



DUKE UNIVERSITY

OMB Circular A-133 Reports

Year ended June 30, 2014

EIN #1 – 56-053-2129

DUKE UNIVERSITY
OMB Circular A-133 Reports

Table of Contents

	Page
Consolidated Financial Statements:	
Independent Auditors' Report	1
Consolidated Financial Statements for the year ended June 30, 2014	3
Additional Information:	
Schedule of Expenditures of Federal Awards – Year ended June 30, 2014	27
Schedule of Expenditures of State Awards – Year ended June 30, 2014	37
Notes to Schedules of Expenditures of Federal and State Awards	38
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> , and the Schedule of Expenditures of State Awards	42
Schedule of Findings and Questioned Costs	45



KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Duke University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Duke University, which comprise the consolidated balance sheets as of June 30, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke University as of June 30, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2014 on our consideration of Duke University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duke University's internal control over financial reporting and compliance.

KPMG LLP

September 23, 2014

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:		
<i>Operating revenues:</i>		
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
<i>Operating expenses:</i>		
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	<u>52,143</u>	<u>69,519</u>
Change in unrestricted net assets from nonoperating activities	<u>986,710</u>	<u>831,871</u>
Change in unrestricted net assets attributable to Duke	971,837	936,586
Change in unrestricted net assets attributable to noncontrolling interests	<u>191,093</u>	<u>172,365</u>
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	<u>(11,147)</u>	<u>(688)</u>
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	<u>(75,404)</u>	<u>(2,167)</u>
Change in permanently restricted net assets	110,944	211,772
Change in total net assets	<u>1,855,207</u>	<u>1,632,293</u>
Net assets at beginning of year	<u>11,435,658</u>	<u>9,803,365</u>
Net assets at end of year	<u>\$ 13,290,865</u>	<u>\$ 11,435,658</u>
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
<i>Cash flows from operating activities:</i>		
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
<i>Cash flows from investing activities:</i>		
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)
<i>Cash flows from financing activities:</i>		
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
<i>Supplemental disclosure of cash flow information:</i>		
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.

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	<u>\$ 634,305</u>	<u>\$ 563,675</u>

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.

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.

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

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.

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.

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	<u>\$ 2,094,104</u>	<u>\$ 2,519,491</u>	<u>\$ 2,423,181</u>	<u>\$ 7,036,776</u>

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

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

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
<i>Reconciliation of benefit obligation</i>				
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	<u>\$ 1,565,330</u>	<u>\$ 1,335,502</u>	<u>\$ 171,592</u>	<u>\$ 146,171</u>
<i>Reconciliation of fair value for plan assets</i>				
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	<u>\$ 1,573,581</u>	<u>\$ 1,331,463</u>	<u>\$...</u>	<u>\$...</u>
<i>Funded status</i>				
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	<u>\$ 38,961</u>	<u>\$ 46,692</u>	<u>\$ 743</u>	<u>\$ 13,336</u>

The prior-service costs are amortized on a straight-line basis over the average remaining service period of active participants. The expected amortization of prior-service cost (asset) for fiscal 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	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			<u>\$ 2,767,032</u>	<u>\$ 2,662,461</u>

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		2013	
	Fair Value	Gain (Loss)	Fair Value	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	<u>\$ (90,012)</u>	<u>\$ 3,582</u>	<u>\$ (93,594)</u>	<u>\$ 46,926</u>

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.

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

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

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.

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.

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 through employer contributions, participant contributions, and excess loss insurance, and manages those programs through third-party administrators. In the opinion of the administration, adequate provision has been made for the related risks within 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.

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

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Research and Development Cluster:			
Department of Health and Human Services:			
Agency for Healthcare Research and Quality	93.RD	—	\$ 3,136,174
Biomedical Advanced Research and Development Authority	93.RD	—	7,277,785
Centers for Disease Control and Prevention	93.RD	—	2,144,869
Centers for Medicare & Medicaid Services	93.RD	—	3,172,420
Food and Drug Administration	93.RD	—	2,539,771
Health Resources and Services Administration	93.RD	—	2,100,763
National Institutes of Health	93.RD	—	327,325,023
Office of Assistant Secretary for Planning & Evaluation	93.RD	—	344,450
Substance Abuse and Mental Health Services Administration	93.RD	—	461,658
Pass-through programs from:			
ABT Associates	93.RD	—	3,750
Advanced Liquid Logic	93.RD	—	242,315
Aeolus Pharmaceuticals	93.RD	—	(1,862)
Alamance County	93.RD	—	24,040
Alamance Social Services	93.RD	—	189,904
Alliance Behavioral Health Care	93.RD	—	71,720
Albert Einstein College of Medicine of Yeshiva University	93.RD	—	293,754
Altarum Institute	93.RD	—	(19,605)
American Academy of Pediatrics	93.RD	—	26,619
American College of Cardiology Foundation	93.RD	—	3,535
American College of Radiology	93.RD	—	56,940
American College of Radiology Imaging Network	93.RD	—	15,232
American College of Surgeons Oncology Group	93.RD	—	4,530
American Federation for Aging Research	93.RD	—	3,998
AMPLX Pharmaceuticals	93.RD	—	135,873
Annias Immunotherapeutics	93.RD	—	75,791
Argos Therapeutics, Inc.	93.RD	—	48,440
ASCO Cancer Foundation	93.RD	—	44,192
Association of American Medical Colleges	93.RD	—	38,324
Atlas Research, LLC.	93.RD	—	341,510
Axio Research Corporation	93.RD	—	10
Baylor College of Medicine	93.RD	—	979,278
Baylor University	93.RD	—	201,149
Benayora Research Institute	93.RD	—	105,007
Beth Israel Deaconess Medical Center	93.RD	—	14,172
Blood Center of Wisconsin	93.RD	—	9,131
Boston University	93.RD	—	57,644
Brain Plasticity	93.RD	—	21,502
Brandeis University	93.RD	—	136,992
Brigham and Women's Hospital	93.RD	—	1,339,403
Burnham Institute of Medical Research	93.RD	—	336,330
Caktus Consulting Group	93.RD	—	12,068
California Institute of Technology	93.RD	—	195,951
Cambridge Health Alliance	93.RD	—	23,741
Camras Vision, Inc.	93.RD	—	2,369
Carnegie Institute Washington	93.RD	—	108,438
Carnegie Mellon University	93.RD	—	84,037
Case Western Reserve University	93.RD	—	(9,383)
Cedar-Sinai Medical Center	93.RD	—	931,505
CEMPRA, Inc.	93.RD	—	709,750
Center to Protect Workers' Rights	93.RD	—	182,684
Children's Hospital Boston	93.RD	—	952,755
Children's Hospital Los Angeles	93.RD	—	49,993
Children's Hospital Philadelphia	93.RD	—	936,711
Children's Mercy Hospital	93.RD	—	12,435
Cincinnati Children's Hospital	93.RD	—	49,456
Cleveland Clinic Foundation	93.RD	—	(280)
Cleveland Clinic Lerner College of Medicine	93.RD	—	6,586
Cognosci, Inc.	93.RD	—	47,126
Collagen Medical	93.RD	—	55,223
Columbia University	93.RD	—	582,775
Constella Group, LLC	93.RD	—	(4,971)
Creative Novel Ideas Hiv	93.RD	—	28,052
Creighton University	93.RD	—	390,996
Cytex Therapeutics, Inc.	93.RD	—	145,171
Dana-Farber Cancer Institute	93.RD	—	463,687
EMMES Corporation	93.RD	—	27,287
Emory University	93.RD	—	19,062
EPIVAX, Inc.	93.RD	—	92,443
Family Health International	93.RD	—	2,036

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Feinstein Institute for Medical Research	93.RD	—	\$ (1,627)
Fred Hutchinson Cancer Research Center	93.RD	—	2,997,575
Georgetown University	93.RD	—	365,398
George Institute of International Health	93.RD	—	165,815
George Washington University	93.RD	—	889,631
Georgia Regents Univ	93.RD	—	92,805
Geovax, Inc.	93.RD	—	7,850
Grassroots Biotech, Inc.	93.RD	—	296,490
Harvard Pilgrim Healthcare	93.RD	—	77,549
Harvard University	93.RD	—	30,664
Health Research Education Trust	93.RD	—	107,369
Health Research, Inc.	93.RD	—	250,201
Heart Imaging Technologies, LLC	93.RD	—	(4,895)
Henry Ford Health System	93.RD	—	177,231
HudsonAlpha Institute for Biotechnology	93.RD	—	(1,569)
ICF Inc. LLC	93.RD	—	86,584
Imquest Biosciences, Inc.	93.RD	—	20,997
Indiana University	93.RD	—	75,309
Institute for Clinical Research	93.RD	—	23,121
Intelligent Automation, Inc.	93.RD	—	38,938
J David Gladstone Institutes	93.RD	—	233,533
Jackson State University	93.RD	—	(262)
JAEB Center for Health Research	93.RD	—	142,357
Johns Hopkins University	93.RD	—	1,173,263
KAI Pharmaceuticals, Inc.	93.RD	—	1,443
Kaiser Foundation	93.RD	—	68,135
Kilimanjaro Christian Medical Center	93.RD	—	328,568
Lawrence Berkeley National Lab	93.RD	—	174,597
Lehigh University	93.RD	—	29,319
Leidos Biomedical Res Inc.	93.RD	—	284,416
Lifepoint Hospitals	93.RD	—	348,010
Lumicell Diagnostics	93.RD	—	86,392
Lurie Children's Hospital	93.RD	—	5,536
Macro International, Corp.	93.RD	—	14,409
Massachusetts General Hospital	93.RD	—	111,569
Massachusetts Institute of Technology	93.RD	—	(11,315)
Mayo Clinic	93.RD	—	4,623,680
Mayo Clinic Rochester	93.RD	—	185,141
Medical College of Wisconsin	93.RD	—	25,133
Medical University of South Carolina	93.RD	—	611,396
MEDISPIN, Inc.	93.RD	—	(16,148)
Meharry Medical College	93.RD	—	32,292
Memorial Sloan-Kettering	93.RD	—	36,466
Meharry Medical College	93.RD	—	23,531
Moffitt Cancer Center	93.RD	—	371,644
Moi University	93.RD	—	273,808
Molecular Express, Inc.	93.RD	—	35,750
Monsanto, Inc.	93.RD	—	32,974
Montefiore Medical Center	93.RD	—	10,585
Mt. Sinai Medical Center	93.RD	—	725,097
National Jewish Health	93.RD	—	9,399
National Jewish Medical and Research Center	93.RD	—	30,895
National Marrow Donor Program	93.RD	—	268,496
Nationwide Children's Hospital	93.RD	—	150,940
Neurop, Inc.	93.RD	—	97,665
New England Research Institute	93.RD	—	215,941
New Folder Consulting	93.RD	—	11,242
New York School of Medicine	93.RD	—	110,558
North Carolina Central University	93.RD	—	20,189
North Carolina Department of Health and Human Services	93.RD	—	285,397
North Carolina State University	93.RD	—	262,438
Northern California Institute for Research and Education	93.RD	—	(1,215)
Northwestern University	93.RD	—	752,062
Oak Ridge Institute of Science & Education	93.RD	—	12,533
Ohio State University Research Foundation	93.RD	—	173,077
Optima Neuroscience, Inc.	93.RD	—	17,125
Oregon Health & Science University	93.RD	—	12,164
Paxvax Corporation	93.RD	—	18,383
People Designs	93.RD	—	21,683
Pennsylvania State University	93.RD	—	27,952
Physical Sciences, Inc.	93.RD	—	(3,898)
Premitec, Inc.	93.RD	—	20,477

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Purdue University	93.RD	—	\$ 9,669
Radiation Effects Research Foundation	93.RD	—	471,008
Radiological Society of North America	93.RD	—	14,884
Research Foundation for Mental Hygiene	93.RD	—	231,162
Research Triangle Institute	93.RD	—	472,923
Rice University	93.RD	—	105,714
RSNA Research & Education Foundation	93.RD	—	9,275
Rush University	93.RD	—	117,872
Sarcoma Alliance for Research	93.RD	—	57,195
Schepens Research Eye Institute	93.RD	—	8,766
Science Apps International Corporation	93.RD	—	4,520
Scripps Research Institute	93.RD	—	72,573
Social and Scientific Systems, Inc.	93.RD	—	24,712
Society Thoracic Surgeons	93.RD	—	504,681
Southeast Techninventures	93.RD	—	(1)
State University of New Jersey-Rutgers	93.RD	—	47,705
St. John Health	93.RD	—	1,224
St. Jude Children's Research Hospital	93.RD	—	185,372
St. Luke's Roosevelt Institute	93.RD	—	(26,797)
Stanford University	93.RD	—	72,903
State of Utah	93.RD	—	53,324
Stony Brook University	93.RD	—	(2,993)
Syntrix Biosystems, Inc.	93.RD	—	34,100
Texas A&M University	93.RD	—	24,122
Thermimage, Inc.	93.RD	—	50,097
Thomas Jefferson University	93.RD	—	157,665
Tufts-New England Med Ctr	93.RD	—	109,709
Tufts University	93.RD	—	268,344
University of Alabama, Birmingham	93.RD	—	132,921
University of Alabama, Tuscaloosa	93.RD	—	11,821
University of Arizona	93.RD	—	592,851
University of California at Berkeley	93.RD	—	274,710
University of California at Davis	93.RD	—	81,412
University of California at Irvine	93.RD	—	13,086
University of California at Los Angeles	93.RD	—	3,273,531
University of California at San Diego	93.RD	—	327,005
University of California at San Francisco	93.RD	—	485,966
University of California at Santa Cruz	93.RD	—	98,407
University of Chicago	93.RD	—	277,063
University of Cincinnati	93.RD	—	142,358
University of Colorado	93.RD	—	127,343
University of Connecticut	93.RD	—	701,527
University of Florida	93.RD	—	726,459
University of Georgia	93.RD	—	10,663
University of Illinois	93.RD	—	124,171
University of Iowa	93.RD	—	90,033
University of Kansas	93.RD	—	156,391
University of Kentucky	93.RD	—	20,830
University of Louisville	93.RD	—	86,185
University of Maryland	93.RD	—	275,481
University of Massachusetts	93.RD	—	31,536
University of Miami	93.RD	—	1,261
University of Michigan	93.RD	—	833,317
University of Minnesota	93.RD	—	57,336
University of North Carolina at Chapel Hill	93.RD	—	5,765,139
University of North Carolina at Charlotte	93.RD	—	165,415
University of Oklahoma	93.RD	—	195,694
University of Oregon	93.RD	—	91,999
University of Pennsylvania	93.RD	—	379,734
University of Pittsburgh	93.RD	—	683,673
University of Rochester	93.RD	—	131,078
University of Southern California	93.RD	—	90,327
University of Southern Florida	93.RD	—	91,098
University of Texas Health Science Center at Houston	93.RD	—	340,227
University of Texas M.D. Anderson	93.RD	—	49,807
University of Texas Medical Branch	93.RD	—	9,309
University of Texas Southwestern Medical Center	93.RD	—	31,624
University of Utah	93.RD	—	1,463
University of Virginia	93.RD	—	287,468
University of Washington, Seattle	93.RD	—	186,281
University of Wisconsin	93.RD	—	53,767
Valencell Clinic	93.RD	—	58,448

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Vanderbilt University	93.RD	—	\$ 32,943
Vindico Nanbiotech	93.RD	—	(2,988)
Virginia Commonwealth University	93.RD	—	284,494
Virginia Polytechnical Institute and State University	93.RD	—	289,590
Vortant Technologies, LLC	93.RD	—	20,542
Wake County	93.RD	—	(298)
Wake Forest University	93.RD	—	305,246
Washington University	93.RD	—	19,520
Winstar Institute	93.RD	—	30,979
Wister	93.RD	—	170,349
Woods Hole Oceanographic Institution	93.RD	—	19,535
Yale University	93.RD	—	160,940
Zenalux Biomedical, Inc.	93.RD	—	28,670
Total Department of Health and Human Services			399,575,957
Department of Defense	12.RD	—	47,337,577
Pass-through programs from:			
ABT Associates, Inc.	12.RD	—	75,752
Applied Quantum Technologies, Inc.	12.RD	—	41,291
Applied Research Association	12.RD	—	291,399
Applied Research Laboratory	12.RD	—	(1,196)
Atherton Quantum Insight	12.RD	—	49,184
Boston College	12.RD	—	54,684
CB&I Federal Services LLC	12.RD	—	28,087
Childrens Hospital of Philadelphia	12.RD	—	4,868
Create, Inc.	12.RD	—	14,921
Einstein College of Medicine	12.RD	—	81,563
FDH Engineering	12.RD	—	26,722
Florida International University	12.RD	—	4,497
Georgia Institute of Technology	12.RD	—	37,330
Geneva Foundation	12.RD	—	92,912
GEO-MARINE, Inc.	12.RD	—	19
Harvard University	12.RD	—	73,642
HDR Environmental, Operations and Construction, Inc.	12.RD	—	1,481,485
Humacyte	12.RD	—	194,898
Infocitex Corporation	12.RD	—	24,893
Jackson Foundation	12.RD	—	235,629
Johns Hopkins University	12.RD	—	690,497
Kyma Technologies, Inc.	12.RD	—	6,062
Leidos Biomedical Research, Inc.	12.RD	—	(5,417)
Logos Technologies, Inc.	12.RD	—	961
Loma Linda University	12.RD	—	337,446
London Institute of Mathematical Sciences	12.RD	—	211,794
Luna Innovations, Inc.	12.RD	—	33,000
Mantech System Engineering	12.RD	—	3,771
Massachusetts Institute of Technology	12.RD	—	264,878
Metron, Inc.	12.RD	—	(177)
Montana State University	12.RD	—	25,078
North Carolina Central University	12.RD	—	41,616
North Carolina State University	12.RD	—	178,975
Northwestern University	12.RD	—	124,509
Ohio State University	12.RD	—	5,447
Princeton University	12.RD	—	233,905
Research Triangle Institute	12.RD	—	184,040
Rice University	12.RD	—	205,341
Scalable Algorithmics	12.RD	—	49,997
Sensormatrix, Inc.	12.RD	—	37,960
Simmetrix, Inc.	12.RD	—	30,065
SRI International	12.RD	—	7,844
Stanford University	12.RD	—	289,599
Tetra Tech, Inc.	12.RD	—	66,101
University of Alabama at Birmingham	12.RD	—	47,818
University of California at Los Angeles	12.RD	—	141,495
University of California at San Diego	12.RD	—	656,669
University of California at San Francisco	12.RD	—	19,655
University of Central Florida	12.RD	—	(16,275)
University of Colorado	12.RD	—	293,909
University of Florida	12.RD	—	99,985
University of Illinois	12.RD	—	230,916
University of Maryland	12.RD	—	97,600
University of Miami	12.RD	—	86,014
University of Minnesota	12.RD	—	406,556
University of New Mexico	12.RD	—	280,832

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
University of North Carolina at Chapel Hill	12.RD	—	\$ 6,542
University of Pennsylvania	12.RD	—	516,157
University of South California	12.RD	—	160,360
University of Virginia	12.RD	—	(13,493)
University of Texas at San Antonio	12.RD	—	65,609
Wave Computation Technology	12.RD	—	47,145
Woods Hole Oceanographic Institution	12.RD	—	45,954
ZT Solar	12.RD	—	148,720
Total Department of Defense			56,495,617
National Science Foundation	47.RD	—	35,054,239
Pass-through programs from:			
Camras Vision, Inc.	47.RD	—	46,421
Carnegie Institute of Washington	47.RD	—	186
Carnegie Mellon University	47.RD	—	47,488
Columbia University	47.RD	—	84,102
Florida International University	47.RD	—	10,699
Institute for Advance Study	47.RD	—	24,554
Harvard University	47.RD	—	36,672
Lumicell Diagnostics	47.RD	—	70,917
M2 Photonics Innovations	47.RD	—	21,699
Michigan State University	47.RD	—	73,003
Montana State University	47.RD	—	50,971
National Institute of Statistics	47.RD	—	47,080
Norfolk State University	47.RD	—	34,608
North Carolina State University	47.RD	—	46,352
Ohio State University	47.RD	—	63,024
Oregon State University	47.RD	—	50,076
Rutgers State University	47.RD	—	7,294
San Diego State University	47.RD	—	18,676
Texas State University	47.RD	—	43,001
University of California at Davis	47.RD	—	32,032
University of California at Merced	47.RD	—	778
University of California at Santa Barbara	47.RD	—	82,317
ARRA - University of California at Santa Cruz *	47.082	—	20,385
University of Colorado	47.RD	—	25,831
University of Connecticut	47.RD	—	85,519
University of Georgia	47.RD	—	38,911
University of Illinois	47.RD	—	74,876
University of Maryland	47.RD	—	27,575
University of Minnesota	47.RD	—	97,451
University of New Mexico	47.RD	—	171,123
University of Nebraska	47.RD	—	12,889
University of North Carolina at Chapel Hill	47.RD	—	2,101,172
University of Pennsylvania	47.RD	—	124,402
University of Rochester	47.RD	—	39,992
University of Tennessee	47.RD	—	480
University of Wisconsin	47.RD	—	63,464
Valencell, Inc.	47.RD	—	(4,759)
Vanderbilt University	47.RD	—	27,504
Total National Science Foundation			38,853,004
Department of Energy	81.RD	—	7,142,165
Pass – through programs from:			
Battelle LLC	81.RD	—	15,890
Biodiversity Research Institute	81.RD	—	22,984
Brookhaven National Laboratory	81.RD	—	78,730
Center to Protect Workers' Rights	81.RD	—	106,447
Cornell University	81.RD	—	198,225
Florida International University	81.RD	—	9,300
Georgia Institute of Technology	81.RD	—	30,899
Lawrence Berkeley National Lab	81.RD	—	162,738
Marine Biological Laboratory	81.RD	—	2,444
National Renewable Energy	81.RD	—	270,190
North Carolina State University	81.RD	—	71,411
Oak Ridge Associate University	81.RD	—	295,292
Regulatory Utility Commission	81.RD	—	133,968
Sandia National Laboratory	81.RD	—	52,080
University of California, Lawrence Livermore	81.RD	—	53,890
University of Kentucky Research Foundation	81.RD	—	49,823
University of North Carolina at Chapel Hill	81.RD	—	362,812
University of Pittsburgh	81.RD	—	5,524
UT-Battelle, LLC	81.RD	—	20,978

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Total Department of Energy			\$ 9,085,790
Department of Homeland Security	97.RD	—	10,573,242
Pass-through programs from:			
Johns Hopkins University	97.RD	—	370,519
Morpho Detection, Inc.	97.RD	—	122,828
University of Arizona	97.RD	—	37,931
Total Department of Homeland Security			11,104,520
Department of Education	84.RD	—	2,403,314
Pass-through programs from:			
American Institutes for Research	84.RD	—	279,531
Battelle Energy Alliance	84.RD	—	42,975
Georgia Institute of Technology	84.RD	—	4,793
Research Triangle Institute	84.RD	—	169,705
University of North Carolina at Chapel Hill	84.RD	—	43,476
Total Department of Education			2,943,794
National Aeronautics and Space Administration	43.RD	—	2,781,616
Pass-through programs from:			
Carnegie Mellon University	43.RD	—	76,027
Cornell University	43.RD	—	77,592
Jet Propulsion Lab	43.RD	—	57,144
North Carolina State University	43.RD	—	29,454
Smithsonian Institute	43.RD	—	(6)
Temple University	43.RD	—	81,813
University of California at Irvine	43.RD	—	27,986
University of Illinois	43.RD	—	120,858
University of Maine	43.RD	—	(173)
University of Maryland	43.RD	—	17,960
Total National Aeronautics and Space Administration			3,270,271
Department of Veteran Affairs	64.RD	—	194,273
Pass-through programs from:			
Pacific Institute	64.RD	—	61,228
Total Department of Veteran Affairs			255,501
Environmental Protection Agency	66.RD	—	994,537
Pass-through programs from:			
Arizona State University	66.RD	—	14,261
ICF Associates, Inc.	66.RD	—	188,948
North Carolina State University	66.RD	—	77,004
Research Triangle Institute	66.RD	—	49,014
University of South Carolina	66.RD	—	(1,490)
Total Environmental Protection Agency			1,322,274
Department of Agriculture	10.RD	—	787,266
Pass-through programs from:			
North Carolina Forest Service		—	22,339
North Carolina State University	10.RD	—	9,999
University of Georgia	10.RD	—	5,054
University of North Carolina at Chapel Hill	10.RD	—	24,258
University of Nebraska at Lincoln	10.RD	—	(435)
Total Department of Agriculture			848,481
Agency for International Development	98.RD	—	307,414
Pass-through programs from:			
Development Alternatives	98.RD	—	354,563
Greenville Hospital System	98.RD	—	5,499
Indiana University	98.RD	—	13,602
University Research Co., LLC	98.RD	—	189,287
Total Agency for International Development			870,365
Department of Commerce	11.RD	—	122,856
Pass-through programs from:			
Florida State University	11.RD	—	2,425
Marine Fisheries Commission	11.RD	—	6,850
North Carolina State University	11.RD	—	46,328
Southeast Coastal Ocean Observing	11.RD	—	32,787
Total Department of Commerce			211,246
National Endowment for the Humanities	45.RD	—	50,446
Pass-through programs from:			
University of Florida	45.RD	—	12,176
Total National Endowment for the Humanities			62,622
Department of the State:			
Pass-through programs from:			
Stellit	19.RD	—	12,129

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Winrock International Institute	19.RD	—	\$ 36,966
<i>Total Department of the State</i>			49,095
Central Intelligence Agency: Pass-through programs from:			
HDR Environmt Operations and Construction	13.RD	—	190,063
<i>Total Central Intelligence Agency</i>			190,063
Department of Justice	16.RD	—	257,097
Department of Transportation	20.RD	—	40,439
Department of Interior	15.RD	—	316,781
Federal Reserve System	18.RD	—	72,846
Marine Mammal Commission	90.RD	—	35,447
<i>Total Research and Development Cluster</i>			525,861,210
Student Financial Aid Cluster:			
Department of Education:			
Federal Supplemental Educational Opportunity Grant	84.007	—	963,640
Direct Loan Program	84.268	—	116,125,233
Federal Work Study Program	84.033	—	1,865,858
Federal Perkins Loan Program	84.038	—	7,595,591
Federal Pell Grant Program	84.063	—	4,067,478
<i>Total Department of Education</i>			130,617,800
Department of Health and Human Services:			
Nurse Faculty Loan Program	93.264	—	875,496
<i>Total Department of Health and Human Services</i>			875,496
<i>Total Student Financial Aid Cluster</i>			131,493,296
Training and Other Programs:			
Department of Health and Human Services:			
Environmental Health	93.113	—	108,814
Oral Diseases and Disorders Research	93.121	—	27,660
Nurse Anesthetist Traineeships	93.124	—	25,583
Emergency Medical Services for Children	93.127	—	8,166
AIDS Education and Training Centers	93.145	—	230,861
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	—	516,763
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156	—	302,722
Research Related to Deafness and Communication Disorders	93.173	—	81
Nursing Workforce Diversity	93.178	—	255,041
Disabilities Prevention	93.184	—	113,941
Research and Training in Complementary and Alternative Medicine	93.213	—	931
National Research Service Awards-Health Service Research Training	93.225	—	58,696
Research on Healthcare Costs, Quality and Outcomes	93.226	—	320,430
Mental Health Research Grants	93.242	—	765,680
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	—	369,570
Advanced Education Nursing Grant Program	93.247	—	466,041
Occupational Safety and Health Program	93.262	—	9,196
Comprehensive Geriatric Education Program	93.265	—	247,566
Drug Abuse and Addiction Research Programs	93.279	—	725,250
Mental Health Research Career/Scientist Development Awards	93.281	—	131,176
Mental Health National Research Service Awards for Research Training	93.282	—	39,763
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	—	309,471
Trans - NIH Research Support	93.310	—	56,234
National Center for Advancing Translational Sciences	93.350	—	276,032
Research Infrastructure Programs	93.351	—	552,514
Nurse Education, Practice Quality and Retention Grants	93.359	—	251,406
Nursing Research	93.361	—	42,720
Sickle Cell Treatment Demonstration Program	93.365	—	33,139
Cancer Treatment Research	93.395	—	154,955
Cancer Research Manpower	93.398	—	3,243,882
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	—	22,529
Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative	93.513	—	371,597
Affordable Care Act (ACA) Expansion of Physician Assistant Training Program	93.514	—	352,000
ARRA - Trans-NIH Recovery Act Research Support	93.701	—	320,019
ARRA - National Center for Research Resources, Recovery Act	93.702	—	13,249,916
ARRA - Recovery Act - Comparative Effectiveness Research AHRQ	93.715	—	93,983

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
ARRA – Health Information Technology Professionals in Health Care	93.721	—	\$ 102,359
Cardiovascular Diseases Research	93.837	—	1,688,169
Lung Diseases Research	93.838	—	648,027
Blood Diseases and Resources Research	93.839	—	465,959
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	—	218,225
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847	—	1,761,675
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	408,082
Allergy, Immunology and Transplantation Research	93.855	—	2,461,252
Biomedical Research and Research Training	93.859	—	5,095,569
Child Health and Human Department Extramural Research	93.865	—	2,237,107
Aging Research	93.866	—	707,884
Vision Research	93.867	—	992,263
Medical Library Assistance	93.879	—	85,627
Grants for Primary Care Training and Enhancement	93.884	—	103,212
PPHF - Geriatric Education Centers	93.969	—	226,543
International Research and Research Training	93.989	—	484,175
Develop Training In The Principles, Methods, And Ethics Of Clinical Research	93.275201300378P	—	65,000
Finding Consciousness Workshop	93.269-2012000213	—	6,000
Develop Training In The Principles, Methods, And Ethics Of Clinical Research	93.HHSN275201100476P	—	23,352
Develop Training In The Principles, Methods, And Ethics Of Clinical Research	93.HHSN275201300172P	—	20,000
Develop Training In The Principles, Methods, And Ethics Of Clinical Research	93.HHSN275201300198P	—	20,000
Pass-through programs from:			
North Carolina Department of Health and Human Services:			
Alzheimer's Disease Demonstration Grants to States	93.051	—	109,261
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	—	74,721
Affordable Care Act (ACA) Personal Responsibility Education Program Project Grants and Cooperative Agreement for Tuberculosis Control Programs	93.092	—	108,146
Center for Disease Control and Prevention: Investigations and Technical Assistance	93.116	—	83,379
National Bioterrorism Hospital Preparedness Program	93.283	—	(45)
HIV Care Formula Grants	93.889	—	403,809
HIV Prevention Activities Health Department Based	93.917	—	507,918
Block Grants for Prevention and Treatment of Substance Abuse	93.940	—	66,298
Association of Public Health Laboratories: Maternal and Child Health Federal Consolidated Programs	93.959	—	72,335
Emory University	93.110	—	1,093
AIDS Educations and Training Centers	93.145	—	(20,551)
New Hanover Regional Medical Center: Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	—	123,378
Cincinnati Children's Hospital:			
Microbiology and Infectious Diseases Research	93.856	—	(313)
Small Molecule Inhibitors of Polysaccharide Capsule Biogenesis		93.K12-HD0000850	97,740
Durham County Health Department: Block Grants for Prevention and Treatment of Substance Abuse	93.959	—	(378)
Wake County:			
HIV Adult ID Services	—	93.unknown HIV Adult	154,204
HIV Pediatrics Services	—	93.HIV Pediatrics Services	142,319
North Carolina State University:			
Cardiovascular Diseases Research	93.837	—	11,525
Wisconsin Medical College:			
Mental Health Research Grants	93.242	—	95,431
Alliance Behavioral Health Care: HIV Early Intervention Testing	—	93.HIV Earlin Invention Testing	110,503
Rwanda Ministry of Health: Human Resources for Health, Rwanda	—	93.Human Resources for Health	1,569,785
CNGNL Glaucoma Caucus Foundation: Student Sight Saver Program/Community Based Glaucoma Screening	—	93.E11/CCE220462-01	2,264
New England Research Institute: Ventricular Assist Device Implantation	—	93.HHSN268201200001	12,302
SON-GNE Demonstration: Affordable Care Act (ACA) Advanced Nursing Education Expansion Initiative	93.513	—	1,075,021
University of Minnesota:			
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	7,149
University of North Carolina at Chapel Hill:			
Occupational Safety Mental Health Research Grants	93.262	—	141,377
Mental Health National Research Service Awards for Research Training	93.282	—	96,917
Biomedical Research and Research Training	93.859	—	(44,847)
Collaborative Pharma PD Training	—	93.#5-37852	169,594
University of Pennsylvania:			
Nursing Research	93.361	—	(10,336)

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
University of Vermont: Advanced Nursing Education Grant Program	93.247	—	\$ 27,926
Vanderbilt University: International Research and Research Training	93.989	—	131,585
Total Department of Health and Human Services			47,194,318
Department of Justice:			
Innocence Investigation and Litigation Program	16.2013-FA-BX-0008	—	34,130
Pass-through programs from:			
Philadelphia Children's Alliance:			
Learning Collaborative for Northeastern Regional CAC's	—	16.TFCBT	739
National Children's Advocacy:			
TFCBT Learning Collaborative for CAC's	—	16.2009-MU-MU-K005	354
Total Department of Justice			35,223
Department of Defense:			
Basic and Applied Scientific Research	12.300	—	78,057
Military Medical Research and Development	12.420	—	328,105
Basic Scientific Research	12.431	—	50,825
Fellowship	12.HU0001-11-1-TS14 N	—	1,850
Pass-through programs from:			
Institute International Education: ROTC Language and Culture Training Grants			
	12.357	—	151,939
National Marrow Donor Program: RITN Agreement	—	12.N00014-10-1-0204	5,197
University of California, Los Angeles: Project FOCUS (Families Overcoming and Coping Under Stress)	—	12.N00189-08-C-2009	21,855
Total Department of Defense			637,828
Nuclear Regulatory Commission:			
Environmental Leadership Program Courses	77.41-08-008	—	62,431
Fellowship	77.HQ12-G-38-0022	—	99,142
Health Physics: Accelerator Health Physics; Reactor Health Physics	77.HQ-12-G-38-005	—	99,913
Total Nuclear Regulatory Commission			261,486
Department of Energy:			
Pass-through programs from:			
Brookhaven National Laboratory: Joint Appointment Agreement			
	—	81.DE-AC02-98CH10886	460,727
UT-Battelle LLC: ORNL/Duke Collaboration and Program Development			
	—	81.DE-AC05-00OR22725	28,224
Total Department of Energy			488,951
National Science Foundation:			
Engineering Grants	47.041	—	269,967
Mathematical and Physical Sciences	47.049	—	803,225
Geosciences	47.050	—	360,711
Biological Sciences	47.074	—	653,757
Social, Behavioral, and Economic Sciences	47.075	—	88,338
Education and Human Resources	47.076	—	6,464,754
International Science and Engineering (OISE)	47.079	—	36,456
ARRA – Trans-NSF Recovery Act Research Support	47.082	—	90,260
Pass-through programs from:			
University of Miami: Social, Behavioral, and Economic Sciences			
	47.075	—	36,221
University of Colorado: Education and Human Resources			
	47.076	—	6,189
Total National Science Foundation			8,809,878
Corporation for National and Community Service:			
Learn and Serve America Higher Education	94.005	—	97,376
Total Corporation for National and Community Service			97,376
Department of Agriculture:			
Agriculture and Food Research Initiative (AFRI)	10.310	—	19,049
Total Department of Agriculture			19,049
Department of Commerce:			
Summer Undergraduate Research Fellowship	11.70NANB13	—	368
Seminar on Methods in Marine Bioacoustics	11.NA12NOS4260159	—	216
Pass-through programs from:			
North Carolina State University: Sea Grant Support			
	11.417	—	24,831
Total Department of Commerce			25,415
National Aeronautics and Space Administration:			
Fellowship Program	43.NNX13AQ15H	—	23,888
Fellowship Program	43.NNX10AO68H	—	—
Fellowship Program	43.NNX10AO62H	—	20,203
Fellowship Program	43.NNX12AN49H	—	29,335
Fellowship Program	43.NNX13AO21H	—	25,311
Fellowship Program	43.NNX13AN86H	—	23,462
Fellowship Program	43.NNX13AN85H	—	25,060
Fellowship Program	43.NNX13AQ02G	—	17,729
Total National Aeronautics and Space Administration			164,988
Environmental Protection Agency:			

DUKE UNIVERSITY
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal grantors/pass-through grantors/agencies or cluster title	Federal CFDA number or other identifying grant number	Pass-through entity identifying number	Federal Expenditures
Science to Achieve Results (STAR) Fellowship Program	66.514	—	\$ 60,565
P3 Award: National Student Design Competition for Sustainability	66.516	—	3,621
Pass-through programs from:			
Water Environment Research Foundations:			
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	—	27,320
Total Environmental Protection Agency			91,506
Department of Veteran Affairs:			
VA Mental Health - Access and Coordination Initiative (MH-ACI)	64.VA246-12-C-0071	—	94,564
Pass-through programs from:			
Chesapeake Health Education Program:			
Smoking Cessation Treatment in Veterans Suffering with PTSD	—	64.unknown	121,509
Total Department of Veteran Affairs			216,073
Agency for International Development:			
An Ecosystem Approach to Funding & Scaling the Impact of the Innovations in Healthcare	98.AID-OAA-G-13-00004	—	1,394,489
Pass-through programs from:			
Deloitte Consulting, LLP:			
Program on Applied Cost Benefit Analysis and Cost Effectiveness Analysis	—	98.EEM-I-00-07-0005-0	40,315
Total Agency for International Development			1,434,804
Department of Housing and Urban Development:			
Pass-through programs from:			
North Carolina Department of Health and Human Services: Housing Opportunities for Persons with AIDS	14.241	—	175,750
Total Department of Housing and Urban Development			175,750
National Archives and Records Administration:			
National Historical Publications and Records Grants	89.003	—	10,206
Total National Archives and Records Administration			10,206
Appalachian Regional Commission:			
Spring Creek Literacy Project	23.NC-16667-C1	—	48,982
Total Appalachian Regional Commission			48,982
National Endowment for the Arts:			
Promotion of the Arts: Grants to Organizations and Individuals	45.024	—	23,527
Pass-through programs from:			
New York University: Promotion of the Arts: Grants to Organizations and Individuals	45.024	—	857
Total National Endowment for the Arts			24,384
National Endowment for the Humanities:			
Promotion of the Humanities Research	45.161	—	20,582
Promotion of the Humanities Professional Development	45.163	—	184,318
A History of Market-Based Policies in the United States	45.FA-57183-13	—	77,145
Archibald Motley: Jazz Musician	45.GI-50607-13	—	109,248
The Collected Letters of Thomas and Jane Welsh Carlyle	45.RQ-80631-12	—	142,016
Total National Endowment for the Humanities			533,309
Institute of Museum and Library Services:			
North Carolina Department of Cultural Resources: Grants to States	45.310	—	143,313
Total Institute of Museum and Library Services			143,313
Department of Education:			
National Resource Centers and Fellowships Program for Language and Area or Language and International Studies	84.015	—	1,541,500
Overseas Programs – Global Projects Abroad	84.021	—	346
Fund for the Improvement of Postsecondary Education	84.116	—	107,746
Centers for International Business Education	84.220	—	195,071
Language Resource Centers	84.229	—	220,796
Pass-through programs from:			
University of North Carolina at Chapel Hill: National Resource Centers and Fellowships Programs for Language and Area of Language and International Studies	84.015	—	404,001
North Carolina Department of Public Instruction: 2012 Project Lead The Way	—	84.48982887	1,138
Total Department of Education			2,470,598
Vietnam Education Foundation Fellowship	99.Unknown	—	20,951
Total Federal Award Expenditures			\$ 720,258,894

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

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

DUKE UNIVERSITY
Schedule of Expenditures of State Awards
Year ended June 30, 2014

State grantors/pass-through grantors/agencies or cluster title	State Expenditures
North Carolina Arts Council	\$ 65,791
North Carolina Chief Justice's Commission on Professionalism	3,463
North Carolina Department of Cultural Resources	7,203
North Carolina Department of Health and Human Services	327,575
North Carolina Department of Public Inspection	117,217
North Carolina Humanities Council	10,000
Pass through programs from:	
North Carolina State University	33,344
University of North Carolina at Chapel Hill	1,662,280
<i>Total State Award Expenditures</i>	\$ 2,226,873

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

DUKE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2014

(1) Basis of Presentation

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

(2) Summary of Significant Accounting Policies

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

Expenditures for other federal awards are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*, and the uniform administrative requirements as set forth in OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. Under these cost principles and administrative requirements, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures include facilities and administrative costs, related primarily to facilities operation and maintenance and general, divisional, and departmental administrative services, which are allocated as a percentage of direct cost based on negotiated rates. Facilities and administrative costs allocated to such awards for the year ended June 30, 2014 were based on predetermined fixed rates negotiated with Duke's cognizant federal agency, the Department of Health and Human Services.

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

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

Facilities and administrative cost recoveries and administrative cost allowances from governmental sources for the year ended June 30, 2014 are summarized as follows:

Research and development	\$ 126,992,000
Student financial aid	315,000
Training and other programs	2,900,000
	<hr/>
	\$ 130,207,000
	<hr/> <hr/>

DUKE UNIVERSITY

Notes to Schedules of Expenditures of Federal and State Awards

Year ended June 30, 2014

(4) Federal Student Financial Aid Loan Programs

The Federal Perkins, Nurse Faculty Loan (NFL) and Primary Care Loan (PCL) programs are administered directly by Duke and balances and transactions relating to these programs are included in Duke's consolidated financial statements. The balances of loans outstanding under the Federal Perkins, NFL and PCL programs were \$31,715,609, \$3,349,987, and \$227, respectively, as of June 30, 2014.

Duke is responsible only for the performance of certain administrative duties with respect to the Direct Loan Program and, accordingly, these loans are not included in its consolidated financial statements. It is not practical to determine the balance of loans outstanding to students and former students of Duke under these programs as of June 30, 2014.

(5) Subrecipients

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

<u>Federal grant agency</u>	<u>Amounts provided to subrecipients</u>
Department of Health and Human Services	\$ 54,703,883
Department of Defense	14,498,483
National Science Foundation	4,806,270
Department of Energy	64,107
Others	<u>5,765,059</u>
	<u>\$ 79,837,802</u>



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

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

The Board of Trustees
Duke University:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Duke University (Duke), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 23, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Purpose of this Report

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

KPMG LLP

September 23, 2014



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

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of Expenditures of State Awards

The Board of Trustees
Duke University:

Report on Compliance for Each Major Federal Program

We have audited Duke University's (Duke) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Duke's major federal programs for the year ended June 30, 2014. Duke's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Duke complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.



Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

Duke's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Duke's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and Schedule of Expenditures of State Awards (Collectively, Schedules of Expenditures of Federal and State Awards)

We have audited the consolidated financial statements of Duke as of and for the year ended June 30, 2014, and have issued our report thereon dated September 23, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedules of Expenditures of Federal and State Awards are presented for purposes of additional analysis and are 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 Schedules of Expenditures of Federal and State Awards are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

November 19, 2014

DUKE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **None reported** Material weaknesses: **None**
- (c) Noncompliance which is material to the financial statements: **None**
- (d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **None**
- (e) The type of report issued on compliance for major programs: **Unmodified opinion**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **Yes**
- (g) Major programs: **Research and Development Cluster; Student Financial Assistance Cluster; and Biomedical Research and Research Training (CFDA 93.859)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **Yes**

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

None reported

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2014-001: Loan Disbursements

Project Period

July 1, 2013 through June 30, 2014

Federal Program

CFDA Number 84.268 – Direct Loan Program and CFDA Number 84.038 – Perkins Loan Program

Cluster

Student Financial Assistance

Federal Agency

Department of Education

DUKE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Criteria

Per 34 CFR section 668, if an institution credits a student's account with a Direct Loan or Federal Perkins Loan, the institution must notify the student or parent of the anticipated date and amount of the disbursement, the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement. Further, the earliest an institution may disburse these funds for any period is 10 days before the first day of classes for a payment period.

Condition

Of the 50 students selected for testwork, 24 students did not receive a loan disbursement notification in writing for one or more disbursements. Additionally, of the 50 students selected for testwork, 1 student had funds disbursed 11 days before the first day of classes for the spring 2014 semester.

Questioned Costs

None

Cause

The noncompliance with respect to disbursement notifications to students was the result of a system configuration that was not designed to capture the disbursement information beyond the first disbursement in those instances where multiple loan disbursements were made to the same student on the same day. In addition, the manual review control over this process was not operating effectively and did not identify this system limitation.

The noncompliance with respect to early disbursement was the result of a manual error with respect to the date entered into the system for when which the loan disbursements could be made. This error was not detected by management's manual review process.

Recommendation

We recommend that Duke enhance the controls over loan disbursements to ensure that all loan disbursements through the Direct Loan Program and Federal Perkins Loan Program have a written notification sent to the students and parents, and all loan disbursements are made no earlier than 10 days before the first day of classes for the period.

Views of Responsible Officials

The disbursement notification issue noted was isolated to students receiving multiple loan disbursements in a given day. In such instances, a notification was sent containing the appropriate information for the first loan disbursement only. In response, the communication assignment process was revised to send out a communication for each disbursement even if there are multiple disbursements on the same day. In addition, we developed a daily edit check to ensure that each loan disbursed the preceding day has a corresponding communication assignment.

DUKE UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

The early disbursement issue noted was the result of a miscalculation that occurred due to a manual process. The student loan office will work with the Office of Information Technology to create a process within PeopleSoft that will calculate the loan disbursement dates using the term dates entered by the Registrar's office. Automating the process will significantly reduce the likelihood of error. We anticipate having this new process in place before the 2016 aid year. In the interim, we audited the setup for 2015 to ensure that loans will not disburse more than 10 days prior to the first day of class.



Assistant Vice President for Finance
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**Corrective Action Plan
Year ended June 30, 2014**

Finding No. 2014-001: Loan Disbursements

Corrective Action Planned

The student loan office revised the communication assignment process to send out a communication for each disbursement, even if there are multiple disbursements on the same day. Additionally, a daily edit check was created to ensure that each loan disbursed the preceding day had a corresponding communication assignment.

Lastly, the student loan office will work with the Office of Information Technology to create a process within PeopleSoft that will calculate the correct loan disbursement dates. In the interim the fiscal 2015 disbursement dates have been audited to confirm none will disburse more than 10 days prior to the first day of class.

Person Responsible for Corrective Action

Alison Rabil, Assistant Vice Provost and Director, Financial Aid

Anticipated Completion Date

June 30, 2015