Duke UNIVERSITY

Financial Statements
2013/2014

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Duke University Financial Contacts

Timothy W. Walsh
Vice President for Finance

Rachel L. Satterfield
Assistant Vice President for Finance and University Controller

Elizabeth H. Carver
Director, Financial Accounting and GAAP Reporting

The cover of this report features the Environment Hall, which opened for students, faculty and friends of the Nicholas School of the Environment in April 2014.

The facing page features the Class of 2014 on East Campus.

Letter from The Executive Vice President

Fiscal 2014 marked another year of solid financial performance across the University. Consolidated net assets of the University and Duke University Health System, Inc. (DUHS) increased $1.9 billion to $13.3 billion. The significant net asset increase reflects a 20.1% total return on our investment portfolio, a record level of philanthropic support, and positive financial performance from DUHS.

As of June 30, 2014 the University's endowment is valued at $7.0 billion and has recovered all of the value lost in fiscal 2009. This progress is largely due to several years of extraordinary investment returns, as well as new gifts to endowment generated from the *Duke Forward* campaign. Thanks to the generosity of Duke's alumni and friends, fiscal 2014 marked the highest year of philanthropic giving in Duke's history at $441 million.

Faculty in the School of Medicine and the Pratt School of Engineering drove continued growth of the University's billion dollar research enterprise in fiscal 2014. Increased private and industry grants more than offset a decline in support from the National Institutes of Health (NIH) and the expiration of the American Recovery and Reinvestment Act (ARRA) grants. The growth in research support from private sponsors was primarily driven by the Duke Clinical Research Institute, which remains the world's largest academic clinical research organization. Duke continues to focus on streamlining research administration to offset some of the financial and compliance pressures as new federal guidelines emerge.

DUHS delivered solid financial results in fiscal 2014, managing additional costs associated with the Duke Medical Pavilion, which opened in July 2013, and the implementation of Maestro Care, which provides a single integrated patient medical record throughout the hospital and clinic environments. DUHS will focus for the next two years on achieving significant operating improvements, and continues to provide substantial annual financial support to the School of Medicine, while managing financial pressure on the clinical enterprise from federal health care reform.

Environment Hall opened as the new home of the Nicholas School of the Environment and renovations continued in West Campus Union and Rubenstein Library, marking fiscal 2014 as the second highest year of capital spend in Duke's history at $221 million. The University plans significant additional investments in strategic facility needs over the next five years.

While our financial condition has improved significantly over the past few years, several challenges remain. The administration continues to recognize the financial constraints that require us to make trade-offs and set priorities as we consider investment decisions that will advance the missions of Duke. Financial diligence remains critical.

We are thankful for the good work of the faculty and staff, their diligence, and the continued support of many friends of Duke.

Tallman Trask III
Executive Vice President

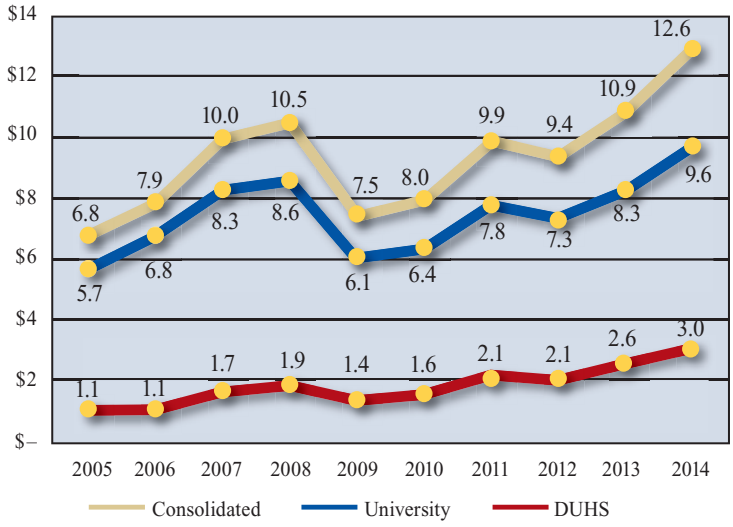
Discussion of Financial Results for Fiscal Year 2014

The Discussion of Financial Results (the Discussion) includes highly summarized data and should, therefore, be read in conjunction with the accompanying consolidated financial statements, notes, and supplementary schedules. All figures presented within the Discussion are consolidated and inclusive of Duke University Health System, Inc. (DUHS) and referred to herein as Duke, unless specifically designated otherwise.

Net Assets (excluding noncontrolling interests)

Duke's consolidated net asset base increased $1.7 billion in fiscal 2014 to $12.6 billion as of June 30, 2014. The primary drivers of the fiscal 2014 increase were a 20.1% return on the University's Long-Term Pool (LTP) investment portfolio as well as a 19.7% return on DUHS' Health System Pool (HSP). Over the past ten (10) years, despite a significant decline in fiscal 2009, consolidated net assets grew at a compounded annual growth rate of 8% due primarily to outstanding investment returns, generous philanthropic support from our alumni and other donors, superior operating results of DUHS, and prudent management of our internal resources.

Consolidated Net Assets ($ in billions)



The following table summarizes the major components of net assets activity in fiscal 2014 and fiscal 2013:

Summary of Changes in Consolidated Net Assets
(in millions)

	2014	2013
Operating results – University	$ (85)	$ (58)
Operating results – DUHS	70	163
Non-operating results:		
Investment return, net of spending	1,443	740
Restricted contributions, net of amounts released from restrictions	166	242
Change in funded status of benefit plans	(1)	257
Interests in perpetual trusts held by others	104	50
Other	(33)	66
Total increase in consolidated net assets	1,664	1,460
Total consolidated net assets	$ 12,564	$ 10,900

The operating results of the University and DUHS are detailed independently later in the Discussion. Non-operating activities of Duke resulted in an increase of $1.7 billion to the consolidated net asset base and include:

- Investment returns, net of spending ($1.4 billion). The total LTP investment return for fiscal 2014 was 20.1%, compared to a 13.5% return for fiscal 2013. The investment growth is net of spending distributions of $333 million and $325 million for fiscal 2014 and 2013, respectively. The spending rate calculation is described in more detail within the "Investments/Endowments" segment of this Discussion.
- Restricted contributions primarily received for endowment and capital projects ($166 million). Restricted contributions are net of amounts released from restrictions of $46 million and $41 million for fiscal 2014 and 2013, respectively.
- Gains from the University's interests in perpetual trusts held by others, primarily The Duke Endowment ($104 million).
- Other ($33 million decline) includes changes in the allowance for uncollectible pledges, any write-off of property, plant and equipment, as well as other nonoperating nonrecurring items.

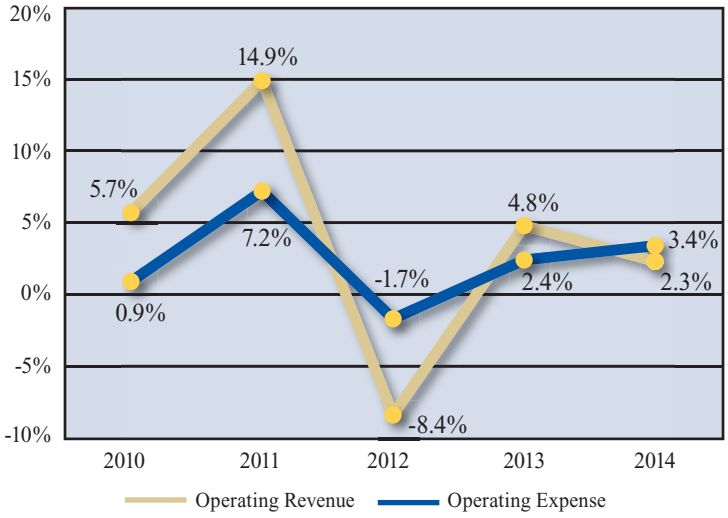
University Operating Performance

The operating results of the University, exclusive of DUHS, are presented in the supplemental Statements of Activities (Schedule 2 on page 40) following the notes to the consolidated financial statements.

University operating activities for fiscal 2014 include all revenues and expenses that support education and research efforts, as well as other priorities of the University.

The fiscal 2014 operating results of the University declined compared to fiscal 2013, reflecting a 2.3% increase in operating revenues offset by a 3.4% increase in operating expenses.

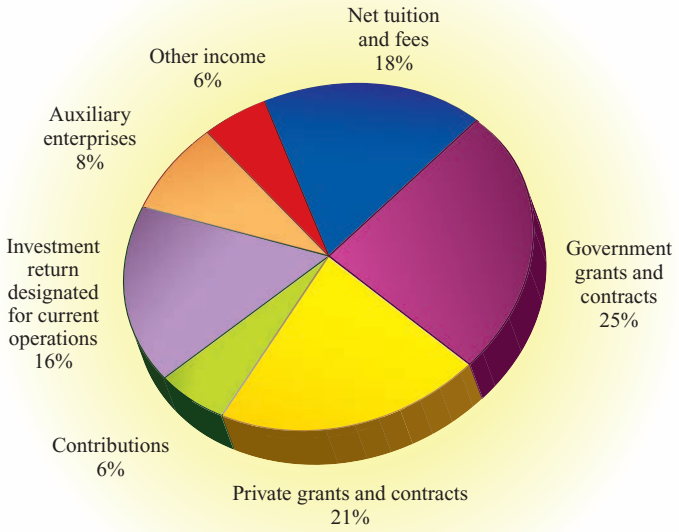
Year-to-Year Change in University Operating Revenue and Expense (%)



In response to the economic pressures experienced in fiscal 2009, the administration has constrained operating expense growth in anticipation of limited growth in operating resources. Fiscal 2011 amounts reflect several significant one-time transactions, which then drove correspondingly low comparative growth percentages in fiscal 2012. The administration anticipates future growth patterns comparable to the fiscal 2014 rates shown.

Total operating revenues for the University increased $52 million to $2.30 billion in fiscal 2014. The University's major revenue components are summarized below:

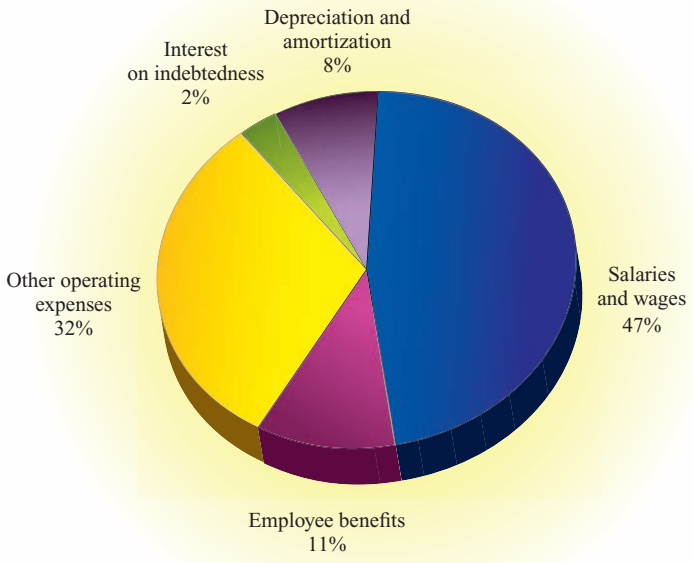
FY 2014 University Operating Revenues by Source – $2.30 billion



- Grants and contracts revenue, which increased approximately 1% in fiscal 2014, represents the largest component of University revenue (46%) and is covered in detail within the "Sponsored Programs" segment of this Discussion.
- Net tuition and fees reflect gross tuition and fees net of student financial aid provided by the University. Gross tuition and fees ($666 million) increased $25 million, or 4%, over the prior year, reflecting modest rate increases and enrollment growth in certain programs. Student financial aid ($259 million) increased $9 million, or 3%, in fiscal 2014, reflecting the administration's continued commitment to need-blind admission for undergraduates and strong financial support for graduate and professional students.
- Investment return designated for current operations, consisting of endowment spending distributions, returns on other invested funds, and distributions from The Duke Endowment, totaled $378 million in fiscal 2014, a 5% increase over the prior year. The changes in each component are covered in more detail within the "Investments/Endowments" segment of this Discussion.

Operating expenses for the University increased $79 million to $2.38 billion in fiscal 2014. The major components of University operating expenses are summarized below:

FY 2014 University Operating Expenses – $2.38 billion



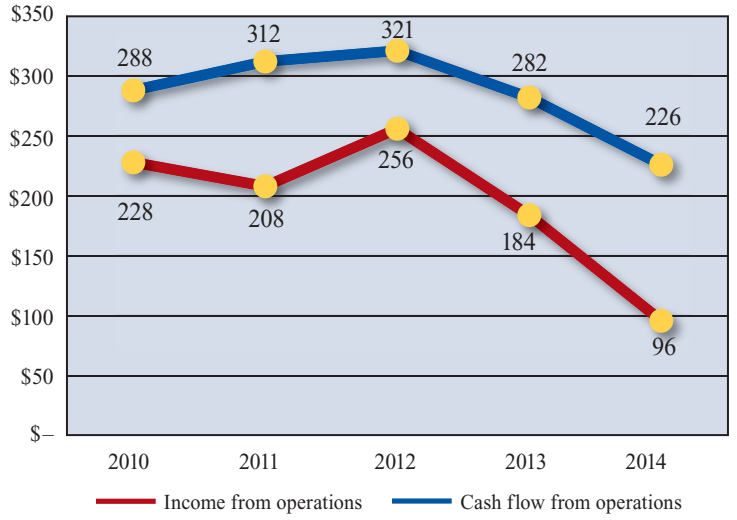
- Salaries and wages totaled $1.12 billion, a $22 million or 2% increase compared to fiscal 2013. This increase primarily reflects fiscal 2014 merit-based salary increases.
- Employee benefits totaled $258 million and represent 23% of salaries and wages for fiscal 2014.
- Depreciation and amortization expense of $185 million represented 8% of total operating expenses in fiscal 2014, virtually no change compared to the prior year. Fiscal 2014 capital activity is covered in detail within the "Capital Spending and Debt" segment of this Discussion.

- Other operating expenses represented 32% of University operating expenses in fiscal 2014 and include all nonlabor expenses, most notably contract and subcontract arrangements. Other operating expenses increased $57 million, or 8%, primarily due to increases in payments to subcontractors related to sponsored projects, rent expense and royalty payments.

DUHS Operating Performance

As detailed in Note 1 to the consolidated financial statements, DUHS operates as a controlled affiliate of the University, and manages all of Duke's clinical health operations and facilities. The financial results and financial position of DUHS are consolidated into the financial statements of Duke under financial statement presentation requirements governing colleges and universities. This differs from financial statement presentation requirements governing health care organizations and used by DUHS in their separately issued financial statements. The fiscal 2014 net operating income of $96 million for DUHS represents a decline of $88 million, or 48%, compared to fiscal 2013.

DUHS Operating Income and Cash Flow ($ in millions)[1]



DUHS' 2014 operating income budget target of $130 million anticipated a decline in financial performance due to the opening of the Duke Medicine Pavilion (DMP) at Duke University Hospital (DUH) and the operating costs associated with the implementation of the EPIC Electronic Medical Record/Revenue Cycle Management system across all of DUHS in 2014. DUHS has branded its implementation of EPIC as Maestro Care. On June 22, 2013, DUH went live on Maestro Care and DUHS' two community hospitals, Duke Regional Hospital and Duke Raleigh Hospital, went live on March 1, 2014. These implementations fully integrated patient medical records throughout the hospital and clinic environments of DUHS for the first time. The system enabled DUHS to meet the requirements for a fully operational Electronic Health Record, as mandated by federal regulations, and qualified DUHS for Meaningful Use incentive payments.

Total DUHS operating revenue for fiscal 2014 increased $61 million, or 2%, over the prior year, even with challenges from Maestro Care and several major payors. DUHS anticipated a decline in productivity in the period following Maestro Care go-live, as well as a build-up in accounts receivable. In addition, two major payors experienced significant problems with their own system changes causing an increase in accounts receivable over the prior year. The combination of these circumstances resulted in the aging of accounts receivable and an increase in the number of accounts which were determined to not be collectible. As a consequence, DUHS increased its accounts receivable reserves to ensure that net patient accounts receivable was properly stated as of June 30, 2014 with a negative impact during the year of $65 million.

DUHS operating expenses increased $149 million, or 6%, in fiscal 2014 compared to the prior year. The significant increases in 2014 were focused in purchased services, categories related to implementing Maestro Care, and staffing and operating the DMP for a full year. A portion of these expenses are non-recurring.

Fiscal 2014 was the first year of operation in the new DMP, which opened in July 2013. The DMP is a major tertiary addition to DUH with over 500,000 square feet of new clinical care space, providing state-of-the-art imaging facilities and critical care and surgical platforms, while easing capacity constraints in the existing facility. Depreciation and interest expenses increased $55 million due to the first year of depreciation related to Maestro Care and the DMP, as well as ceasing to capitalize interest on the DMP when it opened.

Despite this combination of expected and unanticipated events during the year that resulted in the underperformance of DUHS' financial operations relative to its budget, DUHS reported operating income of $96 million, a 3.7% operating margin, cash flow from operations of $226 million, and a return on its unrestricted portfolio investments of 18.8%. The patient accounts receivable backlog that accumulated in the first half of fiscal 2014 largely represents a one-time event that is not expected to recur in Maestro Care.

DUHS continues to provide care to patients who meet certain criteria under its charity care and uninsured discount policies without charge or at amounts less than its established rates. Because DUHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue or included in patient accounts receivable. In fiscal 2014, DUHS provided charity care with an estimated cost of $93 million, an increase of 19% over fiscal 2013. Total community benefit as defined by and reported to the Internal Revenue Service was $253 million in fiscal 2014 and, combined with an additional $195 million of community investments, DUHS provided $448 million of benefit to the community. This is an increase from $381 million in fiscal 2013, primarily due to an increase in Medicaid and Medicare expenses per case and increased Medicare volume.

[1] Certain components of nonoperating activities in the DUHS consolidated statement of operations are reclassified as operating items in Duke's consolidated statements of activities in order to conform to financial statement presentation generally followed by colleges and universities. Interest payments related to derivative swaps represents the primary component with $17 million reclassified in fiscal 2014. The consolidated statements of activities include $70 million of income from operations related to DUHS for fiscal 2014. In addition, the consolidated statements of cash flows include $171 million of cash flows from operations related to DUHS for fiscal 2014.

DUHS operating margins and positive cash flows from operating activities over the last ten (10) years, combined with returns on its invested reserves, allowed DUHS to make transfers to the University in support of the School of Medicine and other University functions of $705 million during this time period, including a $280 million quasi-endowment transfer to the School of Medicine in fiscal 2006. DUHS continued its history of providing annual support for University-based medical faculty research and education with net transfers totaling $60 million to the School of Medicine in fiscal 2014.

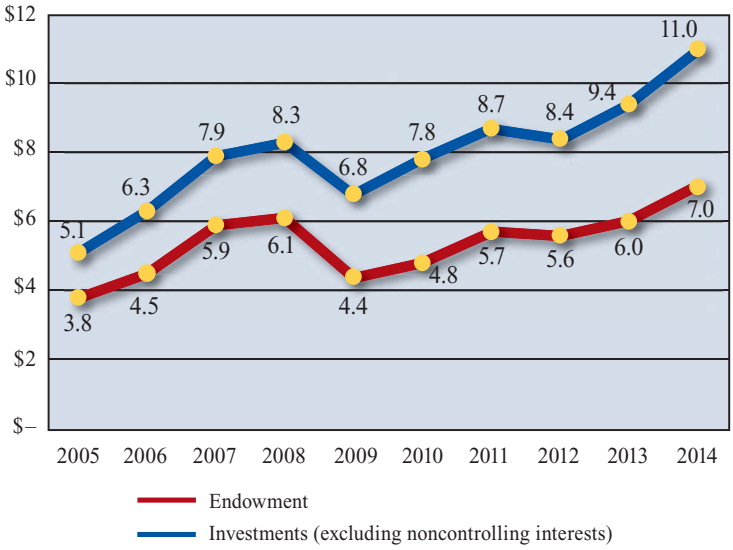
Investments/Endowments

Responsibility for managing Duke's investment portfolio rests with DUMAC, Inc. (DUMAC), a separate nonprofit support corporation organized and controlled by Duke. DUMAC invests Duke's assets across domestic and international asset groups, principally through investment advisory firms and partnerships. Growth of the investment and endowment base is a critical factor in maintaining Duke's financial strength and flexibility to meet current needs and fund future initiatives.

Duke's investment portfolio primarily consists of debt, equity, and other investments within the LTP and the HSP.

Duke's investments have grown significantly over the last ten (10) years and total approximately $11.0 billion as of June 30, 2014. Endowment and similar funds (including interests in perpetual trusts held by others), representing approximately $7.0 billion of this total, support the current and future operations of the schools, academic departments, libraries and other facilities, and student financial aid.

Growth of Investments and Endowment
(June 30 values, $ in billions)



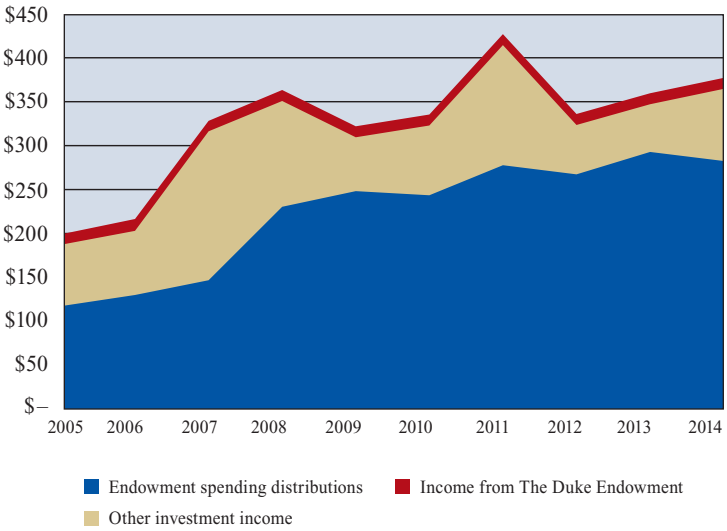
DUHS accounts for $2.8 billion of Duke's cash and investment portfolio, which primarily represents unrestricted working capital, reinvested operating surpluses, and associated appreciation.

Fiscal Year Returns					
	2010	2011	2012	2013	2014
LTP	13.2%	24.5%	1.0%	13.5%	20.1%
HSP	13.1%	23.6%	-0.1%	13.1%	19.7%

For fiscal 2014, the LTP, in which 99% of the endowment is invested, returned 20.1%. DUMAC seeks to achieve an annualized real rate of return of at least 5.0% net of fees to fund the University's spending rate and to allow the growth of the endowment after considering the effects of inflation. The total return on the HSP, a more liquid fund managed for DUHS, was 19.7% in 2014.

As Duke's investment base, including the endowment, has grown over the last ten (10) years, investment returns have become a larger contributor to the current operations of the University. Investment returns supporting operations, which include endowment spending, withdrawals from quasi-endowments, distributions from The Duke Endowment, and income from invested working capital, grew from $201 million in fiscal 2005 to $378 million in fiscal 2014, representing 14% and 16% of total University operating expenses, respectively.

Investment Return Supporting Current Operations
($ in millions – University Only)

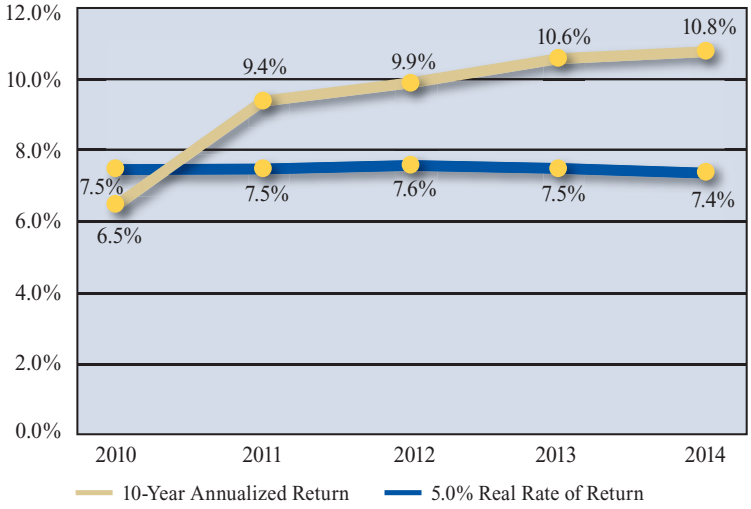


To balance current and future needs, the University employs investment and spending policies designed to provide an appropriate flow of income to the operating budget while preserving the future purchasing power of the endowment assets in perpetuity. The spending rate is approved by the Board of Trustees and is currently set at a rate of 5.5% of the average of the LTP unit market values for the previous three (3) calendar year-ends, subject to a 10% maximum annual growth in per unit spending. A 5.75% rate is utilized for endowments and quasi-endowments that support financial aid. The approved per unit spending rate for both financial aid and non-financial aid endowments has been unchanged since fiscal 2010, and the effective spending rates for fiscal 2014 were 5.9% for financial aid endowments and 4.4% for non-financial aid endowments. The HSP is not subject to the University's spending policies.

In addition, the Board authorizes the use of supplemental endowment distributions from quasi-endowments for special academic development initiatives and to support the operations and maintenance of certain facilities. These supplemental distributions have grown from $17 million in fiscal 2005 to a high of $83 million in fiscal 2013, due largely to two quasi-endowments transferred from DUHS to the School of Medicine in 2006 to leverage annually for academic support.

Other investment income is another major component of investment returns supporting current operations. This income can vary significantly based on market returns and, as a result, has generated as much as $170 million of income in fiscal 2007 to a low of $54 million in fiscal 2013. Such support is generated through the corporate cash management strategies of Duke and is generally released under protocols approved by the Board of Trustees.

LTP Ten Year Annualized Investment Returns (%)



During fiscal 2014, DUMAC lowered the targeted real rate of return from 5.5% to 5.0% due to lower future return expectations. All periods presented have been recast showing the 5.0% real rate of return.

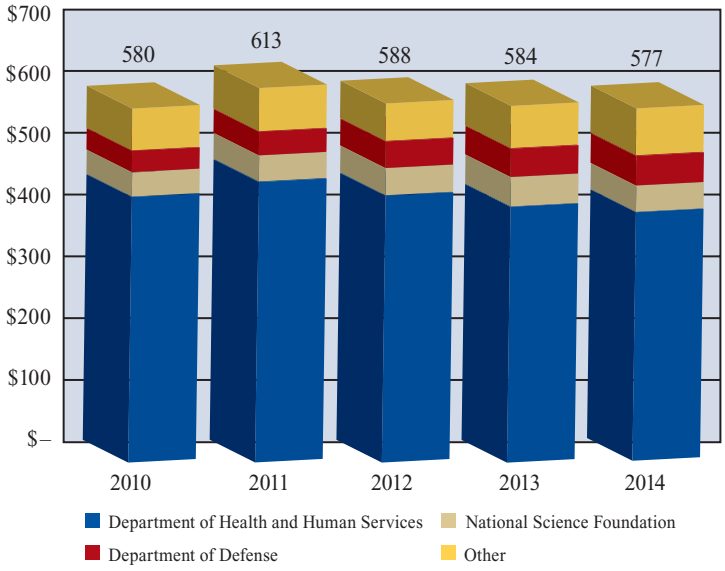
The positive spread between the 10-year annualized return and the real rate of return is expanding again after falling below that mark in fiscal 2010 as a result of negative investment returns experienced in fiscal 2009.

Sponsored Programs

The University conducts research in a collaborative interdisciplinary environment among its schools. The School of Medicine is one of the largest biomedical research enterprises in the country with programs focused on the causes, prevention, and treatment of human disease. Campus-based schools under the Provost continue to increase their research activity, primarily within Arts and Sciences, the Pratt School of Engineering, the Sanford School of Public Policy, and the Nicholas School of the Environment.

The United States government is the largest source of grant and contract funding for the University. Other external sources include state and local governments, industry, foundations, and private sources. The University's government grant and contract funding has grown more than 10% since February 2009 when the United States Congress passed the American Recovery and Reinvestment Act (ARRA). Duke was awarded $220 million in ARRA funding, the majority of which were from the National Institutes of Health (NIH) and the National Science Foundation (NSF).

Government Grants and Contracts ($ in millions)



In fiscal 2014, total grant and contract revenue from government sources was $577 million, a $7 million decline compared to fiscal 2013, the last year of ARRA funding. This decline in ARRA funding was partially offset by additional grant funding from federal sources primarily within our campus-based schools.

Grant and contract revenue from private sources generated $475 million in fiscal 2014, an increase of $17 million, or 4%, compared to fiscal 2013. This revenue consists primarily of industry and private awards in support of clinical research. The Duke Clinical Research Institute (DCRI) remains the world's largest academic clinical research organization, generating nearly 50% of Duke's grant and contract revenue from non-governmental sources.

Philanthropy

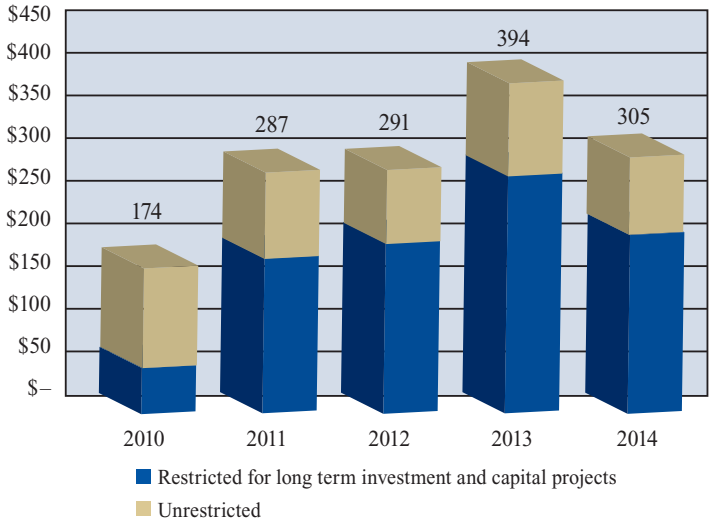
Contributions revenue reported within the consolidated financial statements is calculated based on generally accepted accounting principles (GAAP). This differs from philanthropic support reported by Duke according to the guidelines established by the Council for Advancement and Support of Education (CASE). CASE guidelines represent the development-reporting standard for colleges and universities, and is based on cash collections.

The generosity of alumni and friends in fiscal 2014 helped Duke remain at the forefront of academics, research, and patient care. Under CASE guidelines, philanthropic cash receipts totaled $441 million in 2014, the highest annual giving year in Duke history.

In contrast to CASE, fiscal 2013 was Duke's highest year for philanthropic support on a GAAP-basis, with the public announcement of *Duke Forward*, a comprehensive fundraising campaign, and several individually significant pledges. In fiscal 2014, Duke recorded $305 million in contributions revenue, including pledges, an $89 million or 23% decline from fiscal 2013. Fiscal 2014 totals include a significant pledge to the Pratt School of Engineering.

Through June 30, 2014, the campaign, scheduled to run through June 30, 2017, has raised $2.2 billion in gifts and pledges, more than two-thirds of the $3.25 billion goal.

Contributions (GAAP-basis, $ in millions)



For details on the goals and priorities of the campaign and more news on major gifts, visit http://dukeforward.duke.edu.

A reconciliation of the CASE and GAAP totals is provided below (in millions):

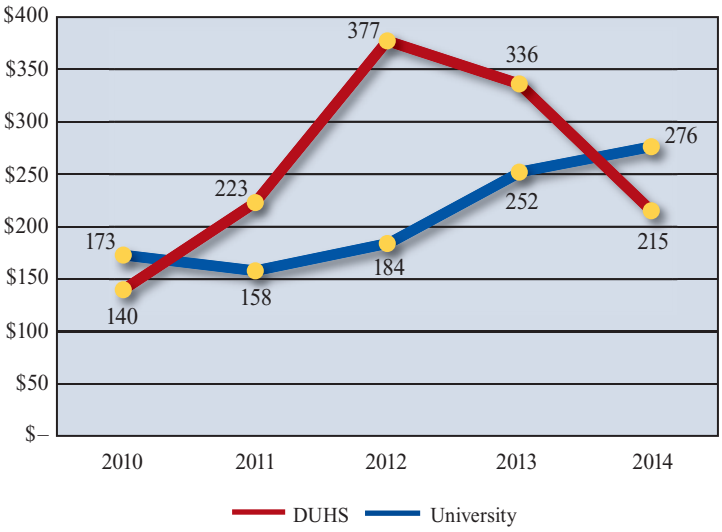
Cash gifts per CASE (cash basis)	$ 441
Amounts included in grants and similar agreements (gifts per CASE)	(142)
Grants and gifts from The Duke Endowment (gifts per CASE)	(13)
Net fiscal 2014 change in pledges[2]	19
Total consolidated contributions per GAAP statements	$ 305

Additional information on GAAP reporting of contributions revenue and contributions receivable is provided in Notes 2 and 4 of the consolidated financial statements, respectively.

Capital Spending and Debt

Over the last decade, the University and DUHS have made significant investments in land, buildings, and equipment. The University invested more than $1 billion over the last five years, adding in excess of one million square feet of new or renovated living, teaching, and research space. DUHS, while owned and controlled by the University, operates under a different business model and has different budgetary considerations. DUHS has increased its net investment in property and equipment by more than $1 billion since its creation in 1999.

Capital Spending ($ in millions)



Major capital activity in 2014 for the University included an extensive renovation of Perkins Library, the new Eye Center Clinical Pavilion, West Village Vivarium, and Environment Hall. The Perkins Library renovation project is in its final phase and encompasses the first major renovation of the original 1928 West Campus library building and the 1948 addition, and will transform 115,000 square feet into the David M. Rubenstein Rare Book and Manuscript Library. The Eye Center Clinical Pavilion will create a prominent new home for the Duke Eye Center, providing state-of-the-art clinical and research space, with an emphasis on streamlining and greatly enhancing the patient experience. The West Village Vivarium comprises the up-fit of 22,000 rentable square feet being leased by the School of Medicine, primarily to house mice and zebra fish capacity for on-campus researchers. Environment Hall (featured on the cover of this report) is a 72,000 square foot facility completed in the spring of 2014, serving as the new home to the Nicholas School of the Environment. The University plans to spend $1.1 billion over the next five (5) years in order to meet strategic facility needs.

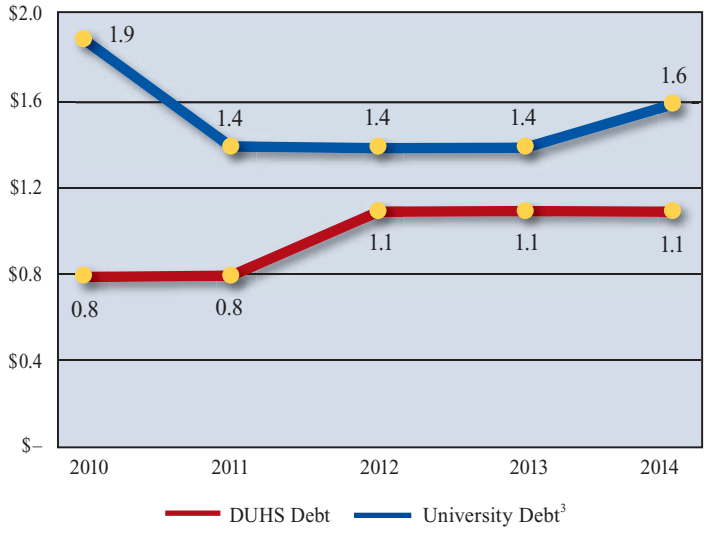
DUHS' capital spending over the last five (5) years of $1.2 billion has included three (3) of the largest capital initiatives ever undertaken at DUHS: the Duke Cancer Center (opened February 2012), the Duke Medicine Pavilion (opened July 2013), and Maestro Care (operational at all 3 hospitals, DPC, and the PDC by March 2014). Capital spending in fiscal 2014 at DUHS also included trailing projects to renovate existing facilities that were vacated as the new facilities came

[2] Includes changes to previously reported multi-year pledges, pledges receivable due to new multi-year commitments, and other fiscal 2014 adjustments.

on line. DUHS plans to spend approximately $820 million over the next five (5) years in order to meet strategic capital needs.

Both the University and DUHS have issued various forms of debt as a primary source of capital project funding. Formal comprehensive debt policies provide guidelines for the use of long-term financing, commercial paper, and derivative transactions (in the form of interest rate and other swaps) in order to optimize the debt portfolios. Effective and responsible debt portfolio management enables the University and DUHS to execute their strategic plans for facilities while preserving working capital. The University and DUHS hold ratings of Aa1 and Aa2 with Moody's and AA+ and AA with Standard & Poor's, respectively.

Outstanding Debt ($ in billions)



While total DUHS outstanding debt did not change materially in fiscal 2014, the University increased its outstanding debt and improved its liquidity position by issuing $140 million of tax-exempt commercial paper during the year, which was used to fund construction projects previously funded with operating cash. DUHS indebtedness reflected above excludes a $127 million capital lease for Duke Regional Hospital as of June 30, 2014.

Looking Ahead

In fiscal 2015, the administration's focus will remain on operating effectively and efficiently in order to protect and advance Duke's current financial health and commitment to our most important priorities. These include:

- Focus on the University's next strategic plan under the leadership of a new Provost.
- Continued focus on affordability of a Duke education, and supporting our ongoing commitment to need-blind admissions for undergraduates.
- Planning for necessary infrastructure investments, as dorms and other facilities age and require enhancements.
- Continued focus on administrative reform, leveraging new technologies and process redesign to optimize academic and administrative support costs.
- Focus on the DUHS "Transforming Our Future" initiative, with the objective to achieve approximately $200 million in operating improvements over the next two (2) years, including continued exploration of new health care delivery methods, payment models and affiliation structures.

The administration will continue to proactively address financial and other challenges by operating with a strong sense of fiscal responsibility and prudent decision making, while directing Duke's resources to areas of highest priority and need.

[3] June 2010 includes $500 million of taxable debt issued by the University in fiscal 2009. This debt was retired in May 2011.

Statistical Highlights

(dollars in thousands)	2014	2013	2012	2011	2010
Students:					
Undergraduate	6,390	6,393	6,383	6,427	6,307
Graduate and professional	7,927	7,860	7,977	7,595	7,093
Total fall enrollment	14,317	14,253	14,360	14,022	13,400
Degrees conferred:					
Baccalaureate	1,831	1,801	1,791	1,747	1,670
Masters	2,477	2,346	2,260	2,026	2,065
Doctorate	781	829	770	703	711
Total degrees conferred	5,089	4,976	4,821	4,476	4,446
Research:					
Grants, contracts and similar agreements:					
Federal government sources	$ 522,953	$ 521,455	$ 538,232	$ 564,836	$ 535,228
Other government sources	$ 54,834	$ 63,496	$ 50,781	$ 48,486	$ 44,837
Other	$ 520,089	$ 505,795	$ 474,419	$ 472,190	$ 405,828
Total grants, contracts and similar agreements	$ 1,097,876	$ 1,090,746	$ 1,063,432	$ 1,085,512	$ 985,893
Patient Care:					
Discharges	62,733	60,685	60,758	61,000	60,951
Patient days	371,650	354,631	348,456	353,981	361,504
Surgical and endoscopy cases	85,248	86,703	90,156	87,705	85,512
Outpatient visits	1,841,458	1,798,743	1,739,089	1,665,493	1,566,202
Emergency room visits	170,461	170,696	172,057	169,493	164,889
Endowment:					
Market value of endowment	$ 7,036,776	$ 6,040,973	$ 5,555,196	$ 5,747,377	$ 4,823,572
Endowment funds per full-time equivalent student	$ 491,498	$ 423,839	$ 386,852	$ 409,883	$ 359,968
Financial aid spending rate	5.9%	6.3%	5.9%	6.8%	7.2%
Non-financial aid spending rate	4.4%	4.8%	4.6%	5.4%	5.8%
Total LTP rate of return	20.1%	13.5%	1.0%	24.5%	13.2%
Faculty and Staff:					
Tenured and tenure track	1,784	1,768	1,780	1,770	1,744
Non-tenure track	1,556	1,481	1,421	1,368	1,275
Total regular rank faculty	3,340	3,249	3,201	3,138	3,019
Staff	44,833	43,907	42,626	41,498	40,696
Total employees	48,173	47,156	45,827	44,636	43,715

Duke Chapel – Will close for one year in May 2015 to undergo its first major renovation since it opened in 1932.

KPMG LLP
Suite 400
300 North Greene Street
Greensboro, NC 27401

Independent Auditors' Report

The Board of Trustees of Duke University:

We have audited the accompanying consolidated financial statements of Duke University, which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

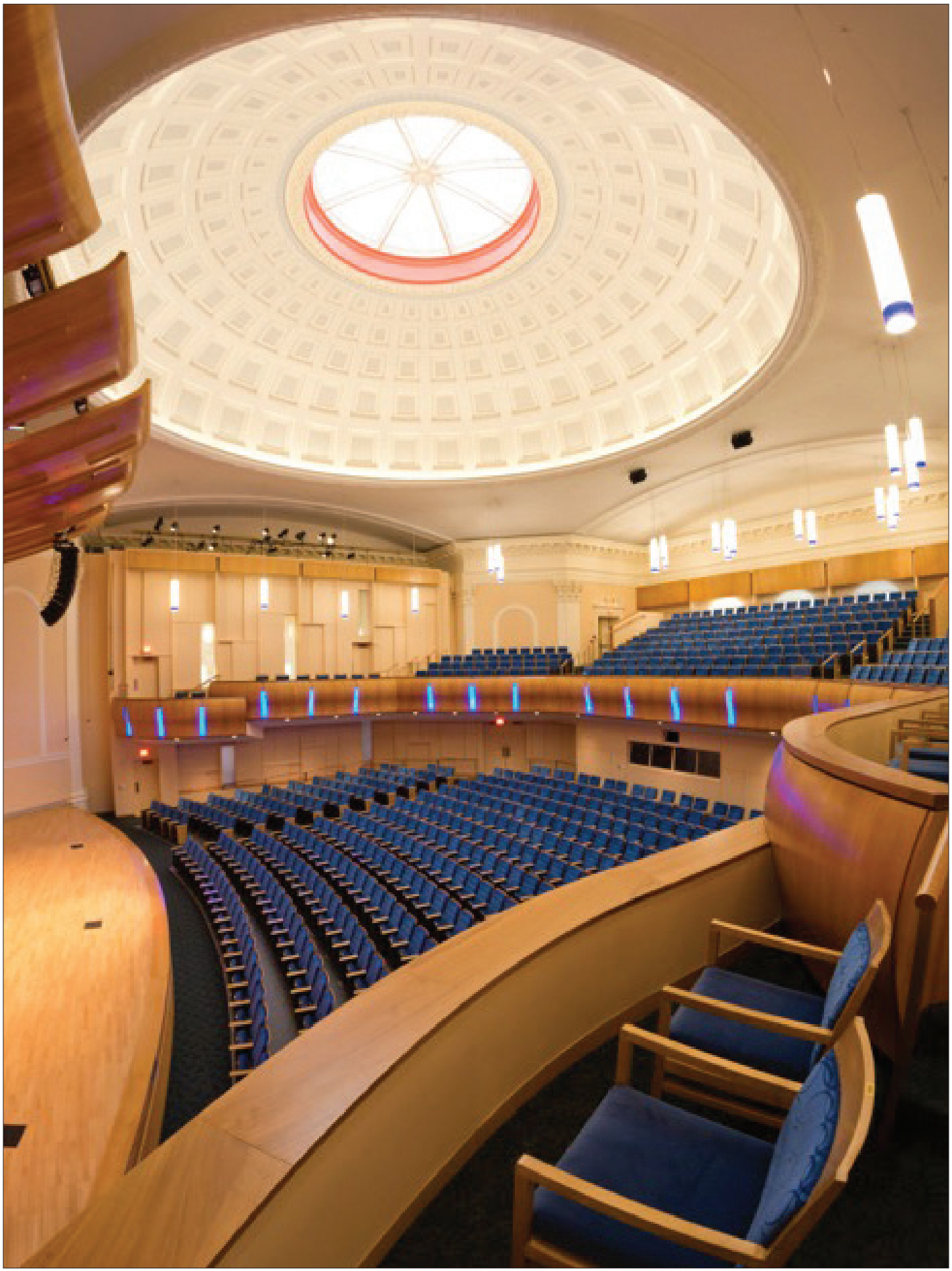
In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Duke University as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Supplementary Information

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

KPMG LLP

September 23, 2014



Baldwin Auditorium – reopened in September 2013, after a two-year renovation that was partially funded by generous donations from The Duke Endowment.

Consolidated Balance Sheets

JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Assets:		
Cash and cash equivalents	$ 358,578	$ 377,493
Accounts receivable, net	634,305	563,675
Prepaid expenses, inventories, and other assets	179,368	158,393
Contributions receivable, net	440,863	430,104
Investments	11,031,862	9,420,139
Investments attributable to noncontrolling interests	726,605	535,512
Deposits with bond trustees	…	77,268
Land, buildings, and equipment, net	3,352,735	3,276,533
Interests in perpetual trusts held by others	802,360	697,816
Total assets	$ 17,526,676	$15,536,933
Liabilities:		
Accounts payable and accrued payrolls	$ 663,455	$ 682,931
Deferred revenues and deposits	166,041	161,821
Notes and bonds payable	2,767,032	2,662,461
Annuity and other split-interest obligations	47,110	43,663
Accrued postretirement/postemployment and other benefit obligations	311,592	282,486
Other liabilities	280,581	267,913
Total liabilities	4,235,811	4,101,275
Net Assets:		
Unrestricted:		
Net assets attributable to Duke	6,997,642	6,025,805
Net assets attributable to noncontrolling interests	726,605	535,512
Total unrestricted net assets	7,724,247	6,561,317
Temporarily restricted	2,920,515	2,339,182
Permanently restricted	2,646,103	2,535,159
Total net assets	13,290,865	11,435,658
Total liabilities and net assets	$17,526,676	$ 15,536,933

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Unrestricted Net Assets:		
Operating revenues:		
Tuition and fees	$ 667,561	$ 642,354
Less student aid	(258,975)	(250,270)
Tuition and fees, net	408,586	392,084
Grants, contracts and similar agreements:		
Government sources	577,787	584,951
The Private Diagnostic Clinic, PLLC	92,803	99,339
Other	427,286	406,456
Total grants, contracts and similar agreements	1,097,876	1,090,746
Contributions	92,086	110,900
Investment return designated for current operations:		
The Duke Endowment	12,500	12,500
Endowment spending	284,847	295,119
Other investment income	87,463	63,324
Total investment return designated for operations	384,810	370,943
Auxiliary enterprises	186,499	175,968
Patient service revenue, net	2,437,768	2,385,597
Other	228,487	207,252
Net assets released from restrictions	46,488	41,486
Total operating revenues	4,882,600	4,774,976
Operating expenses:		
Salaries and wages	2,123,769	2,076,650
Employee benefits	505,682	512,381
Student aid	40,077	38,682
Other operating expenses	1,783,390	1,658,892
Interest expense	116,741	100,676
Depreciation and amortization	327,814	282,980
Total operating expenses	4,897,473	4,670,261
(Deficit) excess of operating revenues (under) over operating expenses	(14,873)	104,715

Consolidated Statements of Activities (CONTINUED)

	2014	2013
Nonoperating activities:		
Net assets released from restrictions	$ 26,680	$ 24,810
Investment return in excess of amounts designated for current operations	908,980	481,024
Nonperiodic changes in defined benefit plans	(1,093)	256,518
Other, net	52,143	69,519
Change in unrestricted net assets from nonoperating activities	986,710	831,871
Change in unrestricted net assets attributable to Duke	971,837	936,586
Change in unrestricted net assets attributable to noncontrolling interests	191,093	172,365
Change in unrestricted net assets	1,162,930	1,108,951
Temporarily Restricted Net Assets:		
Contributions	136,898	123,373
Net assets released from restrictions	(73,168)	(66,296)
Investment return in excess of amounts designated for current operations	528,750	255,181
Other, net	(11,147)	(688)
Change in temporarily restricted net assets	581,333	311,570
Permanently Restricted Net Assets:		
Contributions	76,076	159,804
Investment return in excess of amounts designated for current operations	5,728	4,032
Gains on perpetual trusts held by others	104,544	50,103
Other, net	(75,404)	(2,167)
Change in permanently restricted net assets	110,944	211,772
Change in total net assets	1,855,207	1,632,293
Net assets at beginning of year	11,435,658	9,803,365
Net assets at end of year	$ 13,290,865	$ 11,435,658
Certain amounts disaggregated above are presented below in the aggregate:		
Contributions	$ 305,060	$ 394,077
Investment return	1,828,268	1,111,180

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 1,855,207	$ 1,632,293
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in net assets related to noncontrolling interests, net	(191,093)	(172,365)
Depreciation and amortization	327,814	282,980
Nonperiodic changes in defined benefit plans	1,093	(256,518)
Provision for bad debt	85,603	75,071
Change in fair value of swap instruments	(3,582)	(46,926)
Loss on disposals of land, buildings, and equipment	13,298	7,254
Restricted contributions received for long-term investment and capital projects	(202,215)	(168,718)
Permanently restricted investment return	(5,728)	(4,032)
Losses on other nonoperating items	4,073	2,167
Net realized and unrealized gains on investments	(1,688,373)	(1,042,030)
Gains on interests in perpetual trusts	(104,544)	(50,103)
Change in:		
Accounts receivable, net	(146,402)	(43,119)
Prepaid expenses, inventories, and other assets	9,824	(14,392)
Contributions receivable, net	(18,665)	(114,961)
Accounts payable and accrued payrolls	54,792	13,536
Deferred revenues and deposits	4,220	(8,087)
Annuity and other split-interest obligations	3,447	775
Accrued postretirement/postemployment and other benefit obligations	(3,347)	41,810
Other liabilities	16,250	(21,112)
Net cash provided by operating activities	11,672	113,523

Consolidated Statements of Cash Flows (CONTINUED)

	2014	2013
Cash flows from investing activities:		
Purchases of investments	(10,772,945)	(12,258,584)
Proceeds from sales and maturities of investments	10,776,995	12,122,123
Purchases of land, buildings, and equipment	(491,373)	(587,565)
Proceeds from disposals of land, buildings, and equipment	8	58
Disbursements for loans to students	(9,518)	(6,913)
Repayments of loans by students	7,593	5,704
Decrease in deposits with bond trustees	77,268	153,014
Net cash used in investing activities	(411,972)	(572,163)
Cash flows from financing activities:		
Restricted contributions received for long-term investment and capital projects	202,215	168,718
Permanently restricted investment return	5,728	4,032
Losses on other nonoperating items	(4,073)	(2,167)
Principal payments on notes and bonds payable	(100,263)	(82,428)
Proceeds from borrowings	205,178	93,225
Payments to noncontrolling interests	(7,799)	...
Proceeds from noncontrolling interests	80,399	128,593
Net cash provided by financing activities	381,385	309,973
Net change in cash and cash equivalents	(18,915)	(148,667)
Cash and cash equivalents at beginning of year	377,493	526,160
Cash and cash equivalents at end of year	$ 358,578	$ 377,493
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ 98,879	$ 126,067

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-four (24) 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, a weight loss clinic with two (2) locations in Wake County, 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' imposed restrictions of these assets permit Duke to use all or part of the income earned on related investments only for certain 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 result 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 are discounted at a risk-adjusted rate commensurate with the duration of the donor's payment plan (level 3 input on the fair value hierarchy). 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.

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, 2014 and 2013, Duke has approximately $6.4 billion and $5.9 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, 2014 (fiscal 2014) and the year ended June 30, 2013 (fiscal 2013), the noncontrolling interests contributed $80,399 and $128,593, respectively. Additionally, in fiscal 2014 and 2013, Duke made payments of $7,799 and $0, respectively, to the noncontrolling interests. For the years ended June 30, 2014 and 2013, investment returns related to the noncontrolling interests were $118,493 and $43,772, 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.

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 $34,779 and $34,541 at June 30, 2014 and 2013, 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 2014 and fiscal 2013.

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 and are recognized accordingly.

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.

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, 2014, there were no material uncertain tax positions.

New Accounting Pronouncements

In January 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-01, *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU requires the disclosure of offsetting derivatives, repurchase agreements and securities lending transactions that are subject to a master netting arrangement or similar agreement. Duke adopted ASU 2013-01 in fiscal 2014 (see Note 11).

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.

Subsequent Events

Duke has evaluated subsequent events from the balance sheet date through September 23, 2014, the date on which the financial statements were issued. No material subsequent events were identified for recognition or disclosure.

3. Accounts Receivable, net

Accounts receivable consists of the following at June 30:

	2014	2013
Patient receivables	$ 369,954	$ 305,367
Student loan receivables	43,986	41,952
Other receivables	220,365	216,356
Accounts receivable, net	$ 634,305	$ 563,675

Patient receivables are reported net of allowances for contractual adjustments and uncollectible accounts of $861,831 and $549,749 at June 30, 2014 and 2013, respectively. DUHS receives supplemental 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 2014 and fiscal 2013 were $123,249 and $126,535, respectively. The Medicaid assessment payments recorded in other operating expenses were $54,142 and $47,797 for fiscal 2014 and fiscal 2013, 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.

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, 2014 included approximately 41% and 47% from commercial payors and U.S. Government sources, respectively, and at June 30, 2013 included approximately 40% and 48%, respectively.

4. Contributions Receivable, net

Contributions receivable are summarized as follows at June 30:

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	$ 68,939	$ 144,509
Between one year and five years	384,919	262,569
More than five years	42,254	71,300
	496,112	478,378
Allowance for uncollectible amounts	(37,053)	(29,147)
Unamortized discount with interest rates ranging from 0.1% to 7.5%	(18,196)	(19,127)
Total	$ 440,863	$ 430,104

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, 2014 and 2013, the 10 largest outstanding donor pledge balances represented 52% and 53%, respectively, of Duke's gross contributions receivable.

At June 30, 2014 and 2013, Duke had also received bequest intentions and conditional promises to give of approximately $109,015 and $90,328, 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:

	2014	2013
Short-term investments	$ 2,503,443	$ 1,704,263
U.S. Government securities	38,117	38,654
Fixed income	720,780	564,378
Equities	3,392,971	2,976,830
Hedged strategies	1,065,769	1,068,867
Private capital	2,005,259	1,627,612
Real assets	1,901,442	1,883,103
Other	130,686	91,944
Total investments	$ 11,758,467	$ 9,955,651

Duke's total LTP investment was $8,284,567 and $6,997,739 as of June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, DUHS's investment in the HSP totaled $2,336,804 and $2,050,661, respectively. At June 30, 2014 and 2013, $162,774 and $118,537, respectively, was posted as collateral for derivatives and thus not readily available for use.

Short-term investments include short-term U.S. Treasury and other highly liquid debt securities with maturities of less than one year.

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.

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:

	2014	2013
Investment income	$ 139,895	$ 69,150
Realized and unrealized gains, net	1,688,373	1,042,030
Total investment return	$ 1,828,268	$ 1,111,180
OPERATING		
The Duke Endowment	$ 12,500	$ 12,500
Endowment spending	284,847	295,119
Other investment income	87,463	63,324
Total operating return	$ 384,810	$ 370,943
NONOPERATING		
Investment return in excess of amounts designated for current operations	1,443,458	740,237
Total investment return	$ 1,828,268	$ 1,111,180

The total return for the LTP (in which 98.8% and 98.6% of Duke's endowment was invested at June 30, 2014 and 2013, respectively) for fiscal 2014 and fiscal 2013 was 20.1% and 13.5%, 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 $27,178 and $21,133, and internal management fees totaled $13,544 and $12,202 in fiscal 2014 and fiscal 2013, 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, 2014	Level 1	Level 2	Level 3	Total	Redemption frequency (in days) (if currently eligible)[1]	Redemption notice period (in days)
Short-term investments	$ 1,115,675	$ 1,387,768	$ …	$ 2,503,443	daily	1
U.S. Government securities	34,971	3,146	…	38,117	daily	1
Fixed income	(3,326)	672,384	51,722	720,780	1 to 30 (65%)	1 to 30
Equities	1,649,560	1,476,300	267,111	3,392,971	1 to 90 (93%)	1 to 90
Hedged strategies	30,234	482,230	553,305	1,065,769	30 to >365	2 to 100
Private capital	10,319	…	1,994,940	2,005,259	N/A	N/A
Real assets	6,573	24,048	1,870,821	1,901,442	N/A	N/A
Other	60,632	68,107	1,947	130,686	N/A	N/A
Total investments	$ 2,904,638	$ 4,113,983	$ 4,739,846	$ 11,758,467		

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		

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, 2013	Net realized and unrealized gains	Purchases	Sales	Net transfers in (out)	Balance as of June 30, 2014
Short-term investments	$ …	$ 11	$ …	$ (11)	$ …	$ …
Fixed income	27,056	4,953	79,488	(59,775)	…	51,722
Equities	258,479	29,578	13,100	(34,082)	36	267,111
Hedged strategies	571,664	84,304	14,246	(132,831)	15,922	553,305
Private capital	1,623,875	457,781	281,644	(368,364)	4	1,994,940
Real assets	1,879,188	139,905	231,607	(367,254)	(12,625)	1,870,821
Other	3,754	…	…	(1,807)	…	1,947
Total Level 3 investments	$ 4,364,016	$ 716,532	$ 620,085	$ (964,124)	$ 3,337	$ 4,739,846

[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, 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

During fiscal 2014 and fiscal 2013, transfers of $1,812 and ($1,533), respectively, were made between Level 2 and Level 3 related to changes in liquidity. In fiscal 2014, Level 1 securities totaling $2,902 became private, restricted, or not priced publicly and were consequently transferred to Level 3. 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. During fiscal 2014, Level 3 securities totaling $1,377 reorganized into tradable Level 1 securities. In addition, during fiscal 2013, Level 3 securities totaling $415 reorganized into tradable Level 1 securities. There were no transfers between Level 1 and Level 2 investments during fiscal 2014 and fiscal 2013. The change in net unrealized gains and losses related to Level 3 assets still held at June 30, 2014 and 2013 was $648,606 and $504,850, respectively, recorded in investment return in excess of amounts designated for current operations on the consolidated statements of activities.

6. Net Assets

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

	2014	2013
Appreciation on donor-restricted endowments	$ 2,519,491	$ 1,999,974
Contributions for physical plant	191,554	175,686
Contributions for instruction, research and divisional support	166,257	128,879
Annuity and other split-interest agreements	31,608	26,897
Other	11,605	7,746
Temporarily restricted net assets	$ 2,920,515	$ 2,339,182

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

	2014	2013
Instruction, research, and student aid:		
Donor-restricted endowments	$ 1,620,821	$ 1,592,108
Contributions receivable, net	158,964	181,564
Interests in perpetual trusts held by others	802,360	697,816
Total instruction, research, and student aid	2,582,145	2,471,488
Annuity and other split-interest agreements	46,764	47,092
Student loan funds	17,194	16,579
Permanently restricted net assets	$ 2,646,103	$ 2,535,159

In fiscal 2014, the University transferred $76,440 from donor-restricted endowments to unrestricted net assets, as the administration determined the accumulated amount was not subject to donor restrictions. The transfer is recorded in other, net within the nonoperating section of the consolidated statements of activities.

7. Endowment

Duke's endowment consists of over 4,400 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, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
Donor-restricted endowment funds	$ …	$ 2,519,491	$ 1,620,821	$ 4,140,312
Board-designated endowment funds	2,094,104	…	…	2,094,104
Interests in perpetual trusts held by others	…	…	802,360	802,360
Total endowed net assets	$ 2,094,104	$ 2,519,491	$ 2,423,181	$ 7,036,776

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	$ 1,821,482	$ 1,999,974	$ 2,219,517	$ 6,040,973

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 $66,492 and $83,320 in fiscal 2014 and fiscal 2013, 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 MSCI All Country World 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 5.0%. 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, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
Investment return:				
Investment income	22,266	47,434	…	69,700
Net appreciation in fair value	332,037	646,114	106,916	1,085,067
Total investment return	354,303	693,548	106,916	1,154,767
Contributions	…	…	96,748	96,748
New Board designated endowment funds	29,135	…	…	29,135
Appropriations for expenditure	(110,816)	(174,031)	…	(284,847)
Balance as of June 30, 2014	$ 2,094,104	$ 2,519,491	$ 2,423,181	$ 7,036,776

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 2014 and fiscal 2013, Duke contributed $130,848 and $125,188, respectively, to this plan. Duke expects to contribute $137,187 to this plan in fiscal 2015.

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 $20,029 to the plan in fiscal 2015.

At June 30, 2014 and 2013, the accumulated benefit obligation for the pension benefits was $1,425,817 and $1,213,648 respectively. At June 30, 2014 and 2013, the plan was over funded in relation to accumulated benefits by $147,764 and $117,815, respectively.

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 asset (liability) for pension benefits as recognized in the balance sheets represents the excess (deficit) of the actuarially determined projected benefit obligation (PBO) over (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	
	2014	2013	2014	2013
Reconciliation of benefit obligation				
Obligation at beginning of year	$ 1,335,502	$ 1,352,330	$ 146,171	$ 211,809
Service cost	58,091	60,554	2,526	4,927
Interest cost	62,340	56,554	6,758	8,880
Actuarial loss (gain)	156,441	(90,183)	23,912	(73,725)
Benefit payments	(45,044)	(41,753)	(7,775)	(5,720)
Administrative expenses (estimated)	(2,000)	(2,000)	…	…
Obligation at end of year	$ 1,565,330	$ 1,335,502	$ 171,592	$ 146,171
Reconciliation of fair value for plan assets				
Fair value of plan assets at beginning of year	$ 1,331,463	$ 1,193,793	$ …	$ …
Actual return on plan assets	269,395	163,347	…	…
Employer contributions	19,892	17,925	…	…
Participant contributions	153	144	…	…
Benefit payments	(45,044)	(41,753)	…	…
Administrative expenses	(2,278)	(1,993)	…	…
Fair value of plan assets at end of year	$ 1,573,581	$ 1,331,463	$ …	$ …
Funded status				
Net accrued benefit asset (liability)	$ 8,251	$ (4,039)	$ (171,592)	$ (146,171)

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 2014 and fiscal 2013:

	Pension Benefits		Postretirement Benefits	
	2014	2013	2014	2013
Service cost	$ 58,091	$ 60,554	$ 2,526	$ 4,927
Interest cost	62,340	56,554	6,758	8,880
Expected return on plan assets	(87,154)	(91,084)	…	…
Amortization of prior-service cost (asset)	1,700	2,887	(8,541)	(471)
Expected participant contributions	(148)	(157)	…	…
Recognized actuarial loss	4,132	17,938	…	…
Net periodic benefit cost	$ 38,961	$ 46,692	$ 743	$ 13,336

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 2015 is $2,308 and ($1,795) for the pension benefits and postretirement benefits, respectively. The expected amortization of actuarial losses (gains) for fiscal 2015 is $4,254 and ($3,597) for the pension benefits and postretirement benefits, respectively. Unrecognized prior-service cost (asset) were $12,963 and ($3,121) and unrecognized actuarial gains were $18,490 and $58,163 for the pension benefits and postretirement benefits, respectively, as of June 30, 2014. 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.

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

	Pension Benefits				Postretirement Benefits			
	2014		2013		2014		2013	
Weighted average assumptions as of measurement date	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Discount rate	4.50%	4.75%	4.75%	4.25%	4.50%	4.75%	4.75%	4.25%
Expected return on plan assets	N/A	7.50%	N/A	8.50%	N/A	N/A	N/A	N/A
Rate of compensation increase	3.00%	3.00%	3.00%	3.00%	N/A	N/A	N/A	N/A

In order to determine the benefit obligation as of June 30, 2014, the per capita costs of covered health care benefits was assumed to increase 8.5% for non-Medicare eligible employees and 7.7% for Medicare eligible employees, declining to an ultimate annual rate of increase of 5.0% by 2023. The benefit expense for fiscal 2014 was driven by the rates used to determine the obligation at June 30, 2013, which were 9.0% for non-Medicare eligible employees and 8.1% 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	$ 1,234	$ (1,038)
Effect on the health care component of the accumulated postretirement benefit obligation	$ 22,394	$ (18,601)

The projected payments to beneficiaries under the respective plans for each of the five fiscal years subsequent to June 30, 2014 are as follows:

	Pension benefits	Postretirement benefits
2015	$ 48,408	$ 8,015
2016	50,849	8,837
2017	53,988	9,567
2018	58,088	9,999
2019	62,701	10,375

Projected aggregate payments for pension benefits and postretirement benefits for the five year period ending June 30, 2024 are $397,514 and $56,950, 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, 2014 measurement date is as follows:

	Level 1	Level 2	Level 3	2014 Total
Short-term investments	$ 181	$ 217,652	$ …	$ 217,833
Fixed income	62	92,459	452	92,973
Equities	112,626	271,564	52,265	436,455
Hedged strategies	74	220,080	99,259	319,413
Private capital	1,500	…	241,912	243,412
Real assets	703	…	255,790	256,493
Other	(801)	7,803	…	7,002
Total investments	$ 114,345	$ 809,558	$ 649,678	$ 1,573,581

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
Short-term investments	$ (257)	$ 141,939	$ …	$ 141,682
Fixed income	(411)	85,508	…	85,097
Equities	115,144	221,275	38,353	374,772
Hedged strategies	245	177,294	103,550	281,089
Private capital	559	…	192,746	193,305
Real assets	(241)	…	253,264	253,023
Other	(409)	2,904	…	2,495
Total investments	$ 114,630	$ 628,920	$ 587,913	$ 1,331,463

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 the Plan 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, 2013	Net realized and unrealized gains	Purchases	Sales	Net transfers (out) in	Balance as of June 30, 2014
Fixed income	$ …	$ 8	$ 52,416	$ (51,972)	$ …	$ 452
Equities	38,353	7,182	10,925	(3,542)	(653)	52,265
Hedged strategies	103,550	14,817	8,400	(22,616)	(4,892)	99,259
Private capital	192,746	59,709	29,924	(40,722)	255	241,912
Real assets	253,264	28,398	31,935	(58,007)	200	255,790
Total Level 3 Investments	$ 587,913	$ 110,114	$ 133,600	$ (176,859)	$ (5,090)	$ 649,678

	Balance as of June 30, 2012	Net realized and unrealized gains	Purchases	Sales	Net transfers out	Balance as of June 30, 2013
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 Level 3 Investments	$ 566,177	$ 76,917	$ 77,690	$ (116,096)	$ (16,775)	$ 587,913

During fiscal 2014 and fiscal 2013, transfers of ($5,786) and ($16,775), respectively, were made between Level 2 and Level 3 related to changes in liquidity. During fiscal 2014, Level 1 investments totaling $696 became private, restricted, or not priced publicly and were consequently transferred to Level 3. The change in net unrealized gains and losses related to Level 3 assets still held at June 30, 2014 and 2013 was $101,038 and $66,417, respectively, 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 2014 or fiscal 2013.

9. Land, Buildings, and Equipment

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

	2014	2013
Land and land improvements	$ 275,149	$ 248,299
Buildings and utilities	4,399,886	3,790,823
Computer software	380,533	335,081
Equipment, furniture and vessels	1,327,181	1,232,237
Library and art collections	412,789	390,112
Construction in progress	256,104	688,089
	7,051,642	6,684,641
Accumulated depreciation	(3,698,907)	(3,408,108)
Total	$ 3,352,735	$ 3,276,533

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 $1,619 and $19,672 was capitalized in fiscal 2014 and fiscal 2013, 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%, and for conditional asset retirement obligations recognized at June 30, 2014 and 2013 was $50,875 and $49,081, respectively, and is reported in 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 2014	Outstanding principal 2013
University Tax-Exempt Bonds:				
Variable-rate bonds				
Series 1987A	2018	0.047%	$ 18,900	$ 18,900
Series 1991B	2022	0.047%	40,000	40,000
Series 1992A	2027	0.047%	35,240	35,240
Fixed-rate bonds				
Series 2005A	2042	4.964%	207,665	207,665
Series 2006A	2045	4.916%	373,515	375,080
Series 2006B	2043	4.513%	128,435	128,435
Series 2009B	2039	5.000%	247,090	247,090
University Taxable Bonds:				
Fixed-rate bonds				
Series 2007A	2037	5.850%	200,000	200,000
DUHS Tax-Exempt Bonds:				
Variable-rate bonds				
Series 2005A, B, and C (see Note 11)	2028	4.189%	322,140	322,140
Series 2006A, B, and C (see Note 11)	2039	4.197%	128,425	134,685
Series 2012B (see Note 11)	2023	6.107%	28,650	28,650
Series 2012C (see Note 11)	2015	4.276%	2,175	10,875
Fixed-rate bonds				
Series 2009A	2042	4.980%	180,000	180,000
Series 2010A	2042	4.927%	120,000	120,000
Series 2012A	2042	4.918%	287,580	293,360
Tax-exempt commercial paper	<1 year	0.102%	184,673	48,150
Taxable commercial paper	<1 year	0.130%	80,162	58,867
Other notes payable	Various	Various	15,580	44,460
Capital lease obligations (see Note 15)	Various	Various	126,797	127,359
Unamortized premium			40,005	41,505
Notes and bonds payable			$ 2,767,032	$ 2,662,461

As of June 30, 2014 and 2013, Duke had letter of credit agreements totaling $275,000. As of June 30, 2014 and 2013, there were $1,150 and $0 outstanding borrowings under the letter of credit agreements, respectively.

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, 2014 approximated $1,867,947 and $1,744,285, respectively. 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. 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, excluding capital lease obligations (see Note 15), are as follows:

Year	Principal Payments
2015	$ 289,868
2016	29,935
2017	30,910
2018	40,680
2019	32,795
Thereafter	2,176,042
Total principal payments	$ 2,600,230

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, 2014 and 2013, unamortized bond issue costs of $12,436 and $12,962, respectively, are included in prepaid expenses, inventories, and other assets on Duke's consolidated balance sheets. Total amortization expense for issue costs and discounts was $973 and $904 for fiscal 2014 and fiscal 2013, respectively and is included in depreciation and amortization expense in the consolidated statements of activities.

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 2014 and 2013, 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 $5,691,055 and $3,915,688 and short notional exposure of $2,686,005 and $2,091,563 at June 30, 2014 and 2013, 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 investment related derivative exposures, categorized by primary underlying risk, are as follows:

Primary underlying risk as of June 30, 2014	Net Notional amounts	Derivative assets	Derivative liabilities	Gain (loss)
Equity Price[1]	$ 1,551,554	$ 105,645	$ (63,436)	$ 274,358
Interest Rate[2]	221,268	2,786	(1,818)	4,762
Commodity Price[3]	464,123	5,225	(8,659)	67,741
Credit[4]	738,225	59,617	(17,647)	8,338
Foreign currency exchange rate[5]	29,880	5,797	(4,473)	(1,449)
Total	$ 3,005,050	$ 179,070	$ (96,033)	$ 353,750

Primary underlying risk as of June 30, 2013	Net Notional amounts	Derivative assets	Derivative liabilities	Gain
Equity Price[1]	$ 789,284	$ 55,577	$ (52,018)	$ 122,276
Interest Rate[2]	475,438	5,695	(4,193)	3,018
Commodity Price[3]	405,430	3,192	(7,704)	889
Credit[4]	196,622	25,467	(10,265)	3,160
Foreign currency exchange rate[5]	(42,649)	12,559	(4,647)	9,811
Total	$ 1,824,125	$ 102,490	$ (78,827)	$ 139,154

[1] Includes options, swaps, warrants, futures contracts and rights.
[2] Includes options, swaps, swaptions, and futures contracts.
[3] Includes options and futures contracts.
[4] Includes credit default swaps, swaptions, and credit total return swaps.
[5] Includes options and forward contracts.

Duke's investment related derivative assets and liabilities at June 30, 2014, by counterparty, are as follows:

	Assets	Liabilities	Cash Collateral Held (Pledged)	Net Amount
Counterparty A	$ 33,291	$ (8,987)	$ 10,082	$ 34,386
Counterparty B	24,673	(6,436)	16,405	34,642
Counterparty C	65,749	(43,461)	(49,573)	(27,285)
Counterparty D	25,279	(20,079)	(102,228)	(97,028)
Counterparty E	3,494	(3,927)	(30,393)	(30,826)
All Others	26,584	(13,143)	(7,067)	6,374
Total	$ 179,070	$ (96,033)	$ (162,774)	$ (79,737)

Duke's investment related derivative assets and liabilities at June 30, 2013, by counterparty, are as follows:

	Assets	Liabilities	Cash Collateral Pledged	Net Amount
Counterparty A	$ 14,274	$ (12,973)	$ (4,260)	$ (2,959)
Counterparty B	1,886	(88)	(1,054)	744
Counterparty C	43,114	(27,045)	(32,237)	(16,168)
Counterparty D	13,880	(11,567)	(50,095)	(47,782)
Counterparty E	4,494	(3,410)	(19,497)	(18,413)
All Others	24,842	(23,744)	(7,890)	(6,792)
Total	$ 102,490	$ (78,827)	$ (115,033)	$ (91,370)

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	$ 142,910	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

[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 $12,310.

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, 2014 and 2013 was $90,012 and $93,448, respectively, for which DUHS has posted collateral of $3,398 and $3,504, respectively, in the normal course of business. If the credit-risk related features underlying these agreements were triggered on June 30, 2014 and 2013, DUHS would have been required to post an additional $86,614 and $89,944, respectively, of collateral to its counterparties.

Financial Information Related to Swap Agreements	2014 Fair Value	2014 Gain (Loss)	2013 Fair Value	2013 Gain
August 1993 Interest Rate Swap	$ (6,453)	$ 521	$ (6,974)	$ 2,355
May 2005 Interest Rate Swap	(45,773)	1,741	(47,514)	21,841
November 2005 Interest Rate Swap	…	…	…	1,061
December 2006 Interest Rate Swap	…	146	(146)	287
April 2009 Interest Rate Swap	(33,347)	(373)	(32,974)	18,407
July 2001 Basis Swap	(4,439)	1,547	(5,986)	2,975
Total	$ (90,012)	$ 3,582	$ (93,594)	$ 46,926

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, 2014, DUHS's long-term debt ratings exceeded these requirements.

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 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 $56,868 and $62,252 for fiscal 2014 and fiscal 2013, 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, 2014, 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 2014 and fiscal 2013. 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 $29,507 and $40,883 for fiscal 2014 and fiscal 2013, respectively. Such amounts are included in contributions in the consolidated statements of activities.

At June 30, 2014 and 2013, 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 $696,964 and $603,418 respectively. Duke has no equity interest in the principal of The Duke Endowment trust, which had a fair value of approximately $3.6 billion at June 30, 2014.

13. Functional Expenses

Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses for fiscal 2014 and fiscal 2013 were categorized as follows:

	2014	2013
Health care services	$ 1,818,301	$ 1,714,011
General administration	902,130	843,311
Sponsored and separately budgeted research	881,709	858,825
Instruction and departmental research	809,897	799,217
Auxiliary enterprises	229,342	202,869
Libraries	157,513	155,104
Student services	52,129	51,660
Student aid	46,452	45,264
Total operating expenses	$ 4,897,473	$ 4,670,261

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, sponsored and separately budgeted research, and instruction and departmental research. Expenses reported as general administration, auxiliary enterprises, libraries, student services, 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 2014 and fiscal 2013 were $127,460 and $123,993, respectively.

14. 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.

15. Commitments and Contingencies

Construction and Purchase Commitments

At June 30, 2014 and 2013, open contracts for the construction of physical properties amounted to $235,173 and $239,887, respectively, and outstanding purchase orders for normal operating supplies and equipment amounted to $28,606 and $21,198, respectively.

Leases

Duke leases various machinery, equipment and buildings under operating leases expiring at various dates through 2029. Total rental expense in fiscal 2014 and fiscal 2013 for all operating leases was $86,058 and $73,319, respectively.

Future minimum lease payments under noncancelable capital and operating leases as of June 30, 2014 are as follows:

Year	Capital Leases	Operating Leases	Total
2015	$ 9,518	$ 87,383	$ 96,901
2016	9,665	82,669	92,334
2017	9,822	76,196	86,018
2018	9,983	71,134	81,117
2019	8,699	64,152	72,851
Thereafter	304,640	247,686	552,326
Total minimum lease payments	352,327	629,220	981,547
Less sublease rentals by the PDC	…	(25,654)	(25,654)
Total minimum payments less subleases	352,327	$ 603,566	$ 955,893
Less: Interest portion	(225,530)		
Capital lease obligations	$ 126,797		

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, 2014 and 2013 were $110,000 per incident and $155,000 in the aggregate. 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 2014 and 2013 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, 2014 and 2013 is 3.5%. Accrued professional liability costs as of June 30, 2014 and 2013 amounted to $52,748 and $60,368, 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 $8,590 and $8,252 as of June 30, 2014 and 2013, 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 though 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 accounts payable and accrued payrolls or accrued postretirement/postemployment and other benefit obligations on Duke's consolidated balance sheets.

Partnership Investment Commitments

There were $1.4 billion of commitments to private capital and real asset investments as of June 30, 2014. 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.

Balance Sheets SCHEDULE 1

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Assets:		
Cash and cash equivalents	$ 177,661	$ 186,307
Accounts receivable, net	220,374	206,353
Prepaid expenses, inventories, and other assets	116,420	90,376
Contributions receivable, net	435,256	419,073
Investments	8,376,965	7,158,050
Investments attributable to noncontrolling interests	1,122,053	847,995
Deposits with bond trustees	…	9,339
Land, buildings, and equipment, net	1,841,747	1,761,300
Interests in perpetual trusts held by others	802,360	697,816
Total assets	$ 13,092,836	$ 11,376,609
Liabilities:		
Accounts payable and accrued payrolls	$ 281,990	$ 258,058
Deferred revenues and deposits	160,077	158,065
Notes and bonds payable	1,554,652	1,427,744
Annuity and other split-interest obligations	47,110	43,663
Accrued postretirement/postemployment and other benefit obligations	201,299	174,551
Other liabilities	174,152	152,557
Total liabilities	2,419,280	2,214,638
Net Assets:		
Unrestricted:		
Net assets attributable to the University	4,043,968	3,486,582
Net assets attributable to noncontrolling interests	1,122,053	847,995
Total unrestricted net assets	5,166,021	4,334,577
Temporarily restricted	2,872,682	2,303,099
Permanently restricted	2,634,853	2,524,295
Total net assets	10,673,556	9,161,971
Total liabilities and net assets	$ 13,092,836	$ 11,376,609

The supplementary information in this schedule presents the balance sheets of the University, exclusive of DUHS.
See accompanying Independent Auditors' Report.

Statements of Activities SCHEDULE 2

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Unrestricted Net Assets:		
Operating revenues:		
Tuition and fees	$ 665,686	$ 640,545
Less student aid	(258,976)	(250,270)
Tuition and fees, net	406,710	390,275
Grants, contracts and similar agreements:		
Government sources	577,205	584,363
The Private Diagnostic Clinic, PLLC	42,340	45,847
Other	432,250	411,433
Total grants, contracts and similar agreements	1,051,795	1,041,643
Contributions	97,089	115,113
Investment return designated for current operations:		
The Duke Endowment	12,500	12,500
Endowment spending	283,891	294,199
Other investment income	82,080	54,320
Total investment return designated for operations	378,471	361,019
Auxiliary enterprises	186,499	175,968
Other	130,327	119,476
Net assets released from restrictions	46,488	41,486
Total operating revenues	2,297,379	2,244,980
Operating expenses:		
Salaries and wages	1,118,735	1,096,845
Employee benefits	257,972	263,410
Student aid	40,076	38,682
Other operating expenses	721,524	666,260
Interest expense	59,374	60,209
Depreciation and amortization	184,857	177,940
Total operating expenses	2,382,538	2,303,346
Deficit of operating revenues under operating expenses	(85,159)	(58,366)

Statements of Activities SCHEDULE 2 (CONTINUED)

	2014	2013
Nonoperating activities:		
Net assets released from restrictions	$ 26,122	$ 26,181
Investment return in excess of amounts designated for current operations	506,823	255,910
Nonperiodic changes in defined benefit plans	(793)	118,670
Other, net	46,836	22,512
Change in unrestricted net assets from nonoperating activities	578,988	423,273
Transfer of net assets from DUHS	63,557	51,812
Change in unrestricted net assets attributable to the University	557,386	416,719
Change in unrestricted net assets attributable to noncontrolling interests	274,058	293,534
Change in unrestricted net assets	831,444	710,253
Temporarily Restricted Net Assets:		
Contributions	127,086	118,784
Net assets released from restrictions	(72,610)	(67,667)
Investment return in excess of amounts designated for current operations	525,000	252,868
Transfer of net assets from DUHS	…	11,049
Other, net	(9,893)	1,200
Change in temporarily restricted net assets	569,583	316,234
Permanently Restricted Net Assets:		
Contributions	75,869	158,259
Investment return in excess of amounts designated for current operations	5,538	3,986
Gains on perpetual trusts held by others	104,544	50,103
Other, net	(75,393)	(2,161)
Change in permanently restricted net assets	110,558	210,187
Change in total net assets	1,511,585	1,236,674
Net assets at beginning of year	9,161,971	7,925,297
Net assets at end of year	$ 10,673,556	$ 9,161,971
Certain amounts disaggregated above are presented below in the aggregate:		
Contributions	$ 300,044	$ 392,156
Investment return	1,415,832	873,783

The supplementary information in this schedule presents the statements of activities of the University, exclusive of DUHS.
See accompanying Independent Auditors' Report.

Statements of Cash Flows SCHEDULE 3

THE UNIVERSITY (SUPPLEMENTARY INFORMATION)
YEARS ENDED JUNE 30, 2014 AND 2013
(DOLLARS IN THOUSANDS)

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 1,511,585	$ 1,236,674
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Change in net assets related to noncontrolling interests, net	(274,058)	(293,534)
Depreciation and amortization	184,857	177,940
Nonperiodic changes in defined benefit plans	793	(118,670)
Provision for bad debt	6,492	316
Change in fair value of swap instruments	(146)	(1,348)
Loss on disposals of land, buildings and equipment	13,320	6,006
Transfers of net assets from DUHS for capital	…	(11,049)
Restricted contributions received for long-term investment and capital projects	(186,772)	(151,811)
Permanently restricted investment return	(5,538)	(3,986)
Losses on other nonoperating items	6,093	2,161
Net realized and unrealized gains on investments	(1,322,252)	(812,055)
Gains on interests in perpetual trusts	(104,544)	(50,103)
Change in:		
Accounts receivable, net	(12,096)	49,202
Prepaid expenses, inventories, and other assets	(5,460)	(10,857)
Contributions receivable, net	(22,675)	(125,548)
Accounts payable and accrued payrolls	21,343	2,427
Deferred revenues and deposits	2,012	(2,501)
Annuity and other split-interest obligations	3,447	775
Accrued postretirement/postemployment and other benefit obligations	5,149	11,091
Other liabilities	21,741	(26,136)
Net cash used in operating activities	(156,709)	(121,006)

Statements of Cash Flows SCHEDULE 3 (CONTINUED)

	2014	2013
Cash flows from investing activities:		
Purchases of investments	(9,023,889)	(10,051,023)
Proceeds from sales and maturities of investments	9,038,149	9,988,045
Purchases of land, buildings, and equipment	(276,182)	(251,619)
Proceeds from disposals of land, buildings, and equipment	8	58
Disbursements for loans to students	(9,518)	(6,913)
Repayments of loans by students	7,593	5,704
Decrease in deposits with bond trustees	9,339	189
Net cash used in investing activities	(254,500)	(315,559)
Cash flows from financing activities:		
Restricted contributions received for long-term investment and capital projects	186,772	151,811
Permanently restricted investment return	5,538	3,986
Losses on other nonoperating items	(6,093)	(2,161)
Principal payments on notes and bonds payable	(77,909)	(5,183)
Proceeds from borrowings	205,178	45,000
Transfers of net assets from DUHS for capital	…	11,049
Payments to noncontrolling interests	(32,094)	…
Proceeds from noncontrolling interests	121,171	221,666
Net cash provided by financing activities	402,563	426,168
Net change in cash and cash equivalents	(8,646)	(10,397)
Cash and cash equivalents at beginning of year	186,307	196,704
Cash and cash equivalents at end of year	$ 177,661	$ 186,307

The supplementary information in this schedule presents the statements of cash flows of the University, exclusive of DUHS.
See accompanying Independent Auditors' Report.

2013-2014

CHAMPIONS

- Duke Football 2013 ACC Coastal Division Title
- Duke Women's Golf 2014 NCAA National Champions
- Duke Men's Lacrosse 2014 NCAA National Champions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