt Institute	93.RD	—	14,463
Stanford University	93.RD	—	141,745
Stony Brook University	93.RD	—	40,499
Syntrix Biosystems, Inc.	93.RD	—	27,921
Tufts University	93.RD	—	159,131
University of Alabama	93.RD	—	131,544
ARRA - University of Alabama *	93.701	—	7,845
University of Arizona	93.RD	—	446,931
University of California at Berkeley	93.RD	—	277,670
University of California at Davis	93.RD	—	172,872
University of California at Irvine	93.RD	—	429
University of California at Los Angeles	93.RD	—	2,676,308
ARRA - University of California at Los Angeles *	93.701	—	37
University of California at San Diego	93.RD	—	427,988
ARRA - University of California at San Diego *	93.701	—	29,787
University of California at San Francisco	93.RD	—	334,701
University of California at Santa Cruz	93.RD	—	99,682
University of Chicago	93.RD	—	193,095
University of Cincinnati	93.RD	—	183,383
University of Colorado	93.RD	—	43,453
University of Connecticut	93.RD	—	510,910
University of Florida	93.RD	—	906,722
University of Houston	93.RD	—	109,388
University of Illinois	93.RD	—	49,104
University of Iowa	93.RD	—	118,690
University of Kansas	93.RD	—	114,105
University of Louisville	93.RD	—	60,761
University of Maryland	93.RD	—	837,418
University of Massachusetts	93.RD	—	(554)
ARRA - University of Massachusetts *	93.701	—	320,659
University of Medicine & Dentistry of New Jersey	93.RD	—	2,207
ARRA - University of Medicine & Dentistry of New Jersey *	93.701	—	18,645
University of Miami	93.RD	—	3,935
ARRA - University of Miami *	93.701	—	31,518
University of Michigan	93.RD	—	552,369
ARRA - University of Michigan *	93.701	—	(3,123)

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Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
University of Minnesota	93.RD	—	\$ 51,902
University of Missouri	93.RD	—	(13)
University of North Carolina at Chapel Hill	93.RD	—	5,221,364
ARRA - University of North Carolina at Chapel Hill *	93.701	—	4,820
University of North Carolina at Charlotte	93.RD	—	18,673
University of Oklahoma	93.RD	—	112,182
University of Pennsylvania	93.RD	—	271,508
University of Pittsburgh	93.RD	—	441,512
ARRA - University of Pittsburgh *	93.701	—	3,503
University of Rochester	93.RD	—	402,732
ARRA - University of Rochester *	93.701	—	(719)
ARRA - University of South Carolina *	93.701	—	(24,742)
University of Southern California	93.RD	—	82,615
University of Southern Florida	93.RD	—	44,386
University of Texas Health Science Center at Houston	93.RD	—	327,891
University of Texas M.D. Anderson	93.RD	—	(754)
University of Texas Southwestern Medical Center	93.RD	—	41,974
University of Virginia	93.RD	—	208,870
University of Vermont	93.RD	—	(4,066)
University of Washington	93.RD	—	171,805
ARRA - University of Washington *	93.701	—	958
University of Wisconsin	93.RD	—	73,109
Valencell Clinic	93.RD	—	169,936
Vanderbilt University	93.RD	—	277,566
Vindico Nanbiotech	93.RD	—	74,596
Virginia Commonwealth University	93.RD	—	274,371
Virginia Polytechnical Institute and State University	93.RD	—	196,949
Vortant Technologies, LLC	93.RD	—	1,154
Wake County	93.RD	—	(79)
Wake Forest University	93.RD	—	388,720
ARRA - Wake Forest University *	93.701	—	104,484
Washington University	93.RD	—	47,236
West Virginia University	93.RD	—	1,935
Westat, Inc.	93.RD	—	37,910
Winstar Institute	93.RD	—	29,620
Wister	93.RD	—	168,450
Woods Hole Oceanographic Institution	93.RD	—	16,387
Yale University	93.RD	—	232,765
ARRA - Yale University *	93.701	—	23,512
Zenalux Biomedical, Inc.	93.RD	—	38,503
Total Department of Health and Human Services			418,660,019
Department of Defense	12.RD	—	44,736,311
Pass-through programs from:			
ABT Associates, Inc.	12.RD	—	277,172
Applied Quantum Technologies, Inc.	12.RD	—	89,297
Applied Research Association	12.RD	—	87,898
Applied Research Laboratory	12.RD	—	44,987
Boston College	12.RD	—	40,167
DCS Corporation	12.RD	—	90,000
DRS Sensors & Targeting Systems	12.RD	—	15,692
Einstein College of Medicine	12.RD	—	72,099
FDH Engineering	12.RD	—	1,755
Georgia Institute of Technology	12.RD	—	303,015
GEO-MARINE, Inc.	12.RD	—	(50)
Greenville Hospital System	12.RD	—	7,549
Harvard University	12.RD	—	31,377
HDR Environmental, Operations and Construction, Inc.	12.RD	—	1,553,877
Humacyte	12.RD	—	86,385
Infoscitex Corporation	12.RD	—	23,215
Jackson Foundation	12.RD	—	235,945
Johns Hopkins University	12.RD	—	183,176
Kyma Technologies, Inc.	12.RD	—	43,938
Loma Linda University	12.RD	—	210,398
London Institute of Mathematical Sciences	12.RD	—	56,601
Massachusetts Institute of Technology	12.RD	—	193,115
Metron, Inc.	12.RD	—	105,014
Moses Cone Health System	12.RD	—	(710)
Montana State University	12.RD	—	22,957

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Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
National Security Innovation	12.RD	—	\$ (7,261)
North Carolina State University	12.RD	—	55,438
Northrop Grumman	12.RD	—	26,951
Northwestern University	12.RD	—	89,077
Pennsylvania State University	12.RD	—	6,109
Princeton University	12.RD	—	46,085
Profusa, Inc.	12.RD	—	(2,096)
Research Triangle Institute	12.RD	—	55,324
Rice University	12.RD	—	80,540
Sensormetrix, Inc.	12.RD	—	134,192
Signal Innovations Group	12.RD	—	(1,763)
SRI International	12.RD	—	10,174
Stanford University	12.RD	—	252,411
Teledyne Scientific Company	12.RD	—	(2,347)
Tetra Tech, Inc.	12.RD	—	109,226
Universal Technology Group	12.RD	—	65,000
University of California at Los Angeles	12.RD	—	201,033
University of California at San Diego	12.RD	—	887,677
University of California at San Francisco	12.RD	—	81,140
University of Central Florida	12.RD	—	50,078
University of Colorado	12.RD	—	302,435
University of Florida	12.RD	—	(480)
University of Houston	12.RD	—	167,070
University of Illinois	12.RD	—	12,205
University of Maryland	12.RD	—	156,561
University of Miami	12.RD	—	166,612
University of Michigan	12.RD	—	(1,272)
University of Minnesota	12.RD	—	114,415
University of New Mexico	12.RD	—	100,654
University of Pennsylvania	12.RD	—	209,804
University of South California	12.RD	—	258,749
University of Virginia	12.RD	—	(10,181)
Wave Computation Technology	12.RD	—	101,888
William Marsh Rice University	12.RD	—	(932)
Woods Hole Oceanographic Institution	12.RD	—	19,614
ZT Solar	12.RD	—	46,612
Total Department of Defense			52,291,922
National Science Foundation	47.RD	—	36,398,175
ARRA – Trans-NSF Recovery Act Research Support	47.082	—	1,514,387
Pass-through programs from:			
Camras Vision, Inc.	47.RD	—	3,568
Carnegie Mellon University	47.RD	—	67,422
Columbia University	47.RD	—	239,568
Florida International University	47.RD	—	34,038
Georgia Institute of Technology	47.RD	—	(2,287)
Institute for Advance Study	47.RD	—	35,868
International Start Secretariat	47.RD	—	6,478
Harvard University	47.RD	—	47,026
Michigan State University	47.RD	—	99,802
Montana State University	47.RD	—	45,501
National Institute of Statistics	47.RD	—	164,045
Norfolk State University	47.RD	—	5,610
North Carolina State University	47.RD	—	117,048
Ohio State University	47.RD	—	61,199
Old Dominion University	47.RD	—	31,467
Oregon State University	47.RD	—	36,716
Rutgers State University	47.RD	—	22,240
San Diego State University	47.RD	—	3,100
Texas State University	47.RD	—	32,209
University of California at Davis	47.RD	—	47,806
University of California at Merced	47.RD	—	40,290
University of California at Santa Barbara	47.RD	—	125,393
ARRA - University of California at Santa Cruz **	47.082	—	23,659
University of Colorado	47.RD	—	19,151
University of Connecticut	47.RD	—	69,727
University of Florida	47.RD	—	11,649
University of Georgia	47.RD	—	59,562
University of Illinois	47.RD	—	18,089
University of Minnesota	47.RD	—	45,946

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Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
University of New Mexico	47.RD	—	\$ 28,013
University of Nebraska	47.RD	—	7,454
University of North Carolina at Chapel Hill	47.RD	—	1,404,770
ARRA - University of North Carolina at Chapel Hill **	47.082	—	80,460
University of Pennsylvania	47.RD	—	(20,483)
University of Rochester	47.RD	—	71,211
University of Wisconsin	47.RD	—	81,946
Valencell, Inc.	47.RD	—	4,520
Total National Science Foundation			41,082,343
Department of Energy	81.RD	—	9,903,064
ARRA – Geologic Sequestration Training and Research Grant	81.133	—	116,682
Pass – through programs from:			
Argonne National Labs	81.RD	—	23,379
Battelle LLC	81.RD	—	20,449
Biodiversity Research Institute	81.RD	—	13,021
Brookhaven National Laboratory	81.RD	—	333,278
Center to Protect Workers' Rights	81.RD	—	86,044
Cornell University	81.RD	—	48,858
Florida International University	81.RD	—	7,071
Georgia Institute of Technology	81.RD	—	118,691
Los Alamos National Laboratory	81.RD	—	45,393
Marine Biological Laboratory	81.RD	—	161,451
National Renewable Energy	81.RD	—	204,023
North Carolina State University	81.RD	—	122,882
Oak Ridge Associate University	81.RD	—	120,014
ARRA - Regulatory Utility Commission ***	81.122	—	38,377
Sandia National Laboratory	81.RD	—	105,205
University of California at Irvine	81.RD	—	(7)
University of California, Lawrence Livermore	81.RD	—	376,129
University of Kentucky Research Foundation	81.RD	—	72,208
ARRA - University of North Carolina at Chapel Hill ****	81.049	—	332,209
University of Pennsylvania	81.RD	—	33
University of Pittsburgh	81.RD	—	89,608
UT-Batelle, LLC.	81.RD	—	162,671
Washington State University	81.RD	—	269,894
Total Department of Energy			12,770,627
Department of Homeland Securities	97.RD	—	5,239,765
Pass-through programs from:			
Johns Hopkins University	97.RD	—	373,038
Research Triangle Institute	97.RD	—	12,159
Stanford University	97.RD	—	36,923
University of Southern California	97.RD	—	14,431
Total Department of Homeland Securities			5,676,316
Department of Education	84.RD	—	2,568,341
Pass-through programs from:			
American Institutes for Research	84.RD	—	168,760
Georgia Institute of Technology	84.RD	—	649
Research Triangle Institute	84.RD	—	45,286
University of North Carolina at Chapel Hill	84.RD	—	122,931
Total Department of Education			2,905,967
National Aeronautics and Space Administration	43.RD	—	2,655,947
Pass-through programs from:			
Carnegie Mellon University	43.RD	—	8,600
Cornell University	43.RD	—	20,785
Jet Propulsion Lab	43.RD	—	68,015
North Carolina State University	43.RD	—	12,738
Smithsonian Institute	43.RD	—	9,817
Temple University	43.RD	—	3,239
University of California at Irvine	43.RD	—	67,389
University of Connecticut	43.RD	—	(10,500)
University of Maine	43.RD	—	173
Woods Hole Oceanographic	43.RD	—	29,767
Total National Aeronautics and Space Administration			2,865,970
Department of Veteran Affairs	64.RD	—	725,295
Pass-through programs from:			
Family Health International	64.RD	—	32,363
Total Department of Veteran Affairs			757,658

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Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Environmental Protection Agency	66.RD	—	\$ 414,120
Pass-through programs from:			
ICF Associates, Inc.	66.RD	—	277,312
Research Triangle Institute	66.RD	—	61,233
University of South Carolina	66.RD	—	1,490
Total Environmental Protection Agency			754,155
Department of Agriculture	10.RD	—	697,779
Pass-through programs from:			
North Carolina State University	10.RD	—	(5,328)
University of Connecticut	10.RD	—	335
University of Nebraska at Lincoln	10.RD	—	26,868
Total Department of Agriculture			719,654
Agency for International Development	98.RD	—	125,484
Pass-through programs from:			
Indiana University	98.RD	—	6,732
University of California at Davis	98.RD	—	168,114
University of Colorado	98.RD	—	36,174
University of Maryland	98.RD	—	115,854
University Research Co., LLC	98.RD	—	181,680
Total Agency for International Development			634,038
Department of Commerce	11.RD	—	286,145
Pass-through programs from:			
Florida State University	11.RD	—	75,317
Marine Fisheries Commission	11.RD	—	33,137
North Carolina State University	11.RD	—	89,191
Southeast Coastal Ocean Observing	11.RD	—	15,538
Stratus Consulting, Inc.	11.RD	—	4,857
University of Miami	11.RD	—	3
Total Department of Commerce			504,188
Department of Transportation	20.RD	—	399,700
Pass-through programs from:			
Princeton University	20.RD	—	56,348
Total Department of Transportation			456,048
Department of Interior	15.RD	—	326,450
Pass-through programs from:			
Science Applications International Corporation	15.RD	—	35,680
VAXDESIGN Corporation	15.RD	—	(873)
Total Department of Interior			361,257
National Endowment for the Humanities	45.RD	—	134,877
Pass-through programs from:			
University of Florida	45.RD	—	14,099
Total National Endowment for the Humanities			148,976
Department of Justice	16.RD	—	52,346
Pass-through programs from:			
Durham Police Department	16.RD	—	2,001
North Carolina Department of Juvenile Justice	16.RD	—	14,164
Total Department of Justice			68,511
Marine Mammal Commission	90.RD	—	7,831
Total Research and Development Cluster			540,665,480
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grant	84.007	—	840,000
Direct Loan Program	84.268	—	122,299,567
Federal Work Study Program	84.033	—	1,940,967
Federal Perkins Loan Program	84.038	—	4,795,916
Federal Pell Grant Program	84.063	—	3,992,927
Total Department of Education			133,869,377
Department of Health and Human Services:			
Nurse Faculty Loan Program	93.264	—	631,043
Total Department of Health and Human Services			631,043
Total Student Financial Aid Cluster			134,500,420

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Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Training and Other Programs:			
Department of Health and Human Services:			
Nurse Anesthetist Traineeships	93.124	—	\$ 20,819
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	—	376,313
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156	—	418,759
Human Genome Research	93.172	—	(28,809)
Nursing Workforce Diversity	93.178	—	247,378
Research and Training in Complementary and Alternative Medicine	93.213	—	27,462
National Research Service Awards-Health Service Research Training	93.225	—	124,253
Research on Healthcare Costs, Quality and Outcomes	93.226	—	145,059
Mental Health Research Grants	93.242	—	419,320
Substance Abuse and Mental Health Services	93.243	—	284,707
Advanced Education Nursing Grant Program	93.247	—	394,296
Occupational Safety and Health Program	93.262	—	136,092
Comprehensive Geriatric Education Program	93.265	—	219,455
Drug Abuse and Addiction Research Programs	93.279	—	1,007,962
Mental Health Research Career/Scientist Development Awards	93.281	—	435,181
Mental Health National Research Service Awards for Research Training	93.282	—	177,276
Discovery and Applied Research	93.286	—	340,031
National Center for Advancing Translational Sciences	93.350	—	284,961
Research Infrastructure Programs	93.351	—	365,500
Nurse Education, Practice and Retention Grants	93.359	—	299,880
Nursing Research	93.361	—	67,956
Sickle Cell Treatment Demonstration Program	93.365	—	42,848
Research Infrastructure	93.389	—	121,025
Cancer Treatment Research	93.395	—	532,183
Cancer Research Manpower	93.398	—	3,929,840
Affordable Care Act Advanced Nursing Education Expansion Initiative	93.513	—	362,640
Affordable Care Act Expansion of Physician Assistant Training Program	93.514	—	308,000
ARRA – Trans-NIH Recovery Act Research Support	93.701	—	1,274,505
ARRA – National Center for Research Resources, Recovery Act	93.702	—	1,726,201
ARRA – Recovery Act - Comparative Effectiveness Research AHRQ	93.715	—	686,275
ARRA – Health Information Technology Professionals in Health Care	93.721	—	718,239
Heart and Vascular Diseases Research	93.837	—	2,105,047
Lung Diseases Research	93.838	—	722,562
Blood Diseases and Resources Research	93.839	—	509,133
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	—	253,273
Diabetes, Endocrinology and Metabolism Research	93.847	—	1,599,700
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	508,106
Allergy, Immunology and Transplantation Research	93.855	—	2,893,019
Pharmacology, Physiology and Biological Chemistry Research	93.859	—	5,282,652
National Institute of General Medical Science Fellowship Award	93.862	—	924
Population Research	93.864	—	140,298
Center for Research for Mothers and Children	93.865	—	1,907,338
Aging Research	93.866	—	1,187,536
Vision Research	93.867	—	1,095,520
Medical Library Assistance	93.879	—	80,011
Grants for Training in Primary Care Medicine and Dentistry	93.884	—	93,206
Geriatric Education Centers	93.969	—	222,968
International Research and Research Training	93.989	—	365,924
Finding Consciousness Workshop	93.269-2012000213	—	14,000
Develop Training in the Principles, Methods, Ethics of Clinical Research under Crest	93.HHSN275201000335P	—	40,431
Develop Training in the Principles, Methods, Ethics of Clinical Research	93.275201100476	—	(1,993)
2011 National CFAR Symposium	93.unknown	—	2,736
Pass-through programs from:			
North Carolina Department of Health and Human Services:			
Alzheimer's Disease Demonstration Grants to States	93.051	—	16,629
National Family Caregiver Support, Title III, Part E	93.052	—	60,325
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	—	99,559
Project Grants and Cooperative Agreement for Tuberculosis Control Programs	93.116	—	103,268

DUKE UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Center for Disease Control and Prevention: Investigations and Technical Assistance	93.283	—	\$ 10,045
Centers for National Bioterrorism Hospital Preparedness Program	93.889	—	529,785
HIV Care Formula Grants	93.917	—	183,020
Block Grants for Prevention and Treatment of Substance Abuse	93.959	—	25,462
Ryan White Part B Region 7 Network of Care	—	93.26434	355,019
Association of Public Health Laboratories: Maternal and Child Health Federal Consolidated Programs	93.110	—	8,907
New Hanover Regional Medical Center: Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	—	77,692
Cincinnati Children's Hospital: Microbiology and Infectious Diseases Research	93.856	—	102,871
Durham County Health Department: Block Grants Formula Grants	93.959	—	42,655
Wake County:			
HIV Adult ID Services	93.unknown	—	148,826
HIV Pediatrics Services	—	93.HIV Pediatrics Services	143,775
North Carolina State University:			
Cardiovascular Diseases Research	93.837	—	1,123
Wisconsin Medical College:			
Mental Health Research Grants	93.242	—	47,048
Alamance Social Services:			
Child Abuse and Neglect Discretionary Activities	93.670	—	93,571
International Research and Research Training	93.989	—	(5,366)
Global Health for Fellows and Scholars	—	93.5R25-TW009337-02	4,477
Alliance for Aids-Carolina: HIV Pediatrics Services	—	93.Residential Fall Protection	(35)
Alliance Behavioral Health Care: HIV Early Intervention Testing	—	93.HIV Earlin Invention Testing	114,104
Rwanda Ministry of Health: Human Resources for Health, Rwanda	—	93.Human Resources for Health	1,072,060
SON-GNE Demonstration: Affordable Care Act (ACA)			
Advanced Nursing Education Expansion Initiative	93.513	—	699,856
University of North Carolina at Chapel Hill:			
Occupational Safety and Health Research Grants	93.262	—	159,624
Mental Health National Research Service Awards for Research Training	93.282	—	44,065
Biomedical Research and Research Training	93.859	—	210,859
University of Pennsylvania:			
Nursing Home Interactions - A Feasibility Study	—	93.5T32-NR009356-05	59,417
University of Washington: Cancer Research Manpower	93.398	—	(102)
Total Department of Health and Human Services			38,896,537
Department of Justice:			
Pass-through programs from:			
Philadelphia Children's Alliance:			
Learning Collaborative for Northeastern Regional CAC's	—	16.TFCBT	33,833
National Children's Advocacy:			
TFCBT Learning Collaborative for CAC's	—	16.2009-MU-MU-K005	33,776
Total Department of Justice			67,609
Department of Defense:			
Basic and Applied Scientific Research	12.300	—	326,333
Military Medical Research and Development	12.420	—	548,300
Air Force Defense Research Sciences Program	12.800	—	(6,326)
Reserve Officers Training Core – Air Force	12.ROTC	—	694,395
Reserve Officers Training Core – Army	12.ROTC	—	976,887
Reserve Officers Training Core – Navy	12.ROTC	—	1,282,360
Fellowship	12.HU0001-11-1-TS03 N	—	13,164
Fellowship	12.HU0001-11-1-TS14 N	—	5,478
ARO - Network Dynamics Measurement Instrument	12.W911NF-12-1-0424	—	77,812
Pass-through programs from:			
Institute International Education: ROTC Language and Culture Training Grants	12.357	—	102,717
National Marrow Donor Program: RITN Agreement	—	12.N00014-10-1-0204	8,014
University of California, Los Angeles: Project FOCUS (Families Overcoming and Coping Under Stress)	—	12.N00189-08-C-2009	39,322
Total Department of Defense			4,068,456
Nuclear Regulatory Commission:			
Fellowship	77.HQ12-G-38-0022	—	84,216
Health Physics: Accelerator Health Physics; Reactor Health Physics	77.HQ-12-G-38-005	—	77,838
Development of Nuclear Safety Graduate Level Courses	77.NRC-38-07-494	—	(952)
Environmental Leadership Program Courses	77.41-08-008	—	140,679
Total Nuclear Regulatory Commission			301,781

DUKE UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Department of Energy:			
Pass-through programs from:			
Brookhaven National Laboratory: Joint Appointment Agreement	—	81.DE-AC02-98CH10886	\$ 104,343
UT-Battelle LLC: ORNL/Duke Collaboration and Program Development	—	81.DE-AC05-00OR22725	4,295
ARRA - North Carolina Department of Commerce ****	—	81.43900146	12
Total Department of Energy			108,650
National Science Foundation:			
Engineering Grants	47.041	—	241,119
Mathematical and Physical Sciences	47.049	—	876,606
Geosciences	47.050	—	1,554,112
Biological Sciences	47.074	—	577,063
Social, Behavioral, and Economic Sciences	47.075	—	245,749
Education and Human Resources	47.076	—	5,609,135
International Science and Engineering (OISE)	47.079	—	53,632
ARRA – Trans-NSF Recovery Act Research Support	47.082	—	301,409
Pass-through programs from:			
Computing Research Association:			
Computer and Information Science and Engineering	47.070	—	49,942
University of Colorado: Education and Human Resources	47.076	—	30,389
Total National Science Foundation			9,539,156
Corporation for National and Community Service:			
Learn and Serve America Higher Education	94.005	—	128,942
Total Corporation for National and Community Service			128,942
Department of Agriculture:			
Agriculture and Food Research Initiative (AFRI)	10.310	—	59,073
Total Department of Agriculture			59,073
Department of Commerce:			
Summer Undergraduate Research Fellowship	11.70NANB13	—	16,672
Seminar on Methods in Marine Bioacoustics	11.NA12NOS4260159	—	19,784
Pass-through programs from:			
North Carolina State University	11.417	—	23,094
Total Department of Commerce			59,550
Department of Homeland Security:			
Pass-through programs from:			
North Carolina Department of Crime Control & Public Safety:			
Homeland Security Grant Program	97.067	—	42,866
Total Department of Homeland Security			42,866
Department of Treasury:			
Pass-through programs from:			
MDC, Inc.: Duke Law Vita	—	21.Unknown	3,379
Total Department of Treasury			3,379
National Aeronautics and Space Administration:			
Fellowship Program	43.NNX09AJ10H	—	10,682
Fellowship Program	43.NNX09AN74H	—	10,641
Fellowship Program	43.NNX09AJ17H	—	4,333
Fellowship Program	43.NNX10AO62H	—	11,620
Fellowship Program	43.NNX10AO68H	—	30,000
Fellowship Program	43.NNX12AN49H	—	25,721
Total National Aeronautics and Space Administration			92,997
Environmental Protection Agency:			
Science to Achieve Results (STAR) Fellowship Program	66.514	—	83,566
P3 Award: National Student Design Competition for Sustainability	66.516	—	4,311
Environmental Education Grants	66.951	—	25,189
Pass-through programs from:			
Water Environment Research Foundations:			
21st Century Water Asset Accounting	66.511	—	113,275
Systems Research Application:			
Support for Oswer Center for Program Analysis (CPA)	—	66.EP-W-07-023	2
Total Environmental Protection Agency			226,343
Department of Veteran Affairs:			
VA Mental Health - Access and Coordination Initiative (MH-ACI)	64.VA246-12-C-0071	—	128,601
Pass-through programs from:			
Chesapeake Health Education Program:			
Smoking Cessation Treatment in Veterans Suffering with PTSD	—	64.unknown	147,598
Total Department of Veteran Affairs			276,199

DUKE UNIVERSITY
Schedule of Expenditures of Federal and State Awards
Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Agency for International Development:			
An Ecosystem Approach to Funding & Scaling the Impact of the Innovations in Healthcare	98.AID-OAA-G-13-0004	—	\$ 590,096
Pass-through programs from:			
Deloitte Consulting, LLP:			
Program on Applied Cost Benefit Analysis and Cost Effectiveness Analysis	—	98.EEM-I-00-07-0005-0	39,466
Chemonics International:			
PFM and Tax Analysis Training Ministry of Finance, Egypt	—	98.EEM-I12-07-00008	1,278
Egypt's Competitiveness Program	—	98.unknown	138
ABT Associates, Inc.: USAID AILEG Training Courses	—	98.AID-OAA-TO-11-0004	23,421
Total Agency for International Development			654,399
Department of Housing and Urban Development:			
Pass-through programs from:			
North Carolina Department of Health and Human Services:			
Housing Opportunities for Persons with AIDS	14.241	—	143,866
Total Department of Housing and Urban Development			143,866
National Archives and Records Administration:			
National Historical Publications and Records Grants	89.003	—	67,277
Total National Archives and Records Administration			67,277
Department of the Interior:			
Forum on Advancing Ecosystems Services	15.G12AP20102	—	7,163
Forum on Advancing Ecosystems Services	15.L12PX00929	—	2,699
Total Department of the Interior			9,862
Appalachian Regional Commission:			
Spring Creek Literacy Project	23.NC-16667-2010	—	20,892
Total Appalachian Regional Commission			20,892
National Endowment for the Arts:			
Promotion of the Arts: Grants to Organizations and Individuals	45.024	—	63,879
Total National Endowment for the Arts			63,879
National Endowment for the Humanities:			
Promotion of the Humanities Research	45.161	—	3,845
Promotion of the Humanities Professional Development	45.163	—	164,682
The Collected Letters of Thomas and Jane Welsh Carlyle	06.RQ-50631-12	—	7,381
Total National Endowment for the Humanities			175,908
Department of Education:			
National Resource Centers and Fellowships Program for			
Language and Area or Language and International Studies	84.015	—	1,404,166
Overseas Programs – Doctoral Dissertation Research Abroad	84.022	—	(2,296)
Fund for the Improvement of Postsecondary Education	84.116	—	201,035
Centers for International Business Education	84.220	—	165,342
Language Resource Centers	84.229	—	222,483
Pass-through programs from:			
University of North Carolina at Chapel Hill: National Resource Centers and Fellowships Programs for Language and Area of Language and International Studies	84.015	—	439,891
North Carolina Department of Public Instruction: 2012 Project Lead The Way	—	84.48982887	48,862
Total Department of Education			2,479,483
Vietnam Education Foundation Fellowship	99.Unknown	—	6,551
Total Federal Award Expenditures			732,659,555
State Award Expenditures:			
North Carolina Arts Council	—	—	55,478
North Carolina Chief Justice's Commission on Professionalism	—	—	1,060
North Carolina Contractual Scholarship for Needy North Carolinians	—	—	(1,223)
North Carolina Department of Cultural Resources	—	—	101,176
North Carolina Department of Environment, Health and Natural Resources	—	—	5,946
North Carolina Department of Health and Human Services	—	—	470,488
North Carolina Department of Public Inspection	—	—	65,515
North Carolina Health and Wellness Trust Fund Commission	—	—	12
North Carolina Humanities Council	—	—	2,000
North Carolina Legislature	—	—	(1,850)

DUKE UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Federal and state grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Expenditures
Pass through programs from:			
North Carolina School of Science and Math	—	—	\$ 487
North Carolina State University	—	—	98,128
North Carolina Wildlife Resources Commission	—	—	24,939
University of North Carolina at Chapel Hill	—	—	1,748,583
University of North Carolina at Greensboro	—	—	(319)
<i>Total State Award Expenditures</i>			2,570,420
<i>Total Federal and State Award Expenditures</i>			\$ 735,229,975

* Funds received as pass-through related to the Trans-NIH Recovery Act Research Support program.

**Funds received as pass-through related to the Trans-NSF Recovery Act Research Support program.

***Funds received as pass-through related to the Electricity Delivery and Energy Reliability Research, Development and Analysis Program.

****Funds received as pass-through related to the Office of Science Financial Assistance Program.

See accompanying notes to schedule of expenditures of federal and state awards.

DUKE UNIVERSITY

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

(1) Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes all grants, contracts, and similar agreements entered into directly between Duke University (Duke) and agencies and departments of the federal and state governments and all subawards to Duke by other organizations pursuant to federal and state grants, contracts, and similar agreements. The information in this schedule is prepared on the accrual basis of accounting. The federal award information is presented in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

(2) Summary of Significant Accounting Policies for Federal and State Award Expenditures

Expenditures for student financial aid programs are recognized as incurred and include the federal share of students' Federal Supplemental Educational Opportunity Grants program and Federal Work-Study program earnings, Pell grants, loan disbursements and administrative cost allowances, where applicable.

Expenditures for other federal awards are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures include facilities and administrative costs, related primarily to facilities operation and maintenance and general, divisional, and departmental administrative services, which are allocated as a percentage of direct cost based on negotiated rates. Facilities and administrative costs allocated to such awards for the year ended June 30, 2013 were based on predetermined fixed rates negotiated with Duke's cognizant federal agency, the Department of Health and Human Services.

Expenditures labeled as ARRA relate to the American Recovery and Reinvestment Act (Pub. L. No., 111-5).

(3) Summary of Facilities and Administrative Cost Allowances – Governmental Sources

Facilities and administrative cost recoveries and administrative cost allowances from governmental sources for the year ended June 30, 2013 are summarized as follows:

Research and development	\$	135,296
Student financial aid		296
Training and other programs		2,794
	\$	<u>138,386</u>

(4) Federal Student Financial Aid Loan Programs

The Federal Perkins, Nurse Faculty Loan (NFL) and Primary Care Loan (PCL) programs are administered directly by Duke and balances and transactions relating to these programs are included in Duke's consolidated financial statements. The balances of loans outstanding under the Federal Perkins, NFL and PCL programs were approximately \$29,653,000, \$2,923,000, and \$6,000, respectively, as of June 30, 2013.

DUKE UNIVERSITY

Notes to Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2013

Duke is responsible only for the performance of certain administrative duties with respect to the Direct Loan Program and, accordingly, these loans are not included in its consolidated financial statements. It is not practical to determine the balance of loans outstanding to students and former students of Duke under these programs as of June 30, 2013.

(5) Subrecipients

Of the federal expenditures presented in the schedule, Duke provided federal awards to subrecipients as follows:

<u>Federal grant agency</u>	<u>Amounts provided to subrecipients</u>
Department of Health and Human Services	\$ 55,535,904
Department of Defense	14,093,374
National Science Foundation	6,328,413
Department of Energy	263,316
Others	3,265,515
	<u>\$ 79,486,522</u>



KPMG LLP
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Greensboro, NC 27401

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Trustees
Duke University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Duke University (Duke), which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 8, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Duke's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Duke's internal control. Accordingly, we do not express an opinion on the effectiveness of Duke's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Duke's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Duke's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duke's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

October 8, 2013



KPMG LLP
Suite 400
300 North Greene Street
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Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the North Carolina Department of State Treasurer

The Board of Trustees
Duke University:

Report on Compliance for Each Major Federal Program

We have audited Duke University's (Duke) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Duke's major federal programs for the year ended June 30, 2013. Duke's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Duke's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Duke's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Duke's compliance.

Opinion on Each Major Federal Program

In our opinion, Duke complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.



Report on Internal Control Over Compliance

Management of Duke is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Duke's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Duke's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133 and the North Carolina Department of State Treasurer

We have audited the consolidated financial statements of Duke as of and for the year ended June 30, 2013, and have issued our report thereon dated October 8, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the North Carolina Department of State Treasurer 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 schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

March 21, 2014

DUKE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported** Material weaknesses: **None**
- (c) Noncompliance which is material to the financial statements: **None**
- (d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **None**
- (e) The type of report issued on compliance for major programs: **Unmodified opinion**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **None**
- (g) Major programs: **Research and Development Cluster; ARRA - Trans-NIH Recovery Act Research Support (CFDA 93.701); ARRA - National Center for Research Resources, Recovery Act (CFDA 93.702); ARRA - Recovery Act Comparative Effectiveness Research AHRQ (CFDA 93.715); and ARRA - Health Information Technology Professionals in Health Care (CFDA 93.721)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None reported

(3) Findings and Questioned Costs Relating to Federal Awards

None reported