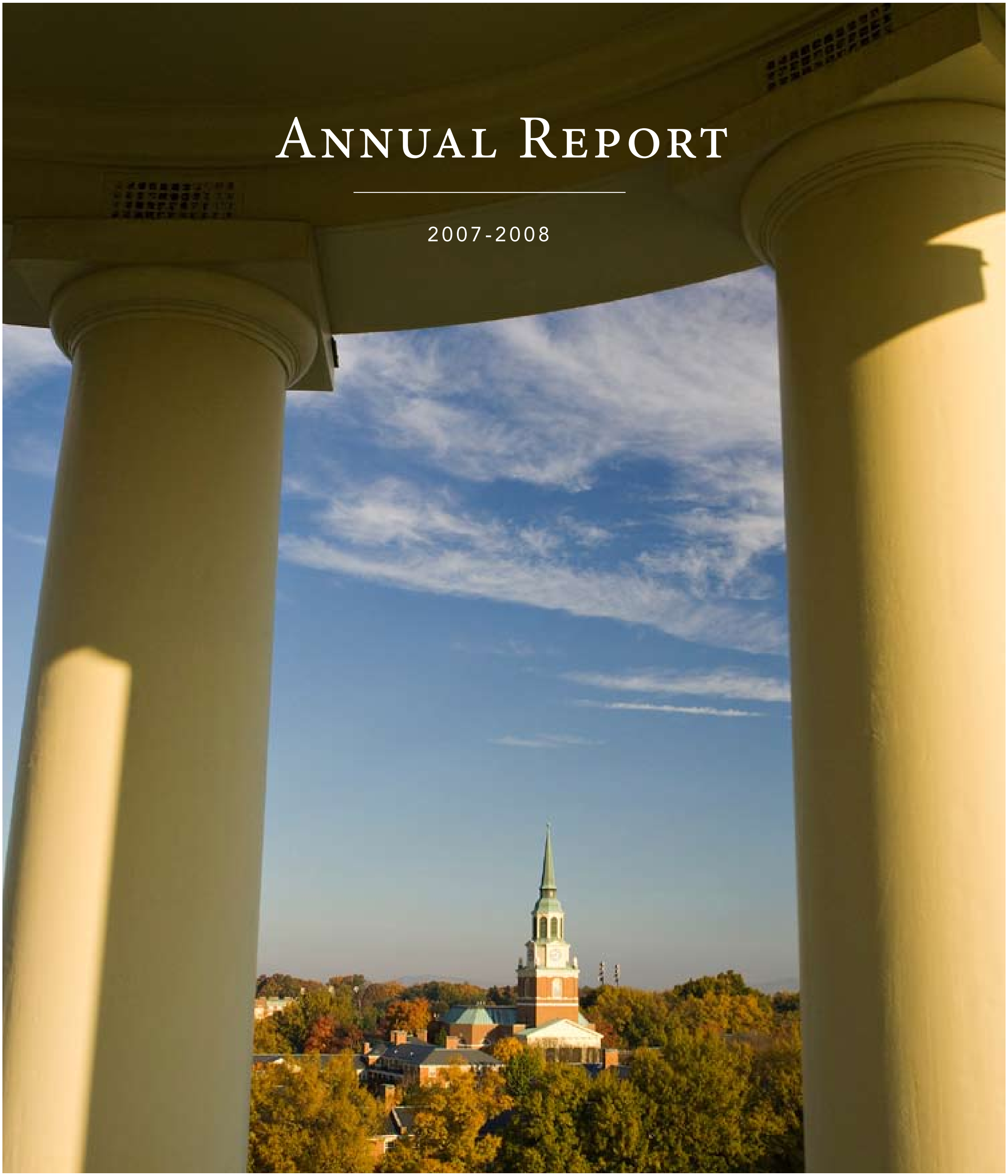
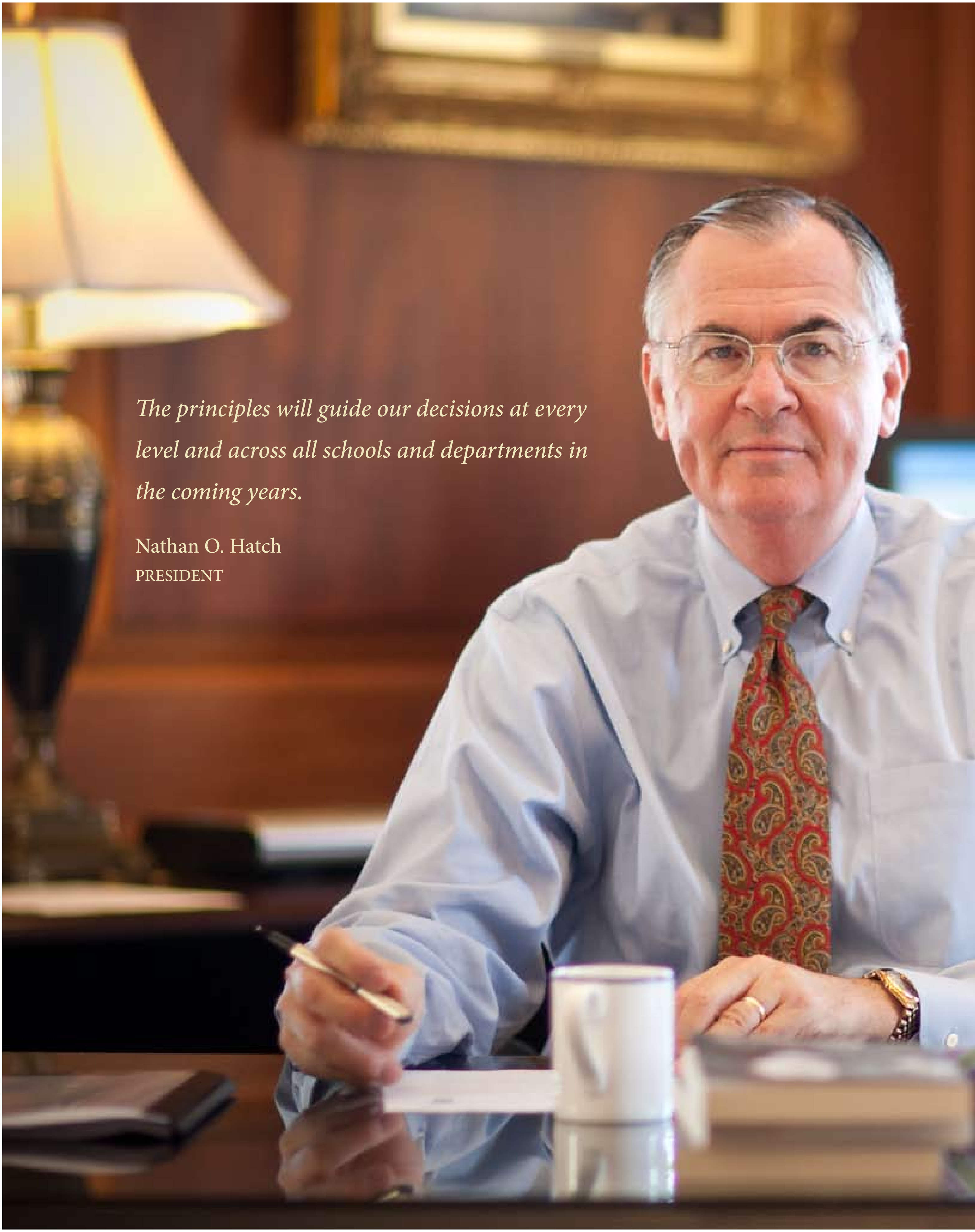
Annual Report

2007-2008



Wake Forest
University



The principles will guide our decisions at every level and across all schools and departments in the coming years.

Nathan O. Hatch
PRESIDENT

FROM THE PRESIDENT

I have never been more excited about the future of Wake Forest as a learning community. After eighteen months of intense internal study and discussions with a wide range of Wake Forest constituents both on and off campus, we completed our strategic plan during this fiscal year. Its principles will guide our decisions at every level and across all schools and departments in the coming years.

The foundation of our plan is Wake Forest as a collegiate university. This concept means that we will select strategies to take full advantage of our historic strengths—a superb liberal arts college within a constellation of excellent graduate and professional schools, all of intimate size so that personal attention, community interaction, opportunity, and commitment to serving humanity are strong distinctives. At the same time, we will support new initiatives that reinforce these unique characteristics while strengthening Wake Forest's role as a national leader in higher education.

During this fiscal year, we took bold steps to begin implementation of this plan. A careful review of the most recent research suggests that standardized testing is a very limited predictor of future academic success. Thus, we eliminated the S.A.T. as a requirement for application to the College and decided to place more emphasis on high school curriculum and performance; and we now encourage personal interviews for applicants to the College reinforcing our commitment to individual attention. For entering undergraduates whose families earn less than $40,000 annually, we capped loans at $4,000 per year, to ensure that we are opening doors of opportunity. We committed to developing nationally-recognized mentoring programs in all schools of the University, so that classroom experience is augmented by students' further interaction with professors and alumni. We challenged our deans to be creative in leveraging Wake Forest's size to offer more interdisciplinary courses and programs, including new joint degree programs. We recruited Steve Reinemund, former CEO of PepsiCo, to become dean of business and charged him and our faculty members in the Babcock and Calloway Schools with integrating the distinct strengths of each to create a business program recognized internationally for its academic rigor and emphasis on ethics.

These initiatives signal only the beginning of an exciting new era for Wake Forest in which our most deeply-held values translate to a new generation of students and faculty.

Many faculty members, students, and administrators brought honors to the University this year, and their achievements are noted later in this report. I am proud of their accomplishments and grateful for the depth of talent and commitment that define what it means to be a Wake Forester.

Sincerely,

Nathan O. Hatch
President

WAKE FOREST UNIVERSITY – REYNOLDA CAMPUS

WE ARE PLEASED TO REPORT that fiscal year 2008 closed as another sound financial year for the University. Solid financial performance was achieved despite the volatile financial climate and the growing pressures on maintaining the affordability of a college education. Total net assets grew to $873 million, which marks the fifth consecutive annual increase in total net assets.

As a result of another strong year for giving from over 27 thousand friends and alumni, contributions totaled $49.5 million, an 8% increase over prior year. Despite challenging markets, the endowment achieved solid investment performance, earning a 2.4% rate of return and exceeding industry averages. The total endowment for both campuses increased in value to $1.25 billion, representing a 73% growth since fiscal 2003. The Reynolda Campus ended the year with an endowment of $686 million. Over the past twenty years, the endowment pool has achieved a net average annual return of 12.2% in comparison to our long-term annual return objective of 9.8%. Total endowment per FTE student for Reynolda campus increased stood at $111 thousand on June 30th.

The Reynolda Campus experienced a decline in operating results in comparison to the prior fiscal year. Total revenues were $290 million in fiscal 2008 as compared to $371 million in the prior fiscal year, representing an $81 million decrease in revenues. The performance of the capital markets was the primary driver of this decrease, resulting in a net appreciation on investments of $2 million compared to $94 million in the prior year. Fiscal 2007 gains on investments were unusually strong compared to the more modest return earned in fiscal 2008. Net student tuition and fees increased $10 million to $135 million, due in large part to a 6.8% tuition increase. Auxiliary enterprises provided $94 million of revenue to the campus, compared to $89 million in the prior year.

Total educational and general expenses were 4% higher than the prior fiscal year; $194 million in fiscal year 2008 as compared to $186 million in the prior fiscal year. The increase is primarily attributable to compensation to recruit and retain the very best faculty and staff and scholarship programs supporting undergraduate and graduate students. In fiscal 2008, personnel costs totaled $126 million, or 57% of total expenses. 2,575 undergraduate students, or 58% of all undergraduates, received financial aid in FY 2008. These undergraduates funded all or part of their education with $57.8 million of financial aid, of which $35.4 million, or 61%, is represented by grants funded from Wake Forest sources. The average financial aid awarded to an undergraduate student was $22,450. An additional $17.1 million of Wake Forest sources supported students of the graduate school and professional schools.

The largest capital project that was underway during the fiscal year and nearing completion was the new Deacon Tower at BB&T Field. The seven story, 123 thousand square foot tower opened in time to start the fall 2008 football season. To create more space for student and faculty interaction and to make maximum use of Z. Smith Reynolds Library, a new Starbucks was added, a popular and welcome addition. To accommodate the approved increase in undergraduates to be phased in over five years, the faculty apartments are being converted to student housing as a partial step in meeting the increased housing demand. Other capital projects include the tennis center renovation, water conservation systems, and academic improvements, including a major renovation of a Health and Exercise Science anatomy lab and significant improvements to many classrooms across campus.

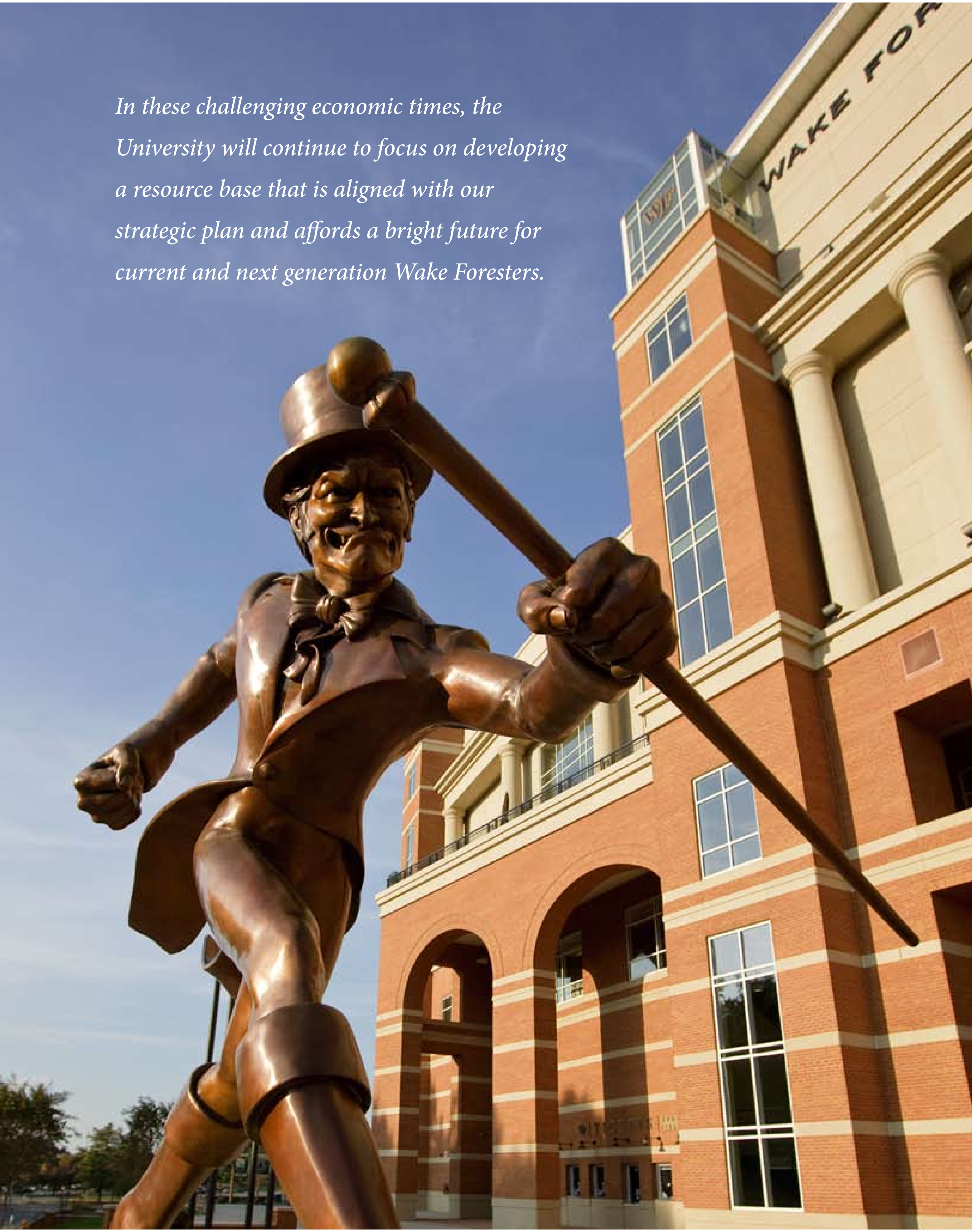
Reynolda House maintained its financial stability by successfully attracting new audiences to the Museum and embarking on new collaborations with community partners. These efforts furthered the Museum's mission of offering a deeper understanding of American culture to diverse audiences and bolstered the Museum's impact on the community while it faced the realities of the economy. The Museum's total revenues decreased $14 million, or 89%, in fiscal 2008 compared to prior year. This variance is partly explained by a $6 million gift for endowment awarded last year by the Mary Reynolds Babcock Foundation from the estate of Charles H Babcock, Jr. to support the maintenance of the historic house as well as educational and cultural programs. In addition, net investment realized and unrealized appreciation decreased $8 million over the prior year. Total expenses for Reynolda House were $4 million in fiscal 2008, a slight increase over the prior year. These are the primary factors leading to the $2 million decrease in the net assets for Reynolda House in fiscal 2008, resulting in an ending balance of $58.9 million.

Our annual report highlights many significant achievements that brought great excitement to Wake Foresters. In these challenging economic times, the University will continue to focus on developing a resource base that is aligned with our strategic plan and affords a bright future for current and next generation Wake Foresters.

Nancy D. Suttenfield
Senior Vice President and
Chief Financial Officer

Brandon E. Gilliland
Controller

In these challenging economic times, the University will continue to focus on developing a resource base that is aligned with our strategic plan and affords a bright future for current and next generation Wake Foresters.



2007-2008

REYNOLDA CAMPUS YEAR IN REVIEW

JULY

1 BASKETBALL COACH Skip Prosser dies suddenly on July 26.

AUGUST

MORE THAN 1,100 FRESHMEN enroll in the Class of 2011.

WAKE FOREST RANKS 30TH among 262 national universities for the second year in a row in *U.S.News & World Report's* guide to "America's Best Colleges."

FORTUNE SMALL BUSINESS MAGAZINE recognizes Wake Forest's entrepreneurship programs as among the best in the nation.

SEPTEMBER

THE CALLOWAY SCHOOL of Business and Accountancy and the Babcock Graduate School of Management will be realigned under one dean as part of the strategic plan.

2 THE RESTORED SAVOIA MARCHETTI S-56 seaplane featured in Wings of Adventure: Smith Reynolds and the Flight of 898 Whiskey.

OCTOBER

PROMINENT FIGURES from both sides of the political fence participate in a three-day conference on immigration held on campus as part of the University's "Voices of our Times" series.

3 LIBRARIAN OF CONGRESS James H. Billington speaks at Fall Convocation. Receiving faculty awards are Professor of Mathematics Ellen Kirkman and Professor and Chair of Music Stewart Carter. The Waddill Awards were presented to Sally Smith ('75) and Jared Rashford (MAEd '99).

NOVEMBER

WAKE FOREST RECEIVES MORE THAN $7 MILLION from the estate of the late Dr. Ralph Wingate Bland ('48, MD '52) to fund scholarships in the School of Law and School of Medicine.

THE COMMUNICATION DEPARTMENT receives a national award for excellence from the National Communication Association Convention

WAKE FOREST RANKS FOURTH among doctoral/research universities for having the highest percentage of undergraduates studying abroad, according to a survey by the Institute of International Education. About 61 percent of undergraduates study abroad by the time they graduate.

DECEMBER

THE MEN'S SOCCER TEAM caps an amazing season with its first ever National Championship, defeating Ohio State 2–1.

4 WAKE FOREST RALLIES to beat Connecticut in the Meineke Car Care Bowl 24–10, capping the second most successful season in school history.

JANUARY

GRADUATES OF THE CALLOWAY SCHOOL of Business and Accountancy achieve the highest passing rates in the nation on the CPA exam for the third year in a row.

ELEVEN STUDENTS TRAVEL to Calcutta, India, over winter break to volunteer with Mother Teresa's Missionaries of Charity, while twelve students traveled to the Gulf Coast to help with Hurricane Katrina relief efforts.

FEBRUARY

UNIVERSITY TRUSTEES approve a plan to limit the size of loans the neediest students require by giving them more financial aid in the form of grants; new students with an annual family income of less than $40,000 will have their loans capped at $4,000 per year.

PLANS ANNOUNCED TO REVITALIZE the Deacon Boulevard area with retail, office, residential and entertainment space.

5 FACULTY MEMBERS Jenny Puckett ('71), Paul Thacker, Miles Silman, Sherry Moss, Ram Baliga and Robert Chesney receive faculty awards for excellence in teaching, research or service during Founders' Day Convocation.

6 ANCESTRY & INNOVATION: African-American Art from the American Folk Art Museum at Reynolda House.

7 LONGTIME TRUSTEE Murray C. Greason ('59, JD '62) receives the University's highest award for service, the Medallion of Merit, at Founders' Day Convocation.

MARCH

8 PROFESSOR OF ENGLISH Eric Wilson appears on NBC's Today show to talk about his book, "*Against Happiness: In Praise of Melancholy*".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We Will Miss You
Skip!!!
Home court advantage forever...
We know God's love surrounds you now.
— The Tye-Dye Nation
you defined Role model
Thanks for the memories
"I love you Coach"


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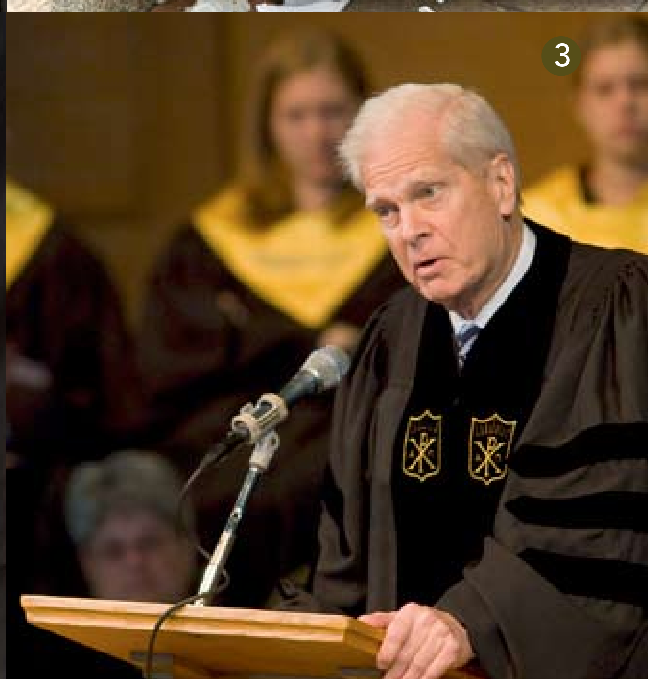
2007
CHAMPION
WAKE FOREST UNIVERSITY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E.R. KIRBY HALL
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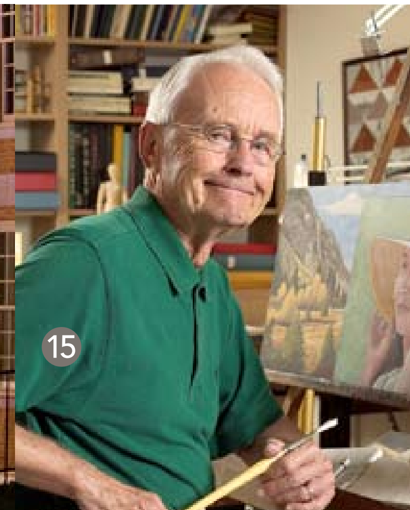
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2007-2008

REYNOLDA CAMPUS YEAR IN REVIEW

MARCH

JUNIORS SETH GANNON AND ALEX LAMBALLE WIN the National Debate Tournament, eleven years after Wake Forest won its first national championship in debate.

SENIOR CHRISTINA CHAUVENET wins a national anthropology award.

9 SENIOR WILLIAM WARREN, a cartoonist for the Old Gold & Black, wins the Charles M. Schulz Award for best college cartoonist.

BUSINESSWEEK MAGAZINE ranks the Calloway School of Business and Accountancy 21st on its 2008 list of the top undergraduate business schools in the United States.

APRIL

STEVE S REINMUND, former CEO and chairman of PepsiCo, is named dean of business, to oversee the Babcock Graduate School of Management and the Calloway School of Business and Accountancy.

PROFESSOR OF HISTORY Sarah Watts is awarded a Guggenheim Fellowship, the first Wake Forest faculty member to ever receive the fellowship.

10 THE CALLOWAY SCHOOL of Business and Accountancy launches a major new academic initiative, the BB&T Center for the Study of Capitalism, funded by a $2 million grant from the BB&T Foundation.

11 SENATOR HILLARY RODHAM CLINTON (D-NY) brings her campaign for president to Wait Chapel for an appearance with Professor of American Studies Maya Angelou.

MAY

12 PRESIDENTIAL CANDIDATE Senator John McCain (R-Arizona) speaks in Wait Chapel.

WAKE FOREST ANNOUNCES that it is making college entrance examinations, such as the SAT and ACT, optional for admission, becoming the first top 30 national university to adopt such a policy.

13 WAKE FOREST UNIVERSITY Charlotte C. Weber Professor of Art David Lubin leads a public discussion with Barbara Babcock Millhouse, founding president of Reynolda House Museum of American Art and author of American Wilderness. Photo by Photo Innovations.

CALLOWAY SCHOOL PROFESSOR Jon Duchac becomes the first Wake Forest faculty member to be named as a Fulbright Distinguished Chair

PROFESSOR OF POLITICAL SCIENCE David Weinstein and Zachary T. Smith Associate Professor of Economics Sylvain Boko win fellowships from the Fulbright Scholarship Program.

14 MORE THAN 1,500 undergraduate and graduate students receive diplomas during Graduation Exercises. Washington Post columnist E.J. Dionne delivers the Commencement address.

EIGHT SENIORS AND ONE GRADUATE student receive Fulbright Scholarships and will spend the next year studying, researching or teaching abroad.

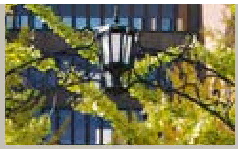
THE DIVINITY SCHOOL announces two new interdisciplinary programs, the Master of Divinity/Juris Doctor (MDIV/JD) and a Certificate in Spirituality and Health.

15 JULIAN C. BURROUGHS ('51), the longtime communication professor who led the growth of radio station WFDD into the modern era, dies May 7.

JUNE

FOUR MEMBERS of the counseling department – professor and chair Samuel T. Gladding ('67, MAEd '71); professors Donna Henderson and Laura Veach; and associate professor Debbie Newsome—receive the Counselor Educator Advocacy Award from the American Counseling Association (ACA). Henderson also receives the 2008 ACA Professional Development Award.

16 FIRST TIME VISITORS to Reynolda House learn the history of the Estate in the orientation gallery.



WFU HEALTH SCIENCES – BOWMAN GRAY CAMPUS

WAKE FOREST UNIVERSITY HEALTH SCIENCES (WFUHS) is pleased to report the organizational transition that began at the end of fiscal year 2007 (FY07) is well underway. The reorganization includes improving synergies between WFUHS and its partner North Carolina Baptist Hospital (NCBH) to build a stronger Medical Center.

During FY08, the leadership of WFUHS and NCBH continued to transition with naming an interim President and Dean of WFU School of Medicine, Dr. William Applegate, an Executive Vice President and COO of WFUHS, Mr. Doug Edgeton, an Interim President of NCBH, Mr. Donny Lambeth and an Interim President of Wake Forest University Physicians (WFUP), Dr. Raymond Roy. The Interim President of WFUP is a newly created position to allow the physician-managed organization under WFUHS to obtain the authority and responsibility for its own affairs.

The leadership team began a highly collaborative and collegial relationship and experienced considerable success in addressing issues. In August, 2008, the Wake Forest University Baptist Medical Center (WFUBMC) board announced the appointment of the new CEO, Dr. John McConnell, for WFUBMC. WFUBMC's implementation of the single leader-CEO organizational structure is now in place. Dr. McConnell will oversee all aspects of WFUBMC. We enthusiastically welcome Dr. McConnell and look forward to working under his leadership.

WFU School of Medicine (WFUSM) increased its class size to 120 students in response to the projected shortfall in physicians as the average age of the U.S. population increases. The School has maintained the level of applications, grade point averages and average MCAT scores of applicants. The Dean of the Graduate School of Arts and Sciences, Lorna Moore, PhD, completed her first year.

WFUSM underwent a reaccreditation site visit by the Liaison Committee for Medical Education (LCME). The school was awarded a 7-year reaccreditation and received an excellent report. Seven areas of strength were cited: leadership by the Dean, research opportunities for students, use of information technology, innovative approaches to teaching, presence of geriatric students in the curriculum, faculty dedication to teaching, array of resources for students, and mentoring career development programs for junior faculty.

WFUSM medical students began work on the Delivering Equal Access to Care (DEAC) clinic. The DEAC clinic opened in downtown Winston-Salem to serve, at no cost, uninsured patients who qualify on the basis of income. The students obtained startup grant funds and arranged for free lab services.

The clinical mission experienced a 4% increase in patient counters which resulted in increased revenues for WFUP and the Dialysis Centers. The new executive director for WFUP, Robin Meter, completed his first year of oversight of WFUP.

Extramural funding increased in FY08 with federal grants and contracts increasing 4% to $142.3 million, and state grants and contracts increasing 3% to $19.3 million. Private grants and contracts also increased in FY08. WFUHS total extramural funding was slightly less than $200 million.

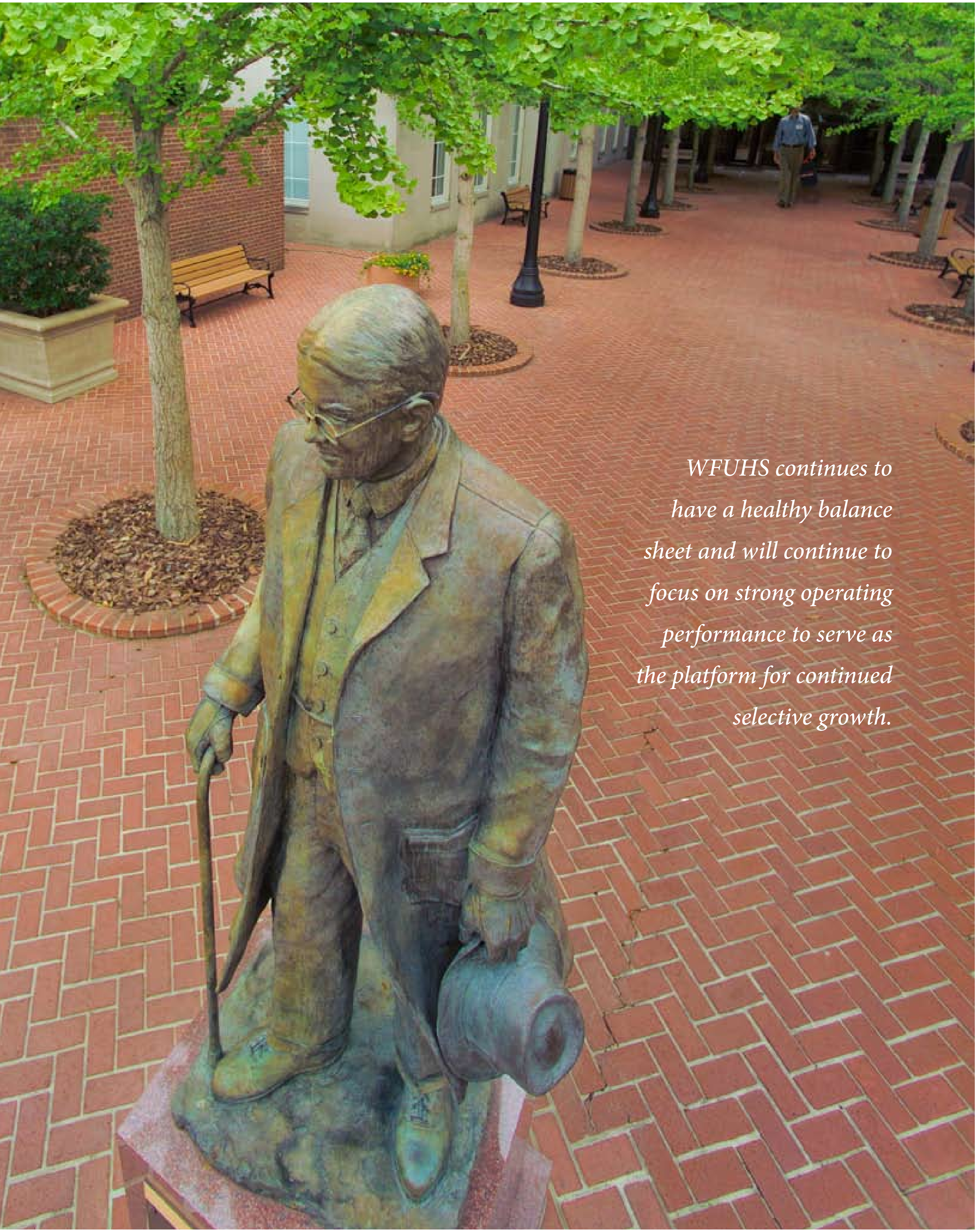
The Office of Technology Asset Management experienced an increase of 16% in licensing revenues with total licensing revenue of $94.8 million. The office issued 10 patents, 26 patent applications and received 50 invention disclosures.

The Piedmont Triad Research Park continued to experience success under the leadership of Doug Edgeton as President. PTRP obtained federal and state infrastructure grants to fund the needed infrastructure improvements for the research park. In addition, PTRP entered into a term sheet for the Master Development Agreement with Struever Bros. Eccles & Rouse of $520 million comprised of planned build out of 40 acres in the Northern District.

WFUHS experienced enhanced financial strength in FY08 with noted improvement in the operational performance with operating margins increasing $12 million from $11.9 million compared to a deficit of $0.1 million in FY07. Total assets approached $1.2 billion and net assets were approximately $691 million. WFUHS continues to have a healthy balance sheet and will continue to focus on strong operating performance to serve as the platform for continued selective growth.

WFUHS is off to a promising start as it continues its transformation into the single-CEO model with continued success in core missions of education, clinical operations and research coupled with improved financial performance. The organization looks forward to its continued evolution under the leadership of Dr. John D. McConnell.

Douglas L. Edgeton *Executive Vice President and Chief Operating Officer*	Terry L. Hales, Jr. *Vice President for Financial Planning, CFO*	Douglas E. Lischke *Associate Vice President and Controller*



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JULY

1 WAKE FOREST UNIVERSITY BAPTIST Medical Center is one of the nation's "Most Wired" hospitals, according to the results of the 2007 Most Wired Survey and Benchmarking Study released in the July issue of *Hospitals & Health Networks* magazine.

AUGUST

THE DEPARTMENT OF DERMATOLOGY at Wake Forest University Baptist Medical Center ranks 13th in the country out of 107 programs based on results from a study by the *Dermatology Online Journal*.

RICHARD H. DEAN, M.D., president emeritus of Wake Forest University Health Sciences, has been appointed by Gov. Mike Easley to the N.C. Economic Development Board. He will serve through June 2009. The 37-member board oversees state economic development research and planning and makes policy recommendations to the secretary of commerce, the governor and the General Assembly.

2 ANTHONY ATALA, M.D., director of the Institute for Regenerative Medicine at Wake Forest University Baptist Medical Center, was one of nine researchers awarded a Health Breakthrough Award on Aug. 7 from Ladies' Home Journal magazine.

The awards recognize medical professionals who have transformed their area of health with results that dramatically benefit women and families. The honorees will also be featured in the September issue of the magazine, on sale Aug. 14th.

Atala was honored for identifying a new stem cell derived from human amniotic fluid and placentas. The cells can assume the characteristics of many

HEALTH SCIENCES YEAR IN REVIEW

specialized cells in the body, potentially replacing diseased or damaged tissue. Like embryonic stem cells, amniotic cells can be grown in large quantities because they double in number every 36 hours. However, the more mature amniotic cells are less likely than embryonic cells to produce tumors, and they can be used without rejection issues. They are also accessible – they can be obtained from "afterbirth" (the placenta) and there are more than 4 million live births each year in the United States.

SEPTEMBER

3 NEW FINDINGS FROM RESEARCHERS at Wake Forest University Baptist Medical Center and colleagues suggest why some people with kidney failure can develop a rare tightening and swelling of the skin and other organs, including the lungs and heart.

Reporting in the October issue of the American Journal of Dermatopathology, the authors suggest a possible explanation for why some patients on kidney dialysis who are injected with a "contrast agent" during a magnetic resonance imaging (MRI) develop nephrogenic systemic fibrosis (NSF).

The U.S. Food and Drug Administration now requires a warning about the potential risk on the products' labels. NSF leads to thickened, rough or hard skin usually on the arms, legs or trunk. In some cases, the limbs can become difficult or even impossible to move.

"The cause of this syndrome has been unclear," said David C. Sane, M.D., senior researcher on the project. "Our research suggests both a potential cause and the possibility of preventing or treating NSF."

OCTOBER

4 K. PATRICK OBER, M.D., professor of internal medicine and dean of medical education at Wake Forest University School of Medicine, has been nominated for the 2007 Association of American Medical Colleges (AAMC) Humanism in Medicine Award. The AAMC annually recognizes a medical school faculty physician who illustrates the qualities of a caring and compassionate mentor. The goal of the award is to remind medical students and faculty of the importance of these qualities and the positive effects they can have on the doctor-patient relationship.

THE FIRST RESEARCH to show the involvement of a gene known as Dmp1 in human lung cancer will hopefully lead to an increased understanding on what goes wrong at the cellular level to cause the disease, according to researchers from Wake Forest University School of Medicine reporting in Cancer Cell.

NOVEMBER

DOUGLAS L. EDGETON has been selected as the new president of Piedmont Triad Research Park (PTRP). Edgeton was selected by the PTRP board, with the concurrence of Wake Forest University President Nathan O. Hatch and the board of Wake Forest University Health Sciences. Edgeton also serves as executive vice president and chief operating officer of WFU Health Sciences.

5 BRENNER CHILDREN'S HOSPITAL is opening the region's first and most comprehensive pediatric obesity program. Called *Brenner FIT* (Families in Training), the program has several components, including a year-long intensive treatment program for overweight children with an underlying medical problem.

6 WAKE FOREST UNIVERSITY BAPTIST Medical Center has launched its search for a chief executive officer for the Medical Center. A 10-member committee has been formed to conduct the search, brought about by the decision to restructure the Medical Center. An integrated organizational structure was announced in March with one CEO for the entire Medical Center. (John McConnell, M.D., was named CEO in August 2008.)

DECEMBER

RAYMOND C. ROY, M.D., Ph.D., has been appointed interim president of Wake Forest University Physicians (WFUP), a position that was created in the overall restructuring of Wake Forest University Baptist Medical Center earlier this year.

WAKE FOREST UNIVERSITY Baptist Medical Center has been named a Center of Excellence in Geriatric Medicine and Training by the John A. Hartford Foundation. Wake Forest Baptist was one of the three centers recently selected from a field of 27 applicants for the $450,000 grants.

Funding will support the training and development of medical student and resident physicians in delivering health care to older adults with the specific goal of recruiting as many of these trainees as possible into academic geriatric medicine. In addition, the center will focus on disseminating knowledge about geriatric medicine to other physicians and the larger medical community.

2007-2008

HEALTH SCIENCES YEAR IN REVIEW

DECEMBER

7 KIMBERLEY J. HANSEN, M.D., professor of surgery and head of the section on vascular and endovascular surgery at Wake Forest University Baptist Medical Center, has been named president of the Southern Association for Vascular Surgery (SAVS).

THE 2007 UPDATE of the Best Doctors in America® database includes 181 physicians at Wake Forest University Baptist Medical Center. The Medical Center also ranks 32nd in the nation for the number of physicians listed in Castle Connolly's new 7th edition of America's Top Doctors®. In the Best Doctors list, 85 percent of the doctors listed from Forsyth County are from Wake Forest Baptist. Of the 262 doctors listed from Forsyth and Guilford counties, 70 percent are from Wake Forest Baptist. These included 41 pediatric specialists at Brenner Children's Hospital, part of Wake Forest Baptist. This year there were a total of 1,250 doctors listed from North Carolina.

JANUARY

TWO MEMBERS of the Wake Forest University Medical School faculty, Allison Brashear, M.D., professor and chair of Neurology, and Neal D. Kon, M.D., professor of surgical sciences and chair of Cardiothoracic Surgery, have been elected to the board of directors of Wake Forest University Baptist Medical Center. The board has added eight members since the restructuring of the Medical Center was announced in March 2007, increasing the total to 14 directors. "Adding these two outstanding physicians from Wake Forest University Physicians is a significant component of the reorganization," said Steve Robertson, chairman of the board.

8 FOR THE SIXTH CONSECUTIVE YEAR, the Abdominal Organ Transplant Program at Wake Forest University Baptist Medical Center has performed more than 100 transplants, ranking them among the top 30 most active kidney transplant centers and top 15 most active pancreas transplant centers in the country.

FEBRUARY

THE NATIONAL KIDNEY FOUNDATION has named Michael Rocco, M.D., M.S.C.E., as the new chair of its Kidney Disease Outcomes Quality Initiative. Rocco is a professor of internal medicine-nephrology at Wake Forest University Baptist Medical Center.

MARCH

WAKE FOREST UNIVERSITY BAPTIST Medical Center has received a three-star rating by the Society of Thoracic Surgeons (STS). The STS recently developed a comprehensive rating system that allows for comparisons regarding the quality of cardiac surgery among hospitals across the country. Approximately 15 percent of hospitals received the three-star rating, which denotes the highest category of quality.

WAKE FOREST UNIVERSITY BAPTIST Medical Center is one of only two academic medical centers in the country offering outpatient procedures to maintain easy access to the bloodstream for patients undergoing kidney dialysis. More than 1,000 procedures were performed during the Dialysis Access Center's first year.

APRIL

9 A CONSORTIUM spearheaded by the Institute for Regenerative Medicine at Wake Forest University Baptist Medical Center has been awarded $42.5 million over five years to co-lead one of two academic groups that will form the Armed Forces Institute of Regenerative Medicine (AFIRM).

10 WAKE FOREST UNIVERSITY BAPTIST Medical Center's Level 1 trauma center designation has been renewed by the state Office of Emergency Medical Services (OEM). Wake Forest Baptist was also re-verified as a Level 1 trauma center by the Committee on Trauma of the American College of Surgeons. The Level 1 designation is awarded to hospitals that demonstrate the highest commitment to caring for injured patients.

FRANK M. TORTI, M.D., M.P.H., director of the Comprehensive Cancer Center at Wake Forest University Baptist Medical Center, has been appointed principal deputy commissioner and first chief scientist to the U.S Food and Drug Administration, by its commissioner, Andrew C. von Eschenbach, M.D. The new chief scientist position was created from the Food and Drug Administration Amendments Act of 2007.

MAY

AMY J. MCMICHAEL, M.D., associate professor in the Department of Dermatology at Wake Forest University Baptist Medical Center, has been named one of America's leading African American physicians by Black Enterprise magazine. McMichael is among 140 physicians awarded this distinction by Black Enterprise magazine.

11 BRUCE RUBIN, M.D., a pediatric pulmonologist at Brenner Children's Hospital has been awarded the Prix

Extraordinaire Award by the International Congress of Pediatric Pulmonology (CIPP). The Prix Extraordinaire or Special CIPP Award is the top recognition by CIPP and has been given out only three former times. The award's presentation emphasized Rubin's work over the past 2 decades with pediatric pulmonologists around the world and his use of magic to break down barriers and to teach. Rubin has held magic workshops on 5 continents over the last 10 years plans to give another later this month in Santiago, Chile.

JUNE

LEXINGTON MEMORIAL HOSPITAL and Wake Forest University Baptist Medical Center have developed a partnership to provide radiation oncology services to Davidson County for the first time.

WFUHS and NCBH will invest approximately $4 million in establishing the Cancer Center of Davidson County, which is scheduled to open early next year. Approximately 10 highly skilled clinical positions will be created in Lexington by the new service. Lexington Memorial will provide support services to the Cancer Center, including pathology, lab, pharmacy, physical therapy, dietary, social work and maintenance and engineering.

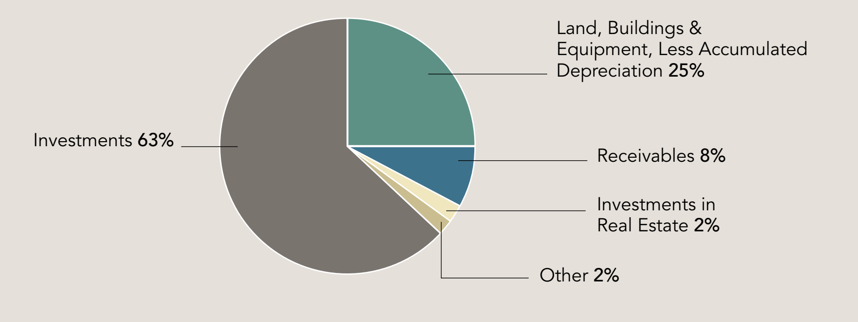
12 WAKE FOREST BAPTIST is one of only 41 cancer centers in the United States to hold the distinction of Comprehensive Cancer Center by the National Cancer Institute. The designation is earned by cancer centers that meet strict criteria for cancer research, collaboration and availability of advanced technologies. Wake Forest Baptist has been designated a Comprehensive Cancer Center since 1974.

CONSOLIDATED FINANCIAL HIGHLIGHTS

ASSETS

Assets totaled $2.304 billion as of June 30, 2008, representing an increase of $55 million over fiscal 2007 assets. The increase was primarily due to an increase in the value of investments of $27 million as well as an increase in land, buildings, and equipment of $39 million.

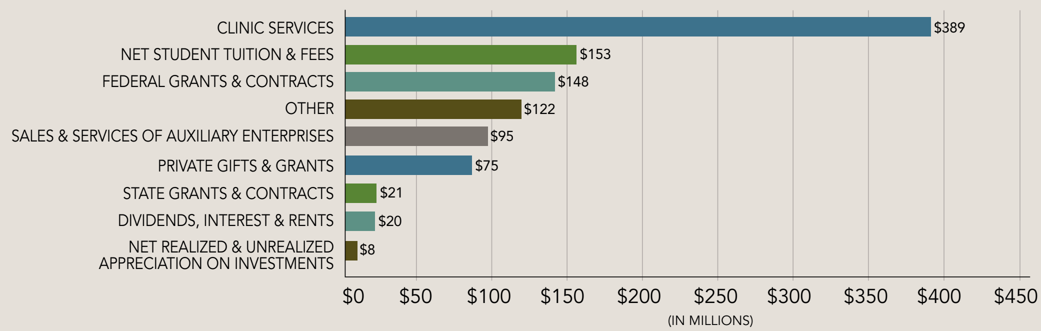
Assets ($2.304 billion)



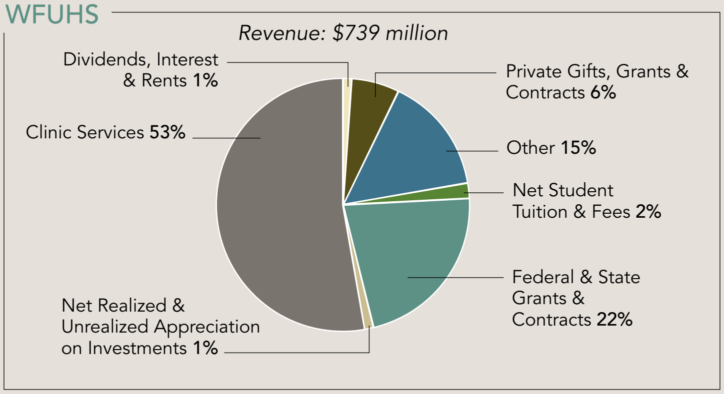
REVENUES

Revenues for Wake Forest University totaled $1.031 billion, representing a decrease of $126 million over fiscal 2007 revenues. The decrease was due primarily to a decrease in net realized and unrealized appreciation on investments of $186 million, offset in part by increases in clinic services of $27 million, net student tuition and fees of $10 million, and other sources of $13 million.

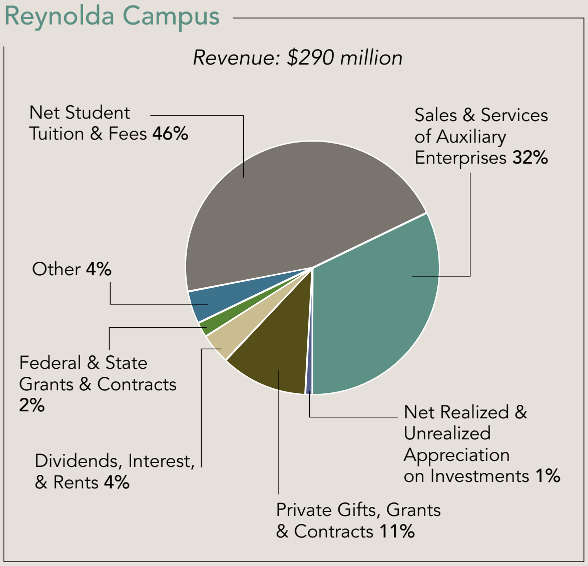
Wake Forest University total revenues



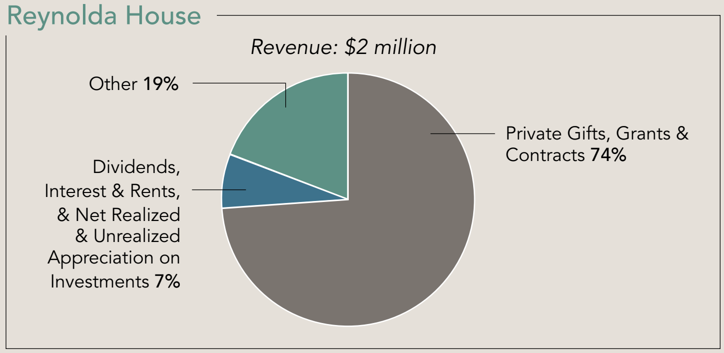
WFUHS

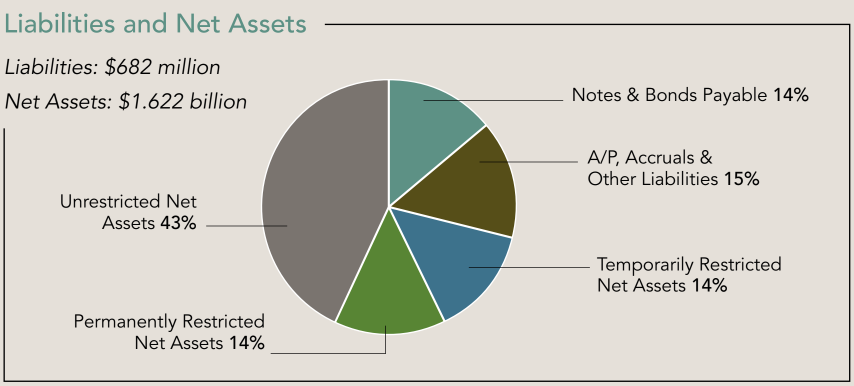


Reynolda Campus



Reynolda House

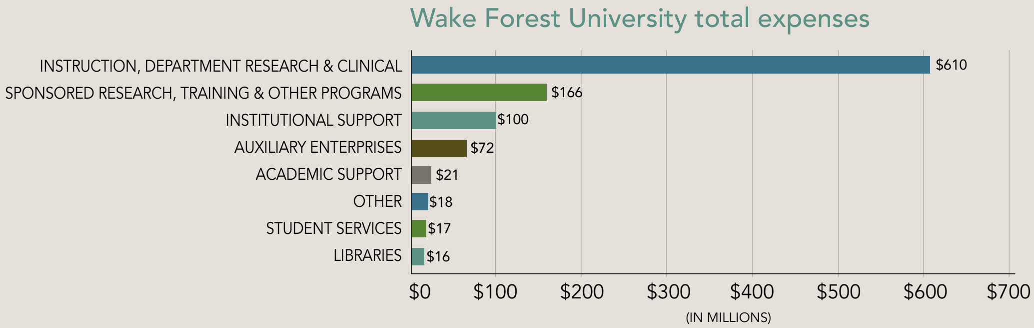




LIABILITIES AND NET ASSETS

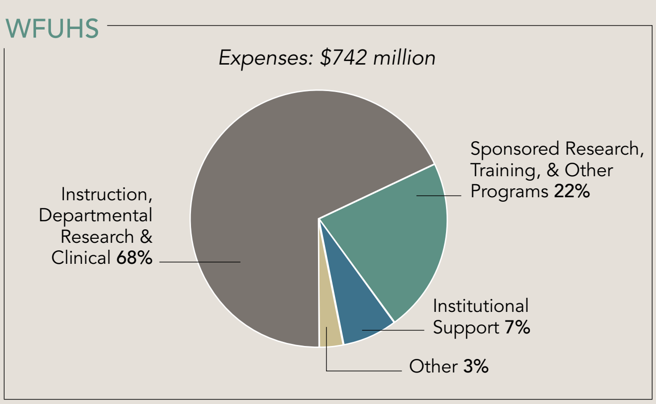
Liabilities totaled $682 million as of June 30, 2008, representing an increase of $44 million over fiscal 2007 liabilities. Net assets increased (decreased) as follows compared to the prior fiscal year:

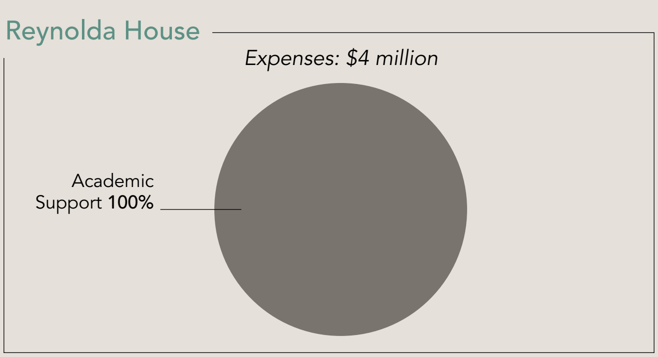
Unrestricted – ($353) thousand
Temporarily restricted – ($8) million
Permanently restricted - $20 million

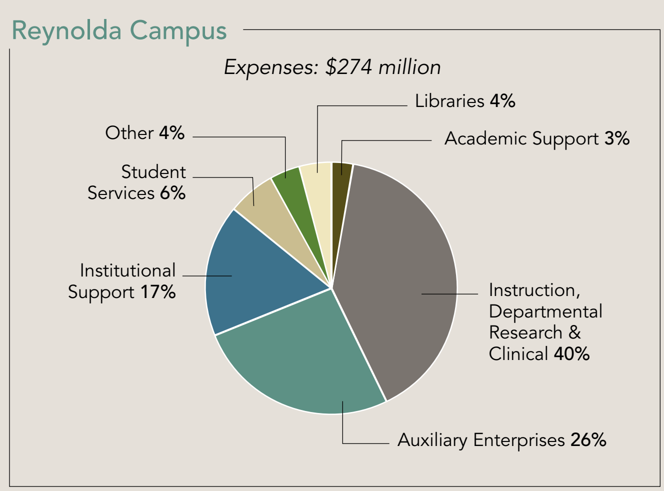


EXPENSES

Expenses for Wake Forest University totaled $1.020 billion, representing an increase of $50 million over fiscal 2007 expenses. The increase was due primarily to increases in instruction, departmental research, and clinical of $45 million, auxiliary enterprises of $3 million, and a reduction in the unrealized loss on interest rate swap of $24 million, offset in part by a decrease in actuarial loss on annuity obligations of $6 million and a gain from postretirement related changes other than net periodic pension costs of $7 million.







ENDOWMENT INVESTMENT PORTFOLIO

The information that follows describes the overall performance of the portfolio, its composition, and status at the end of the fiscal year on June 30, 2008.

PORTFOLIO OVERSIGHT

The management of the endowment is under the oversight of the Trustee Investment Policy Committee which has the following responsibilities:

- ***Review and develop investment policies*** that are consistent with the objectives of the institution. The policies address key issues such as total return goals, asset allocation, acceptable levels of risk, and spending policy.
- ***Provide oversight of the selection of managers*** and other professional experts, as appropriate.
- ***Ensure that the cost of managing*** the portfolio is within acceptable industry standards.
- ***Evaluate the performance of the endowment*** and its investment managers relative to return objectives and established investment guidelines, making changes as appropriate.

The committee meets three times a year with extra sessions called as required.

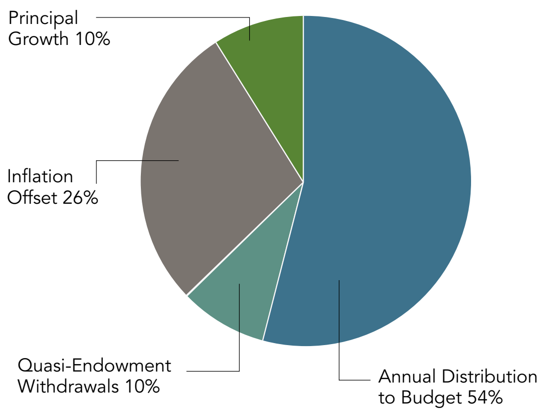
Exhibit 1

ANNUAL RETURN OBJECTIVE

Real Return	7.3%
Rate of Inflation	2.5%
Total Return Objective	9.8%
Total Return	9.8%
Annual Distribution to Budget	5.3%
Quasi-Endowment Withdrawals	1.0%
Inflation Offset	2.5%
Growth in Principal	1.0%

Exhibit 2

TOTAL RETURN OBJECTIVE



INVESTMENT OBJECTIVE

The Investment Objective of the Endowment (Permanent and Quasi) is to provide a sustainable and increasing level of endowment income distribution to support the University's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment exclusive of gift additions. At a minimum, the level of endowment income is expected to grow over time at a rate equal to the rate of increase in the University's operating budget. Growth in the Quasi-Endowment is sought to provide the institution with financial flexibility to fund expenditures in areas of academic quality enhancement and to cover the cost of critical items that cannot be funded through the operating budget. Such funding is obtained through the withdrawal of unrestricted Quasi-Endowment funds.

The Investment Objective for the pooled endowment is to earn at least a 7.3% real return, with an assumed inflation rate of 2.5%/yr, for a total return of 9.8% a year over a full market cycle. Exhibits 1 and 2 summarize the annual Investment Return Objective.

ASSET STRUCTURE

The Investment Portfolio consists of the permanent and quasi-endowment which is either pooled or non-pooled. To facilitate investment and accounting, the Endowment Pool Assets (consisting of equities, inflation hedges, absolute return and fixed income investments) are consolidated and function like a mutual fund in that each fund holds an assigned number of units as part of the investment pool. The value of an investment unit fluctuates with the changing value of the underlying investments held in the pool.

On occasion, income may be capitalized and transferred to the principal of a fund. Approximately 40 external managers (many with multiple assignments) make investment decisions relative to the asset classes for which they are responsible.

INVESTMENT APPROACH AND SPENDING POLICY

The University follows what is known as the "Total Return" approach to investing, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. A prudent portion of realized endowment return is applied to meet current operating expenses. The stated annual distribution rate is 5.3% of the average of a three-year moving market value of the endowment pool. With an increasing market value over the last few years due to strong investment results, the actual distribution rate for fiscal year 2008 was 4.2% of the beginning market value. While the distribution rate is intended to be stable, it may periodically be adjusted to reflect returns in the capital markets and inflation experience.

CORE INVESTING PHILOSOPHY

In all investment periods, but especially during down markets and those with high volatility, investors should look to their core investment principles to guide them. This enables them to maintain discipline in the investment management process and ensure that emotion does not influence decision making.

The University's core investing philosophy remains solidly in place. It is based on a number of assumptions and beliefs developed over an extended period of time:

1. **There is no such thing as "riskless investing".** Risk is directly related to return. It comes in two forms: short-term and long-term. While risk can have a major influence on short term performance, in the long-run it is of trivial importance. In the end, an investor enjoys high returns from equities only by accepting substantial short-term risk. Safe investments produce low returns.

2. **Diversification is important.** Diversification in portfolio construction requires different types of asset classes so as to minimize the impact of adverse results from a few sectors.

3. **Valuation is an important consideration.** One must consider both expected return and valuation in a particular asset. Although some asset classes may have excellent growth prospects, they can become too expensive on a price:earnings basis. At the same time, low valuations do offer an opportunity for gains when their acquisition cost is low relative to growth prospects.

4. **Equities are the best long-term investment.** On a long-term basis, stocks have returned approximately 7.2% in real (inflation-adjusted) terms as compared to 1.9% for bonds and 0.6% for Treasury bills. Being long-term investors, educational institutions should be prepared to accept higher short term volatility to attain higher long-term return performance available from equities.

5. **Bonds should not be neglected.** There is a place in all institutional portfolios for bonds. Bonds perform relatively well in deflationary periods when interest rates are falling. Bonds do offer institutions the benefits of liquidity and yield in addition to risk reduction when stock prices are falling. One must bear in mind that stocks can under-perform for years at a time. For example, stocks lost 44% of their value from April 2000 through September 2002. In contrast, investment grade bonds gained 29% during this same time period.

6. **Asset allocation is a critical element.** Asset allocation involves the selection of asset classes, their proper blending in a portfolio, and the management of the asset mix over time. This is generally referred to as the strategic asset allocation. The process of creating the proper asset allocation involves developing a mix that maximizes return at a level of risk consistent with the investor's objective.

7. **Always be cognizant of inflation.** Real return reflects purchasing power which is a primary goal of investing on a long-term basis. Going back to 1900, inflation has

averaged 3.6% annually. There have been four years since 1926 when inflation reached double digits as follows: 1946 (18.2%), 1974 (12.4%), 1979 (13.3%), 1980 (12.5%). Every institutional portfolio should include some sort of inflation protected asset class.

8. **Markets are inefficient in the short run.** One basic efficiency assumption is that there is an objective equilibrium value for a security and its price will gravitate towards it over time. It is assumed that investors are rational which they are not. Investor psychology drives the markets to shorter-term excesses in terms of both overstated as well as understated price levels. Investment managers are aware of this and usually develop strategies to take advantage of such short-term mispricing.

9. **Tactical allocation can be critical.** While many investors maintain a consistent asset weighting once the strategic asset allocation is established, especially in flat or falling markets, it is important to employ a more active approach to changing asset class weightings. This is a practice followed by Wake Forest University; it is known as tactical asset allocation. It seeks to take advantage of relative return opportunities across asset classes.

10. **Performance must be measured against realistic expectations.** Capital markets have long-term return outcomes that are not subject to wide variation. While there can be significant performance variations in the short-term, and extended trends come and go, it is important to measure performance variations in the longer-term perspective. Setting unrealistic expectations can only lead to disappointment or result in an investor taking excessive risk in search of such results.

ASSET ALLOCATION

Studies have shown that a significant portion of investment return in a portfolio is the result of an investor's asset mix—not from selecting the right individual stocks or bonds—as returns of different asset classes tend to not always move in the same direction. In the Fall of 2007, the Investment Policy Committee arranged to have an updated study of the capital markets conducted to identify the asset mix most likely to achieve the University's long-term nominal return objective of 9.8%. The annual return objective represents the projected return necessary to enable the endowment to meet its funding goal of University activities. Using concepts of Modern Portfolio Theory, numerous portfolio combinations were analyzed using various asset classes and their expected rates of return, standard deviation and correlations among each other in order to achieve an optimum mix with the desired risk:return characteristics. This asset mix has an expected standard deviation of 9.5%. From this exercise, the strategic allocation was formulated, adopted, and continues to guide the investment process [Exhibit 3].

The strategic allocation serves as a long-term target, or guide, for the asset mix. The actual asset mix in the portfolio may periodically differ from the strategic allocation. The University engages in tactical asset allocation in an effort to enhance the periodic return of the portfolio beyond the level of the long-term expected return from the strategic allocation. This is accomplished by dynamically adjusting the percentage invested in each class according to its relative level of benefit as measured by expected risk and return. The goal is to achieve both long-term risk limitation and short-term return optimization. In the absence of Investment Policy Committee approval, the asset mix of the portfolio will be maintained within the lower and upper bands in Exhibit 3. For example, if inflation hedges are considered to be under-

Exhibit 3

WAKE FOREST ENDOWMENT
STRATEGIC ASSET ALLOCATION

Asset Segment	Min.	Target	Max.
Equities U.S., Developed Int'l., Emerging Markets, Long/Short, Private	40%	55.0%	70%
Inflation Hedges Inflation Linked Bonds, Real Estate, Commodities	10%	17.5%	30%
Absolute Return Hedge Funds, Other	10%	17.5%	25%
Fixed Income Inv. Grade, Opportunistic	5%	10.0%	25%
TOTAL		100.0%	

valued in relation to equities, funds may be shifted to real estate and/or commodities from various equity investments so that the inflation hedge allocation is more than the target percentage in the strategic allocation, and the equity allocation is lower than the percentage designated in the strategic allocation. If successfully done, tactical allocation will result in the portfolio outperforming the strategic allocation, which is periodically reviewed in light of dynamic circumstances in the capital markets. In addition, if the University is able to outperform the established benchmarks of individual asset classes (for example, the MSCI All Country World Index for equities) the outperformance resulting from tactical asset allocation would be further enhanced.

Regarding the asset mix, a number of current secular factors drive it, as follows:

1. Successful investing requires a global approach as funds continue to flow around the world seeking an optimum return (balance of risk and reward).

2. Currencies play an increasingly important role in determining investment return as the difference in performance between local currencies and U.S. currency can be significant.

3. The U.S. economy is at the start of a recession that is expected to last for the next year and a half.

4. China continues to grow at rates much higher than the developed economies. However, high inflation and the slowing U.S. economy are putting a drag on China's growth.

5. The long-term demand for energy continues to grow faster than supply. However, speculators drove oil prices very high and then sold their positions, driving prices down. Investors should continue to hold oil stocks based on fundamental considerations.

6. The U.S. trade deficit continues to increase. The value of the U.S. dollar is falling, a situation that can be expected to continue.

7. The cost of financing the U.S. trade deficit is rising and may ultimately lead to much more inflation.

8. A falling dollar makes U.S. exports more competitive in world trade.

9. Economic power and wealth continue to move to Asia as that region of the world is producing goods at a far higher rate of increase than Europe and the U.S.

10. Favorable stock prices make the U.S. increasingly attractive for investment.

Based on the above secular factors, the following investment strategies apply:

1. Investments should be highly global in nature with emphasis based on relative value around the world.

2. Investors should be prepared to protect themselves against or be prepared to take advantage of currency fluctuations. This can be done by hedging or geographic portfolio concentration. In certain instances, investors might consider currency as a separate asset class.

3. Commodity prices remain volatile which creates opportunity based on non-fundamental factors.

4. The World Economic Forum ranks the U.S. number one in global competitiveness. However, most future economic growth will take place in developing countries. One's investment strategy must take this into consideration.

5. Some measure of inflation protection should be included in a global portfolio by adding asset classes such as gold, commodities, inflation protected assets, and real estate.

6. Energy is an asset class that should play a role in one's portfolio. It warrants its own sub-strategy.

7. Portfolios should include a means to take advantage of return opportunities from and protection against the falling U.S. dollar.

8. With the rising U.S. trade deficit, emphasis should be placed on those regions of the world that have a significant trade deficit or trade surplus with the U.S.

9. Developing a strategy for investments, taking into consideration the U.S. financial crisis, is important.

10. In the current environment, added emphasis on fixed income (relative weightings and subclasses) is important.

YEAR-END ASSET MIX

The University's Endowment Pool is broadly diversified and consists of the asset classes shown in Exhibit 4.

Exhibit 4

ENDOWMENT POOL
ACTUAL ASSET ALLOCATION
June 30, 2008

Asset Classes		Percent
Equities		51.2%
U.S.	11.9%	
Non-U.S.	12.7%	
Emerging	10.9%	
Long/Short	8.0%	
Private	7.7%	
Inflation Hedges		21.2%
Inflation Linked Bonds	2.9%	
Commodities	11.3%	
Real Estate	7.0%	
Absolute Return		19.8%
Fixed Income		7.8%
TOTAL		100.0%

FISCAL YEAR 2008 CAPITAL MARKETS OVERVIEW

The U.S. stock market, as represented by the S&P 500, lost 13.1% during the fiscal year ended June 30, 2008. The U.S. continued to underperform, as non-U.S. equities (developed markets) lost 10.6% and emerging market equities gained 4.6%. In the fixed income area, investment grade bonds returned 7.1%. Energy and other commodities continued to be strong performers during FY 2008, with some segments generating returns of over 30%.

FISCAL YEAR 2008 PERFORMANCE RESULTS

The total investment return of the Endowment Pool for the year was 2.4% net of investment management fees. This return was 3.6 percentage points greater than our Policy Portfolio benchmark return of -1.2% (please see the Performance Benchmark section of this report for a more detailed discussion). Exhibit 5 details performance results by asset class.

Equities and Inflation Hedges outperformed their respective benchmarks during the year, while the performance of the Absolute Return and Fixed Income asset classes trailed their respective benchmarks. The outperforming segments represented a significantly larger percent of the Endowment Pool, thus enabling the Pool's performance to exceed that of the Policy Portfolio Benchmark.

Exhibit 5

ENDOWMENT POOL PERFORMANCE
BY ASSET SEGMENT
FISCAL YEAR 2008 RETURN

Asset Class	Perf.	Benchmark	Difference
U.S.	-14.6%	-12.7%	-1.9%
Global	-5.2%	-10.7%	5.5%
Emerging Mkts.	3.7%	5.2%	-1.5%
Long/Short	4.0%	-13.1%	17.1%
Private	3.7%	-8.7%	12.4%
Total Equities	**-3.1%**	**-9.3%**	**6.2%**
Inflation Linked Bonds (a)	11.9%	6.6%	5.3%
Commodities	19.1%	10.0%	9.1%
Real Estate	3.0%	10.0%	-7.0%
Total Inflation Hedges	**13.4%**	**10.0%**	**3.4%**
Absolute Return	**4.2%**	**8.6%**	**-4.4%**
Fixed Income	**6.9%**	**7.1%**	**-0.2%**
TOTAL ENDOWMENT POOL	**2.4%**	**-1.2%**	**3.6%**

(a) Six month return

Exhibit 6

FISCAL YEAR RETURN: 1989-2008

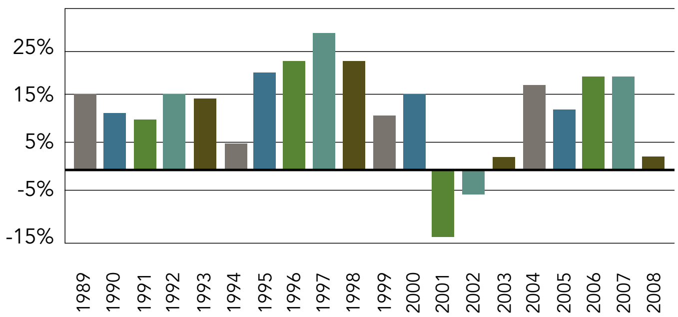


Exhibit 7

ANNUAL ENDOWMENT RETURNS
FISCAL YEAR

1989	15.0%	1999	10.9%
1990	11.6%	2000	15.4%
1991	10.1%	2001	-14.0%
1992	15.5%	2002	-5.3%
1993	14.3%	2003	2.2%
1994	5.3%	2004	17.0%
1995	19.8%	2005	12.4%
1996	22.2%	2006	17.5%
1997	27.9%	2007	20.9%
1998	22.2%	2008	2.4%

Endowment performance was enhanced by the tactical overweighting of Inflation Hedges. The asset class was the top performer in terms of total return, led by the strong return of commodities. In general, long only equity managers posted negative returns due to the strong headwinds of market turmoil. Those with more tools at their disposal, such as long/short and absolute return managers, on average posted mid single digit returns for the year.

Over the past twenty years, the Wake Forest Endowment Pool has achieved a net average annual return of 12.2% in comparison to our long-term annual return objective of 9.8%.

PERFORMANCE BENCHMARKS

The University compares its performance to a number of internal and external benchmarks as follows.

The first benchmark consists of what is known as the Policy Portfolio, which is a blended benchmark based on target weights to each of the asset classes in the Strategic Asset Allocation. For the fiscal year ended June 30, 2008, the Policy Portfolio had a return of -1.2%. Therefore, the University's return of 2.4% resulted in an out-performance of 3.6% or $40 million based on an average asset balance in the Endowment Pool in excess of $1.1 billion.

The second benchmark is the Investable Universe, which is an indexed (passive) benchmark consisting of: 50% Russell 3000 (US Equities), 25% MSCI EAFE (Int'l Equities), 20% Lehman Aggregate (U.S. Bonds), and 5% T-Bills. Such a comparison removes active management from the University's endowment portfolio and reflects the return that would have been achieved had all of the assets been placed in indexed (unmanaged) accounts. The return for the Investable Universe was -7.5% for fiscal year 2008. Therefore the University's return of 2.4% resulted in an out-performance of 9.9%. With an average balance of $1.1 billion, the out-performance amounted to more than $109 million in FY 2008.

The third benchmark is the Trust Universe Comparison Service (TUCS) All Master Trusts, which is a universe of over 700 institutional plans. That universe experienced a median return last year of -4.5%. Thus, the Wake Forest endowment outperformed the median institutional portfolio by more than 6.9% or $77 million based on average assets. Our return placed us in the 8th percentile for the one year period. For the three, five, and ten year periods ended June 30, 2008, our results placed us in the 1st, 1st, and 8th percentiles, respectively (1st percentile represents highest returns).

The fourth benchmark is the annual NACUBO Endowment Study (NES). The annual NES report is the primary source of institutional endowment data in the United States, representing almost 800 colleges and universities from the United States and Canada. For the fiscal year ended June 30, 2008, the average NES return was -3.0%. The Wake Forest endowment return of 2.4% outperformed the average endowment by 5.4% or $59 million based on an average asset balance in the Endowment Pool of $1.1 billion. Our return placed us in the 9th percentile for the one year period. For the three, five, and ten year periods ended June 30, 2008, our results placed us in the 5th, 6th, and 24th percentiles, respectively (1st percentile represents highest returns).

CHANGE IN ENDOWMENT ASSETS

The University's total Endowment assets increased in value during the fiscal year to $1.25 billion, a slight increase over the prior fiscal year (Exhibit 8).

ENDOWMENT FUND GIFTS

As a supplement to investment performance, gifts provide additional endowment assets essential to the future financial wellbeing of the institution. The University received gifts for the Permanent and Quasi Endowment as illustrated in Exhibit 9.

For the fiscal year ended June 30, 2008, of the total $22.4 million in gifts received, $14.7 million was donated to Wake Forest University Reynolda Campus and $7.7 million was donated to Wake Forest University School of Medicine.

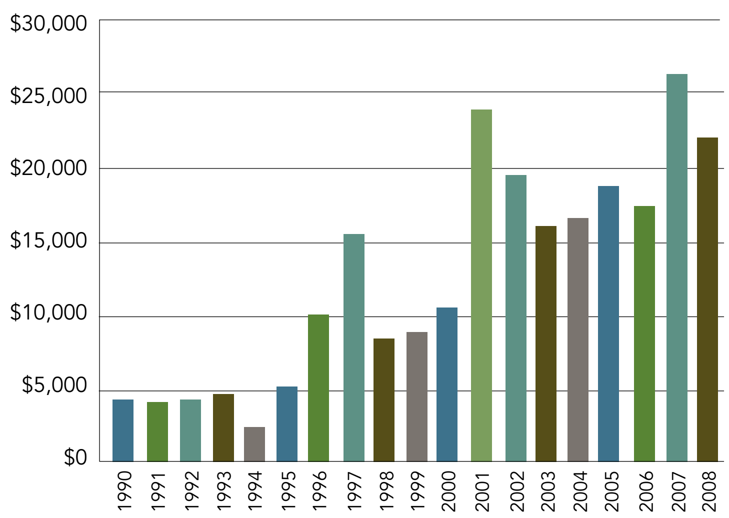
Exhibit 8

CHANGE IN TOTAL ENDOWMENT ASSETS
FISCAL YEAR ENDED JUNE 30, 2008
(Dollars in Thousands)

Beginning Market Value June 30, 2007	**$**	**1,248,465**
Additions		
Gifts		22,397
Reinvestments		1,632
Transfers In		82,188
Other		5
Total Additions		106,222
Deductions		
5.3% Distribution		50,090
Manager Fees		6,554
Depreciation Expense		1,266
Transfers Out		72,972
Total Deductions		130,882
Net Appreciation and Income		29,868
Ending Market Value June 30, 2008	**$**	**1,253,673**

Exhibit 9

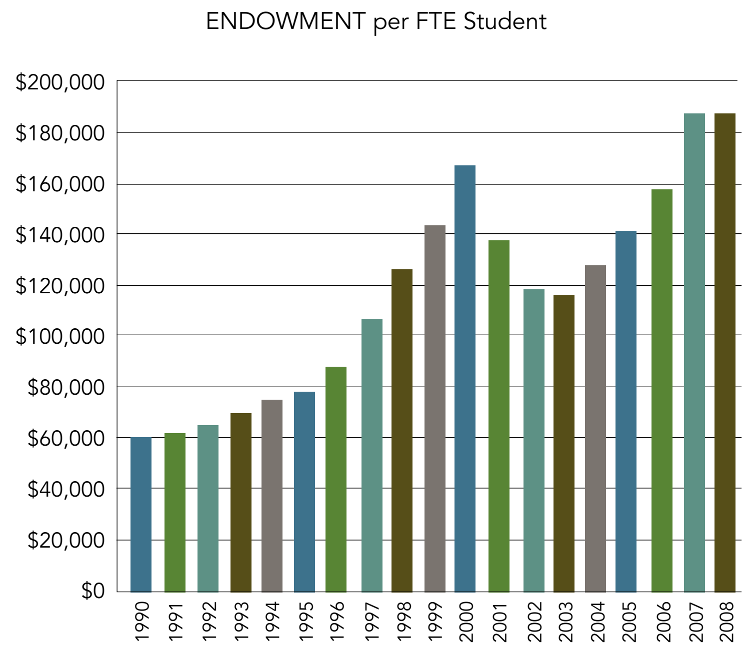
GIFTS TO THE ENDOWMENT (Dollars in Thousands)



ENDOWMENT PER FULL-TIME EQUIVALENT STUDENT

One of the key measures of endowment strength and reliance on endowment income is the market value of the endowment expressed on the basis of per full-time equivalent (FTE) student. A comparison of annual amounts is shown on Exhibit 10.

Exhibit 10



William B. Greene, Jr. *Chairman* *Investment Policy Committee*	Louis R. Morrell *VP for Investments/Treasurer*

TREASURER'S OFFICE STAFF:

Louis R. Morrell, *Vice President for Investments and Treasurer*
Kristin Frantz, *Assistant to the Vice President*
Craig O. Thomas, *Director of Investments*
Nancy K. Cox, *Assistant Treasurer – Trusts*
Rita Needham, *Investment Analyst*
Vicki West, *Investment Analyst*


REYNOLDA HALL

INDEPENDENT AUDITORS' REPORT

THE BOARD OF TRUSTEES
WAKE FOREST UNIVERSITY:

We have audited the accompanying consolidated statement of financial position of Wake Forest University (the University) as of June 30, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2007 consolidated financial statements and, in our report dated October 1, 2007, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wake Forest University as of June 30, 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the statements of financial position, activities, and cash flows and the accompanying notes related to the College of Arts and Sciences, Schools of Law, Management, and Divinity, Wake Forest University Health Sciences, and the Reynolda House, Inc. (collectively the University) is presented for purposes of additional analysis of the financial statements rather than to present the financial position, change in net assets and cash flows of the individual entities. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 30, 2008

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2008
(with summarized comparative financial information as of June 30, 2007)
(Dollars in thousands)

	Supplementary information				
Assets	**Reynolda Campus**	**WFUHS**	**Reynolda House**	**2008**	**2007**
Cash and cash equivalents	$ 16,361	9,604	853	26,818	27,351
Accounts receivable, net	5,049	55,929	13	60,991	54,738
Clinic receivables, net	—	53,104	—	53,104	51,030
Grants receivable	2,653	15,719	310	18,682	16,078
Contributions receivable, net	36,037	2,489	26	38,552	41,934
Notes receivable, net	22,973	1,327	—	24,300	21,830
Investments	701,175	704,835	44,766	1,450,776	1,423,496
Investments in real estate	25,522	12,488	—	38,010	41,246
Land, buildings, and equipment, less accumulated depreciation	263,468	304,329	13,588	581,385	542,459
Other assets	4,822	6,258	298	11,378	28,570
Total assets	$ 1,078,060	1,166,082	59,854	2,303,996	2,248,732
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accruals	$ 20,697	72,652	928	94,277	95,764
Other liabilities and deferrals	37,379	158,547	17	195,943	165,467
Annuities payable	24,122	5,431	—	29,553	30,579
Notes payable	35,008	38,194	—	73,202	43,818
Bonds payable	68,050	186,850	—	254,900	262,065
Postretirement benefits	9,442	13,389	—	22,831	28,754
Government grants refundable	10,469	423	—	10,892	11,118
Total liabilities	205,167	475,486	945	681,598	637,565
Net assets:					
Unrestricted undesignated	282,173	409,701	48,295	740,169	745,350
Net investment in plant	160,410	79,285	—	239,695	234,867
Total unrestricted	442,583	488,986	48,295	979,864	980,217
Temporarily restricted	232,102	77,646	2,262	312,010	320,373
Permanently restricted	198,208	123,964	8,352	330,524	310,577
Total net assets	872,893	690,596	58,909	1,622,398	1,611,167
Total liabilities and net assets	$ 1,078,060	1,166,082	59,854	2,303,996	2,248,732

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2008
(with summarized comparative financial information for the year ended June 30, 2007)
(Dollars in thousands)

	2008				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2007 Total
Revenues, gains, and other support:					
Educational and general:					
Student tuition and fees	$ 211,083	—	—	211,083	195,086
Scholarship allowance	(58,338)	—	—	(58,338)	(52,689)
Net student tuition and fees	152,745	—	—	152,745	142,397
Federal grants and contracts	147,687	—	—	147,687	143,848
State grants and contracts	20,709	—	—	20,709	15,508
Private gifts, grants, and contracts	34,592	21,703	18,571	74,866	78,021
Dividends, interest, and rents	14,710	5,065	280	20,055	23,896
Interest on short-term investments and other income	6,656	198	191	7,045	7,011
Net realized and unrealized appreciation (depreciation) on investments	7,827	672	(956)	7,543	193,063
Organized activities relating to educational departments	4,979	374	—	5,353	3,794
Clinic services	388,651	—	—	388,651	361,763
Other sources	111,049	374	—	111,423	98,151
Total educational and general	889,605	28,386	18,086	936,077	1,067,452
Sales and services of auxiliary enterprises	84,364	9,886	805	95,055	89,769
Total revenues and gains	973,969	38,272	18,891	1,031,132	1,157,221
Net assets released from restrictions	46,698	(46,698)	—	—	—
Total revenues, gains, and other support	1,020,667	(8,426)	18,891	1,031,132	1,157,221
Expenses and losses:					
Educational and general:					
Instruction, departmental research, and clinical	609,901	—	—	609,901	565,180
Sponsored research, training, and other programs	165,849	—	—	165,849	160,176
Organized activities	2,079	—	—	2,079	2,093
Academic support	20,956	—	—	20,956	18,484
Libraries	16,254	—	—	16,254	15,823
Student services	17,088	—	—	17,088	16,995
Institutional support	100,169	—	—	100,169	100,355
Total educational and general	932,296	—	—	932,296	879,106
Auxiliary enterprises	71,771	—	—	71,771	68,740
Actuarial loss on annuity obligations	—	165	610	775	6,657
Unrealized (gain) loss on interest rate swap	19,258	—	—	19,258	(4,367)
Postretirement related changes other than net periodic pension	(7,333)	—	—	(7,333)	—
Other	5,028	(228)	(1,666)	3,134	1,388
Total expenses and losses	1,021,020	(63)	(1,056)	1,019,901	951,524
Cumulative effect of change in accounting principle	—	—	—	—	(17,888)
Increase (decrease) in net assets	(353)	(8,363)	19,947	11,231	187,809
Net assets at beginning of year	980,217	320,373	310,577	1,611,167	1,423,358
Net assets at end of year	$ 979,864	312,010	330,524	1,622,398	1,611,167

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

COLLEGE OF ARTS AND SCIENCES, SCHOOLS OF LAW, MANAGEMENT, AND DIVINITY

(Supplementary Information)
Year ended June 30, 2008
(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Educational and general:					
Student tuition and fees	$	183,177	—	—	183,177
Scholarship allowance		(48,013)	—	—	(48,013)
Net student tuition and fees		135,164	—	—	135,164
Federal grants and contracts		5,358	—	—	5,358
State grants and contracts		1,408	—	—	1,408
Private gifts, grants, and contracts		15,055	4,275	11,386	30,716
Dividends, interest, and rents		5,900	3,837	441	10,178
Interest on short-term investments and other income		3,755	27	18	3,800
Net realized and unrealized appreciation (depreciation) on investments		1,294	1,107	(279)	2,122
Organized activities relating to educational departments		4,979	374	—	5,353
Clinic services		—	—	—	—
Other sources		1,845	369	—	2,214
Total educational and general		174,758	9,989	11,566	196,313
Sales and services of auxiliary enterprises		83,499	9,886	805	94,190
Total revenues and gains		258,257	19,875	12,371	290,503
Net assets released from restrictions		22,153	(22,153)	—	—
Total revenues, gains, and other support		280,410	(2,278)	12,371	290,503
Expenses and losses:					
Educational and general:					
Instruction, departmental research, and clinical		109,286	—	—	109,286
Sponsored research, training, and other programs		—	—	—	—
Organized activities		2,079	—	—	2,079
Academic support		7,708	—	—	7,708
Libraries		11,434	—	—	11,434
Student services		15,155	—	—	15,155
Institutional support		47,901	—	—	47,901
Total educational and general		193,563	—	—	193,563
Auxiliary enterprises		70,896	—	—	70,896
Actuarial loss on annuity obligations		—	165	1,399	1,564
Unrealized (gain) loss on interest rate swap		7,017	—	—	7,017
Postretirement related changes other than net periodic pension		447	—	—	447
Other		2,631	(228)	(1,666)	737
Total expenses and losses		274,554	(63)	(267)	274,224
Cumulative effect of change in accounting principle		—	—	—	—
Increase (decrease) in net assets		5,856	(2,215)	12,638	16,279
Net assets at beginning of year		436,727	234,317	185,570	856,614
Net assets at end of year	$	442,583	232,102	198,208	872,893

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

WAKE FOREST UNIVERSITY HEALTH SCIENCES

(Supplementary Information)
Year ended June 30, 2008
(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:				
Educational and general:				
Student tuition and fees	$ 27,906	—	—	27,906
Scholarship allowance	(10,325)	—	—	(10,325)
Net student tuition and fees	17,581	—	—	17,581
Federal grants and contracts	142,329	—	—	142,329
State grants and contracts	19,301	—	—	19,301
Private gifts, grants, and contracts	18,537	17,194	7,185	42,916
Dividends, interest, and rents	8,029	1,004	(161)	8,872
Interest on short-term investments and other income	2,873	171	173	3,217
Net realized and unrealized appreciation (depreciation) on investments	7,228	(251)	(675)	6,302
Organized activities relating to educational departments	—	—	—	—
Clinic services	388,651	—	—	388,651
Other sources	108,914	—	—	108,914
Total educational and general	713,443	18,118	6,522	738,083
Sales and services of auxiliary enterprises	865	—	—	865
Total revenues and gains	714,308	18,118	6,522	738,948
Net assets released from restrictions	24,048	(24,048)	—	—
Total revenues, gains, and other support	738,356	(5,930)	6,522	738,948
Expenses and losses:				
Educational and general:				
Instruction, departmental research, and clinical	500,615	—	—	500,615
Sponsored research, training, and other programs	165,849	—	—	165,849
Organized activities	—	—	—	—
Academic support	8,993	—	—	8,993
Libraries	4,820	—	—	4,820
Student services	1,933	—	—	1,933
Institutional support	52,268	—	—	52,268
Total educational and general	734,478	—	—	734,478
Auxiliary enterprises	875	—	—	875
Actuarial gain on annuity obligations	—	—	(789)	(789)
Unrealized loss on interest rate swap	12,241	—	—	12,241
Postretirement related changes other than net periodic pension	(7,780)	—	—	(7,780)
Other	2,875	—	—	2,875
Total expenses and losses	742,689	—	(789)	741,900
Cumulative effect of change in accounting principle	—	—	—	—
Increase (decrease) in net assets	(4,333)	(5,930)	7,311	(2,952)
Net assets at beginning of year	493,319	83,576	116,653	693,548
Net assets at end of year	$ 488,986	77,646	123,964	690,596

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

REYNOLDA HOUSE, INC.

(Supplementary Information)
Year ended June 30, 2008
(Dollars in thousands)

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:					
Educational and general:					
Student tuition and fees	$	—	—	—	—
Scholarship allowance		—	—	—	—
Net student tuition and fees		—	—	—	—
Federal grants and contracts		—	—	—	—
State grants and contracts		—	—	—	—
Private gifts, grants, and contracts		1,000	234	—	1,234
Dividends, interest, and rents		781	224	—	1,005
Interest on short-term investments and other income		28	—	—	28
Net realized and unrealized appreciation (depreciation) on investments		(695)	(184)	(2)	(881)
Organized activities relating to educational departments		—	—	—	—
Clinic services		—	—	—	—
Other sources		290	5	—	295
Total educational and general		1,404	279	(2)	1,681
Sales and services of auxiliary enterprises		—	—	—	—
Total revenues and gains		1,404	279	(2)	1,681
Net assets released from restrictions		497	(497)	—	—
Total revenues, gains, and other support		1,901	(218)	(2)	1,681
Expenses and losses:					
Educational and general:					
Instruction, departmental research, and clinical		—	—	—	—
Sponsored research, training, and other programs		—	—	—	—
Organized activities		—	—	—	—
Academic support		4,255	—	—	4,255
Libraries		—	—	—	—
Student services		—	—	—	—
Institutional support		—	—	—	—
Total educational and general		4,255	—	—	4,255
Auxiliary enterprises		—	—	—	—
Actuarial loss on annuity obligations		—	—	—	—
Unrealized (gain) loss on interest rate swap		—	—	—	—
Postretirement related changes other than net periodic pension		—	—	—	—
Other		(478)	—	—	(478)
Total expenses and losses		3,777	—	—	3,777
Cumulative effect of change in accounting principle		—	—	—	—
Increase (decrease) in net assets		(1,876)	(218)	(2)	(2,096)
Net assets at beginning of year		50,171	2,480	8,354	61,005
Net assets at end of year	$	48,295	2,262	8,352	58,909

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2008
(with summarized comparative financial information for the year ended June 30, 2007)
(Dollars in thousands)

	Supplementary information				
	Reynolda Campus	WFUHS	Reynolda House	2008	2007
Cash flows from operating activities:					
Increase in net assets	$ 16,279	(2,952)	(2,096)	11,231	187,809
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	18,659	26,443	643	45,745	47,286
Net realized and unrealized (appreciation) depreciation on investments	1,497	(6,302)	881	(3,924)	(192,550)
Noncash gifts of property	521	—	(31)	490	(3,667)
Private gifts restricted for long-term investment	(11,386)	(7,185)	—	(18,571)	(24,674)
Other revenue restricted for long-term investment	(1,264)	(12)	2	(1,274)	(1,936)
Loss on disposal of property and equipment	676	768	2	1,446	531
Unrealized (gain) loss on interest rate swap	7,017	12,241	—	19,258	(4,367)
Bad debt expense	—	28,673	—	28,673	26,413
Cumulative effect of changes in accounting principles	—	—	—	—	17,888
Changes in assets and liabilities:					
Accounts and clinic receivables	(266)	(36,740)	6	(37,000)	(39,959)
Grants receivable	(509)	(1,917)	(179)	(2,605)	1,797
Contributions receivable	2,829	531	22	3,382	1,433
Notes receivable	(257)	(363)	—	(620)	(375)
Other assets and other liabilities and deferrals	5,046	23,591	(149)	28,488	13,040
Accounts payable and accruals	4,582	(5,603)	(465)	(1,486)	8,263
Postretirement benefits	603	(6,526)	—	(5,923)	(29)
Annuities payable	42	(1,068)	—	(1,026)	2,755
Net cash provided by (used in) operating activities	44,069	23,579	(1,364)	66,284	39,658
Cash flows from investing activities:					
Purchases of land, buildings, and equipment	(55,731)	(29,458)	(36)	(85,225)	(63,962)
Proceeds from sale of equipment	1,974	—	—	1,974	102,792
Purchases of investments in real estate	(200)	—	—	(200)	(7,322)
Disbursements of loans to students, faculty, and staff	(4,053)	(64)	—	(4,117)	(3,624)
Repayments of loans from students, faculty, and staff	1,979	288	—	2,267	3,216
Purchases of investments	(596,263)	(149,455)	(44,390)	(790,108)	(484,803)
Net proceeds from sales and maturities of investments	574,955	143,135	45,651	763,741	422,575
Net cash provided by (used in) investing activities	(77,339)	(35,554)	1,225	(111,668)	(31,128)
Cash flows from financing activities:					
Change in government grants refundable	(136)	(91)	—	(227)	(191)
Payments on notes payable	(725)	(7,879)	—	(8,604)	(77,633)
Proceeds from notes payable	27,533	10,455	—	37,988	36,495
Payments on bonds payable	(3,915)	(3,250)	—	(7,165)	(7,055)
Proceeds from private gifts restricted for long-term investment	11,387	7,185	—	18,572	24,674
Net realized gains restricted for long-term investment	1,469	1,544	—	3,013	2,700
Other revenue restricted for long-term investment	1,264	12	(2)	1,274	1,936
Net cash provided by (used in) financing activities	36,877	7,976	(2)	44,851	(19,074)
Net increase (decrease) in cash and cash equivalents	3,607	(3,999)	(141)	(533)	(10,544)
Cash and cash equivalents at beginning of year	12,754	13,603	994	27,351	37,895
Cash and cash equivalents at end of year	$ 16,361	9,604	853	26,818	27,351
Supplemental disclosure of cash flow information:					
Cash paid for interest	$ 2,769	11,608	—	14,377	11,504

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Wake Forest University

Wake Forest University (the University) is a private, coeducational, not-for-profit institution of higher education and research located in Winston-Salem, North Carolina. The consolidated financial statements of the University include the College of Arts and Sciences, Schools of Law, Management, and Divinity (the Reynolda Campus), Wake Forest University Health Sciences (WFUHS), and Reynolda House, Inc. (Reynolda House), and all entities over which the University has control, including all of the subsidiaries of WFUHS. All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements have, in all material respects, been prepared on the accrual basis in conformity with U.S. generally accepted accounting principles.

(b) Basis of Presentation

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

- Unrestricted net assets – net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time.
- Permanently restricted net assets – net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all of, or part of, the income earned on related investments for general or specific purposes.

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

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

- as increases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gifts impose restrictions on their use;
- as increases in unrestricted net assets in all other cases.

The University considers the following items to be nonoperating items: net unrealized and realized appreciation on investments, investment return less than amounts designated for current operations, actuarial loss on annuity obligations, unrealized gain (loss) on interest rate swap and postretirement related changes other than net periodic postretirement costs.

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted to their present value at a risk-free investment rate, generally the 10-year Treasury bill rate for the Reynolda Campus (3.99% at June 30, 2008) and the 3-year Treasury bill rate for WFUHS (2.91% at June 30, 2008). Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, based on such factors as prior collection history, type of contribution, and nature of fund-raising activity.

(d) Endowment Accounting

Permanent endowment funds are subject to the restrictions of gift instruments, which require that the principal be invested in perpetuity. While quasi-endowment funds have been established by the Board of Trustees for the same purpose as permanent endowment funds, any portion of the quasi-endowment funds may be expended at the discretion of the Board of Trustees and, accordingly, such funds are reported as unrestricted net assets. Realized and unrealized gains of the permanent endowment funds are classified as temporarily restricted net assets if the income distributed from these funds is restricted and as unrestricted net assets if the income distributed from these funds is unrestricted.

The University has implemented a spending policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. In accordance with the University's policy, a predetermined endowment spending rate consistent with the University's total return objective has been established and approved by the Board of Trustees. Should endowment yields prove to be insufficient to support this policy, the balance is provided from capital gains. Should endowment yields exceed the amounts necessary to maintain this objective, the balance is reinvested in the endowment. The endowment spending rate for the years ended June 30, 2008 and 2007 was 5.3%, calculated as a percentage of the average of the previous three-year semiannual moving market value per unit (see note 3).

(e) Temporarily Restricted Accounting

Revenues, which have donor stipulations that limit their use, are recorded as temporarily restricted net assets and released from restriction when the purpose restriction is met or stipulated time restriction expires.

(f) Cash Equivalents

For purposes of reporting cash flows, the University considers interest-bearing deposits in financial institutions with remaining maturities at date of purchase of three months or less to be cash equivalents. Cash equivalents consist primarily of temporary investments in bank repurchase agreements and money market accounts.

(g) Financial Instruments

- The carrying amounts of cash and cash equivalents; accounts, grants, and clinic receivables; and accounts payable approximate fair value because of the short maturity of these financial instruments.

- The carrying value of investments is based upon fair value. In the limited cases where such values are not available, estimates of fair value are used.

- The carrying amounts of contributions receivable and annuities payable represent the present value of estimated future cash flows, which approximates fair value.

- A reasonable estimate of the fair value of notes receivable from students under government loan programs cannot be made because such loans are not sellable and can only be assigned to the U.S. government or its designees. The fair value of receivables from students under University loan programs approximates carrying value.

- The carrying amounts of notes and bonds payable with variable interest rates approximate their fair value because substantially all of these financial instruments bear interest at variable rates, which approximate current market rates for loans with similar maturities and credit quality.

(h) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts for which the University serves as trustee. Assets held in these trusts are included in investments or investments in real estate. Contribution revenues are recognized at the dates the trusts are established. Annuity and other split-interest obligations are adjusted annually at the end of each fiscal year.

(i) Investments

Investments are stated at their fair values which are determined based on quoted market prices or estimates provided by external investment managers or other independent sources. Investments in certain real property assets are recorded at fair value based upon independent third party appraisals. Investments in private equity and absolute return are valued at the proportionate share of estimated fair values of the underlying investments. Those fair values are estimated by the investment managers and are reviewed and evaluated by the University's investment office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments.

Investments are exposed to certain risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments securities, changes in the value of investment securities could occur in the near term, and these changes could materially affect the amounts reported in the accompanying financial statements.

(j) Investments in Real Estate

Investments in real estate are valued at the lower of cost or market as they are considered to be operating assets of the University. Accordingly, if there is a decline in market value that is other than temporary, the carrying amount of the investment is reduced to market value. The University records depreciation on rental properties over 40 years. Depreciation is calculated using the straight-line method. At June 30, 2008, $25,522 is included in investments in real estate that is primarily related to real estate held for lease.

(k) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair market value on the date received for donated items. Depreciation is calculated on the straight-line basis over the estimated useful life of each class or component of depreciable asset. Estimated lives range from 3 to 60 years. Gains or losses on the disposal of land, buildings, and equipment are included in the consolidated statement of activities.

(l) Clinic Services Revenue

WFUHS records clinic services revenue net of contractual adjustments and discount allowances. WFUHS has agreements with third-party payors that provide for payments to WFUHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Clinic services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, 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 final settlements are determined. The clinic receivables are recorded net of allowances for contractual adjustments and uncollectible accounts of $44,035 and $39,405, respectively, at June 30, 2008.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with these and other laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

(m) Bond Issuance Costs

Costs related to the registration and issuance of bonds are carried at cost less accumulated amortization, are being amortized over the life of the bonds on a method that approximates the effective-interest method, and are included in other assets in the consolidated statement of financial position.

(n) Functional Expenses

Expenses are reported in the consolidated statement of activities in functional categories recommended by the National Association of College and University Business Officers. The expenses are reported in these functional categories after the allocation for depreciation of plant assets, accretion expense, interest expense, and plant operation and maintenance expense. The University's primary program services are instruction, clinical, research, and organized activities. Expenses reported as academic support, libraries, student services, institutional support, and auxiliary enterprises are incurred in support of these primary program services. The University's fund-raising expenses are immaterial and are included in institutional support.

Depreciation of plant assets, accretion expense, interest expense, and plant operation and maintenance expense is allocated to program and supporting activities based on periodic inventories of facilities.

(o) Government Grants Refundable

Funds provided by the U.S. government under the Federal Perkins and Health Professions Student Loan Programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are reported as liabilities.

(p) Sponsored Grants and Contracts

Revenue under grants and contracts with sponsoring organizations are recognized as expenses as incurred for agreement purposes. The revenues include recoveries of indirect costs and fringe benefits, which are generally determined as a negotiated or agreed-upon percentage of direct costs with certain exclusions.

(q) Derivative Instruments

Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities – an Amendment of SFAS 133*, the University records all derivative instruments on the consolidated statement of financial position at their respective fair values. All changes in fair value are reflected in the consolidated statement of activities.

(r) Allocated Net Assets

WFUHS's unrestricted undesignated net asset balance is internally allocated for individual departmental research and development and for use in the clinical practices.

(s) Postretirement Plans

The University sponsors defined benefit postretirement medical and dental plans that cover all full-time employees who elect coverage and satisfy the plan's eligibility requirements.

The University records annual amounts relating to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions including discount rates, mortality, assumed rates of return, turnover rates, and healthcare cost trend rates. The University reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in accumulated other nonoperating income and amortized to net periodic cost over future periods using the corridor method. The University believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The net periodic costs are recognized as employees render the services necessary to earn the postretirement benefits.

(t) Use of Estimates

The University prepares its consolidated financial statements in accordance with U.S. generally accepted accounting principles that require management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings, and equipment and investments in real estate, valuation allowances for receivables, environmental liabilities, assets, and obligations related to employee benefits. Actual results could differ from those estimates.

(u) Reclassifications

In certain instances, amounts previously reported in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications have no effect on the increase in net assets as previously reported.

(v) Comparative Financial Information

The financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2007 from which this information was derived.

2. CONTRIBUTIONS RECEIVABLE

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2008:

	Reynolda Campus	WFUHS	Reynolda House	Total
One year or less	$ 7,463	1,095	24	8,582
Between one and five years	32,392	1,534	5	33,931
More than five years	8,168	271	—	8,439
Gross contributions receivable	48,023	2,900	29	50,952
Less estimated uncollectible amounts	(7,865)	(192)	(2)	(8,059)
Less discount to present value	(4,121)	(219)	(1)	(4,341)
Contributions receivable, net	$ 36,037	2,489	26	38,552

3. INVESTMENTS

Investments at June 30, 2008 consist of the following:

Short-term investments	$ 149,314
Absolute return	211,502
Fixed income securities	76,386
Public equity	676,846
Private equity	82,536
Beneficial interest in perpetual trusts	25,931
Inflation hedge	225,188
Other investments	3,073
Total investments	$ 1,450,776

The University places a substantial portion of assets into a pool on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of each quarter within which the transaction took place. At June 30, 2008, a total of 17,824 units existed in the pool with a fair value of $59.74 per unit.

Net realized and unrealized appreciation on investments is decreased by $6,506 in investment fees.

4. INVESTMENTS IN REAL ESTATE

The University maintains rental properties and has entered into long-term operating lease agreements for this real estate providing for future rental income as follows:

	Reynolda Campus	WFUHS	Total
Year ending June 30:			
2009	$ 8,114	3,140	11,254
2010	8,339	2,850	11,189
2011	8,569	2,807	11,376
2012	8,807	2,718	11,525
2013	9,051	458	9,509
	$ 42,880	11,973	54,853

Total income from real estate was $8,269 for the Reynolda Campus and $3,297 for WFUHS for the year ended June 30, 2008.

5. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are summarized as follows at June 30, 2008:

	Reynolda Campus	WFUHS	Reynolda House	Total
Land	$ 12,604	47,791	1,122	61,517
Buildings and other improvements	356,346	379,184	14,612	750,142
Equipment and furnishings	144,949	122,747	1,985	269,681
Construction in progress	48,184	24,179	13	72,376
	562,083	573,901	17,732	1,153,716
Less accumulated depreciation	(298,615)	(269,572)	(4,144)	(572,331)
	$ 263,468	304,329	13,588	581,385

Total depreciation expense on buildings and equipment was $45,593 for the year ended June 30, 2008.

6. ASSET RETIREMENT OBLIGATIONS

The University has asset retirement obligations (AROs) arising from regulatory requirements to perform certain asset retirement activities at the time that certain buildings and equipment are disposed of or renovated. The liability was initially measured at fair value and subsequently is adjusted for accretion expense and changes in the amount or timing of the estimated cash flows. The corresponding asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset and depreciated over the asset's useful life. The following table represents that activity for the AROs for the year ended June 30, 2008.

	Reynolda Campus	WFUHS	Total
Balance at beginning of year	$ 10,548	3,027	13,575
Additional obligations	—	—	—
Obligations settled in current period	(357)	—	(357)
Accretion expense	666	51	717
Change in estimates	—	—	—
Balance at end of year	$ 10,857	3,078	13,935

7. SALE–LEASEBACK AGREEMENT

WFUHS entered into a sale-leaseback agreement to sell and lease back certain assets reported in June 30, 2006 as investments in real estate. The initial lease term is 20 years with four renewal options of five years each and the lease is classified as an operating lease. Operating lease payments in each year from 2009 to 2013 are $7,080, $7,151, $7,223, $7,295, and $7,368, respectively. The transaction resulted in net cash proceeds of $99,727 and a deferred gain of $36,696, which is included in the accompanying consolidated statement of financial position. The transaction is being amortized as a reduction to rent expense on a straight-line basis over the initial lease term of 20 years.

8. NOTES AND BONDS PAYABLE

Notes and bonds payable at June 30, 2008 consist of the following:

	Reynolda Campus	WFUHS	Total
Variable rate construction loan agreement (2.71% at June 30, 2008) with interest payable quarterly and final principal and interest balloon payment due March 31, 2009	$ 29,962	—	29,962
Variable rate loan agreement (2.71% at June 30, 2008) with interest payable monthly and final principal and interest balloon payment due July 1, 2009	—	4,619	4,619
Variable rate loan (3.21% at June 30, 2008) with principal of $77 and interest payable monthly and final balloon payment due December 31, 2011	—	12,880	12,880
Noninterest-bearing promissory note due September 2012	—	720	720
Fixed rate equipment loan agreement (6.05%) with principal of $261 and interest payable monthly with final payment due September 15, 2013	—	5,475	5,475
Fixed rate loan (4.19%) with $480 of principal and interest payable semiannually through 2014	5,046	—	5,046
Fixed rate loan (6.38%) with interest payable monthly through January 31, 2009. Principal payments of $60 with interest begin February 1, 2009, with final payment due January 1, 2017	—	14,500	14,500
Notes payable	$ 35,008	38,194	73,202
Series 1997 taxable bonds payable	$ 1,600	—	1,600
Series 2002 tax-exempt bonds payable	—	186,850	186,850
Series 2004A tax-exempt bonds payable	36,605	—	36,605
Series 2004B tax-exempt bonds payable	29,845	—	29,845
Bonds payable	$ 68,050	186,850	254,900

WFUHS entered into a loan financing agreement in 2008, with a commercial bank that allowed WFUHS to borrow through July 1, 2009 up to $19,000, bearing interest at the one month London InterBank Offered Rate (LIBOR) plus 0.25% (2.71% at June 30, 2008). Accrued interest is payable monthly. The outstanding interest and balloon principal payment is due on July 1, 2009. The amount outstanding at June 30, 2008 is $4,619.

The University entered into a construction loan financing agreement in fiscal year 2007 with a commercial bank that permits the University to borrow up to $40,000, bearing interest at LIBOR plus 0.25% (2.71% at June 30, 2008). Accrued interest is payable quarterly. Upon completion of the construction, permanent financing will be obtained to repay the existing construction loan. The amount outstanding at June 30, 2008 is $29,962.

WFUHS received a grant from the City of Winston-Salem (the City) for $800 in 2003, the purpose of which was to fund the development of the Green Park Courtyard (the Park). As part of this grant, WFUHS executed a noninterest-bearing promissory note to the City in the amount of $800 and a deed of trust subjecting the Park to the lien of the promissory note. The outstanding balance of the noninterest–bearing promissory note to the City is $720 at June 30, 2008. The grant states that in the event that an additional $17,400 in taxable property value is created within the Park within ten years, then the promissory note shall be marked satisfied in full and canceled of record. At such time that this condition is fulfilled, the note will be recorded as a contribution in the consolidated statement of activities.

The University has outstanding $1,600 of Wake Forest University taxable variable demand rate bonds Series 1997 (the Series 1997 taxable bonds) pursuant to a trust agreement with a commercial bank. The Series 1997 taxable bonds mature annually from 2010 through 2015 in varying amounts of $800 to $900. The variable interest rate is determined weekly and at the option of the University may be converted to an alternative variable option or to a fixed rate. The University's obligation under the loan agreement is unsecured and unconditional. The interest rate on the bonds at June 30, 2008 was 2.58%.

WFUHS has outstanding $186,850 Wake Forest University Healthcare Facilities Revenue Bonds, Series 2002 issued by the North Carolina Medical Care Commission in the original principal amount of $198,800 and are made up of Subseries A and Subseries B, each in the amount of $99,400. The obligations of WFUHS are evidenced by a promissory note issued under a Master Trust Indenture, dated August 1, 2002, by and between WFUHS and First Citizens Bank and Trust Company, as master trustee. These security agreements in the Series 2002 offering requires WFUHS, as a member of the obligated group, pledged, assigns, and grants to the master trustee a security interest in its pledged assets. Pledged assets are defined as all accounts and all accounts are defined as assets for which WFUHS has right to payment for goods or services sold or leased. The Series 2002 tax-exempt bonds mature in full in 2034. At the option of WFUHS, the bonds may be converted to various interest rates or to a fixed rate. Subject to certain provisions regarding serialization, the Series 2002 bonds are subject to mandatory redemption through 2034 in increasing annual amounts of $3,250 to $12,950. The interest rates on the bonds at June 30, 2008 were variable at 3.20% and 3.75% for the Subseries A and variable at 3.75% and 3.99% for Subseries B (see note 15).

The University has outstanding $66,450 of tax-exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004. The bonds are made up of Subseries A in the amount of $36,605, and Subseries B, in the amount of $30,160. The obligations of the University are evidenced by a Loan Agreement dated December 1, 2004, by and between the University and First Citizens Bank and Trust Company, as trustee. The Series 2004 tax-exempt bonds are due annually through 2020 in varying amounts from $315 to $7,340. The interest rate on the bonds is determined weekly, and at the option of the University may be converted to a fixed rate. The University's obligation under the Loan Agreement is an unsecured, unconditional obligation. The interest rates on the bonds at June 30, 2008 were variable at 1.51% for the Subseries A and at 1.45% for the Subseries B.

Trust indentures underlying the Series 1997 taxable bonds, Series 2002 and Series 2004 tax-exempt bonds contain certain covenants and restrictions. At June 30, 2008, management believes the University is in compliance with such requirements.

Aggregate annual maturities of notes and bonds payable for each of the five fiscal years subsequent to June 30, 2008 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2009	$	33,028	10,363	43,391
2010		6,008	6,368	12,376
2011		6,192	6,568	12,760
2012		5,581	15,968	21,549
2013		5,773	6,368	12,141
Thereafter		46,476	179,409	225,885
	$	103,058	225,044	328,102

9. POSTRETIREMENT BENEFITS

The University sponsors defined benefit postretirement medical and dental plans that cover all its full-time employees who elect coverage and satisfy the plans' eligibility requirements when they retire. To be eligible, retired employees of the Reynolda Campus must be at least 62 years of age with ten or more years of service or be at least 65 years of age with five or more years of service. Retired employees of WFUHS must satisfy the "Rule of 75," meaning that the employee's age and years of service must equal or exceed 75 at retirement with a minimum age of 60. Employees of Reynolda House are not eligible for the plans. The plans are contributory with retiree contributions established based on the University contributions being fixed amounts. WFUHS amended the postretirement plan, effective June 30, 2008, to increase the minimum retirement age from 55 to 60.

In May 2004, the Financial Accounting Standards (FASB) issued FASB Staff Position No. 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (the Act). The Act introduces a prescription drug benefit under Medicare (Medicare Part D). The Act also provides that a nontaxable federal subsidy will be paid to sponsors of the postretirement benefit plans that provide retirees with a drug benefit that is at least "actuarially equivalent" to the Medicare Part D benefit. The University is not entitled to and does not intend to apply for the federal subsidies. The University deems the drug coverage provided by the plans superior to Medicare Part D and, as such, there is no impact on the accumulated postretirement benefit obligation.

Effective June 30, 2007, the University adopted the recognition and disclosure provisions of FASB Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132 (R)* (Statement 158). Statement 158 requires entities to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through other nonoperating income to the extent those changes are not included in the net period cost. The funded status reported on the consolidated balance sheet as of June 30, 2007 under Statement 158 was measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis. The adoption of Statement 158 did not impact the University's compliance with debt covenants or its cash position. The incremental effect of applying Statement 158 on the University' financial position as of June 30, 2007 was as follows:

	Before application of Statement 158	Adjustments	After application of Statement 158
WFUHS:			
Accrued benefit cost	$ (1,366)	—	(1,366)
Cumulative effect of change in accounting principle	—	(18,549)	(18,549)
Liability accrued for postretirement benefits	(1,366)	(18,549)	(19,915)
WFU:			
Accrued benefit cost	(9,500)	—	(9,500)
Cumulative effect of change in accounting principle	—	661	661
Asset/(liability) accrued for postretirement benefits	(9,500)	661	(8,839)
Total	$ (10,866)	(17,888)	(28,754)

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at June 30, 2008:

	Reynolda Campus	WFUHS	Total
Benefit obligations at June 30	$ (9,442)	(42,935)	(52,377)
Fair value of plan assets at June 30	—	29,546	29,546
Funded status at year-end	$ (9,442)	(13,389)	(22,831)

The following table provides a reconciliation of the changes in each plan's benefit obligation, fair value of plan assets, and funded status for the year ended June 30, 2008:

	Reynolda Campus	WFUHS	Total
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 8,839	47,774	56,613
Service cost	567	2,639	3,206
Interest cost	542	2,943	3,485
Participants' contributions	295	818	1,113
Actuarial gain	(259)	(4,043)	(4,302)
Benefits paid	(542)	(2,405)	(2,947)
Change in plan provisions	—	(4,791)	(4,791)
Benefit obligation at end of year	9,442	42,935	52,377
Change in plan assets:			
Fair value of plan assets at beginning of year	—	27,859	27,859
Actual return on plan assets	—	322	322
Employer contributions	247	2,952	3,199
Participants' contributions	295	818	1,113
Benefits paid	(542)	(2,405)	(2,947)
Fair value of plan assets at end of year	—	29,546	29,546
Funded status	$ (9,442)	(13,389)	(22,831)
Amounts recognized in net assets:			
Prior service (cost) credit	$ (275)	3,371	3,096
Net actuarial gain (loss)	1,272	(14,140)	(12,868)
Total increase (decrease)	$ 997	(10,769)	(9,772)

The following table provides the components of net periodic benefit cost for the year ended June 30, 2008:

	Reynolda Campus	WFUHS	Total
Service cost	$ 567	2,639	3,206
Interest cost	542	2,943	3,485
Expected return on plan assets	—	(2,599)	(2,599)
Amortization of prior service cost	87	367	454
Amortization of net actuarial (gain) loss	(11)	857	846
Net periodic benefit cost	$ 1,185	4,207	5,392

The prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

The net loss and prior service credit for the defined postretirement benefits plans that will be amortized from accumulated nonoperating income into net periodic benefit cost over the next fiscal year for the Reynolda Campus and WFUHS is $62 and $476, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2008 and 2007 was 6.8% and 6.25%, respectively. The discount rate reflects the current yield curve results as of June 30, 2008 and 2007, respectively. For management purposes, a 10.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the first year, and a 4.5% rate was assumed as the ultimate rate. The expected healthcare costs trend for the post-65 assumed an annual rate of 3.5% for WFUHS. The expected return assumed on plan assets for WFUHS is 8%. The rate is reviewed annually and adjusted as appropriate to reflect changes in the expected market performance of the investments.

Plan assets for WFUHS are held in trust and are invested in commingled mutual funds that preclude the ability to analyze the precise composition of the investments, thus no asset detail is presented.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A 1% change in assumed healthcare cost trend rates would have the following effects:

		1% increase	1% decrease
Effect on total service and interest cost components of net periodic benefit cost	$	167	(140)
Effect on postretirement benefit obligation		1,086	(935)

Aggregate benefits expected to be paid by the University in each of the next five fiscal years subsequent to June 30, 2008 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2009	$	436	1,534	1,970
2010		509	1,782	2,291
2011		566	1,982	2,548
2012		605	2,199	2,804
2013		667	2,439	3,106
Five years thereafter		3,871	15,235	19,106
	$	6,654	25,171	31,825

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2008 and include estimated future employee service.

10. NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2008:

		Reynolda Campus	WFUHS	Reynolda House	Total
Instruction, research, scholarships and operations	$	33,450	20,938	—	54,388
Term endowment funds		195,338	56,708	2,262	254,308
Interests in other trusts		3,314	—	—	3,314
	$	232,102	77,646	2,262	312,010

During 2008, net assets of $46,698 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time.

Permanently restricted net assets consist of the following at June 30, 2008:

		Reynolda Campus	WFUHS	Reynolda House	Total
Student loan funds	$	8,159	4,393	—	12,552
Permanent endowment funds		188,811	93,047	8,352	290,210
Interests in perpetual and other trusts		1,238	26,524	—	27,762
	$	198,208	123,964	8,352	330,524

The income from these investments in perpetuity is expendable for research, instruction, scholarships, and operations.

11. BENEFIT PLANS

Substantially all employees of the University are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plans. Total contributions for the year ended June 30, 2008 were $7,997, $20,161, and $128 for the Reynolda Campus, WFUHS, and Reynolda House, respectively.

At June 30, 2008, the Reynolda Campus and WFUHS have accrued $1,833 and $1,799, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. This liability is included in other liabilities and deferrals in the consolidated statement of financial position.

12. RELATED-PARTY TRANSACTIONS

WFUHS and the North Carolina Baptist Hospital, Inc. and subsidiaries (the Hospital) participate in various expansion projects, share certain facilities and provide various services, and incur certain expenses on behalf of each other. The costs associated with operating and maintaining jointly occupied facilities are ultimately paid by the party having beneficial occupancy.

During the year ended June 30, 2008, $56,396 was received from the Hospital for reimbursement of services provided or expenses incurred by WFUHS on behalf of the Hospital. Such services or expenses include physician salaries, facility expenses, library expenses, printing services, laboratory services and materials. Accounts receivable at June 30, 2008 include $2,215 due from the Hospital for such items. During the year ended June 30, 2008, $47,410 was paid to the Hospital for reimbursement of services provided or expenses incurred by the Hospital on behalf of WFUHS. Such services or expenses include laboratory fees collected by the Wake Forest University Physicians business office, computer services, telephone service, insurance premiums, and certain utilities. Accounts payable and accruals at June 30, 2008 include $2,383 due to the Hospital for such items.

The Medical Center Corporation (the Center), a North Carolina nonprofit corporation formed to act on behalf of WFUHS and the Hospital in connection with facilities planning, informational services, fund-raising and budget formulation and review is directing the planning and supervision of numerous construction projects as well as the fund-raising campaigns in connection therewith. Construction costs are paid in accordance with the respective occupancy percentages of the facilities. WFUHS and the Hospital have negotiated a land and facilities sharing agreement whereby WFUHS and the Hospital independently hold title to certain land and facilities, as designated by the agreement.

13. CONTINGENCIES AND OTHER COMMITMENTS

The estimated cost to complete construction in progress at June 30, 2008 is $30,081 and $12,553 for the Reynolda Campus and WFUHS, respectively.

Grant awards not yet funded and for which services have not yet been performed are not recorded until services have been performed. At June 30, 2008, such grant awards amounted to $2,612 and $239,027 for the Reynolda Campus and WFUHS, respectively.

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

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

14. PROFESSIONAL LIABILITY INSURANCE

WFUHS maintains professional liability coverage on a combined basis with the North Carolina Baptist Hospital, Inc. (see note 12), which included a $4,000 per occurrence and a $16,000 annual aggregate for the year ended June 30, 2008. WFUHS estimates its professional liability on a discounted actuarial basis. The discount rate at June 30, 2008 was 5.50%. Accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $34,380 at June 30, 2008, and are included in other liabilities and deferrals in the accompanying consolidated statement of financial position. In the opinion of management, adequate provision has been made for the related risk.

15. DERIVATIVE INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS

The University has only limited involvement with derivative financial instruments and does not use them for trading purposes.

In the normal course of its business, WFUHS entered into a long-term interest rate swap agreement having a notional amount of $86,060, which effectively fixed the interest rate on the Series 2002B variable rate bond issue at 3.67% through July 1, 2034. WFUHS receives 67% of LIBOR (London InterBank Offered Rate) and makes payments at 3.67% and settles with the counterparty on a monthly basis. LIBOR is the interest rate index used as a basis for repricing the Series 2002B variable rate bonds, however, the rate may vary from LIBOR in any rate period. WFUHS selected the combination of a variable rate bond issue and long-term interest rate swap agreement to obtain fixed rate financing at the lowest available cost at the time of the transaction. The net settlement amount incurred on the swap is included in interest expense. The fair value of the interest rate swap is the estimated amount WFUHS 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.

In the normal course of its business, WFUHS entered into a long-term interest rate swap agreement in 2007 having a notional amount of $104,040, which effectively fixed the interest rate on the remaining unhedged portion of the Series 2002 variable rate bond issue at 3.52% through July 1, 2034. WFUHS receives 67% of LIBOR and makes payments at 3.52% and settles with the counterparty on a monthly basis. LIBOR is the interest rate index used as a basis for repricing the remaining unhedged Series 2002 variable rate bonds, however, the rate may vary from LIBOR in any rate period. WFUHS elected the long-term swap agreement to effectively lock-in the lowest available cost at the time of the transaction, and reduce cash flow volatility associated with rising interest rates. The net settlement amount incurred on the swap is included in interest expense. The fair value of the interest rate swap is the estimated amount WFUHS 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.

At June 30, 2008, the fair value of the interest rate swaps for WFUHS was a liability of $8,212 and is included in other liabilities and deferrals in the consolidated statement of financial position. The change in fair value of the interest rates swaps for the year ended June 30, 2008 was a loss of $12,241 and is included in the accompanying statement of activities.

In November 2004, the Reynolda Campus executed a floating-to-fixed rate swap with two banks on two separate, identical swap agreements, effective December 21, 2004 to effectively fix the variable cost of the Series 2004B bonds. The Reynolda Campus receives 68% of the one-month LIBOR index and makes payments at a fixed rate of 3.02%, settling with both counterparties on a monthly basis. The swap's original notional amount of $30,160, split evenly between the two counterparties, amortizes to coincide with the amortization of the Series 2004B bonds and expires on January 1, 2018. At June 30, 2008, the fair value of the swap was a liability of $211, which is included in other liabilities and deferrals in the consolidated statement of financial position. The change in fair value of the interest rate swap for the year ended June 30, 2008 was a loss of $1,331 and is included in the accompanying statement of activities.

In November 2006, the Reynolda Campus executed a floating-to-fixed rate swap with a bank, effective November 6, 2006 to effectively fix the variable cost of the Series 2004A bonds. The Reynolda Campus receives 67% of the one-month LIBOR index and makes payments at a fixed rate of 3.38%, settling monthly. The swap had an original notional amount of $36,605 and amortizes to coincide with the amortization of the Series 2004A bonds. The swap expires January 1, 2020. At June 30, 2008, the fair value of the swap was a liability of $970, which is included in other liabilities and deferrals in the consolidated statement of financial position. The change in fair value of the interest rate swap for the year ended June 30, 2008 was a loss of $1,740 and is included in the accompanying statement of activities.

In April 2007, the Reynolda Campus executed a forward-starting floating-to-fixed rate swap agreement to protect against the risk of interest rate changes, based on a notional amount of $50,000, effective October 1, 2008 and maturing January 1, 2038. Under the terms of the agreement, the University will receive 67% of the one-month LIBOR index and will make payments at a fixed rate of 3.61%, settling monthly. Since the effective date of the swap is in the future, the University does not exchange any payments with the counterparty until the effective date, but the agreement carries with it a market fair value based on swap market conditions. The University anticipates that changes in the cost of issuing traditional fixed-rate debt will be offset by the change in the fair value of the swap, and additionally, that interest on variable rate bonds will correlate highly with 67% of the one-month LIBOR index, such that the University has the option to (1) issue variable rate bonds in October 2008, thereby effectively creating synthetic fixed-rate debt, or (2) unwind the swap, capturing the value of the movement of interest rates from the swap issuance date through an upfront payment or receipt, and issuing traditional fixed rate bonds. At June 30, 2008, the fair value of the swap was a liability of $2,551, which is included in other liabilities and deferrals in the consolidated statements of financial position. The change in fair value of the interest rate swap for the year ended June 30, 2008 was a loss of $3,946 and is included in the accompanying statement of activities.

Although the Reynolda Campus anticipates that the interest rate payments made on its variable rate debt will correlate highly with the percent of LIBOR swaps in place, the University is exposed to basis risk since the tax-exempt variable rate may vary from the percent of LIBOR swap rate in any rate period. Additionally, the University is exposed to tax basis risk since a change in tax rate environments will change the level of correlation between the interest rate payments made on the variable rate bonds and the percent of LIBOR payments being received from the counterparties.

The University is exposed to credit loss in the event of nonperformance by the counterparty to its long-term interest rate swaps.

16. INCOME TAXES

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109"* (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective for the University on July 1, 2007, and has no material impact on the University's consolidated financial statements.

17. CAPITALIZED INTEREST

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. A reconciliation of total interest cost to interest expense reported in the consolidated statement of activities for 2008 is as follows:

Interest expense capitalized	$ 583
Interest expense included in the consolidated statement of activities	14,590
Total interest cost	$ 15,173

18. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, *"Fair Value Measurements"* (Statement No. 157). Statement No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. This statement does not require any new fair value measures. Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The administration is currently evaluating the impact Statement No. 157 will have on the consolidated financial statements beginning in fiscal 2009.

In February 2007, the FASB issued Statement No. 159 *"The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115"* (Statement No. 159). Statement No. 159 allows entities the irrevocable option to carry most financial assets and liabilities at fair value that are not currently required to be measured at fair value. Statement No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The University is currently evaluating the impact Statement No. 159 will have on the consolidated financial statements beginning in fiscal 2009.

In August 2008, the FASB issued FASB Staff Position 117-1, *Endowments of Not for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP 117-1)*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of North Carolina has not yet enacted a version of UPMIFA. Should the State of North Carolina enact a version of UPMIFA in a future period, the administration of the University will need to interpret the relevant law. Based on this interpretation, the FSP could require significant reclassifications of some portion of donor-restricted endowment funds, from unrestricted funds, to temporarily restricted net assets. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The disclosure requirements of FSP 117-1 will be effective for the University in fiscal 2009.

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