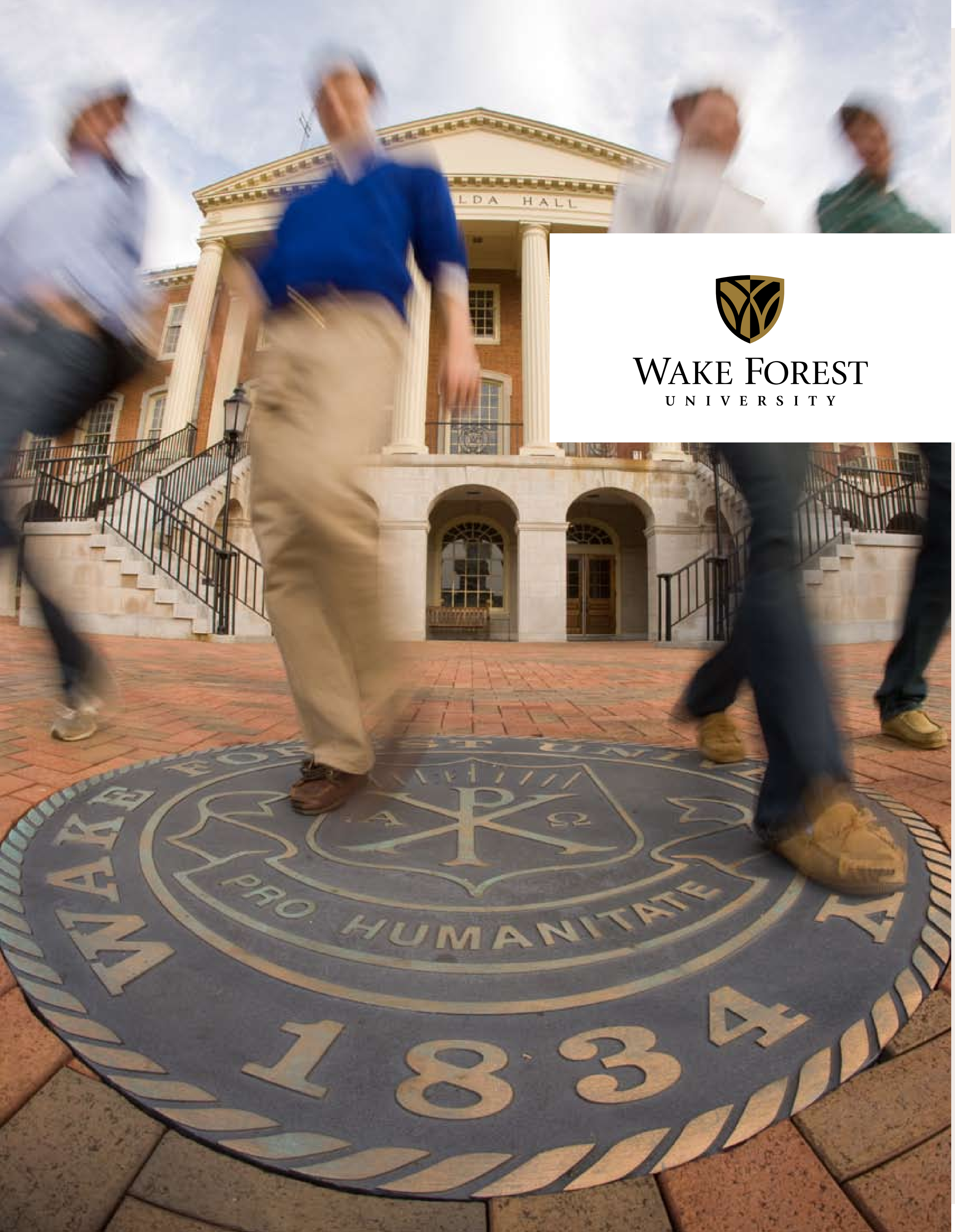
WAKE FOREST UNIVERSITY
ANNUAL REPORT | 2009-2010

SERVING HUMANITY THROUGH THE PURSUIT OF KNOWLEDGE



WAKE FOREST
UNIVERSITY

SERVING HUMANITY THROUGH THE PURSUIT OF KNOWLEDGE

ANNUAL REPORT | 2009-2010

FROM THE PRESIDENT

At Wake Forest University, we have the astounding privilege of welcoming outstanding young people, potential leaders of the next generation, into a community and a conversation that have animated the halls of this place since 1834. As we prepare to close the books on the first decade of the twenty-first century, Wake Forest stands committed to the ideals that have propelled the University through more than 175 years of history: a tradition of opportunity for talented and passionate students, a culture of deep engagement between those students and our extraordinary teacher-scholars, and a vibrant academic community in which rich cultural and social opportunities provide a context for testing and reflecting upon the lessons of the classroom.

Fiscal conservatism has been the touchstone of institutions around the globe in recent years, and Wake Forest continues to be careful and prudent. We are also aware that this is a time for us to position ourselves for increasing philanthropic support, a superior recruitment and retention position as we work to bring the best students, faculty and staff to our campuses, and infrastructure that matches the ingenuity and commitment of the people who make up Wake Forest University.

In our everyday work, but also in our hopes and dreams, we have the opportunity to secure Wake Forest's distinctive place in higher education for generations to come, and I am committed to that noble effort. I continue to be deeply grateful for the investment of Wake Forest's students, faculty, staff, alumni, parents and partners in making this an extraordinary living and learning environment.

Sincerely,

Nathan O. Hatch
President

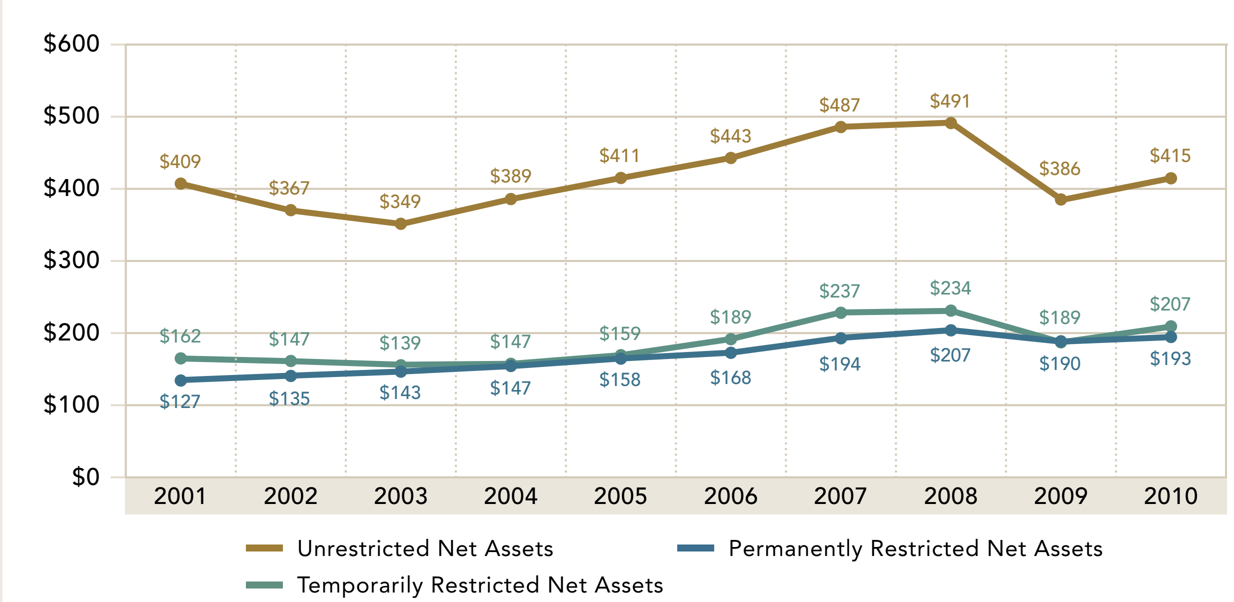
FROM THE ASSISTANT VICE PRESIDENT FOR FINANCE & CONTROLLER OF WAKE FOREST UNIVERSITY REYNOLDA CAMPUS

In the midst of a still-uncertain economy, Wake Forest University's financial condition improved during the 2010 fiscal year. As reported in this annual report, by every measure, the University emerged from fiscal 2010 financially strong. Our net assets base reflects a healthy growth of $49 million (6.4%) over the prior fiscal year. The recent global economic downturn greatly affected the University's investments during the previous year, reducing our overall assets by $166 million (18%). Despite this decline, over the past decade net assets experienced growth and the positive results of fiscal 2010 further strengthened the University's financial position.

The growth in the University's net assets during fiscal 2010 was fueled by operating revenue and the market value of our endowment. The operating revenue from all sources grew by $11 million (3.6%), while operating expenses were up $4 million (1.4%). Student tuition and fees, and auxiliary enterprises' sales and services are the University's primary operating revenue drivers. While the University protected revenue and contained expenses, we advanced our strategic priorities through an intentional focus on improving our support for the core mission. As a result, the operating revenue totals exceeded the projected revenue; in addition we successfully contained our operating expenses, which resulted in a healthy operating margin that demonstrates financial prudence and strength.

With improving financial markets and a talented investment team, endowment investment returns totaled 11.1% for the year providing net investment appreciation of $53 million. At the close of the fiscal 2010, the Reynolda Campus endowment market value totaled $559 million, representing an increase of $28 million (5.2%) over prior year. Overall, the number of donors supporting the University increased in fiscal 2010, though giving declined compared to the previous year. It is the generosity of our donors that enables the University to continue investing in scholarships, academic programs, service, and infrastructure.

HISTORICAL PRESENTATION OF UNRESTRICTED, TEMPORARILY, AND PERMANENTLY RESTRICTED NET ASSETS (in millions)



To keep up with the needs and growth of the University community, Wake Forest has made significant investments in our facilities over the past several years. Fiscal 2010 saw the completion of a new freshman residence hall, which is the first building on campus designed to meet LEED certification. We also broke ground on the new Admissions and Welcome Center, another building designed to meet LEED certification. Both of these buildings reflect the University's commitment to sustainability on campus. In addition, we began multiple improvement projects to a number of the academic, administrative, and athletic facilities. These projects will greatly enhance the campus experience for our students, faculty, and staff.

While the financial climate continues to recover, the combination of the University's sound financial position, strong student demand, growing donor base, and our exceptional faculty, students and staff, affords the opportunity for Wake Forest to continue to emphasize exceptional teaching, discovery and student engagement within a dynamic academic community. Many contributed to the performance and financial health of the University, and we appreciate their hard work and dedication to Wake Forest.

Brandon E. Gilliland
Assistant Vice President for Finance & Controller

FROM THE CEO OF WAKE FOREST UNIVERSITY BAPTIST MEDICAL CENTER

The financial year that ended on June 30, 2010 marked a powerful milestone for Wake Forest University Baptist Medical Center: the creation of a legally integrated medical center governance and management structure. This was a critical juncture in our transformational journey to realize our vision to become a pre-eminent, internationally recognized academic medical center of the highest quality with balanced excellence in patient care, research and education.

In addition to the adoption of a shared vision for the Medical Center, other important "firsts" include the adoption of a single mission, the development of our first-ever, unified long-range Strategic Plan: A Roadmap for Excellence, and the creation of a new leadership structure with Dr. Thomas Sibert named in September 2010 president and chief operating officer of the clinical enterprise health system. Dr. William Applegate remains at the helm of the School of Medicine as Dean, with plans to step down at the end of Fiscal Year 2011 and remain on faculty. The search for a new Dean is under way and expected to be announced in June.

It was a banner year for extramural research funding with $213 million in grants, a 12.3 percent increase over the previous year. Financially, the Medical Center exceeded its operating margin targets in FY10, posting the healthiest margin in a number of years. The institution received $25.2 million in philanthropic support in FY10. Wake Forest Baptist is experiencing stronger-than-projected financial performance in the current fiscal year thanks to improved operations and aggressive cost and resource management.

In July 2009, five of our clinical services were named among America's top 50 by U.S.News & World Report. In July 2010, eight services were recognized: Cancer; Ear, Nose & Throat; Gynecology; Heart & Heart Surgery; Kidney Disorders; Neurology & Neurosurgery; Pulmonary; and Urology. We continue to have a strong presence in Best Doctors in America® with 288 of our physicians named in the most recent list, as well as with America's Top Doctors® which places Wake Forest Baptist 32nd in the nation for the number of our doctors considered the best by their peers. Our Medical Center was again named the top choice of consumers in our region according to the National Research Corp.

Our faculty are national and international leaders: 180 members were elected to serve as president or chair of major scientific or professional societies. Applications to the School of Medicine increased by 4 percent to 7,389, or 17 percent of the national pool of applicants. The academic quality of applicants continues to be outstanding.

It has been a year of accomplishment and significant advancement for our Medical Center, but we recognize that this is just the beginning of our transformational journey to the pinnacle of academic medicine. We are grateful to the ongoing support of our Boards, our community, and our dedicated faculty and staff for their commitment to our shared vision.

John D. McConnell, M.D.
CEO of Wake Forest University Baptist Medical Center

2009-2010 YEAR IN REVIEW

1. In February of 2010, Wake Forest hosted "Energizing the Future: Technology, Policy and Entrepreneurship." This two-day event addressing Energy Policy attracted national media attention and leveraged the work of many of the University's top faculty members.

2. WFUBMC developed its first unified long-range Strategic Plan: A Roadmap for Excellence, aligning the School of Medicine, North Carolina Baptist Hospital, Wake Forest University Physicians and all subsidiaries in a common strategic direction and shared principles.

3. Wayne Silver and Susan Fahrbach (Biology), with Azeez Aileru (WSSU) won 5 years of support for an "Undergraduate Neuroscience Training Cooperative between Wake Forest University and Winston-Salem State University (WSSU)" from the National Institutes of Health. The goal is to encourage and prepare underrepresented minorities to pursue careers in neuroscience by making the WFU undergraduate neuroscience minor available to students at WSSU.

4. The LEED designed South Residence Hall opened its doors just after the close of the 2010 fiscal year, featuring a solar paneled roof, bio-retention cells, and the latest in green technology.

5. On August 1, Gail R. O'Day succeeded the retired Bill J. Leonard as dean of the Wake Forest University School of Divinity. Leonard, the School of Divinity's founding dean, was also the recipient of a new distinguished service award established by the School in his name. This annual award will be given to those who embody the University's motto, Pro Humanitate, and the divinity school's commitment to diverse faith engagements and social justice, reconciliation and compassion in the Christian church.

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2009-2010 YEAR IN REVIEW

6. The University launched a car-sharing program, Zipcar, where energy efficient vehicles are available for use by faculty, staff, and students. Each Zipcar on campus reduces an estimated 15-20 student-owned vehicles.

7. Wake Forest professors Christian Miller (philosophy), William F. Fleeson (psychology) and Michael R. Furr (psychology) were awarded a $3.67 million grant from the John Templeton Foundation for The Character Project, an exploration of the nature of character. The grant is the largest ever received for humanities research at Wake Forest.

8. Construction began on a new Admissions and Welcome Center for the Reynolda Campus. The building will house the rapidly increasing numbers of families who visit Wake Forest each year and provide a venue for lectures and cultural activities on the campus.

9. The Dianne Dailey Golf Learning Center, one of the finest golf training facilities in the country, was completed and dedicated in May of 2010. The Center will feature five heated hitting bays along with a state-of-the-art V1 filming system and the newest TrackMan technology, and serve as the focal point of the newly redesigned Wake Forest Golf Complex.

10. Women's soccer won the ACC Championship this season for the first time in program history and advanced to post-season play in the NCAA Tournament for the 15th consecutive season. Freshman Katie Stengal was named ACC Freshman of the Year.

11. The Wake Forest Institute for Regenerative Medicine was first to use human liver cells to successfully engineer tiny, functional livers. The next step is to see if the livers will continue to function after transplantation in an animal model.

12. Every four years since 1963, a small group of Wake Forest students has visited New York to purchase art. In October of 2009, the Reynolda House Museum of American Art exhibition Now/Then: A Journey in Collecting Contemporary Art at Wake Forest University showcased a selection of these works from the Student Union Collection. Now/Then was co-curated by Museum Managing Curator Allison Slaby and Assistant Professor of Art Jay Curley.

13. The University returned to a grand old tradition by inviting top seniors to share their "senior orations" at Founders' Day Convocation. The annual academic ceremony also included faculty awards and sharing of memories for this year's senior class.

14. In February of 2010, Reynolda House Museum of American Art Founding President Barbara Babcock Millhouse received the Medallion of Merit from Wake Forest University. The award, given to the university's most distinguished leaders since 1968, is Wake Forest's highest honor.

15. WFUBMC named the first-ever Medical Center-wide Chief Medical Officer, Thomas E. Sibert, M.D., (Sept. 2009) and Chief Financial Officer, Edward G. Chadwick (July 2009).

16. The Boards of Trustees of WFUBMC, NCBH, WFUSOM and WFU agreed to the creation of a legally integrated governance and management structure (June 2010).

17. NY Times columnist and bestselling author, Thomas Friedman, best-selling author and lawyer John Grisham, and Nucelar weapons expert Graham Allison all visited campus as part of the Voices of Our Times Speaker Series.

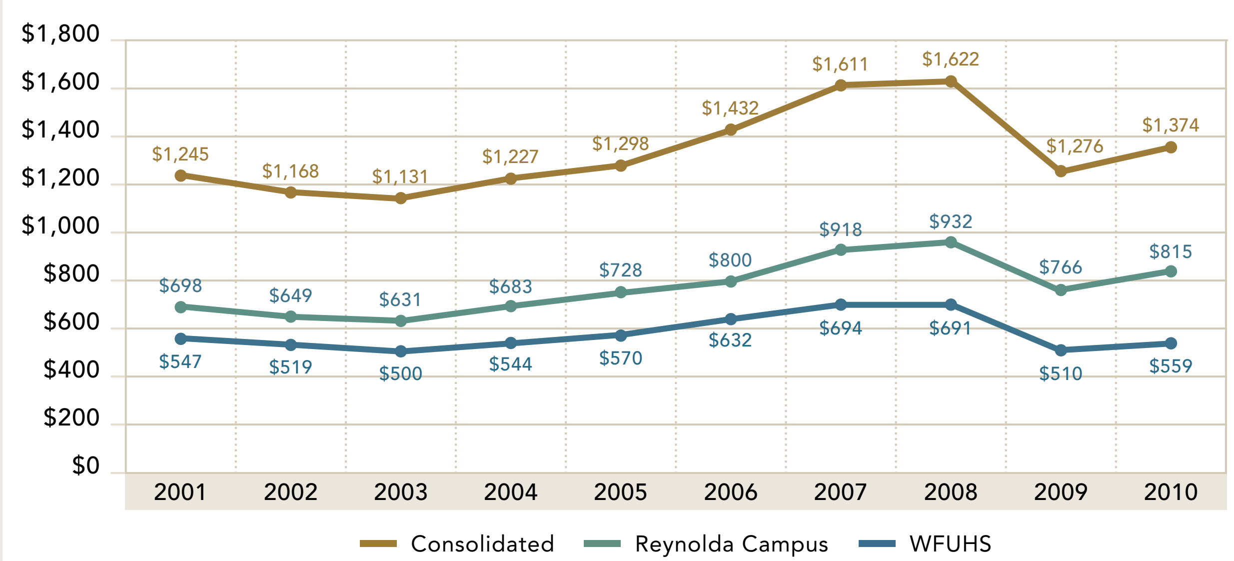
18. Five services were ranked among America's top 50 by U.S. News & World Report: cancer, urology, respiratory disorders, kidney disease and gynecology.

19. The Department of Radiation Oncology was named the world's first Leksell Center for Radiosurgery, making WFUBMC an international teaching site for stereotactic body radiation therapy (SBRT) technologies.

CONSOLIDATED FINANCIAL HIGHLIGHTS

Wake Forest's consolidated net assets increased 7.7% or $98 million in fiscal 2010 to $1.374 billion as of June 30, 2010. This increase was primarily driven by positive returns on the University's investment portfolio, primarily the 11.1% endowment investment return and improvement in net operating results in fiscal 2010. The improvement in fiscal 2010 partially offset the significant decline of $346 million experienced in fiscal 2009, returning consolidated net assets to fiscal 2006 levels. In the last 10 years, the University's consolidated net assets have grown $129 million due primarily to outstanding investment returns, a continued focus on long-term financial stability and stewardship, and the generous philanthropic support from our alumni and other donors.

WAKE FOREST UNIVERSITY CONSOLIDATED NET ASSETS (in millions)

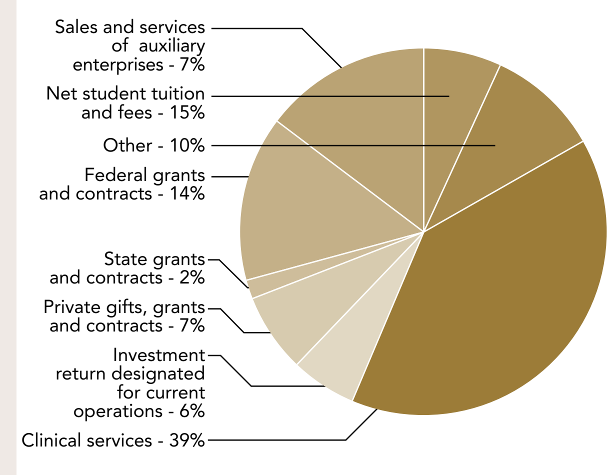


SUMMARY OF CHANGES IN CONSOLIDATED NET ASSETS (in thousands)

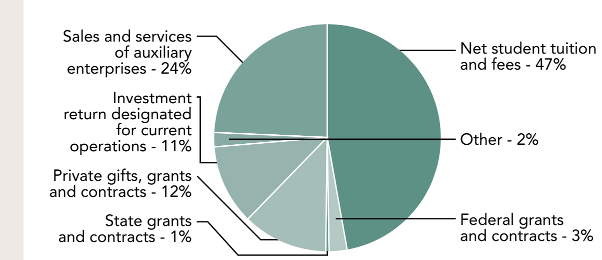
	2010	2009
Operating excess - Reynolda Campus	$ 30,573	$ 23,697
Operating excess - WFUHS	29,820	13,422
Nonoperating activities:		
Investment (loss) return	58,178	(362,631)
Actuarial gain (loss) of annuity obligations	(4,999)	2,922
Unrealized gain (loss) on interest rate swaps	(11,492)	(19,692)
Nonperiodic changes in benefit plans	(1,818)	(13,960)
Net contribution of and income (loss) from affiliates	(2,257)	7,650
Other, net	(227)	2,598
Total increase (decrease) in consolidated net assets	97,778	(345,994)
Total consolidated net assets	**$ 1,374,182**	**$ 1,276,404**

Operating revenues improved 8.7% to $1.156 billion in fiscal 2010, reflecting a $92 million increase from fiscal 2009. This increase was largely attributable to a 14.5% increase in federal grants and contracts revenue, a 17% increase in clinical services revenue, and a 3.9% increase in net student tuition and fees. Major components of University operating revenues are summarized below:

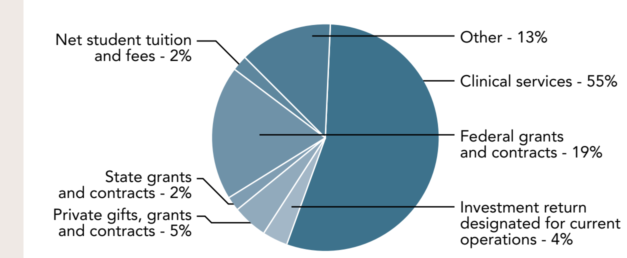
WAKE FOREST UNIVERSITY CONSOLIDATED OPERATING REVENUES BY SOURCE ($1.156 billion)



REYNOLDA CAMPUS OPERATING REVENUES BY SOURCE ($322 million)

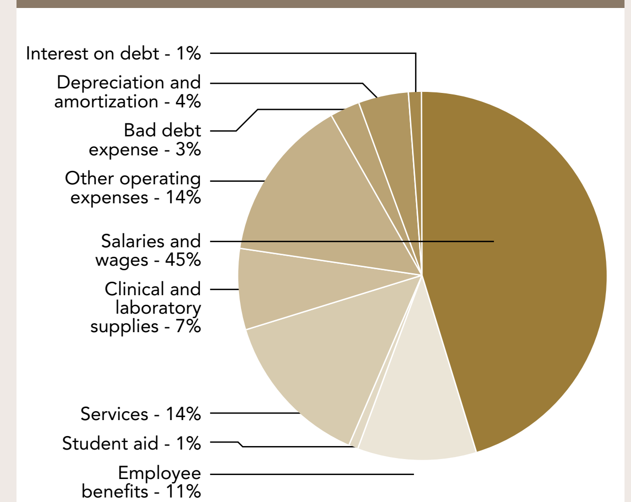


WFUHS OPERATING REVENUES BY SOURCE ($834 million)

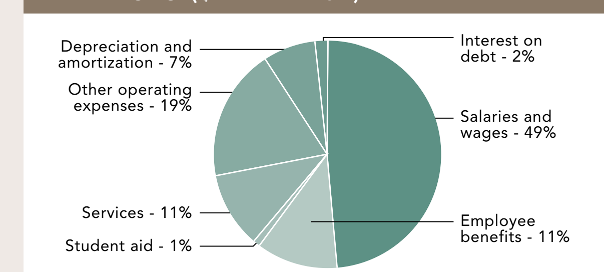


Operating expenses increased 6.7% to $1.095 billion in fiscal 2010, reflecting a $69 million increase from fiscal 2009. This increase was primarily driven by a 9.3% increase in salaries, wages and benefits, a 67% increase in bad debt expenses associated with clinical services, and a 3.7% increase in services expenses. Major components of University operating expenses are summarized below:

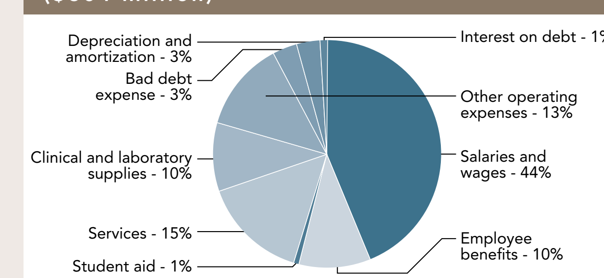
WAKE FOREST UNIVERSITY CONSOLIDATED OPERATING EXPENSES ($1.095 billion)



REYNOLDA CAMPUS OPERATING EXPENSES ($291 million)



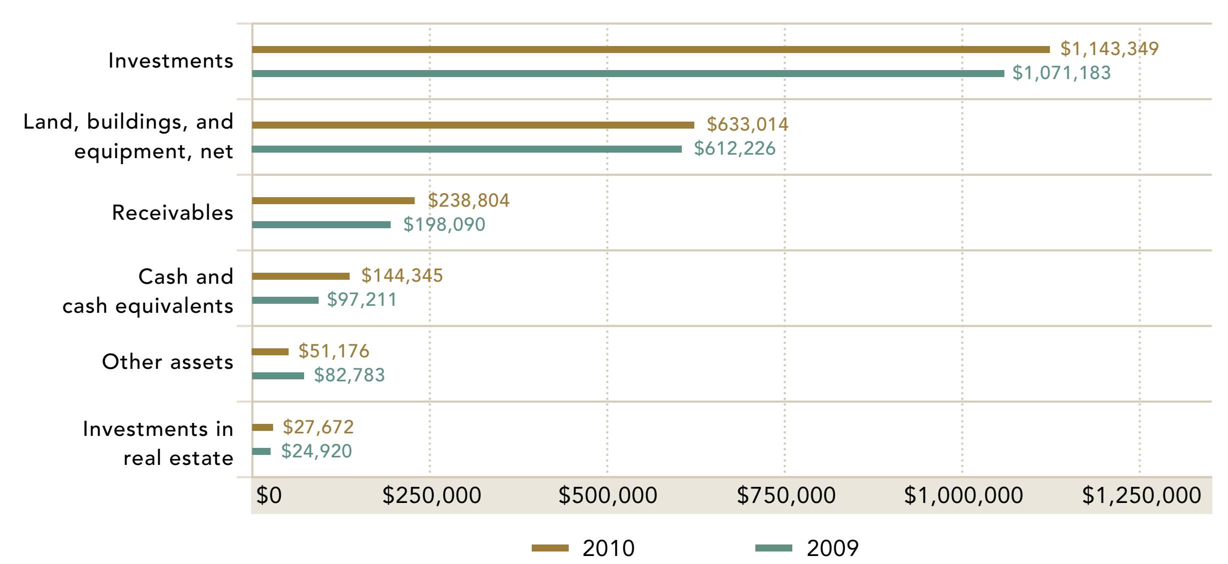
WFUHS OPERATING EXPENSES ($804 million)



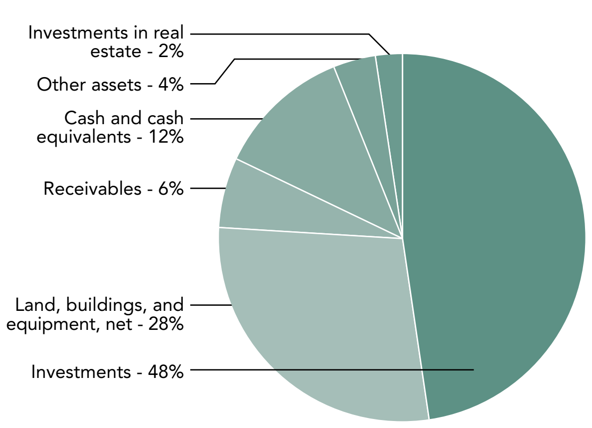
CONSOLIDATED FINANCIAL HIGHLIGHTS

Assets totaling $2.238 billion as of June 30, 2010, reflect a 7.3% or $152 million increase from the prior year. This increase is primarily attributable to net appreciation of the University's investment portfolio, net operating results, and capital investments. Major components of the University's assets are presented below.

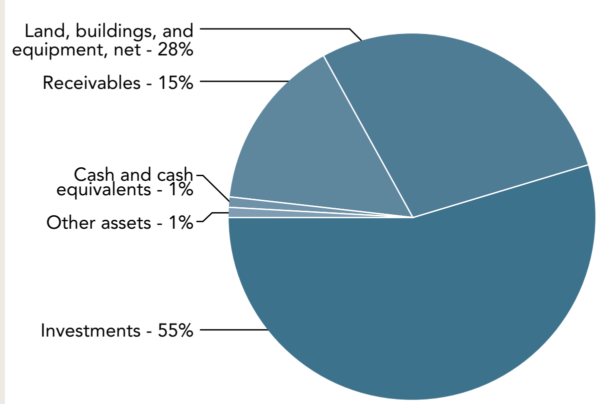
WAKE FOREST UNIVERSITY CONSOLIDATED ASSETS
2010 ($2.238 billion) & 2009 ($2.086 billion)



REYNOLDA CAMPUS ASSETS
($1.136 billion)

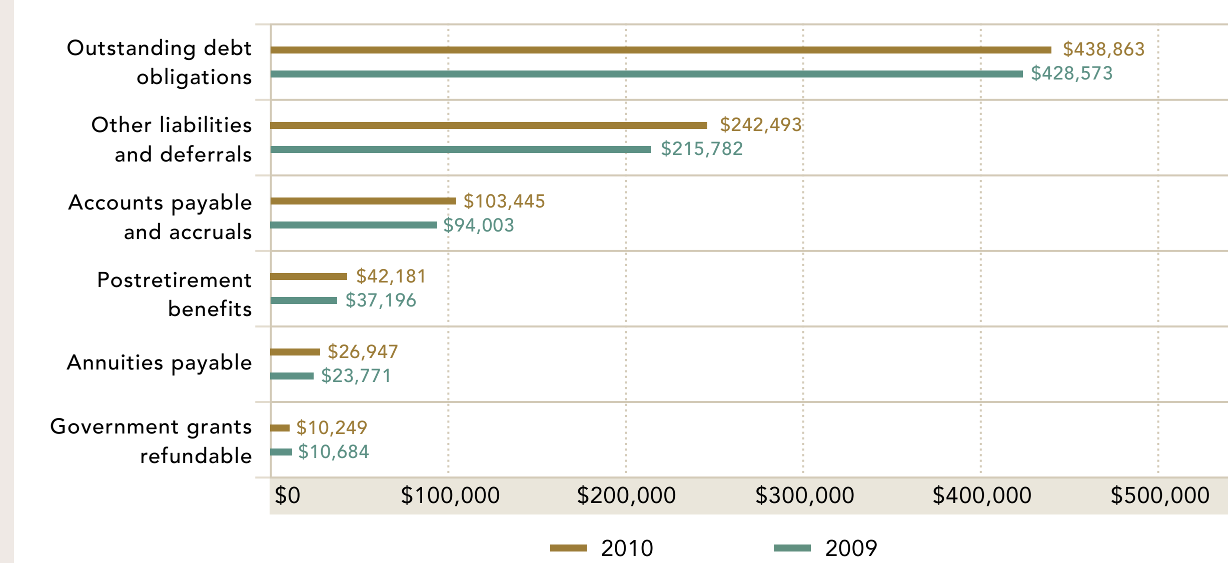


WFUHS ASSETS
($1.102 billion)

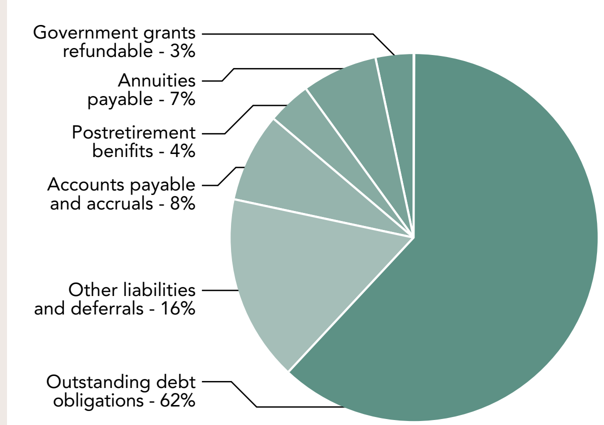


Liabilities reflect a 6.7% or $54 million increase from the prior year totaling $864 million as of June 30, 2010. This increase is primarily attributable to revenue deferrals, negative mark-to-market adjustments on interest rate swap agreements, and a slight increase in outstanding debt obligations. Major components of the University's liabilities are presented below.

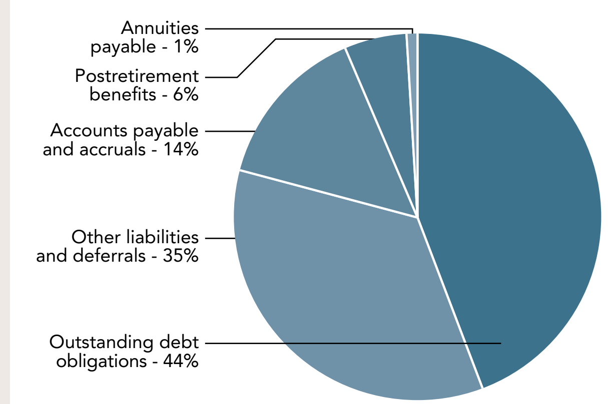
WAKE FOREST UNIVERSITY CONSOLIDATED LIABILITIES
2010 ($864 million) & 2009 ($810 million)



REYNOLDA CAMPUS LIABILITIES
($321 million)



WFUHS LIABILITIES
($543 million)



FROM THE VICE PRESIDENT AND CHIEF INVESTMENT OFFICER

PROTECT, PERFORM AND PROVIDE

This summer I heard President Hatch describe Wake Forest University as a place built on uncommonly strong connections. These connections transcend your classical academic ideal and create a distinctive lasting relationship between students, faculty, parents, alumni, friends, and this extraordinary place.

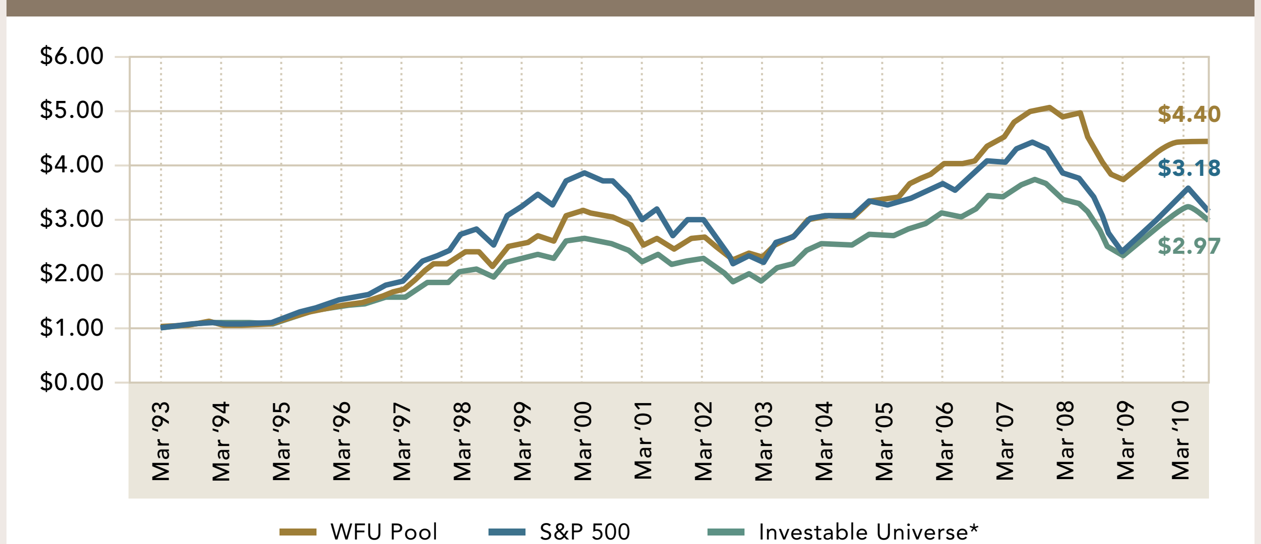
Our vision is to continually strengthen those connections through the prudent management of the endowment and a close adherence to our mantra: Protect, Perform, Provide.

Success in fulfilling that vision will depend on continued distinction in three areas: Protecting the endowment first and foremost, performing over inflation in what appears to be a very difficult environment going forward, and providing the funds the University needs to meet our goals, priorities and aspirations for the future.

PROTECT

In addition to very strong financial results, we continued to improve the transparency, accountability and innovation of the endowment and the Office of Investments. Over the last year we have increased our liquidity, made significant enhancements to our asset allocation models, added a robust risk management framework, pursued innovative investment strategies and added to our base of talent in the office. We continue to add risk management instruments to our portfolio, and have little interest in tying the future of Wake Forest to the often illogical gyrations of the global equity markets.

CUMULATIVE PERFORMANCE (Growth of $1): APRIL 1993 – JUNE 2010



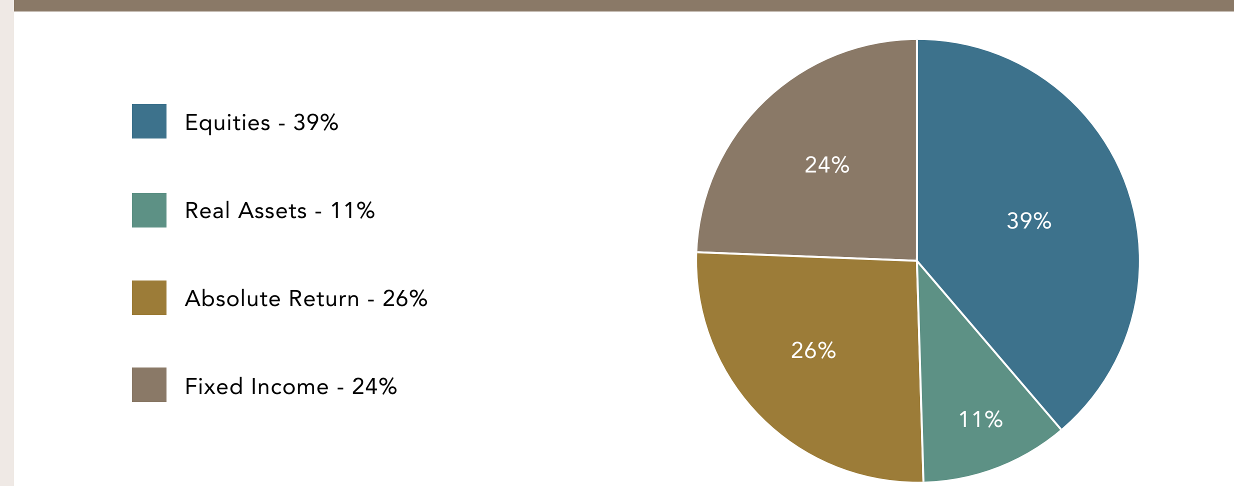
* 50% Russell 3000, 25% MSCI EAFE, 20% Barclays Aggregate, and 5% T-Bills

PERFORM

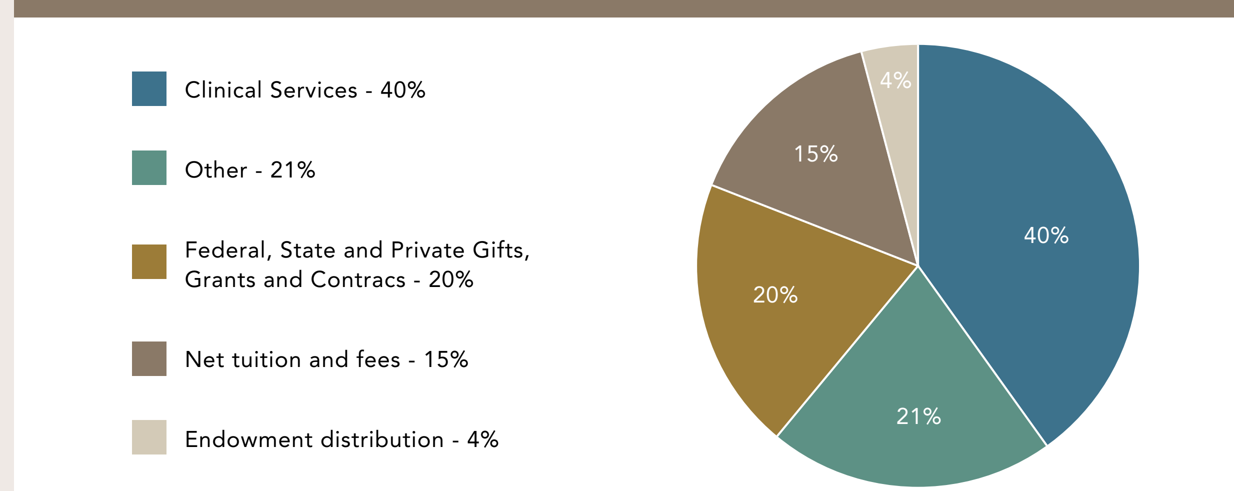
Over the year, we made two significant allocation changes that we felt were critical to reduce the risk of the portfolio as well as position the endowment for the environment we envisaged. The first was a significant shift out of equities and into fixed income. We reduced our equity and real asset allocation and nearly doubled our fixed income allocation. This shift was a view on the theme that "debt is the new equity" and we focused our investments in the credit space with a view to stay higher in the capital structure and increase our appetite to purchase "high-quality" assets from distressed sellers.

The second change was to change our focus from an inflationary outlook to that of a deflationary stance. This forecast turned out to be correct and even motivated us to rename our Inflation Hedge "bucket" to the more fiscal agnostic Real Asset "bucket". While this shift worked in 2010, our long term outlook is extremely cautious with inflation clearly on the horizon.

ASSET ALLOCATION: JUNE 30, 2010

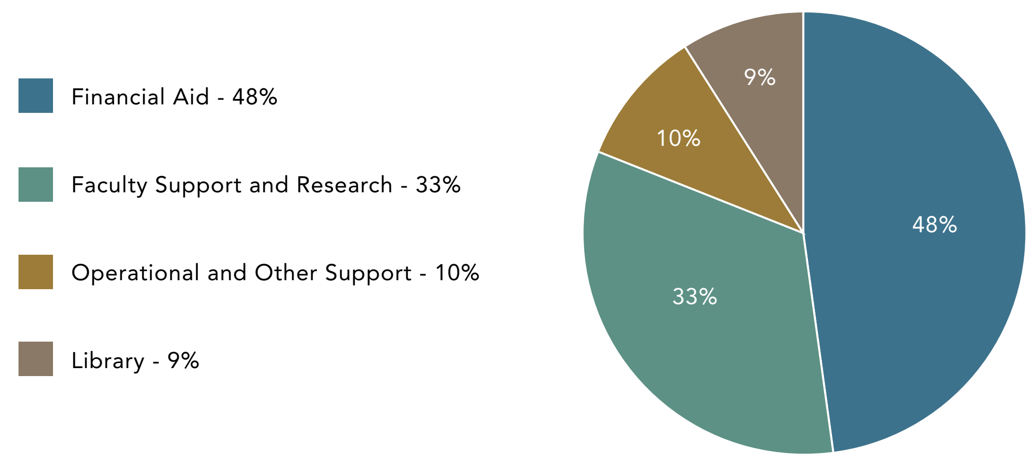


ENDOWMENT PERCENTAGES OF UNRESTRICTED REVENUE SOURCES 2009-2010

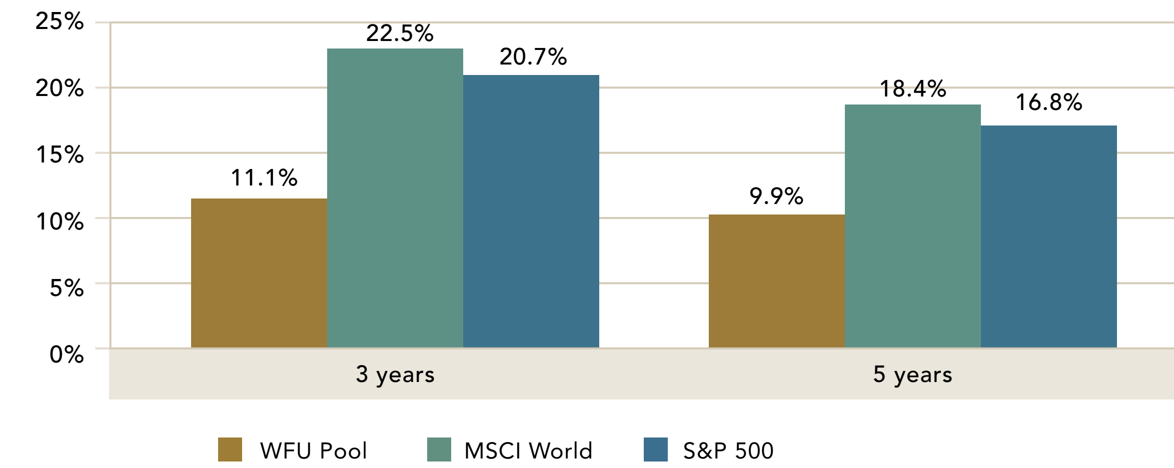


FROM THE VICE PRESIDENT AND CHIEF INVESTMENT OFFICER

USE OF ENDOWMENT INCOME 2009-2010



RISK (STANDARD DEVIATION): PERIOD ENDED JUNE 30, 2010



PROVIDE

Wake Forest is in the enviable position to be working with some of the most talented managers in the world. We are dedicated to finding the most talented managers in each asset class and strive every day to "separate talent from luck."

I often remind our staff that we have control of only two things; fees and risk, we have little control over return. The difficulties of 2009 allowed us to work with our managers and service providers to not only reduce fees but also improve the terms under which we operate together, allowing us greater access to our capital with improved transparency.

As many of our peer institutions found out in 2009, liquidity is imperative. We were fortunate that our liquidity position was strong during all the "unpleasantness" of last year and we were easily able to meet our 5.3% distribution to the university without having to be forced to sell the "wrong assets at the wrong time." The university also benefited from the fact that endowment proceeds constitute less than ten percent of the general operating budget. That good news conceals the importance of growing the gifts that provide for the support of students, faculty and new initiatives. Endowment gifts last forever and it is now more important than ever that we invest today in the future of Wake Forest.

A BUSY FIRST YEAR

June 30, 2010 marked my one year anniversary at Wake Forest University. It was a leap of faith for me to leave Santa Monica and join the extraordinary team here at Wake Forest. The privilege to serve this university, work with the staff and the Cabinet and be part of the Wake Forest family has been more rewarding than I could have ever imagined.

An important part of my transition was Lou Morrell. Lou was exceedingly gracious, honest and supportive during my first year in Winston-Salem. Lou Morrell served as Wake Forest's chief investment officer since 1995. Under his leadership, Wake's endowment grew from $375 million in 1995 to over $900 million today, with an 11 percent average annual investment return compared with an average investment return of 9 percent for university endowments nationwide over this 15-year period.

Lou's financial acuity produced a record of superior investment performance for Wake Forest University over his 15 years as our chief investment officer. While Lou has moved on his legacy remains.

Going forward we will continue to build upon our vision: Protect, Perform and Provide. Our strategy and strength continue to evolve and grow based on the success of 2010. We expect to see significant challenges and changes in 2011. In today's dynamic global investment and economic landscape, everything is connected. What happens in Beijing, San Paulo, London and Washington D.C. can have a lasting impact on the value of the endowment. It continues to be critical that we stick to our vision and continue to acknowledge and strengthen those connections between opportunities for the endowment and most importantly, between the constituents that touch Wake Forest. We look forward to the challenge.

Thank you for your continued consideration and support.

With great gratitude,

James J. Dunn
Vice President and Chief Investment Officer

INDEPENDENT AUDITORS' 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, 2010, 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 2009 consolidated financial statements and, in our report dated October 8, 2009, 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, 2010, 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, Schools of Law, Management, and Divinity, and Reynolda House, Inc. (collectively Reynolda Campus); and Wake Forest University Health Sciences (WFUHS) 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.

KPMG LLP

October 13, 2010

CONSOLIDATED BALANCE SHEET

June 30, 2010

(with summarized comparative financial information as of June 30, 2009)

(Dollars in thousands)

	Supplementary information			
ASSETS	Reynolda Campus	WFUHS	2010	2009
Cash and cash equivalents	$ 134,468	9,877	144,345	97,211
Accounts receivable, net	8,404	111,944	120,348	84,039
Clinical receivables, net	—	49,809	49,809	48,926
Contributions receivable, net	36,418	2,131	38,549	36,419
Notes receivable, net	25,068	5,030	30,098	28,706
Investments	542,524	600,825	1,143,349	1,071,183
Investments in real estate	27,672	—	27,672	24,920
Other assets	4,346	9,036	13,382	14,805
Deposits with bond trustee	37,794	—	37,794	67,978
Land, buildings, and equipment, net	319,381	313,633	633,014	612,226
Total assets	**$ 1,136,075**	**1,102,285**	**2,238,360**	**2,086,413**
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accruals	$ 25,159	78,286	103,445	94,003
Other liabilities and deferrals	52,675	189,818	242,493	215,782
Annuities payable	21,673	5,274	26,947	23,771
Notes payable and capital leases	26,553	53,870	80,423	63,181
Bonds payable	172,245	186,195	358,440	365,392
Postretirement benefits	12,538	29,643	42,181	37,196
Government grants refundable	10,249	—	10,249	10,684
Total liabilities	321,092	543,086	864,178	810,009
Net assets:				
Unrestricted	414,476	391,494	805,970	735,848
Temporarily restricted	207,311	46,120	253,431	232,821
Permanently restricted	193,196	121,585	314,781	307,735
Total net assets	814,983	559,199	1,374,182	1,276,404
Total liabilities and net assets	**$ 1,136,075**	**1,102,285**	**2,238,360**	**2,086,413**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES

June 30, 2010

(with summarized comparative financial information as of June 30, 2009)

(Dollars in thousands)

	2010				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2009 Total
OPERATING REVENUES:					
Student tuition and fees	$ 244,060	—	—	244,060	227,309
Scholarship allowance	(74,083)	—	—	(74,083)	(63,791)
Net student tuition and fees	**169,977**	**—**	**—**	**169,977**	**163,518**
Federal grants and contracts	168,542	—	—	168,542	147,136
State grants and contracts	18,757	—	—	18,757	20,435
Private gifts, grants, and contracts	40,800	32,755	6,626	80,181	84,477
Investment return designated for current operations	42,611	23,829	524	66,964	65,265
Clinical services	457,353	—	—	457,353	390,304
Other	115,492	200	2	115,694	115,144
Sales and services of auxiliary enterprises	78,171	—	—	78,171	76,865
Net assets released from restrictions	49,302	(49,302)	—	—	—
Total operating revenues	**1,141,005**	**7,482**	**7,152**	**1,155,639**	**1,063,144**
OPERATING EXPENSES:					
Salaries and wages	495,239	—	—	495,239	452,396
Employee benefits	114,649	—	—	114,649	105,368
Student aid	9,016	—	—	9,016	8,485
Services	150,987	—	—	150,987	145,631
Clinical and laboratory supplies	78,464	—	—	78,464	76,426
Other operating expenses	157,464	—	—	157,464	160,772
Bad debt expense	28,229	—	—	28,229	16,918
Depreciation and amortization	47,627	—	—	47,627	46,758
Interest on debt	13,571	—	—	13,571	13,271
Total operating expenses	**1,095,246**	**—**	**—**	**1,095,246**	**1,026,025**
Operating excess (deficit)	**45,759**	**7,482**	**7,152**	**60,393**	**37,119**
NONOPERATING ACTIVITIES:					
Net appreciation (depreciation) on investments and other assets	62,913	37,766	5,293	105,972	(316,096)
Investment return net of amounts designated for current operations	(25,628)	(22,080)	(86)	(47,794)	(46,535)
Actuarial gain (loss) on annuity obligations	—	—	(4,999)	(4,999)	2,922
Unrealized gain (loss) on interest rate swaps	(11,492)	—	—	(11,492)	(19,692)
Postretirement related changes other than net periodic cost	(1,818)	—	—	(1,818)	(13,960)
Income (loss) from affiliates, equity method	(2,278)	7	14	(2,257)	(1,301)
Contribution of affiliates	—	—	—	—	8,951
Other, net	2,666	(2,565)	(328)	(227)	2,598
Increase (decrease) from nonoperating activities	**24,363**	**13,128**	**(106)**	**37,385**	**(383,113)**
Increase (decrease) in net assets	**70,122**	**20,610**	**7,046**	**97,778**	**(345,994)**
Net assets at beginning of year	735,848	232,821	307,735	1,276,404	1,622,398
Net assets at end of year	**$ 805,970**	**253,431**	**314,781**	**1,374,182**	**1,276,404**

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

COLLEGE OF ARTS AND SCIENCES, SCHOOLS OF LAW, MANAGEMENT, AND DIVINITY, AND REYNOLDA HOUSE, INC.

Supplementary Information
Year ended June 30, 2010
(Dollars in thousands)

OPERATING REVENUES:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Student tuition and fees	$ 214,267	—	—	214,267
Scholarship allowance	(62,366)	—	—	(62,366)
Net student tuition and fees	**151,901**	**—**	**—**	**151,901**
Federal grants and contracts	8,229	—	—	8,229
State grants and contracts	1,506	—	—	1,506
Private gifts, grants, and contracts	18,671	16,633	3,827	39,131
Investment return designated for current operations	18,367	18,104	42	36,513
Clinical services	—	—	—	—
Other	6,330	200	2	6,532
Sales and services of auxiliary enterprises	77,811	—	—	77,811
Net assets released from restrictions	26,922	(26,922)	—	—
Total operating revenues	**309,737**	**8,015**	**3,871**	**321,623**
OPERATING EXPENSES:				
Salaries and wages	141,857	—	—	141,857
Employee benefits	33,555	—	—	33,555
Student aid	3,021	—	—	3,021
Services	31,265	—	—	31,265
Clinical and laboratory supplies	—	—	—	—
Other operating expenses	54,142	—	—	54,142
Bad debt expense	352	—	—	352
Depreciation and amortization	21,392	—	—	21,392
Interest on debt	5,466	—	—	5,466
Total operating expenses	**291,050**	**—**	**—**	**291,050**
Operating excess (deficit)	**18,687**	**8,015**	**3,871**	**30,573**
NONOPERATING ACTIVITIES:				
Net appreciation (depreciation) on investments and other assets	21,356	28,764	2,838	52,958
Investment return net of amounts designated for current operations	(9,394)	(16,364)	564	(25,194)
Actuarial gain (loss) on annuity obligations	—	—	(4,089)	(4,089)
Unrealized gain (loss) on interest rate swaps	(4,368)	—	—	(4,368)
Postretirement related changes other than net periodic cost	(907)	—	—	(907)
Income (loss) from affiliates, equity method	—	—	—	—
Contribution of affiliates	—	—	—	—
Other, net	2,666	(2,565)	(328)	(227)
Increase (decrease) from nonoperating activities	**9,353**	**9,835**	**(1,015)**	**18,173**
Increase (decrease) in net assets	**28,040**	**17,850**	**2,856**	**48,746**
Net assets at beginning of year	386,436	189,461	190,340	766,237
Net assets at end of year	**$ 414,476**	**207,311**	**193,196**	**814,983**

See accompanying notes to consolidated financial statements.

STATEMENT OF ACTIVITIES

WAKE FOREST UNIVERSITY HEALTH SCIENCES

Supplementary Information
Year ended June 30, 2010
(Dollars in thousands)

OPERATING REVENUES:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Student tuition and fees	$ 29,793	—	—	29,793
Scholarship allowance	(11,717)	—	—	(11,717)
Net student tuition and fees	**18,076**	**—**	**—**	**18,076**
Federal grants and contracts	160,313	—	—	160,313
State grants and contracts	17,251	—	—	17,251
Private gifts, grants, and contracts	22,129	16,122	2,799	41,050
Investment return designated for current operations	24,244	5,725	482	30,451
Clinical services	457,353	—	—	457,353
Other	109,162	—	—	109,162
Sales and services of auxiliary enterprises	360	—	—	360
Net assets released from restrictions	22,380	(22,380)	—	—
Total operating revenues	**831,268**	**(533)**	**3,281**	**834,016**
OPERATING EXPENSES:				
Salaries and wages	353,382	—	—	353,382
Employee benefits	81,094	—	—	81,094
Student aid	5,995	—	—	5,995
Services	119,722	—	—	119,722
Clinical and laboratory supplies	78,464	—	—	78,464
Other operating expenses	103,322	—	—	103,322
Bad debt expense	27,877	—	—	27,877
Depreciation and amortization	26,235	—	—	26,235
Interest on debt	8,105	—	—	8,105
Total operating expenses	**804,196**	**—**	**—**	**804,196**
Operating excess (deficit)	**27,072**	**(533)**	**3,281**	**29,820**
NONOPERATING ACTIVITIES:				
Net appreciation (depreciation) on investments and other assets	41,557	9,002	2,455	53,014
Investment return net of amounts designated for current operations	(16,234)	(5,716)	(650)	(22,600)
Actuarial gain (loss) on annuity obligations	—	—	(910)	(910)
Unrealized gain (loss) on interest rate swaps	(7,124)	—	—	(7,124)
Postretirement related changes other than net periodic cost	(911)	—	—	(911)
Income (loss) from affiliates, equity method	(2,278)	7	14	(2,257)
Contribution of affiliates	—	—	—	—
Other, net	—	—	—	—
Increase from nonoperating activities	**15,010**	**3,293**	**909**	**19,212**
Increase in net assets	**42,082**	**2,760**	**4,190**	**49,032**
Net assets at beginning of year	349,412	43,360	117,395	510,167
Net assets at end of year	**$ 391,494**	**46,120**	**121,585**	**559,199**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2010
(with summarized comparative financial information for the year ended June 30, 2009)
Dollars in thousands

	Supplementary information			
	Reynolda Campus	WFUHS	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:				
Increase (decrease) in net assets	$ 48,746	49,032	97,778	(345,994)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Depreciation and amortization	21,392	26,235	47,627	46,383
Net (appreciation) depreciation on investments	(52,958)	(50,535)	(103,493)	316,467
Noncash gifts	(264)	(2,588)	(2,852)	(2,165)
Private gifts restricted for long-term investment	(3,827)	(2,799)	(6,626)	(9,655)
Other revenue restricted for long-term investment	(607)	(482)	(1,089)	(1,350)
(Gain) loss on disposals of property and equipment	1,406	(2,299)	(893)	1,181
Contribution of affiliates	—	—	—	(8,951)
Income from equity method affiliates	—	2,257	2,257	1,301
Unrealized loss on interest rate swap	4,368	7,124	11,492	19,692
Bad debt expense	352	27,877	28,229	16,918
Changes in operating assets and liabilities:				
Accounts and clinical receivables	(295)	(64,786)	(65,081)	(17,106)
Contributions receivable	(3,132)	675	(2,457)	2,133
Notes receivable	(208)	—	(208)	292
Other assets and other liabilities and deferrals	2,291	13,806	16,097	1,618
Accounts payable and accruals	2,011	5,127	7,138	(3,358)
Postretirement benefits	1,733	3,252	4,985	14,365
Annuities payable	2,695	481	3,176	(5,782)
Net cash provided by operating activities	**23,703**	**12,377**	**36,080**	**25,989**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of land, buildings, and equipment	(42,942)	(24,016)	(66,958)	(58,749)
Proceeds from sale of equipment	14	—	14	40
Notes receivable	—	258	258	(4,035)
Purchases of investments in real estate	—	—	—	(25)
Disbursements of loans to students and other	(3,856)	(131)	(3,987)	(4,157)
Repayments of loans to students and other	2,353	177	2,530	3,494
Purchases of investments	(83,390)	(42,903)	(126,293)	(402,669)
Net proceeds from sales and maturities of investments	129,820	27,504	157,324	474,906
Decrease (increase) in deposits with bond trustee	30,184	—	30,184	(67,978)
Net cash provided by (used in) investing activities	**32,183**	**(39,111)**	**(6,928)**	**(59,173)**

Continued on next page

CONSOLIDATED STATEMENT OF CASH FLOWS

(continued)

	Supplementary information			
	Reynolda Campus	WFUHS	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:				
Change in government grants refundable	(127)	(188)	(315)	(208)
Proceeds from notes payable	974	29,580	30,554	28,892
Payments on notes payable	(1,062)	(12,250)	(13,312)	(40,558)
Proceeds from the issuance of bonds	—	—	—	301,252
Payments on bonds payable	(4,507)	(2,445)	(6,952)	(190,760)
Payments on bond issuance costs	(60)	—	(60)	(3,455)
Payments to terminate interest rate swap agreements	—	—	—	(1,524)
Proceeds from private gifts restricted for long-term investment	3,827	2,799	6,626	9,655
Net realized gains restricted for long-term investment	298	54	352	(1,067)
Other revenue restricted for long-term investment	607	482	1,089	1,350
Net cash provided by (used in) financing activities	**(50)**	**18,032**	**17,982**	**103,577**
Net increase (decrease) in cash and cash equivalents	**55,836**	**(8,702)**	**47,134**	**70,393**
Cash and cash equivalents at beginning of year	78,632	18,579	97,211	26,818
Cash and cash equivalents at end of year	**$ 134,468**	**9,877**	**144,345**	**97,211**
Supplemental disclosures of cash flow information:				
Cash paid for interest	$ 3,325	8,114	11,439	12,903
Assets acquired under capital leases	—	180	180	1,645

See accompanying notes to consolidated financial statements.

NOTES TO THE 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, and Reynolda House, Inc. (collectively, Reynolda Campus), and Wake Forest University Health Sciences (WFUHS), 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 (GAAP).

Net assets, 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, 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.

The University considers the following items to be nonoperating activities: net appreciation (depreciation) on investments and other assets, investment return net of amounts designated for current operations, actuarial gain (loss) on annuity obligations, unrealized gain (loss) on interest rate swap agreements, postretirement related changes other than net periodic cost, income (loss) from affiliates (equity method), and contribution of affiliates.

(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) Deposits with Bond Trustee

Deposits with bond trustee consist of unexpended proceeds of certain bonds payable. These funds are invested in a money rate savings account and are used for construction of certain facilities.

(e) 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.

(f) Financial Instruments

The carrying amounts of cash and cash equivalents, accounts and clinical receivables, and accounts payable and accruals 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.

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 future 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 was $114,087 and $107,769 at June 30, 2010 and 2009, respectively.

(g) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which the University serves as trustee. Assets held in these trusts are stated at fair value and are included in investments or investments in real estate. Contribution revenue is recognized at the dates the trusts are established. The University recognizes the change in value of split-interest agreements according to the fair value of assets that are associated with each trust and recalculates the liability for the present value of annuity obligations. Any change in fair value is recognized in the consolidated statement of activities.

The University is also the beneficiary of certain trusts and other assets held and administered by others. The University's share of these assets is recognized in investments at fair value.

(h) 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 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. Investments in equity method affiliates are accounted for using the equity method.

(i) 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 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.

(j) 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 using the straight-line method 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.

(k) 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.

(l) Clinical Services Revenue

WFUHS records clinical 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. Clinical 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 clinical receivables are recorded net of allowances for contractual adjustments and uncollectible accounts of $64,444 and $41,246, respectively, at June 30, 2010.

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

(m) Bond Issuance Costs

Costs related to the registration and issuance of bonds are carried at cost less accumulated amortization and are amortized over the life of the bonds on a method that approximates the effective-interest method. Bond issuance costs are included in other assets in the consolidated balance sheet.

(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. All changes in fair value are reflected in the consolidated statement of activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(q) Postretirement Plans

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 nonoperating activities 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.

(r) Use of Estimates

The University prepares its consolidated financial statements in accordance with GAAP that requires 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 the valuation of investments, investments in real estate, allowances for receivables, AROs, and obligations related to employee benefits. Actual results could differ from those estimates.

(s) 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. The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained.

(t) Reclassifications

In certain instances, amounts previously reported in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications have no effect on total assets, liabilities or net assets as previously reported.

(u) 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 GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2009 from which this information was derived.

(v) Subsequent Events

The University has evaluated events occurring after June 30, 2010 through October 13, 2010, which represents the date the consolidated financial statements were issued and determined that all significant events and disclosures are included in the consolidated financial statements.

(2) ACCOUNTS RECEIVABLE

The following is an analysis of accounts receivable at June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Accounts receivable	$ 6,009	88,174	94,183	64,458
Grants receivable	2,699	25,305	28,004	22,731
Total accounts receivable	8,708	113,479	122,187	87,189
Less allowance for bad debts	(304)	(1,535)	(1,839)	(3,150)
Accounts receivable, net	$ 8,404	111,944	120,348	84,039

(3) CONTRIBUTIONS RECEIVABLE

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
One year or less	$ 13,736	1,214	14,950	5,755
Between one and five years	15,778	897	16,675	18,933
More than five years	55,768	317	56,085	61,466
Gross contributions receivable	85,282	2,428	87,710	86,154
Less estimated uncollectible amounts	(7,673)	(157)	(7,830)	(7,555)
Less discount to present value	(41,191)	(140)	(41,331)	(42,180)
Contributions receivable, net	$ 36,418	2,131	38,549	36,419

(4) INVESTMENTS

Investments at June 30, 2010 and 2009 consist of the following:

	2010	2009
Short-term investments	$ 74,342	47,527
Absolute return	229,712	229,393
Commodities	64,240	52,128
Fixed income – domestic	180,738	136,589
Fixed income – international	24,401	6,362
Private equity	98,040	81,962
Public equity – domestic	194,598	208,138
Public equity – international	157,571	196,328
Real estate	34,275	39,516
Beneficial interest in perpetual trusts and assets held by others	22,101	20,549
WFUHS funds held by WFUBMC	50,265	38,950
Other	13,066	13,741
Total investments	$ 1,143,349	1,071,183

The University invests 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, 2010, a total of 19,281,288 units existed in the pool with a fair value of $46.09 per unit. At June 30, 2009, a total of 18,892,577 units existed in the pool with a fair value of $44.38 per unit.

The pooled endowment's four main asset segments are:

Absolute return – Absolute return investments generally include various hedged strategies, such as long/short, event driven, global macro, and multi-strategy.

Equities – Equity investments generally include both long only and hedged equity investments on a global basis, as well as private equity strategies.

Fixed income – Fixed income investments generally include various long only as well as hedged strategies across the credit quality spectrum, both domestic and international.

Inflation hedges – These investments generally include real estate and commodity strategies, both public and private.

Each of these asset segments has a target (default) allocation as well as ranges around the target allocation to allow for tactical adjustments to take advantage of market opportunities.

In addition to the pooled endowment, the University also manages other investment portfolios. Generally, these portfolios are invested in mutual funds with daily liquidity. Each portfolio's asset allocation is customized based upon the return and risk objectives and distribution requirements of the portfolio.

The components of total investment return as reflected in the accompanying consolidated statement of activities are as follows:

	2010	2009
Operating:		
Investment return designated for current operations	$ 66,964	65,265
Total operating investment return	66,964	65,265
Nonoperating:		
Unrestricted:		
Net appreciation (depreciation) on investments and other assets	62,913	(183,579)
Investment return net of amounts designated for current operations	(25,628)	(25,441)
Temporarily restricted investment return	15,686	(133,523)
Permanently restricted investment return	5,207	(20,088)
Total nonoperating investment return	58,178	(362,631)
Total investment return	$ 125,142	(297,366)

Net realized and unrealized appreciation on investments is decreased by $7,671 in investment fees in 2010 and $7,268 in 2009.

(5) ENDOWMENT

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. Gift annuities, beneficial interest in perpetual trusts and assets held by others, and contributions receivable are not considered components of the endowment.

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 (UPMIFA). The statutory guidelines therein relate to prudent management, investment, and expenditure of donor-restricted endowments held by charitable organizations. The Board of Trustees has interpreted UPMIFA as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, 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 UPMIFA. In accordance with UPMIFA, the Board of Trustees 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 objectives of optimizing long-term returns and providing a sustainable 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. 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.

The portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. The University diversifies its investments among various asset classes incorporating multiple strategies and investment advisors to help manage risk. Major investment decisions are approved by the Board's Investment

Policy Committee, which oversees the University's investments in accordance with established guidelines. Management and investment decisions are not made in isolation, but in the context of the portfolio of investments as a whole and as part of the overall investment strategy.

The endowment spending rate for the years ended June 30, 2010 and 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, 2010 and 2009:

	2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2009 Total
Reynolda Campus:					
Donor-restricted endowment funds	$ (9,157)	162,944	179,905	333,692	315,256
Board-designated endowment funds	226,018	—	—	226,018	216,504
Endowment net assets	216,861	162,944	179,905	559,710	531,760
WFUHS:					
Donor-restricted endowment funds	(2,794)	37,545	94,995	129,746	123,892
Board-designated endowment funds	226,082	—	—	226,082	208,025
Endowment net assets	223,288	37,545	94,995	355,828	331,917
Total endowment net assets	$ 440,149	200,489	274,900	915,538	863,677

Changes in endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2009 Total
Reynolda Campus:					
Beginning balance	$ 204,719	151,871	175,170	531,760	687,950
Investment return:					
Investment income net of fees	190	320	2	512	1,505
Net appreciation (depreciation)	21,674	31,425	15	53,114	(144,159)
Total investment return	21,864	31,745	17	53,626	(142,654)
Contributions	49	(75)	4,882	4,856	9,055
Appropriation of endowment assets for expenditure	(9,771)	(20,597)	(164)	(30,532)	(31,591)
Transfers to create board-designated funds	—	—	—	—	9,000
Ending balance	$ 216,861	162,944	179,905	559,710	531,760

	2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	2009 Total
WFUHS:					
Beginning balance	$ 203,698	33,508	94,711	331,917	431,676
Investment return:					
Investment income net of fees	2,145	1,017	116	3,278	3,161
Net appreciation (depreciation)	19,913	10,490	67	30,470	(85,751)
Total investment return	22,058	11,507	183	33,748	(82,590)
Contributions	677	—	707	1,384	3,460
Appropriation of endowment assets for expenditure	(7,690)	(7,470)	(606)	(15,766)	(23,649)
Transfers to create board-designated funds	4,545	—	—	4,545	3,020
Ending Balance	$ 223,288	37,545	94,995	355,828	331,917

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. Deficiencies of this nature are reported in unrestricted net assets as follows: Reynolda Campus and WFUHS, respectively, were $9,157 and $2,794, as of June 30, 2010; and $11,785 and $4,327 as of June 30, 2009.

(6) FAIR VALUES OF ASSETS AND LIABILITIES

Fair value is defined by GAAP 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. GAAP 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.
Level 2 – Valuations for assets and liabilities are determined through direct or indirect observations other than quoted market prices.
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.

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In 2010, the University adopted the provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. ASU 2009-12 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, as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the net asset values of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the University underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table summarizes the valuation of the University's assets and liabilities by the fair value hierarchy levels as of June 30, 2010 and 2009:

	2010				
	Level 1	Level 2	Level 3	Total	2009 Total
Financial assets:					
Investments:					
Short-term investments	$ 74,342	—	—	74,342	47,527
Absolute return	—	134,451	95,261	229,712	229,393
Commodities	2,839	22,564	38,837	64,240	52,128
Fixed income – domestic	59,762	—	120,976	180,738	136,589
Fixed income – international	6,584	—	17,817	24,401	6,362
Private equity	—	—	98,040	98,040	81,962
Public equity – domestic	152,680	23,622	18,296	194,598	208,138
Public equity – international	94,840	45,374	17,357	157,571	196,328
Real estate	—	—	34,275	34,275	39,516
Beneficial interest in perpetual trusts and assets held by others	—	—	22,101	22,101	20,549
WFUHS funds held by WFUBMC	50,265	—	—	50,265	38,950
Other	—	—	13,066	13,066	13,741
Deposits with bond trustee	37,794	—	—	37,794	67,978
Total assets	$ 479,106	226,011	476,026	1,181,143	1,139,161
Financial liabilities:					
Other liabilities and deferrals:					
Interest rate swaps	$ —	41,604	—	41,604	30,113
Annuities payable	—	—	26,947	26,947	23,771
Total liabilities	$ —	41,604	26,947	68,551	53,884

In general, for Level 2 and Level 3 investments, the University utilizes the investment manager of the asset to provide a valuation estimate based on disclosed techniques and processes, which have been reviewed for propriety and consistency with consideration give to type and investment strategy.

The following table summarizes the reconciliation of the University's Level 3 assets and liabilities as of June 30, 2010:

	Investments	Annuity obligations
Balance at June 30, 2009	$ 611,947	(23,771)
Total realized and unrealized gains or losses:		
Included in increase in net assets	40,215	(3,481)
Net purchases, (sales), issuances, and settlements	(11,434)	305
Net transfers out of Level 3	(164,702)	—
Balance at June 30, 2010	$ 476,026	(26,947)

Transfers in and out of Level 3 are typically the result of a change in the observability of significant valuation inputs required by various models. At June 30, 2010, the University's ability to redeem investments in the near term at net asset value substantially represents the net transfers out of Level 3.

The University's aggregate unfunded private capital commitments are approximately $83,169 or 7.3% of total investments at June 30, 2010. Of these commitments, $42,747 relates to private equity, $14,306 relates to real estate, $10,138 relates to commodities, and $15,978 relates to fixed income. 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 2027 represents 1.2% of total investment assets.

Private investments are generally made through limited partnership agreements where the University is normally one of many limited partners. Under the terms of such agreements, the University is required to provide funding, up to the total amount committed by the University, when capital calls are made by fund managers. These partnerships have a stated maturity date, but can provide for annual extensions for the purpose of disposing remaining portfolio positions and returning capital to investors. Alternatively, the fund may dispose of all portfolio investments and return all capital to investors before the stated maturity date. While the timing and amount of future capital calls and distributions in any particular year are inherently uncertain, the University takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.

Investment liquidity as of June 30, 2010 is aggregated below based on redemption or sale period:

Daily, with 1 – 5 days notice	$ 470,649
Monthly, with 5 – 15 days notice	66,356
Quarterly, with 5 – 95 days notice	179,603
Semi-annually, with 45 – 95 days notice	43,352
Yearly, with 60 – 180 days notice	99,091
Liquidity within 2 years, with 60 – 95 days notice	39,813
Illiquid	244,485
Total as of June 30, 2010	$ 1,143,349

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. For the variable leg of a swap, the expected cash flows are based on implied market forward rates for the appropriate underlying index. A credit value adjustment is applied to the total market value of the swap and quantifies the default risk of a counterparty using a default probability assumption based on the counterparty's credit default swap pricing at June 30, 2010.

Obligations under split-interest agreements reported in annuities payable were discounted at a rate that is equivalent to the University's nonexempt borrowing rate of 3.02% at June 30, 2010, and 3.76% as of June 30, 2009.

(7) LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment are summarized as follows at June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Land	$ 19,970	61,976	81,946	72,381
Buildings and other improvements	415,771	395,332	811,103	795,374
Equipment and furnishings	64,216	136,345	200,561	199,965
Construction in progress	41,968	30,914	72,882	52,598
	541,925	624,567	1,166,492	1,120,318
Less accumulated depreciation	(222,544)	(310,934)	(533,478)	(508,092)
	$ 319,381	313,633	633,014	612,226

Total depreciation expense on buildings, improvements, equipment, and furnishings was $44,913 and $44,391 for the years ended June 30, 2010 and 2009, respectively.

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. Reconciliation of total interest cost to interest expense reported in the consolidated statement of activities for 2010 and 2009 is as follows:

	2010	2009
Interest expense capitalized	$ 3,282	1,265
Interest expense included in the consolidated statement of activities	13,571	13,271
Total interest cost	$ 16,853	14,536

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the activity for the AROs included in other liabilities and deferrals in the accompanying consolidated balance sheet for the years ended June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Balance at beginning of year	$ 11,381	3,052	14,433	13,935
Additional obligations	—	191	191	42
Obligations settled in current period	(157)	—	(157)	(203)
Accretion expense	717	475	1,192	659
Balance at end of year	$ 11,941	3,718	15,659	14,433

(8) NOTES, CAPITAL LEASES, AND BONDS PAYABLE

Notes, capital leases, and bonds payable at June 30, 2010 and 2009 consist of the following:

Reynolda Campus	Years to nominal maturity	Interest rate		2010	2009
Notes payable and capital leases:					
2007 Construction loan	1	0.62 %	variable	$ 21,897	20,922
1994 Construction loan	5	4.19	fixed	3,501	4,290
Capital leases	4	13.70	fixed	1,155	1,429
Total notes payable and capital leases				26,553	26,641
Bonds payable:					
2004 Series A tax-exempt	1 to 11	0.23	variable	33,065	34,620
2004 Series B tax-exempt	1 to 11	0.17	variable	26,655	29,520
2009 Series serial tax-exempt	30	4.00 to 5.00	fixed	49,430	49,430
2009 Series term tax-exempt	29	5.00	fixed	60,570	60,570
Unamortized bond premium				2,525	2,612
Total bonds payable				172,245	176,752
Total notes payable, capital leases, and bonds payable				$ 198,798	203,393

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 0.65%. 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 with interest payable quarterly. The Reynolda Campus intends to renew the agreement in 2011 eliminating the required principal and interest balloon payment at March 31, 2011.

Reynolda Campus has outstanding $59,720 of tax exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004A and Series 2004B. 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 $2,960 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 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 have final maturities of January 1, 2039 for the serial bonds and January 1, 2038 for the term bonds. 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. The University's obligation under the Loan Agreement is an unsecured, unconditional obligation.

WFUHS	Years to nominal maturity	Interest rate		2010	2009
Notes payable and capital leases:					
Commercial loan	1	0.87 %	variable	$ 25,318	5,370
Loan agreement	2	1.03	variable	11,040	11,960
Equipment loan	4	6.05	fixed	3,389	4,432
Loan agreement	7	6.38	fixed	13,413	14,138
Promissory note	7		non-interest bearing	560	640
Capital leases	4	4.69	various	150	—
Total notes payable and capital leases				53,870	36,540
Bonds payable:					
2008 Series A tax-exempt	25	0.22	variable	62,145	62,955
2008 Series B tax-exempt	25	0.22	variable	30,930	31,330
2008 Series C tax-exempt	25	0.28	variable	30,910	31,320
2008 Series D tax-exempt	25	0.21	variable	62,210	63,035
Total bonds payable				186,195	188,640
Total notes payable, capital leases, and bonds payable				$ 240,065	225,180

WFUHS entered into a loan financing agreement in 2008, with a commercial bank that allowed WFUHS to borrow up to $19,000, bearing interest at one month LIBOR plus 0.75%. The loan amount was subsequently increased to $30,000, maturing October 1, 2010. On September 23, 2010, the maturity date was extended to December 15, 2010, with outstanding interest and balloon principal due at that time. Accrued interest is payable monthly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Wake Forest University Health Sciences Care Facilities Revenue Bonds were issued under a Master Trust Indenture (MTI) structure to redeem a previous bond issue. 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 fiscal year 2035. The bonds are variable rate demand obligations in which the interest rates 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 rate modes. Subject to certain provisions regarding serialization, the Series 2008 bonds are subject to mandatory redemption through fiscal year 2035 in increasing annual amounts of $3,890 to $12,610.

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 engaged a management consultant, as required by the MTI, 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. At June 30, 2009, WFUHS also fell below the required threshold for debt service coverage under the letter of credit agreements. On July 14, 2009, WFUHS obtained amendments to the letter of credit agreements effective June 30, 2009 with revised covenant requirements. At June 30, 2010, WFUHS was in compliance with such revised requirements.

Aggregate annual maturities of notes and bonds payable for each of the five fiscal years subsequent to June 30, 2010 and thereafter are as follows:

	Reynolda Campus	WFUHS	Total
2011	$ 27,288	31,976	59,264
2012	5,581	16,048	21,629
2013	5,772	6,438	12,210
2014	5,976	5,496	11,472
2015	6,195	5,460	11,655
In total thereafter	144,306	174,497	318,803
	$ 195,118	239,915	435,033

The 2011 maturities include $21,897 and $25,318 for Reynolda Campus and WFUHS, respectively, of notes payable that we intend to renew in 2011 with a maturity date beyond 2011.

(9) INTEREST RATE SWAPS

To manage the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense from variable rate debt, the University utilizes interest rate swap agreements. The University has only limited involvement with derivative instruments and does not use them for trading purposes. The University has entered into four interest rate swap agreements to manage interest cost and risks associated with its variable rate debt portfolios.

Parties to interest rate swap agreements are subject to market risk for changes in interest rates as well as credit loss in the event of nonperformance by the counterparty. To minimize this exposure, the University verifies that the counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness. 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 following table summarizes the general terms for each of the University's swap agreements:

	Reynolda Campus		WFUHS	
	November 2006 interest rate swap	October 2008 interest rate swap	August 2002 interest rate swap	February 2007 interest rate swap
Notional amount	36,605	50,000	84,590	102,260
Effective date	November 6, 2006	October 1, 2008	August 20, 2002	February 26, 2007
Maturity date	January 1, 2020	January 1, 2038	July 1, 2034	July 1, 2034
Rate received	67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR
Rate paid	3.38%	3.61%	3.67%	3.52%
Collateral provisions	None	100% liability if > $20,000	100% asset/ liability – $250 min	100% asset/ liability – $250 min
Settlement frequency	Monthly	Monthly	Weekly	Weekly

The University records all interest rate swap agreements in other liabilities and deferrals on the consolidated balance sheet at their respective fair values. The fair value of the interest rate swap agreements is the estimated amount the University would pay to terminate the swap agreements at the reporting date, taking into account current forward interest rates and the current forward creditworthiness of the swap counterparties. All changes in fair value are reflected as a gain or loss in nonoperating activities on the consolidated statement of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt and collateral to support the swaps is included in investments on the consolidated balance sheet.

The related financial information on each of these instruments is as follows:

	2010		2009	
	Fair value	Loss	Fair value	Loss
Reynolda Campus:				
November 2006 interest rate swap	$ 3,442	(1,299)	2,143	(1,172)
October 2008 interest rate swap	10,621	(3,069)	7,552	(6,314)
Total	$ 14,063	(4,368)	9,695	(7,486)
WFUHS:				
August 2002 interest rate swap	$ 13,084	(3,330)	9,754	(5,539)
February 2007 interest rate swap	14,457	(3,794)	10,664	(6,667)
Total	27,541	(7,124)	20,418	(12,206)
Grand total	$ 41,604	(11,492)	30,113	(19,692)

(10) NET ASSETS

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

Temporarily restricted net assets are composed of the following at June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Gifts and pledges	$ 44,367	6,196	50,563	45,458
Grants and contracts	—	2,379	2,379	1,984
Donor-restricted endowments	162,944	37,545	200,489	185,379
	$ 207,311	46,120	253,431	232,821

Such temporarily restricted net assets are available for the following purposes as of June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Student scholarships	$ 101,777	3,005	104,782	111,158
Instruction and research	56,132	35,554	91,686	82,260
Academic support	27,627	7,561	35,188	18,739
Subsequent period operations and other	21,775	—	21,775	20,664
	$ 207,311	46,120	253,431	232,821

Permanently restricted net assets are composed of the following at June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Donor-restricted endowments	$ 179,905	94,995	274,900	269,881
Gifts and pledges	4,092	1,580	5,672	7,016
Student loan funds	937	4,717	5,654	932
Interests in perpetual trusts and assets held by others	3,751	18,350	22,101	20,549
Annuity and other split-interest agreements	4,511	1,943	6,454	9,357
	$ 193,196	121,585	314,781	307,735

The return from donor-restricted endowments are available for the following purposes as of June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Student scholarships	$ 104,795	16,453	121,248	111,624
Instruction and research	39,242	60,788	100,030	103,735
Academic support	19,885	16,225	36,110	34,930
Subsequent period operations and other	15,983	1,529	17,512	19,592
	$ 179,905	94,995	274,900	269,881

(11) FUNCTIONAL EXPENSES

Expenses are reported in the consolidated statement of activities in natural categories. Functional expenses for the years ended June 30, 2010 and 2009 are categorized as follows:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Instruction, departmental research, and clinical services	$ 107,733	552,777	660,510	615,097
Sponsored research, training, and other programs	—	176,897	176,897	168,493
Organized activities	1,803	—	1,803	1,745
Academic support	14,488	8,618	23,106	24,715
Libraries	11,656	4,746	16,402	16,626
Student services	18,890	1,877	20,767	17,423
Institutional support	59,611	58,902	118,513	105,119
Auxiliary enterprises	76,869	379	77,248	76,807
Total operating expenses	$ 291,050	804,196	1,095,246	1,026,025

Functional expenses are reported in 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.

(12) 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:

Year ending June 30:	Reynolda Campus	WFUHS	Total
2011	$ 9,117	2,748	11,865
2012	8,647	2,644	11,291
2013	8,887	579	9,466
2014	9,133	170	9,303
2015	9,407	85	9,492
In total thereafter	—	—	—
	$ 45,191	6,226	51,417

Total income from real estate was $9,429 and $8,359 for the Reynolda Campus and $3,524 and $3,806 for WFUHS for the years ended June 30, 2010 and 2009, respectively.

Grant awards not yet funded and for which services have not yet been performed are not recorded until services have been performed. At June 30, 2010, such grant awards amounted to $9,379 and $271,868 for the Reynolda Campus and WFUHS, respectively.

The estimated cost to complete construction in progress at June 30, 2010 is $36,161 and $23,246 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 statements.

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 statements.

(13) 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 2011 to 2015 are $7,223, $7,295, $7,368, $7,441, and $7,516, respectively.

(14) 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. Contributions for the year ended June 30, 2010 were $9,204 and $21,943, respectively, for the Reynolda Campus and WFUHS.

The Reynolda Campus and WFUHS have accrued $1,179 and $2,264 at June 30, 2010, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. These liabilities are included in other liabilities and deferrals in the consolidated balance sheet.

(15) 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. In addition, the Reynolda Campus sponsors a death benefit plan which pays a $2,000 benefit for each retiree. 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 employees' age and years of service must equal or exceed 75 at retirement with a minimum age of 60. Employees of Reynolda House, Inc. 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, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Benefit obligations at June 30	$ (12,538)	(57,179)	(69,717)	(60,157)
Fair value of plan assets at June 30	—	27,536	27,536	22,961
Funded status at June 30	$ (12,538)	(29,643)	(42,181)	(37,196)

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 years ended June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 10,805	49,352	60,157	52,377
Service cost	599	2,350	2,949	2,594
Interest cost	660	3,034	3,694	3,494
Participants' contributions	440	1,095	1,535	1,349
Actuarial loss	862	3,739	4,601	4,308
Benefits paid	(828)	(2,391)	(3,219)	(3,086)
Change in plan provisions	—	—	—	(879)
Benefit obligation at end of year	12,538	57,179	69,717	60,157
Change in plan assets:				
Fair value of plan assets at beginning of year	—	22,961	22,961	29,546
Actual return on plan assets	—	3,245	3,245	(9,205)
Employer contributions	388	2,626	3,014	4,358
Participants' contributions	440	1,095	1,535	1,348
Benefits paid	(828)	(2,391)	(3,219)	(3,086)
Fair value of plan assets at end of year	—	27,536	27,536	22,961
Funded status	$ (12,538)	(29,643)	(42,181)	(37,196)
Amounts recognized in net assets:				
Prior service (cost) credit	$ (101)	3,615	3,514	3,781
Net actuarial gain (loss)	618	(29,588)	(28,970)	(27,513)
Total increase (decrease)	$ 517	(25,973)	(25,456)	(23,732)

The following table provides the components of net periodic benefit cost for the years ended June 30, 2010 and 2009:

	2010			
	Reynolda Campus	WFUHS	Total	2009 Total
Service cost	$ 599	2,350	2,949	2,594
Interest cost	660	3,034	3,694	3,494
Expected return on plan assets	—	(1,917)	(1,917)	(2,521)
Amortization of prior service cost (credit)	87	(354)	(267)	(194)
Amortization of net actuarial (gain) loss	(39)	1,854	1,815	732
Net periodic benefit cost	$ 1,307	4,967	6,274	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 $87 and $1,482, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2010 for Reynolda Campus and WFUHS, respectively, was 5.19% and 5.36%, and at June 30, 2009 was 6.25%. The discount rate reflects the current yield curve results as of June 30, 2010 and 2009. For management purposes, a 9.0% and 9.5%, respectively, for 2010 and 2009, 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 in each year as the ultimate rate. The expected healthcare costs trend for the post-65 assumed an annual rate of 3.5% for 2010 and 2009. The expected return assumed on plan assets for WFUHS is 8% for 2010 and 2009. 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 primarily invested in equity securities that would be considered Level 1 in the fair value hierarchy.

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	$ 145	(119)
Effect on postretirement benefit obligation	1,032	(861)

Aggregate benefits expected to be paid by the University in each of the next five fiscal years subsequent to June 30, 2010 and thereafter are as follows:

	Reynolda Campus	WFUHS	Total
2011	$ 511	1,644	2,155
2012	586	1,833	2,419
2013	658	2,163	2,821
2014	719	2,382	3,101
2015	740	2,615	3,355
Five years thereafter	4,841	16,344	21,185
	$ 8,055	26,981	35,036

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2010 and include estimated future employee service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(16) RELATED PARTY TRANSACTIONS

WFUHS and the North Carolina Baptist Hospital (NCBH) 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.

These transactions are recorded as follows in the consolidated financial statements:

	2010	2009
Revenue from NCBH	$ 64,602	64,059
Expenses incurred from NCBH	47,100	56,396
Accounts receivable from NCBH	26,947	2,057
Accounts payable to NCBH	6,780	1,294

NCBH provided reimbursement for services provided or expenses incurred by WFUHS on behalf of NCBH. Such services or expenses include physician salaries, facility expenses, library expenses, printing services, laboratory services, and materials.

WFUHS paid NCBH for reimbursement of services provided or expenses incurred by NCBH on behalf of WFUHS. Such services or expenses include purchased materials, computer services, telephone service, insurance costs, and certain facility expenses.

Effective November 1, 2009, WFUHS and Wake Forest University Baptist Medical Center Community Physicians (WFUBMCCP) entered into an agreement under which WFUHS leased certain assets and agreed to provide professional services for WFUBMCCP. For the year ended June 30, 2010, WFUHS incurred $8,543 in lease expense. Future lease payments are variable based on the underlying assets and professional services utilized.

In May 2010, WFUHS entered into an agreement to sell the Hematology Oncology out-patient clinical operation to NCBH. The agreement required WFUHS to sell the physical property as well as the existing drug and supply inventory. The sale resulted in nonoperating gain of $2,130.

The Medical Center, a North Carolina nonprofit corporation formed to act on behalf of WFUHS and NCBH 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 NCBH have negotiated a land and facilities sharing agreement whereby WFUHS and NCBH independently hold title to certain land and facilities, as designated by the agreement.

(17) 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 (WFUBMC or the Medical Center), acquired Davidson Health Care (DHC) and its majority-owned subsidiary organizations on October 1, 2008 for no monetary consideration. 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. WFUHS has recorded notes receivable of $4,519 as of June 30, 2010 from DHC related to these commitments. The notes bear an interest rate of 4.30% and are payable monthly.

(18) PROFESSIONAL LIABILITY INSURANCE

WFUHS maintains professional liability coverage on a combined basis with the NCBH, which included a $4,000 per occurrence and a $16,000 annual aggregate self insurance limit for the year ended June 30, 2010. WFUHS estimates its professional liability on an actuarial basis. Accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $31,330 at June 30, 2010, 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.

(19) SUBSEQUENT EVENTS

Medical Center Integration Agreement

Effective July 1, 2010 the Boards of WFUHS, NCBH, WFUBMC and WFU (collectively the Parties) approved the Medical Center Integration Agreement (the Integration Agreement). The Integration Agreement allows for the leveraging of the combined resources of NCBH and WFUHS to fulfill a single mission, improve health and optimize performance of the combined organizations. NCBH and WFU are the members of WFUBMC. The WFUBMC Board will be composed of seven directors elected by NCBH from among its Board members, seven directors elected by WFU from among the Board members of WFUHS, and two non-voting directors elected by the WFUBMC Board from among the faculty. Subject to the reserved powers of the members, the Medical Center will operate NCBH (including all subsidiaries and affiliates) and WFUHS (including all subsidiaries and affiliates), including day-to-day management, strategic direction, managed care contracting and other business activities conferred on WFUBMC. The Integration Agreement was approved for an indefinite term but it includes termination procedures. Although the entities will be operated to maximize value at the total Medical Center level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the NCBH and WFUHS levels. To ensure alignment across the organization, total NCBH and WFUHS unrestricted operating income will be shared equally between the entities. NCBH, WFUHS and WFUBMC plan to form a single obligated group (the Obligated Group) and jointly execute a master trust indenture for all existing and new debt.

Sale of Clinic to NCBH

In October 2010, WFUHS entered into an agreement to sell certain Internal Medicine out-patient clinical operations to NCBH. The agreement requires that WFUHS sell certain physical property and drug and supply inventory. The terms of the sale have not yet been finalized.

WAKE FOREST UNIVERSITY

BOARD OF TRUSTEES

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REYNOLDA CABINET

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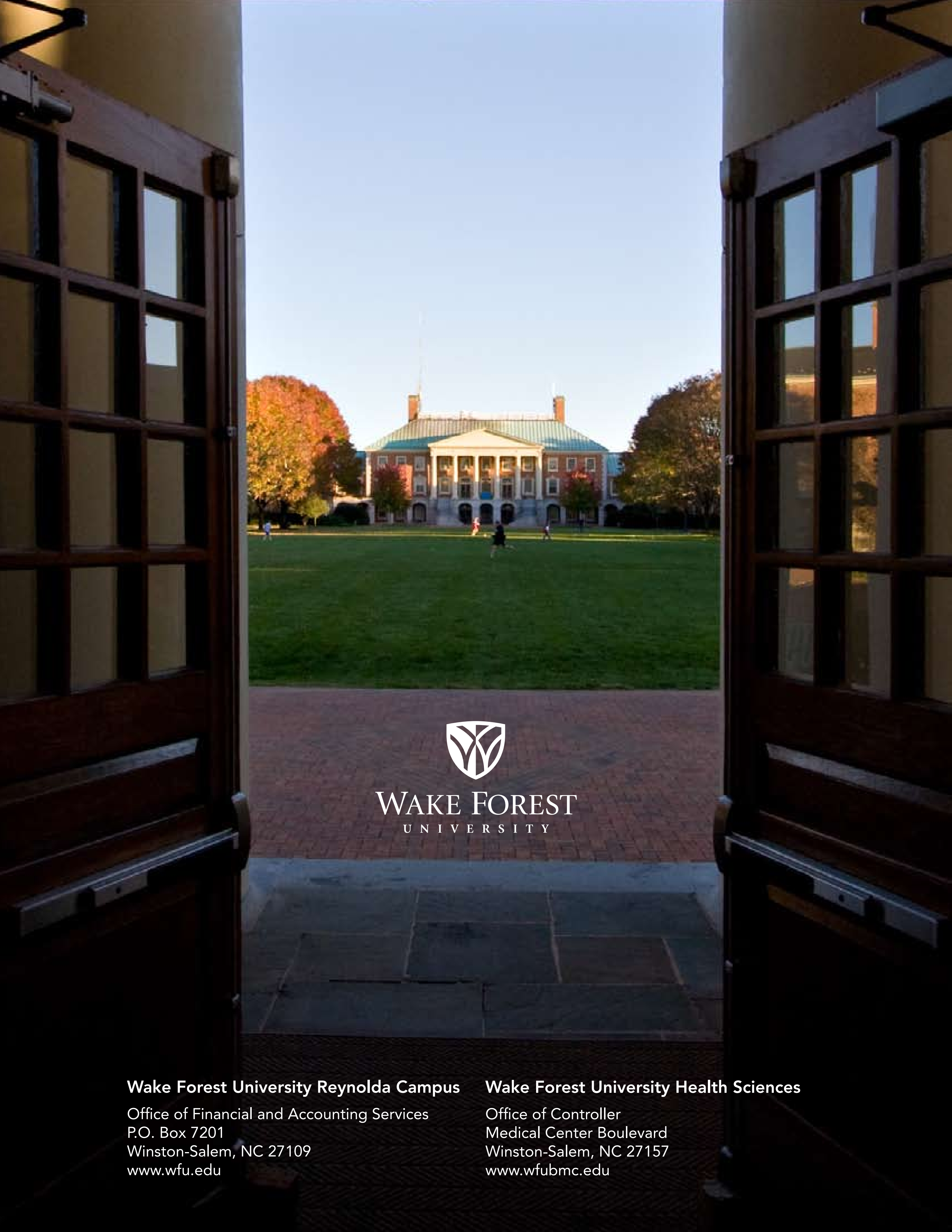

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