KPMG

WAKE FOREST UNIVERSITY

OMB Circular A-133 Reports

June 30, 2009

(With Independent Auditors' Report Thereon)

WAKE FOREST UNIVERSITY

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KPMG LLP
Suite 400
300 North Greene Street
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Independent Auditors' Report

The Board of Trustees
Wake Forest University:

We have audited the accompanying consolidated balance sheet of Wake Forest University (the University) as of June 30, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2008 consolidated financial statements and, in our report dated September 30, 2008, we expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wake Forest University as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, 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 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 consolidated balance sheet, statement of activities, statement of cash flows, and the accompanying notes related to the College of Arts and Sciences, and Schools of Law, Management, and Divinity (collectively Reynolda Campus); Wake Forest Health Sciences; and the Reynolda House, Inc. is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual entities. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

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.

As discussed in note 15 to the consolidated financial statements, the University adopted the provisions of Statement of Financial Accounting Standards No. 157 as amended, *Fair Value Measurements,* and Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, effective July 1, 2008. As discussed in note 16 to the consolidated financial statements, the University also adopted the provisions of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* effective July 1, 2008.

KPMG LLP

October 8, 2009

WAKE FOREST UNIVERSITY

Consolidated Balance Sheet

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

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

Year ended June 30, 2009

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Wake Forest University Health Sciences
(Supplementary Information)

Year ended June 30, 2009

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Reynolda House, Inc.
(Supplementary Information)

Year ended June 30, 2009

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

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

(Dollars in thousands)

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

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Wake Forest University

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

(b) Basis of Presentation

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

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

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

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

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

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund
- as increases in temporarily restricted net assets until appropriated for expenditure by the University and donor restrictions for their use are met.

(c) Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year, net of an allowance for uncollectible contributions receivable, are discounted to their present value at a risk adjusted rate**.** Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, considering such factors as prior collection history, type of contribution, relationship with donor and nature of fund-raising activity.

(d) Cash Equivalents

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

(e) Financial Instruments

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

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

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

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

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

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

(Continued)

(f) Split-Interest Agreements

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

(g) Investments

Investments in readily marketable debt and equity securities are stated at their fair values, which are determined based on quoted market prices. Investments in certain real property assets are recorded at fair value based upon independent third–party appraisals. Investments in private equity and absolute return funds are reported at estimated fair value, utilizing their net asset values. Those net asset values are determined by the investment managers and are reviewed and evaluated by the University's Investment Office. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments.

(h) Investments in Real Estate

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

(i) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair market value on the date received for donated items. Depreciation is calculated on the straight-line basis over the estimated useful life of each class or component of depreciable asset. Estimated lives range from 3 to 60 years. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of land, buildings, and equipment are included in the consolidated statement of activities.

(j) Asset Retirement Obligations

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

(Continued)

(k) Clinic Services Revenue

WFUHS records clinic services revenue, net of contractual adjustments. WFUHS has agreements with third-party payors that provide for payments to WFUHS at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Clinic services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The clinic receivables are recorded net of allowances for contractual adjustments and uncollectible accounts of $57,323 and $37,631, respectively, at June 30, 2009.

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

(l) Bond Issuance Costs

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

(m) Functional Expenses

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

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

(n) Government Grants Refundable

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

(o) Sponsored Grants and Contracts

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

(p) Derivative Instruments

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

(q) Allocated Net Assets

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

(r) Postretirement Plans

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

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

(s) Use of Estimates

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

(t) Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. Unrelated business income of the University is reported on Form 990-T. No tax is computed for unrelated income due to unrelated net operating losses in prior years.

(u) Reclassifications

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

(v) Comparative Financial Information

The consolidated financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2008 from which this information was derived.

(w) Subsequent Events

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

(2) Contributions Receivable

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

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

(3) Investments

Investments at June 30, 2009 consist of the following:

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

The University places a substantial portion of assets into a pool on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of each quarter within which the transaction took place. At June 30, 2009, a total of 18,892,577 units existed in the pool with a fair value of $44.38 per unit.

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

(4) Land, Buildings, and Equipment

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

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

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

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

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

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

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

(5) Sale–leaseback Agreement

In 2006, WFUHS entered into a sale-leaseback agreement to sell and lease back certain assets. The initial lease term is 20 years with four renewal options of five years each and the lease is classified as an operating lease. Operating lease payments in each year from 2010 to 2014 are $7,151, $7,223, $7,295, $7,368, and $7,441, respectively.

(6) Acquisition of Subsidiary and Clinical Practice Assets

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

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

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

(7) Notes, Capital Leases, and Bonds Payable

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

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

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

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

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

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

Reynolda Campus has outstanding $64,140 of tax-exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004. The bonds are made up of Subseries A in the amount of $34,620, and Subseries B, in the amount of $29,520. The obligations of the University are evidenced by a Loan Agreement dated December 1, 2004, by and between the University and First Citizens Bank and Trust Company, as trustee. The Series 2004 tax-exempt bonds are due annually through 2020 in varying amounts from $315 to $7,340. The interest rate on the bonds is determined weekly, and at the option of the University may be converted to a fixed rate. The University’s obligation under the Loan Agreement is an unsecured, unconditional obligation. The variable interest rates on the bonds were 0.22% for the Subseries A and at 0.17% for the Subseries B at June 30, 2009.

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

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

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

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

(8) Interest Rate Swaps

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

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

At June 30, 2009, the fair value of the interest rate swaps for WFUHS was a liability of $20,418 and is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rates swaps for the year ended June 30, 2009 was a loss of $12,206 and is included in the accompanying consolidated statement of activities.

In November 2004, the Reynolda Campus executed a floating-to-fixed rate swap with two banks on two separate, identical swap agreements, effective December 21, 2004 to effectively fix the variable cost of the Series 2004B bonds. During fiscal year 2009, the Reynolda Campus received 68% of the one-month LIBOR index and made payments at a fixed rate of 3.02%, settling with both counterparties on a monthly basis. The swap's original notional amount of $30,160 was split evenly between the two counterparties. In May 2009, both swap agreements were unwound at a total cost of $1,524. The change in fair value of the interest rate swaps for the year ended June 30, 2009 was a loss of $1,313 and is included in the accompanying consolidated statement of activities. The Reynolda Campus supplemented these swaps with the April 2007 forward-starting floating-to-fixed rate swap to continue protection against the risk of 2004B bond interest rate changes. The replacement swap is based on a notional amount of $50,000, effective October 1, 2008 and maturing January 1, 2038. Under the terms of the agreement, the University will receive 67% of the one-month LIBOR index and will make payments at a fixed rate of 3.61%, settling monthly. At June 30, 2009, the fair value of the swap was a liability of $7,552, which is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rate swap for the year ended June 30, 2009 was a loss of $5,001 and is included in the accompanying consolidated statement of activities.

In November 2006, the Reynolda Campus executed a floating-to-fixed rate swap with a bank, effective November 6, 2006 to effectively fix the variable cost of the Series 2004A bonds. The Reynolda Campus receives 67% of the one-month LIBOR index and makes payments at a fixed rate of 3.38%, settling monthly. The swap had an original notional amount of $36,605 and amortizes to coincide with the amortization of the Series 2004A bonds. The swap expires January 1, 2020. At June 30, 2009, the fair value of the swap was a liability of $2,143, which is included in other liabilities and deferrals in the consolidated balance sheet. The change in fair value of the interest rate swap for the year ended June 30, 2009 was a loss of $1,172 and is included in the accompanying consolidated statement of activities.

(Continued)

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

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

(9) Retirement Plans

Substantially all employees of the University are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plans. Total contributions for the year ended June 30, 2009 were $8,729, $20,319, and $139 for the Reynolda Campus, WFUHS, and Reynolda House, respectively.

At June 30, 2009, the Reynolda Campus and WFUHS have accrued $1,692 and $3,531, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. This liability is included in other liabilities and deferrals in the consolidated balance sheet.

(10) Postretirement Benefits

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

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

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

The following table provides a reconciliation of the changes in each plan's benefit obligation, fair value of plan assets, and funded status for the year ended June 30, 2009:

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

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

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

(Continued)

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

The net loss and prior service credit for the defined postretirement benefits plans that will be amortized from accumulated nonoperating income into net periodic benefit cost over the next fiscal year for the Reynolda Campus and WFUHS are $48 and $1,500, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2009 was 6.25%. The discount rate reflects the current yield curve results as of June 30, 2009. For management purposes, a 9.5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for the first year, and a 4.5% rate was assumed as the ultimate rate. The expected healthcare costs trend for the post-65 assumed an annual rate of 3.5%. The expected return assumed on plan assets for WFUHS is 8%. The rate is reviewed annually and adjusted as appropriate to reflect changes in the expected market performance of the investments.

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

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

	1% increase	1% decrease
Effect on total service and interest cost components of net periodic benefit cost	$ 147	(122)
Effect on postretirement benefit obligation	1,005	(853)

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

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

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

(Continued)

(11) Net Assets

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

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

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

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

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

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

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

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

(12) Related-Party Transactions

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

During the year ended June 30, 2009, $64,059 was received from the Hospital for reimbursement of services provided or expenses incurred by WFUHS on behalf of the Hospital. Such services or expenses include physician salaries, facility expenses, library expenses, printing services, laboratory services and materials. Accounts receivable at June 30, 2009 include $377 due from the Hospital for such items. During the year ended June 30, 2009, $51,835 was paid to the Hospital for reimbursement of services provided or expenses incurred by the Hospital on behalf of WFUHS. Such services or expenses include purchased materials, computer services, telephone service, insurance costs, and certain facility expenses. Accounts payable and accruals at June 30, 2009 include $1,266 due to the Hospital for such items.

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

(13) Contingencies and Other Commitments

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

		Reynolda Campus	WFUHS	Total
Year ending June 30:				
2010	$	7,963	3,078	11,041
2011		7,683	2,841	10,524
2012		7,395	2,743	10,138
2013		4,583	661	5,244
2014		3,120	212	3,332
In total thereafter		7,735	151	7,886
	$	38,479	9,686	48,165

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

Grant awards not yet funded and for which services have not yet been performed are not recorded until services have been performed. At June 30, 2009, such grant awards amounted to $6,590 and $248,649 for the Reynolda Campus and WFUHS, respectively.

The estimated cost to complete construction in progress at June 30, 2009 is $36,743 and $16,701 for the Reynolda Campus and WFUHS, respectively.

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

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

(14) Professional Liability Insurance

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

(Continued)

(15) Fair Values of Assets and Liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

(16) Endowment

Effective July 1, 2008, the University adopted the provisions of FASB Staff Position 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP 117-1). FSP 117-1 provides guidance on the net asset classification of donor restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

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

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

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

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

The University has adopted investment and spending policies for endowment assets that support the objective of providing a sustainable and increasing level of endowment income distribution to support the University's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment exclusive of gift additions. The University's primary investment objective is to maximize total return within reasonable and prudent levels or risk while maintaining sufficient liquidity to meet disbursement needs and ensure preservation of capital.

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy, the objective of which is to achieve a return consisting of a combination of current income and capital appreciation, without regard to an emphasis on either, recognizing that changes in market conditions and interest rates will result in varying strategies in an attempt to optimize results. The endowment portfolio is diversified among various net asset classes and strategies to help reduce risk.

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

(Continued)

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

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

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

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

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

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

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

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2009

Federal and state grantors/pass-through grantors/agencies, or cluster title	CFDA number	Expenditures
Federal award expenditures:		
Research and Development Cluster:		
Wake Forest University Health Sciences:		
U.S. Department of Health and Human Services (DHHS):		
National Institutes of Health	93.RD	$ 109,998,316
ARRA-National Institutes of Health	93.701	56,238
Agency for Healthcare Research and Quality	93.RD	56,881
Center for Disease Control and Prevention	93.RD	2,469,425
Health Resources and Services Administration	93.RD	783,549
DHHS pass-through programs from:		
Albert Einstein College of Medicine	93.RD	197,686
Baylor College of Medicine	93.RD	184,523
Baylor University	93.RD	79,182
Boston University	93.RD	13,929
Cancer and Leukemia Group B Foundation	93.RD	252,468
Case Western Reserve University	93.RD	31,282
Cedars-Sinai Medical Center	93.RD	31,421
Children’s Hospital, Boston	93.RD	45,349
Children’s Hospital, Cincinnati	93.RD	67,312
Children’s Oncology Group	93.RD	128,064
Clemson University	93.RD	17,224
Columbia University	93.RD	5,815
Davidson College	93.RD	103,248
Duke University Clinical Research Institute	93.RD	31,849
Duke University	93.RD	1,470,597
Fred Hutchinson Cancer Research Center	93.RD	455
George Washington University	93.RD	221,352
Georgetown University	93.RD	417
Georgia State University	93.RD	56,658
Gynecologic Oncology Group	93.RD	124,182
Harvard University	93.RD	239,446
Health Partners Research Foundation	93.RD	5,361
Jackson State University	93.RD	735,608
Jaeb Center for Health Research	93.RD	45,761
John Wayne Cancer Institute	93.RD	6,894
Johns Hopkins University	93.RD	648,043
Massachusetts General Hospital	93.RD	40,287
Mayo Clinic	93.RD	57,197
Mayo Foundation for Medical Education	93.RD	241
Metrolina Aids Project, Inc.	93.RD	43,270
Mt. Sinai School of Medicine	93.RD	300
National Jewish Health	93.RD	46,021
National Marrow Donor Program	93.RD	25,686
New England Research Institute	93.RD	2,715
North Carolina Central University	93.RD	26,856
Northeast Center for Agricultural Health	93.RD	60
Northwestern University	93.RD	312,864
Ohio State University	93.RD	125,759
Pennsylvania State University	93.RD	222,204
Rehabilitation Institute of Chicago	93.RD	25,176

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2009

Federal and state grantors/pass-through grantors/agencies, or cluster title	CFDA number	Expenditures
Renal Research Institute	93.RD	$ 109,402
Rush Presbyterian-St. Luke's Medical Center	93.RD	8,136
Southwest Oncology Group	93.RD	213
Stanford University	93.RD	92,270
Temple University School of Medicine	93.RD	26,608
Texas A&M University	93.RD	94,412
University of Alabama – Birmingham	93.RD	114,603
University of California at Irvine	93.RD	39,044
University of California at Los Angeles	93.RD	254,377
University of California at San Diego	93.RD	184,856
University of California at San Francisco	93.RD	192,857
University of Chicago	93.RD	36,267
University of Cincinnati Medical Center	93.RD	87,612
University of Colorado	93.RD	341,397
University of Florida	93.RD	162,117
University of Hawaii	93.RD	5,847
University of Illinois at Chicago	93.RD	6,282
University of Iowa	93.RD	35,326
University of Maryland	93.RD	42,898
University of Medicine and Dentistry of New Jersey	93.RD	96,017
University of Miami	93.RD	53,832
University of Michigan	93.RD	72,661
University of Minnesota	93.RD	18,786
University of North Carolina at Greensboro	93.RD	17,898
University of North Carolina at Chapel Hill	93.RD	1,295,773
University of Oklahoma Health Sciences	93.RD	908,265
University of Pennsylvania	93.RD	260,088
University of Pittsburgh	93.RD	680,127
University of Rochester	93.RD	18,925
University of South Alabama-Mobile	93.RD	16,129
University of South Dakota	93.RD	39,116
University of South Florida	93.RD	975
University of Texas – San Antonio	93.RD	7,073
University of Toledo	93.RD	5,397
University of Utah	93.RD	6,013
University of Virginia	93.RD	7,088,921
University of Washington	93.RD	266,915
University of Wisconsin-Madison	93.RD	25,328
Vanderbilt University	93.RD	77,563
Virginia Polytechnic Institute and State University	93.RD	184,681
Washington University – St. Louis	93.RD	107,138
Winston-Salem State University	93.RD	46,203
Wright State University	93.RD	32,005
Yale University	93.RD	189,120
Total U.S. Department of Health and Human Services		132,386,644

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2009

Federal and state grantors/pass-through grantors/agencies, or cluster title	**CFDA number**	**Expenditures**
U.S. Department of Defense (DOD):		
Defense Advance Research Project	12.RD	$ 32,210
Office of Naval Research	12.RD	86,978
U.S. Army	12.RD	2,410,387
DOD pass-through programs from:		
University of California at San Diego	12.RD	39,392
University of Pittsburgh	12.RD	25,031
Virginia Polytechnic Institute and State University	12.RD	240,625
Total U.S. Department of Defense		2,834,623
U.S. Department of Justice:		
National Institute of Justice	16.RD	155,597
Office of Juvenile Justice and Delinquency Prevention	16.RD	297,196
Total U.S. Department of Justice		452,793
U.S. Department of Agriculture	10.RD	202,169
U.S. Department of Energy	81.RD	60,997
U.S. Department of State	19.RD	1,440
U.S. Department of Transportation (DOT)	20.RD	201,038
DOT pass-through program from Battelle Corp.	20.RD	33,939
U.S. Department of Veterans Affairs	64.RD	305,413
Environmental Protection Agency (EPA)	66.RD	128,442
EPA pass-through program from University of Washington	66.RD	26,930
National Aeronautics and Space Administration (NASA)	43.RD	20,427
NASA pass-through program from National Inst. of Aerospace	43.RD	7,206
National Science Foundation (NSF)	47.RD	234,381
NSF pass-through program from University of Southern California	47.RD	80,866
Nuclear Regulatory Commission pass-through program from Duke University	77.RD	11,856
Subtotal – Wake Forest University Health Sciences		136,989,164
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
U.S. Department of Health and Human Services:		
National Institutes of Health	93.RD	2,272,358
U.S. Department of Defense:		
U.S. Army	12.RD	116,449
U.S. Air Force	12.RD	(35,141)
Total U.S. Department of Defense		81,308
National Science Foundation	47.RD	2,138,036
U.S. Department of Agriculture	10.RD	136,954
U.S. Department of State	19.RD	424,670
U.S. Department of Homeland Security	97.RD	42,065
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		5,095,391
Total Research and Development Cluster		142,084,555

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2009

Federal and state grantors/pass-through grantors/agencies, or cluster title	**CFDA number**	**Expenditures**
Student Financial Aid Cluster:		
Wake Forest University Health Sciences:		
U.S. Department of Education:		
Federal Family Education Loan Program	84.032	$ 17,828,228
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
U.S. Department of Education:		
Federal Supplemental Educational Opportunity Grant	84.007	298,433
Federal Family Education Loan Program	84.032	41,095,123
Federal Work Study Program	84.033	1,304,291
Academic Competitiveness Grant	84.375	104,475
National Science and Mathematics Access to Retain Talent Grant	84.376	36,000
Federal Perkins Loan Program	84.038	2,778,166
Federal Pell Grant Program	84.063	1,096,245
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		46,712,733
Total Student Financial Aid Cluster		64,540,961
Other Programs:		
Wake Forest University Health Sciences:		
U.S. Department of Education	84.116	37,991
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
U.S. Department of Defense U.S. Army Reserve Officers Training Core	12.ROTC	1,026,012
Institute of Museum and Library Sciences	45.301	24,368
National Endowment for the Arts	45.024	25,216
Subtotal – Colleges of Arts and Sciences, Schools of Law, Management, and Divinity		1,075,596
Total other programs		1,113,587
Total Federal award expenditures		207,739,103

(Continued)

WAKE FOREST UNIVERSITY

Schedule of Expenditures of Federal and State Awards

Year ended June 30, 2009

Federal and state grantors/pass-through grantors/agencies, or cluster title	CFDA number	Expenditures
State award expenditures:		
Wake Forest University Health Sciences:		
North Carolina Department of Health and Human Services		$ 7,893,517
North Carolina Aid to Medical Education		1,376,000
Board of Governors		526,735
State of North Carolina pass-through funds from:		
University of North Carolina at Chapel Hill		8,111,144
North Carolina Biotechnology Center		264,786
North Carolina Health and Wellness Trust Fund		92,184
Central Carolina Health Network		237,913
Northwest Community Care		62,841
Other		19,909
Subtotal – Wake Forest University Health Sciences		18,585,029
College of Arts and Sciences, Schools of Law, Management, and Divinity:		
North Carolina Legislative Tuition Grant		2,096,493
North Carolina State Contractual Scholarship Fund		1,483,650
North Carolina Student Incentive Grant		11,200
North Carolina Education Lottery Scholarship		69,495
Education Access Rewards North Carolina Scholars Fund		98,000
Subtotal – College of Arts and Sciences, Schools of Law, Management, and Divinity		3,758,838
Total State award expenditures		22,343,867
Total Federal and State award expenditures		$ 230,082,970

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 (the schedule) 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 the 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 University's consolidated 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, 2009 were based on predetermined rates negotiated with the University's cognizant federal agency, the U.S. 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, 2009 are summarized as follows:

Federal:		
Research and development	$	32,446,424
Student financial aid		256,920
Other		58,971
State		187,892
	$	32,950,207

(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 consolidated financial statements. The balances of loans outstanding under the Federal Perkins, HPSL, and PCL programs were $20,215,098, $16,591, and $118,062, respectively, as of June 30, 2009.

The University advanced the following amounts of new loans under the Federal Family Education Loan Program to students of the University during the year ended June 30, 3009:

Federal Family Education Loan Program:		
Federal subsidized Stafford loans	$	14,967,124
Federal unsubsidized Stafford loans		22,665,219
Federal PLUS loans		21,291,008
Total	$	58,923,351

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 consolidated 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, 2009.

(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	$	20,773,224
Other		14,580
	$	20,787,804

(6) Summary of Federal Funds Transfer

During the year ended June 30, 2009, the University transferred $325,000 of Federal Work Study Program funds to the Federal Supplemental Educational Opportunity Grant Program.

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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, 2009, and have issued our report thereon dated October 8, 2009. 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 deficiency in internal control over financial reporting 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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*.

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 8, 2009

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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, 2009. 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 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, 2009.

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.

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.

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 8, 2009

WAKE FOREST UNIVERSITY

Schedule of Findings and Questioned Costs

Year ending June 30, 2009

(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: **No**

(c) Noncompliance which is material to the financial statements: **No**

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

Material weaknesses: **No**

(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 510(a) of OMB Circular A-133: **No**

(g) Major program: **Research and Development**

(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 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

None