



**WAKE FOREST UNIVERSITY**

Consolidated Financial Statements

June 30, 2021

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 800  
500 W 5th St  
Winston-Salem, NC 27101

## Independent Auditors' Report

The Board of Trustees  
Wake Forest University:

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Wake Forest University (the University), which comprise the consolidated balance sheet as of June 30, 2021, and the related consolidated statements of activities and cash flows for the years 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 control relevant to the entity'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 financial position of Wake Forest University as of June 30, 2021, 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.

#### *Report on Summarized Comparative Information*

We have previously audited Wake Forest University's 2020 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated



October 21, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*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, consolidated statement of activities, consolidated 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 25, 2021

**WAKE FOREST UNIVERSITY**

Consolidated Balance Sheet

June 30, 2021

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

(Dollars in thousands)

|   | <b>Supplementary information</b> |                  |                  |                  |
|---|----------------------------------|------------------|------------------|------------------|
|   | <b>Reynolda</b>                  |                  |                  |                  |
|   | <b>Campus</b>                    | <b>WFUHS</b>     | <b>2021</b>      | <b>2020</b>      |
| <b>Assets:</b>                          |                                  |                  |                  |                  |
| Cash and cash equivalents               | \$ 37,133                        | 177,688          | 214,821          | 166,839          |
| Accounts receivable, net                | 19,857                           | 77,160           | 97,017           | 123,886          |
| Patient receivables                     | —                                | 77,899           | 77,899           | 63,317           |
| Contributions receivable, net           | 126,714                          | 12,597           | 139,311          | 126,853          |
| Notes receivable, net                   | 12,720                           | 302              | 13,022           | 16,763           |
| Investments                             | 1,692,466                        | 1,206,516        | 2,898,982        | 1,992,587        |
| Direct investments in real estate       | 12,397                           | —                | 12,397           | 12,863           |
| Other assets                            | 10,588                           | 25,969           | 36,557           | 33,006           |
| Deposit with bond trustee               | 8,611                            | —                | 8,611            | 8,609            |
| Right-of-use assets-operating           | 27,564                           | 155,141          | 182,705          | 208,223          |
| Land, buildings, and equipment, net     | 683,420                          | 340,036          | 1,023,456        | 1,051,097        |
| <b>Total assets</b>                     | <b>\$ 2,631,470</b>              | <b>2,073,308</b> | <b>4,704,778</b> | <b>3,804,043</b> |
| <b>Liabilities:</b>                     |                                  |                  |                  |                  |
| Accounts payable and accruals           | \$ 65,599                        | 332,353          | 397,952          | 255,836          |
| Other liabilities and deferrals         | 86,421                           | 153,935          | 240,356          | 239,799          |
| Annuities payable                       | 20,219                           | 3,014            | 23,233           | 18,945           |
| Operating lease obligations             | 26,946                           | 159,998          | 186,944          | 211,997          |
| Notes payable and finance leases        | 71,511                           | 49,622           | 121,133          | 174,742          |
| Bonds payable                           | 527,493                          | 134,273          | 661,766          | 546,423          |
| Postretirement benefits                 | 14,542                           | 24,108           | 38,650           | 39,786           |
| Government grants refundable            | 2,049                            | —                | 2,049            | 4,533            |
| <b>Total liabilities</b>                | <b>814,780</b>                   | <b>857,303</b>   | <b>1,672,083</b> | <b>1,492,061</b> |
| <b>Net assets:</b>                      |                                  |                  |                  |                  |
| Without donor restrictions              | 801,732                          | 922,549          | 1,724,281        | 1,262,859        |
| Noncontrolling interest in affiliate    | 279                              | 813              | 1,092            | 719              |
| With donor restrictions                 | 1,014,679                        | 292,643          | 1,307,322        | 1,048,404        |
| <b>Total net assets</b>                 | <b>1,816,690</b>                 | <b>1,216,005</b> | <b>3,032,695</b> | <b>2,311,982</b> |
| <b>Total liabilities and net assets</b> | <b>\$ 2,631,470</b>              | <b>2,073,308</b> | <b>4,704,778</b> | <b>3,804,043</b> |

See accompanying notes to consolidated financial statements.

**WAKE FOREST UNIVERSITY**

Consolidated Statement of Activities

Year ended June 30, 2021

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

(Dollars in thousands)

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>2021</u>      | <u>2020</u>      |
|---|---------------------------------------|------------------------------------|------------------|------------------|
| Operating revenues:   |                                       |                                    |                  |                  |
| Student tuition and fees  | \$ 324,929                            | —                                  | 324,929          | 301,648          |
| Government grants and contracts   | 234,536                               | —                                  | 234,536          | 201,194          |
| Private grants and contracts  | 6,220                                 | 20,341                             | 26,561           | 45,666           |
| Contributions   | 25,966                                | 25,409                             | 51,375           | 48,199           |
| Investment return designated for current operations                         | 51,973                                | 76,886                             | 128,859          | 75,800           |
| Patient revenue   | 691,518                               | —                                  | 691,518          | 621,338          |
| Other   | 274,866                               | —                                  | 274,866          | 277,991          |
| Sales and services of auxiliary enterprises                                 | 83,726                                | —                                  | 83,726           | 91,344           |
| Net assets released from restrictions                                       | 74,020                                | (74,020)                           | —                | —                |
| Total operating revenues  | <u>1,767,754</u>                      | <u>48,616</u>                      | <u>1,816,370</u> | <u>1,663,180</u> |
| Operating expenses:   |                                       |                                    |                  |                  |
| Salaries and wages  | 961,552                               | —                                  | 961,552          | 894,835          |
| Employee benefits   | 207,261                               | —                                  | 207,261          | 189,808          |
| Student aid   | 11,998                                | —                                  | 11,998           | 11,840           |
| Services  | 225,292                               | —                                  | 225,292          | 226,968          |
| Clinical and laboratory supplies  | 96,436                                | —                                  | 96,436           | 86,674           |
| Other operating expenses  | 131,560                               | —                                  | 131,560          | 141,323          |
| Depreciation and amortization   | 87,143                                | —                                  | 87,143           | 88,465           |
| Interest on debt  | 23,535                                | —                                  | 23,535           | 23,535           |
| Total operating expenses  | <u>1,744,777</u>                      | <u>—</u>                           | <u>1,744,777</u> | <u>1,663,448</u> |
| Operating excess  | <u>22,977</u>                         | <u>48,616</u>                      | <u>71,593</u>    | <u>(268)</u>     |
| Nonoperating activities:  |                                       |                                    |                  |                  |
| Restricted contributions  | —                                     | 214,484                            | 214,484          | 46,865           |
| Net assets released from restriction  | 161,429                               | (161,429)                          | —                | —                |
| Investment return in excess of amounts<br>designated for current operations | 170,333                               | 164,888                            | 335,221          | (59,970)         |
| Actuarial losses on annuity obligations                                     | —                                     | (6,896)                            | (6,896)          | (243)            |
| Unrealized gains (losses) on interest rate swaps                            | 8,475                                 | —                                  | 8,475            | (10,181)         |
| Postretirement related changes other than service<br>costs                  | 2,874                                 | —                                  | 2,874            | 2,127            |
| Gains from affiliates, equity method  | 88,317                                | —                                  | 88,317           | 22,239           |
| Other, net  | 7,017                                 | (745)                              | 6,272            | 732              |
| Change from nonoperating activities   | <u>438,445</u>                        | <u>210,302</u>                     | <u>648,747</u>   | <u>1,569</u>     |
| Change in net assets  | 461,422                               | 258,918                            | 720,340          | 1,301            |
| Change in net assets attributable to noncontrolling<br>interest             | 373                                   | —                                  | 373              | 422              |
| Net assets attributable to noncontrolling interest at<br>beginning of year  | 719                                   | —                                  | 719              | —                |
| Adjusted net assets at beginning of year                                    | <u>1,262,859</u>                      | <u>1,048,404</u>                   | <u>2,311,263</u> | <u>2,310,259</u> |
| Net assets at end of year   | \$ <u>1,725,373</u>                   | <u>1,307,322</u>                   | <u>3,032,695</u> | <u>2,311,982</u> |

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, 2021

(Dollars in thousands)

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>     |
|---|---------------------------------------|------------------------------------|------------------|
| Operating revenues:   |                                       |                                    |                  |
| Student tuition and fees  | \$ 284,929                            | —                                  | 284,929          |
| Government grants and contracts   | 18,259                                | —                                  | 18,259           |
| Private grants and contracts  | 5,147                                 | —                                  | 5,147            |
| Contributions   | 22,821                                | 20,728                             | 43,549           |
| Investment return designated for current operations                         | 26,279                                | 26,046                             | 52,325           |
| Other   | 7,282                                 | —                                  | 7,282            |
| Sales and services of auxiliary enterprises                                 | 83,726                                | —                                  | 83,726           |
| Net assets released from restrictions                                       | 35,787                                | (35,787)                           | —                |
|   | <u>484,230</u>                        | <u>10,987</u>                      | <u>495,217</u>   |
| Total operating revenues  |                                       |                                    |                  |
| Operating expenses:   |                                       |                                    |                  |
| Salaries and wages  | 224,894                               | —                                  | 224,894          |
| Employee benefits   | 61,660                                | —                                  | 61,660           |
| Student aid   | 3,331                                 | —                                  | 3,331            |
| Services  | 59,010                                | —                                  | 59,010           |
| Other operating expenses  | 54,534                                | —                                  | 54,534           |
| Depreciation and amortization   | 50,746                                | —                                  | 50,746           |
| Interest on debt  | 15,751                                | —                                  | 15,751           |
|   | <u>469,926</u>                        | <u>—</u>                           | <u>469,926</u>   |
| Total operating expenses  |                                       |                                    |                  |
| Operating excess  | <u>14,304</u>                         | <u>10,987</u>                      | <u>25,291</u>    |
| Nonoperating activities:  |                                       |                                    |                  |
| Restricted contributions  | —                                     | 55,181                             | 55,181           |
| Net assets released from restriction  | 11,429                                | (11,429)                           | —                |
| Investment return in excess of amounts<br>designated for current operations | 82,025                                | 161,156                            | 243,181          |
| Actuarial losses on annuity obligations                                     | —                                     | (6,367)                            | (6,367)          |
| Unrealized gains on interest rate swaps                                     | 7,077                                 | —                                  | 7,077            |
| Postretirement related changes other than service costs                     | 50                                    | —                                  | 50               |
| Other, net  | 305                                   | (745)                              | (440)            |
|   | <u>100,886</u>                        | <u>197,796</u>                     | <u>298,682</u>   |
| Change from nonoperating activities   |                                       |                                    |                  |
| Change in net assets  | 115,190                               | 208,783                            | 323,973          |
| Change in net assets attributable to noncontrolling interest                | 110                                   | —                                  | 110              |
| Net assets attributable to noncontrolling interest at<br>beginning of year  | 169                                   | —                                  | 169              |
| Adjusted net assets at beginning of year                                    | <u>686,542</u>                        | <u>805,896</u>                     | <u>1,492,438</u> |
| Net assets at end of year   | <u>\$ 802,011</u>                     | <u>1,014,679</u>                   | <u>1,816,690</u> |

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, 2021

(Dollars in thousands)

|   | <u>Without donor<br/>restrictions</u> | <u>With donor<br/>restrictions</u> | <u>Total</u>     |
|---|---------------------------------------|------------------------------------|------------------|
| Operating revenues:   |                                       |                                    |                  |
| Student tuition and fees  | \$ 40,000                             | —                                  | 40,000           |
| Government grants and contracts   | 216,277                               | —                                  | 216,277          |
| Private grants and contracts  | 1,073                                 | 20,341                             | 21,414           |
| Contributions   | 3,145                                 | 4,681                              | 7,826            |
| Investment return designated for current operations                         | 25,694                                | 50,840                             | 76,534           |
| Patient service revenue   | 691,518                               | —                                  | 691,518          |
| Other   | 267,584                               | —                                  | 267,584          |
| Net assets released from restrictions                                       | 38,233                                | (38,233)                           | —                |
| Total operating revenues  | <u>1,283,524</u>                      | <u>37,629</u>                      | <u>1,321,153</u> |
| Operating expenses:   |                                       |                                    |                  |
| Salaries and wages  | 736,658                               | —                                  | 736,658          |
| Employee benefits   | 145,601                               | —                                  | 145,601          |
| Student aid   | 8,667                                 | —                                  | 8,667            |
| Services  | 166,282                               | —                                  | 166,282          |
| Clinical and laboratory supplies  | 96,436                                | —                                  | 96,436           |
| Other operating expenses  | 77,026                                | —                                  | 77,026           |
| Depreciation and amortization   | 36,397                                | —                                  | 36,397           |
| Interest on debt  | 7,784                                 | —                                  | 7,784            |
| Total operating expenses  | <u>1,274,851</u>                      | <u>—</u>                           | <u>1,274,851</u> |
| Operating excess  | <u>8,673</u>                          | <u>37,629</u>                      | <u>46,302</u>    |
| Nonoperating activities:  |                                       |                                    |                  |
| Restricted contributions  | —                                     | 159,303                            | 159,303          |
| Net assets released from restriction  | 150,000                               | (150,000)                          | —                |
| Investment return in excess of amounts designated for<br>current operations | 88,308                                | 3,732                              | 92,040           |
| Actuarial losses on annuity obligations                                     | —                                     | (529)                              | (529)            |
| Unrealized gains on interest rate swaps                                     | 1,398                                 | —                                  | 1,398            |
| Postretirement related changes other than service costs                     | 2,824                                 | —                                  | 2,824            |
| Gain from affiliates, equity method   | 88,317                                | —                                  | 88,317           |
| Other, net  | 6,712                                 | —                                  | 6,712            |
| Change from nonoperating activities   | <u>337,559</u>                        | <u>12,506</u>                      | <u>350,065</u>   |
| Change in net assets  | 346,232                               | 50,135                             | 396,367          |
| Change in net assets attributable to noncontrolling interest                | 263                                   | —                                  | 263              |
| Net assets attributable to noncontrolling interest at<br>beginning of year  | 550                                   | —                                  | 550              |
| Adjusted net assets at beginning of year                                    | <u>576,317</u>                        | <u>242,508</u>                     | <u>818,825</u>   |
| Net assets at end of year   | \$ <u>923,362</u>                     | <u>292,643</u>                     | <u>1,216,005</u> |

See accompanying notes to consolidated financial statements.

**WAKE FOREST UNIVERSITY**

Consolidated Statement of Cash Flows

Year ended June 30, 2021

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

(Dollars in thousands)

|   | <b>Supplementary information</b> |                  |                  |                 |
|---|----------------------------------|------------------|------------------|-----------------|
|   | <b>Reynolda<br/>Campus</b>       | <b>WFUHS</b>     | <b>2021</b>      | <b>2020</b>     |
| Cash flows from operating activities:   |                                  |                  |                  |                 |
| Change in net assets  | \$ 324,083                       | 396,630          | 720,713          | 1,723           |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                                  |                  |                  |                 |
| Depreciation and amortization   | 50,608                           | 36,397           | 87,005           | 88,465          |
| Amortization of debt related costs  | (969)                            | (1,137)          | (2,106)          | (2,106)         |
| Amortization of right-of-use operating assets   | 3,315                            | 20,654           | 23,969           | (27,430)        |
| Net depreciation (gains) on investments   | (279,988)                        | (168,574)        | (448,562)        | 828             |
| Noncash gifts   | —                                | —                | —                | (15)            |
| Private gifts restricted for capital and long-term investment   | (55,181)                         | (9,414)          | (64,595)         | (47,017)        |
| Losses (gains) on disposals of property and equipment   | (60)                             | —                | (60)             | 6,086           |
| Losses on impairment of property held for sale  | 293                              | (88,317)         | (88,024)         | —               |
| Gains from equity method affiliates   | —                                | (1,398)          | (1,398)          | (22,239)        |
| Unrealized (gains) losses on interest rate swaps  | (7,077)                          | 59               | (7,018)          | 10,181          |
| Bad debt expense and change in allowance for contributions receivable                                 | (366)                            | —                | (366)            | 416             |
| Changes in operating assets and liabilities:  |                                  |                  |                  |                 |
| Accounts and patient receivables  | 122                              | 1,449            | 1,571            | 26,713          |
| Contributions receivable  | (9,425)                          | —                | (9,425)          | (4,546)         |
| Notes receivable  | —                                | 643              | 643              | (3)             |
| Operating lease right-of-use assets, net  | (546)                            | 1,099            | 553              | (180,794)       |
| Other assets and other liabilities and deferrals  | 10,199                           | (5,464)          | 4,735            | 3,069           |
| Accounts payable and accruals   | 32,980                           | 112,806          | 145,786          | 59,871          |
| Operating lease liabilities   | (2,994)                          | (21,063)         | (24,057)         | 211,997         |
| Postretirement benefits   | 918                              | (2,054)          | (1,136)          | (1,323)         |
| Annuities payable   | 3,759                            | 529              | 4,288            | (1,521)         |
| Net cash provided by operating activities   | <u>69,671</u>                    | <u>272,845</u>   | <u>342,516</u>   | <u>122,355</u>  |
| Cash flows from investing activities:   |                                  |                  |                  |                 |
| Purchases of land, buildings, and equipment   | (30,907)                         | (31,383)         | (62,290)         | (115,115)       |
| Proceeds from sale of land, buildings, and equipment  | 1,797                            | 3                | 1,800            | 21              |
| Disbursements of loans to students and other  | (464)                            | —                | (464)            | (215)           |
| Repayments of loans to students and other   | 3,552                            | —                | 3,552            | 3,096           |
| Purchases of investments  | (444,753)                        | (197,960)        | (642,713)        | (656,174)       |
| Net proceeds from sales and maturities of investments   | 244,715                          | 34,422           | 279,137          | 675,832         |
| Increase in deposits with bond trustees   | (2)                              | —                | (2)              | —               |
| Net cash used in investing activities   | <u>(226,062)</u>                 | <u>(194,918)</u> | <u>(420,980)</u> | <u>(92,555)</u> |
| Cash flows from financing activities:   |                                  |                  |                  |                 |
| Change in government grants refundable  | (2,484)                          | —                | (2,484)          | (3,605)         |
| Proceeds from notes payable   | 348                              | —                | 348              | 50,961          |
| Principal payments on notes payable   | (41,826)                         | (10,120)         | (51,946)         | (4,433)         |
| Proceeds from issuance of bonds payable   | 125,000                          | —                | 125,000          | —               |
| Payments to retire or defease bonds payable   | (1,250)                          | (5,560)          | (6,810)          | (11,805)        |
| Bond issuance costs   | (740)                            | —                | (740)            | 114             |
| Proceeds from finance lease obligations   | 2,584                            | —                | 2,584            | 7,098           |
| Payments on finance lease obligations   | (2,833)                          | (2,283)          | (5,116)          | (12,887)        |
| Proceeds from private gifts restricted for long-term investment                                       | 55,181                           | 9,414            | 64,595           | 40,208          |
| Other revenue restricted for long-term investment   | (8,423)                          | —                | (8,423)          | 7,742           |
| Net cash provided by (used in) financing activities   | <u>125,557</u>                   | <u>(8,549)</u>   | <u>117,008</u>   | <u>73,393</u>   |
| Net (decrease) increase cash equivalents and restricted cash  | <u>(30,834)</u>                  | <u>69,378</u>    | <u>38,544</u>    | <u>103,193</u>  |
| Cash, cash equivalents and restricted cash at beginning of year                                       | <u>76,578</u>                    | <u>112,200</u>   | <u>188,778</u>   | <u>85,585</u>   |
| Cash, cash equivalents and restricted cash at end of year   | <u>\$ 45,744</u>                 | <u>181,578</u>   | <u>227,322</u>   | <u>188,778</u>  |
| Cash and cash equivalents   | <u>\$ 37,133</u>                 | <u>177,688</u>   | <u>214,821</u>   | <u>166,839</u>  |
| Restricted cash   | <u>8,611</u>                     | <u>3,890</u>     | <u>12,501</u>    | <u>21,939</u>   |
| Total cash, cash equivalents, and restricted cash   | <u>\$ 45,744</u>                 | <u>181,578</u>   | <u>227,322</u>   | <u>188,778</u>  |
| Supplemental disclosures of cash flow information:  |                                  |                  |                  |                 |
| Cash paid for interest, net of amounts capitalized  | \$ 16,584                        | 8,461            | 25,045           | 25,221          |
| Capital expenditures included in account payable  | 3,546                            | 615              | 4,161            | 32,158          |
| Operating cash flows from finance leases  | 2,630                            | —                | 2,630            | 1,913           |
| Operating cash flows from operating leases  | 4,455                            | —                | 4,455            | 33,289          |
| Financing cash flows from finance leases  | 2,584                            | —                | 2,584            | (3,619)         |
| Income taxes paid   | —                                | 244              | 244              | —               |

See accompanying notes to consolidated financial statements.



## WAKE FOREST UNIVERSITY

### Notes to Consolidated Financial Statements

June 30, 2021

#### (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 consolidated subsidiaries including: Verger Capital Management, LLC (VCM), and Reynolda House, Inc. (collectively, Reynolda Campus).

**WFUHS** – a wholly owned subsidiary of the University, WFUHS is a North Carolina nonprofit corporation with the University as its sole member, that operates the Wake Forest University School of Medicine, educating medical students and others, providing patient care in a variety of clinical, hospital, and other healthcare settings, and conducting 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 governing boards of the University, WFUHS, North Carolina Baptist Hospital (NCBH), and Wake Forest University Baptist Medical Center (WFUBMC) approved a Medical Center Integration Agreement (the Integration Agreement, or MCIA) whereby an integrated academic medical center was created that combined clinical care, medical education and research under the delegated operational management and oversight of WFUBMC.

Pursuant to a health system integration agreement among the University, WFUBMC, WFUHS, North Carolina Baptist Hospital (NCBH), and the Charlotte-Mecklenburg Hospital Authority (“CMHA”), a North Carolina hospital authority that operates a multi-state integrated healthcare system in the southeastern United States, effective on October 9, 2020, WFUBMC and CMHA became participants in a single, integrated healthcare delivery and academic system (the “Enterprise”) managed and overseen by Atrium Health, Inc., a new joint operating company without members (“Atrium”) whose 16-person board of directors (the “Atrium Board”) initially consists of 13 CMHA designees and three WFUBMC designees; the Medical Center Integration Agreement (MCIA) was amended to include Atrium as a third member of WFUBMC and to reconstitute the WFUBMC Board to include seventeen voting directors of whom the University designates six, NCBH designates six, Atrium designates three, and the WFUBMC board elects two; and the Medical Center (including WFUHS and the School of Medicine) was established as the academic core of the Enterprise responsible for its academic and research activities.

Under this arrangement, each Enterprise participant and its affiliates will maintain its separate legal existence and continue to own its assets and retain all power, authorities, rights and remedies necessary or appropriate to allow it to comply with its pre-existing debt instruments and any new

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debt instruments; all debt and other liabilities of each Enterprise participant will remain the debt and liabilities of such Enterprise participant regardless of when incurred (unless otherwise agreed); and no Enterprise participant assumes or guarantees the debt or other liabilities of any other Enterprise participant.

WFUBMC and CMHA delegated authority to Atrium to manage and oversee their activities and operations, subject to the authority of the University, WFUHS, and WFUBMC over academic and research matters, the exercise of certain reserved powers, and the carrying out of certain responsibilities by the WFUBMC Board and the CMHA Board of Commissioners.

The reserved powers of each Enterprise participant include the power to approve a change in its fundamental business or mission and, subject to the Atrium Board's approval, to develop its strategic plans (which will be generally consistent with those of the entire Enterprise) and its capital and operating budgets.

The School of Medicine continues as an academic unit owned and operated by the University through WFUHS. The Chief Academic Officer (CAO) reports exclusively to the President of the University on School of Medicine related academic matters and the President must consent to the appointment of the Dean of the School of Medicine by the CAO. The University, generally through the School of Medicine, continues to be responsible for, and have the authority regarding, all academic functions of the School of Medicine, including: setting the tuition rates, managing research activities and support, compliance with regulatory and accreditation standards, medical curriculum and academic programs and classes, standards and process for appointing, compensation, evaluating, promoting, granting tenure and dismissing faculty, requirements, standards, and processes relating to student admission, matriculation, conduct, evaluation/grading, promotion, and graduation (including awarding degrees in the School of Medicine); student clinical rotations, including assignments; processing and administering financial aid, student support services; administration and support of research, grant-processing, and research performed by faculty, staff, and students of the School of Medicine; and other customary academic functions associated with the operation of medical schools and health science related programs. As such, the University shall continue to hold and exercise, at minimum, the degree of academic and academically related administrative authority over WFUBMC, the School of Medicine, and WFUHS that the University exercised prior to the creation of the Enterprise.

In addition to forming a unified health system, a second medical school campus of the School of Medicine will be established in Charlotte, which will operate under the authority of the University as stated above and which will be affiliated with Atrium and is scheduled to open to first-year M.D. students in 2024. The addition of the second campus is expected to approximately double the enrollment of the School of Medicine. The integration transaction's objectives include fostering the mission of the School of Medicine through its new relationship with Atrium and the continued flourishing of the Medical Center.

The University is not obligated for repayment of indebtedness issued by or for the performance of obligations of NCBH, WFUHS, the Medical Center, the School of Medicine, CMHA, Atrium or any other affiliate. The University has not been pledged to secure obligations of NCBH, WFUHS, the Medical Center, the School of Medicine, CMHA, Atrium or any other affiliate. Similarly, neither NCBH, WFUHS, the Medical Center, the School of Medicine, CMHA, Atrium nor any other affiliate

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is obligated for the payment of the 2021 bonds or other obligations of the University and none of the property or other assets of NCBH, WFUHS, the Medical Center, the School of Medicine, CMHA, Atrium or any other affiliate has been pledged to secure payment of the 2021 bonds or other obligations of the University.

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

#### **(b) Basis of Presentation**

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

#### **(c) 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.

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#### Reynolda Campus

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.

Reynolda Campus successfully reopened the 2020-2021 academic year in socially distanced blended learning modality. The University altered the academic calendar to limit potential student travel and offered housing and dining refunds at the end of the fall semester to account for the decrease in the days on campus. Reynolda Campus continued allowing faculty and staff to work remotely to help with dedensification. The University experienced increased operating expenses due to COVID testing costs, quarantine and additional campus housing costs, and costs associated with preparing the academic and student life spaces for socially distanced requirements.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided funding from the Department of Education which provided funds for disbursement to universities for students impacted by COVID-19 and to the University to replace lost revenues or reimburse for COVID-19 related costs. Reynolda Campus received and disbursed approximately \$8.1 million of federal revenue, including approximately \$0.8 million for WFUHS, recorded in Government grants and contracts, with \$3.5 million directly disbursed to impacted students, recorded in Student tuition and fees as financial aid, and \$4.6 million was reimbursed to the University to offset lost revenue, recorded in Sales and services of auxiliary enterprises, for year ended June 30, 2021. During 2021, the University also received CARES Act funding through the State of North Carolina totaling \$0.8 million, including \$0.4 million allocated for student aid, and \$0.4 million allocated for reimbursement of personal protective equipment and costs associated with the conversion to online learning.

#### WFUHS

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 of revenues from the Relief Fund to replace lost revenues attributable to COVID-19 for the year ended June 30, 2020. WFUHS recorded approximately \$1 million and \$15 million to government grants and contracts revenue for the years ended June 30, 2021 and 2020, respectively. The unrecognized funds received at June 30, 2020 were recorded as other liabilities and deferrals in the consolidated balance sheets. 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 or to reimburse for COVID-19 related costs.

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Additionally, DHHS Centers for Medicare and Medicaid Services (CMS) provided approximately \$17.8 million of Medicare advance payments to WFUHS in fiscal year 2020, which were recorded as other liabilities and deferrals at June 30, 2020 in the consolidated balance sheets. In fiscal year 2021, following CMS guidance, WFUHS determined the recoupment schedule for paying back these advances through September 2022. Accordingly, at June 30, 2021, WFUHS recorded approximately \$11.9 million of Medicare advance payments within other liabilities and deferrals that represents the current portion and approximately \$3.7 million of Medicare advance payments within other liabilities and deferrals which represents the long-term portion in the consolidated balance sheets.

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.

#### **(d) 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.

#### **(e) 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.

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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.

#### **(f) 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 statement of cash flows as these funds are not used for operating needs.

#### **(g) 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.

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#### **(h) Notes Receivable**

Notes receivable, which are recorded at face value, principally represent amounts due from students under Perkins. 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.

The University assigns loans receivable from students under governmental loan programs, also carried at cost, to the federal government. The University classifies refundable advances from the federal government as liabilities in the consolidated statement of financial position. Outstanding loans cancelled under a governmental program result in a reduction of the funds available for loan and a decrease in the liability to the government.

#### **(i) 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 and working capital pool and Verger Fund II was created to hold the WFUHS and Reynolda House long-term endowment and working capital 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.

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

#### **(j) 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.

#### **(k) 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.

#### **(l) 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.

#### **(m) 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.

#### **(n) Impairment of Long-Lived Assets**

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



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#### **(o) Asset Retirement Obligations**

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

#### **(p) 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, and notes payable and finance leases 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.

#### **(q) 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.

#### **(r) 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, retirement rates, and healthcare cost trend rates. The University reviews its assumptions on an annual basis and

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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.

#### **(s) 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 and government 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

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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

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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 2021 or 2020. 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, 2021 and 2020 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 consist 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, and dining 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.

#### **(t) 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

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Notes to Consolidated Financial Statements

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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.

**(u) 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, 2018 remain subject to examination by federal and state tax authorities. The University has evaluated uncertain tax positions for the year ended June 30, 2021, 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, 2021.

**(v) Comparative Financial Information**

The consolidated financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2020 from which this information was derived.

**(2) Liquidity and Availability**

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

|  | 2021               |                |                  |                |
|--|--------------------|----------------|------------------|----------------|
|  | Reynolda<br>Campus | WFUHS          | Total            | 2020           |
| Cash and cash equivalents                        | \$ 37,133          | 177,688        | 214,821          | 166,839        |
| Accounts receivable, net                         | 19,857             | 77,160         | 97,017           | 114,386        |
| Patient receivables                              | —                  | 77,899         | 77,899           | 63,317         |
| Investments available to be liquidated           | 380,998            | 499,141        | 880,139          | 605,198        |
| Total financial assets available within one year | \$ <u>437,988</u>  | <u>831,888</u> | <u>1,269,876</u> | <u>949,740</u> |

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 \$150,000 and \$300,000, respectively, at June 30, 2021 and \$100,000 and \$300,000 at June 30, 2020, respectively, which could be drawn upon. Additionally, Reynolda Campus and WFUHS have board-designated

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endowment funds of \$270,018 and \$522,371, respectively at June 30, 2021 and \$221,229 and \$289,446 at June 30, 2020, 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.

**(3) Accounts Receivable**

The following is an analysis of accounts receivable at June 30, 2021 and 2020:

|                                | 2021               |         |         | 2020<br>Total |
|--------------------------------|--------------------|---------|---------|---------------|
|                                | Reynolda<br>Campus | WFUHS   | Total   |               |
| Accounts receivable            | \$ 15,995          | 28,260  | 44,255  | 83,649        |
| Grants receivable              | 4,294              | 51,280  | 55,574  | 43,779        |
| Total accounts<br>receivable   | 20,289             | 79,540  | 99,829  | 127,428       |
| Less allowance for bad debts   | (432)              | (2,380) | (2,812) | (3,542)       |
| Accounts<br>receivable,<br>net | \$ 19,857          | 77,160  | 97,017  | 123,886       |

**(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.

|                             | 2021               |                  |                |                    |                  |                | 2020               |                  |                |                    |                  |                |
|-----------------------------|--------------------|------------------|----------------|--------------------|------------------|----------------|--------------------|------------------|----------------|--------------------|------------------|----------------|
|                             | Reynolda Campus    |                  |                | WFUHS              |                  |                | Reynolda Campus    |                  |                | WFUHS              |                  |                |
|                             | Published<br>rates | Financial<br>aid | Net<br>revenue | Published<br>rates | Financial<br>aid | Net<br>revenue | Published<br>rates | Financial<br>aid | Net<br>revenue | Published<br>rates | Financial<br>aid | Net<br>revenue |
| Student tuition and<br>fees | \$ 395,351         | (110,422)        | 284,929        | 58,541             | (18,541)         | 40,000         | 368,471            | (105,539)        | 262,932        | 55,909             | (17,193)         | 38,716         |
| Housing and dining          | 37,185             | (15,813)         | 21,372         | —                  | —                | —              | 36,275             | (14,441)         | 21,834         | —                  | —                | —              |
| Total                       | \$ 432,536         | (126,235)        | 306,301        | 58,541             | (18,541)         | 40,000         | 404,746            | (119,980)        | 284,766        | 55,909             | (17,193)         | 38,716         |

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**(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:

|                                       | <u>2021</u>       |              | <u>2020</u>    |              |
|---------------------------------------|-------------------|--------------|----------------|--------------|
| Medicare                              | \$ 235,348        | 34 %         | 208,308        | 34 %         |
| Medicaid                              | 80,682            | 12           | 70,914         | 11           |
| Managed care and commercial insurance | 340,561           | 49           | 301,457        | 48           |
| Self-pay, after insurance             | 7,320             | 1            | 5,557          | 1            |
| Self-pay, uninsured                   | 5,639             | 1            | 6,788          | 1            |
| Other                                 | 21,968            | 3            | 28,314         | 5            |
|                                       | <u>691,518</u>    | <u>100 %</u> | <u>621,338</u> | <u>100 %</u> |
| Patient service revenue               | \$ <u>691,518</u> | <u>100 %</u> | <u>621,338</u> | <u>100 %</u> |

*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:

|                                       | <u>2021</u>  | <u>2020</u>  |
|---------------------------------------|--------------|--------------|
| Medicare                              | 25 %         | 24 %         |
| Medicaid                              | 14           | 11           |
| Managed care and commercial insurance | 24           | 22           |
| Self-pay, after insurance             | 14           | 16           |
| Self-pay, uninsured                   | 11           | 13           |
| Other                                 | 12           | 14           |
|                                       | <u>100 %</u> | <u>100 %</u> |

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 \$4,698 and \$13,257 in 2021 and 2020, respectively.

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**(6) Contributions Receivable**

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2021 and 2020:

|                                 | <b>2021</b>                |               |                | <b>2020<br/>Total</b> |
|---------------------------------|----------------------------|---------------|----------------|-----------------------|
|                                 | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b>  | <b>Total</b>   |                       |
| One year or less                | \$ 28,793                  | 5,851         | 34,644         | 36,357                |
| Between one and five years      | 67,703                     | 7,872         | 75,575         | 57,957                |
| More than five years            | 94,410                     | 900           | 95,310         | 99,483                |
| Contributions receivable, gross | 190,906                    | 14,623        | 205,529        | 193,797               |
| Estimated uncollectible amounts | (6,869)                    | (1,532)       | (8,401)        | (8,656)               |
| Discount to present value       | (57,323)                   | (494)         | (57,817)       | (58,288)              |
| Contributions receivable, net   | \$ <u>126,714</u>          | <u>12,597</u> | <u>139,311</u> | <u>126,853</u>        |

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2021, and 2020, were discounted at rates ranging from 0.61% to 0.62% for Reynolda Campus, respectively, and 1.43% to 1.71% 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 61% and 64% of Reynolda Campus' net contributions receivable as of June 30, 2021 and 2020, respectively.



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**(7) Notes Receivable**

The following is an analysis of notes receivable at June 30, 2021 and 2020:

|   | <b>2021</b>                |              |               | <b>2020<br/>Total</b> |
|---|----------------------------|--------------|---------------|-----------------------|
|   | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b> | <b>Total</b>  |                       |
| Student loans receivable                | \$ 9,815                   | 336          | 10,151        | 12,690                |
| Other notes receivable                  | 3,605                      | —            | 3,605         | 4,797                 |
| Total notes<br>receivable               | 13,420                     | 336          | 13,756        | 17,487                |
| Less estimated uncollectible<br>amounts | (700)                      | (34)         | (734)         | (724)                 |
| Notes<br>receivable,<br>net             | \$ <u>12,720</u>           | <u>302</u>   | <u>13,022</u> | <u>16,763</u>         |

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, 2021 and 2020, student loans receivable consisted of Federal loan programs of \$9,271 and \$11,735, respectively, and institutional loan programs of \$880 and \$955, respectively. The University participates in the Perkins federal revolving loan program. Cumulative funds advanced by the Federal government of \$2,049 and \$4,533 at June 30, 2021 and 2020, 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 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 continue servicing the Perkins loan portfolio during the wind-down period until it is no longer administratively feasible. Based on review of the prior collection history the University has recorded an allowance for uncollectible Perkins loan amounts of \$458 and \$458 as of June 30, 2021 and 2020, 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, 2021 and 2020, the allowance for uncollectible institutional student loan amounts was \$276 and \$266, respectively.

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**(8) Investments**

Investments at June 30, 2021 and 2020 consist of the following:

|  | <u>2021</u>         | <u>2020</u>      |
|--|---------------------|------------------|
| Short-term investments <sup>(a)</sup>  | \$ 25,046           | 36,466           |
| Absolute return <sup>(b)</sup>   | 1,877,649           | 1,336,945        |
| Commodities <sup>(c)</sup>   | 14,060              | 10,428           |
| Fixed income: <sup>(d)</sup>   |                     |                  |
| Domestic   | 475,221             | 259,508          |
| International  | 9,970               | 1,727            |
| Private equity <sup>(e)</sup>  | 1,046               | 1,135            |
| Public equity: <sup>(f)</sup>  |                     |                  |
| Domestic   | 50,105              | 70,095           |
| International  | 44,428              | 3,436            |
| Real estate <sup>(g)</sup>   | 12,953              | 8,393            |
| Beneficial interest in perpetual trusts and assets held by others <sup>(h)</sup> | 33,733              | 28,423           |
| Other <sup>(i)</sup>   | <u>354,771</u>      | <u>236,031</u>   |
| Total investments  | <u>\$ 2,898,982</u> | <u>1,992,587</u> |

(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 \$1,867,495 and \$1,323,525 of funds managed by Verger valued under the NAV practical expedient in fiscal years 2021 and 2020, respectively, whose underlying investments were comprised of 56.1% and 50.0% of equities, 12.8% and 11.9% of real assets, 15.8% and 20.5% of absolute return, and 15.3% and 17.6% fixed income in fiscal years 2021 and 2020, 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.

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- (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

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### Notes to Consolidated Financial Statements

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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, 2021 and 2020, respectively were 4.70% and 4.85%, respectively, for Reynolda Campus, and 5.30% 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.

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Endowment net assets consist of the following at June 30, 2021 and 2020:

|   | <b>2021</b>                          |                                   |                  | <b>2020<br/>Total</b> |
|---|--------------------------------------|-----------------------------------|------------------|-----------------------|
|   | <b>Without donor<br/>restriction</b> | <b>With donor<br/>restriction</b> | <b>Total</b>     |                       |
| <b>Reynolda Campus:</b>                   |                                      |                                   |                  |                       |
| Donor-restricted endowment funds:         |                                      |                                   |                  |                       |
| Historical value                          | \$ —                                 | 472,515                           | 472,515          | 448,103               |
| Appreciation                              | —                                    | 335,618                           | 335,618          | 190,284               |
| Total donor-restricted<br>endowment funds | —                                    | 808,133                           | 808,133          | 638,387               |
| Board-designated endowment funds          | 270,018                              | —                                 | 270,018          | 221,229               |
| Underwater endowments                     | —                                    | (1,451)                           | (1,451)          | (10,583)              |
| Total endowment net<br>assets             | <u>\$ 270,018</u>                    | <u>806,682</u>                    | <u>1,076,700</u> | <u>849,033</u>        |
| <b>WFUHS:</b>                             |                                      |                                   |                  |                       |
| Donor-restricted endowment funds:         |                                      |                                   |                  |                       |
| Historical value                          | \$ —                                 | 173,842                           | 173,842          | 164,193               |
| Appreciation                              | —                                    | 66,788                            | 66,788           | 25,655                |
| Total donor-restricted<br>endowment funds | —                                    | 240,630                           | 240,630          | 189,848               |
| Board-designated endowment funds          | 522,371                              | —                                 | 522,371          | 289,446               |
| Underwater endowments                     | —                                    | (623)                             | (623)            | (2,806)               |
| Other non-pooled endowment funds          | 1,860                                | 21,972                            | 23,832           | 24,666                |
| Total endowment net<br>assets             | <u>\$ 524,231</u>                    | <u>261,979</u>                    | <u>786,210</u>   | <u>501,154</u>        |

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Changes in endowment net assets for the years ended June 30, 2021 and 2020 are as follows:

|                                 | <b>2021</b>                          |                                   |                  | <b>2020</b><br><b>Total</b> |
|---------------------------------|--------------------------------------|-----------------------------------|------------------|-----------------------------|
|                                 | <b>Without donor<br/>restriction</b> | <b>With donor<br/>restriction</b> | <b>Total</b>     |                             |
| <b>Reynolda Campus:</b>         |                                      |                                   |                  |                             |
| Endowment, beginning of year \$ | 221,229                              | 627,804                           | 849,033          | 868,436                     |
| Investment returns, net         | 57,748                               | 181,148                           | 238,896          | (3,351)                     |
| Contributions                   | 100                                  | 24,184                            | 24,284           | 21,437                      |
| Transfers                       | 609                                  | (137)                             | 472              | —                           |
| Appropriation for expenditure   | (9,668)                              | (26,317)                          | (35,985)         | (37,489)                    |
| Endowment, end of year \$       | <u>270,018</u>                       | <u>806,682</u>                    | <u>1,076,700</u> | <u>849,033</u>              |
| <b>WFUHS:</b>                   |                                      |                                   |                  |                             |
| Endowment, beginning of year \$ | 291,776                              | 209,378                           | 501,154          | 506,962                     |
| Investment returns, net         | 93,473                               | 53,891                            | 147,364          | 5,123                       |
| Contributions                   | —                                    | 9,736                             | 9,736            | 7,721                       |
| Transfers                       | 153,870                              | —                                 | 153,870          | 4,660                       |
| Appropriation for expenditure   | (14,888)                             | (11,026)                          | (25,914)         | (23,312)                    |
| Endowment, end of year \$       | <u>524,231</u>                       | <u>261,979</u>                    | <u>786,210</u>   | <u>501,154</u>              |

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, 2021, and 2020 the amount by which funds were underwater was calculated as follows:

|                                   | <b>2021</b>                |              |                | <b>2020</b><br><b>Total</b> |
|-----------------------------------|----------------------------|--------------|----------------|-----------------------------|
|                                   | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b> | <b>Total</b>   |                             |
| Aggregate original gift amount \$ | 12,262                     | 5,956        | 18,218         | 286,120                     |
| Aggregate fair value              | <u>10,811</u>              | <u>5,333</u> | <u>16,144</u>  | <u>272,731</u>              |
| Aggregate deficiency \$           | <u>(1,451)</u>             | <u>(623)</u> | <u>(2,074)</u> | <u>(13,389)</u>             |

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The purpose of endowed net assets as of June 30, 2021 and 2020 are as follows:

|                               | <b>2021</b>                          |                                   |                  | <b>2020<br/>Total</b> |
|-------------------------------|--------------------------------------|-----------------------------------|------------------|-----------------------|
|                               | <b>Without donor<br/>restriction</b> | <b>With donor<br/>restriction</b> | <b>Total</b>     |                       |
| Reynolda Campus:              |                                      |                                   |                  |                       |
| Instruction and research      | \$ 8,537                             | 202,399                           | 210,936          | 163,198               |
| Student aid                   | 18,774                               | 550,700                           | 569,474          | 446,856               |
| Program support               | 242,707                              | 53,583                            | 296,290          | 238,979               |
| Total endowment<br>net assets | <u>\$ 270,018</u>                    | <u>806,682</u>                    | <u>1,076,700</u> | <u>849,033</u>        |
| WFUHS:                        |                                      |                                   |                  |                       |
| Instruction and research      | \$ 196,064                           | 79,952                            | 276,016          | 96,738                |
| Student aid                   | 5,681                                | 59,809                            | 65,490           | 49,583                |
| Healthcare services           | 13,057                               | 596                               | 13,653           | 11,422                |
| Program support               | 309,429                              | 121,622                           | 431,051          | 343,411               |
| Total endowment<br>net assets | <u>\$ 524,231</u>                    | <u>261,979</u>                    | <u>786,210</u>   | <u>501,154</u>        |

**(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:

|   | <b>2021</b>       |                |                |                  | <b>Total</b>     |
|---|-------------------|----------------|----------------|------------------|------------------|
|   | <b>Level 1</b>    | <b>Level 2</b> | <b>Level 3</b> | <b>NAV</b>       |                  |
| Financial assets:   |                   |                |                |                  |                  |
| Cash and cash equivalents   | \$ 214,821        | —              | —              | —                | 214,821          |
| Investments:  |                   |                |                |                  |                  |
| Short-term investments  | 25,046            | —              | —              | —                | 25,046           |
| Absolute return   | 10,154            | —              | —              | 1,867,495        | 1,877,649        |
| Commodities   | 14,060            | —              | —              | —                | 14,060           |
| Fixed income:   |                   |                |                |                  |                  |
| Domestic  | 475,221           | —              | —              | —                | 475,221          |
| International   | 9,970             | —              | —              | —                | 9,970            |
| Private equity  | —                 | —              | 948            | 98               | 1,046            |
| Public equity:  |                   |                |                |                  |                  |
| Domestic  | 50,105            | —              | —              | —                | 50,105           |
| International   | 44,428            | —              | —              | —                | 44,428           |
| Real estate   | 12,860            | —              | —              | 93               | 12,953           |
| Beneficial interest in perpetual trusts and assets held by others |                   |                |                |                  |                  |
|   | —                 | —              | 33,733         | —                | 33,733           |
| Other   | —                 | 124,417        | —              | 230,354          | 354,771          |
| Total assets  | <u>\$ 856,665</u> | <u>124,417</u> | <u>34,681</u>  | <u>2,098,040</u> | <u>3,113,803</u> |

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|   |    | <b>2021</b>    |                |                |                  |                  |
|---|----|----------------|----------------|----------------|------------------|------------------|
|   |    | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>NAV</b>       | <b>Total</b>     |
| Financial liabilities:  |    |                |                |                |                  |                  |
| Other liabilities and deferrals:                                  |    |                |                |                |                  |                  |
| Employee benefits –   |    |                |                |                |                  |                  |
| nonrecurring  | \$ | —              | 124,417        | —              | —                | 124,417          |
| Interest rate swap agreements                                     |    | —              | 23,911         | —              | —                | 23,911           |
| Annuities payable   |    | —              | 23,233         | —              | —                | 23,233           |
|   |    | <u>—</u>       | <u>171,561</u> | <u>—</u>       | <u>—</u>         | <u>171,561</u>   |
| Total liabilities   | \$ | <u>—</u>       | <u>171,561</u> | <u>—</u>       | <u>—</u>         | <u>171,561</u>   |
|   |    |                |                |                |                  |                  |
|   |    | <b>2020</b>    |                |                |                  |                  |
|   |    | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>NAV</b>       | <b>Total</b>     |
| 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            |
| Beneficial interest in perpetual trusts and assets held by others |    | —              | —              | 28,423         | —                | 28,423           |
| Other   |    | 3,599          | 90,197         | —              | 142,235          | 236,031          |
|   |    | <u>573,245</u> | <u>90,197</u>  | <u>29,460</u>  | <u>1,466,524</u> | <u>2,159,426</u> |
| Total assets  | \$ | <u>573,245</u> | <u>90,197</u>  | <u>29,460</u>  | <u>1,466,524</u> | <u>2,159,426</u> |
|   |    |                |                |                |                  |                  |
| 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           |
|   |    | <u>—</u>       | <u>141,527</u> | <u>—</u>       | <u>—</u>         | <u>141,527</u>   |
| Total liabilities   | \$ | <u>—</u>       | <u>141,527</u> | <u>—</u>       | <u>—</u>         | <u>141,527</u>   |

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.



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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, 2021 or 2020. 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 1.21% and 1.15% at June 30, 2021 and 2020, respectively.

The following tables present the reconciliation of Level 3 assets measured at fair value for the years ended June 30, 2021 and June 30, 2020, respectively. Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified as Level 3.

|   | <b>Balances<br/>as of<br/>June 30,<br/>2020</b> | <b>Total<br/>realized and<br/>unrealized<br/>(losses)<br/>gains</b> | <b>Purchases</b> | <b>Sales</b>   | <b>Net<br/>transfers<br/>out of<br/>Level 3</b> | <b>June 30,<br/>2021</b> |
|---|---|---|------------------|----------------|---|--------------------------|
| Investments:  |   |   |                  |                |   |                          |
| Private equity  | \$ 1,037  | 2   | —                | (91)           | —   | 948                      |
| Beneficial interest in perpetual trusts and assets held by others | <u>28,423</u>                                   | <u>5,618</u>  | <u>1,317</u>     | <u>(1,625)</u> | <u>—</u>  | <u>33,733</u>            |
| Total Level 3 investments   | <u>\$ 29,460</u>                                | <u>5,620</u>  | <u>1,317</u>     | <u>(1,716)</u> | <u>—</u>  | <u>34,681</u>            |

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

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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.

As of June 30, 2021, redemption frequency and the corresponding notice period for all investments are as follows:

| <b>Category</b>   | <b>Redemption<br/>frequency<br/>(in days)<br/>(if currently<br/>eligible)</b> | <b>Redemption<br/>notice period<br/>(in days)</b> |
|---|---|---|
| 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   |

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**(11) Land, Buildings, and Equipment**

Land, buildings, and equipment are summarized as follows at June 30, 2021 and 2020:

|                                     | <b>2021</b>                |                  |                    | <b>2020<br/>Total</b> |
|-------------------------------------|----------------------------|------------------|--------------------|-----------------------|
|                                     | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b>     | <b>Total</b>       |                       |
| Land                                | \$ 44,281                  | 111,013          | 155,294            | 152,466               |
| Buildings and other<br>improvements | 978,819                    | 472,014          | 1,450,833          | 1,412,991             |
| Equipment and furnishings           | 135,463                    | 285,474          | 420,937            | 436,174               |
| Construction in progress            | 30,480                     | 25,088           | 55,568             | 69,090                |
|                                     | <u>1,189,043</u>           | <u>893,589</u>   | <u>2,082,632</u>   | <u>2,070,721</u>      |
| Less accumulated<br>depreciation    | <u>(505,623)</u>           | <u>(553,553)</u> | <u>(1,059,176)</u> | <u>(1,019,624)</u>    |
|                                     | <u>\$ 683,420</u>          | <u>340,036</u>   | <u>1,023,456</u>   | <u>1,051,097</u>      |

Total depreciation expense on buildings, improvements, equipment, and furnishings was \$87,143 and \$88,465 for the years ended June 30, 2021 and 2020, respectively.

As of June 30, 2021, gross land, buildings, and equipment includes \$54,390 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 \$1,669 and \$2,412 was capitalized in the years ended June 30, 2021 and 2020, respectively.

The liabilities associated with AROs for the years ended June 30, 2021 and 2020 were \$5,795 and \$6,330, respectively, for Reynolda Campus, and \$2,659 and \$2,686, 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.

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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, 2021.

| <u>Components of lease balances</u> | <u>Classification in consolidated<br/>balance sheet</u> | <u>WFU</u>       | <u>WFUHS</u>   | <u>Total</u>   | <u>2020<br/>Total</u> |
|-------------------------------------|---|------------------|----------------|----------------|-----------------------|
| Assets:                             |   |                  |                |                |                       |
| Operating lease assets              | Right-of-use assets-operating                           | \$ 27,564        | 155,141        | 182,705        | 208,223               |
| Finance lease assets                | Land, buildings, and equipment, net                     | 5,591            | 36,626         | 42,217         | 45,046                |
| Total leased assets                 |   | <u>33,155</u>    | <u>191,767</u> | <u>224,922</u> | <u>253,269</u>        |
| Liabilities:                        |   |                  |                |                |                       |
| Operating lease liabilities         | Operating lease obligations                             | 26,946           | 159,998        | 186,944        | 211,997               |
| Finance lease liabilities           | Notes payable and finance leases                        | 5,575            | 39,237         | 44,812         | 45,801                |
| Total lease liabilities             |   | <u>\$ 32,521</u> | <u>199,235</u> | <u>231,756</u> | <u>257,798</u>        |

| <u>Components of lease expense</u>       | <u>Classification in consolidated<br/>statement of activities</u> | <u>WFU</u>      | <u>WFUHS</u>  | <u>Total</u>  | <u>2020<br/>Total</u> |
|--|---|-----------------|---------------|---------------|-----------------------|
| Operating lease expense                  | Other operating expenses  | \$ 3,910        | 29,022        | 32,932        | 33,629                |
| Finance lease expense:                   |   |                 |               |               |                       |
| Amortization of leased assets            | Depreciation and amortization                                     | 2,369           | 1,823         | 4,192         | 3,521                 |
| Interest on lease liabilities            | Interest on debt  | 70              | 1,821         | 1,891         | 1,913                 |
| Total finance lease<br>expense           |   | 2,439           | 3,644         | 6,083         | 5,434                 |
| Variable and short-term lease<br>expense | Other operating expenses  | —               | 1,783         | 1,783         | 2,209                 |
| Total lease expense                      |   | <u>\$ 6,349</u> | <u>34,449</u> | <u>40,798</u> | <u>41,272</u>         |

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:

|  | <u>Reynolda<br/>Campus</u> | <u>WFUHS</u> |
|--|----------------------------|--------------|
| Weighted-average remaining lease term – finance leases   | 2.76 years                 | 20.01 years  |
| Weighted-average remaining lease term – operating leases | 9.90 years                 | 6.58 years   |
| Weighted-average discount rate – finance leases          | 0.79 %                     | 4.55 %       |
| Weighted-average discount rate – operating leases        | 2.04 %                     | 2.91 %       |

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Payments due include options to extend finance leases through fiscal year 2032, are summarized below as of June 30, 2021:

|                    | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b>  | <b>Total</b>  |
|--------------------|----------------------------|---------------|---------------|
| 2022               | \$ 2,137                   | 3,119         | 5,256         |
| 2023               | 2,140                      | 3,112         | 5,252         |
| 2024               | 857                        | 3,054         | 3,911         |
| 2025               | 441                        | 3,024         | 3,465         |
| 2026               | —                          | 2,959         | 2,959         |
| In total hereafter | —                          | 44,378        | 44,378        |
|                    | <u>\$ 5,575</u>            | <u>59,646</u> | <u>65,221</u> |

Payments due include options to extend operating leases through fiscal year 2032, are summarized below as of June 30, 2021:

|                    | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b>   | <b>Total</b>   |
|--------------------|----------------------------|----------------|----------------|
| 2022               | \$ 3,490                   | 28,291         | 31,781         |
| 2023               | 3,150                      | 27,024         | 30,174         |
| 2024               | 2,412                      | 26,284         | 28,696         |
| 2025               | 2,066                      | 25,247         | 27,313         |
| 2026               | 2,159                      | 24,610         | 26,769         |
| In total hereafter | 13,669                     | 46,035         | 59,704         |
|                    | <u>\$ 26,946</u>           | <u>177,491</u> | <u>204,437</u> |

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:

|                      | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b> | <b>Total</b>  |
|----------------------|----------------------------|--------------|---------------|
| Year ending June 30: |                            |              |               |
| 2022                 | \$ 8,556                   | 948          | 9,504         |
| 2023                 | 7,169                      | 942          | 8,111         |
| 2024                 | 7,312                      | 903          | 8,215         |
| 2025                 | 7,459                      | 645          | 8,104         |
| 2026                 | 7,607                      | 455          | 8,062         |
|                      | <u>\$ 38,103</u>           | <u>3,893</u> | <u>41,996</u> |

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Total income from real estate was \$8,608 and \$8,360 for Reynolda Campus and \$1,461 and \$2,065 for WFUHS for the years ended June 30, 2021 and 2020, respectively.

**(13) Notes, Finance Leases, and Bonds Payable**

Notes, finance leases, and bonds payable at June 30, 2021 and 2020 consist of the following:

| Reynolda Campus  | Years to<br>nominal<br>maturity | Interest rate<br>at June 30, 2021 |          | 2021              | 2020           |
|--|---------------------------------|-----------------------------------|----------|-------------------|----------------|
| Notes payable and finance leases:                            |                                 |                                   |          |                   |                |
| Line of credit   | >1                              | LIBOR plus 0.50%                  | Variable | \$ 49,562         | 89,261         |
| Promissory note  | >1                              | LIBOR plus 0.75%                  | Variable | 14,625            | 16,125         |
| Finance leases   | <1 to 4                         | 0.48% to 2.55%                    | Fixed    | 5,575             | 5,837          |
| Other installment loans                                      | 1 to 3                          | 0.53% to 1.46%                    | Fixed    | 1,749             | 2,028          |
| Total notes payable<br>and finance leases                    |                                 |                                   |          | <u>71,511</u>     | <u>113,251</u> |
| Bonds payable:   |                                 |                                   |          |                   |                |
| 2012 Series serial taxable                                   | 21                              | 2.60% to 3.10%                    | Fixed    | 20,425            | 20,425         |
| 2012 Series term taxable                                     | 21                              | 3.45% to 3.70%                    | Fixed    | 104,575           | 104,575        |
| 2016 Series serial tax-exempt                                | 25                              | 4.00% to 5.00%                    | Fixed    | 135,480           | 136,730        |
| 2016 Series term tax-exempt                                  | 25                              | 2.75% to 3.00%                    | Fixed    | 22,370            | 22,370         |
| 2018 Series serial tax-exempt                                | 27                              | 4.47 %                            | Fixed    | 12,100            | 12,100         |
| 2018 Series term tax-exempt                                  | 27                              | 3.38% to 5.00%                    | Fixed    | 15,920            | 15,920         |
| 2018 Series term tax-exempt                                  | 27                              | 3.50% to 5.00%                    | Fixed    | 69,950            | 69,950         |
| 2021 Series term taxable                                     | 30                              | 2.91 %                            | Fixed    | 25,000            | —              |
| 2021 Series bullet taxable                                   | 30                              | 3.01 %                            | Fixed    | 100,000           | —              |
| Unamortized bond premium                                     |                                 |                                   |          | 25,003            | 25,972         |
| Unamortized bond issuance costs                              |                                 |                                   |          | <u>(3,330)</u>    | <u>(2,590)</u> |
| Total bonds payable  |                                 |                                   |          | <u>527,493</u>    | <u>405,452</u> |
| Total notes payable,<br>finance leases, and<br>bonds payable |                                 |                                   |          | <u>\$ 599,004</u> | <u>518,703</u> |

Reynolda Campus entered into a capital projects financing agreement with Truist Bank (formerly Branch banking and Trust("BB&T") 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 0.50%, 0.59% at June 30, 2021. Additionally, the University has a supplemental line of credit with Truist Bank that permits the University to borrow up to \$50,000. The line of credit is due on December 31, 2021 and bears interest at the one-month LIBOR plus 1.00%, no less than 2.00%. The balance on this line was \$0 at June 30, 2021.

Reynolda Campus entered into a financing agreement with Truist Bank 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%, 0.84% at June 30, 2021.

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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%.

The Series 2012 taxable bonds are evidenced by a loan agreement dated August 2, 2012, by and between the University and Truist Bank, 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 Truist Bank, 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 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.

The Series 2021 taxable bonds are evidenced by a loan agreement dated June 1, 2021, by and between the University and Truist Bank, as trustee. The Series 2021 taxable bonds have final maturities of January 1, 2044 for the term bonds and January 1, 2051 for the bullet bond. The 2021 bonds maturing on January 1, 2044 are subject to mandatory sinking fund redemptions from 2040 through 2044 with annual amounts of \$5,000. Interest is payable each January 1 and July 1. The University's obligation under the

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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.

| WFUHS  | Years to<br>nominal<br>maturity | Interest rate<br>at June 30, 2021 |          | 2021              | 2020           |
|--|---------------------------------|-----------------------------------|----------|-------------------|----------------|
| Notes payable and finance leases:                            |                                 |                                   |          |                   |                |
| Line of credit   | —                               | LIBOR plus 2.00%                  | Variable | \$ —              | 7,449          |
| Loan agreement   | <1 to 2                         | LIBOR plus 0.65%                  | Variable | 3,669             | 5,671          |
| Loan agreement   | <1 to 5                         | 1.88%                             | Fixed    | 4,227             | 4,896          |
| Loan agreement   | <1 to 4                         | LIBOR plus 1.05%                  | Variable | 2,489             | 3,511          |
| Finance lease  | 20                              | 4.5%                              | Fixed    | 38,801            | 39,964         |
| Finance lease  | 4                               | 4.25% to 6.16%                    | Fixed    | 436               | —              |
| Total notes payable  |                                 |                                   |          | <u>49,622</u>     | <u>61,491</u>  |
| Bonds payable:   |                                 |                                   |          |                   |                |
| Series 2019 A  | <1 to 12                        | 5.0 %                             | Fixed    | 38,485            | 39,540         |
| Series 2012 B  | <1 to 12                        | 2.00% to 5.00%                    | Fixed    | 81,660            | 86,165         |
| Unamortized bond premium                                     |                                 |                                   |          | 15,032            | 16,243         |
| Unamortized bond issuance costs                              |                                 |                                   |          | (904)             | (977)          |
| Total bonds payable  |                                 |                                   |          | <u>134,273</u>    | <u>140,971</u> |
| Total notes payable,<br>finance leases, and<br>bonds payable |                                 |                                   |          | <u>\$ 183,895</u> | <u>202,462</u> |

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, 2021. As of June 30, 2021, WFUHS is jointly and severally liable for \$728,722 of bonds payable borrowed by the other members of the Obligated Group and for \$19,199 and \$27,832, 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 under the MTI, no portion of these amounts meets the criteria for liability recognition in the accompanying consolidated financial statements.



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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 2034. 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 2014 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 \$200,000 to provide for the working capital needs of NCBH, WFUHS, and the Medical Center, all Borrowers under the credit facility. The line of credit terminated on April 2, 2021.

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.

WFUBMC entered into a taxable, unsecured loan agreement, with WFUHS and NCBH as Borrowers, with a fixed interest rate of 1.88% to refinance a previously outstanding loan agreement held by WFUHS and NCBH and owned subsidiaries. Principal payments and accrued interest are due monthly with a final maturity date of April 15, 2027.

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 finance 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%.

Wake Forest Ambulatory Ventures, LLC entered into various finance lease obligations of \$538 related to equipment. The obligations have a fixed interest rates ranging from 4.25% to 6.16% and a final maturity dates through June 2025.

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Aggregate annual maturities of notes, finance leases, and bonds payable for each of the five fiscal years subsequent to June 30, 2021 and thereafter are as follows:

|                     | <u>Reynolda<br/>Campus</u> | <u>WFUHS</u>   | <u>Total</u>   |
|---------------------|----------------------------|----------------|----------------|
| 2022                | \$ 10,273                  | 10,990         | 21,263         |
| 2023                | 16,433                     | 10,122         | 26,555         |
| 2024                | 12,835                     | 10,648         | 23,483         |
| 2025                | 13,482                     | 11,264         | 24,746         |
| 2026                | 17,290                     | 9,394          | 26,684         |
| In total thereafter | <u>507,018</u>             | <u>131,477</u> | <u>638,495</u> |
|                     | <u>\$ 577,331</u>          | <u>183,895</u> | <u>761,226</u> |

Costs related to the registration and issuance of bonds, totaling \$21,673 and \$15,033, 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 \$865 and \$1,137, respectively, for 2021 and \$855 and \$1,137, respectively, for 2020.

**(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.

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

|                       | <b>Reynolda Campus</b>                         |   | <b>WFUHS</b>                                  |
|-----------------------|--|---|---|
|                       | <b>October 2008<br/>interest rate<br/>swap</b> | <b>December 2016<br/>interest rate<br/>swap</b> | <b>August 2002<br/>interest rate<br/>swap</b> |
| Notional amount       | \$ 50,000                                      | 7,625   | 19,289  |
| 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<br>one-month<br>LIBOR                   | 67% of<br>one-month<br>LIBOR                    | 67% of<br>one-month<br>LIBOR                  |
| Rate paid             | 3.61 %   | 2.44 %  | 3.67 %  |
| Collateral provisions | 100% liability<br>if > \$20,000                | None  | 100% asset/<br>liability<br>– \$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, 2021 and 2020, respectively, was \$0 and \$8,000 for Reynolda Campus, and \$3,890 and \$5,330 for WFUHS.

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

|                                  | <b>2021</b>        |                    | <b>2020</b>       |                    |
|----------------------------------|--------------------|--------------------|-------------------|--------------------|
|                                  | <u>Fair value</u>  | <u>Gain (Loss)</u> | <u>Fair value</u> | <u>Gain (Loss)</u> |
| Reynolda Campus:                 |                    |                    |                   |                    |
| November 2006 interest rate swap | \$ —               | —                  | —                 | 85                 |
| October 2008 interest rate swap  | (19,580)           | 6,814              | (26,394)          | (8,591)            |
| December 2016 interest rate swap | <u>(379)</u>       | <u>263</u>         | <u>(642)</u>      | <u>(356)</u>       |
| Total                            | (19,959)           | 7,077              | (27,036)          | (8,862)            |
| WFUHS:                           |                    |                    |                   |                    |
| August 2002 interest rate swap   | <u>(3,952)</u>     | <u>1,397</u>       | <u>(5,349)</u>    | <u>(1,319)</u>     |
| Grand total                      | <u>\$ (23,911)</u> | <u>8,474</u>       | <u>(32,385)</u>   | <u>(10,181)</u>    |

As of June 30, 2021, the University's adjusted debt portfolio, after taking into account the aforementioned swap agreements, was 100% fixed rate for Reynolda Campus, and 100% fixed rate for WFUHS.

**(15) Net Assets**

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

|  | <b>2021</b>                      |                               |                  |
|--|----------------------------------|-------------------------------|------------------|
|  | <u>Without donor restriction</u> | <u>With donor restriction</u> | <u>Total</u>     |
| Reynolda Campus:   |                                  |                               |                  |
| Operating  | \$ 354,386                       | —                             | 354,386          |
| Endowment  | 270,018                          | 806,682                       | 1,076,700        |
| Investment in plant, net                                       | 177,607                          | —                             | 177,607          |
| Donor pledges and gifts  | —                                | 187,230                       | 187,230          |
| Trust (annuity, perpetual, split-interest) and loan agreements | <u>—</u>                         | <u>20,767</u>                 | <u>20,767</u>    |
| Total net assets   | <u>\$ 802,011</u>                | <u>1,014,679</u>              | <u>1,816,690</u> |

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|   | <b>2021</b>                              |                                   |                  |
|---|--|-----------------------------------|------------------|
|   | <b>Without<br/>donor<br/>restriction</b> | <b>With donor<br/>restriction</b> | <b>Total</b>     |
| <b>WFUHS:</b>   |  |                                   |                  |
| Operating   | \$ 205,139                               | —                                 | 205,139          |
| Endowment   | 524,231                                  | 261,979                           | 786,210          |
| Investment in plant, net  | 193,992                                  | —                                 | 193,992          |
| Donor pledges and gifts   | —  | 7,981                             | 7,981            |
| Trust (annuity, perpetual, split-interest) and<br>loan agreements | —  | 22,683                            | 22,683           |
| Total net assets  | <u>\$ 923,362</u>                        | <u>292,643</u>                    | <u>1,216,005</u> |
| <br>  |  |                                   |                  |
|   | <b>2020</b>                              |                                   |                  |
|   | <b>Without<br/>donor<br/>restriction</b> | <b>With donor<br/>restriction</b> | <b>Total</b>     |
| <b>Reynolda Campus:</b>   |  |                                   |                  |
| 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)<br>and loan agreements | —  | 20,507                            | 20,507           |
| Total net assets  | <u>\$ 686,711</u>                        | <u>805,896</u>                    | <u>1,492,607</u> |
| <br>  |  |                                   |                  |
| <b>WFUHS:</b>   |  |                                   |                  |
| 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)<br>and loan agreements | —  | 19,807                            | 19,807           |
| Total net assets  | <u>\$ 576,867</u>                        | <u>242,508</u>                    | <u>819,375</u>   |

**(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

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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 2021 and 2020 were \$142,256 and \$149,047, respectively.

Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses for the years ended June 30, 2021 and 2020 are categorized as follows:

|                                     | 2021                                   |         |   |         |  |        |                    |           |
|-------------------------------------|--|---------|---|---------|--|--------|--------------------|-----------|
|                                     | Academic, instruction,<br>and research |         | Health care and other<br>related services |         | Administration and<br>other institutional<br>support |        | Total              |           |
|                                     | Reynolda<br>Campus                     | WFUHS   | Reynolda<br>Campus                        | WFUHS   | Reynolda<br>Campus                                   | WFUHS  | Reynolda<br>Campus | WFUHS     |
| Salaries and wages                  | \$ 196,604                             | 174,085 | —   | 562,573 | 28,290   | —      | 224,894            | 736,658   |
| Employee benefits                   | 52,827                                 | 34,493  | —   | 111,108 | 8,833  | —      | 61,660             | 145,601   |
| Student aid                         | 3,331                                  | 8,667   | —   | —       | —  | —      | 3,331              | 8,667     |
| Services                            | 50,775                                 | 54,850  | —   | 88,537  | 8,235  | 22,895 | 59,010             | 166,282   |
| Clinical and laboratory<br>supplies | —                                      | 20,716  | —   | 75,720  | —  | —      | —                  | 96,436    |
| Other operating expenses            | 53,152                                 | 31,694  | —   | 39,101  | 1,382  | 6,231  | 54,534             | 77,026    |
| Depreciation and<br>amortization    | 45,053                                 | 10,209  | —   | 17,724  | 5,693  | 8,464  | 50,746             | 36,397    |
| Interest on debt                    | 15,066                                 | 2,949   | —   | 3,322   | 685  | 1,513  | 15,751             | 7,784     |
| Total<br>expenses                   | \$ 416,808                             | 337,663 | —   | 898,085 | 53,118   | 39,103 | 469,926            | 1,274,851 |

  

|                                     | 2020                                   |         |   |         |  |        |                    |           |
|-------------------------------------|--|---------|---|---------|--|--------|--------------------|-----------|
|                                     | Academic, instruction,<br>and research |         | Health care and other<br>related services |         | Administration and<br>other institutional<br>support |        | Total              |           |
|                                     | Reynolda<br>Campus                     | WFUHS   | Reynolda<br>Campus                        | WFUHS   | Reynolda<br>Campus                                   | WFUHS  | Reynolda<br>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                            | 44,475                                 | 51,634  | —   | 112,418 | 14,209   | 4,232  | 58,684             | 168,284   |
| Clinical and laboratory<br>supplies | —                                      | 14,612  | —   | 72,062  | —  | —      | —                  | 86,674    |
| Other operating expenses            | 57,503                                 | 29,660  | —   | 44,519  | 482  | 9,159  | 57,985             | 83,338    |
| Depreciation and<br>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<br>expenses                   | \$ 413,546                             | 317,580 | —   | 855,218 | 49,938   | 27,166 | 463,484            | 1,199,964 |

**(17) Contingencies and Other Commitments**

The estimated cost to complete construction in progress at June 30, 2021 and 2020, respectively, were \$39,608 and \$52,411 for Reynolda Campus, and \$30,889 and \$7,985 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

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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 \$1,144 and \$1,127 at June 30, 2021 and 2020, respectively, for Reynolda Campus and \$6,347 and \$5,714 at June 30, 2021 and 2020, 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 (HIPAA), the federal government has authority to complete fraud and abuse investigations. HIPAA has established substantial fines and penalties for offenders. WFUHS maintains policies, procedures and requires regular training sessions to employers to monitor compliance with HIPAA, 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. Management, after taking into consideration advice of legal counsel, believes that the matters will not have a materially adverse effect, individually or in the aggregate, upon the University's consolidated financial statements. The University accrued \$12,500 and \$5,000 during June 30, 2021 and 2020, respectively, for legal obligations, including legal expenses. These costs were included in the consolidated financial statements.

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#### **(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 2022 to 2026 are \$8,058, \$8,139, \$8,220, \$8,302, and \$8,385 respectively, and \$7,229 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 2022 to 2026 are \$6,223, \$6,379, \$6,539, \$6,702 and \$6,870, respectively, and \$7,041 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 \$11,395 and \$13,341 at June 30, 2021 and 2020, 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, 2021 and 2020, respectively, were \$15,125 and \$14,852 for Reynolda Campus and \$46,944 and \$36,244 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 \$1,885 and \$2,946 at June 30, 2021, respectively, and \$3,433 and \$5,067 at June 30, 2020, 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.

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.



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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, 2021 and 2020:

|  | 2021               |          |          | 2020<br>Total |
|--|--------------------|----------|----------|---------------|
|  | Reynolda<br>Campus | WFUHS    | Total    |               |
| Change in benefit obligation:                  |                    |          |          |               |
| Benefit obligation at beginning of year        | \$ 13,624          | 28,432   | 42,056   | 43,424        |
| Service cost                                   | 591                | 7        | 598      | 714           |
| Interest cost                                  | 390                | 691      | 1,081    | 1,460         |
| Participants' contributions                    | 534                | 183      | 717      | 658           |
| Actuarial loss (gain)                          | (233)              | (1,186)  | (1,419)  | (1,526)       |
| Benefits paid                                  | (954)              | (1,840)  | (2,794)  | (2,674)       |
| Special termination benefits                   | 590                | —        | 590      | —             |
| Benefit obligation at end of year              | 14,542             | 26,287   | 40,829   | 42,056        |
| Change in plan assets:                         |                    |          |          |               |
| Fair value of plan assets at beginning of year | —                  | —        | —        | —             |
| Employer's contributions                       | 420                | 1,657    | 2,077    | 2,016         |
| Participants' contributions                    | 534                | 183      | 717      | 658           |
| Benefits paid                                  | (954)              | (1,840)  | (2,794)  | (2,674)       |
| Fair value of plan assets at end of year       | —                  | —        | —        | —             |
| Total liability                                | \$ (14,542)        | (26,287) | (40,829) | (42,056)      |
| Amounts recognized in unrestricted net assets: |                    |          |          |               |
| Prior service (cost) credit                    | \$ (2,674)         | 56       | (2,618)  | 3,122         |
| Net actuarial (gain) loss                      | (4,105)            | 3,830    | (275)    | 6,711         |
| Total (decrease) increase                      | \$ (6,779)         | 3,886    | (2,893)  | 9,833         |

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The following table provides the components of net periodic benefit cost for the years ended June 30, 2021 and 2020:

|   | <b>2021</b>                |              |              | <b>2020<br/>Total</b> |
|---|----------------------------|--------------|--------------|-----------------------|
|   | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b> | <b>Total</b> |                       |
| Service cost                              | \$ 591                     | 7            | 598          | 714                   |
| Interest cost                             | 390                        | 691          | 1,081        | 1,460                 |
| Amortization of prior service credit      | (374)                      | (19)         | (393)        | (403)                 |
| Amortization of net actuarial (gain) loss | (195)                      | —            | (195)        | (455)                 |
| Special termination benefits              | 590                        | —            | 590          | —                     |
| Net periodic benefit cost                 | \$ <u>1,002</u>            | <u>679</u>   | <u>1,681</u> | <u>1,316</u>          |

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 \$558 and \$518, respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2021 for Reynolda Campus and WFUHS, respectively, was 2.94% and 2.48%, and at June 30, 2020 was 2.92% and 2.53%, respectively. The discount rate reflects the current yield curve results as of June 30, 2021 and 2020. For management purposes, Reynolda Campus used 5.80% and 6.10%, and WFUHS used 7.80% and 6.88% for 2021 and 2020, 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.

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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:

|   | <b>One<br/>percentage<br/>increase</b> | <b>One<br/>percentage<br/>decrease</b> |
|---|--|--|
| Reynolda Campus:  |  |  |
| Effect on total service and interest cost components of net periodic benefit cost | \$ 35                                  | (30)                                   |
| Effect on postretirement benefit obligation                                       | 268                                    | (236)                                  |
| WFUHS:  |  |  |
| Effect on total service and interest cost components of net periodic benefit cost | \$ —                                   | —                                      |
| Effect on postretirement benefit obligation                                       | 10                                     | (9)                                    |

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

|                       | <b>Reynolda<br/>Campus</b> | <b>WFUHS</b> | <b>Total</b> |
|-----------------------|----------------------------|--------------|--------------|
| 2022                  | \$ 788                     | 2,179        | 2,967        |
| 2023                  | 796                        | 2,045        | 2,841        |
| 2024                  | 841                        | 2,011        | 2,852        |
| 2025                  | 822                        | 1,960        | 2,782        |
| 2026                  | 792                        | 1,905        | 2,697        |
| Five years thereafter | 4,308                      | 8,524        | 12,832       |

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2021 and include estimated future employee service.

**(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.

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

|                                   | <u>2021</u>       | <u>2020</u>    |
|-----------------------------------|-------------------|----------------|
| Revenue from MCIA                 | \$ 228,263        | 231,419        |
| Corporate service allocation, net | 91,915            | 99,544         |
| Other professional fees, net      | <u>91,904</u>     | <u>56,328</u>  |
| Total net revenue from NCBH       | <u>\$ 412,082</u> | <u>387,291</u> |
| Accounts receivable from NCBH     | \$ 67,573         | 77,658         |

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. In 2020, the line of credit was amended to increase the borrowing capacity to \$200,000. The outstanding balance on the line of credit was \$34,199 as of June 30, 2020, of which WFUHS recorded a liability of \$7,449 as of June 30, 2020. The outstanding balance of the unsecured loan was \$0 as of June 30, 2020, of which WFUHS recorded a liability of \$0, due to WFUBMC in other liabilities and deferrals that represented the portion of the unsecured loan utilized by WFUHS. This loan was terminated on April 2, 2021.

As part of the health system integration agreement, in fiscal year 2021, CMHA contributed \$150,000 to WFUHS to create an unrestricted academic endowment to be used for new, ongoing or enhanced academic or research initiatives of the WFB entities. WFUHS received the unrestricted contribution in March 2021, and its Board established a \$150,000 quasi-endowment fund.

**(22) Professional Liability Insurance**

WFUHS maintains professional liability coverage, which included a \$6,000 per occurrence and a \$30,000 annual aggregate self-insurance retention for the year ended June 30, 2021. WFUHS estimates its professional liability on an actuarial basis. WFUHS' accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately \$48,229 and \$44,613 at June 30, 2021 and 2020, 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.

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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**

Management has evaluated subsequent events from June 30, 2020 through October 25, 2021, the date the financial statements were available to be issued, and determined that there are no additional items to disclose.