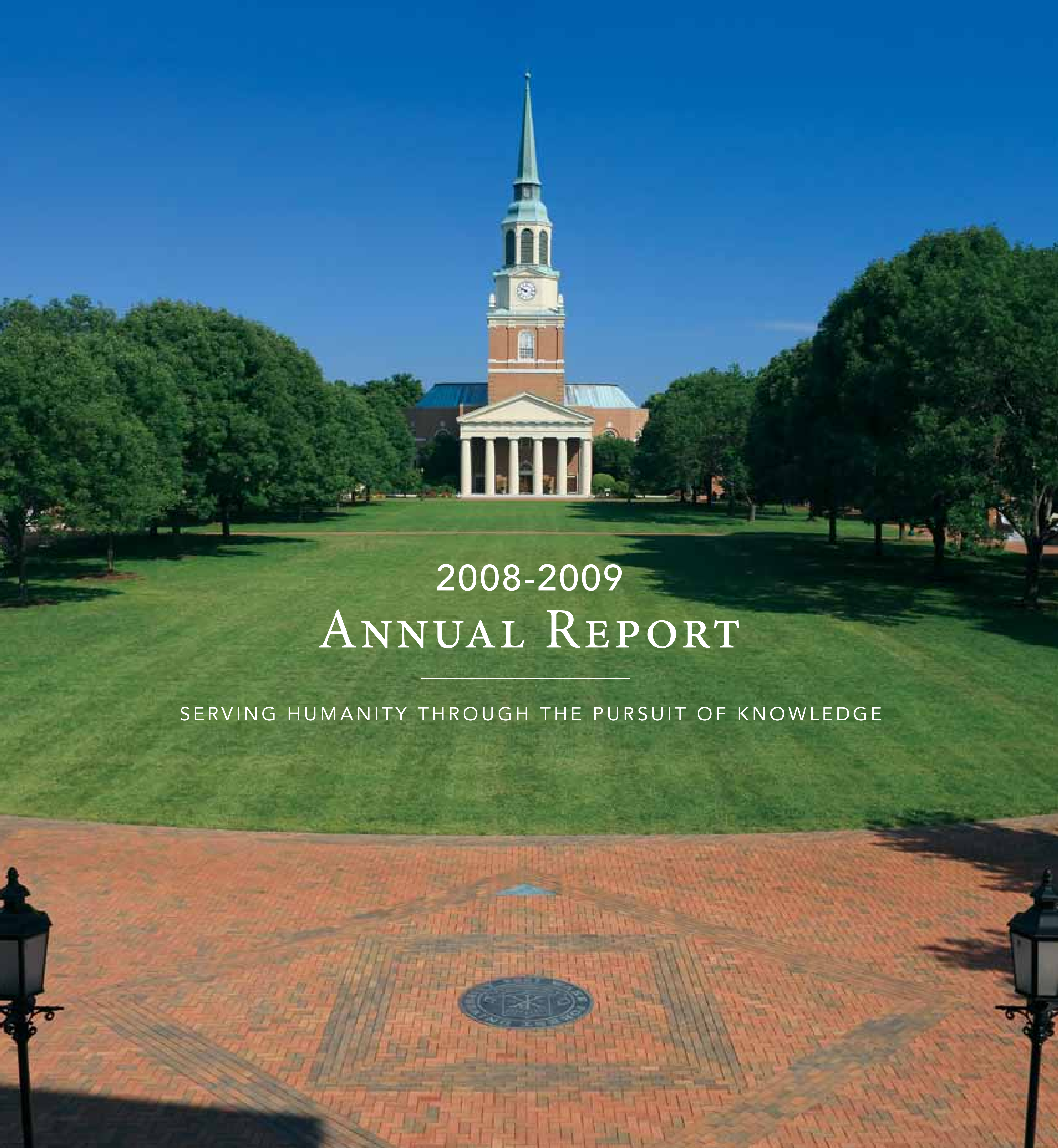


2008-2009 Annual Report

SERVING HUMANITY THROUGH THE PURSUIT OF KNOWLEDGE

WAKE FOREST
UNIVERSITY

2008-2009
Annual Report

SERVING HUMANITY THROUGH THE PURSUIT OF KNOWLEDGE

Wake Forest
University

FROM THE PRESIDENT

In a year that has seen the financial structures of the country reshaped, Wake Forest University has been buffeted but stands strong. In a time when age-old institutions are failing—or questioning their core mission, Wake Forest is boldly embracing its heritage and tradition as the source of our vision for the future.

The University is stable, focused, and dynamic despite weathering serious financial challenges. We are also realistic, planning for an immediate future that will be characterized by continuing financial constraints.

The nature of this economy has forced us to be more deliberate about our planning and the pursuit of the goals set out in our strategic plan. Like other institutions, we have seen impact to three major sources of income: charitable giving is down, our endowment saw significant decline, and our income from tuition is affected by a greater need for financial aid among our students. But, there are bright spots even in this somber reality. Our applicant pool has never been stronger; and while charitable giving in dollar terms is down, we have seen increases in the numbers of people giving, suggesting that we will be in a stronger position as the economy recovers.

I am humbled by the sense of teamwork and loyalty to the Wake Forest community that our faculty and staff have demonstrated despite the absence of raises. Even as budgets constrict, they have maintained an upbeat spirit and a willingness to address challenges. Fortunately ingenuity is a resource Wake Forest has in spades.

That ingenuity and commitment fuel the momentum that will allow us to thrive and excel through the opportunities of the coming year.

Nathan O. Hatch
President

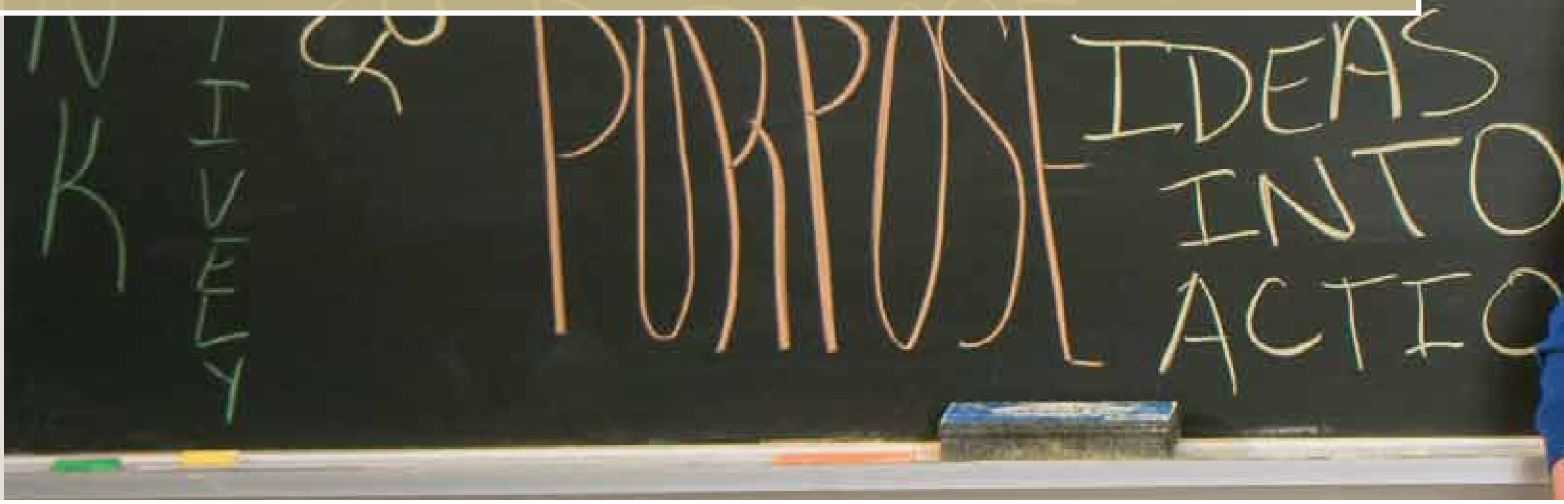
Wake Forest is boldly embracing its heritage and tradition as the source of our vision for the future.

Nathan O. Hatch, *President*

WAKE FOREST UNIVERSITY REYNOLDA CAMPUS

WAKE FOREST UNIVERSITY has emerged as the leading collegiate university: a place where essential questions and contemporary issues are studied and debated in an environment of intellectual vigor and human concern, within and across all disciplines; and a place where undergraduate liberal arts curricula and graduate and professional school programs are mutually enriched through collaboration and mentoring.

Rich interdisciplinary programs thrive in a careful balance of small size and deep resources. We can produce great educational outcomes precisely because we are small enough to know one another and to forge strong links among our schools and departments, creating academic benefits for students and faculty that are challenging for other universities to match. Professors who are teachers, scholars, and mentors lead their students to engage in a community of learning. Intellectual life is supported by diverse programs that encourage service to others and opportunities for students to participate in a variety of social and civic activities, as well as intercollegiate athletics.




Serve Humanity
LIVE my

WAKE FOREST UNIVERSITY REYNOLDA CAMPUS

Our motto, Pro Humanitate, guides the University's intellectual and co-curricular pursuits. Wake Forest can be the premier collegiate university because of the foundation of these deeply held values, as set forth in the new strategic plan and its four overarching priorities:

The collegiate university builds exceptional faculty student engagement.



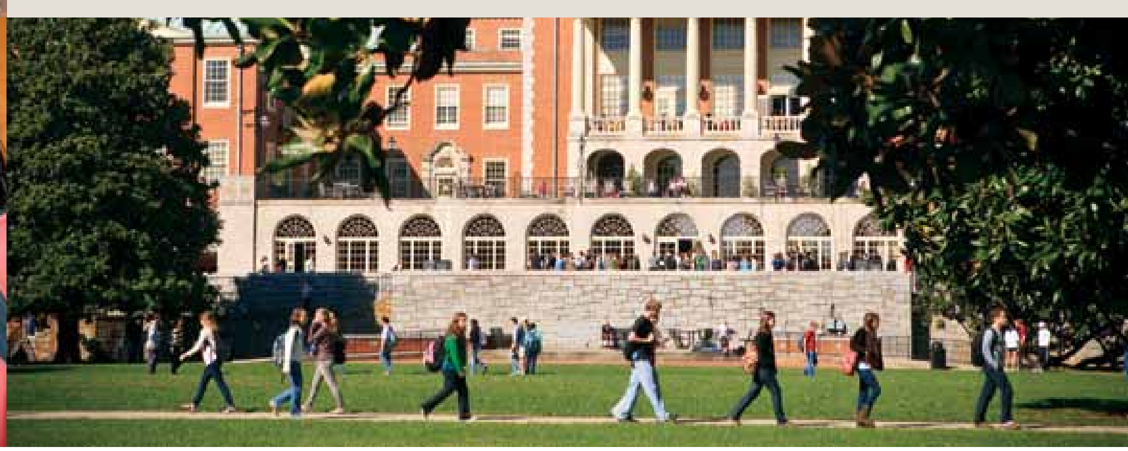
Long one of Wake Forest's defining features, the interaction between and among superb professors and bright, enthusiastic students is the key to real learning and discovery. This principle has led the University to be deliberate in keeping class sizes small. Our faculty members' engagement with students is not limited to classroom, studio, stage, or laboratory. Wake Forest students not only are challenged by course content, but also are mentored and encouraged to think critically in the intimate learning environment of the campus community.

In an increasingly impersonal world, our graduates have the great benefit of experience defending their ideas and opinions before their peers and professors, face to face, and of having presented papers at academic conferences. Many have worked side-by-side with faculty and staff on service projects in the local community and around the world.

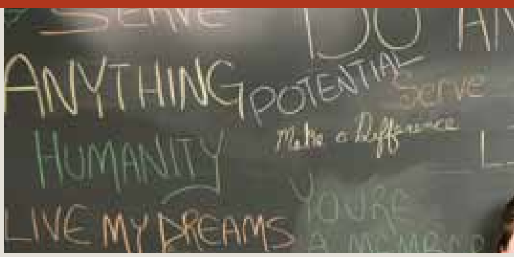
The collegiate university sustains a tradition of opening new doors for educational opportunity.

Few colleges and universities have two distinct historical eras, as Wake Forest does. Our first chapter was written in the town of Wake Forest, North Carolina, from 1834 through mid-1956; and the second, still in progress, began in 1956 in Winston-Salem. One theme that uniquely connects our history, present, and future is the conviction that talent knows no economic, geographic or ethnic boundaries, and that bright young people who are eager to succeed and to help others deserve to be offered opportunity at Wake Forest, regardless of their families' financial capacities.

Wake Forest has consciously avoided creating an elitist or class-conscious culture, focusing instead on recruiting students whose intellectual abilities, talents, personal interests, and integrity are congruent with our high academic expectations and our motto, Pro Humanitate. Today, continuing to offer opportunity to these promising young people is one of our most urgent and compelling priorities.

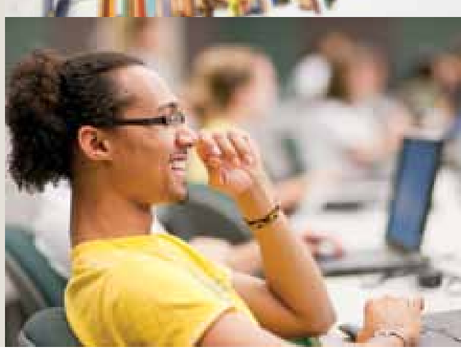


The collegiate university reinforces the connections between the liberal arts and the professions.



Wake Forest has long been recognized for the breadth and depth of its commitment to excellence in liberal arts education; and a constellation of strong graduate and professional programs have established national academic reputations within their respective disciplines. All our schools —intimate in scale—have remained faithful to Wake Forest's principles of attention to the individual, the teacher-scholar model, and service to others.

We are reinforcing the natural connections among the liberal arts college and the graduate and professional schools, giving each of our schools and departments more tools for learning and leadership. Success in fulfilling this priority—leveraging strong assets that already exist and selectively creating new ones—will result in richer teaching, learning, research, and service experiences, and better preparation of students for the world in which they will live, work, and serve.



The collegiate university educates the whole person—mind, body and spirit—and helps students find their place in the world.

From the first moments of the University's history, Wake Forest has been about education that reaches outside the open doors of its classrooms and into a world that needs women and men who can bring knowledge to bear with maturity, creativity, and integrity. When those doors first opened one hundred seventy-five years ago, the Wake Forest Manual Labor Institute—even named so as to indicate that more than classroom learning was involved—was a unique endeavor in the region: a collegiate school that honored the traditions of its students and that sought to build not only intellect, but also character.

Now, at the threshold of the next one hundred seventy-five years of its history, Wake Forest University and the world it serves have changed drastically. But at Wake Forest, there is a spirit that has been constant through all that change.

The boldest move in our strategic plan is our decision to adhere steadfastly to our traditions. Wake Forest is and has always been a deeply personal place, dedicated to community and face-to-face interaction. We speak boldly of a responsibility to educate the whole person—mind, body, and spirit—and to help students find their place in the world. Because of our historic commitment to this idea and the advantage of the University's size, we have the opportunity to ensure that every aspect of our educational enterprise is marked by our commitment to educating the whole person.

WE ARE PLEASED TO REPORT that the Reynolda Campus of Wake Forest University remains financially healthy, despite the unforeseen and unprecedented economic conditions during fiscal year 2009. Our disciplined budget approach carefully balances the University's strategic priorities with prudent consideration of long-term fiscal equilibrium and economic uncertainties.

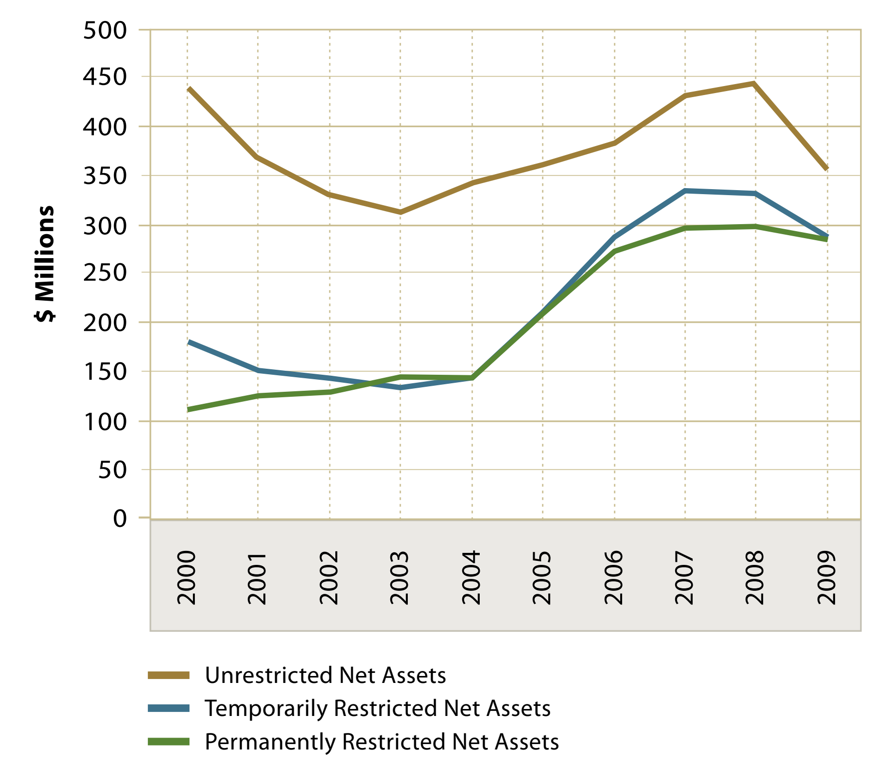
The Reynolda Campus faculty and staff share an unwavering belief in the University's mission and are committed to finding innovative ways to control costs and manage resources more productively. As a result, we are able to make strategic investments in the facilities, programs, and people that enable Wake Forest to continue its leadership position as a collegiate university.

After evaluating Wake Forest's financial condition and its strategic plan, Standard & Poor's and Moody's Investor Services, reaffirmed the University's long-term debt ratings of AA and Aa3, respectively, during spring 2009. These ratings are a key indicator of an institution's financial strength and stability, and they are significant affirmations of the University's financial strategies.

Wake Forest once again received an unqualified opinion from the University's independent financial auditors. This opinion signifies that the consolidated financial statements present fairly the financial position of the University. Reynolda Campus total net assets (assets less liabilities) of $725 million reflect a decrease of $148 million from June 30, 2008, or 17 percent. This net asset decrease, ending five consecutive years of net asset increases, was due to the global economic downturn that resulted in realized and unrealized investment losses as well as a decrease in giving to the University. Despite a volatile economy, over 26 thousand friends and alumni made contributions to support Wake Forest.

Total assets declined to $1.04 billion, a decrease of $42 million or 4 percent, while total liabilities increased to $311 million, an increase of $106 million or 52 percent. The increase in liabilities was primarily related to the issuance of fixed-rate thirty-year bonds in May 2009, totaling $110 million, supporting the campus facility expansion and renovation activities.

HISTORICAL PRESENTATION OF UNRESTRICTED, TEMPORARILY, AND PERMANENTLY RESTRICTED NET ASSETS



Wake Forest sustains the highest level of commitment in fulfilling the University's core mission in teaching, research and service and enhancing the quality of the collegiate university experience for its students.

Because of economic uncertainties, Reynolda Campus took aggressive steps to protect its financial condition by reducing administrative operating costs during the year. As a result, the University generated both a planned and unplanned operating surplus for the year. However, this operating surplus was offset by nonoperating activities that included investment losses on the endowment pool, which yielded a 20.5 percent negative return for fiscal year 2009. (Please refer to endowment section of this annual report for a more detailed discussion as well as long-term investment results.)

For fiscal year 2009, total unrestricted and restricted revenues for the Reynolda Campus were $291 million, expenses totaled $288 million, and other activities totaled a net deduction of $150 million. Other activities net loss was driven by the performance of the capital markets. Net student tuition and fees increased $10 million, or 8 percent, to $146 million, due in large part to a 6.8% tuition increase and planned enrollment growth. Auxiliary enterprises provided $81 million of revenue to the campus, a 6 percent increase compared to prior year. Total expenses including auxiliary enterprises were 9% higher than the prior fiscal year; $288 million in fiscal year 2009 as compared to $264 million in the prior fiscal year. The increase is primarily attributable to compensation to recruit and retain the very best faculty and staff. In fiscal year 2009, personnel costs totaled $141 million, or 49% of total expenses.

Reynolda House Museum of American Art was also not immune to the economic downturn; however it continued to be a source of inspiration, meaning, and respite for members, visitors and neighbors in the Piedmont Triad and beyond. Support for Reynolda House remained strong, as more members joined the Museum and visitation increased from the previous year by nearly 3 thousand, to reach nearly 40 thousand visitors from around the globe. The Museum's total revenues in fiscal 2009 were $2 million, a decrease of almost $557 thousand, or 21%, compared to the prior year, primarily due to higher grant and sponsorship revenue in the prior year. Total expenses remained flat for Reynolda House at $4 million in fiscal 2009. The Museum ended the year with an endowment of $27 million, a decrease of 39% from the prior year's ending value of $45 million. The Museum embarked on a strategic planning initiative, leading to "Reynolda's Plan for the Future," an outline of priorities for the visitor experience at the Museum.

Wake Forest sustains the highest level of commitment in fulfilling the University's core mission in teaching, research and service and enhancing the quality of the collegiate university experience for its students. Sustained attention to building financial strength and prudent financial policy will enable future generations to appreciate why so many members of this community believe in Wake Forest.

Nancy D. Suttenfield
Senior Vice President and Chief Financial Officer

Brandon E. Gilliland
Assistant Vice President for Finance & Controller

2008-2009

REYNOLDA CAMPUS YEAR IN REVIEW

2008-2009

REYNOLDA CAMPUS YEAR IN REVIEW

JULY

1 STEVE REINEMUND, dean of business, begins facilitating the integration of the Babcock Graduate School of Management and the Calloway School of Business and Accountancy into the Wake Forest University Schools of Business.

2 VISITATION TO REYNOLDA HOUSE increased from the previous year by nearly 3,000, reaching 39,388 visitors from around the globe.

AUGUST

MORE THAN 1,200 FRESHMEN enroll in the Class of 2012.

3 WAKE FOREST RANKS 28TH among national universities—up two spots from last year—in the 2009 edition of *U.S.News & World Report's* guide to "America's Best Colleges."

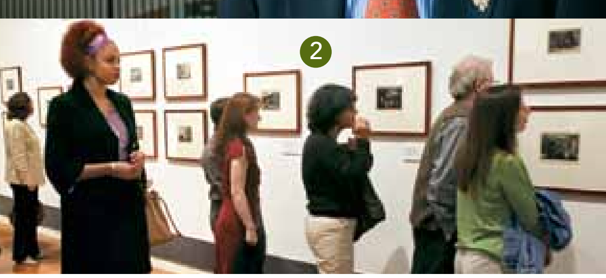
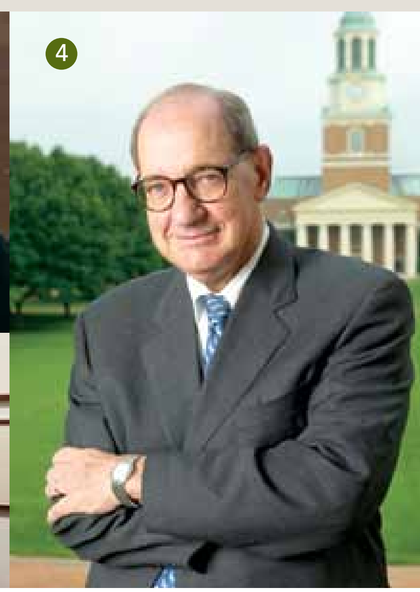
4 PRESIDENT EMERITUS Thomas K. Hearn, Jr., who led Wake Forest to national prominence during his tenure as president from 1983 to 2005, dies on August 18.

SEPTEMBER

A NEW CAMPUS MASTER PLAN addressing future space needs of the Reynolda Campus—as well as parking and traffic issues, environmental/sustainability issues and utility infrastructure—is released.

TWO FACULTY MEMBERS ARE HONORED at Opening Convocation: Paul M. Ribisl, the Charles E. Taylor Professor of Health and Exercise Science, receives the Donald O. Schoonmaker Faculty Award for Community Service, and James T. Powell, associate professor of classical languages, receives the Jon Reinhardt Award for Distinguished Teaching.

5 REYNOLDA HOUSE MUSEUM OF AMERICAN ART embarked on a strategic planning process that resulted in Reynolda's Plan for the Future, an aspirational and dynamic plan focused on the Museum's desired impact. The plan will guide the institution's work as it approaches the 50th anniversary of the Museum and the centennial of the historic house in 2017. Priorities include furthering and developing strategic collaborations with Wake Forest University, strengthening a long-standing tradition of the Museum's collections being used as an academic resource.


2008-2009

REYNOLDA CAMPUS YEAR IN REVIEW

OCTOBER

6 BUSINESS SCHOOL PROFESSOR Jon Duchac begins a semester-long teaching stint at the famed Vienna School of Economics after he was selected as only the second Wake Forest faculty member to be named to a Fulbright Distinguished Chair.

7 VICE PRESIDENTIAL CANDIDATE Joe Biden campaigns on campus, just two weeks before the November presidential election.

WAKE FOREST IS NAMED the *"Private University of the Year"* for its WAKE Washington program by The Washington Center for Internships and Academic Seminars.

NOVEMBER

WAKE FOREST RANKS THIRD among doctoral universities with the highest percentage of undergraduates studying abroad, according to the Open Doors 2008 report published by the Institute of International Education.

THE SCHOOL OF LAW opens a new Community Law and Business Clinic to provide experience for students and free legal aid for small business owners and nonprofits.

8 EARL SMITH, Rubin Professor and director of American Ethnic Studies, wins the 2008 book award from the *North American Society for the Study of Sport* for his book "Race, Sport and the American Dream."

DECEMBER

9 WAKE FOREST DEFEATS NAVY in the inaugural EagleBank Bowl, 29-19.

THE SCHOOL OF LAW opens an Innocence and Justice Clinic.

10 JACQUELYN S. FETROW, Reynolds Professor of Computational Biophysics, is named dean of the College.

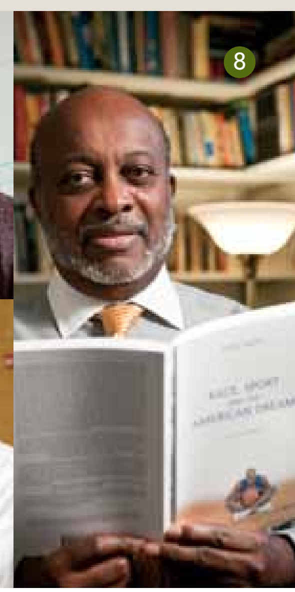
CHEMISTRY PROFESSORS Mark Welker and Dilip Kondepudi are elected Fellows of the American Association for the Advancement of Science.

JANUARY

KIPLINGER'S PERSONAL FINANCE MAGAZINE ranks Wake Forest 20th on its 2009 list of the 50 best values in private universities.

11 THE BABCOCK GRADUATE SCHOOL OF MANAGEMENT is named one of the world's top 100 business schools and among the top 50 in the U.S., according to the *Financial Times of London*.

12 SENIORS ODILE HOBEIKA AND ROHIT NATH join students from five other universities to debate the priorities of the Obama administration at a Smithsonian Institution event tied to the Presidential Inauguration.



REYNOLDA CAMPUS YEAR IN REVIEW

SENIOR TRAYONNA FLOYD AND HAROLD HOLMES, associate vice president and dean of student services, receive this year's Martin Luther King, Jr., Building the Dream Award.

13 THE MEN'S BASKETBALL TEAM is ranked number one in the country for the first time since 2004-05.

FEBRUARY

THE CALLOWAY SCHOOL OF BUSINESS AND ACCOUNTANCY is ranked 14th in *BusinessWeek* magazine's latest ranking of the country's top business schools, up seven spots from last year.

PRESIDENT OBAMA APPOINTS the divinity school's Melissa Rogers, an expert on the separation of church and state, to a panel to advise him on faith-based social-service programs.

14 PROFESSOR OF PHYSICS Daniel Kim-Shapiro is named the first Harbert Family Distinguished Chair of Excellence in Teaching and Scholarship.

LIFE TRUSTEE MARVIN D. GENTRY ('57) AND DR. RICHARD H. DEAN, president emeritus of Wake Forest University Health Sciences, receive Wake Forest's highest award for service, the Medallion of Merit, during Founders' Day Convocation.

FACULTY MEMBERS Sheri Bridges, Christian Miller, Martin Guthold, Charles Iacovou, Jack Meredith, Michelle Roehm and Christine Nero Couglin receive faculty awards for excellence in teaching, research or service during Founders' Day Convocation.

15 REYNOLDA HOUSE reached new audiences this year with two exhibitions for which the Museum was the exclusive Southern venue. More than half of the visitors to *Seeing the City: Sloan's New York* and *American Impressions: Selections from the National Academy Museum*, were first-time visitors to the Museum.

MARCH

16 JOHN ALLISON, the chairman and retired CEO of BB&T Corp., joins the business schools' faculty as distinguished professor of practice.

17 ASSOCIATE PROFESSOR OF MATHEMATICS HUGH HOWARDS wins the 2009 Distinguished Teaching Award of the Southeastern Section of the Mathematical Association of America.

18 STUDENTS SPEND SPRING BREAK VOLUNTEERING around the country with Habitat for Humanity; feeding the homeless; mentoring children; and helping with Hurricane Katrina relief efforts in New Orleans.

REYNOLDA CAMPUS YEAR IN REVIEW

MARCH

BABCOCK SCHOOL OF MANAGEMENT hosts the 10th annual Elevator Competition. The entrepreneurial competition includes twenty-nine teams from twenty-three top universities.

APRIL

FOR THE FOURTH CONSECUTIVE YEAR, graduates of the Calloway School of Business and Accountancy have achieved the highest passing rates in the nation on the Certified Public Accountant exam.

THE WAKE FOREST MBA PROGRAM is ranked among the top 15 programs in the country for its accounting program, according to a survey in *Entrepreneur magazine*.

FOR THE FIRST TIME SINCE 1953, four Wake Forest football players are selected in the same NFL Draft. Aaron Curry, selected 4th overall, along with Alphonso Smith, selected 37th overall, mark the two highest drafted Deacons ever in a single draft.

19 SENIOR PATRICK NELLI is one of only 20 students named to the first team of *USA Today's* All-USA College Academic Team. Senior Yan Zhao is named to the third team.

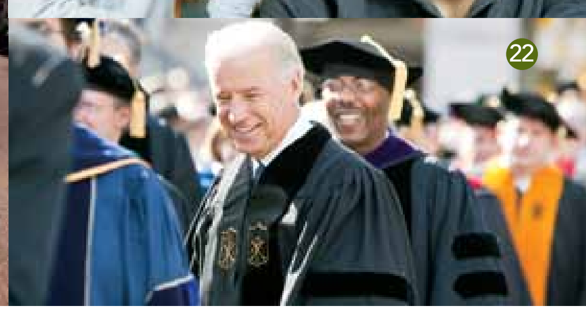
SENIORS SETH GANNON AND ALEX LAMBALLE complete one of the most successful careers in Wake Forest debating history with a second place finish in the National Debate Tournament, after winning the national championship last year.

20 COLLEGE ADMISSIONS OFFICERS AND LEADING EXPERTS from around the country gather on campus to discuss college rankings, standardized testing and new ways of looking at the admissions process during a national symposium on *"Rethinking Admissions."*

21 FORMER PRESIDENT Jimmy Carter and Wake Forest Reynolds professor and acclaimed writer Maya Angelou headline a conference on campus of the New Baptist Covenant.

MAY

22 WAKE FOREST UNIVERSITY awards 1,001 bachelor's degrees, 620 advanced degrees from graduate and professional schools, as well as 8 honorary degrees during graduation. Vice President Joe Biden delivers the Commencement address, the first time in school history a vice president has spoken at Commencement.



2008-2009

REYNOLDA CAMPUS YEAR IN REVIEW

SENIORS Allison Tyler Humphreys, Grace Johnson, Michael Lewis and David Wescott, and Cameron Frothingham ('08) and Jennifer Lynne Wilson ('08) receive Fulbright English Teaching Assistantships and will teach English abroad.

23 SENIOR BENN STANCIL receives a one-year fellowship with the Carnegie Endowment for International Peace, one of only 10 students nationwide who were selected.

ASSISTANT PROFESSOR OF PHYSICS Jed Macosko and alumni Anthony Pecorella ('04, MA '06) and Yuri Shtridelman ('07) collaborate on a project that wins an award from the MacArthur Foundation.

24 GROUNDBREAKING ON THE NEW SOUTH RESIDENCE HALL begins on South Campus. Sustainability, technology and innovation were incorporated into the overall design and features of the building that will enhance residence hall life for first-year students and contribute to the residential experience of the whole campus. The residence hall will accommodate over 200 students with amenities such as floor kitchens, laundry rooms, a recreation room, a high-tech media room, and a formal lounge. Opening is scheduled for fall 2010.

25 SENIOR LAUREN GASTON wins the top prize for costume design in a competition sponsored by the Southeastern Theatre Conference for her work on the Wake Forest Theatre production of Arthur Miller's "All My Sons."

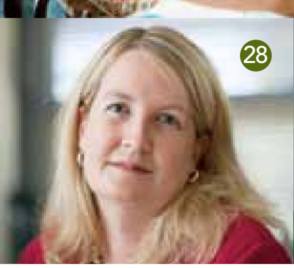
26 JAMES J. DUNN, formerly managing director at Wilshire Associates Inc. in Santa Monica, California, is named vice president and chief investment officer.

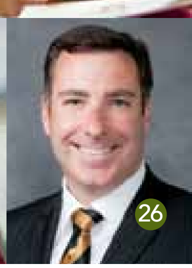
27 ANDY CHAN, assistant dean and director of the MBA Career Management Center at Stanford University's Graduate School of Business, is appointed vice president for career development.

JUNE

28 PROFESSOR OF LAW Jennifer Collins receives the Student Bar Association's Jurist Excellence in Teaching Award.

FOR THE FIRST TIME EVER, two Wake Forest men's basketball players are selected in the first round of the same NBA Draft, with James Johnson drafted by the Chicago Bulls and Jeff Teague chosen by the Atlanta Hawks.





FROM THE PRESIDENT OF WAKE FOREST UNIVERSITY HEALTH SCIENCES

William B. Applegate,
M.D., M.P.H., M.A.C.P.

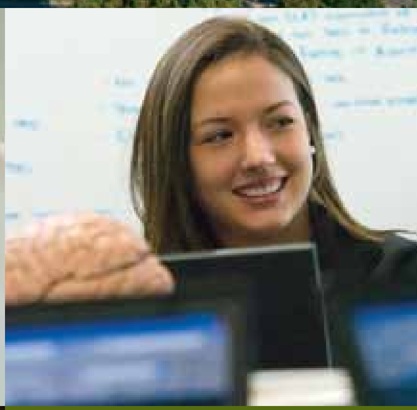
AS PRESIDENT OF WAKE FOREST UNIVERSITY HEALTH SCIENCES AND DEAN OF WAKE FOREST UNIVERSITY SCHOOL OF MEDICINE, I have never been more excited about the future of this organization. With the continued integration efforts of the Medical Center, under the leadership of Dr. John McConnell, and the completion of the senior executive team appointments, the Medical Center, including WFUHS is poised for continued success.

Two years ago, Wake Forest University Baptist Medical Center (WFUBMC), comprised of Wake Forest University Health Sciences (WFUHS) and North Carolina Baptist Hospital (NCBH), embarked on a path of reorganization to produce a more coherent unity between our hospital and medical school. The first step was to reorganize under a single governing board, the WFUBMC Board, and just over a year ago the WFUBMC Board hired John D. McConnell, M.D., as our new chief executive officer. As Medical Center CEO, Dr. McConnell has overarching responsibility for the collective academic, clinical, and research missions of the Medical Center. The appointments of each entity's President made during this past year as well as the first ever Medical Center CFO, serve to introduce an additional level of clarity and purpose into our advancement.

Through the Strategic Planning Process, our mission, vision, and value statements have been approved by the WFUBMC Board, as well as the Health Sciences Board and the Hospital Board. Our vision of the Medical Center is one of a preeminent, internationally recognized academic medical center of the highest quality, with a balance of excellence in patient care, research, and education. Our Mission Statement includes a commitment to improve the health of our region, state, and nation by generating and translating knowledge to enable prevention, diagnosis, and treatment of disease; by training leaders in health care and biomedical sciences; and by serving as the premier health system in our region, with specific centers of excellence recognized as national and international care destinations.

Fiscal 2009 was both a rewarding and challenging year for WFUHS. Whether embracing the reality of the changing culture of both health care and physicians, being purposeful in addressing our commitment for increased diversity or responding to the implications of a financial market meltdown, our commitment to ensure the success of this great Institution is sound. Achieving milestones such as the establishment of the National Center for Applied Learning and continued expansion in our extra-murally funded research portfolio, serve as key indicators of a bright future.

> Our vision of the Medical Center is one of a preeminent, internationally recognized academic medical center of the highest quality, with a balance of excellence in patient care, research, and education.



WFUHS has received more than 60 ARRA awards totaling $38 million for the next two years.

Forbes named Wake Forest University second among universities in the nation for return on research investment on the basis of discoveries made by medical and technology researchers.

In fiscal year 2009, WFUHS experienced improvement in operating margin by maintaining a focus on long-term financial stability and stewardship. Operating activities generated a surplus of $13 million, compared to the FY08 operating surplus, $12 million. Operating revenues increased $10 million to $753 million while operating expenses increased $8 million to $739 million. This surplus was achieved despite a decline in royalty income and is attributable to a carefully managed expense control program.

Non-operating results were unfavorable as a direct result of the investment market declines. Overall, WFUHS' net assets decreased $180 million in FY09, compared to a $3 million decrease in net assets in FY08. The overall decrease can be attributed to investment declines, interest rate swap losses and postretirement valuation.

Net tuition and fees accounted for $18 million while dividends, interest and rents combined to $29 million, 2% and 4% of the total operating revenues, respectively.

Extramural funding totaled $206 million, 28% of total revenues and included Federal, State and Private gifts, grants & contracts. Overall this was in-line with the prior fiscal year. However, Fiscal 2010 looks promising due to our productive faculty and the impact from the American Recovery and Reinvestment Act (ARRA), or the "Stimulus Package". WFUHS has received more than 60 awards totaling $38 million for the next two years, with additional applications under review.

Clinical revenue, $390 million, comprising 53% of total revenues, included the Wake Forest University Physicians (WFUP) practice and the Dialysis Centers, with operating revenues of $327 million and $63 million, respectively.

Other sources of revenue, $109 million, 15% of total revenues, is primarily composed of patent and royalty income of $92 million. In addition to the existing royalty stream, WFUHS issued eight patents, filed 47 patent applications, and received 85 invention disclosures, an increase of 64% over the prior year. Two startup companies were also launched early in 2009. *Forbes* named Wake Forest University second among universities in the nation for return on research investment on the basis of discoveries made by medical and technology researchers. This revenue stream allows the institution the flexibility to maintain its strategic investments to support and enhance the development of a biotechnology based economy in our community.

The Office of Development and Alumni Affairs saw a slight increase in overall philanthropic support to the Medical Center. WFUHS' increase in giving was remarkable given the volatility in the economy that strained contributions nationwide with giving decreasing by approximately 9% in gifts to education. Development and Alumni Affairs has initiated a new, comprehensive annual giving campaign soliciting prior donors and former patients to broaden our base of support.

I thank all of our faculty, staff, students, and alumni for their hard work and incredible support in the past year.

Sincerely,

William B. Applegate, M.D., M.P.H., M.A.C.P.
President, Wake Forest University Health Sciences
Dean, Wake Forest University School of Medicine


2
Wake Forest University Baptist
MEDICAL CENTER
Brenner Children's Hospital
Wake Forest University Baptist Medical Center
GOODYEAR
EAGLE

2008-2009

HEALTH SCIENCES YEAR IN REVIEW

JULY

1 WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER is listed as one of "America's Best Hospitals" in five categories, by *U.S.News & World Report*. The five categories are respiratory disorders, cancer, endocrinology, kidney disease and urology. It is the first year that the Medical Center has been ranked for kidney disease.

2 WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER and the Richard Childress family teamed up to form what will become the nation's most comprehensive Institute for Pediatric Trauma. The Childress family donated $5 million to the Medical Center to initiate the project and is working with a number of corporations and individuals to raise the additional $20 million to establish the Childress Institute.

AUGUST

3 JOHN D. MCCONNELL, M.D., was named as the first chief executive officer in the 86-year history of Wake Forest University Baptist Medical Center. As CEO, McConnell oversees the clinical, research and academic enterprise for Wake Forest Baptist, reporting to the Medical Center's board of directors. He assumed leadership of the Medical Center under a single overarching governing body with a single CEO.

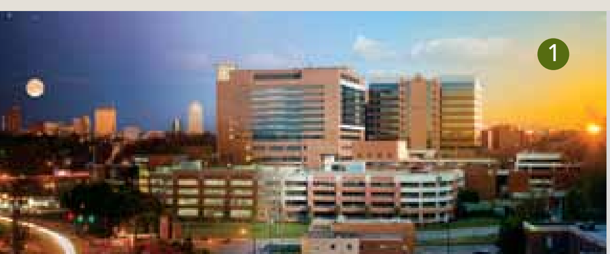
4 ASHOK K. HEMAL, M.D, urologist at Wake Forest University Baptist Medical Center, is the first in the world to repair a rare type of hernia using robot-assisted, minimally invasive surgery. The surgery required only an 18-hour hospital stay; typically, the repair involves major surgery and three to five days of hospital care. Dr. Hemal used the robot to repair a ureterosciatic hernia, which is an abnormal opening in muscle tissue in the pelvis.

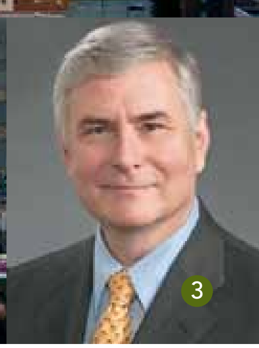
THE J. PAUL STICHT CENTER ON AGING will remain one of 11 nationwide Claude D. Pepper Older American Independence Centers (OAIC) for a fourth consecutive five-year cycle. This provided Wake Forest University Baptist Medical Center with almost $1 million each year to support and promote clinical research in aging.

SEPTEMBER

CHERYL E. H. LOCKE, a career human resources professional, has been named the new vice president for human resources and chief human resources officer of Wake Forest University Baptist Medical Center. This is a new position created following the restructuring on the Medical Center.

5 WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER has created a new department, the Department of Vascular and Endovascular Surgery, within the Division of Surgical Sciences.





SEPTEMBER

6 LEXINGTON MEMORIAL HOSPITAL and Wake Forest University Baptist Medical Center have agreed to affiliate, effective October 1. The hospitals have worked together in providing services, including cancer and dialysis, to Davidson County for years. "The goal is to strengthen Lexington Memorial through expanded services, updated facilities and more physicians so fewer patients will have to travel to out-of-town hospitals," said Steve Robertson, Chairman of the Board of Directors of Wake Forest Baptist. "When patients must be transferred to Wake Forest Baptist, they will have easy access".

OCTOBER

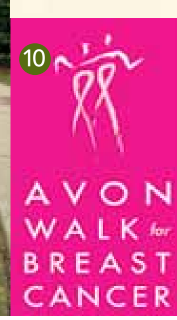
7 WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER is the winner of the 2008-09 Consumer Choice Awards for the Winston-Salem metropolitan area. The award, by National Research Corporation (NRC), an independent research company, recognizes hospitals having the highest quality and image in more than 250 markets throughout the U.S. This is the ninth consecutive year that the Medical Center has received a Consumer Choice award.

8 WAKE FOREST UNIVERSITY SCHOOL OF MEDICINE SCIENTISTS have developed a new medical device. The scientists are collaborating with SpringMed Group, one of Piedmont Triad Research Park's first tenants, to form a new company – Applied Catheter Technologies Inc.

NOVEMBER

9 WAKE FOREST UNIVERSITY SCHOOL OF MEDICINE will receive nearly $2 million over the next four years in a grant that will help to maintain the Medical Center's position as a leader in geriatric medicine and medical training. The $1,994,741 grant is being awarded by the Donald W. Reynolds Foundation, which is giving 10 grants to academic medical centers that can demonstrate a commitment to strengthening geriatrics education at all levels of training.

10 A $375,000 GRANT received as part of the Avon Walk for Breast Cancer will help fund community outreach and innovative patient services at Wake Forest University Baptist Medical Center. The Avon Foundation, which sponsored the fourth annual walk in Charlotte, made the award to the Medical Center as part of $1,045,000 in initial grants presented to four organizations.



2008-2009

HEALTH SCIENCES YEAR IN REVIEW

DECEMBER

11 THE CENTER FOR REPRODUCTIVE MEDICINE at Wake Forest University School of Medicine has been awarded accreditation by the Commission on Laboratory Accreditation of the College of American Pathologists (CAP). The accreditation was awarded based on the results of a recent on-site inspection performed by the CAP that examines the laboratory's records and quality control of procedures for the previous two years. Staff qualifications, laboratory equipment, facilities, safety program and record and overall management of the laboratory are also part of the examination.

JANUARY

GUILFORD EMERGENCY PHYSICIANS, a group of 24 doctors that staffs the emergency rooms at Moses Cone Health System, will combine with the Emergency Medicine Department at Wake Forest University Baptist Medical Center. The combination of a group of emergency physicians in Greensboro and the Emergency Medicine Department of Wake Forest University's School of Medicine will improve care at emergency rooms in the Piedmont Triad. The Emergency Medicine Department of the school of medicine staffs the emergency rooms at Wake Forest Baptist and Wilkes Regional Medical Center.

12 IN AN EFFORT TO IMPROVE WORKERS' HEALTH AND QUALITY OF LIFE, Wake Forest University School of Medicine has established the Center for Worker Health (CWH). The overall goal of the CWH is to provide a connecting point for a variety of research focused on all aspects of the work-health relationship. Dr. Thomas Arcury is the Director of the Center for Worker Health.

13 DR. ANTHONY ATALA, the head of the Wake Forest Institute of Regenerative Medicine, was keynote speaker for the Wake Forest University School of Law Intellectual Property Law Journal's symposium on regenerative medicine.

14 A NEW OUTPATIENT DIAGNOSTIC IMAGING CENTER has been opened by Wake Forest University Baptist Medical Center's Department of Radiology to better serve patients and provide state-of-the art imaging services within the greater Winston-Salem area.

15 THE DOWNTOWN HEALTH PLAZA'S RADIOLOGY DEPARTMENT has been awarded a three-year term of accreditation in mammography as the result of a recent survey by the American College of Radiology (ACR).

FEBRUARY

16 THE DEPARTMENT OF DERMATOLOGY of Wake Forest University Baptist Medical Center has been named a Clinical Center of Excellence in Dermatology by *Medical Economics Magazine*, which referred to the department as one of the finest in the country.

17 THE WAKE FOREST INSTITUTE FOR REGENERATIVE MEDICINE and a university hospital in Korea have formed a partnership with the goal of accelerating the development of regenerative medicine therapies to benefit patients. The Kyungpook National University and its hospital, located in Daegu in the Republic of Korea, have joined together to establish the Joint Institute of Regenerative Medicine Korea. The facility, with 35 scientists, officially opened February 12. James Yoo, M.D., Ph.D., assistant director of the Wake Forest Institute for Regenerative Medicine, will co-direct the new institute with Jang Soo Suh, M.D., Ph.D., director of Bio-Medical Research Institute, Kyungpook National University Hospital.

MARCH

WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER has been named one of the leading hospitals in America according to a Consumers' Checkbook survey reported in the May/June 2009 issue of *AARP The Magazine*.

18 DR. ANTHONY ATALA'S RESEARCH was featured on The Oprah Winfrey Show. Dr. Mehmet Oz visited Dr. Atala's lab in a segment entitled "High-Tech Ways to Extend your Life".

SAFE KIDS FORSYTH has expanded its coverage area to include five new counties and will now be known as Safe Kids Northwest Piedmont. The new counties are Stokes, Surry, Davie, Davidson and Yadkin. Wake Forest University Baptist Medical Center, which has been the lead agency for Safe Kids Forsyth since 2000, will continue in that role for the expanded organization. Donna Joyner, R.N., B.S.N., continues as coordinator. Joyner recently received an award for "Outstanding Leadership" at the recent Safe Kids North Carolina state meeting.

APRIL

19 WAKE FOREST UNIVERSITY SCHOOL OF MEDICINE ranks 22nd in primary care and 43rd in research among the nation's 146 medical and osteopathic schools in the 2010 edition of the book "America's Best Graduate Schools" from *U.S.News & World Report*. The school was also ranked 16th in geriatrics in specialty rankings. The rankings will be highlighted in the magazine's May issue.

20 THE CARDIOTHORACIC ICU 5A TEAM at Wake Forest University Baptist Medical Center has achieved the Beacon Award for Critical Care Excellence from the American Association of Critical-Care Nurses (AACN) for excellence. The Beacon Award is given to critical care units that exhibit the highest quality standards in recruitment and retention, staff training, patient outcomes, healing environment, healthy work environment, evidence-based practice and research, leadership and organizational ethics.

THE WAKE FOREST UNIVERSITY HEALTH SCIENCES OFFICE OF CONTINUING MEDICAL EDUCATION (OCME) has received notification of its four-year, national CME reaccreditation by the Accreditation Council for Continuing Medical Education (ACCME).

FRANK M. TORTI, M.D., M.P.H., returned to the Medical Center in spring 2009 after a year's service as the principal deputy commissioner, interim commissioner, and the first chief scientist at the U.S. Food and Drug Administration (FDA). Dr. Torti has been named Medical Center Vice President for Strategic Programs.

MAY

21 THE HEART TRANSPLANT PROGRAM at Wake Forest University Baptist Medical Center has received certification for three years from the Centers for Medicare and Medicaid Services (CMS) of the U.S. Department of Health and Human Services.

22 THE BURN CENTER of Wake Forest University Baptist Medical Center has received verification by the American Burn Association (ABA), making it one of only five verified burn centers in the Southeast. Burn center verification provides a true mark of distinction for a burn center and is an indicator to government, third-party payers, patients and their families, and accreditation organizations that the center provides high quality patient care to burn patients from time of injury through rehabilitation.

JUNE

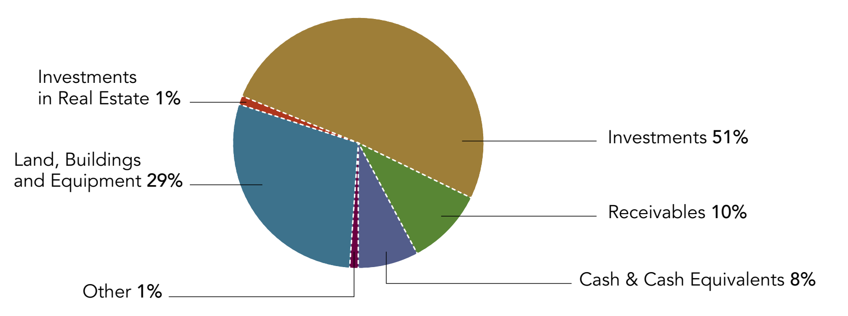
23 WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER provided $110.6 million in community health benefits in the fiscal year July 1, 2007-June 30, 2008. The sum represents $69,674,240 reported by North Carolina Baptist Hospital and $40,965,466 reported by Wake Forest University Health Sciences to the North Carolina Medical Care Commission.

EDWARD G. CHADWICK has been selected as executive vice president for finance and chief financial officer of Wake Forest University Baptist Medical Center, a new position created as part of the Medical Center reorganization that began two years ago.

TOTAL ASSETS

Assets totaled $2.086 billion as of June 30, 2009, representing a decrease of $218 million from fiscal 2008. The decrease was primarily due to a $380 million or 26% decline in the market value of the University's investment portfolio. The increase in cash and cash equivalents of $138 million over fiscal 2008 includes $68 million in Reynolda Campus bond proceeds held by trustee at June 30, 2009.

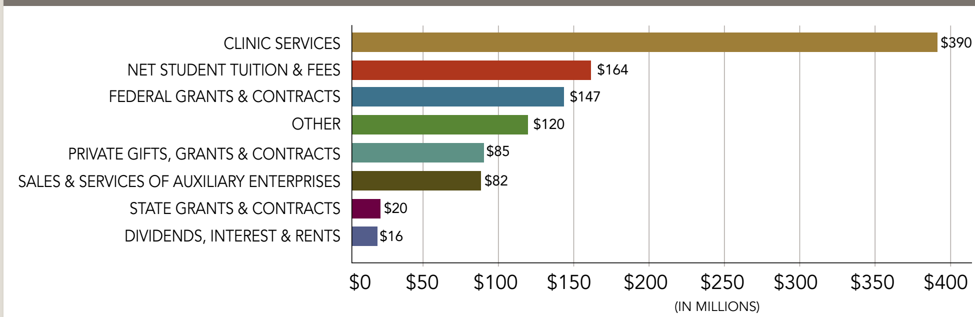
WAKE FOREST UNIVERSITY *Total Assets – $2.086 billion*



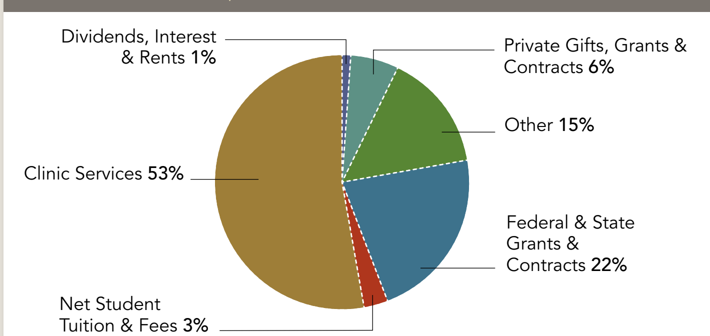
REVENUES

Revenues, excluding other activities, for the University totaled $1.024 billion, representing an increase of $5 million over fiscal 2008. The increase was primarily due to increased net student tuition and fees of $11 million and clinic services of $6 million, offset in part by decreased dividends, interest, and rents of $5 million and interest on short-term investments of $4 million. Other activities totaling ($339) million includes ($316) million in net depreciation on investments.

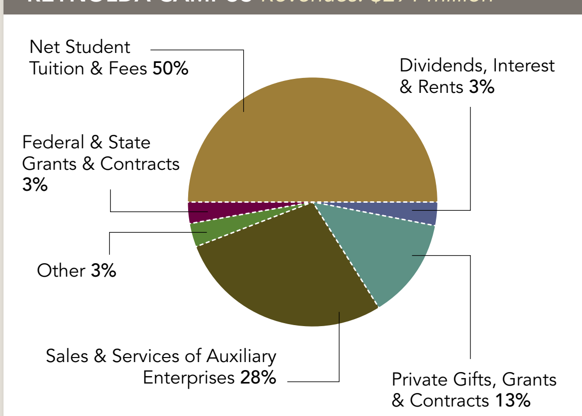
WAKE FOREST UNIVERSITY *Total Revenues – $1.024 billion*



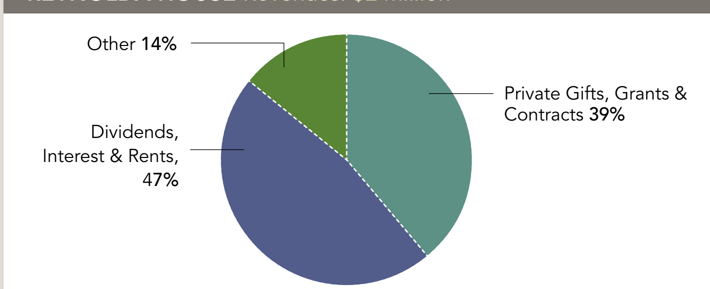
WFUHS *Revenues: $731 million*



REYNOLDA CAMPUS *Revenues: $291 million*

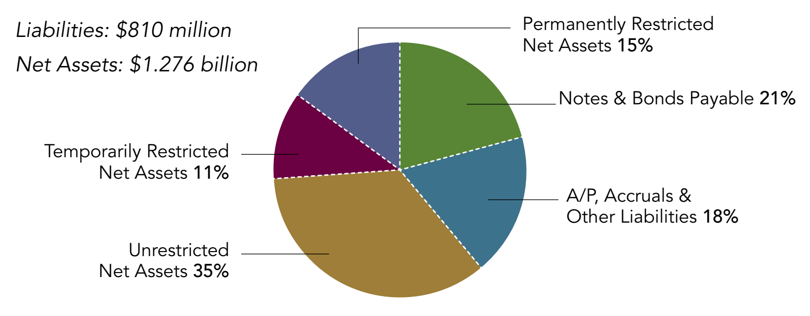


REYNOLDA HOUSE *Revenues: $2 million*



CONSOLIDATED FINANCIAL HIGHLIGHTS

WAKE FOREST UNIVERSITY *Liabilities and Net Assets*

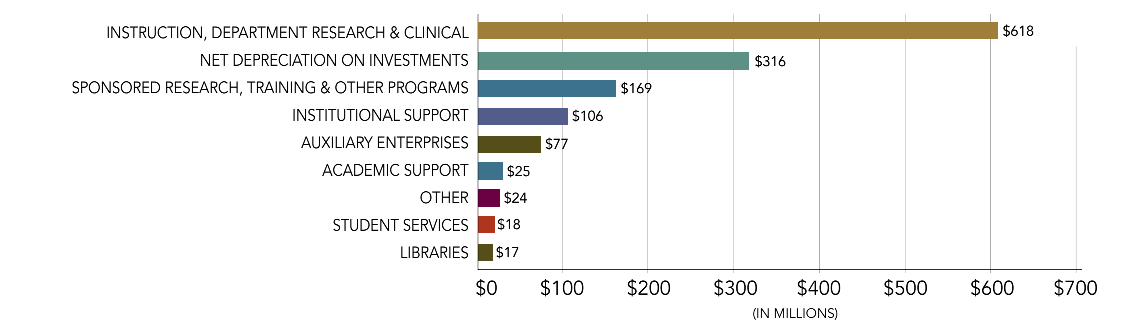


LIABILITIES AND NET ASSETS

Liabilities totaled $810 million as of June 30, 2009, representing an increase of $128 million over fiscal 2008 primarily due to the Reynolda Campus 2009 bond issuance of $110 million. Net assets totaling $1.276 billion decreased $346 million compared to fiscal 2008 primarily due to the decline in the market value of the University's investments. Net assets decreased compared to prior year as follows:

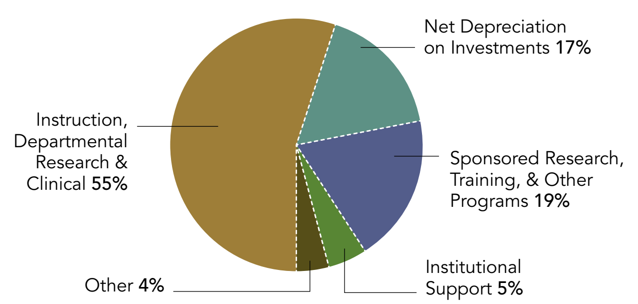
Unrestricted – ($244) million
Temporarily restricted – ($79) million
Permanently restricted – ($23) million

WAKE FOREST UNIVERSITY *Total Expenses and Other Activities – $1.370 billion*



WFUHS

Expenses and Other Activities: $912 million

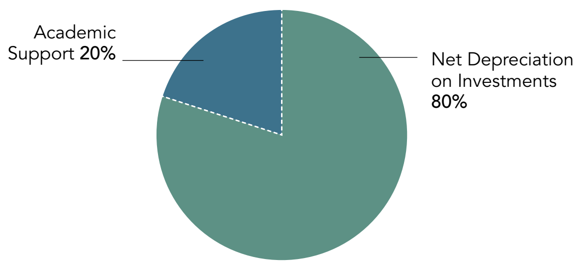


TOTAL EXPENSES AND OTHER ACTIVITIES

Expenses and other activities, including net depreciation on investments, for the University totaled $1.370 billion, representing an increase of $362 million over fiscal 2008. The 36% increase was primarily due to net depreciation on investments of $324 million and a loss in postretirement charges other than net periodic cost of $21 million.

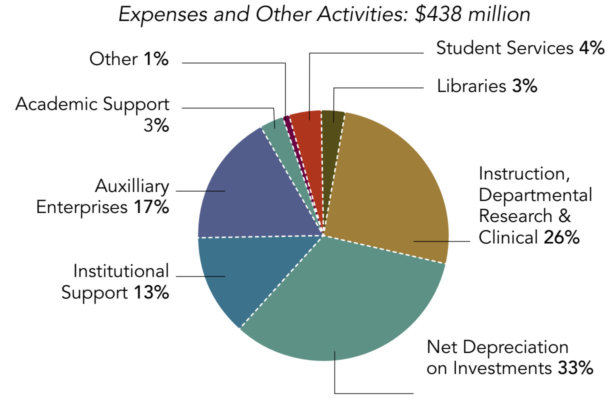
REYNOLDA HOUSE

Expenses and Other Activities: $20 million



REYNOLDA CAMPUS

Expenses and Other Activities: $438 million

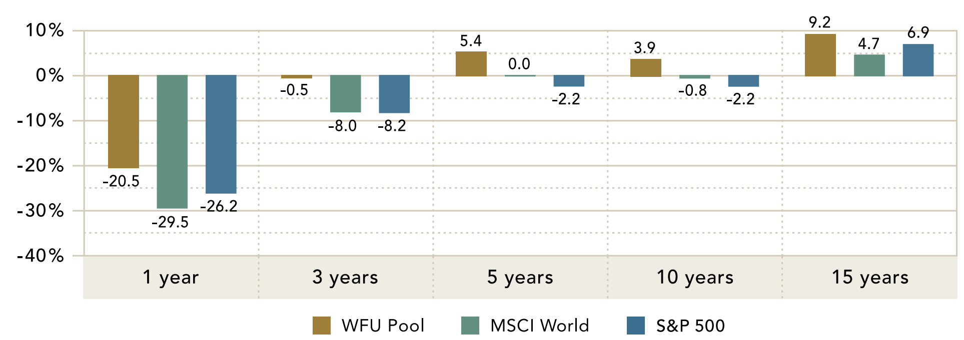


PERFORMANCE REVIEW

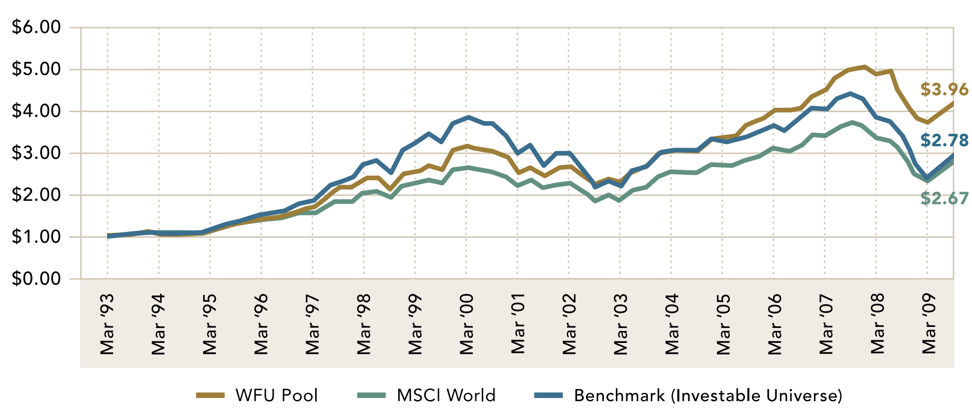
The Wake Forest University endowment pool experienced a return of -20.5% for the 2009 fiscal year, closing with a total market value of $838.4 million as of June 30, 2009. During this fiscal year, the mortgage crisis and subsequent bank debacle led to a significant market retraction, having worldwide repercussions, and leaving nearly every sector in the red; consequently, in spite of a recovery during the last two quarters, it left many with unprecedented losses. While we are disappointed in this year's results, the endowment has produced superior long term returns compared to equity indices (MSCI World and S&P 500). In addition, since 1993 the endowment has produced almost 50% more return than a benchmark representing a diversified institutional portfolio (Investable Universe).

Wake Forest continues to be diligent in providing the tools, information and counsel necessary for its stewards and fiduciaries to make sound judgments. By rigorously protecting and refining our strategies and processes, and putting a big premium on risk management, we will continue to meet the needs of Wake Forest and its constituents. The Wake Forest University Office of Investments does not take this year's endowment loss lightly, and continues to do everything possible for optimum return within the University's risk tolerance platform.

PERFORMANCE PERIOD ENDED: JUNE 30, 2009



CUMULATIVE PERFORMANCE (Growth of $1): APRIL 1, 1993 - JUNE 30, 2009



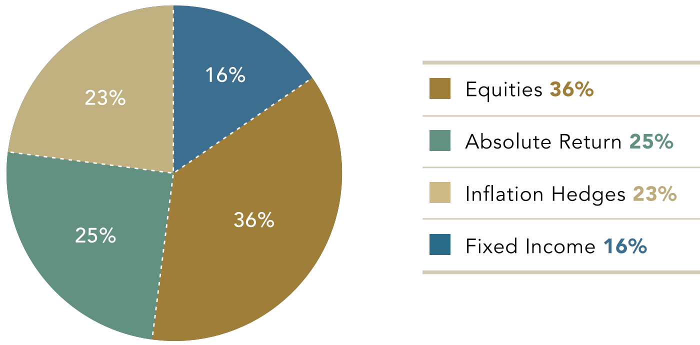
ENDOWMENT INVESTMENT PORTFOLIO

REYNOLDA CAMPUS AND HEALTH SCIENCES

ASSET ALLOCATION

The endowment pool is broadly diversified among four main asset segments (see chart). The actual allocation of the portfolio may differ from the strategic (or target) allocation. The University utilizes tactical asset allocation in an effort to enhance the return of the portfolio beyond the long-term expected return from the strategic allocation. Compared to our target allocations as of June 30, 2009, the portfolio is underweight to Equities, with overweights to our three other asset segments – Inflation Hedges (Inflation Linked Bonds, Commodities, and Real Estate), Absolute Return (primarily various hedged strategies), and Fixed Income. From a risk reward perspective, we continue to favor credit related strategies, as well as hedge strategies, compared to equities in the current market environment.

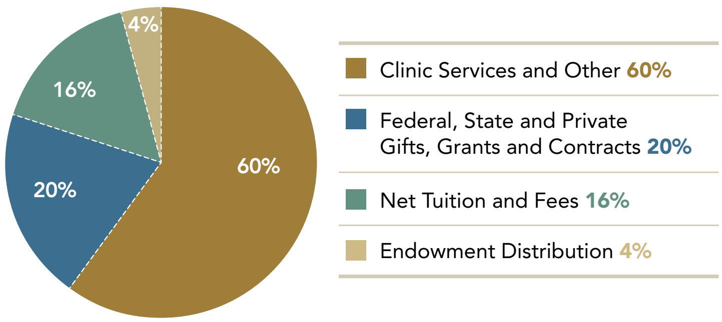
ASSET ALLOCATION: JUNE 30, 2009



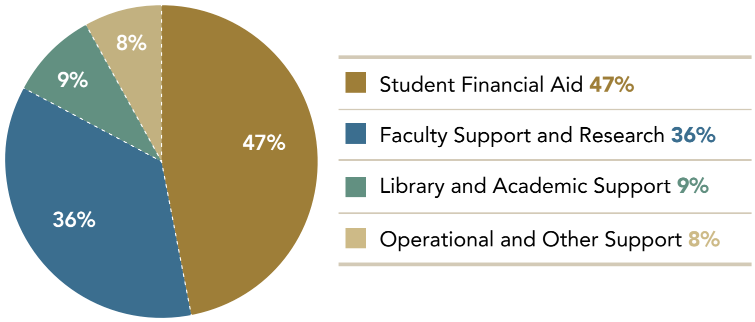
ENDOWMENT SUPPORT TO THE UNIVERSITY

Thanks to the generosity of our donors, the endowment is proud to help support various University activities. Annual endowment support has more than tripled – from $15 million to over $50 million – over the last fifteen years. On a cumulative basis, the endowment has provided over $500 million of support to the University since 1995. During this time, the endowment market value has grown from $360 million to $838 million. The stated annual endowment distribution rate is 5.3% of the average of a three-year moving 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.

ENDOWMENT PERCENTAGES OF UNRESTRICTED REVENUE SOURCES 2008-2009



USE OF RESTRICTED ENDOWMENT INCOME 2008-2009



INDEPENDENT AUDITOR'S REPORT

THE BOARD OF TRUSTEES
WAKE FOREST UNIVERSITY:

We have audited the accompanying consolidated balance sheet of Wake Forest University (the University) as of June 30, 2009, 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 2008 consolidated financial statements and, in our report dated September 30, 2008, 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, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information included in the consolidated balance sheet, statement of activities, statement of cash flows, and the accompanying notes related to the College of Arts and Sciences, and Schools of Law, Management, and Divinity (collectively Reynolda Campus); Wake Forest Health Sciences; and the Reynolda House, Inc. is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes 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 consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

As discussed in note 15 to the financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 157 as amended, *Fair Value Measurements*, and Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective July 1, 2008. As discussed in note 16 to the consolidated financial statements, the University also adopted the provisions of Financial Accounting Standards Board 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*, effective July 1, 2008.

KPMG LLP

October 8, 2009

CONSOLIDATED BALANCE SHEET

June 30, 2009
(with summarized comparative financial information as of June 30, 2008)
(Dollars in thousands)

	Supplementary information				
Assets	**Reynolda Campus**	**WFUHS**	**Reynolda House**	**2009**	**2008**
Cash and cash equivalents (including amounts held by bond trustee of $67,978 in 2009)	$ 145,031	18,579	1,579	165,189	26,818
Accounts receivable, net	5,448	55,851	9	61,308	60,991
Clinic receivables, net	—	48,926	—	48,926	53,104
Grants receivable, net	2,533	20,067	131	22,731	18,682
Contributions receivable, net	33,603	2,806	10	36,419	38,552
Notes receivable, net	23,372	5,334	—	28,706	24,300
Investments	509,319	534,724	27,140	1,071,183	1,450,776
Investments in real estate	24,920	—	—	24,920	38,010
Other assets	5,110	9,514	181	14,805	11,378
Land, buildings, and equipment, net	287,029	312,232	12,965	612,226	581,385
Total assets	$ 1,036,365	1,008,033	42,015	2,086,413	2,303,996
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accruals	$ 20,908	72,043	1,052	94,003	94,277
Other liabilities and deferrals	46,613	169,151	18	215,782	195,943
Annuities payable	18,978	4,793	—	23,771	29,553
Notes payable and capital leases	26,641	36,540	—	63,181	73,202
Bonds payable	176,752	188,640	—	365,392	254,900
Postretirement benefits	10,805	26,391	—	37,196	22,831
Government grants refundable	10,376	308	—	10,684	10,892
Total liabilities	311,073	497,866	1,070	810,009	681,598
Net assets:					
Unrestricted undesignated	200,045	262,360	19,200	481,605	740,169
Net investment in plant	154,226	87,052	12,965	254,243	239,695
Total unrestricted	354,271	349,412	32,165	735,848	979,864
Temporarily restricted	189,027	43,360	434	232,821	312,010
Permanently restricted	181,994	117,395	8,346	307,735	330,524
Total net assets	725,292	510,167	40,945	1,276,404	1,622,398
Total liabilities and net assets	$ 1,036,365	1,008,033	42,015	2,086,413	2,303,996

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2009
(with summarized comparative financial information for the year ended June 30, 2008)
(Dollars in thousands)

	2009				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2008 Total
Revenues:					
Student tuition and fees	$ 227,309	—	—	227,309	211,083
Scholarship allowance	(63,791)	—	—	(63,791)	(58,338)
Net student tuition and fees	163,518	—	—	163,518	152,745
Federal grants and contracts	147,136	—	—	147,136	147,687
State grants and contracts	20,435	—	—	20,435	20,709
Private gifts, grants, and contracts	44,493	30,328	9,655	84,476	74,866
Dividends, interest, and rents	13,533	1,521	493	15,547	20,055
Interest on short-term investments	2,903	52	228	3,183	7,045
Clinic services	390,304	—	—	390,304	384,123
Other	116,867	283	1	117,151	116,776
Sales and services of auxiliary enterprises	82,155	9	—	82,164	95,055
Net assets released from restrictions	57,287	(57,287)	—	—	—
Total revenues	1,038,631	(25,094)	10,377	1,023,914	1,019,061
Expenses:					
Instruction, departmental research, and clinical	618,311	—	—	618,311	605,373
Sponsored research, training, and other programs	169,373	—	—	169,373	165,849
Organized activities	1,754	—	—	1,754	2,079
Academic support	24,844	—	—	24,844	20,956
Libraries	16,713	—	—	16,713	16,254
Student services	17,514	—	—	17,514	17,088
Institutional support	105,668	—	—	105,668	100,169
Auxiliary enterprises	77,208	—	—	77,208	71,771
Total expenses	1,031,385	—	—	1,031,385	999,539
Other activities:					
Net appreciation (depreciation) on investments	(185,611)	(112,032)	(18,428)	(316,071)	7,543
Reclassifications of net assets	5,969	11,915	(17,884)	—	—
Actuarial gain (loss) on annuity obligations	—	—	2,922	2,922	(775)
Unrealized loss on interest rate swap	(19,692)	—	—	(19,692)	(19,258)
Postretirement related changes other than net periodic cost	(13,960)	—	—	(13,960)	7,333
Income (loss) from affiliates, equity method	(1,319)	18	—	(1,301)	—
Contribution of subsidiary	8,607	56	288	8,951	—
Other, net	(6,141)	6,833	(64)	628	(3,134)
Total other activities	(212,147)	(93,210)	(33,166)	(338,523)	(8,291)
Increase (decrease) in net assets before reclassification of net assets under FSP 117-1	(204,901)	(118,304)	(22,789)	(345,994)	11,231
Reclassification of net assets under FSP 117-1	(39,115)	39,115	—	—	—
Increase (decrease) in net assets	(244,016)	(79,189)	(22,789)	(345,994)	11,231
Net assets at beginning of year	979,864	312,010	330,524	1,622,398	1,611,167
Net assets at end of year	$ 735,848	232,821	307,735	1,276,404	1,622,398

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, 2009
(Dollars in thousands)

	Unrestricted	Temporary Restricted	Permanently Restricted	Total
Revenues:				
Student tuition and fees	$ 198,732	—	—	198,732
Scholarship allowance	(53,207)	—	—	(53,207)
Net student tuition and fees	145,525	—	—	145,525
Federal grants and contracts	6,749	—	—	6,749
State grants and contracts	1,484	—	—	1,484
Private gifts, grants, and contracts	17,496	13,084	6,572	37,152
Dividends, interest, and rents	5,530	1,282	976	7,788
Interest on short-term investments	2,103	29	23	2,155
Clinic services	—	—	—	—
Other	7,961	282	1	8,244
Sales and services of auxiliary enterprises	81,426	9	—	81,435
Net assets released from restrictions	30,928	(30,928)	—	—
Total revenues	299,202	(16,242)	7,572	290,532
Expenses:				
Instruction, departmental research, and clinical	114,860	—	—	114,860
Sponsored research, training, and other programs	—	—	—	—
Organized activities	1,754	—	—	1,754
Academic support	11,736	—	—	11,736
Libraries	12,071	—	—	12,071
Student services	15,660	—	—	15,660
Institutional support	55,435	—	—	55,435
Auxiliary enterprises	76,447	—	—	76,447
Total expenses	287,963	—	—	287,963
Other activities:				
Net appreciation (depreciation) on investments	(52,610)	(84,696)	(8,756)	(146,062)
Reclassifications of net assets	5,969	11,915	(17,884)	—
Actuarial gain (loss) on annuity obligations	—	—	2,918	2,918
Unrealized loss on interest rate swap	(7,486)	—	—	(7,486)
Postretirement related changes other than net periodic cost	332	—	—	332
Income (loss) from affiliates, equity method	—	—	—	—
Contribution of subsidiary	—	—	—	—
Other, net	(6,641)	6,833	(64)	128
Total other activities	(60,436)	(65,948)	(23,786)	(150,170)
Increase (decrease) in net assets before reclassification of net assets under FSP 117-1	(49,197)	(82,190)	(16,214)	(147,601)
Reclassification of net assets under FSP 117-1	(39,115)	39,115	—	—
Increase (decrease) in net assets	(88,312)	(43,075)	(16,214)	(147,601)
Net assets at beginning of year	442,583	232,102	198,208	872,893
Net assets at end of year	$ 354,271	189,027	181,994	725,292

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

WAKE FOREST UNIVERSITY HEALTH SCIENCES

(Supplementary Information)
Year ended June 30, 2009
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student tuition and fees	$ 28,577	—	—	28,577
Scholarship allowance	(10,584)	—	—	(10,584)
Net student tuition and fees	17,993	—	—	17,993
Federal grants and contracts	140,387	—	—	140,387
State grants and contracts	18,951	—	—	18,951
Private gifts, grants, and contracts	26,226	17,234	3,083	46,543
Dividends, interest, and rents	7,272	20	(483)	6,809
Interest on short-term investments	791	23	205	1,019
Clinic services	390,304	—	—	390,304
Other	108,642	—	—	108,642
Sales and services of auxiliary enterprises	729	—	—	729
Net assets released from restrictions	25,717	(25,717)	—	—
Total revenues	737,012	(8,440)	2,805	731,377
Expenses:				
Instruction, departmental research, and clinical	503,451	—	—	503,451
Sponsored research, training, and other programs	169,373	—	—	169,373
Organized activities	—	—	—	—
Academic support	8,817	—	—	8,817
Libraries	4,642	—	—	4,642
Student services	1,854	—	—	1,854
Institutional support	50,233	—	—	50,233
Auxiliary enterprises	761	—	—	761
Total expenses	739,131	—	—	739,131
Other activities:				
Net appreciation (depreciation) on investments	(118,245)	(25,920)	(9,666)	(153,831)
Reclassifications of net assets	—	—	—	—
Actuarial gain (loss) on annuity obligations	—	—	4	4
Unrealized loss on interest rate swap	(12,206)	—	—	(12,206)
Postretirement related changes other than net periodic cost	(14,292)	—	—	(14,292)
Income (loss) from affiliates, equity method	(1,319)	18	—	(1,301)
Contribution of subsidiary	8,607	56	288	8,951
Other, net	—	—	—	—
Total other activities	(137,455)	(25,846)	(9,374)	(172,675)
Increase (decrease) in net assets before reclassification of net assets under FSP 117-1	(139,574)	(34,286)	(6,569)	(180,429)
Reclassification of net assets under FSP 117-1	—	—	—	—
Increase (decrease) in net assets	(139,574)	(34,286)	(6,569)	(180,429)
Net assets at beginning of year	488,986	77,646	123,964	690,596
Net assets at end of year	$ 349,412	43,360	117,395	510,167

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

REYNOLDA HOUSE, INC.

(Supplementary Information)
Year ended June 30, 2009
(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Student tuition and fees	$ —	—	—	—
Scholarship allowance	—	—	—	—
Net student tuition and fees	—	—	—	—
Federal grants and contracts	—	—	—	—
State grants and contracts	—	—	—	—
Private gifts, grants, and contracts	771	10	—	781
Dividends, interest, and rents	731	219	—	950
Interest on short-term investments	9	—	—	9
Clinic services	—	—	—	—
Other	264	1	—	265
Sales and services of auxiliary enterprises	—	—	—	—
Net assets released from restrictions	642	(642)	—	—
Total revenues	2,417	(412)	—	2,005
Expenses:				
Instruction, departmental research, and clinical	—	—	—	—
Sponsored research, training, and other programs	—	—	—	—
Organized activities	—	—	—	—
Academic support	4,291	—	—	4,291
Libraries	—	—	—	—
Student services	—	—	—	—
Institutional support	—	—	—	—
Auxiliary enterprises	—	—	—	—
Total expenses	4,291	—	—	4,291
Other activities:				
Net appreciation (depreciation) on investments	(14,756)	(1,416)	(6)	(16,178)
Reclassifications of net assets	—	—	—	—
Actuarial gain (loss) on annuity obligations	—	—	—	—
Unrealized loss on interest rate swap	—	—	—	—
Postretirement related changes other than net periodic cost	—	—	—	—
Income (loss) from affiliates, equity method	—	—	—	—
Contribution of subsidiary				
Other, net	500	—	—	500
Total other activities	(14,256)	(1,416)	(6)	(15,678)
Increase (decrease) in net assets before reclassification of net assets under FSP 117-1	(16,130)	(1,828)	(6)	(17,964)
Reclassification of net assets under FSP 117-1	—	—	—	—
Increase (decrease) in net assets	(16,130)	(1,828)	(6)	(17,964)
Net assets at beginning of year	48,295	2,262	8,352	58,909
Net assets at end of year	$ 32,165	434	8,346	40,945

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2009 (with summarized comparative financial information for the year ended June 30, 2008)
(Dollars in thousands)

	Supplementary Information				
	Reynolda Campus	WFUHS	Reynolda House	2009	2008
Cash flows from operating activities:					
Increase (decrease) in net assets	$ (147,601)	(180,429)	(17,964)	(345,994)	11,231
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization	19,877	25,834	672	46,383	45,745
Net (appreciation) depreciation on investments	146,062	154,227	16,178	316,467	(3,924)
Noncash gifts of property	(410)	(1,744)	(11)	(2,165)	490
Private gifts restricted for long-term investment	(6,572)	(3,083)	—	(9,655)	(18,571)
Other revenue restricted for long-term investment	(999)	(351)	—	(1,350)	(1,274)
Loss on disposal of property and equipment	837	312	32	1,181	1,446
Contribution of subsidiary	—	(8,951)	—	(8,951)	—
Income from equity method subsidiaries	—	1,301	—	1,301	—
Unrealized loss on interest rate swap	7,486	12,206	—	19,692	19,258
Bad debt expense	—	16,968	—	16,968	24,145
Changes in operating assets and liabilities:					
Accounts and clinic receivables	(399)	(12,712)	3	(13,108)	(32,472)
Grants receivable	120	(4,348)	180	(4,048)	(2,605)
Contributions receivable	2,434	(317)	16	2,133	3,382
Notes receivable	292	—	—	292	(257)
Other assets and other liabilities and deferrals	4,016	(2,516)	118	1,618	28,488
Accounts payable and accruals	(2,495)	(989)	126	(3,358)	(1,486)
Postretirement benefits	1,363	13,002	—	14,365	(5,923)
Annuities payable	(5,144)	(638)	—	(5,782)	(1,026)
Net cash provided by (used in) operating activities	18,867	7,772	(650)	25,989	66,647
Cash flows from investing activities:					
Purchases of land, buildings, and equipment	(38,911)	(19,767)	(71)	(58,749)	(85,225)
Proceeds from sale of equipment	40	—	—	40	1,974
Notes receivable	—	(4,035)	—	(4,035)	(363)
Purchases of investments in real estate	(25)	—	—	(25)	(200)
Disbursements of loans to students and other	(2,923)	(1,234)	—	(4,157)	(4,117)
Repayments of loans to students and other	2,232	1,262	—	3,494	2,267
Purchases of investments	(295,670)	(34,706)	(72,293)	(402,669)	(790,108)
Net proceeds from sales and maturities of investments	341,469	59,697	73,740	474,906	763,741
Net cash provided by (used in) investing activities	6,212	1,217	1,376	8,805	(112,031)
Cash flows from financing activities:					
Change in government grants refundable	(93)	(115)	—	(208)	(227)
Proceeds from notes payable	21,633	7,259	—	28,892	37,988
Payments on notes payable	(31,645)	(8,913)	—	(40,558)	(8,604)
Proceeds from bond issuance	112,612	188,640	—	301,252	—
Payments on bonds payable	(3,910)	(186,850)	—	(190,760)	(7,165)
Payments on bond issuance costs	(1,048)	(2,407)	—	(3,455)	—
Payments to unwind interest rate swaps	(1,524)	—	—	(1,524)	—
Proceeds from private gifts restricted for long-term investment	6,572	3,083	—	9,655	18,572
Net realized gains restricted for long-term investment	(5)	(1,062)	—	(1,067)	3,013
Other revenue restricted for long-term investment	999	351	—	1,350	1,274
Net cash provided by (used in) financing activities	103,591	(14)	—	103,577	44,851
Net increase (decrease) in cash and cash equivalents	128,670	8,975	726	138,371	(533)
Cash and cash equivalents at beginning of year	16,361	9,604	853	26,818	27,351
Cash and cash equivalents at end of year	$ 145,031	18,579	1,579	165,189	26,818
Supplemental disclosure of cash flow information:					
Cash paid for interest	$ 3,071	9,832	—	12,903	14,377
Assets acquired under capital leases	$ 1,645	—	—	1,645	—

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND 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 the 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.

(b) Basis of Presentation

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

Net assets and revenues, and 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 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 their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor 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 require that they be added to the principal of a permanent endowment fund
- as increases in temporarily restricted net assets until appropriated for expenditure by the University and donor restrictions for their use are met.

(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, net of an allowance for uncollectible contributions receivable, are discounted to their present value at a risk adjusted rate. 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, considering such factors as prior collection history, type of contribution, relationship with donor and nature of fund-raising activity.

(d) Cash Equivalents

Cash equivalents include highly liquid investments with original maturities at date of purchase of three months or less and primarily consist of money market funds and accounts.

(e) 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 amounts of contributions receivable represent the present value of estimated future cash flows, which approximates fair value.

Annuities payable are recorded at fair value using a single discount rate equivalent to the University's nonexempt borrowing rate in accordance with Financial Accounting Standards Board (FASB) Statement No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities* (see note 15).

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 rates which approximate current market rates for loans with similar maturities and credit quality.

The fair value of fixed-rate debt maturities is determined using a relative price approach, by discounting the future cash flows (principal and interest payments) at the market yield to maturity, and at the market yield to each call date. The fair value of the Series 2009 fixed-rate tax-exempt bonds at June 30, 2009 was $107,769.

(f) 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 revenue is recognized at the dates the trusts are established. Annuity and other split-interest obligations are adjusted annually at the end of each fiscal year.

(g) Investments

Investments in readily marketable debt and equity securities are stated at their fair values, which are determined based on quoted market prices. Investments in certain real property assets are recorded at fair value based upon independent third-party appraisals. Investments in private equity and absolute return funds are reported at estimated fair value, utilizing their net asset values. Those net asset values are determined 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.

(h) Investments in Real Estate

Investments in real estate that are considered operating assets of the University are valued at the lower of cost or market. 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. Real estate gifts held for sale are recorded at fair value. Such fair value is primarily based on periodic external appraisals.

(i) 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. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of land, buildings, and equipment are included in the consolidated statement of activities.

(j) 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.

(k) Clinic Services Revenue

WFUHS records clinic services revenue, net of contractual adjustments. 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 $57,323 and $37,631, respectively, at June 30, 2009.

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.

(l) 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 balance sheet.

(m) 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 of plant operation and maintenance expense, depreciation expense, accretion expense, and interest expense. The University's primary program services are instruction, clinical, sponsored 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.

Plant operation and maintenance expense, depreciation expense, accretion expense, and interest expense are allocated to program and supporting activities based on a percentage allocation and periodic assessment of facilities usage, for Reynolda Campus and WFUHS, respectively.

(n) 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.

(o) Sponsored Grants and Contracts

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

(p) Derivative Instruments

The University records all derivative instruments on the consolidated balance sheet at their respective fair values in accordance with FASB Statement No. 157, *Fair Value Measurements* (FAS 157) (see note 15). All changes in fair value are reflected in the consolidated statement of activities.

(q) Allocated Net Assets

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

(r) 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 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 other nonoperating income and amortized to net periodic benefit 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 benefit costs are recognized as employees render the services necessary to earn the postretirement benefits.

(s) 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, investments and obligations related to employee benefits. Actual results could differ from those estimates.

(t) 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. Unrelated business income of the University is reported on Form 990-T. No tax is computed for unrelated income due to unrelated net operating losses in prior years.

(u) Reclassifications

In certain instances, amounts previously reported in the 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications have no effect on the increase in net assets as previously reported.

(v) Comparative Financial Information

The consolidated 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, 2008 from which this information was derived.

(w) Subsequent Events

The University has evaluated its subsequent events (events occurring after June 30, 2009) through October 8, 2009, which represents the date the consolidated financial statements were available to be issued and determined that all significant events and disclosures are included in the consolidated financial statements.

2. CONTRIBUTIONS RECEIVABLE

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
One year or less	$ 4,674	1,072	9	5,755
Between one and five years	32,827	1,843	2	34,672
More than five years	7,176	290	—	7,466
Gross contributions receivable	44,677	3,205	11	47,893
Less estimated uncollectible amounts	(7,371)	(183)	(1)	(7,555)
Less discount to present value	(3,703)	(216)	—	(3,919)
Contributions receivable, net	$ 33,603	2,806	10	36,419

3. INVESTMENTS

Investments at June 30, 2009 consist of the following:

Short-term investments	$ 47,527
Absolute return	208,367
Fixed income securities	139,914
Public equity	404,466
Private equity	74,034
Commodities	69,366
Real estate	54,269
Beneficial interest in perpetual trusts	20,549
WFUHS funds held by the Hospital	38,950
Other investments	13,741
Total investments	$ 1,071,183

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, 2009, a total of 18,892,577 units existed in the pool with a fair value of $44.38 per unit.

Net realized and unrealized appreciation on investments is decreased by $7,268 in investment fees.

4. LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are summarized as follows at June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
Land	$ 16,941	54,318	1,122	72,381
Buildings and other improvements	385,841	395,395	14,138	795,374
Equipment and furnishings	72,613	125,870	1,482	199,965
Construction in progress	25,531	27,053	14	52,598
	500,926	602,636	16,756	1,120,318
Less accumulated depreciation	(213,897)	(290,404)	(3,791)	(508,092)
	$ 287,029	312,232	12,965	612,226

Total depreciation expense on buildings and equipment was $44,391 for the year ended June 30, 2009.

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 2009 is as follows:

Interest expense capitalized	$ 1,265
Interest expense included in the consolidated statement of activities	13,271
Total interest cost	$ 14,536

The following table presents the activity for the AROs for the year ended June 30, 2009:

	Reynolda Campus	WFUHS	Total
Balance at beginning of year	$ 10,857	3,078	13,935
Additional obligations	42	—	42
Obligations settled in current period	(203)	—	(203)
Accretion expense	685	(26)	659
Balance at end of year	$ 11,381	3,052	14,433

5. SALE-LEASEBACK AGREEMENT

In 2006, WFUHS entered into a sale-leaseback agreement to sell and lease back certain assets. 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 2010 to 2014 are $7,151, $7,223, $7,295, $7,368, and $7,441, respectively.

6. ACQUISITION OF SUBSIDIARY AND CLINICAL PRACTICE ASSETS

WFUHS and the North Carolina Baptist Hospital, Inc. and Subsidiaries (the Hospital), collectively referred to as Wake Forest University Baptist Medical Center (the Medical Center), acquired Davidson Health Care (DHC) and its majority owned subsidiary organizations on October 1, 2008. The Medical Center acquired DHC to develop a regional healthcare delivery network. The joint venture strengthens DHC by expanding services, updating facilities and increasing the number of physicians in the community. WFUHS maintains a 36% ownership interest in DHC equating to $8,951 of net assets at the transaction date. The acquisition was recorded as a nonoperating contribution at its estimated fair value.

The Medical Center funded the repayment of DHC's outstanding debt through the issuance of notes receivable and made financial commitments to improve DHC's infrastructure and physician recruitment and financial support for the Lexington Memorial Hospital Foundation, Inc., a subsidiary of DHC, over a five year period. WFUHS' remaining maximum commitment for the next four years is $10,800. These notes bear interest at rates ranging from 1.2% to 4.3% and are payable either quarterly or semiannually beginning in September 2009.

During 2009, WFUHS also acquired Certificates of Need (CONs) from a clinical practice for $3,000 that are considered intangible assets not subject to amortization and assets of a clinical practice for $644. WFUHS recorded goodwill of $644 related to this acquisition. Both items are recorded in other assets in the consolidated balance sheet.

7. NOTES, CAPITAL LEASES, AND BONDS PAYABLE

Notes, capital leases and bonds payable at June 30, 2009 consist of the following:

	Reynolda Campus	WFUHS	Total
Construction loan agreement (0.62% at June 30, 2009) with interest payable quarterly and final principal and interest balloon payment due March 31, 2010	$ 20,922	—	20,922
Loan agreement (0.56% at June 30, 2009) with interest payable monthly and final principal and interest balloon payment due October 1, 2009	—	5,370	5,370
Loan agreement (1.06% at June 30, 2009) with principal and interest payable monthly and final balloon payment due December 31, 2011	—	11,960	11,960
Equipment loan agreement (6.05%) with principal and interest payable monthly with final payment due September 15, 2013	—	4,432	4,432
Loan agreement (4.19%) with principal and interest payable semi-annually through 2014	4,290	—	4,290
Loan agreement (6.38%) with interest payable monthly through January 31, 2009. Principal and interest payable monthly with final payment due January 1, 2017	—	14,138	14,138
Noninterest-bearing promissory note due June 2018	—	640	640
Capital leases	1,429	—	1,429
Notes and capital leases payable	26,641	36,540	63,181
Series 2004A tax-exempt bonds payable	34,620	—	34,620
Series 2004B tax-exempt bonds payable	29,520	—	29,520
Series 2008A tax-exempt bonds payable	—	62,955	62,955
Series 2008B tax-exempt bonds payable	—	31,330	31,330
Series 2008C tax-exempt bonds payable	—	31,320	31,320
Series 2008D tax-exempt bonds payable	—	63,035	63,035
Series 2009 tax-exempt bonds payable	110,000	—	110,000
Bonds payable	174,140	188,640	362,780
Total notes and bonds payable at par	200,781	225,180	425,961
Net unamortized premium	2,612	—	2,612
Total notes, bonds payable and capital leases	$ 203,393	225,180	428,573

Reynolda Campus entered into a construction loan financing agreement in fiscal year 2007 with a commercial bank that permits the University to borrow up to $25,000, bearing interest at the London InterBank Offered Rate (LIBOR) plus 0.31% (0.62% at June 30, 2009). The purpose of the loan is to support campus facilities expansion and renovation costs that do not qualify for tax-exempt financing. The loan agreement requires annual reviews on the March 31 anniversary date. The Reynolda Campus intends to renew the agreement in 2010 eliminating the required principal balloon payment at March 31, 2010.

WFUHS entered into a loan financing agreement in 2008, with a commercial bank that allowed WFUHS to borrow through October 1, 2009 up to $12,000, bearing interest at the one month LIBOR plus 0.25% (0.56% at June 30, 2009). Accrued interest is payable monthly. The outstanding interest and balloon principal payment is due on October 1, 2009. There was $5,370 outstanding at June 30, 2009.

WFUHS received a grant from the City of Winston-Salem (the City) of $800, the purpose of which was to fund the development of the Green Park Courtyard (the Park) in 2003. As part of this grant, WFUHS executed a noninterest-bearing promissory note to the City in the amount of the $800 and a deed of trust subjecting the Park to the lien of the promissory note. The grant states that in the event that an additional $17,400 in taxable property value is created within the Park within 10 years, then the promissory note shall be marked satisfied and paid 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.

On October 3, 2008, WFUHS redeemed the Wake Forest University Health Sciences Health Care Facilities Revenue Bonds, Series 2002, issued by the North Carolina Medical Care Commission in the original principal amount of $198,800. New Wake Forest University Health Sciences Care Facilities Revenue Bonds, with a principal balance outstanding of $188,640, were issued under a Master Trust Indenture (MTI) structure on October 15, 2008. The bonds were divided into four series, A-D. All MTI bonds are secured by irrevocable, direct-pay letters of credit issued by two banks. As additional security, WFUHS has pledged and granted a security interest in Pledged Assets to the Master Trustee. Pledged assets are defined as all accounts for which WFUHS has right to payment for goods or services sold or leased. The Series 2008 bonds mature in full in 2034. The bonds are variable rate demand obligations operated with two substantially identical letters of credit in which the interest rate reset on a periodic basis as determined by the remarketing agent on each computation date. At the option of WFUHS, the bonds may be converted to various interest rates or to a fixed rate after a five-year period. Subject to certain provisions regarding serialization, the Series 2008 bonds are subject to mandatory redemption through 2035 in increasing annual amounts of $2,445 to $12,610. The interest rates on the bonds at June 30, 2009 were variable at an average of 0.43% for 2009 (see note 8).

Reynolda Campus has outstanding $64,140 of tax exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004. The bonds are made up of Subseries A in the amount of $34,620, and Subseries B, in the amount of $29,520. 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 variable interest rates on the bonds were 0.22% for the Subseries A and at 0.17% for the Subseries B at June 30, 2009.

During May 2009, Reynolda Campus issued the Series 2009 bonds in the amount of $112,612 to provide funds, together with other available funds, to refinance a portion of existing lines of credit, support the addition and renovation of the University's football stadium, finance a portion of the costs of construction, expansion, and renovation of other various facilities, fund a portion of the interest on the 2009 bonds, and pay certain expenses incurred in connection with the issuance of the 2009 bonds. The North Carolina Facilities Finance Agency Revenue Bonds, Series 2009, are evidenced by a Loan Agreement dated May 1, 2009, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2009 tax-exempt bonds are fixed-rate premium bonds issued in the amounts of $49,430 (serial bonds) and $60,570 (term bonds), with final maturities of January 1, 2039 and January 1, 2038, respectively. The 2009 bonds maturing on January 1, 2038 are subject to mandatory redemption through 2038 in increasing annual amounts of $7,410 to $10,005. Interest is payable each January 1 and July 1, beginning January 1, 2010. The University's obligation under the Loan Agreement is an unsecured, unconditional obligation. The annual interest rates on the bonds at June 20, 2009 were fixed at 4.00% to 5.00% for the serial bonds and at 5.00% for the term bonds.

Certain notes payable and the trust indenture underlying the Series 2008 tax-exempt bonds payable contain certain covenants and restrictions as outlined in the MTI and with the banks holding the letters of credit. At June 30, 2009, WFUHS fell below the required threshold for the debt service coverage pursuant to Section 413 of the MTI dated August 1, 2002. Management has engaged a management consultant, as required by VMTI, to recommend corrective action. Under the agreement, WFUHS is considered to be in compliance with the covenants if the recommendations of the management consultant are followed and a minimum coverage ratio is not violated for two consecutive years. WFUHS also fell below the required threshold for debt service coverage under the letter of credit agreements. At June 30, 2009, WFUHS was in compliance with such revised requirements. On July 14, 2009, WFUHS obtained amendments to the letter of credit agreements effective June 30, 2009 with revised covenant requirements.

Aggregate annual maturities of notes and bonds payable for each of the five fiscal years subsequent to June 30, 2009 and thereafter are as follows:

	Reynolda Campus	WFUHS	Total
2010	$ 26,131	10,582	36,713
2011	5,392	6,658	12,050
2012	5,581	16,048	21,629
2013	5,772	6,438	12,210
2014	5,976	5,496	11,472
In total thereafter	150,500	179,958	330,458
	$ 199,352	225,180	424,532

8. INTEREST RATE SWAPS

To manage the fixed/variable mix for its debt portfolio, including hedging exposure to increasing interest expense from variable rate debt, WFUHS utilizes interest rate swap agreements.

In the normal course of its business, WFUHS entered into two long-term interest rate swap agreements having notional amounts of $84,590 and $102,260 which are related to the outstanding North Carolina Medical Care Commission variable rate bond issues due July 1, 2034. WFUHS receives 67% of LIBOR and makes payments at 3.67% and 3.52%, respectively, and settles with the counterparty on a monthly basis. The net settlement amount incurred on the swaps is included in interest expense. The fair value of the interest rate swaps are the estimated amount WFUHS would receive or pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

At June 30, 2009, the fair value of the interest rate swaps for WFUHS was a liability of $20,418 and is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rates swaps for the year ended June 30, 2009 was a loss of $12,206 and is included in the accompanying consolidated 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. During fiscal year 2009, the Reynolda Campus received 68% of the one-month LIBOR index and made 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 was split evenly between the two counterparties. In May 2009, both swap agreements were unwound at a total cost of $1,524. The change in fair value of the interest rate swaps for the year ended June 30, 2009 was a loss of $1,313 and is included in the accompanying consolidated statement of activities. The Reynolda Campus supplemented these swaps with the April 2007 forward-starting floating-to-fixed rate swap to continue protection against the risk of 2004B bond interest rate changes. The replacement swap is 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. At June 30, 2009, the fair value of the swap was a liability of $7,552, which is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rate swap for the year ended June 30, 2009 was a loss of $5,001 and is included in the accompanying consolidated 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, 2009, the fair value of the swap was a liability of $2,143, which is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rate swap for the year ended June 30, 2009 was a loss of $1,172 and is included in the accompanying consolidated statement of activities.

Although the Reynolda Campus anticipates that the interest rate payments made on its variable rate debt will correlate highly with LIBOR due to 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.

9. RETIREMENT 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, 2009 were $8,729, $20,319, and $139 for the Reynolda Campus, WFUHS, and Reynolda House, respectively.

At June 30, 2009, the Reynolda Campus and WFUHS have accrued $1,692 and $3,531, 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 balance sheet.

10. POSTRETIREMENT BENEFITS

The University sponsors defined benefit postretirement medical and dental plans that cover all of 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 the Reynolda House are not eligible for the plans. The plans are contributory with retiree contributions established based on the University contributions being fixed amounts.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at June 30, 2009:

	Reynolda Campus	WFUHS	Total
Benefit obligations at June 30	$ (10,147)	(49,352)	(59,499)
Fair value of plan assets at June 30	—	22,961	22,961
Funded status at year-end	$ (10,147)	(26,391)	(36,538)

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, 2009:

	Reynolda Campus	WFUHS	Total
Change in benefit obligation:			
Benefit obligation at beginning of year	$ 9,442	42,935	52,377
Service cost	549	2,045	2,594
Interest cost	627	2,867	3,494
Participants' contributions	373	976	1,349
Actuarial (gain) loss	(271)	3,922	3,651
Benefits paid	(572)	(2,514)	(3,086)
Change in plan provisions	—	(879)	(879)
Benefit obligation at end of year	10,148	49,352	59,500
Change in plan assets:			
Fair value of plan assets at beginning of year	—	29,546	29,546
Actual return on plan assets	—	(9,205)	(9,205)
Employer contributions	200	4,158	4,358
Participants' contributions	372	976	1,348
Benefits paid	(572)	(2,514)	(3,086)
Fair value of plan assets at end of year	—	22,961	22,961
Funded status	$ (10,148)	(26,391)	(36,539)
Amounts recognized in net assets:			
Prior service (cost) credit	$ (188)	3,969	3,781
Net actuarial gain (loss)	1,518	(29,031)	(27,513)
Total increase (decrease)	$ 1,330	(25,062)	(23,732)

The following table provides the components of net periodic benefit cost for the year ended June 30, 2009:

	Reynolda Campus	WFUHS	Total
Service cost	$ 549	2,045	2,594
Interest cost	627	2,867	3,494
Expected return on plan assets	—	(2,521)	(2,521)
Amortization of prior service cost (credit)	87	(281)	(194)
Amortization of net actuarial (gain) loss	(25)	757	732
Net periodic benefit cost	$ 1,238	2,867	4,105

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 are $48 and $1,500, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2009 was 6.25%. The discount rate reflects the current yield curve results as of June 30, 2009. For management purposes, a 9.5% 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%. 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	$ 147	(122)
Effect on postretirement benefit obligation	1,005	(853)

Aggregate benefits expected to be paid by the University in each of the next five fiscal years subsequent to June 30, 2009 and thereafter are as follows:

	Reynolda Campus	WFUHS	Total
2010	$ 446	1,616	2,062
2011	516	1,826	2,342
2012	575	2,067	2,642
2013	631	2,316	2,947
2014	682	2,532	3,214
Five years thereafter	3,882	15,818	19,700
	$ 6,732	26,175	32,907

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2009 and include estimated future employee service.

11. NET ASSETS

Temporarily restricted net assets were composed of the following at June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
Gifts and pledges	$ 37,371	7,868	219	45,458
Grants and contracts	—	1,984	—	1,984
Donor-restricted endowments	151,656	33,508	215	185,379
	$ 189,027	43,360	434	232,821

Such temporarily resticted net assets were available for the following purposes as of June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
Student scholarships	$ 107,728	3,430	—	111,158
Instruction and research	49,226	33,034	—	82,260
Academic support	11,409	6,896	434	18,739
Subsequent period operations and other	20,664	—	—	20,664
	$ 189,027	43,360	434	232,821

Permanently restricted net assets were composed of the following at June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
Donor-restricted endowments	$ 166,840	94,711	8,330	269,881
Gifts and pledges	4,923	2,093	—	7,016
Student loan funds	932	—	—	932
Interests in trusts held by others	3,756	16,777	16	20,549
Annuity and other split-interest agreements	5,543	3,814	—	9,357
	$ 181,994	117,395	8,346	307,735

The return from donor-restricted endowments was available for the following purposes as of June 30, 2009:

	Reynolda Campus	WFUHS	Reynolda House	Total
Student scholarships	$ 95,466	16,158	—	111,624
Instruction and research	43,224	60,511	—	103,735
Academic support	10,111	16,489	8,330	34,930
Subsequent period operations and other	18,039	1,553	—	19,592
	$ 166,840	94,711	8,330	269,881

12. RELATED-PARTY TRANSACTIONS

WFUHS and 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, 2009, $64,059 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, 2009 include $377 due from the Hospital for such items. During the year ended June 30, 2009, $51,835 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 purchased materials, computer services, telephone service, insurance costs, and certain facility expenses. Accounts payable and accruals at June 30, 2009 include $1,266 due to the Hospital for such items.

The Medical 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 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:			
2010	$ 7,963	3,078	11,041
2011	7,683	2,841	10,524
2012	7,395	2,743	10,138
2013	4,583	661	5,244
2014	3,120	212	3,332
In total thereafter	7,735	151	7,886
	$ 38,479	9,686	48,165

Total income from real estate was $8,359 for the Reynolda Campus and $3,806 for WFUHS for the year ended June 30, 2009.

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, 2009, such grant awards amounted to $6,590 and $248,649 for the Reynolda Campus and WFUHS, respectively.

The estimated cost to complete construction in progress at June 30, 2009 is $36,743 and $16,701 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 Hospital, which included a $4,000 per occurrence and a $16,000 annual aggregate for the year ended June 30, 2009. WFUHS estimates its professional liability on an actuarial basis. Accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $29,947 at June 30, 2009, and are included in other liabilities and deferrals in the accompanying consolidated balance sheet. In the opinion of management, adequate provision has been made for the related risk.

15. FAIR VALUES OF ASSETS AND LIABILITIES

Effective July 1, 2008, the University adopted FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which defines fair value, provides a framework for measuring fair value and expands disclosures about fair value measurements. The new standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 also prioritizes, with the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value based on the transparency of information used in the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

Assets and liabilities measured and reported at fair value are classified and disclosed within one of the following categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The type of investments in Level 1 include listed equities held in the name of the University, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2 – Valuations are determined through direct or indirect observations other than quoted market prices. The type of investments in Level 2 include those in which the University is a unit of account holder within a fund that holds underlying assets that are traded in active exchange markets with readily available pricing.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

The following table summarizes the valuation of the University's assets and liabilities by the FAS 157 fair value hierarchy levels as of June 30, 2009:

	Total	Fair Value Hierarchy Ranking		
	Fair Value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Short-term investments	$ 47,527	47,527	—	—
Absolute return	208,367	—	17,165	191,202
Fixed income securities	139,914	62,989	—	76,925
Public equity	404,466	270,168	22,385	111,913
Private equity	74,034	—	—	74,034
Commodities	69,366	32	—	69,334
Real estate	54,269	—	—	54,269
Beneficial interest in perpetual trusts	20,549	—	—	20,549
WFUHS funds held by the Hospital	38,950	—	38,950	—
Other investments	13,741	20	—	13,721
Total assets	$ 1,071,183	380,736	78,500	611,947
Financial liabilities:				
Other liabilities and deferrals:				
Interest rate swaps	$ 30,113	—	30,113	—
Annuities payable	23,771	—	—	23,771
Total liabilities	$ 53,884	—	30,113	23,771

The following table summarizes the University's Level 3 reconciliation by the FAS 157 standards as of June 30, 2009:

	Investments	Annuity Obligations
Balance at June 30, 2008	$ 712,262	(29,553)
Total realized and unrealized gains or losses:		
Included in decrease in net assets	(121,036)	2,922
Net purchases, (sales), issuances and (settlements)	10,355	2,860
Transfers in Level 3	10,366	—
Balance at June 30, 2009	$ 611,947	(23,771)

In conjunction with the adoption of FAS 157, the University elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends FAS 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to FAS 157.

The University's aggregate unfunded private capital commitments are approximately $91,355, or 8.5% of total investments at June 30, 2009. These commitments are expected to be called over a multiyear time frame. The University believes it has adequate liquidity to meet these obligations. Private investment with the latest stated maturity of April 2022 represents 1.0% of total investments (based on fair value). For the pooled endowment: (1) redemption frequencies range from daily to annually; (2) notice periods range from 0 days up to 180 days; and (3) lock-up periods range from 0 years up to 3 years.

Fair market value for LIBOR based interest rate swaps is determined using a relative price approach, by discounting the future expected cash flows at the market discount rate (the 100% LIBOR swap rate matching the average life of the notional reduction, if any, of the swap). For the variable leg of a swap, the expected cash flows are based on implied market forward rates for the appropriate underlying index.

Effective July 1, 2008, the University adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). FAS 159 allows an entity the option to elect fair value for the initial and subsequent measurement of certain financial assets and liabilities. This option is generally irrevocable. The University elected the fair value option to measure its obligations under split interest agreements. A single rate based on the average duration of gift annuities and trusts, respectively, was used to discount the present value of annuity obligations. The rate is equivalent to the University's nonexempt borrowing rate of 3.76% as of June 30, 2009.

16. ENDOWMENT

Effective July 1, 2008, the University adopted the provisions of 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 not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The University's pooled endowment consists of approximately 1,400 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective March 19, 2009, the state of North Carolina adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (the Act). The statutory guidelines therein relate to prudent management, investment, and expenditure of assets in a donor-restricted endowment fund held by charitable organizations. During the year ended June 30, 2009, the University has reviewed all endowment funds and has reclassified to temporarily restricted net assets those that are subject to the Act that were previously classified as unrestricted. Barring the existence of specific instructions in gift agreements for donor-restricted endowments, the University's policy is to report as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

The University has adopted investment and spending policies for endowment assets that support the objective of providing 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. The University's primary investment objective is to maximize total return within reasonable and prudent levels or risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy, 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. The endowment portfolio is diversified among various net asset classes and strategies to help reduce risk.

The endowment spending rate for the year ended June 30, 2009 was 5.3%, calculated as a percentage of the average of the previous three-year semiannual moving market value per unit.

Endowment net assets consist of the following at June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Reynolda Campus:				
Donor-restricted endowment funds	$ (9,564)	151,656	166,840	308,932
Board-designated endowment funds	195,704	—	—	195,704
Endowment net assets	186,140	151,656	166,840	504,636
WFUHS:				
Donor-restricted endowment funds	(4,327)	33,508	94,711	123,892
Board-designated endowment funds	208,025	—	—	208,025
Endowment net assets	203,698	33,508	94,711	331,917
Reynolda House:				
Donor-restricted endowment funds	(2,221)	215	8,330	6,324
Board-designated endowment funds	20,800	—	—	20,800
Endowment net assets	18,579	215	8,330	27,124
Total endowment net assets	$ 408,417	185,379	269,881	863,677

Changes in endowment net assets for the year ended June 30, 2009 are as follows:

Reynolda Campus	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ 281,014	202,751	159,368	643,133
Net asset reclassification based on FSP 117-1 implementation	(39,115)	39,115	—	—
Endowment net assets after reclassification	241,899	241,866	159,368	643,133
Investment return:				
Investment income net of fees	(24)	571	9	556
Net depreciation	(46,904)	(80,858)	(224)	(127,986)
Total investment return	(46,928)	(80,287)	(215)	(127,430)
Contributions	765	409	7,881	9,055
Appropriation of endowment assets for expenditure	(18,596)	(10,332)	(194)	(29,122)
Transfers to create board-designated funds	9,000	—	—	9,000
Endowment net assets, June 30, 2009	$ 186,140	151,656	166,840	504,636

WFUHS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ 273,478	65,151	93,047	431,676
Investment return:				
Investment income net of fees	2,065	982	114	3,161
Net depreciation	(58,889)	(25,972)	(890)	(85,751)
Total investment return	(56,824)	(24,990)	(776)	(82,590)
Contributions	388	—	3,072	3,460
Appropriation of endowment assets for expenditure	(16,364)	(6,653)	(632)	(23,649)
Transfers to create board-designated funds	3,020	—	—	3,020
Endowment net assets, June 30, 2009	$ 203,698	33,508	94,711	331,917

Reynolda House	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2008	$ 34,618	1,869	8,330	44,817
Investment return:				
Investment income	731	218	—	949
Net depreciation	(14,756)	(1,417)	—	(16,173)
Total investment return	(14,025)	(1,199)	—	(15,224)
Appropriation of endowment assets for expenditure	(2,014)	(455)	—	(2,469)
Endowment net assets, June 30, 2009	$ 18,579	215	8,330	27,124

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2009, for Reynolda Campus, WFUHS and Reynolda House were $9,564, $4,327, and $2,221, respectively.

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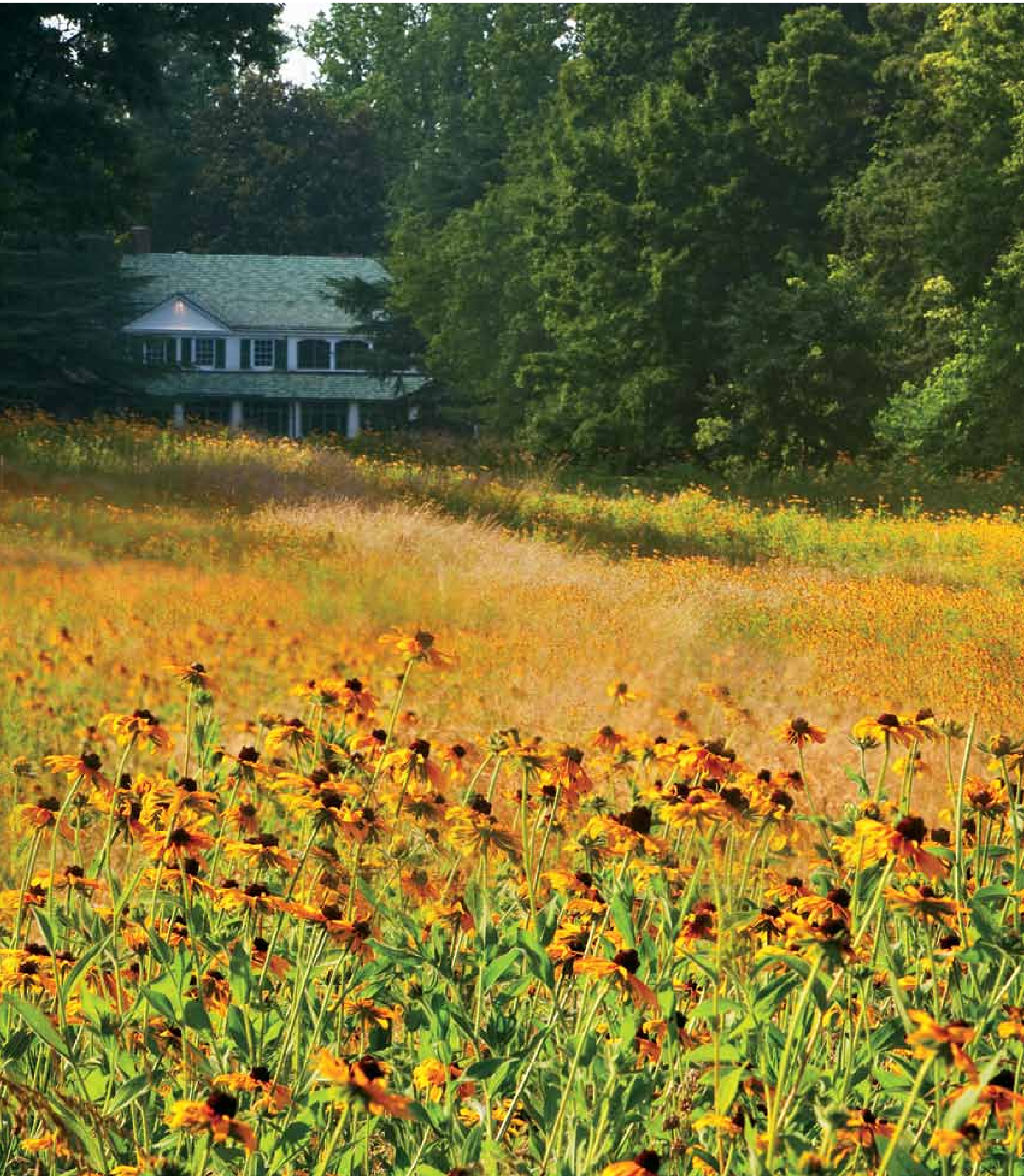

WAKE FOREST
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