KPMG

WAKE FOREST UNIVERSITY

Consolidated Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

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

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, 2011, 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 2010 consolidated financial statements and, in our report dated October 13, 2010, 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, 2011, 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 basic 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 20, 2011

WAKE FOREST UNIVERSITY

Consolidated Balance Sheet

June 30, 2011
(with summarized comparative financial information as of June 30, 2010)

(Dollars in thousands)

Assets		Supplementary Information: Reynolda Campus	Supplementary Information: WFUHS	2011	2010
Cash and cash equivalents	$	108,686	36,418	145,104	144,345
Accounts receivable, net		8,679	146,061	154,740	120,348
Patient receivables, net		—	57,538	57,538	49,809
Contributions receivable, net		52,698	1,870	54,568	38,549
Notes receivable, net		24,886	4,688	29,574	30,098
Investments		689,746	658,565	1,348,311	1,143,349
Investments in real estate		25,670	—	25,670	27,672
Other assets		4,910	10,397	15,307	13,382
Deposits with bond trustee		13,782	—	13,782	37,794
Land, buildings, and equipment, net		340,948	313,530	654,478	633,014
Total assets	$	1,270,005	1,229,067	2,499,072	2,238,360
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accruals	$	30,702	103,936	134,638	103,445
Other liabilities and deferrals		52,769	191,644	244,413	242,493
Annuities payable		21,670	4,547	26,217	26,947
Notes payable and capital leases		29,446	56,201	85,647	80,423
Bonds payable		167,588	182,305	349,893	358,440
Postretirement benefits		13,332	20,554	33,886	42,181
Government grants refundable		10,103	—	10,103	10,249
Total liabilities		325,610	559,187	884,797	864,178
Net assets:					
Unrestricted		479,503	486,864	966,367	805,970
Temporarily restricted		250,874	54,300	305,174	253,431
Permanently restricted		214,018	128,716	342,734	314,781
Total net assets		944,395	669,880	1,614,275	1,374,182
Total liabilities and net assets	$	1,270,005	1,229,067	2,499,072	2,238,360

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2011
(with summarized comparative financial information for the year ended June 30, 2010)

(Dollars in thousands)

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2010 Total
Operating revenues:					
Student tuition and fees	$ 267,803	—	—	267,803	255,135
Less student aid	(80,676)	—	—	(80,676)	(74,083)
Net student tuition and fees	187,127	—	—	187,127	181,052
Government grants and contracts	207,060	—	—	207,060	187,299
Private gifts, grants, and contracts	82,973	21,382	—	104,355	66,607
Investment return designated for current operations	40,818	23,170	—	63,988	66,964
Patient revenue, net	458,758	—	—	458,758	457,353
Other	92,159	—	—	92,159	115,694
Sales and services of auxiliary enterprises	67,467	—	—	67,467	67,096
Net assets released from restrictions	48,623	(48,623)	—	—	—
Total operating revenues	1,184,985	(4,071)	—	1,180,914	1,142,065
Operating expenses:					
Salaries and wages	531,400	—	—	531,400	495,239
Employee benefits	118,898	—	—	118,898	114,649
Student aid	11,310	—	—	11,310	9,016
Services	163,308	—	—	163,308	150,987
Clinical and laboratory supplies	56,850	—	—	56,850	78,464
Other operating expenses	144,203	—	—	144,203	157,464
Bad debt expense	26,803	—	—	26,803	28,229
Depreciation and amortization	47,684	—	—	47,684	47,627
Interest on debt	14,979	—	—	14,979	13,571
Total operating expenses	1,115,435	—	—	1,115,435	1,095,246
Operating excess (deficit)	69,550	(4,071)	—	65,479	46,819
Nonoperating activities:					
Restricted contributions	—	24,729	20,152	44,881	13,574
Net assets released from restriction	1,162	(1,162)	—	—	—
Investment return in excess of amounts designated for current operations	64,540	35,969	7,065	107,574	58,178
Actuarial gain (loss) on annuity obligations	—	—	(40)	(40)	(4,999)
Unrealized gain (loss) on interest rate swaps	7,419	—	—	7,419	(11,492)
Postretirement related changes other than net periodic cost	9,353	—	—	9,353	(1,818)
Loss from affiliates, equity method	(1,060)	—	—	(1,060)	(2,257)
Contribution of affiliates	9,752	—	—	9,752	—
Other, net	(319)	(3,722)	776	(3,265)	(227)
Increase from nonoperating activities	90,847	55,814	27,953	174,614	50,959
Increase in net assets	160,397	51,743	27,953	240,093	97,778
Net assets at beginning of year	805,970	253,431	314,781	1,374,182	1,276,404
Net assets at end of year	$ 966,367	305,174	342,734	1,614,275	1,374,182

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

College of Arts and Sciences, Schools of Law, Management, and Divinity, and Reynolda House, Inc.
(Supplementary Information)

Year ended June 30, 2011

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 236,294	—	—	236,294
Less student aid	(68,206)	—	—	(68,206)
Net student tuition and fees	168,088	—	—	168,088
Government grants and contracts	11,794	—	—	11,794
Private gifts, grants, and contracts	61,028	3,602	—	64,630
Investment return designated for current operations	17,358	17,608	—	34,966
Patient revenue, net	—	—	—	—
Other	7,320	—	—	7,320
Sales and services of auxiliary enterprises	67,162	—	—	67,162
Net assets released from restrictions	25,112	(25,112)	—	—
Total operating revenues	357,862	(3,902)	—	353,960
Operating expenses:				
Salaries and wages	152,185	—	—	152,185
Employee benefits	38,685	—	—	38,685
Student aid	3,497	—	—	3,497
Services	36,745	—	—	36,745
Clinical and laboratory supplies	—	—	—	—
Other operating expenses	59,647	—	—	59,647
Bad debt expense	(3,493)	—	—	(3,493)
Depreciation and amortization	21,171	—	—	21,171
Interest on debt	7,006	—	—	7,006
Total operating expenses	315,443	—	—	315,443
Operating excess (deficit)	42,419	(3,902)	—	38,517
Nonoperating activities:				
Restricted contributions	—	24,729	13,973	38,702
Net assets released from restriction	1,162	(1,162)	—	—
Investment return in excess of amounts designated for current operations	18,179	27,620	5,736	51,535
Actuarial gain (loss) on annuity obligations	—	—	81	81
Unrealized gain (loss) on interest rate swaps	3,322	—	—	3,322
Postretirement related changes other than net periodic cost	264	—	—	264
Loss from affiliates, equity method	—	—	—	—
Contribution of affiliates	—	—	—	—
Other, net	(319)	(3,722)	1,032	(3,009)
Increase from nonoperating activities	22,608	47,465	20,822	90,895
Increase in net assets	65,027	43,563	20,822	129,412
Net assets at beginning of year	414,476	207,311	193,196	814,983
Net assets at end of year	$ 479,503	250,874	214,018	944,395

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Wake Forest University Health Sciences
(Supplementary Information)

Year ended June 30, 2011

(Dollars in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating revenues:				
Student tuition and fees	$ 31,509	—	—	31,509
Less student aid	(12,470)	—	—	(12,470)
Net student tuition and fees	19,039	—	—	19,039
Government grants and contracts	195,266	—	—	195,266
Private gifts, grants, and contracts	21,945	17,780	—	39,725
Investment return designated for current operations	23,460	5,562	—	29,022
Patient revenue, net	458,758	—	—	458,758
Other	84,839	—	—	84,839
Sales and services of auxiliary enterprises	305	—	—	305
Net assets released from restrictions	23,511	(23,511)	—	—
Total operating revenues	827,123	(169)	—	826,954
Operating expenses:				
Salaries and wages	379,215	—	—	379,215
Employee benefits	80,213	—	—	80,213
Student aid	7,813	—	—	7,813
Services	126,563	—	—	126,563
Clinical and laboratory supplies	56,850	—	—	56,850
Other operating expenses	84,556	—	—	84,556
Bad debt expense	30,296	—	—	30,296
Depreciation and amortization	26,513	—	—	26,513
Interest on debt	7,973	—	—	7,973
Total operating expenses	799,992	—	—	799,992
Operating excess (deficit)	27,131	(169)	—	26,962
Nonoperating activities:				
Restricted contributions	—	—	6,179	6,179
Net assets released from restriction	—	—	—	—
Investment return in excess of amounts designated for current operations	46,361	8,349	1,329	56,039
Actuarial gain (loss) on annuity obligations	—	—	(121)	(121)
Unrealized gain (loss) on interest rate swaps	4,097	—	—	4,097
Postretirement related changes other than net periodic cost	9,089	—	—	9,089
Loss from affiliates, equity method	(1,060)	—	—	(1,060)
Contribution of affiliates	9,752	—	—	9,752
Other, net	—	—	(256)	(256)
Increase from nonoperating activities	68,239	8,349	7,131	83,719
Increase in net assets	95,370	8,180	7,131	110,681
Net assets at beginning of year	391,494	46,120	121,585	559,199
Net assets at end of year	$ 486,864	54,300	128,716	669,880

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2011
(with summarized comparative financial information for the year ended June 30, 2010)

(Dollars in thousands)

	Supplementary Information			
	Reynolda Campus	WFUHS	2011	2010
Cash flows from operating activities:				
Increase in net assets	$ 129,412	110,681	240,093	97,778
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation and amortization	21,171	26,513	47,684	47,627
Net appreciation on investments	(71,466)	(77,540)	(149,006)	(103,493)
Noncash gifts	(40,180)	(1,072)	(41,252)	(2,852)
Private gifts restricted for capital and long-term investment	(38,702)	(6,179)	(44,881)	(6,626)
Other revenue restricted for long-term investment	(393)	(209)	(602)	(1,089)
Loss (gain) on disposals of property and equipment	3,371	3,119	6,490	(893)
Contribution of affiliates	—	(9,752)	(9,752)	—
Loss from equity method affiliates	—	1,060	1,060	2,257
Unrealized (gain) loss on interest rate swaps	(3,322)	(4,097)	(7,419)	11,492
Bad debt expense	(3,493)	30,296	26,803	28,229
Changes in operating assets and liabilities:				
Accounts and patient receivables	(861)	(71,621)	(72,482)	(65,081)
Contributions receivable	3,672	(260)	3,412	(2,457)
Notes receivable	478	—	478	(208)
Other assets and other liabilities and deferrals	2,003	11,223	13,226	16,097
Accounts payable and accruals	2,157	18,971	21,128	7,138
Postretirement benefits	794	(9,089)	(8,295)	4,985
Annuities payable	(3)	(727)	(730)	3,176
Net cash provided by operating activities	4,638	21,317	25,955	36,080
Cash flows from investing activities:				
Purchases of land, buildings, and equipment	(40,437)	(18,611)	(59,048)	(66,958)
Proceeds from sale of land, buildings, and equipment	195	—	195	14
Notes receivable	—	488	488	258
Disbursements of loans to students and other	(3,326)	(210)	(3,536)	(3,987)
Repayments of loans to students and other	3,006	64	3,070	2,530
Purchases of investments	(225,922)	(35,404)	(261,326)	(126,293)
Net proceeds from sales and maturities of investments	186,129	53,367	239,496	157,324
Decrease in deposits with bond trustee	24,012	—	24,012	30,184
Net cash used in investing activities	(56,343)	(306)	(56,649)	(6,928)
Cash flows from financing activities:				
Change in government grants refundable	(146)	(73)	(219)	(315)
Proceeds from notes payable	4,028	10,565	14,593	30,554
Payments on notes payable	(1,175)	(8,234)	(9,409)	(13,312)
Payments on bonds payable	(4,570)	(3,890)	(8,460)	(6,952)
Payments on bond issuance costs	—	—	—	(60)
Proceeds from private gifts restricted for capital and long-term investment	22,855	6,179	29,034	6,626
Net realized gains restricted for long-term investment	4,538	774	5,312	352
Other revenue restricted for long-term investment	393	209	602	1,089
Net cash provided by financing activities	25,923	5,530	31,453	17,982
Net increase (decrease) in cash and cash equivalents	(25,782)	26,541	759	47,134
Cash and cash equivalents at beginning of year	134,468	9,877	144,345	97,211
Cash and cash equivalents at end of year	$ 108,686	36,418	145,104	144,345
Supplemental disclosures of cash flow information:				
Cash paid for interest	$ 7,124	7,566	14,690	11,439
Assets acquired under capital leases	—	—	—	180

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Wake Forest University

Wake Forest University (the University) is a private, coeducational, not-for-profit institution of higher education and research located in Winston-Salem, North Carolina. The consolidated financial statements of the University include the College of Arts and Sciences, Schools of Law, Management, and Divinity, 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: restricted contributions for capital and long-term investment and related net assets released from restriction, investment return in excess of amounts designated for current operations, actuarial gain (loss) on annuity obligations, unrealized gain (loss) on interest rate swaps, postretirement related changes other than net periodic cost, loss from affiliates (equity method), contribution of affiliates, and other, net.

Effective July 1, 2010 the Boards of WFUHS, North Carolina Baptist Hospital (NCBH), Wake Forest University Baptist Medical Center (WFUBMC) and Wake Forest University approved the Medical Center Integration Agreement (the Integration Agreement). The Integration Agreement allows for the leveraging of the combined resources of WFUHS and NCBH to fulfill a single mission, improve health and optimize performance of the combined organizations, while balancing patient care, education and research. Wake Forest University and NCBH are the members of WFUBMC.

The Integration Agreement created an integrated academic medical center which combines clinical care, education and research under a single management and debt structure referred to as Wake Forest Baptist Medical Center (WFBMC). One of the nation's preeminent academic medical centers, WFBMC is an integrated health care system that operates 53 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation, dialysis centers and home health care.

To ensure alignment across the organization, WFUHS and NCBH unrestricted operating income are shared equally between the entities. Effective March 26, 2011, NCBH, WFUHS, and WFUBMC formed a single obligated group (Obligated Group) under the existing NCBH Master Trust Indenture (MTI). New obligations were issued to WFUHS obligation holders under the NCBH MTI. In addition, substantially all of the subsidiaries of NCBH, WFUHS, and WFUBMC were included in the single credit group as Designated Members (Combined Group). The effect of the new credit structure is that each member of the Obligated Group becomes joint and severally liable for all debt and other obligations that are to be evidenced and secured under the MTI. Although the entities will be operated to maximize value at the total WFBMC level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at WFUHS and NCBH levels.

The WFUBMC Board is comprised of seven directors elected by NCBH from among its Board members, seven directors elected by Wake Forest University from among the Board members of WFUHS, and two nonvoting directors elected by the WFUBMC Board from among the faculty of WFUHS. Subject to the reserved powers of the members, the WFUBMC operates WFUHS (including all subsidiaries and affiliates) and NCBH (including all subsidiaries and affiliates), including day-to-day management, strategic direction, managed care contracting and other business activities conferred on WFUBMC.

(c) Cash Equivalents

Cash equivalents include highly liquid investments with original maturities at date of purchase of three months or less. Such assets, reported at fair value, primarily consist of depository account balances, money market funds and accounts. The University maintains bank accounts at various financial institutions covered by the Federal Depository Insurance Corporation (FDIC). At various times throughout the year, the University may maintain bank accounts in excess of the FDIC-insured limit. Management believes that the risk associated with the bank accounts is minimal.

(d) Patient Services Revenue

WFUHS records patient 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. Patient 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 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.

Net patient service revenue includes reimbursements from affiliates for services performed under professional services agreements.

(e) Charity Care

WFUHS provides care for patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. WFUHS does not pursue collection of amounts determined to qualify as charity care, accordingly, such amounts are not reported in net patient service revenue. The estimated charges forgone, based on established rates, were $22,971 and $18,717 for the years ended June 30, 2011 and 2010, respectively.

(f) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions restricted for capital projects or permanent endowment funds and contributions under split-interest agreements or perpetual trusts are reported as nonoperating activities. 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.

(g) Investments

Investments in readily marketable debt and equity securities are stated at their fair values, which are determined based on quoted market prices. Investments in 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 or WFBMC's investment offices. 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.

(h) Investments in Real Estate

Investments in real estate that are considered operating assets of the University are valued at the lower of cost or market. Accordingly, if there is a decline in market value the carrying amount of the investment is reduced to market value. The University records depreciation on rental properties over 40 years. Depreciation is calculated using the straight-line method. Real estate gifts held for sale are recorded at fair value. Such fair value is primarily based on periodic external appraisals.

(i) 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.

(j) Fair Value Measurements

The carrying amounts of cash and cash equivalents, patient receivables, and other accounts receivable approximate fair value because of the terms and relatively 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. Investments and deposits with bond trustee are reported at fair value as of the date of the consolidated financial statements. 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 accounts payable, accrued payroll, and other related accruals approximate fair value because of the relatively short maturity of these financial instruments. Annuities payable are recorded at fair value using a single discount rate equivalent to the University's nonexempt borrowing rate. 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 that approximate current market rates for borrowings 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 $112,887 and $114,087 at June 30, 2011 and 2010, respectively.

The fair value 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). The three levels of the fair value hierarchy are as follows:

> 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.

The hierarchy requires the use of observable market data when available. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements.

(k) 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 and are included in other assets on the consolidated balance sheet.

(l) 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.

(m) 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.

(n) Impairment of Long-Lived Assets

The University periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. Impairment losses for the year ended June 30, 2011, were $368 and $0 for Reynolda Campus and WFUHS, respectively. There were no impairment losses for the year ended June 30, 2010. These losses are included in other operating expenses in the consolidated statement of activities.

(o) 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.

(p) 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 U.S. government and are reported as liabilities.

(q) Tuition and Fees

Student tuition and fees are recorded as revenue during the year that the related services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the University is reflected as a reduction of student tuition and fee revenue. Student aid does not include payments made to students for services rendered to the University.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Reclassifications

In certain instances, amounts previously reported in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications have no effect on total assets, liabilities or net assets as previously reported.

(Dollars in thousands)

(x) 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, 2010 from which this information was derived.

(y) Subsequent Events

The University has evaluated events occurring after June 30, 2011 through October 20, 2011, 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, 2011 and 2010 (see note 19 for additional information):

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Accounts receivable	$ 5,629	121,027	126,656	94,183
Grants receivable	3,360	26,617	29,977	28,004
Total accounts receivable	8,989	147,644	156,633	122,187
Less allowance for bad debts	(310)	(1,583)	(1,893)	(1,839)
Accounts receivable, net	$ 8,679	146,061	154,740	120,348

(3) Patient Receivables

Patient receivables consist of the following at June 30, 2011 and 2010:

	WFUHS	
	2011	**2010**
Patient receivables	$ 163,271	146,546
Less estimated uncollectible amounts	(46,217)	(42,920)
Less allowance for contractual adjustments	(59,516)	(53,817)
Patient receivables, net	$ 57,538	49,809

(Dollars in thousands)

The allowance for bad debt is management's best estimate of the amount of credit losses in patient receivables. Factors that determine the allowance are based primarily on historical collections and write-offs adjusted for price changes, aging, and other management analyses.

(4) Contributions Receivable

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
One year or less	$ 16,736	839	17,575	14,950
Between one and five years	25,283	1,023	26,306	16,675
More than five years	56,094	280	56,374	56,085
Gross contributions receivable	98,113	2,142	100,255	87,710
Less estimated uncollectible amounts	(3,559)	(116)	(3,675)	(7,830)
Less discount to present value	(41,856)	(156)	(42,012)	(41,331)
Contributions receivable, net	$ 52,698	1,870	54,568	38,549

(5) Notes Receivable

The following is an analysis of notes receivable at June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
Student loans receivable	$ 21,374	696	22,070	22,491
Other notes receivable	3,857	6,275	10,132	10,842
Total notes receivable	25,231	6,971	32,202	33,333
Less estimated uncollectible amounts	(345)	(2,283)	(2,628)	(3,235)
Notes receivable, net	$ 24,886	4,688	29,574	30,098

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2011 and 2010, student loans receivable consisted of Federal loan programs of $20,334 and $20,825, respectively, and institutional loan programs of $1,736 and $1,666, respectively. The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $10,103 and $10,249 at June 30, 2011 and 2010, respectively, are ultimately refundable to the federal government and are reported as government grants refundable on the consolidated balance sheet. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the federal government. Amounts due under the Perkins loan program are guaranteed by the federal government and, therefore, no allowance for uncollectible amounts is reported under the program. Allowances for uncollectible institutional student loans are based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional student loan balances are written off only when they are deemed to be permanently uncollectible. At June 30, 2011 and 2010, the allowance for uncollectible institutional student loan amounts was $352 and $373, respectively.

(Dollars in thousands)

(6) Investments

Investments at June 30, 2011 and 2010 consist of the following:

		2011	2010
Short-term investments[a]	$	194,614	74,342
Absolute return[b]		201,088	229,712
Commodities:[c]			
Timberland		26,730	26,602
Energy		16,931	18,364
Other		14,456	19,274
Fixed income:[d]			
Domestic		296,699	186,486
International		59,374	52,557
Private equity[e]		114,762	98,040
Public equity:[f]			
Domestic		128,638	201,623
International		141,170	116,642
Real estate:[g]			
Commercial		69,111	24,839
Residential		22,462	9,436
Other		7,263	—
Beneficial interest in perpetual trusts and assets held by others[h]		25,798	22,101
WFUHS funds held by WFUBMC		—	50,265
Other		29,215	13,066
Total investments	$	1,348,311	1,143,349

(a) Includes short duration U.S. Treasury debt securities and other short-term, higher quality debt securities, cash and money market mutual funds.

(b) Includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in: equity securities (common stocks), credit securities (both investment grade and noninvestment grade), commodities, and currencies. In aggregate, the expectation is that the returns of this segment should not be highly correlated to the broad equity market.

(c) Includes primarily illiquid investments in timberland, oil and gas properties, and water rights and entitlements held through limited partnership interests. While many of the investments are U.S. focused, some are more global. The category also includes more liquid allocations made to commodity (precious metals, industrial materials, and energy) mutual funds.

(d) Includes long only, hedge strategies, and illiquid investments in various fixed income strategies (both U.S. and non-U.S.), including: investment grade securities, noninvestment grade securities, mortgage backed securities, asset backed securities, Treasury Inflation Protected Securities (TIPS), distressed debt, senior loans, and bank loans. The long only position also includes mutual funds that have daily liquidity in U.S. and non-U.S. fixed income markets.

(e) Includes illiquid investments primarily in buyout, growth equity, and venture capital (both U.S. and non-U.S.) held through limited partnership interests.

(f) Includes investments primarily in U.S. and non-U.S. common stocks (including emerging markets) as well as funds that invest in U.S. and non-U.S. common stocks (including emerging markets), mutual funds, and exchange traded funds. While most of the assets are invested long only, some assets are invested on a hedged basis (both long and short).

(g) Includes illiquid investments in commercial real estate, residential real estate, and farmland held through limited partnership interests. While many of the investments are U.S. focused, some are more global.

(h) Includes trusts and certain other assets held and administered by others which the University has an unconditional right to receive all or a portion of the specified cash flows.

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, 2011, a total of 20,977,572 units existed in the endowment pool with a fair value of $49.92 per unit. At June 30, 2010, a total of 19,281,288 units existed in the endowment pool with a fair value of $46.09 per unit.

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.

(Dollars in thousands)

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

		2011	2010
Operating:			
Investment return designated for current operations	$	63,988	66,964
Total operating investment return		63,988	66,964
Nonoperating:			
Unrestricted:			
Net appreciation on investments and other assets		84,914	62,913
Investment yield net of amounts designated for current operations		(20,374)	(25,628)
Temporarily restricted investment return		35,969	15,686
Permanently restricted investment return		7,065	5,207
Total nonoperating investment return		107,574	58,178
Total investment return	$	171,562	125,142

Net realized and unrealized appreciation on investments has been reduced by $8,027 in investment fees in 2011 and $7,671 in 2010.

(7) Endowment

The University's pooled endowment consists of approximately 1,500 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.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (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, 2011 and 2010 was 5.3%, calculated as a percentage of the average of the previous three-year semiannual moving market value per unit.

(Dollars in thousands)

Endowment net assets consist of the following at June 30, 2011 and 2010:

	2011				2010
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Reynolda Campus:					
Donor-restricted endowment funds	$ (6,107)	187,368	191,555	372,816	333,692
Board-designated endowment funds	267,186	—	—	267,186	226,018
Endowment net assets	261,079	187,368	191,555	640,002	559,710
WFUHS:					
Donor-restricted endowment funds	(1,068)	46,525	101,136	146,593	129,746
Board-designated endowment funds	245,857	—	—	245,857	226,082
Endowment net assets	244,789	46,525	101,136	392,450	355,828
Total endowment net assets	$ 505,868	233,893	292,691	1,032,452	915,538

Changes in endowment net assets for the years ended June 30, 2011 and 2010 are as follows:

	2011				2010
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Reynolda Campus:					
Beginning balance	$ 216,861	162,944	179,905	559,710	531,760
Investment return:					
Investment income net of fees	1,681	2,769	23	4,473	512
Net appreciation	24,332	43,390	99	67,821	53,114
Total investment return	26,013	46,159	122	72,294	53,626
Contributions	2,136	—	10,660	12,796	4,856
Appropriation of endowment assets for expenditure	(8,931)	(20,723)	(144)	(29,798)	(30,532)
Transfers due to donor redesignations	—	(1,012)	1,012	—	—
Transfers to create board-designated funds	25,000	—	—	25,000	—
Ending balance	$ 261,079	187,368	191,555	640,002	559,710

(Dollars in thousands)

	2011				2010
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
WFUHS:					
Beginning balance	$ 223,288	37,545	94,995	355,828	331,917
Investment return:					
Investment income net of fees	3,979	1,929	213	6,121	3,278
Net appreciation	28,517	14,832	453	43,802	30,470
Total investment return	32,496	16,761	666	49,923	33,748
Contributions	66	—	6,111	6,177	1,384
Appropriation of endowment assets for expenditure	(11,061)	(7,781)	(380)	(19,222)	(15,766)
Transfers due to donor redesignations	—	—	(256)	(256)	—
Transfers to create board-designated funds	—	—	—	—	4,545
Ending balance	$ 244,789	46,525	101,136	392,450	355,828

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 $6,107 and $1,068 as of June 30, 2011; and $9,157 and $2,794 as of June 30, 2010.

(Dollars in thousands)

(8) Fair Values of Assets and Liabilities

The following table summarizes the valuation of the University's assets and liabilities within the fair value hierarchy levels as of June 30, 2011 and 2010:

	2011				2010
	Level 1	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets:					
Cash and cash equivalents	$ 145,104	—	—	145,104	144,345
Investments:					
Short-term investments	194,614	—	—	194,614	74,342
Absolute return	—	127,812	73,276	201,088	229,712
Commodities:					
Timberland	—	—	26,730	26,730	26,602
Energy	4,954	—	11,977	16,931	18,364
Other	9,369	—	5,087	14,456	19,274
Fixed income:					
Domestic	161,237	—	135,462	296,699	186,486
International	16,760	26,820	15,794	59,374	52,557
Private equity	—	—	114,762	114,762	98,040
Public equity:					
Domestic	92,751	16,649	19,238	128,638	201,623
International	86,269	45,203	9,698	141,170	116,642
Real estate:					
Commercial[a]	40,180	—	28,931	69,111	24,839
Residential	—	—	22,462	22,462	9,436
Other	2,218	—	5,045	7,263	—
Beneficial interest in perpetual trusts and assets held by others	—	—	25,798	25,798	22,101
WFUHS funds held by WFUBMC	—	—	—	—	50,265
Other	—	—	29,215	29,215	13,066
Deposits with bond trustee	13,782	—	—	13,782	37,794
Total assets	$ 767,238	216,484	523,475	1,507,197	1,325,488
Financial liabilities:					
Other liabilities and deferrals:					
Interest rate swaps	$ —	34,185	—	34,185	41,604
Annuities payable	—	26,217	—	26,217	26,947
Total liabilities	$ —	60,402	—	60,402	68,551

(a) Cash proceeds of $40,180 were received by Reynolda Campus in July 2011 for the Level 1 investment.

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. 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 given to type and investment strategy.

The University's policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the year or change in circumstances that caused the transfer. There were no significant transfers between Level 1 and Level 2 securities during the year ended June 30, 2011.

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, 2011.

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 4.53% at June 30, 2011, and 3.02% as of June 30, 2010.

(Continued)

(Dollars in thousands)

The following table presents the reconciliation of Level 3 assets and liabilities measured at fair value as of June 30, 2011. Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified as Level 3.

	Balance as of June 30, 2010	Total realized and unrealized gains (losses)	Net purchases (sales), issuances, and settlements	Net transfers into (out of) Level 3	Balance as of June 30, 2011
Investments:					
Absolute return	$ 95,261	14,345	(9,485)	(26,845)	73,276
Commodities:					
Timberland	26,602	704	(576)	—	26,730
Energy	7,073	3,198	1,431	275	11,977
Other	5,162	(411)	—	336	5,087
Fixed income:					
Domestic	120,976	7,220	7,266	—	135,462
International	17,817	2,943	5,225	(10,191)	15,794
Private equity	98,040	6,152	10,570	—	114,762
Public equity:					
Domestic	18,296	4,280	(3,338)	—	19,238
International	17,357	2,204	(9,863)	—	9,698
Real estate:					
Commercial	24,839	(152)	4,244	—	28,931
Residential	9,436	6,443	6,583	—	22,462
Other	—	(64)	5,109	—	5,045
Beneficial interest in perpetual trusts and assets held by others	22,101	3,697	—	—	25,798
Other	13,066	—	16,149	—	29,215
Total assets	$ 476,026	50,559	33,315	(36,425)	523,475
Annuities payable	$ 26,947	—	—	(26,947)	—
Total liabilities	$ 26,947	—	—	(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, 2011, 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 $99,946 or 7.4% of total investments at June 30, 2011. Of these commitments, $39,162 relates to private equity, $25,641 relates to real estate, $7,591 relates to commodities, $7,000 relates to absolute return, and $20,552 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.

(Dollars in thousands)

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, 2011 is aggregated below based on redemption or sale period:

Daily, with 1 – 5 days notice	$	614,112
Monthly, with 5 – 15 days notice		108,109
Quarterly, with 5 – 95 days notice		133,769
Semi-annually, with 45 – 95 days notice		38,668
Yearly, with 60 – 180 days notice		101,372
Liquidity within 2 years, with 60 – 95 days notice		22,991
Illiquid		329,290
Total as of June 30, 2011	$	1,348,311

(9) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	WFUHS	Total	Total
Land	$ 22,525	70,660	93,185	81,946
Buildings and other improvements	453,412	375,287	828,699	811,103
Equipment and furnishings	63,956	145,595	209,551	200,561
Construction in progress	36,287	36,594	72,881	72,882
	576,180	628,136	1,204,316	1,166,492
Less accumulated depreciation	(235,232)	(314,606)	(549,838)	(533,478)
	$ 340,948	313,530	654,478	633,014

Total depreciation expense on buildings, improvements, equipment, and furnishings was $46,789 and $44,913 for the years ended June 30, 2011 and 2010, respectively.

(Dollars in thousands)

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. Interest cost of $2,231 and $3,282 was capitalized in the years ended June 30, 2011 and 2010, respectively.

The liabilities associated with AROs for the years ended June 30, 2011 and 2010, respectively, were $12,436 and $11,941 for Reynolda Campus, and $3,521 and $3,718 for WFUHS. These liabilities are reported in other liabilities and deferrals on the consolidated balance sheet.

(10) Notes, Capital Leases, and Bonds Payable

Notes, capital leases, and bonds payable at June 30, 2011 and 2010 consist of the following:

Reynolda Campus	Years to nominal maturity	Interest rate at June 30, 2011		2011	2010
Notes payable and capital leases:					
2007 Construction loan	1	0.89%	variable	$ 23,899	21,897
1994 Construction loan	4	4.19	fixed	2,680	3,501
Promissory note	8	4.00	fixed	2,025	—
Capital leases	3	13.70	fixed	842	1,155
Total notes payable and capital leases				29,446	26,553
Bonds payable:					
2004 Series A tax-exempt	1 to 10	0.06%	variable	31,455	33,065
2004 Series B tax-exempt	1 to 10	0.06	variable	23,695	26,655
2009 Series serial tax-exempt	29	4.00 to 5.00	fixed	49,430	49,430
2009 Series term tax-exempt	28	5.00	fixed	60,570	60,570
Unamortized bond premium				2,438	2,525
Total bonds payable				167,588	172,245
Total notes payable, capital leases, and bonds payable				$ 197,034	198,798

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 LIBOR plus 0.45%. 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 2012 eliminating the required principal and interest balloon payment at March 31, 2012.

(Dollars in thousands)

Reynolda Campus has outstanding $55,150 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 $3,055 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 at June 30, 2011		2011	2010
Notes payable and capital leases:					
Commercial loan	<1	0.94%	variable	$ 29,184	25,318
Loan agreement	<1	1.02	variable	10,120	11,040
Equipment loan	3	6.05	fixed	2,346	3,389
Loan agreement	6	6.38	fixed	12,688	13,413
Promissory note	6	non-interest bearing		480	560
Related party note	10	8.00	fixed	1,276	—
Capital leases	3	4.69	fixed	107	150
Total notes payable and capital leases				56,201	53,870
Bonds payable:					
2008 Series A tax-exempt	24	0.23%	variable	60,855	62,145
2008 Series B tax-exempt	24	0.23	variable	30,285	30,930
2008 Series C tax-exempt	24	0.27	variable	30,260	30,910
2008 Series D tax-exempt	24	0.21	variable	60,905	62,210
Total bonds payable[a]				182,305	186,195
Total notes payable, capital leases, and bonds payable				$ 238,506	240,065

[a] Issued under the Master Trust Indenture

The 2008 Revenue Bonds referenced in the table above represent funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a Master Trust Indenture (MTI) structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

Effective March 26, 2011, North Carolina Baptist Hospital, Wake Forest University Health Sciences, and Wake Forest Baptist Medical Center formed a single obligated group (Obligated Group) under the existing NCBH MTI. New obligations were issued to WFUHS obligation holders under the NCBH MTI. In addition, substantially all of the subsidiaries of NCBH, WFUHS, and WFUBMC were included in the single credit group as Designated Members (Combined Group). The effect of the new credit structure is that each member of the Obligated Group becomes joint and severally liable for all debt and other obligations that are to be evidenced and secured under the MTI. WFUHS is jointly and severally liable for $315,045 of bonds payable borrowed by NCBH as of June 30, 2011.

Bonds issued under the MTI are payable solely from the Obligated Group’s revenues (as defined by the MTI). Additionally, the Combined Group must remain compliant with certain covenants and restrictions required by the MTI and loan agreements underlying the bonds. The Combined Group is subject to covenants under the MTI containing restrictions or limitations with respect to indebtedness, property encumbrance, consolidation or merger or transfer of assets. In addition, the Combined Group has agreed that it will not create any lien upon its property, accounts, or revenue now owned or hereafter acquired other than “permitted liens” as described in the MTI. WFBMC believes it is in compliance with such covenants and restrictions as of June 30, 2011.

The Series 2008 bonds mature in full in fiscal year 2035. The bonds are secured by irrevocable, direct-pay letters of credit Series 2008 A and B Bonds are supported by a Branch Banking and Trust Company letter of credit with an expiry date in October 2013 and Series 2008 C and D are supported by a Bank of America, N.A. letter of credit with an expiry date in March 2014. 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.

(Dollars in thousands)

Aggregate annual maturities of notes and bonds payable for each of the five fiscal years subsequent to June 30, 2011 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2012	$	29,672	45,384	75,056
2013		5,972	6,540	12,512
2014		6,182	5,606	11,788
2015		6,410	5,579	11,989
2016		6,629	5,824	12,453
In total thereafter		138,889	169,466	308,355
	$	193,754	238,399	432,153

The 2012 maturities include $23,899 and $39,304 for Reynolda Campus and WFUHS, respectively, of notes payable that management intends to renew in 2012 with a maturity date beyond 2012.

(11) 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.

(Dollars in thousands)

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	$ 31,455	50,000	81,420	98,430
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 in 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:

	2011		2010	
	Fair value	**Gain/(loss)**	**Fair value**	**Gain/(loss)**
Reynolda Campus:				
November 2006 interest rate swap	$ (3,012)	430	(3,442)	(1,299)
October 2008 interest rate swap	(7,729)	2,892	(10,621)	(3,069)
Total	(10,741)	3,322	(14,063)	(4,368)
WFUHS:				
August 2002 interest rate swap	(11,231)	1,853	(13,084)	(3,330)
February 2007 interest rate swap	(12,213)	2,244	(14,457)	(3,794)
Total	(23,444)	4,097	(27,541)	(7,124)
Grand total	$ (34,185)	7,419	(41,604)	(11,492)

(Continued)

(Dollars in thousands)

(12) Net Assets

Temporarily restricted net assets are composed of the following at June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Gifts and pledges	$ 63,506	5,823	69,329	50,563
Grants and contracts	—	1,952	1,952	2,379
Donor-restricted endowments	187,368	46,525	233,893	200,489
	$ 250,874	54,300	305,174	253,431

Such temporarily restricted net assets are available for the following purposes as of June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Student scholarships	$ 100,583	5,174	105,757	90,739
Instruction and research	54,130	39,409	93,539	84,132
Academic support	31,090	9,717	40,807	36,005
Subsequent period operations, capital, and other	65,071	—	65,071	42,555
	$ 250,874	54,300	305,174	253,431

Permanently restricted net assets are composed of the following at June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Donor-restricted endowments	$ 191,555	101,136	292,691	274,900
Gifts and pledges	5,339	1,588	6,927	5,672
Student loan funds	1,010	4,784	5,794	5,654
Interests in perpetual trusts and assets held by others	4,300	18,456	22,756	22,101
Annuity and other split-interest agreements	11,814	2,752	14,566	6,454
	$ 214,018	128,716	342,734	314,781

(Continued)

(Dollars in thousands)

The return from donor-restricted endowments is available for the following purposes as of June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
Student scholarships	$ 129,046	17,193	146,239	136,741
Instruction and research	41,079	64,727	105,806	99,190
Academic support	14,548	19,216	33,764	30,703
Subsequent period operations, capital, and other	6,882	—	6,882	8,266
	$ 191,555	101,136	292,691	274,900

(13) Functional Expenses

Expenses are reported in the consolidated statement of activities in natural categories. Functional expenses for the years ended June 30, 2011 and 2010 are categorized as follows:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
Instruction and departmental research	$ 120,021	157,558	277,579	243,541
Patient services	—	392,613	392,613	416,969
Sponsored research, training, and other programs	—	183,213	183,213	176,897
Organized activities	1,932	—	1,932	1,803
Academic support	15,984	9,613	25,597	23,106
Libraries	11,940	3,564	15,504	16,402
Student services	23,161	1,760	24,921	20,767
Institutional support	65,661	51,363	117,024	118,513
Auxiliary enterprises	76,744	308	77,052	77,248
Total operating expenses	$ 315,443	799,992	1,115,435	1,095,246

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, patient services, 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.

(Dollars in thousands)

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.

(14) Contingencies and Other Commitments

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

	Reynolda Campus	WFUHS	Total
Year ending June 30:			
2012	$ 7,908	2,724	10,632
2013	6,545	648	7,193
2014	5,430	236	5,666
2015	5,083	144	5,227
2016	4,979	65	5,044
In total thereafter	—	130	130
	$ 29,945	3,947	33,892

Total income from real estate was $9,465 and $9,429 for Reynolda Campus and $3,843 and $3,524 for WFUHS for the years ended June 30, 2011 and 2010, 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, 2011, such grant awards amounted to $12,542 and $259,389 for Reynolda Campus and WFUHS, respectively.

The estimated cost to complete construction in progress at June 30, 2011 is $81,743 and $25,576 for 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.

(15) 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 2012 to 2016 are $7,295, $7,368, $7,441, $7,516, and $7,591, respectively.

(Dollars in thousands)

WFUHS has a deferred gain related to the sale and lease back of certain assets. The deferred gain was $30,858 and $32,804 for 2011 and 2010, respectively, and is included in other liabilities on the consolidated balance sheet.

(16) 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, 2011 were $9,839 and $23,847, respectively, for Reynolda Campus and WFUHS.

Reynolda Campus and WFUHS have accrued $1,482 and $2,882 at June 30, 2011, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. These liabilities are included in other liabilities and deferrals on the consolidated balance sheet.

(17) 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, Reynolda Campus sponsors a death benefit plan which pays a $2,000 benefit for each retiree. To be eligible, retired employees of 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, 2011 and 2010:

		2011			
		Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
Benefit obligations at June 30	$	(13,332)	(59,480)	(72,812)	(69,717)
Fair value of plan assets at June 30		—	38,926	38,926	27,536
Funded status at June 30	$	(13,332)	(20,554)	(33,886)	(42,181)

(Dollars in thousands)

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, 2011 and 2010:

	2011			
	Reynolda Campus	**WFUHS**	**Total**	**2010 Total**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 12,538	57,179	69,717	60,157
Service cost	687	2,903	3,590	2,949
Interest cost	637	3,021	3,658	3,694
Participants' contributions	544	1,224	1,768	1,535
Actuarial (gain) loss	(164)	(2,164)	(2,328)	4,601
Benefits paid	(910)	(2,683)	(3,593)	(3,219)
Benefit obligation at end of year	13,332	59,480	72,812	69,717
Change in plan assets:				
Fair value of plan assets at beginning of year	—	27,536	27,536	22,961
Actual return on plan assets	—	7,719	7,719	3,245
Employer contributions	367	5,130	5,497	3,014
Participants' contributions	544	1,224	1,768	1,535
Benefits paid	(911)	(2,683)	(3,594)	(3,219)
Fair value of plan assets at end of year	—	38,926	38,926	27,536
Funded status	$ (13,332)	(20,554)	(33,886)	(42,181)
Amounts recognized in net assets:				
Prior service (cost) credit	$ (14)	3,261	3,247	3,514
Net actuarial gain (loss)	782	(20,291)	(19,509)	(28,970)
Total increase (decrease)	$ 768	(17,030)	(16,262)	(25,456)

(Continued)

(Dollars in thousands)

The following table provides the components of net periodic benefit cost for the years ended June 30, 2011 and 2010:

	2011			2010
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Service cost	$ 687	2,903	3,590	2,949
Interest cost	637	3,021	3,658	3,694
Expected return on plan assets	—	(2,423)	(2,423)	(1,917)
Amortization of prior service cost (credit)	87	(354)	(267)	(267)
Amortization of net actuarial (gain) loss	—	1,836	1,836	1,815
Net periodic benefit cost	$ 1,411	4,983	6,394	6,274

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 Reynolda Campus and WFUHS are $10 and $354, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2011 for Reynolda Campus and WFUHS, respectively, was 5.31% and 5.54%, and at June 30, 2010 was 5.19% and 5.36%, respectively. The discount rate reflects the current yield curve results as of June 30, 2011 and 2010. For management purposes, Reynolda Campus used 10.00% and 9.00%, and WFUHS used 9.00% and 9.00% for 2011 and 2010, respectively, for the annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the first year, and a 4.50% rate was assumed in each year as the ultimate rate. The expected healthcare costs trend for the post-65 assumed an annual rate of 3.50% for 2011 and 2010. The expected return assumed on plan assets for WFUHS is 8.00% for 2011 and 2010. 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.

(Dollars in thousands)

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:

		One percentage increase	One percentage decrease
Reynolda Campus:			
Effect on total service and interest cost components of net periodic benefit cost	$	32	(27)
Effect on postretirement benefit obligation		306	(236)
WFUHS:			
Effect on total service and interest cost components of net periodic benefit cost	$	111	(89)
Effect on postretirement benefit obligation		977	(865)

Aggregate benefits expected to be paid by the University in each of the next five fiscal years subsequent to June 30, 2011 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2012	$	520	1,696	2,216
2013		610	1,975	2,585
2014		698	2,253	2,951
2015		778	2,494	3,272
2016		840	2,702	3,542
Five years thereafter		5,314	16,964	22,278
	$	8,760	28,084	36,844

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2011 and include estimated future employee service.

(18) Related-Party Transactions

WFUHS and 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.

(Dollars in thousands)

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

		2011	2010
Revenue from NCBH, excluding MCIA	$	67,676	64,602
Other sources, MCIA		13,960	—
Expenses incurred from NCBH		38,093	47,100
Accounts receivable from NCBH		33,556	26,947
Accounts payable to NCBH		7,489	6,780

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 in which WFUHS leased certain assets and agreed to provide professional services for WFUBMCCP. For the years ended June 30, 2011 and 2010, WFUHS incurred $12,103 and $8,543 in lease expense. Future lease payments are variable based on the underlying assets and professional services utilized.

Effective on June 27, 2011 NCBH transferred membership interest in Wake Forest Baptist Medical Center Community Physicians, including a wholly owned subsidiary, WFBMCCP Primary Care, LLC, to WFUHS. The acquisition was recorded as a nonoperating contribution at its estimated fair value in the consolidated statements of activities.

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. In 2011 and 2010, WFUHS recorded nonoperating gains of sale of $0 and $2,130, respectively.

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.

(19) Royalties Receivable

Management has recorded revenue and a related receivable for licensing fees for “VAC System” technologies. On October 6, 1993, Wake Forest University (later WFUHS) and Kinetic Concepts, Inc. (KCI) entered into a license agreement that grants the licensee the exclusive worldwide right and license to make, sell and sublicense products and services related to the patented technologies. WFUHS and KCI jointly brought various suits for patent infringement against a number of entities. One such suit was brought against Smith & Nephew, Inc. (S&N) for infringement of certain of the patents based on a wound healing device made and sold by S&N. Following a jury trial in the Western District of Texas, the jury held that the patents were valid and infringed by S&N. Subsequently, the district court granted S&N’s motion for judgment as a matter of law and overturned the jury verdict, concluding that the patents were invalid for obviousness. WFUHS and KCI appealed that decision to the United States Court of Appeals for the Federal Circuit. Briefing on the appeal should be complete in November of 2011 and oral argument is likely to be held in the second quarter of 2012.

Following the decision of the district court in Texas holding certain of the patents invalid, KCI refused to pay royalties under its license and brought a declaratory judgment suit in the Western District of Texas against WFUHS seeking a declaration that the patents are invalid and not infringed and that KCI owes no royalties on them. WFUHS subsequently terminated KCI’s license on March 18, 2011 and sued them for patent infringement in the Middle District of North Carolina, as well as for breach of contract, among other causes of action. These unpaid royalties for the period July 1, 2010 through March 18, 2011, are accrued in accounts receivable on the consolidated balance sheet and amount to $65,919 at June 30, 2011. The receivable balance includes the inventors’ share, which represents 50% or $32,959 and is included in other operating expenses in the consolidated statement of activities and accounts payable on the consolidated balance sheet. WFUHS believes the KCI suit is without merit and will vigorously defend its rights under the license agreement. Should KCI be successful in its suit for declaratory judgment, WFUHS’ ability to collect accrued royalties would be impacted.

(20) 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, 2011. WFUHS estimates its professional liability on an actuarial basis. Accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $36,281 at June 30, 2011, and are included in other liabilities and deferrals on the consolidated balance sheet. In the opinion of management, adequate provision has been made for the related risk.

(21) Subsequent Events

On June 2, 2011, WFUHS' Board of Directors approved that effective as of January 1, 2012, the postretirement medical and dental plan will be discontinued for most future retirees. The minimum age required for post-retirement benefits will increase from 60 to 62. However, the additional requirement of the rule of 75 (age and service) remains unchanged. All current retirees and currently eligible employees previously grandfathered will continue to be eligible for benefits under this plan. Any WFUHS employee who is within 5 years of meeting the new retirement eligibility of age 62 with combined age and years of service equal to at least 75 as of January 1, 2012 will also be grandfathered into this benefit. This change was communicated to WFUHS' employees subsequent to fiscal year end.

WFUHS' Board of Directors additionally approved various changes to other existing retirement plans, including a permanent freeze of the WFUHS Money Purchase Pension Plan, the merger of the existing Tax-Deferred Annuity Plan and the Private 457(b) Deferred Compensation Plan with the NCBH sponsored 403(b) and 457(b) plans. All changes will be effective January 1, 2012 and were communicated to WFUHS employees subsequent to fiscal year end.