WAKE FOREST UNIVERSITY

OMB Circular A-133 Reports

June 30, 2008

(With Independent Auditors' Report Thereon)

WAKE FOREST UNIVERSITY

OMB Circular A-133 Reports

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KPMG LLP
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Independent Auditors' Report on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards

The Board of Trustees
Wake Forest University:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit also 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 consolidated 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 the University as of June 30, 2008, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2008, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 statements of financial position, activities and cash flows and the accompanying notes related to the College of Arts and Sciences, Schools of Law, Management, and Divinity, Wake Forest University Health Sciences, and the Reynolda House, Inc. (collectively the University) is presented for purposes of additional analysis of the financial statements rather than to present the financial position, 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 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.

The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic consolidated financial statements. Such 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

September 30, 2008

WAKE FOREST UNIVERSITY

Consolidated Statement of Financial Position

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

College of Arts and Sciences, Schools of Law, Management, and Divinity
(Supplementary Information)

Year ended June 30, 2008

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Wake Forest University Health Sciences
(Supplementary Information)

Year ended June 30, 2008

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Reynolda House, Inc.
(Supplementary Information)

Year ended June 30, 2008

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Wake Forest University

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

(b) Basis of Presentation

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

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

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

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

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

(Continued)

- as increases in unrestricted net assets in all other cases.

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

(c) Contributions

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

(d) Endowment Accounting

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

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

(e) Temporarily Restricted Accounting

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

(f) Cash Equivalents

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

(g) Financial Instruments

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

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

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

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

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

(h) Split-Interest Agreements

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

(i) Investments

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

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

(j) Investments in Real Estate

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

(k) Land, Buildings, and Equipment

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

(l) Clinic Services Revenue

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

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

(Continued)

(m) Bond Issuance Costs

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

(n) Functional Expenses

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

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

(o) Government Grants Refundable

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

(p) Sponsored Grants and Contracts

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

(q) Derivative Instruments

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

(r) Allocated Net Assets

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

(s) Postretirement Plans

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

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

(t) Use of Estimates

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

(u) Reclassifications

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

(Dollars in thousands)

(v) Comparative Financial Information

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

(2) Contributions Receivable

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

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

(3) Investments

Investments at June 30, 2008 consist of the following:

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

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

(Dollars in thousands)

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

(4) Investments in Real Estate

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

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

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

(5) Land, Buildings, and Equipment

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

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

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

(Continued)

(Dollars in thousands)

(6) Asset Retirement Obligations

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

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

(7) Sale–leaseback Agreement

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

(Dollars in thousands)

(8) Notes and Bonds Payable

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

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

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

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

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

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

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

The University has outstanding $66,450 of tax-exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004. The bonds are made up of Subseries A in the amount of $36,605, and Subseries B, in the amount of $30,160. The obligations of the University are evidenced by a Loan Agreement dated December 1, 2004, by and between the University and First Citizens Bank and Trust Company, as trustee. The Series 2004 tax-exempt bonds are due annually through 2020 in varying amounts from $315 to

(Continued)

(Dollars in thousands)

$7,340. The interest rate on the bonds is determined weekly, and at the option of the University may be converted to a fixed rate. The University's obligation under the Loan Agreement is an unsecured, unconditional obligation. The interest rates on the bonds at June 30, 2008 were variable at 1.51% for the Subseries A and at 1.45% for the Subseries B.

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

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

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

(9) Postretirement Benefits

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

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

(Dollars in thousands)

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

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

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

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

(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 year ended June 30, 2008:

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

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

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

(Continued)

(Dollars in thousands)

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

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

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

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

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

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

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

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

(Dollars in thousands)

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

(10) Net Assets

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

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

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

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

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

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

(11) Benefit Plans

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

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

(12) Related-Party Transactions

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

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

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

(13) Contingencies and Other Commitments

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

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

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

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

(Continued)

(14) Professional Liability Insurance

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

(15) Derivative Instruments and Other Financial Instruments

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

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

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

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

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

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

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

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

(Dollars in thousands)

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

(16) Income Taxes

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

In June 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 10*9" (FIN 48). FIN 48 addresses the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax provisions taken or expected to be taken in a tax return. FIN 48 also provides guidance on measurement, classification, interest and penalties, and disclosure. FIN 48 was effective for the University on July 1, 2007, and has no material impact on the University's consolidated financial statements.

(17) Capitalized Interest

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

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

(18) New Accounting Pronouncements

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

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

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

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2008

Federal and state grantors/pass-through grantors/agencies, or cluster title	Federal CFDA number	Expenditures
Federal Award Expenditures:		
Research and Development Cluster:		
Wake Forest University Health Sciences:		
Department of Health and Human Services (DHHS):		
National Institutes of Health	93.RD	$ 112,994,971
Agency for Healthcare Research and Quality	93.RD	61,425
Center for Disease Control & Prevention	93.RD	1,512,077
Health Resources and Services Administration	93.RD	526,746
Office of The Secretary	93.RD	19,167
DHHS Pass-through programs from:		
Albert Einstein College of Medicine	93.RD	359,469
Association of Teachers of Preventive Medicine	93.RD	1,561
Baylor College of Medicine	93.RD	177,637
Baylor Unversity	93.RD	51,524
Booz Allen Hamilton	93.RD	118,170
Brown University	93.RD	10,677
Cancer & Leukemia Group B Foundation	93.RD	200,452
Case Western Reserve University	93.RD	141,210
Cedars-Sinai Medical Center	93.RD	124,848
Children’s Hospital, Boston	93.RD	166,276
Children’s Hospital, Cincinnati	93.RD	174,185
Children’s Oncology Group	93.RD	146,073
Clemson Unversity	93.RD	25,959
Columbia University	93.RD	78,409
Davidson College	93.RD	36,082
Duke University Clinical Research Institute	93.RD	66,516
Duke University	93.RD	1,842,690
EIC Laboratories, Inc.	93.RD	16,883
EMMES Corporation	93.RD	21,359
Fred Hutchinson Cancer Research Center	93.RD	(7,166)
George Washington University	93.RD	378,651
Georgetown University	93.RD	(6,883)
Gynecologic Oncology Group	93.RD	112,315
Harvard University	93.RD	259,525
Health Partners Research Foundation	93.RD	84
Intermountain Healthcare	93.RD	2,117
Ixion Pharmaceuticals	93.RD	172
Jackson State University	93.RD	478,809
Jaeb Center for Health Research	93.RD	95,440
Jivan Biologics, Inc,	93.RD	(1,822)
John Wayne Cancer Institute	93.RD	5,815
Johns Hopkins University	93.RD	452,557
Massachusetts General Hospital	93.RD	17,486
Mayo Clinic	93.RD	72,667
Metis Design Corporation	93.RD	48,349
Metrolina Aids Project, Inc.	93.RD	38,800

(Continued)

Federal and state grantors/pass-through grantors/agencies, or cluster title	Federal CFDA number		Expenditures
Millar Instruments, Inc.	93.RD	$	(3,158)
Mt. Sinai Medical Center	93.RD		(4,545)
National Jewish Medical and Research Center	93.RD		46,423
National Marrow Donor Program	93.RD		737
New England Research Institute	93.RD		117
North Carolina Central University	93.RD		24,093
Northwestern University	93.RD		836
Oregon Health Sciences University	93.RD		50,352
Pennsylvania State University	93.RD		207,908
Plureon Corporation	93.RD		185,681
Renal Research Institute	93.RD		72,475
Social & Scientific Systems, Inc.	93.RD		113,479
Southwest Oncology Group	93.RD		255
Stanford University	93.RD		87,686
State University of New York	93.RD		(8,301)
Stovall Life Sciences, Inc.	93.RD		25,003
Strang Cancer Research Center	93.RD		10,212
Susan G. Koman Breast Cancer Foundation	93.RD		57
Temple University School of Medicine	93.RD		22,967
Texas A&M University	93.RD		37,964
Thomas Jefferson University	93.RD		1,205
Tracera Labs	93.RD		42,400
Transonic Systems, Inc.	93.RD		1,212
Tulane University	93.RD		12,428
University of Alabama	93.RD		21,356
University of California at Irvine	93.RD		47,460
University of California at Los Angeles	93.RD		59,016
University of California at San Diego	93.RD		193,288
University of California at San Francisco	93.RD		125,866
University of Chicago	93.RD		12,353
University of Colorado	93.RD		329,555
University of Florida	93.RD		345,721
University of Hawaii	93.RD		47,833
University of Illinois at Chicago	93.RD		2,919
University of Iowa	93.RD		43,719
University of Maryland	93.RD		(111,220)
University of Medicine and Dentistry of New Jersey	93.RD		11,941
University of Miami	93.RD		79,390
University of Michigan	93.RD		11,487
University of Minnesota	93.RD		52,248
University of Mississippi	93.RD		14,683
University of North Carolina at Greensboro	93.RD		24,571
University of North Carolina at Chapel Hill	93.RD		898,075
University of Oklahoma Health Sciences	93.RD		934,003
University of Pennsylvania	93.RD		239,932
University of Pittsburgh	93.RD		1,042,595

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2008

Federal and state grantors/pass-through grantors/agencies, or cluster title	Federal CFDA number		Expenditures
University of Rochester	93.RD	$	33,970
University of South Carolina	93.RD		204
University of Texas – SA	93.RD		15,391
University of Toledo	93.RD		281
University of Utah	93.RD		13,734
University of Virginia	93.RD		7,899,656
University of Washington	93.RD		317,454
University of Wisconsin-Madison	93.RD		19,238
Vanderbilt University	93.RD		79,627
Virginia Polytechnic Institute and State University	93.RD		196,860
Washington University, St. Louis	93.RD		16,067
Winston-Salem State University	93.RD		48,300
World Precision Institute	93.RD		337
Wright State University	93.RD		25,626
Yale University	93.RD		15,365
Total Department of Health and Human Services			134,857,669
Department of Defense:			
Defense Advance Research Project	12.RD		561,742
Office of Naval Research	12.RD		72,565
U.S. Army	12.RD		1,724,144
U.S. Army Pass-through program from Univ of Pittsburgh	12.RD		216,325
Total Department of Defense			2,574,776
Department of Justice:			
Department of Justice	16.RD		14,425
National Institute of Justice	16.RD		93,190
Office of Juvenile Justice and Delinquency Prevention	16.RD		717,146
Total Department of Justice			824,761
Department of Agriculture	10.RD		148,749
Department of Energy	81.RD		298,998
Department of State	19.RD		424
Department of Transportation (DOT)	20.RD		309,487
DOT Pass-through program from Battelle Corp	20.RD		32,472
Department of Veterans Affairs	64.RD		166,906
Environmental Protection Agency (EPA)	66.RD		122,543
EPA Pass-through program from Univ of Washington	66.RD		16,244
National Aeronautics and Space Administration	43.RD		68,275
National Science Foundation (NSF)	47.RD		198,668
NSF Pass-through program from Algaen Corporation	47.RD		17,659
NSF Pass-through program from Univ of Southern California	47.RD		71,176
Subtotal – Wake Forest University Health Sciences			139,708,807

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2008

Federal and state grantors/pass-through grantors/agencies, or cluster title	Federal CFDA number	Expenditures
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
Department of Health and Human Services:		
National Institutes of Health	93.RD	$ 2,492,938
Department of Defense:		
U.S. Army	12.RD	49,096
U.S. Air Force	12.RD	360,750
Total Department of Defense		409,846
National Science Foundation	47.RD	1,323,444
Department of Agriculture	10.RD	168,745
Department of Energy	81.RD	33,558
Department of State	19.RD	469,504
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		4,898,035
Total Research and Development Cluster		144,606,842
Student Financial Aid Cluster:		
Wake Forest University Health Sciences:		
Department of Education:		
Federal Family Education Loan Program	84.032	18,573,621
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
Department of Education:		
Federal Supplemental Educational Opportunity Grant	84.007	356,465
Federal Family Education Loan Program	84.032	41,887,574
Federal Work Study Program	84.033	1,317,157
Academic Competitiveness Grants	84.375	73,095
National Science and Mathematics Access to Retain Talent Grants	84.376	23,085
Federal Perkins Loan Program	84.038	3,966,050
Federal Pell Grant Program	84.063	932,853
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		48,556,279
Total Student Financial Aid Cluster		67,129,900

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2008

Federal and state grantors/pass-through grantors/agencies, or cluster title	Federal CFDA number		Expenditures
Other Programs:			
College of Arts and Sciences, Schools of Law, Management, and Divinity:			
Dept of Defense U.S.Army Reserve Officers Training Core	12.ROTC	$	1,205,420
Institute of Museum and Library Sciences (IMLS)	45.301		77,611
Jacob K. Javits Fellowships Program (Department of Education)	84.170		24,212
Subtotal – Colleges of Arts and Sciences, Schools of Law, Management, and Divinity			1,307,243
Wake Forest University Health Sciences:			
Department of Education	84.116		59,296
Department of Education	84.133		10,367
Subtotal – Wake Forest University Health Sciences			69,663
Total Other Programs			1,376,906
Total Federal Award Expenditures			213,113,648

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2008

Federal and state grantors/pass-through grantors/agencies, or cluster title		Expenditures
State Award Expenditures:		
Wake Forest University Health Sciences:		
NC Department of Health and Human Services	$	6,910,636
NC Department of Agriculture		3,276
North Carolina Aid to Medical Education		1,336,000
Board of Governors		505,608
State of NC Pass-through funds from:		
University of North Carolina at Chapel Hill		5,701,308
North Carolina Biotechnology Center		313,789
NC Health & Wellness Trust Fund		297,908
Central Carolina Health Network		62,063
Other		28,279
Subtotal – Wake Forest University Health Sciences		15,158,867
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
North Carolina Legislative Tuition Grant		1,976,811
North Carolina State Contractual Scholarship Fund		1,407,713
North Carolina Student Incentive Grant		10,500
North Carolina Education Lottery Scholarship		106,130
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		3,501,154
Total State Award Expenditures		18,660,021
Total Federal and State Award Expenditures	$	231,773,669

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

(1) Basis of Presentation

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

(2) Summary of Significant Accounting Policies for Federal and State Award Expenditures

Expenditures for certain federal student financial aid programs are recognized as incurred and include the federal share of students' Federal Supplemental Educational Opportunity Grant program grants and Federal Work Study program earnings, certain other federal financial assistance grants for students and administrative cost allowances, where applicable. Federal Pell Grant awards are recognized as agency transactions and are not recorded as expenditures in the financial statements.

Expenditures for other federal awards of the University's academic and other divisions are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures for nonfinancial aid awards include indirect costs, related primarily to facilities operation and maintenance and general, divisional and departmental administrative services, which are allocated to direct cost objectives (including federal awards) based on negotiated formulas commonly referred to as facilities and administrative cost rates. Facilities and administrative costs allocated to such awards for the year ended June 30, 2008 were based on predetermined rates negotiated with the University's cognizant federal agency, the Department of Health and Human Services.

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

Facilities and administrative cost recoveries and administrative cost allowances for the University's academic and other divisions for the year ended June 30, 2008 are summarized as follows:

Federal:		
Research and development	$	35,319,437
Student financial aid		237,400
Other		28,996
State		58,644
	$	35,644,477

(4) Federal Student Financial Aid Loan Programs

The Federal Perkins, Health Professions Student Loan (HPSL) and the Primary Care Loan (PCL) Programs are administered directly by the University and balances and transactions relating to these programs are included in the University's financial statements. The balances of loans outstanding under the Federal Perkins, HPSL, and PCL programs were $19,202,549, $26,137, and $175,309, respectively, as of June 30, 2008.

The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan Programs and, accordingly, these loans are not included in its financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of June 30, 2008.

(5) Subrecipients

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

Federal Program		Amount provided to subrecipients
Research and Development	$	18,808,905
Other		28,936
	$	18,837,841

(6) Summary of Federal Funds Transfer

During the year ended June 30, 2008 the University transferred $350,000 of Federal Work Study Program (FWS) funds to the Federal Supplemental Educational Opportunity Grant Program (FSEOG).

KPMG LLP
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Greensboro, NC 27401

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

The Board of Trustees
Wake Forest University:

We have audited the consolidated financial statements of Wake Forest University (the University) as of and for the year ended June 30, 2008, and have issued our report thereon dated September 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

KPMG

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated September 30, 2008.

This report is intended solely for the information and use of the Audit and Compliance Committee of the Board of Trustees, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 30, 2008

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

Report on Compliance With Requirements Applicable to the Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Wake Forest University:

Compliance

We have audited the compliance of Wake Forest University (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We have not audited Wake Forest University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments in accordance with the requirements of the Student Financial Aid Cluster: Federal Perkins Loan Program as described in the compliance supplement. Those requirements govern functions that are performed by Educational Loan Servicing, LLC (Campus Partners). Since we did not apply auditing procedures to satisfy ourselves as to compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on compliance with those requirements. Campus Partner's compliance with the requirements governing the functions that they perform for Wake Forest University were examined by other accountants' in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.* Our report does not include the results of the other accountants' examination of Campus Partner's compliance with such requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding No. 08-1.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

Requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Student Financial Aid Cluster: Federal Perkins Loan Program as described in the Compliance Supplement are performed by Campus Partners. Internal control over compliance relating to such functions for the year ended June 30, 2008 was reported on by other accountants in accordance with the U.S. Department of Education's Audit Guide, *Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers.* Our report does not include the results of other accountants' testing of Campus Partner's internal control over compliance related to such functions.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the University's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the University's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Audit and Compliance Committee of the Board of Trustees, management and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 30, 2008

WAKE FOREST UNIVERSITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

(1) Summary of Auditors' Results

(a) The type of report issued on the financial statements: **Unqualified opinion**

(b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **None reported**
Material weaknesses: **None**

(c) Noncompliance which is material to the financial statements: **None**

(d) Significant deficiencies in internal control over major programs: **None reported**
Material weaknesses: **None**

(e) The type of report issued on compliance for major programs: **Unqualified opinion**

(f) Any audit findings which are required to be reported under Section 0.510(a) of OMB Circular A-133: **See Finding No. 08-1**

(g) Major program: **Student Financial Aid Cluster**

Federal Supplemental Educational Opportunity Grant (FSEOG) 84.007

Federal Family Education Loan Program (FFELP) 84.032

Federal Work Study Program (FWS) 84.033

Academic Competitiveness Grants (ACG) 84.375

National Science and Mathematics Access to Retain Talent Grants (SMART) 84.376

Federal Perkins Loan Program (FPL) 84.038

Federal Pell Grant Program (Pell) 84.063

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$3,000,000**

(i) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: None

(3) Finding and Questioned Costs Relating to Federal Awards

Finding No. 08-1: Submission of Student Status Changes

Federal Agency: Department of Education

Program: Federal Family Education Loans (FFEL)

CFDA #: 84.032

Project Period: July 1, 2007 – June 30, 2008

Cluster: Student Financial Aid Cluster

Criteria:
Under the FFEL and Direct Loan programs, schools must complete and return within 30 days of receipt the Student Status Confirmation Reports (SSCR) sent by ED or a guaranty agency. The SSCR is transmitted electronically.

The institution determines how often it receives the SSCR, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Unless the school expects to complete its next SSCR within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Condition:
Of the 30 students selected for testwork, from population of 826 students, the submissions incorrectly reported the student's status for 5 students.

Cause:
Administrative oversight due to date parameters of student status report, which did not capture timing differences resulting in inaccurate reporting.

Questioned Costs:
None.

Recommendation:
We recommend that the University implement a process to ensure that all student status changes are reported accurately.

Management Response
Wake Forest University agrees with the finding and effective fiscal year 2009 and forward, internal processes and system customizations will be implemented to ensure accuracy of all Student Status Confirmation Reports submissions.