KPMG

WAKE FOREST UNIVERSITY

Consolidated Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Wake Forest University:

We have audited the accompanying consolidated financial statements of Wake Forest University (the University), which comprise the consolidated balance sheet as of June 30, 2020, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the University's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wake Forest University as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the University adopted Accounting Standards Update ASU 2016-02 *Leases,* Topic 842, and ASU 2016-18 *Restricted Cash*, during the year ended June 30, 2020. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited the University's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 21, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived before the adjustments to adopt ASU 2016-18, *Restricted Cash*. As part of our audit of the 2020 consolidated financial statements, we also audited the adjustments described in Note 1(b) that were applied to adopt ASU 2016-18, *Restricted Cash*, retrospectively in the 2020 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included in the consolidated balance sheet, statement of activities, statement of cash flows, and the accompanying notes related to the College of Arts and Sciences, Schools of Law, Business, and Divinity, and Reynolda House, Inc. (collectively, Reynolda Campus); and Wake Forest University Health Sciences (WFUHS) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Greensboro, North Carolina
October 21, 2020

WAKE FOREST UNIVERSITY

Consolidated Balance Sheet

June 30, 2020
(with summarized comparative financial information as of June 30, 2019)

(Dollars in thousands)

		Supplementary information			
		Reynolda Campus	WFUHS	2020	2019
Assets:					
Cash and cash equivalents	$	59,969	106,870	166,839	64,064
Accounts receivable, net		28,084	95,802	123,886	126,481
Patient receivables		—	63,317	63,317	83,036
Contributions receivable, net		116,808	10,045	126,853	118,868
Notes receivable, net		15,818	945	16,763	19,892
Investments		1,205,060	787,527	1,992,587	1,990,670
Direct investments in real estate		12,863	—	12,863	14,515
Other assets		10,807	22,199	33,006	38,034
Deposit with bond trustee		8,609	—	8,609	17,451
Right-of-use assets-operating		31,329	176,894	208,223	—
Land, buildings, and equipment, net		706,458	344,639	1,051,097	1,060,534
Total Assets	$	2,195,805	1,608,238	3,804,043	3,533,545
Liabilities:					
Accounts payable and accruals	$	36,165	219,671	255,836	228,190
Other liabilities and deferrals		82,777	157,022	239,799	228,675
Annuities payable		16,460	2,485	18,945	20,636
Operating lease obligations		30,936	181,061	211,997	—
Notes payable and finance leases		113,251	61,491	174,742	134,002
Bonds payable		405,452	140,971	546,423	560,221
Postretirement benefits		13,624	26,162	39,786	43,424
Government grants refundable		4,533	—	4,533	8,138
Total Liabilities		703,198	788,863	1,492,061	1,223,286
Net Assets:					
Without donor restrictions		686,542	576,317	1,262,859	1,268,585
Noncontrolling interest in affiliate		169	550	719	297
With donor restrictions		805,896	242,508	1,048,404	1,041,377
Total Net Assets		1,492,607	819,375	2,311,982	2,310,259
Total Liabilities and Net Assets	$	2,195,805	1,608,238	3,804,043	3,533,545

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2020
(with summarized comparative financial information for the year ended June 30, 2019)

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	2020	2019
Operating revenues:					
Student tuition and fees	$	301,648	—	301,648	284,680
Government grants and contracts		201,194	—	201,194	197,819
Private grants and contracts		18,949	26,717	45,666	32,013
Contributions		29,663	18,536	48,199	57,120
Investment return designated for current operations		51,211	24,589	75,800	80,485
Patient revenue		621,338	—	621,338	601,476
Other		277,991	—	277,991	244,156
Sales and services of auxiliary enterprises		91,344	—	91,344	101,857
Net assets released from restrictions		73,603	(73,603)	—	—
Total operating revenues		1,666,941	(3,761)	1,663,180	1,599,606
Operating expenses:					
Salaries and wages		894,835	—	894,835	839,601
Employee benefits		189,808	—	189,808	176,296
Student aid		11,840	—	11,840	11,611
Services		231,968	—	231,968	236,594
Clinical and laboratory supplies		86,674	—	86,674	73,013
Other operating expenses		136,323	—	136,323	135,408
Depreciation and amortization		88,465	—	88,465	84,081
Interest on debt		23,535	—	23,535	22,346
Total operating expenses		1,663,448	—	1,663,448	1,578,950
Operating excess (deficiency)		3,493	(3,761)	(268)	20,656
Nonoperating activities:					
Restricted contributions		—	46,865	46,865	55,714
Net assets released from restriction		9,016	(9,016)	—	—
Investment return in excess of (less than) amounts designated for current operations		(33,602)	(26,368)	(59,970)	344
Actuarial losses on annuity obligations		—	(243)	(243)	(1,325)
Unrealized (losses) gains on interest rate swaps		(10,181)	—	(10,181)	(6,080)
Postretirement related changes other than service costs		2,127	—	2,127	5,942
Gains from affiliates, equity method		22,239	—	22,239	11,896
Other, net		1,182	(450)	732	5,523
Change from nonoperating activities		(9,219)	10,788	1,569	72,014
Change in net assets		(5,726)	7,027	1,301	92,670
Change in net assets attributable to noncontrolling interest		422	—	422	172
Adjusted net assets at beginning of year		1,268,882	1,041,377	2,310,259	2,217,417
Net assets at end of year	$	1,263,578	1,048,404	2,311,982	2,310,259

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

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

Year ended June 30, 2020

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Student tuition and fees	$	262,932	—	262,932
Government grants and contracts		8,764	—	8,764
Private grants and contracts		3,805	—	3,805
Contributions		23,586	12,667	36,253
Investment return designated for current operations		28,209	24,659	52,868
Other		9,226	—	9,226
Sales and services of auxiliary enterprises		91,344	—	91,344
Net assets released from restrictions		38,587	(38,587)	—
Total operating revenues		466,453	(1,261)	465,192
Operating expenses:				
Salaries and wages		218,680	—	218,680
Employee benefits		57,540	—	57,540
Student aid		3,505	—	3,505
Services		63,684	—	63,684
Other operating expenses		52,985	—	52,985
Depreciation and amortization		51,311	—	51,311
Interest on debt		15,779	—	15,779
Total operating expenses		463,484	—	463,484
Operating excess (deficiency)		2,969	(1,261)	1,708
Nonoperating activities:				
Restricted contributions		—	40,225	40,225
Net assets released from restriction		9,016	(9,016)	—
Investment return in excess of (less than) amounts designated for current operations		(18,888)	(25,238)	(44,126)
Actuarial losses on annuity obligations		—	(413)	(413)
Unrealized losses on interest rate swaps		(8,862)	—	(8,862)
Postretirement related changes other than service costs		2,551	—	2,551
Other, net		(703)	(462)	(1,165)
Change from nonoperating activities		(16,886)	5,096	(11,790)
Change in net assets		(13,917)	3,835	(10,082)
Change in net assets attributable to noncontrolling interest		169	—	169
Adjusted net assets at beginning of year		700,459	802,061	1,502,520
Net assets at end of year	$	686,711	805,896	1,492,607

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

Wake Forest University Health Sciences
(Supplementary Information)

Year ended June 30, 2020

(Dollars in thousands)

	Without donor restrictions	With donor restrictions	Total
Operating revenues:			
Student tuition and fees	$ 38,716	—	38,716
Government grants and contracts	192,430	—	192,430
Private grants and contracts	15,144	26,717	41,861
Contributions	6,077	5,869	11,946
Investment return designated for current operations	23,002	(70)	22,932
Patient service revenue	621,338	—	621,338
Other	268,765	—	268,765
Net assets released from restrictions	35,016	(35,016)	—
Total operating revenues	1,200,488	(2,500)	1,197,988
Operating expenses:			
Salaries and wages	676,155	—	676,155
Employee benefits	132,268	—	132,268
Student aid	8,335	—	8,335
Services	168,284	—	168,284
Clinical and laboratory supplies	86,674	—	86,674
Other operating expenses	83,338	—	83,338
Depreciation and amortization	37,154	—	37,154
Interest on debt	7,756	—	7,756
Total operating expenses	1,199,964	—	1,199,964
Operating excess (deficiency)	524	(2,500)	(1,976)
Nonoperating activities:			
Restricted contributions	—	6,640	6,640
Investment return (less than) in excess of amounts designated for current operations	(14,714)	(1,130)	(15,844)
Actuarial gains on annuity obligations	—	170	170
Unrealized losses on interest rate swaps	(1,319)	—	(1,319)
Postretirement related changes other than service costs	(424)	—	(424)
Gain from affiliates, equity method	22,239	—	22,239
Other, net	1,885	12	1,897
Change from nonoperating activities	7,667	5,692	13,359
Change in net assets	8,191	3,192	11,383
Change in net assets attributable to noncontrolling interest	253	—	253
Adjusted net assets at beginning of year	568,423	239,316	807,739
Net assets at end of year	$ 576,867	242,508	819,375

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2020
(with summarized comparative financial information for the year ended June 30, 2019)

(Dollars in thousands)

	Supplementary information			
	Reynolda Campus	WFUHS	2020	2019
Cash flows from operating activities:				
Change in net assets	$ (9,913)	11,636	1,723	92,842
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation and amortization	51,311	37,154	88,465	84,081
Amortization of debt related costs	(969)	(1,137)	(2,106)	(1,690)
Amortization of right-of-use operating assets	(3,360)	(24,070)	(27,430)	—
Equity transfer to affiliate	—	—	—	3,991
Net depreciation (gains) on investments	7,916	(7,088)	828	(68,401)
Noncash gifts	(15)	—	(15)	(64)
Private gifts restricted for capital and long-term investment	(40,210)	(6,807)	(47,017)	(55,916)
Losses (gains) on disposals of property and equipment	6,110	(24)	6,086	676
Losses on impairment of property held for sale	—	—	—	(540)
Gains from equity method affiliates	—	(22,239)	(22,239)	(11,896)
Unrealized losses on interest rate swaps	8,862	1,319	10,181	6,080
Bad debt expense and change in allowance for contributions receivable	(2)	418	416	2,017
Changes in operating assets and liabilities:				
Accounts, contributions, and patient receivables	(7,920)	34,633	26,713	(2,782)
Contributions receivable	(4,546)	—	(4,546)	(7,128)
Notes receivable	—	(3)	(3)	(28,082)
Operating lease right-of-use assets, net	(27,969)	(152,825)	(180,794)	—
Other assets and other liabilities and deferrals	(3,119)	6,188	3,069	5,287
Accounts payable and accruals	17,928	41,943	59,871	10,976
Operating lease liabilities	30,936	181,061	211,997	—
Postretirement benefits	(1,674)	351	(1,323)	(3,981)
Annuities payable	(1,521)	—	(1,521)	1,239
Net cash provided by operating activities	21,845	100,510	122,355	26,709
Cash flows from investing activities:				
Purchases of land, buildings, and equipment	(91,913)	(23,202)	(115,115)	(154,683)
Proceeds from sale of land, buildings, and equipment	20	1	21	990
Disbursements of loans to students and other	(215)	—	(215)	(685)
Repayments of loans to students and other	3,096	—	3,096	3,067
Purchases of investments	(591,449)	(64,725)	(656,174)	(561,934)
Net proceeds from sales and maturities of investments	602,836	72,996	675,832	564,385
Equity transfer of affiliate	—	—	—	258
Net cash used in investing activities	(77,625)	(14,930)	(92,555)	(148,602)
Cash flows from financing activities:				
Change in government grants refundable	(3,605)	—	(3,605)	(84)
Proceeds from notes payable	45,951	5,010	50,961	5,360
Principal payments on notes payable	(2,318)	(2,115)	(4,433)	(41,730)
Proceeds from issuance of bonds payable	—	—	—	97,970
Premium on bond issuance	—	—	—	9,767
Payments to retire or defease bonds payable	(7,340)	(4,465)	(11,805)	(7,085)
Bond issuance costs	114	—	114	(816)
Proceeds from finance lease obligations	7,098	—	7,098	6,225
Payments on finance lease obligations	(11,025)	(1,862)	(12,887)	(2,959)
Proceeds from private gifts restricted for long-term investment	40,208	—	40,208	(1,780)
Other revenue restricted for long-term investment	935	6,807	7,742	55,978
Net cash provided by financing activities	70,018	3,375	73,393	120,846
Net increase (decrease) in cash, cash equivalents and restricted cash	14,238	88,955	103,193	(1,047)
Cash, cash equivalents and restricted cash at beginning of year	62,340	23,245	85,585	86,632
Cash, cash equivalents and restricted cash at end of year	$ 76,578	112,200	188,778	85,585
Cash and cash equivalents	$ 59,969	106,870	166,839	64,064
Restricted cash	16,609	5,330	21,939	21,521
Total cash, cash equivalents, and restricted cash	$ 76,578	112,200	188,778	85,585
Supplemental disclosures of cash flow information:				
Cash paid for interest, net of amounts capitalized	$ 16,554	8,667	25,221	21,798
Capital expenditures included in account payable	31,419	739	32,158	16,378
Refinancing of long-term debt	—	—	—	45,655
Operating cash flows from finance leases	67	1,846	1,913	—
Operating cash flows from operating leases	4,427	28,862	33,289	—
Financing cash flows from finance leases	(1,757)	(1,862)	(3,619)	—
Equity transfer from affiliate	—	—	—	10,417

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 Reynolda Campus and Wake Forest University Health Sciences (WFUHS), and all entities over which the University has control, including all of the subsidiaries of Reynolda Campus and WFUHS.

Reynolda Campus – includes the College of Arts and Sciences, Schools of Law, Business, and Divinity, and consolidating subsidiaries including: Verger Capital Management, LLC (VCM), and Reynolda House, Inc. (collectively, Reynolda Campus).

WFUHS - a wholly owned affiliate of the University, is a private coeducational, not for profit institution of higher education and research dedicated to medical and health education, healthcare, and biomedical research. Its wholly owned affiliates are the Dialysis Centers of Wake Forest University, Wake Forest Innovation Quarter Development Co., Wake Forest Innovation Quarter CDC, Wake Forest Innovation Quarter Management Co., WFIQ Holdings, LLC, WFIQ Holdings II, LLC, WFIQ Holdings III, LLC, Seed Stage Associates, LLC, Park IMP 1, LLC, BRF – A1, LLC, BRF Deck 1, LLC, BRF – A1a, LLC, Childress Institute for Pediatric Trauma, Wake Forest Emergency Providers, North District Owners Association, and RegenMed Development Organization.

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

The Integration Agreement created an integrated academic medical center that combines clinical care, education and research under a single management and debt structure referred to as Wake Forest Baptist (WFB), which is governed by WFUBMC. One of the nation's preeminent academic medical centers, WFB is an integrated healthcare system that operates over 50 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation, and dialysis centers. To ensure alignment across the organization, WFUHS and NCBH unrestricted operating income (deficiency) are shared equally between the entities. Although the entities will be operated to maximize the value at the total WFB level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the individual entity levels.

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

All significant intercompany balances and transactions have been eliminated in consolidation.

(b) *Recent Accounting Standards*

Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. generally accepted accounting principles (GAAP), which have terms of greater than 12 months. This ASU defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. This ASU retains a distinction between finance leases and operating leases. The result of retaining a distinction between finance leases and operating leases in the statement of activities and the statement of cash flows is largely unchanged from previous GAAP. The University adopted ASU 2016-02 on July 1, 2019 using a modified retrospective approach. The University did not reassess whether any existing or expired agreements contain leases, the lease classification for any expired or existing leases, and the initial direct costs for any expired or existing leases through election of the package of practical expedients permitted under the ASU. This ASU requires that the rights and obligations arising from the lease contracts, including existing and new arrangements, be recognized as assets and liabilities on the consolidated balance sheet, in addition to disclosures to help financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. Upon adoption, right-of-use assets were recorded by Reynolda Campus of $33,493 and WFUHS $197,121, respectively, and related lease obligations for the Reynolda Campus of $33,493 and $200,873, respectively, were recognized and are included in the consolidated statements of financial position. The guidance did not materially impact the University's results of operations.

In November 2016, FASB issued ASU 2016-18. *Restricted Cash* (Topic 958), which requires entities to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the consolidated statement of cash flows. ASU 2016-18 was effective for fiscal year 2020.

(c) *Basis of Presentation*

The consolidated financial statements have been prepared on the accrual basis in conformity with GAAP.

Net assets are reported based on the existence or absence of donor-imposed restrictions and serve as the foundation of the accompanying consolidated financial statements.

Accordingly, net assets of the University and changes therein are classified and reported as follows:

- *Net Assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization.

- *Net Assets with donor restrictions* – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the University and/or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity; generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless their use is limited by donor-imposed restrictions. Donor-restricted contributions are reported as increases in net assets with donor restrictions. Contributions which impose restrictions that are met in the same fiscal year they are received are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases, respectively, in net assets without donor restrictions 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 from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities. For gifts of long-lived assets, these releases of restrictions are treated as nonoperating.

(d) Effects of COVID-19 Pandemic on Operations

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. The outbreak of the disease has affected travel, commerce and financial markets globally, including in the United States. The continued spread of COVID-19 and its impact on social interaction, travel, economies and financial markets may adversely affect operations and financial condition, including, among other things, (i) the cost of operations, (ii) governmental and non-governmental funding, and (iii) financial markets impacting investments valuation and interest rates.

Reynolda Campus cancelled classes the week of March 16, 2020 and resumed remote instruction on March 23, 2020 and most students vacated the campus. The University granted refunds in fiscal year 2020 for certain fees, housing and dining services not provided after March 16, 2020. Students continued to meet their academic requirements for the remainder of the 2019 – 20 academic year. While some faculty and staff were working on-campus to ensure continuity of essential operations, most faculty and staff transitioned to remote work. In addition, the University offered online, blended, and in person courses for the fall semester of the 2020-21 academic year to support the social distancing requirements issued by governmental authorities. Given the uncertainty over the progression of the virus and governmental emergency directives, there is no timetable for the full return to in person instruction and normal campus operations.

WFUHS ceased elective surgeries during the period from mid-March 2020 to May 2020, resulting in significant unexpected revenue declines during that period.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided funding to the Department of Health and Human Services (DHHS) Public Health and Social Services Emergency Fund (Relief Fund), which provided funds to qualifying healthcare providers treating COVID-19 patients to replace lost revenues or reimburse for COVID-19 related costs. WFUHS received approximately

$16 million and recorded approximately $15 million of revenues from the Relief Fund within private grants and contracts revenue in fiscal year 2020 to replace lost revenues attributable to COVID-19. The unrecognized funds received were recorded in estimated third-party payer settlements liabilities within Other liabilities and deferrals in the consolidated balance sheet. These Relief Fund payments are not subject to repayment, provided WFUHS is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used to replace lost revenue attributable to COVID-19 related costs.

Additionally, DHHS Centers for Medicare and Medicaid Services (CMS) provided approximately $17 million of Medicare advance payments to WFUHS, which are recorded in estimated third-party payer settlement liabilities within Other liabilities and deferrals in the consolidated balance sheet; these advances will be recouped on remittances within one year of receipt.

The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education and healthcare landscape in general. While the financial impact on the University cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the University. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic, healthcare, and biomedical research missions.

(e) Operating Excess (Deficiency)

Revenues earned, expenses incurred, and returns made available for the University's operating purposes of teaching, research, patient care, and other programs and services are components of the operating excess or deficiency presented in the consolidated statement of activities. The University considers the following items to be nonoperating activities: restricted contributions for capital and long-term investment and the related net assets released from restriction, investment return in excess of amounts designated for current operations, actuarial gain or loss on annuity obligations, unrealized gain or loss on interest rate swaps, postretirement related changes other than service cost, gain or loss from affiliates (equity method), donor designation changes and other, net, including costs incurred related to a cloud computing arrangement.

(f) Fair Value Measurements

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The hierarchy requires the use of observable market data when available. The three levels of the fair value hierarchy are as follows:

Level 1 – Valuations for assets and liabilities traded in active exchange markets as of the reporting date. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities are determined through direct or indirect observations other than quoted market prices.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions.

Net asset value (NAV) – Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

In the event that changes in the inputs used in the fair value measurement of an asset or liability result in a transfer of the fair value measurement to a different categorization (e.g., from Level 3 to Level 2), such transfers between fair value categories are recognized at the end of the reporting period.

The carrying amounts of cash and cash equivalents (Level 1), patient receivables (Level 2), and accounts receivable (Level 2) approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying amounts of contributions receivable represent the present value of estimated future cash flows, which approximates fair value (Level 3). Investments (Levels 1-3, see note 10) and deposits with bond trustee (Level 1) are reported at fair value. 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 (Level 2) approximates carrying value.

The carrying amounts of accounts payable and other accruals (Level 2) approximate fair value because of the relatively short maturity of these financial instruments. Annuities payable (Level 2) are recorded at fair value using a single discount rate equivalent to the University's tax-exempt borrowing rate. The carrying amounts of notes and bonds payable (Level 2) with variable interest rates approximate their fair value because substantially all of these financial instruments bear interest at rates that approximate current market rates for borrowings with similar maturities and credit quality.

(g) Cash and Cash Equivalents

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

Cash and cash equivalents that are managed as part of the University's investments are reported within investments on the consolidated balance sheet and excluded from cash in the consolidated statements of cash flows as these funds are not used for operating needs.

(h) Contributions Receivable

Pledges that represent unconditional promises to give are recognized at fair value as contributions with donor restrictions in the period such promises are made by donors. Pledges are recorded after discounting, using rates ranging from 0.61%–1.43% in order to derive the present value of the future cash flows. 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.

(i) Notes Receivable

Notes receivable, which are recorded at face value, principally represent amounts due from students under Perkins and other U.S. government sponsored loan programs. A general allowance is made for uncollectible student loans after considering long-term collection experience and current trends. Other notes receivable are evaluated individually for impairment, with allowances based on management's expectations given facts and circumstances related to each note.

(j) Investments

The University's Board of Trustees created an asset management company, VCM, that provides research, advice, counsel and management with respect to the University's primary investment portfolio. VCM manages the investment funds of Verger Capital Fund, LLC (Master Fund), Verger Fund I, LLC (Verger Fund I), and Verger Fund II, LLC (Verger Fund II). The Master Fund is controlled by the University and provides investment services for Verger Fund I and Verger Fund II. Verger Fund I was created to hold the Reynolda Campus long-term endowment pool and Verger Fund II was created to hold the WFUHS and Reynolda House long-term endowment pools.

Certain investments, however, are held in specific instruments outside of VCM to comply with donor restrictions or other considerations.

Valuation – Investments are recorded at fair value in the consolidated balance sheet. Investments in readily marketable debt and equity securities are stated at their fair values, which are determined based on quoted market prices. For shares in mutual funds, the University considers fair value based on share prices reported by the funds as of the last business day of the fiscal year. Investments in private equity and absolute return funds are generally reported at the net asset value (NAV) reported by fund managers and these values are reviewed and evaluated by the University's investment management company. Unless it is probable that all or a portion of the investment will be sold for an amount other than NAV, the University has concluded, as a practical expedient, that the NAV approximates fair value. Additionally, the University's interest in both Verger Fund I and Verger Fund II are included at NAV in investments on the consolidated balance sheet. Investments in joint ventures are accounted for using the equity method.

Risks – Investments are exposed to several risks, including interest rate, currency, market and credit risks. Due to the level of risk associated with certain investments, it is at least possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the University's consolidated financial statements.

Reporting – Investment transactions are accounted for on a trade date basis. Short and Intermediate term investment income is reported as investment return included in operating revenues and realized and unrealized gains (losses) are reported as nonoperating revenues. Long-term investment spending rate distribution (see Note 9) is reported as operating revenues and any excess (deficiency) of income and realized and unrealized gains (losses) earned on

(Continued)

investments above (below) spending rate, including split-interest agreements are reported as nonoperating revenues. Investment management fees are netted against investment return.

(k) Investments in Real Estate

Investments in real estate are primarily comprised of rental properties of the University and are valued at the lower of net book value or market. 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, based on periodic external appraisals.

(l) Interests in Perpetual Trusts Held by Others and 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 and charitable gift annuities. Assets held in these trusts are stated at fair value and are included in investments. Contribution revenue is recognized at the dates the trusts are established. The University recognizes the change in value of split-interest agreements according to the fair value of assets that are associated with each trust and recalculates the liability for the present value of annuity obligations. Any change in fair value is recognized in the consolidated statement of activities.

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

(m) Other Assets

Other assets are primarily comprised of prepaid expenses, intangible assets, deferred expenses, and inventories. Inventories are valued at the lower of average cost or net realizable value.

(n) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair value on the date received for donated items. Depreciation is calculated using the straight-line method over the estimated useful life of each class or component of depreciable asset. Estimated lives range from 3 to 60 years. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of land, buildings, and equipment are included in the consolidated statement of activities. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing these assets.

(o) Impairment of Long-Lived Assets

The University periodically assesses the realizability of its long-lived assets and evaluates such assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. For assets to be held, impairment is determined to exist if estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount. The University recognizes an impairment charge when the fair value of the asset or group of assets is less than the carrying value.

(p) Asset Retirement Obligations

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

(q) Leases

The University has operating and finance leases for real estate and equipment. The University determines if an arrangement is a lease at inception. The University has both leases under which it is obligated as a lessee and leases for which it is a lessor. Operating leases as a lessee are included in right-of-use assets-operating and operating lease obligations in the consolidated balance sheet. Finance leases as a lessee are included in land, building, and equipment, net, notes payable and finances leases obligations in the consolidated balance sheet.

Right-of-use assets represent the University's right to use an underlying asset for the lease term. Lease obligations represent the University's liability to make lease payments arising from the lease. Operating and finance lease right-of-use assets and related obligations are recognized at commencement date based on the net present value of lease payments over the lease term discounted using an appropriate incremental borrowing rate. As most of the University's leases do not provide an implicit rate, the University uses its incremental borrowing rate which is based on the information available at commencement date in determining the present value of lease payments. The University considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. The value of an option to extend or terminate a lease is reflected to the extent it is reasonably certain management will exercise the option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Interest expense is recognized as a component of the lease payment for finance leases.

Rental income arising from operating leases as a lessor is included in operating revenue in sales and services of auxiliary enterprises in the consolidated statement of activities.

(r) Derivative Instruments

The University holds certain interest rate swap agreements to manage the fixed/variable mix of its debt portfolio. The notional amounts of the agreements dictate the payments between the counterparties based on agreed-upon rates as determined in the agreements. The University records all derivative instruments on the consolidated balance sheet at their respective fair values. All changes in fair value are reflected in the consolidated statement of activities. Cash payments and receipts are included in interest on debt.

(s) Postretirement Plans

The University records annual amounts relating to its postretirement plans based on calculations that incorporate various actuarial and other assumptions including discount rates, mortality, assumed rates of return, turnover rates, and healthcare cost trend rates. The University reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as a change in unrestricted net assets 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. The University records the service cost component of net benefit cost in the employee benefits expense line item and all other costs associated with net benefit costs are reflected in nonoperating activities.

(t) Government Grants Refundable

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

(u) Revenue Recognition

The University recognizes revenue based on either ASU 2014-09 (*Topic 606*) or ASU 2018-08 (*Topic 958*) as appropriate based on the underlying transactions within each revenue category.

The University's significant revenue recognition policies are as follows:

Student tuition and fees – Student tuition and fees for instruction and other educational services, net of scholarships and fellowships, are substantially billed and collected prior to the end of each semester. Revenues are earned and recognized over the course of each semester as education services are delivered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Student aid provided by the University is reflected as a reduction in student tuition and fee revenue up to the cost of attendance. Student financial aid in excess of the cost of attendance is reflected as a reduction in auxiliary revenue. Student aid does not include payments made to students for services rendered to the University.

Grants and contracts – Grants for basic research and other sponsored programs are generally subject to restrictions and conditions that must be met before the University is entitled to funding. Accordingly, advances from granting agencies are generally considered refundable in the unlikely event specified services are not performed. The University recognizes revenues on grants for basic research and other sponsored programs as the awards for such programs are expended, since expenditures in accordance with award terms typically results in the simultaneous release of restrictions and conditions imposed by the grantor. Revenue from exchange contracts for applied research is recognized as the University's contractual performance obligations are substantially met. Indirect cost recovery by the University on U.S. government grants and contracts is based upon a predetermined negotiated rate and is recorded as private grants and contracts revenue.

Contributions – Contributions, including unconditional promises to give, are recognized in the period the contributions or promise is made. Contributions of assets other than cash are recorded at their estimated fair value. Unconditional promises expected to be collected in future years are recorded at the present value of expected future cash flows discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Patient revenue – Patient revenue is reported at the amount that reflects the consideration to which WFUHS expects to be entitled for providing patient care. These amounts are due from patients, third party payers, and others, and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by WFUHS. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. WFUHS believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. WFUHS measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and WFUHS does not believe it is required to provide additional services to the patient. Generally, performance obligations satisfied at a point in time relate to outpatient services and pharmacy revenue.

Because all of its performance obligations relate to contracts with a duration of less than one year, WFUHS has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

WFUHS is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. WFUHS accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analyses, WFUHS has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

WFUHS has agreements with third party payers 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. For uninsured patients who do not qualify for charity care, WFUHS recognizes revenue based on established rates, subject to certain discounts and implicit price concessions as determined by WFUHS. WFUHS determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third party payers, discounts provided to uninsured patients in accordance with WFUHS's policy, and implicit price concessions provided to uninsured patients. Explicit price concessions are based on contractual agreements, discount policies, and historical experience. Implicit price concessions represent differences between amounts billed and the estimated consideration WFUHS expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third party payers are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. WFUHS estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in fiscal year 2020 or 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2020 and 2019 was not material to the consolidated statement of activities.

Under the Medicare and Medicaid programs, WFUHS is entitled to reimbursement for billed current procedural terminology codes at fee schedule rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue.

Charity care – WFUHS cares for patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. WFUHS does not pursue collection of amounts determined to qualify as charity care, and accordingly, such amounts are not recognized as revenue.

Sales and services of auxiliary enterprises – Sales and services of auxiliary enterprises primarily consistent of revenues from athletics, residence halls, dining services, parking, real estate, and retail stores, which furnish goods and services to students, faculty, staff, and in some cases, the general public. Fee charges are directly related to the cost of goods provided or services rendered and are recognized accordingly. Student aid provided by the University in excess of tuition is reflected as a reduction of sales and services of auxiliary enterprises.

Certain auxiliary revenues arise from contracts. Revenues from intercollegiate athletics ticket sales, media rights, licensing and royalties and other contracts are received and recognized concurrent with event-based obligations or the passage of contract terms, but typically within the fiscal year. However, season ticket proceeds received prior to the report date for events scheduled in the upcoming fiscal year are recorded as deferred revenue and recognized as the associated events are completed. Charges to students for campus residence, dining and laundry services are substantially billed and collected prior to the end of each semester. Associated revenues are earned and recognized over the course of each semester as these services are delivered. Accounts receivable from students are typically insignificant at the end of each fiscal year.

(v) Use of Estimates

The University prepares its consolidated financial statements in accordance with GAAP that requires management to make estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of right of use assets-operating, land, buildings, and equipment, the valuation of nonreadily marketable investments, investments in real estate, allowances for receivables, third-party payer settlements, and any other implicit price concessions, AROs, professional liabilities, operating lease obligations, interest rate swap obligations and obligations related to employee benefits. Actual results could differ from those estimates.

(w) 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. If applicable, unrelated business income is reported by all member and subsidiary organizations on IRS Form 990-T. Fiscal years ending on or after June 30, 2017 remain subject to examination by federal and state tax authorities. The University has evaluated uncertain tax positions for the year ended June 30, 2020, including a quantification of tax risks in areas such as unrelated business income and taxation of its for-profit subsidiaries. This evaluation did not identify any material items that effect the consolidated financial statements for the year ended June 30, 2020.

(x) Comparative Financial Information

The consolidated financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2019 from which this information was derived.

The restricted cash totaling $21,521 was added to the cash flow statement in the investing section for 2019 to reflect the retrospective application of ASU 2016-18.

(Dollars in thousands)

(2) Liquidity and Availability

Financial assets available for general expenditure within one year of June 30 are as follows:

		2020			
		Reynolda Campus	WFUHS	Total	2019
Cash and cash equivalents	$	59,969	106,870	166,839	64,064
Accounts receivable, net		28,084	86,302	114,386	109,454
Patient receivables		—	63,317	63,317	83,036
Investments available to be liquidated		255,205	349,993	605,198	612,798
Total financial assets available within one year	$	343,258	606,482	949,740	869,352

In addition to amounts included above, as part of the University's liquidity management, it invests cash in excess of daily requirements in short-term investments. To help manage unanticipated liquidity needs, Reynolda Campus and WFUHS have committed lines of credit with a total borrowing capacity of $100,000 and $300,000, respectively, at June 30, 2020 and $100,000 and $150,000 at June 30, 2019, respectively, which could be drawn upon. Additionally, Reynolda Campus and WFUHS have board-designated endowment funds of $221,229 and $289,446, respectively at June 30, 2020 and $234,852 and $296,761 at June 30, 2019, respectively. Although the University does not intend to spend from the board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts from the board-designated endowment funds could be made available, subject to certain lock-up provisions that reduce the total investments that could be made available if necessary.

(Dollars in thousands)

(3) Accounts Receivable

The following is an analysis of accounts receivable at June 30, 2020 and 2019:

	2020			2019
	Reynolda Campus	WFUHS	Total	Total
Accounts receivable	$ 24,270	59,379	83,649	79,407
Grants receivable	4,253	39,526	43,779	50,163
Total accounts receivable	28,523	98,905	127,428	129,570
Less allowance for bad debts	(439)	(3,103)	(3,542)	(3,089)
Accounts receivable, net	$ 28,084	95,802	123,886	126,481

(4) Student Services Revenue

Student services revenue consists of revenue for tuition and fees, housing, and dining. The revenue is determined based on published rates for such services less any institutional financial aid awarded by the University to qualifying students. The University's policy attributes aid first to tuition and fees and any excess to auxiliary services, for financial reporting purposes.

	2020						2019		
	Reynolda Campus			WFUHS					
	Published rates	Financial aid	Net revenue	Published rates	Financial aid	Net revenue	Published rates	Financial aid	Net revenue
Student tuition and fees	$ 368,471	(105,539)	262,932	55,909	(17,193)	38,716	403,933	(119,253)	284,680
Housing and dining	36,275	(14,441)	21,834	—	—	—	40,341	(13,123)	27,218
Total	$ 404,746	(119,980)	284,766	55,909	(17,193)	38,716	444,274	(132,376)	311,898

(Dollars in thousands)

(5) Patient Revenue and Patient Receivables

Patient revenue by major payer source, net of price concessions, is as follows for the years ended June 30:

	2020		2019	
Medicare and Medicaid	$ 279,222	45 %	260,231	43 %
Managed care and commercial insurance	301,457	48	297,060	49
Self-pay, insured	5,557	1	11,138	2
Self-pay, uninsured	6,788	1	3,805	1
Other	28,314	5	29,242	5
Patient revenue	$ 621,338	100 %	601,476	100 %

Concentration of Credit Risk

WFUHS grants credit without collateral to its patients, most of whom are insured under third-party payer agreements. The mix of receivables from patients and third-party payers was as follows as of June 30:

	2020	2019
Medicare and Medicaid	35 %	43 %
Managed care and commercial insurance	22	23
Self-pay, insured	16	14
Self-pay, uninsured	13	5
Other	14	15
	100 %	100 %

As a result of certain changes required by ASU 2014-09, the majority of WFUHS' provision for bad debts is recorded as a direct reduction to patient revenue instead of being presented as a separate line on the consolidated statement of activities.

WFUHS maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone and estimated costs incurred for services and supplies furnished under its charity care policy and equivalent service statistics. Costs incurred are estimated based on the ratio of total operating expenses to gross charges applied to charity care charges foregone. The amounts of direct and indirect costs incurred for services and supplies furnished under WFUHS' charity care policy totaled $13,257 and $19,871 in 2020 and 2019, respectively.

(Dollars in thousands)

(6) Contributions Receivable

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2020 and 2019:

		2020			
		Reynolda Campus	WFUHS	Total	2019 Total
One year or less	$	30,097	6,260	36,357	36,082
Between one and five years		53,771	4,186	57,957	50,480
More than five years		98,283	1,200	99,483	100,303
Contributions receivable, gross		182,151	11,646	193,797	186,865
Estimated uncollectible amounts		(7,350)	(1,306)	(8,656)	(8,737)
Discount to present value		(57,993)	(295)	(58,288)	(59,260)
Contributions receivable, net	$	116,808	10,045	126,853	118,868

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2020, and 2019, were discounted at rates ranging from 0.61% to 1.46% for Reynolda Campus, respectively, and 1.43% to 2.96% for WFUHS, respectively.

Contributions receivable, net for Reynolda Campus included significant pledges from a few donors and perpetual commitments from a foundation with a long-standing history of support to the University. These long-term unconditional promises to give represented 72% and 69% of Reynolda Campus' net contributions receivable as of June 30, 2020 and 2019, respectively.

(Dollars in thousands)

(7) Notes Receivable

The following is an analysis of notes receivable at June 30, 2020 and 2019:

	2020			
	Reynolda Campus	WFUHS	Total	2019 Total
Student loans receivable	$ 12,287	403	12,690	15,852
Other notes receivable	4,221	576	4,797	4,525
Total notes receivable	16,508	979	17,487	20,377
Less: estimated uncollectible amounts	(690)	(34)	(724)	(485)
Notes receivable, net	$ 15,818	945	16,763	19,892

The University makes uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. At June 30, 2020 and 2019, student loans receivable consisted of Federal loan programs of $11,735 and $14,258, respectively, and institutional loan programs of $552 and $605, respectively. The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $4,533 and $8,138 at June 30, 2020 and 2019, respectively, are ultimately refundable to the federal government and are reported as government grants refundable on the consolidated balance sheet. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the federal government. The Federal Perkins Loan Program expired on September 30, 2017, and the University has implemented procedures to wind-down the program. The University plans to maintain the Perkins outstanding loans and based on review of the prior collection history has recorded an allowance for uncollectible Perkins loan amounts of $458 and $206 as of June 30, 2020 and 2019, respectively. Allowances for uncollectible institutional student loans are based on prior collection experience and current economic factors, which, in management’s judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional student loan balances are written off only when they are deemed to be permanently uncollectible. At June 30, 2020 and 2019, the allowance for uncollectible institutional student loan amounts was $232 and $232, respectively.

(Dollars in thousands)

(8) Investments

Investments at June 30, 2020 and 2019 consist of the following:

		2020	2019
Short-term investments[a]	$	36,466	44,550
Absolute return[b]		1,336,945	1,327,170
Commodities[c]		10,428	12,700
Fixed income:[d]			
Domestic		259,508	261,373
International		1,727	4,524
Private equity[e]		1,135	1,166
Public equity:[f]			
Domestic		70,095	61,359
International		3,436	32,329
Real estate[g]		8,393	9,732
Beneficial interest in perpetual trusts and assets held by others[h]		28,423	29,925
Other[i]		236,031	205,842
Total investments	$	1,992,587	1,990,670

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

(b) Includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in: equity securities (common stocks), credit securities (both investment grade and noninvestment grade), commodities, and currencies. In aggregate, the expectation is that the returns of this segment should not be highly correlated to the broad equity market. Includes $1,323,525 and $1,288,064 of funds managed by Verger valued under the NAV practical expedient in fiscal years 2020 and 2019, respectively, whose underlying investments were comprised of 50.0% and 53.0% of equities, 11.9% and 12.3% of real assets, 20.5 and 19.4% of absolute return, and 17.6% and 15.5% fixed income in fiscal years 2020 and 2019, respectively.

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

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

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

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

[g] Includes illiquid investments in commercial real estate, residential real estate, and farmland held through limited partnership interests. While many of the investments are U.S. focused, some are more global. The category also includes real estate mutual funds and exchange traded funds and real estate held for sale.

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

[i] Includes primarily funds held under retirement and benefit plans and other miscellaneous investments.

In addition to the long-term pool, the University also manages other investment portfolios. Generally, these portfolios are invested in mutual funds, U.S. Treasury debt securities, and fixed income securities with daily liquidity. Each portfolio's asset allocation is customized based upon the return and risk objectives and distribution requirements of the portfolio.

(9) Endowment

The University's pooled endowment was established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Gift annuities, beneficial interest in perpetual trusts and assets held by others, and contributions receivable are not considered components of the endowment.

The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. As a result of this interpretation, the University's policy is to report as donor restricted net assets (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the board of trustees considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The University has adopted investment and spending policies for endowment assets that support the objectives of optimizing long-term returns and providing a sustainable level of endowment income distribution to support the University's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment. The University's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs. The endowment spending rate is calculated as a percentage of the average of the previous three-year semiannual moving market value per unit and subject to a 10% maximum annual growth or decline in per-unit spending. The endowment spending rate for the years ended June 30, 2020 and 2019, respectively were 4.85% and 5.0%, respectively, for Reynolda Campus, and 5.3% for WFUHS.

The portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. Under the direction of VCM the University diversifies its investments among various asset classes incorporating multiple strategies and investment advisors to help manage risk. Management and investment decisions are not made in isolation, but in the context of the portfolio of investments as a whole and as part of the overall investment strategy.

The University invests the majority of these assets in Verger Capital Fund. The University has established three individual unitized endowment pools for Reynolda Campus, Reynolda House, and WFUHS. The internal long-term pools are reported on a fair value basis, with each individual fund subscribing to or disposing of units based on the fair value per unit at the beginning of each quarter after which the transaction took place.

(Dollars in thousands)

Endowment net assets consist of the following at June 30, 2020 and 2019:

	2020			2019
	Without donor restriction	With donor restriction	Total	Total
Reynolda Campus:				
Donor-restricted endowment funds:				
Historical Value	$ —	448,103	448,103	383,713
Appreciation	—	190,284	190,284	255,942
Total donor-restricted endowment funds	—	638,387	638,387	639,655
Board-designated endowment funds	221,229	—	221,229	234,852
Underwater endowments	—	(10,583)	(10,583)	(6,071)
Total endowment net assets	$ 221,229	627,804	849,033	868,436
WFUHS:				
Donor-restricted endowment funds:				
Historical Value	$ —	164,193	164,193	157,627
Appreciation	—	25,655	25,655	31,634
Total donor-restricted endowment funds	—	189,848	189,848	189,261
Board-designated endowment funds	289,446	—	289,446	296,761
Underwater endowments	—	(2,806)	(2,806)	(1,567)
Other non-pooled endowment funds	2,330	22,336	24,666	22,507
Total endowment net assets	$ 291,776	209,378	501,154	506,962

(Dollars in thousands)

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

		2020			
		Without donor restriction	**With donor restriction**	**Total**	**2019 Total**
Reynolda Campus:					
Endowment, beginning of year	$	234,852	633,584	868,436	833,860
Investment returns, net		(4,229)	878	(3,351)	35,011
Contributions		672	20,765	21,437	37,560
Transfers		—	—	—	878
Appropriation for expenditure		(10,066)	(27,423)	(37,489)	(38,873)
Endowment, end of year	$	221,229	627,804	849,033	868,436
WFUHS:					
Endowment, beginning of year	$	298,836	208,126	506,962	505,143
Investment returns, net		3,201	1,922	5,123	19,558
Contributions		—	7,721	7,721	3,605
Transfers		4,660	—	4,660	839
Appropriation for expenditure		(14,921)	(8,391)	(23,312)	(22,183)
Endowment, end of year	$	291,776	209,378	501,154	506,962

A donor-restricted endowment fund is considered to be underwater if the fair value of the fund is less than either the original gift amount or the amount required by law. At times, the University may have individual donor-restricted endowment funds that are underwater. The University has a policy that permits spending from underwater funds depending on the degree to which the fund is underwater, unless specifically prohibited by the donor or relevant laws and regulations. At June 30, 2020, and 2019 the amount by which funds were underwater was calculated as follows:

		2020			
		Reynolda Campus	**WFUHS**	**Total**	**2019 Total**
Aggregate original gift amount	$	246,982	39,138	286,120	142,520
Aggregate fair value		236,399	36,332	272,731	134,882
Aggregate deficiency	$	(10,583)	(2,806)	(13,389)	(7,638)

(Dollars in thousands)

The purpose of endowed net assets as of June 30, 2020 and 2019 are as follows:

	2020			
	Without donor restriction	With donor restriction	Total	2019 Total
Reynolda Campus:				
Instruction and research	$ 6,802	156,396	163,198	156,211
Student aid	14,891	431,965	446,856	449,216
Program support	199,536	39,443	238,979	263,009
Total endowment net assets	$ 221,229	627,804	849,033	868,436
WFUHS:				
Instruction and research	$ 30,203	66,535	96,738	96,636
Student aid	4,576	45,007	49,583	49,285
Healthcare services	10,620	802	11,422	11,886
Program support	246,377	97,034	343,411	349,155
Total endowment net assets	$ 291,776	209,378	501,154	506,962

(10) Fair Values of Financial Instruments

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

	2020				
	Level 1	Level 2	Level 3	NAV	Total
Financial assets:					
Cash and cash equivalents	$ 166,839	—	—	—	166,839
Investments:					
Short-term investments	36,466	—	—	—	36,466
Absolute return	13,420	—	—	1,323,525	1,336,945
Commodities	10,428	—	—	—	10,428
Fixed income:					
Domestic	259,508	—	—	—	259,508
International	1,727	—	—	—	1,727
Private equity	—	—	1,037	98	1,135
Public equity:					
Domestic	70,095	—	—	—	70,095
International	3,436	—	—	—	3,436
Real estate	7,727	—	—	666	8,393

(Dollars in thousands)

	2020					
		Level 1	Level 2	Level 3	NAV	Total
Beneficial interest in perpetual trusts and assets held by others	$	—	—	28,423	—	28,423
Other		3,599	90,197	—	142,235	236,031
Total assets	$	573,245	90,197	29,460	1,466,524	2,159,426
Financial liabilities:						
Other liabilities and deferrals:						
Employee benefits - nonrecurring	$	—	90,197	—	—	90,197
Interest rate swap agreements		—	32,385	—	—	32,385
Annuities payable		—	18,945	—	—	18,945
Total liabilities	$	—	141,527	—	—	141,527

	2019					
		Level 1	Level 2	Level 3	NAV	Total
Financial assets:						
Cash and cash equivalents	$	64,064	—	—	—	64,064
Investments:						
Short-term investments		44,550	—	—	—	44,550
Absolute return		39,106	—	—	1,288,064	1,327,170
Commodities		12,700	—	—	—	12,700
Fixed income:						
Domestic		261,373	—	—	—	261,373
International		4,524	—	—	—	4,524
Private equity		—	—	1,069	97	1,166
Public equity:						
Domestic		61,359	—	—	—	61,359
International		32,329	—	—	—	32,329
Real estate		9,152	—	—	580	9,732
Beneficial interest in perpetual trusts and assets held by others		—	—	29,925	—	29,925
Other		8,091	79,028	—	118,723	205,842
Total assets	$	537,248	79,028	30,994	1,407,464	2,054,734
Financial liabilities:						
Other liabilities and deferrals:						
Employee benefits - nonrecurring	$	—	65,844	—	—	65,844
Interest rate swap agreements		—	22,204	—	—	22,204
Annuities payable		—	20,636	—	—	20,636
Total liabilities	$	—	108,684	—	—	108,684

(Dollars in thousands)

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks or liquidity of each investment's underlying assets and liabilities. In general, for Level 2 and Level 3 investments, the University utilizes the investment manager to provide a valuation estimate based on disclosed techniques and processes, which have been reviewed for propriety and consistency with consideration given to type and investment strategy.

The University's policy is to recognize transfers into and out of Levels 1, 2, and 3 as of the end of the year or when a change in level becomes known. There were no transfers between Level 1 and Level 2 securities during the years ended June 30, 2020 or 2019. Transfers into and out of Level 3 are typically the result of a change in observation of significant valuation inputs required by various models.

Fair value for LIBOR-based interest rate swaps is determined using a relative price approach, by discounting the future expected cash flows at the market discount rate. For the variable leg of a swap, the expected cash flows are based on implied market forward rates for the appropriate underlying index. A credit value adjustment is applied to the total market value of the swap and quantifies the default risk of a counterparty using a default probability assumption based on the counterparty's credit default swap pricing at year-end.

Obligations under split-interest agreements reported in annuities payable, which approximates fair value, were discounted at a rate that is equivalent to the University's tax-exempt borrowing rate of 1.15% and 1.88% at June 30, 2020 and 2019, respectively.

The following tables present the reconciliation of Level 3 assets measured at fair value for the years ended June 30, 2020 and June 30, 2019, respectively. Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified as Level 3.

		Balances as of June 30, 2019	Total realized and unrealized (losses) gains	Purchases	Sales	Net transfers out of Level 3	June 30, 2020
Investments:							
Private equity	$	1,069	—	—	(32)	—	1,037
Beneficial interest in perpetual trusts and assets held by others		29,925	(1,000)	164	(666)	—	28,423
Total Level 3 investments	$	30,994	(1,000)	164	(698)	—	29,460

(Dollars in thousands)

	Balances as of June 30, 2018	Total realized and unrealized (losses) gains	Purchases	Sales	Net transfers out of Level 3	June 30, 2019
Investments:						
Private equity	$ 1,832	(3)	750	(33)	(1,477)	1,069
Real estate	5,678	—	—	(5,496)	(182)	—
Beneficial interest in perpetual trusts and assets held by others	29,614	848	249	(786)	—	29,925
Total Level 3 investments	$ 37,124	845	999	(6,315)	(1,659)	30,994

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

(Dollars in thousands)

As of June 30, 2020, redemption frequency and the corresponding notice period for all investments are as follows:

Category	Redemption frequency (in days) (if currently eligible)	Redemption notice period (in days)
Short-term investments	1 to 7 days	1 day
Absolute return	daily to >365	1 to 90 days
Commodities	1 to N/A	1 to N/A
Fixed income:		
Domestic	1 to 180 days	daily to monthly
International	N/A	N/A
Private equity	N/A	N/A
Public equity:		
Domestic	1 to 65 days	daily to quarterly
International	90 days	quarterly
Real estate	N/A	N/A
Beneficial interest in perpetual trusts and assets held by others	N/A	N/A
Other	N/A	N/A

(11) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2020 and 2019:

	2020			2019
	Reynolda Campus	WFUHS	Total	Total
Land	$ 41,451	111,015	152,466	150,021
Buildings and other improvements	949,168	463,823	1,412,991	1,332,418
Equipment and furnishings	159,040	277,134	436,174	420,252
Construction in progress	56,779	12,311	69,090	99,372
	1,206,438	864,283	2,070,721	2,002,063
Less accumulated depreciation	(499,980)	(519,644)	(1,019,624)	(941,529)
	$ 706,458	344,639	1,051,097	1,060,534

(Dollars in thousands)

Total depreciation expense on buildings, improvements, equipment, and furnishings was $88,465 and $84,081 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020, gross land, buildings, and equipment includes $54,453 associated with land, building and equipment finance leases.

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. Interest cost of $2,412 and $3,838 was capitalized in the years ended June 30, 2020 and 2019, respectively.

The liabilities associated with AROs for the years ended June 30, 2020 and 2019 were $6,330 and $6,705, respectively, for Reynolda Campus, and $2,686 and $2,680, respectively, for WFUHS. These liabilities are reported in other liabilities and deferrals on the accompanying consolidated balance sheet.

(12) Leases

The University has operating and finance leases for real estate and equipment. The University determines if an arrangement is a lease at the inception of the contract. The University elected to apply the short-term lease exception under ASU 2016-02; therefore, leases with an initial term of twelve months or less are not recorded on the consolidated balance sheet.

The University has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, July 1, 2019, the University elected the permitted practical expedients to not reassess the following: (1) whether any expired or existing contracts contain leases; (2) the lease classification for any expired or existing leases; and (3) initial direct costs for any existing leases.

The following table presents the components of the lease right-of-use assets and lease liabilities and their classification in the consolidated balance sheet at June 30, 2020.

Components of lease balances	Classification in consolidated balance sheet		WFU	WFUHS	Total
Assets:					
Operating lease assets	Right-of-use assets-operating	$	31,329	176,894	208,223
Finance lease assets	Land, buildings, and equipment, net		5,343	37,948	45,046
Total leased assets			36,672	214,842	253,269
Liabilities:					
Operating lease liabilities	Operating lease obligations		30,936	181,061	211,997
Finance lease liabilities	Notes payable and finance leases		5,837	39,964	45,801
Total lease liabilities		$	36,773	221,025	257,798

(Dollars in thousands)

Components of lease expense	Classification in consolidated statement of activities		WFU	WFUHS	Total
Operating lease expense	Other operating expenses	$	3,985	29,644	33,629
Finance lease expense:					
Amoritization of leased assets	Depreciation and amoritization		1,756	1,765	3,521
Interest on lease liabilities	Interest on debt		67	1,846	1,913
Total finance lease expense			1,823	3,611	5,434
Variable and short-term lease expense	Other operating expenses		—	2,209	2,209
Total lease expense		$	5,808	35,464	41,272

The University is committed to minimal annual rent payments under several long-term noncancellable operating and finance leases for equipment and space through fiscal year 2032.

Other information:

Weighted-average remaining lease term – finance leases	3.23 years	21.01 years
Weighted-average remaining lease term – operating leases	10.64 years	7.58 years
Weighted-average discount rate – finance leases	0.94 %	4.33 %
Weighted-average discount rate – operating leases	2.16 %	2.90 %

Total rent expense at June 30, 2019 was $6,565 for Reynolda Campus and $30,369 for WFUHS.

Payments due include options to extend finance leases through fiscal year 2032, are summarized below as of June 30, 2020:

		Reynolda Campus	WFUHS	Total
2021	$	2,322	2,959	5,281
2022		1,568	2,959	4,527
2023		1,568	2,959	4,527
2024		376	2,959	3,335
2025		3	2,959	2,962
In total hereafter		—	47,333	47,333
	$	5,837	62,128	67,965

(Dollars in thousands)

Payments due include options to extend operating leases through fiscal year 2032, are summarized below as of June 30, 2020:

		Reynolda Campus	WFUHS	Total
2021	$	3,277	28,302	31,579
2022		3,614	26,828	30,442
2023		3,154	27,871	31,025
2024		2,575	25,561	28,136
2025		2,243	24,919	27,162
In total hereafter		16,072	64,609	80,681
	$	30,935	198,090	229,025

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:				
2021	$	10,306	961	11,267
2022		9,187	952	10,139
2023		9,371	947	10,318
2024		7,708	938	8,646
2025		7,862	831	8,693
	$	44,434	4,629	49,063

Total income from real estate was $8,360 and $10,803 for Reynolda Campus and $2,065 and $1,242 for WFUHS for the years ended June 30, 2020 and 2019, respectively.

(Dollars in thousands)

(13) Notes, Finance Leases, and Bonds Payable

Notes, finance leases, and bonds payable at June 30, 2020 and 2019 consist of the following:

Reynolda Campus	Years to nominal maturity	Interest rate at June 30, 2020			2020	2019
Notes payable and finance leases:						
Line of credit	>1	LIBOR plus 0.50%	Variable	$	89,261	53,156
Promissory note	>1	LIBOR plus 0.75%	Variable		16,125	10,625
Finance Leases	<1 to 5	0.75% to 5%	Fixed		5,837	9,764
Other installment loans	<2 to 4	1.27% to 1.46%	Fixed		2,028	—
Total notes payable and finance leases					113,251	73,545
Bonds payable:						
2004 Series A tax-exempt		91 day US T-bill	Variable		—	7,340
2012 Series serial taxable	22	2.60% to 3.10%	Fixed		20,425	20,425
2012 Series term taxable	22	3.45% to 3.70%	Fixed		104,575	104,575
2016 Series serial tax-exempt	26	4.00% to 5.00%	Fixed		136,730	136,730
2016 Series term tax-exempt	26	2.75% to 3.00%	Fixed		22,370	22,370
2018 Series serial tax-exempt	28	4.47 %	Fixed		12,100	12,100
2018 Series term tax-exempt	28	3.38% to 5.00%	Fixed		15,920	15,920
2018 Series term tax-exempt	28	3.50% to 5.00%	Fixed		69,950	69,950
Unamortized bond premium					25,972	26,940
Unamortized bond issuance costs					(2,590)	(2,703)
Total bonds payable					405,452	413,647
Total notes payable, finance leases, and bonds payable				$	518,703	487,192

Reynolda Campus entered into a capital projects financing agreement with Branch Banking and Trust Company that permits the University to borrow up to $100,000. The line of credit is due on July 1, 2022 and bears interest at the one-month LIBOR plus .05%, 0.69% at June 30, 2020.

Reynolda Campus entered into a financing agreement with Branch Banking and Trust Company to finance the purchase and implementation of an enterprise resource-planning program that permits the University to borrow up to $12,000. The term loan is due on July 1, 2026 and bears interest at the one-month LIBOR plus 0.75%, 0.93% at June 30, 2020.

Reynolda Campus entered into a promissory note with Winston-Salem First to finance the purchase of real property for which the University borrowed $7,000. The note is due on January 5, 2023 and bears interest at the rate of 0.00%.

Reynolda Campus leases various equipment under lease and installment loans expiring at various dates through 2024.

Reynolda Campus has outstanding $0 at June 30, 2020 of tax-exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004A. The obligations of the University are evidenced by a loan agreement dated December 1, 2004, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2004 A Series tax-exempt bond were repaid during 2020. The interest rate on the bonds was determined weekly, and at the option of the University could be converted to a fixed rate. The University's obligation under the loan agreement was an unsecured, unconditional obligation. There were no related covenants underlying the bonds and the University has complied with all continuing disclosure requirements.

The Series 2012 taxable bonds are evidenced by a loan agreement dated August 2, 2012, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2012 taxable bonds have final maturities of January 15, 2027 for the serial bonds and January 15, 2042 for the term bonds. The 2012 bonds maturing on January 15, 2032 and 2042 are subject to mandatory sinking fund redemptions through 2032 and 2042 in increasing annual amounts of $5,445 to $6,205 and $6,405 to $8,830, respectively. Interest is payable each January 15 and July 15. The University's obligation under the loan agreement is an unsecured, unconditional obligation. There are no related covenants underlying the bonds and the University has complied with all continuing disclosure requirements.

Reynolda Campus issued $159,100 of tax-exempt North Carolina Capital Facilities Finance Agency Educational Facilities Revenue and Revenue Refunding Bonds, Series 2016. The 2016 Series bonds were issued for the purpose of the current refunding and defeasance of the Series 2009 tax-exempt bonds ($110,000) and financing the costs of acquisition, construction, renovation and installation of capital assets of the Reynolda Campus. The Series 2016 tax-exempt bonds are evidenced by a loan agreement dated July 1, 2016, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2016 tax-exempt bonds have final maturities of January 1, 2039 for the series bonds and January 1, 2041 and 2046 for the term bonds. The 2016 bonds maturing on January 1, 2040 and 2046 are subject to mandatory sinking fund redemptions through 2041 and 2046 with annual amounts of $1,720 to $2,930 and $1,290 to $3,485, respectively. Interest is payable each January 1 and July 1. The University's obligation under the loan agreement is an unsecured, unconditional obligation. There are no related covenants underlying the bonds and the University has complied with all continuing disclosure requirements.

Reynolda Campus issued $97,900 of tax-exempt North Carolina Capital Facilities Finance Agency Educational Facilities Revenue and Revenue Refunding Bonds, Series 2018. The 2018 Series bonds were issued for the purpose of repaying a portion of the line of credit and financing the costs of acquisition, construction, renovation and installation of capital assets of the Reynolda Campus. The Series 2018 tax-exempt bonds are evidenced by a loan agreement dated July 1, 2018, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2018 tax-exempt bonds have final maturities of January 1, 2039 for the series bonds and January 1, 2043 and 2048 for the term bonds. The

(Dollars in thousands)

2018 bonds maturing on January 1, 2043 and 2048 are subject to mandatory sinking fund redemptions through 2043 and 2048 with annual amounts of $875 to $8,205 and $4,870 to $8,940, respectively. Interest is payable each January 1 and July 1. The University's obligation under the loan agreement is an unsecured, unconditional obligation.

WFUHS	Years to nominal maturity	Interest rate at June 30, 2020			2020	2019
Notes payable and finance leases:						
Line of credit	>1	LIBOR plus 0.65%	Variable	$	7,449	7,449
Loan agreement	<1 to 10	LIBOR plus 0.65%	Variable		5,671	7,672
Loan agreement	<1	LIBOR plus 0.55%	Variable		4,896	—
Loan agreement	<1 to 7	LIBOR plus 1.05%	Variable		3,511	4,259
Finance lease	15	4.5%	Fixed		39,964	41,077
Total notes payable					61,491	60,457
Bonds payable:						
Series 2019 A	<1 to 14	5.0 %	Fixed		39,540	39,725
Series 2012 B	<1 to 16	2.00%–5.00%	Fixed		86,165	90,445
Unamortized bond premium					16,243	17,454
Unamortized bond issuance costs					(977)	(1,050)
Total bonds payable					140,971	146,574
Total notes payable, finance leases, and bonds payable				$	202,462	207,031

Effective March 26, 2011, NCBH, WFUHS, and WFUBMC formed a single obligated group (Obligated Group) under the existing NCBH Master Trust Indenture (MTI). New obligations were issued to WFUHS obligation holders under the NCBH MTI. In addition, substantially all of the subsidiaries of NCBH and WFUHS were included in the single credit group as Designated Members (Combined Group). Under the new credit structure, each member of the Obligated Group is jointly and severally liable for all debt and other obligations that are evidenced and secured under the MTI.

Bonds issued under the MTI are payable solely from the Obligated Group's revenues (as defined by the MTI). Additionally, the Combined Group must remain compliant with certain covenants and restrictions required by the MTI and loan agreements underlying the bonds. The Combined Group is subject to covenants under the MTI containing restrictions or limitations with respect to indebtedness, property encumbrance, consolidation or merger or transfer of assets. In addition, the Combined Group has agreed that it will not create any lien upon its property, accounts, or revenue now owned or hereafter acquired other than "permitted liens" as described in the MTI. WFUHS believes it is in compliance with such covenants and restrictions as of June 30, 2020. As of June 30, 2020, WFUHS is jointly and severally liable for $744,259 of bonds payable borrowed by the other members of the Obligated Group and for $26,750 and $32,239, respectively, under WFUBMC's line of credit and notes payable. Because WFUHS does not expect to fund repayment of any of the amounts attributed to the other members of the Obligated Group

(Continued)

under the MTI, no portion of these amounts meets the criteria for liability recognition in the accompanying consolidated financial statements.

Series 2019 Revenue Bonds represent bonds issued by Wake Forest Baptist Obligated Group, representing funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

The Series 2019A bonds mature in full in fiscal year 2033. The fixed rate instruments bear interest at fixed coupon rates of 5.00%. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2019 in annual amounts ranging from $185 to $4,505.

The Series 2012 Revenue Bonds represent bonds issued by Wake Forest Baptist Obligated Group, representing funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a MTI structure. The MTI provides the flexibility for multiple parties to participate in the debt issuances as part of an obligated group.

The Series 2012B bonds mature in full in fiscal year 2034. The fixed rate instruments bear interest at fixed coupon rates ranging from 2.00% to 5.00%. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2016 and in increasing annual amounts of $3,385 to $7,000. WFUHS entered into an unsecured, taxable line of credit agreement with a total borrowing capacity of $150,000 to provide for the working capital needs of NCBH, WFUHS, and the Medical Center, all Borrowers under the credit facility. The line of credit is due on June 9, 2020 and bears interest at the one-month LIBOR plus 0.65%.

WFUHS entered into an unsecured loan agreement, with a variable interest rate based upon the one-month LIBOR plus a premium of 0.65% for $20,014 to refinance two previously outstanding fixed rate notes. Fixed principal payments and accrued interest are due monthly with a final maturity date of April 1, 2023. This taxable loan is guaranteed by both NCBH and WFUBMC.

WFUHS entered into an unsecured loan agreement, with a variable interest rate based upon the one-month LIBOR plus a premium of 0.55% for $50,355 to refinance the previously outstanding Series 2012C bonds. Principal payments are due on December 1 of each year with monthly interest payments and a bullet maturity date of October 1, 2019. This loan agreement is guaranteed by both NCBH and WFUBMC.

A WFUHS subsidiary entered into a notes payable obligation, with variable interest rates based on one-month LIBOR plus a premium of 1.05% and final maturities in 2021 and 2025.

WFUHS entered into a capital lease obligation of $44,125 related to the Bowman Gray Center for Medical Education with an initial term of 15 years and additional renewal options. The obligation has a fixed interest rate of 4.5%.

(Dollars in thousands)

Aggregate annual maturities of notes, finance leases, and bonds payable for each of the five fiscal years subsequent to June 30, 2020 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2021	$	15,017	17,854	32,871
2022		13,964	9,686	23,650
2023		24,170	9,983	34,153
2024		17,501	10,562	28,063
2025		58,924	11,202	70,126
In total thereafter		365,745	143,175	508,920
	$	495,321	202,462	697,783

Costs related to the registration and issuance of bonds, totaling $24,237 and $17,454, respectively, for Reynolda Campus and WFUHS, are carried at cost less accumulated amortization and are amortized over the life of the bonds on a method that approximates the effective-interest method and are included in bonds payable on the accompanying consolidated balance sheet. Total amortization expense for issue costs and premium is included in interest expense in the consolidated statements of activities for Reynolda Campus and WFUHS totaled $855 and $1,138, respectively, for 2020 and $942 and 1,050, respectively, for 2019.

(14) Interest Rate Swap Agreements

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

Parties to interest rate swap agreements are subject to market risk for changes in interest rates as well as credit loss in the event of nonperformance by the counterparty. To minimize this exposure, the University verifies that the counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and creditworthiness. Additionally, the University is exposed to tax basis risk since a change in tax rate environments will change the level of correlation between the interest rate payments made on the variable rate bonds and the percentage of LIBOR payments being received from the counterparties.

(Dollars in thousands)

The following table summarizes the general terms for each of the University's swap agreements:

	Reynolda Campus		WFUHS
	October 2008 interest rate swap	**December 2016 interest rate swap**	**August 2002 interest rate swap**
Notional amount	$ 50,000	9,125	20,194
Effective date	October 1, 2008	December 28, 2016	August 20, 2002
Maturity date	January 1, 2038	July 1, 2026	July 1, 2034
Rate received	67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR
Rate paid	3.61 %	2.44 %	3.67 %
Collateral provisions	100% liability if > $20,000	None	100% asset/ liability – $250 min
Settlement frequency	Monthly	Monthly	Weekly

The University records all interest rate swap agreements in other liabilities and deferrals on the consolidated balance sheet at their respective fair values. The estimated amount the University would pay to terminate the swap agreements at the reporting date, taking into account current forward interest rates and the current forward creditworthiness of the swap counterparties, approximates the fair value of the interest rate swap. All changes in fair value are reflected as a gain or loss in nonoperating activities in the consolidated statement of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt and collateral to support the swaps is included in investments on the consolidated balance sheet. Collateral held by counterparties at June 30, 2020 and 2019, respectively, was $8,000 and $0 for Reynolda Campus, and $5,330 and $4,070 for WFUHS.

(Dollars in thousands)

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

	2020		2019	
	Fair value	Gain (Loss)	Fair value	Gain (Loss)
Reynolda Campus:				
November 2006 interest rate swap	$ —	85	(85)	187
October 2008 interest rate swap	(26,394)	(8,591)	(17,803)	(4,965)
December 2016 interest rate swap	(642)	(356)	(286)	(411)
Total	(27,036)	(8,862)	(18,174)	(5,189)
WFUHS:				
August 2002 interest rate swap	(5,349)	(1,319)	(4,030)	(891)
Grand total	$ (32,385)	(10,181)	(22,204)	(6,080)

As of June 30, 2020, the University's adjusted debt portfolio, after taking into account the aforementioned swap agreements, was approximately 92% fixed rate for Reynolda Campus, and approximately 100% fixed rate for WFUHS.

(15) Net Assets

The following is a summary of net assets at June 30:

	2020		
	Without donor restriction	With donor restriction	Total
Reynolda Campus:			
Operating	$ 269,118	—	269,118
Endowment	221,229	627,804	849,033
Investment in plant, net	196,364	—	196,364
Donor pledges and gifts	—	157,585	157,585
Trust (annuity, perpetual, split-interest) and loan agreements	—	20,507	20,507
Total net assets	$ 686,711	805,896	1,492,607

(Dollars in thousands)

	2020		
	Without donor restriction	**With donor restriction**	**Total**
WFUHS:			
Operating	$ 104,593	—	104,593
Endowment	291,776	209,378	501,154
Investment in plant, net	180,498	—	180,498
Donor pledges and gifts	—	13,323	13,323
Trust (annuity, perpetual, split-interest) and loan agreements	—	19,807	19,807
Total net assets	$ 576,867	242,508	819,375

	2019		
	Without donor restriction	**With donor restriction**	**Total**
Reynolda Campus:			
Operating	$ 237,788	—	237,788
Endowment	234,852	633,584	868,436
Investment in plant, net	227,819	—	227,819
Donor pledges and gifts	—	146,990	146,990
Trust (annuity, perpetual, split-interest) and loan agreements	—	21,487	21,487
Total net assets	$ 700,459	802,061	1,502,520
WFUHS:			
Operating	$ 74,354	—	74,354
Endowment	298,836	208,126	506,962
Investment in plant, net	195,233	—	195,233
Donor pledges and gifts	—	10,483	10,483
Trust (annuity, perpetual, split-interest) and loan agreements	—	20,707	20,707
Total net assets	$ 568,423	239,316	807,739

(Dollars in thousands)

(16) Functional Expenses

Expenses are presented by functional classification in accordance with the overall mission of the University. The University's primary program services are academic, instruction and research, and health care and related services. Expenses for auxiliary enterprises, library, and student services are incurred in support of academic instruction and research, and as such are included therein. Plant operation and maintenance expense is allocated to program and supporting activities based upon direct costing or allocated using a variety of allocation techniques such as square footage. The amounts allocated in 2020 and 2019 were $149,047 and $143,638, respectively.

Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses for the years ended June 30, 2020 and 2019 are categorized as follows:

	2020							
	Academic, Instruction, and Research		Health Care and Other Related Services		Administration and Other Institutional Support		Total	
	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS
Salaries and wages	$ 194,306	166,734	—	506,542	24,374	2,879	218,680	676,155
Employee benefits	53,254	32,931	—	98,776	4,286	561	57,540	132,268
Student aid	3,505	8,335	—	—	—	—	3,505	8,335
Services	49,475	51,634	—	112,418	14,209	4,232	63,684	168,284
Clinical and laboratory supplies	—	14,612	—	72,062	—	—	—	86,674
Other operating expenses	52,503	29,660	—	44,519	482	9,159	52,985	83,338
Depreciation and amortization	45,404	10,826	—	17,539	5,907	8,789	51,311	37,154
Interest on debt	15,099	2,848	—	3,362	680	1,546	15,779	7,756
Total Expenses	$ 413,546	317,580	—	855,218	49,938	27,166	463,484	1,199,964

	2019							
	Academic, Instruction, and Research		Health Care and Other Related Services		Administration and Other Institutional Support		Total	
	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS
Salaries and wages	$ 185,520	157,437	—	462,619	24,782	9,243	210,302	629,299
Employee benefits	49,302	31,321	—	90,943	2,913	1,817	52,215	124,081
Student aid	3,533	8,071	—	—	7	—	3,540	8,071
Services	52,024	52,958	—	119,705	9,853	2,054	61,877	174,717
Clinical and laboratory supplies	—	14,192	—	58,821	—	—	—	73,013
Other operating expenses	53,165	29,304	—	42,291	1,726	8,922	54,891	80,517
Depreciation and amortization	40,885	11,310	—	17,127	5,789	8,970	46,674	37,407
Interest on debt	13,694	2,757	—	3,402	949	1,544	14,643	7,703
Total Expenses	$ 398,123	307,350	—	794,908	46,019	32,550	444,142	1,134,808

(17) Contingencies and Other Commitments

The estimated cost to complete construction in progress at June 30, 2020 and 2019, respectively, were $52,411 and $63,433 for Reynolda Campus, and $7,985 and $13,935 for WFUHS.

Expenditures related to federal and state grants and contracts are subject to adjustment based upon review by the granting agencies. Amounts of expenditures that granting agencies might disallow cannot be determined at this time. These amounts affect government grants and contracts revenue as well as facilities and administrative cost recovery. The University would not expect these costs to influence the consolidated financial position significantly.

The University is self-insured for dental benefits, self-insured or fully insured for retiree medical benefits (depending on retiree benefit elections), and self-insured for active employees receiving medical benefits. The University provides an accrual for actual claims reported but not paid and a provision for incurred but not reported claims based on historical trends. Accrued employee health and dental costs, including estimated claims incurred but not reported, amounted to approximately $1,127 and $936 at June 30, 2020 and 2019, respectively, for Reynolda Campus and $5,714 and $5,158 at June 30, 2020 and 2019, respectively, for WFUHS and are included in other liabilities and deferrals in the accompanying consolidated balance sheet.

The estimated liability for self-insurance claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its self-insurance liability accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for this related risk.

The University self-insures workers' compensation liability with excess commercial insurance providing per loss and aggregate annual coverage. The University provides an accrual for actual claims reported but not paid and a provision for incurred but not reported claims based on historical trends, which is included in other liabilities and deferrals on the accompanying consolidated balance sheet.

The estimated liability for workers' compensation claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its self-insurance liability accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for this related risk.

Under the Health Insurance Portability and Accountability Act of 1996 (HIPPA), the federal government has authority to complete fraud and abuse investigations. HIPPA has established substantial fines and penalties for offenders. WFUHS maintains policies, procedures and requires regular training sessions to employers to monitor compliance with HIPPA, as well as other applicable local, state and federal statutes and regulations.

The University is involved in various legal matters arising in the normal course of activities. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolutions of pending matters will not have a materially adverse effect, individually or in the aggregate, upon the University's consolidated financial statements. The University accrued $5,000 and $0 at June 30, 2020 and 2019, respectively, for legal obligations, including legal expenses. These liabilities are included in other liabilities and deferrals on the consolidated balance sheet.

(18) 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 5-year renewal options. The lease is classified as an operating lease. Operating lease expected payments in each year from 2021 to 2025 are $7,978, $8,058, $8,139, $8,220, and $8,302, respectively, and $15,587 thereafter.

In 2010, WFUHS entered into another sale-leaseback agreement to sell and lease back certain assets. The initial lease term is 16 years with three 5-year renewal options. The lease is classified as an operating lease. Operating lease payments are due monthly and expected payments each year from 2021 to 2025 are $6,072, $6,223, $6,379, $6,539 and $6,702, respectively, and $13,911 thereafter.

WFUHS has a deferred gain related to the sale and leaseback of certain assets, which is amortized over the remaining lease term using the straight line method. The deferred gain was $13,341 and $15,288 at June 30, 2020 and 2019, respectively, and is included in other liabilities and deferrals in the accompanying consolidated balance sheet.

(19) Retirement Plans

Substantially all employees of the University are eligible to participate in defined contribution benefit plans. The University contributes a specified percentage of each employee's salary to the plans. Contributions for the years ended June 30, 2020 and 2019, respectively, were $14,852 and $14,125 for Reynolda Campus and $36,244 and $33,714 for WFUHS.

Certain employees of the University are eligible to participate in other benefit plans including a defined supplemental executive retirement plan, deferred compensation arrangements, and supplemental retirement agreements. The Reynolda Campus and WFUHS have accrued $3,433 and $5,067 at June 30, 2020, respectively, and $2,519 and $5,747 at June 30, 2019, respectively, for liabilities associated with these plans. These liabilities are included in other liabilities and deferrals on the consolidated balance sheet.

(20) Postretirement Benefits

The University sponsors defined benefit postretirement medical and dental plans that cover all of its full-time employees who elect coverage and satisfy the plans' eligibility requirements when they retire. In addition, Reynolda Campus sponsors a death benefit plan, which pays a $2 benefit for each retiree. To be eligible, retired employees of Reynolda Campus must be at least 62 years of age with ten or more years of service or be at least 65 years of age with five or more years of service.

(Dollars in thousands)

WFUHS sponsors a defined benefit postretirement medical and dental plan that covers all WFUHS full-time employees who elect coverage and satisfy the plan eligibility requirements when they retire. On June 2, 2011, the Board of WFUHS approved that effective as of January 1, 2012, the defined benefit postretirement plan would be discontinued for most future retirees and the minimum age required for postretirement benefits will increase from 60 to 62. However, the additional requirement of the Rule of 75 (age and years of service) remains unchanged. All current retirees and currently eligible employees previously grandfathered will continue to be eligible for benefits under this plan. Any WFUHS employee who is within 5 years of meeting the new retirement eligibility of age 62 with combined age and years of service equal to at least 75 as of January 1, 2012 will be grandfathered into this benefit.

The measurement date for the defined postretirement benefit plan is June 30.

The following table provides a reconciliation of the changes in each plan's benefit obligation, fair value of plan assets, and funded status for the years ended June 30, 2020 and 2019:

		2020			
		Reynolda Campus	**WFUHS**	**Total**	**2019 Total**
Change in benefit obligation:					
Benefit obligation at beginning of year	$	15,298	28,126	43,424	47,364
Service cost		700	14	714	590
Interest cost		551	909	1,460	1,968
Participants' contributions		410	248	658	802
Actuarial loss (gain)		(2,545)	1,019	(1,526)	(4,588)
Benefits paid		(790)	(1,884)	(2,674)	(2,712)
Benefit obligation at end of year		13,624	28,432	42,056	43,424
Change in plan assets:					
Fair value of plan assets at beginning of year		—	—	—	—
Employer's contributions		380	1,636	2,016	1,910
Participants' contributions		410	248	658	802
Benefits paid		(790)	(1,884)	(2,674)	(2,712)
Fair value of plan assets at end of year		—	—	—	—
Total liability	$	(13,624)	(28,432)	(42,056)	(43,424)

(Dollars in thousands)

	2020			2019
	Reynolda Campus	WFUHS	Total	Total
Amounts recognized in unrestricted net assets:				
Prior service (cost) credit	$ 3,047	75	3,122	(3,316)
Net actuarial loss	4,067	2,644	6,711	2,596
Total (decrease) increase	$ 7,114	2,719	9,833	(720)

The following table provides the components of net periodic benefit cost for the years ended June 30, 2020 and 2019:

	2020			2019
	Reynolda Campus	WFUHS	Total	Total
Service cost	$ 700	14	714	590
Interest cost	551	909	1,460	1,968
Amortization of prior service credit	(373)	(30)	(403)	(404)
Amortization of net actuarial (gain) loss	—	(455)	(455)	(136)
Net periodic benefit cost	$ 878	438	1,316	2,018

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 actuarial net gain and prior service credit for the defined postretirement benefits plans that will be amortized from accumulated nonoperating income into net periodic benefit cost over the next fiscal year for Reynolda Campus and WFUHS are $569 and $19, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2020 for Reynolda Campus and WFUHS, respectively, was 2.92% and 2.53%, and at June 30, 2019 was 3.67% and 3.37%, respectively. The discount rate reflects the current yield curve results as of June 30, 2020 and 2019. For management purposes, Reynolda Campus used 6.1% and 7.3%, and WFUHS used 6.88% and 7.29% for 2020 and 2019, respectively, for the annual rate of increase in the per capita cost of covered healthcare benefits for the first year, and a 4.5% rate was assumed in each year as the ultimate rate.

(Dollars in thousands)

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

		One percentage increase	One percentage decrease
Reynolda Campus:			
Effect on total service and interest cost components of net periodic benefit cost	$	42	(36)
Effect on postretirement benefit obligation		243	(214)
WFUHS:			
Effect on total service and interest cost components of net periodic benefit cost	$	—	—
Effect on postretirement benefit obligation		14	(13)

Aggregate benefits expected to be paid by the University, net of participant contributions, for the postretirement benefits plans are as follows:

		Reynolda Campus	WFUHS	Total
2021	$	564	2,269	2,833
2022		590	2,238	2,828
2023		649	2,086	2,735
2024		697	2,045	2,742
2025		738	1,991	2,729
Five years thereafter		4,116	9,011	13,127

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2020 and include estimated future employee service.

Recent federal healthcare legislation includes several provisions that may affect the University's benefit plans, including imposing an excise tax on high cost coverage, eliminating lifetime and annual coverage limits, and imposing inflation-adjusted fees for each person covered by a health insurance policy for each policy plan year ending after September 30, 2012, through September 30, 2019. For the postretirement benefit plan, the changes due to recent federal healthcare legislation did not change the postretirement benefit obligation for Reynolda Campus and WFUHS.

(Dollars in thousands)

(21) Related-Party Transactions

WFUHS and NCBH each incur expenses in the course of managing WFB as an integrated academic medical center. These expenses are aggregated and allocated between WFUHS and NCBH such that each individual entity bears a share of the expenses that is proportionate to the benefit received by each entity. Additionally, WFUHS and NCBH share certain facilities, provide various services, and incur certain expenses on behalf of each other. These transactions are recorded at fair value and the costs associated with operating and maintaining jointly occupied facilities are ultimately paid by the party having beneficial occupancy.

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

		2020	2019
Revenue from MCIA	$	231,419	202,393
Corporate service allocation, net		99,544	88,118
Other professional fees, net		56,328	33,163
Total net revenue from NCBH	$	387,291	323,674
Accounts receivable from NCBH	$	67,658	54,368

In 2015, WFUBMC entered into an unsecured, taxable line of credit with a total borrowing capacity of $125,000 and a $60,000 unsecured loan agreement that is guaranteed by both NCBH and WFUHS. In 2019, WFUBMC exercised an accordion feature on the line of credit, bringing its total borrowing capacity to $150,000. The outstanding balance on the line of credit was $34,199 and $41,199 as of June 30, 2020 and 2019, respectively, of which WFUHS recorded a liability of $7,449 as of June 30, 2020 and 2019. The outstanding balance of the unsecured loan was $0 and $36,000 as of June 30, 2020 and 2019, respectively, of which WFUHS recorded a liability of $0 and $5,810, respectively, due to WFUBMC in other liabilities and deferrals that represented the portion of the unsecured loan utilized by WFUHS. This loan was refinanced in April 2020 and is no longer outstanding as of June 30, 2020.

On April 10, 2019, WFUBMC signed a Memorandum of Understanding with The Charlotte-Mecklenburg Hospital Authority, doing business as Atrium Health, to create a next-generation academic health-care system. As part of this strategic partnership, a second campus of the Wake Forest School of Medicine is planned to open in Charlotte, North Carolina. No definitive agreements regarding the partnership have been signed as of the issuance date.

(22) Professional Liability Insurance

WFUHS maintains professional liability coverage, which included a $5,000 per occurrence and a $25,000 annual aggregate self-insurance retention for the year ended June 30, 2020. WFUHS estimates its professional liability on an actuarial basis. WFUHS' accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $44,613 and $46,213 at June 30, 2020 and 2019, respectively, and are included in other liabilities and deferrals on the consolidated balance sheet. In the opinion of management, adequate provision has been made for the related risk.

The estimated liability for self-insurance claims will be significantly affected if current and future claims differ from historical trends. While management monitors reported claims closely and considers potential outcomes as estimated by its actuaries when determining its self-insurance liability accruals, the complexity of the claims, the extended period of time to settle the claims and the wide range of potential outcomes complicate the estimation. In the opinion of management, adequate provision has been made for this related risk.

(23) Subsequent Events

Health System Integration and Formation of Atrium Health, Inc.

On October 29, 2019, WFUBMC, WFUHS, NCBH, WFU, and The Charlotte-Mecklenburg Hospital Authority (CMHA), a North Carolina hospital authority, entered into a health system integration agreement to form a new North Carolina nonprofit corporation named "Atrium Health, Inc." (Atrium).

CMHA is a North Carolina hospital authority based in Charlotte, North Carolina, whose mission is to improve health, elevate hope and advance healing—for all. CMHA operates a multi-state integrated healthcare system in the southeastern United States, including a number of tertiary care and community hospitals, as well as various ambulatory care and other non-hospital healthcare facilities.

As part of the health system integration agreement with CMHA, the MCIA by and among WFUBMC, WFUHS, NCBH, and WFU was amended to add Atrium as an additional member. Of the seventeen voting directors of the WFUBMC Board, WFU designates six, NCBH designates six, Atrium designates three and WFUBMC elects two.

The Boards of CMHA, WFUBMC, WFUHS, NCBH and WFU have determined that it is in the best interests of their respective organizations that WFUBMC and CMHA form a single, integrated healthcare delivery and academic system (the ''Enterprise"), which Atrium will manage and oversee. Each Enterprise participant and its affiliates will maintain their separate legal existence and continue to own their assets. Each Enterprise participant will retain all power, authorities, rights and remedies necessary or appropriate to allow it to comply with its pre-existing debt instruments and any new debt instruments. Nothing in the health system integration agreement or the related agreements is intended to constitute the actual or implied assumption or guaranty by any Enterprise participant of any other Enterprise participant's debt or other liabilities, and all debt and other liabilities of each Enterprise participant will remain the debt and liabilities of such Enterprise participant regardless of when incurred, except as otherwise expressly agreed in writing.

CMHA and WFUBMC will delegate authority to Atrium to manage and oversee the activities and operations of the Enterprise participants in accordance with the health system integration agreement and related agreements, subject to the authority of WFU, WFUHS and WFUBMC over academic and research matters, exercise of certain reserved powers and carrying out of certain responsibilities by the CMHA Board of Commissioners and the WFUBMC Board of Directors. Some of the reserve powers of each Enterprise participant include the power to: approve a change in its fundamental business or mission; develop its capital and operating budgets, subject to approval by the Atrium Board of Directors; and develop its strategic plans (which shall be generally consistent with those of the entire Enterprise), subject to approval by the Atrium Board of Directors.

The initial Board of Directors of Atrium will consist of 16 directors, including three directors designated by WFUBMC and thirteen directors designated by CMHA. The Chair of CMHA's Board of Commissioners, Edward J. Brown III, will serve as the initial Chair of the Board of Directors of Atrium. CMHA's President and Chief Executive Officer, Eugene A. Woods, will serve as the initial President and Chief Executive Officer of Atrium. Julie Ann Freischlag, MD, will serve as Atrium's initial Chief Academic Officer and will continue to serve as the WFUBMC CEO.

On October 7, 2020, the Federal Trade Commission closed its investigation of the integration under the Hart-Scott-Rodino Act. The parties closed the transaction on October 9, 2020, and the integration became effective on that date.

The University has performed an evaluation of subsequent events through October 21, 2020 which is the date the financial statements were issued.