KPMG

WAKE FOREST UNIVERSITY

Consolidated Financial Statements

June 30, 2023

(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 Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Wake Forest University (the University), which comprise the consolidated balance sheet as of June 30, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the University's 2022 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, 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

Winston-Salem, North Carolina
November 7, 2023

WAKE FOREST UNIVERSITY

Consolidated Balance Sheet

June 30, 2023
(with summarized comparative financial information as of June 30, 2022)

(Dollars in thousands)

		Supplementary information			
		Reynolda Campus	WFUHS	2023	2022
Assets:					
Cash and cash equivalents	$	62,265	24,473	86,738	71,406
Accounts receivable, net		24,039	198,497	222,536	213,078
Patient receivables		—	84,928	84,928	74,326
Contributions receivable, net		115,390	9,320	124,710	147,099
Notes receivable, net		7,820	259	8,079	10,094
Investments		1,724,702	1,280,272	3,004,974	2,821,059
Direct investments in real estate		10,203	—	10,203	11,138
Other assets		10,690	26,468	37,158	39,640
Right-of-use assets-operating		23,400	111,601	135,001	152,772
Land, buildings, and equipment, net		736,930	344,194	1,081,124	1,083,219
Total assets	$	2,715,439	2,080,012	4,795,451	4,623,831
Liabilities:					
Accounts payable and accruals	$	52,029	359,634	411,663	478,202
Other liabilities and deferrals		120,178	250,060	370,238	214,766
Annuities payable		18,924	3,216	22,140	20,106
Operating lease obligations		22,361	116,303	138,664	156,744
Notes payable and finance leases		59,718	40,658	100,376	111,971
Bonds payable		523,121	118,812	641,933	652,308
Postretirement benefits		11,549	19,413	30,962	32,844
Total liabilities		807,880	908,096	1,715,976	1,666,941
Net assets:					
Without donor restrictions		871,761	850,826	1,722,587	1,636,810
Noncontrolling interest in affiliate		567	941	1,508	1,395
With donor restrictions		1,035,231	320,149	1,355,380	1,318,685
Total net assets		1,907,559	1,171,916	3,079,475	2,956,890
Total liabilities and net assets	$	2,715,439	2,080,012	4,795,451	4,623,831

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2023
(with summarized comparative financial information for the year ended June 30, 2022)

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	2023	2022
Operating revenues:					
Student tuition and fees	$	350,623	—	350,623	342,960
Government grants and contracts		243,636	—	243,636	222,714
Private grants and contracts		9,875	59,858	69,733	37,514
Contributions		31,068	26,626	57,694	54,707
Investment return designated for current operations		74,998	38,104	113,102	99,171
Patient revenue		786,474	—	786,474	715,862
Other		374,630	(858)	373,772	274,064
Sales and services of auxiliary enterprises		122,977	—	122,977	106,942
Net assets released from restrictions		105,971	(105,971)	—	—
Total operating revenues		2,100,252	17,759	2,118,011	1,853,934
Operating expenses:					
Salaries and wages		1,123,087	—	1,123,087	1,023,131
Employee benefits		244,972	—	244,972	232,500
Student aid		13,429	—	13,429	12,549
Services		295,617	—	295,617	245,000
Clinical and laboratory supplies		111,314	—	111,314	111,234
Other operating expenses		163,456	—	163,456	153,242
Depreciation and amortization		89,650	—	89,650	85,054
Interest on debt		26,758	—	26,758	25,747
Total operating expenses		2,068,283	—	2,068,283	1,888,457
Operating (deficit) / excess		31,969	17,759	49,728	(34,523)
Nonoperating activities:					
Restricted contributions		—	13,579	13,579	56,687
Net assets released from restriction		8,183	(8,183)	—	—
Investment return (less than) / in excess of amounts designated for current operations		(3,700)	2,641	(1,059)	(131,453)
Actuarial (losses) gains on annuity obligations		—	(607)	(607)	1,794
Unrealized gains on interest rate swaps		4,444	—	4,444	11,466
Postretirement related changes other than service costs		902	—	902	6,229
Gains from affiliates, equity method		39,685	—	39,685	9,910
Equity transfer from affiliate		—	10,000	10,000	7,996
Other, net		4,295	1,506	5,801	(4,214)
Change from nonoperating activities		53,809	18,936	72,745	(41,585)
Change in net assets		85,778	36,695	122,473	(76,108)
Change in net assets attributable to noncontrolling interest		112	—	112	303
Net assets attributable to noncontrolling interest at beginning of year		1,395	—	1,395	1,092
Net assets at beginning of year		1,636,810	1,318,685	2,955,495	3,031,603
Net assets at end of year	$	1,724,095	1,355,380	3,079,475	2,956,890

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, 2023

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Student tuition and fees	$	309,233	—	309,233
Government grants and contracts		12,341	—	12,341
Private grants and contracts		9,791	—	9,791
Contributions		26,858	24,370	51,228
Investment return designated for current operations		41,361	28,888	70,249
Other		13,305	—	13,305
Sales and services of auxiliary enterprises		122,977	—	122,977
Net assets released from restrictions		48,818	(48,818)	—
Total operating revenues		584,684	4,440	589,124
Operating expenses:				
Salaries and wages		244,482	—	244,482
Employee benefits		63,667	—	63,667
Student aid		4,084	—	4,084
Services		76,659	—	76,659
Other operating expenses		71,968	—	71,968
Depreciation and amortization		52,183	—	52,183
Interest on debt		20,108	—	20,108
Total operating expenses		533,151	—	533,151
Operating excess		51,533	4,440	55,973
Nonoperating activities:				
Restricted contributions		—	3,661	3,661
Net assets released from restriction		8,183	(8,183)	—
Investment return (less than) / in excess of amounts designated for current operations		(3,849)	3,198	(651)
Actuarial losses on annuity obligations		—	(1,146)	(1,146)
Unrealized gains on interest rate swaps		3,499	—	3,499
Postretirement related changes other than service costs		351	—	351
Other, net		707	1,509	2,216
Change from nonoperating activities		8,891	(961)	7,930
Change in net assets		60,424	3,479	63,903
Change in net assets attributable to noncontrolling interest		132	—	132
Net assets attributable to noncontrolling interest at beginning of year		434	—	434
Net assets at beginning of year		811,338	1,031,752	1,843,090
Net assets at end of year	$	872,328	1,035,231	1,907,559

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, 2023

(Dollars in thousands)

		Without donor restrictions	With donor restrictions	Total
Operating revenues:				
Student tuition and fees	$	41,390	—	41,390
Government grants and contracts		231,295	—	231,295
Private grants and contracts		84	59,858	59,942
Contributions		4,210	2,256	6,466
Investment return designated for current operations		33,637	9,216	42,853
Patient service revenue		786,474	—	786,474
Other		361,325	(858)	360,467
Net assets released from restrictions		57,153	(57,153)	—
Total operating revenues		1,515,568	13,319	1,528,887
Operating expenses:				
Salaries and wages		878,605	—	878,605
Employee benefits		181,305	—	181,305
Student aid		9,345	—	9,345
Services		218,958	—	218,958
Clinical and laboratory supplies		111,314	—	111,314
Other operating expenses		91,488	—	91,488
Depreciation and amortization		37,467	—	37,467
Interest on debt		6,650	—	6,650
Total operating expenses		1,535,132	—	1,535,132
Operating (deficit) / excess		(19,564)	13,319	(6,245)
Nonoperating activities:				
Restricted contributions		—	9,918	9,918
Investment return in excess of / (less than) amounts designated for current operations		149	(557)	(408)
Actuarial gains on annuity obligations		—	539	539
Unrealized gains on interest rate swaps		945	—	945
Postretirement related changes other than service costs		551	—	551
Gain from affiliates, equity method		39,685	—	39,685
Equity transfer from affiliate		—	10,000	10,000
Other, net		3,588	(3)	3,585
Change from nonoperating activities		44,918	19,897	64,815
Change in net assets		25,354	33,216	58,570
Change in net assets attributable to noncontrolling interest		(20)	—	(20)
Net assets attributable to noncontrolling interest at beginning of year		961	—	961
Net assets at beginning of year		825,472	286,933	1,112,405
Net assets at end of year	$	851,767	320,149	1,171,916

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2023
(with summarized comparative financial information for the year ended June 30, 2022)

(Dollars in thousands)

		Supplementary information			
		Reynolda Campus	WFUHS	2023	2022
Cash flows from operating activities:					
Change in net assets	$	64,035	58,550	122,585	(75,805)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:					
Depreciation and amortization		50,668	37,467	88,135	83,901
Amortization of debt related costs		(969)	(1,138)	(2,107)	(2,106)
Amortization of right-of-use operating assets		3,579	34,832	38,411	21,313
Net depreciation (gains) on investments		(38,148)	(42,445)	(80,593)	43,374
Noncash gifts		—	—	—	(160)
Private gifts restricted for capital and long-term investment		3,661	(9,918)	(6,257)	(49,004)
Losses on disposals of property and equipment		973	49	1,022	2,866
Losses on impairment of property held for sale		487	—	487	87
Gains from equity method affiliates		—	(39,685)	(39,685)	(9,910)
Unrealized (gains) losses on interest rate swaps		(3,499)	(945)	(4,444)	7,444
Bad debt expense and change in allowance for contributions receivable		(2,147)	63	(2,084)	4,468
Changes in operating assets and liabilities:					
Accounts and patient receivables		(2,873)	(17,450)	(20,323)	(113,037)
Contributions receivable		24,222	524	24,746	(11,704)
Notes receivable		—	17	17	26
Operating lease right-of-use assets, net		(930)	(19,710)	(20,640)	8,620
Other assets and other liabilities and deferrals		35,412	126,217	161,629	(35,451)
Accounts payable and accruals		1,042	(64,483)	(63,441)	100,572
Operating lease liabilities		(2,707)	(15,372)	(18,079)	(30,200)
Postretirement benefits		(175)	(1,707)	(1,882)	(7,985)
Annuities payable		2,573	(539)	2,034	(4,609)
Net cash provided by / (used in) operating activities		135,204	44,327	179,531	(67,300)
Cash flows from investing activities:					
Purchases of land, buildings, and equipment		(80,304)	(8,993)	(89,297)	(163,791)
Proceeds from sale of land, buildings, and equipment		399	109	508	1,305
Disbursements of loans to students and other		(180)	—	(180)	(175)
Repayments of loans to students and other		2,168	—	2,168	3,074
Purchases of investments		(367,378)	(91,245)	(458,623)	(387,245)
Net proceeds from sales and maturities of investments		342,467	56,590	399,057	421,493
Decrease (Increase) in deposits with bond trustees		—	—	—	6
Net cash used in investing activities		(102,828)	(43,539)	(146,367)	(125,333)
Cash flows from financing activities:					
Change in government grants refundable		—	—	—	(2,049)
Proceeds from notes payable		1,104	—	1,104	307
Principal payments on notes payable		(9,170)	(2,860)	(12,030)	(6,079)
Principal payments on bonds payable		(1,380)	(7,020)	(8,400)	(7,480)
Bond issuance costs		132	—	132	129
Proceeds from finance lease obligations		3,286	—	3,286	114
Payments on finance lease obligations		(2,653)	(1,394)	(4,047)	(3,505)
Proceeds from private gifts restricted for long-term investment		(3,661)	9,918	6,257	49,004
Other revenue restricted for long-term investment		(4,774)	—	(4,774)	8,166
Net cash provided by (used in) financing activities		(17,116)	(1,356)	(18,472)	38,607
Net increase (decrease) in cash, cash equivalents and restricted cash		15,260	(568)	14,692	(154,026)
Cash, cash equivalents and restricted cash at beginning of year		47,005	26,291	73,296	227,322
Cash, cash equivalents and restricted cash at end of year	$	62,265	25,723	87,988	73,296
Cash and cash equivalents	$	62,265	24,473	86,738	71,406
Restricted cash		—	1,250	1,250	1,890
Total cash, cash equivalents, and restricted cash	$	62,265	25,723	87,988	73,296
Supplemental disclosures of cash flow information:					
Cash paid for interest, net of amounts capitalized	$	20,898	7,320	28,218	25,568
Capital expenditures included in account payable		13,797	1,879	15,676	18,774
Operating cash flows from finance leases		3,286	1,723	5,009	1,732
Operating cash flows from operating leases		4,459	28,082	32,541	32,573
Financing cash flows from finance leases		2,090	1,390	3,480	3,231
Income taxes paid		25	1,036	1,061	1,121

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Wake Forest University

Wake Forest University (the University) is a private, coeducational, not-for-profit institution of higher education and research located in Winston-Salem, North Carolina. The consolidated financial statements of the University include the Reynolda Campus and Wake Forest University Health Sciences (WFUHS), and all entities over which the University has control, including all of the subsidiaries of Reynolda Campus and WFUHS.

Reynolda Campus – includes Wake Forest College, the Graduate School of Arts and Sciences, Schools of Law, Business, Divinity, and Professional Studies, 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, Innovation Quarter (f/k/a 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, 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. 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 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: managing research activities and support; compliance with regulatory and accreditation standards; medical curriculum and academic programs and classes; standards and processes for appointing, compensating, evaluating, promoting, granting tenure to 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 and 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 2025. 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 assets of the University have 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 is obligated for the repayment of indebtedness issued by or for the performance of obligations of the University.

Effective December 2022, Atrium and Advocate Aurora Health, Inc., a Delaware nonprofit corporation (Advocate Aurora), entered into a joint operating agreement to create a leading health and wellness delivery system to best meet patients' needs by redefining how, when and where care is delivered (the combination). Advocate Aurora, which serves nearly 3 million patients annually in Illinois and Wisconsin, is one of the 12 largest not-for-profit, integrated health systems in the United States and a national leader in clinical innovation, health outcomes, consumer experience and value-based care. As part of this agreement, the Enterprise and Advocate Aurora created a joint operating company known as Advocate Health, Inc. (Advocate Health). Atrium and Advocate Aurora are the sole corporate members of Advocate Health, which manages and oversees the combined organization. Advocate Health is governed by a board of directors comprising an equal number of members from the Enterprise and Advocate Aurora. The Enterprise and Advocate Aurora continue to own their respective assets. No assets were transferred as part of the combination, and the Enterprise and its related entities and Advocate Aurora and its related entities maintain their separate legal existence and licensure status of their respective facilities.

The overarching effect of the combination is that Advocate Health replaced Atrium as the management entity of the expanded Advocate Health System (including the Enterprise); but, as with the October 2020 Enterprise transaction, the University shall continue to hold and exercise, at a 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 combination.

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 Generally Accepted Accounting Principles (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) Operating (Deficiency) Excess

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 (less than) in excess of amounts designated for current operations, actuarial gain or loss on annuity obligations, unrealized gain on interest rate swaps, postretirement related changes other than service cost, gain from affiliates (equity method), donor designation changes and other, net.

(d) Fair Value Measurements

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

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

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

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

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

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

(e) 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 unitized endowment 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.

(f) Restricted Cash

The University maintains separate accounts to hold unspent tax-exempt bond proceeds which are restricted for capital purposes and to satisfy collateral posting requirements.

(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 2.41% – 4.24% in order to derive the present value of future cash flows. An allowance for uncollectible contributions receivable is provided based upon management's judgement, considering such factors as prior collection history, type of contribution, relationship with donor, and nature of fund-raising activity.

(h) Notes Receivable

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

(Continued)

(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. 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.

(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 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 net assets without donor restriction 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 tuition and mandatory fees. Student financial aid in excess of the tuition and mandatory fees 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 patients, third party payers, and others, and includes variable consideration for retroactive revenue adjustments due to settlement of reviews and audits. Revenue is recognized as performance obligations are satisfied.

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

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

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

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

Generally, patients who are covered by third party payers are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. WFUHS estimates the transaction price for patients with deductibles and coinsurance based on historical experience and

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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 2023 or 2022. 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, 2023 and 2022 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 and mandatory fees 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 subject to such estimates and assumptions include the carrying amount of right of use assets – operating, land, buildings, and equipment, the valuation of non-readily 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.

(Dollars in Thousands)

(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, 2020 remain subject to examination by federal and state tax authorities. The University has evaluated uncertain tax positions for the year ended June 30, 2023, 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 affect the consolidated financial statements for the year ended June 30, 2023.

(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, 2022 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:

		2023			
		Reynolda Campus	WFUHS	Total	2022
Cash and cash equivalents	$	59,481	24,473	83,954	66,181
Accounts receivable, net		24,039	198,497	222,536	213,078
Patient receivables		—	84,928	84,928	74,326
Investments available to be liquidated		463,849	566,517	1,030,366	966,610
Total financial assets available within one year	$	547,369	874,415	1,421,784	1,320,195

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, 2023 and, 2022, which could be drawn upon. Additionally, Reynolda Campus and WFUHS have board-designated endowment funds of $259,831 and $498,483, respectively at June 30, 2023 and $261,738 and $496,692 at June 30, 2022, respectively. Although the University does not intend to spend from the board-designated endowment funds other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation, amounts from the board-designated endowment funds could be made available, subject to certain lock-up provisions that reduce the total investments that could be made available if necessary.

(Dollars in Thousands)

(3) Accounts Receivable

The following is an analysis of accounts receivable at June 30, 2023 and 2022:

		2023			2022
		Reynolda Campus	WFUHS	Total	Total
Accounts receivable	$	21,193	114,875	136,068	171,449
Grants receivable		3,483	84,623	88,106	43,354
Total accounts receivable		24,676	199,498	224,174	214,803
Less allowance for bad debts		(637)	(1,001)	(1,638)	(1,725)
Accounts receivable, net	$	24,039	198,497	222,536	213,078

(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.

		2023						2022					
		Reynolda Campus			WFUHS			Reynolda Campus			WFUHS		
		Published rates	Financial aid	Net revenue	Published rates	Financial aid	Net revenue	Published rates	Financial aid	Net revenue	Published rates	Financial aid	Net revenue
Student tuition and fees	$	421,855	(112,622)	309,233	60,322	(18,932)	41,390	410,698	(109,009)	301,689	60,033	(18,762)	41,271
Housing and dining		51,638	(13,575)	38,063	—	—	—	46,367	(18,177)	28,190	—	—	—
Total	$	473,493	(126,197)	347,296	60,322	(18,932)	41,390	457,065	(127,186)	329,879	60,033	(18,762)	41,271

(Dollars in Thousands)

(5) Patient Revenue and Patient Receivables

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

	2023		2022	
Medicare	$ 267,580	34 %	$ 244,784	34 %
Medicaid	91,064	12	81,778	11
Managed care and commercial insurance	391,423	50	368,599	51
Self-pay, after insurance	2,691	—	2,542	1
Self-pay, uninsured	6,624	1	4,489	1
Other	27,092	3	13,670	2
Patient service revenue	$ 786,474	100 %	$ 715,862	100 %

Concentration of Credit Risk

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

	2023	2022
Medicare	27 %	26 %
Medicaid	21	20
Managed care and commercial insurance	26	25
Self-pay, after insurance	13	13
Self-pay, uninsured	5	7
Other	8	9
	100 %	100 %

As 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 $8,274 and $11,162 in 2023 and 2022, respectively.

(Dollars in Thousands)

(6) Contributions Receivable

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2023 and 2022:

		2023			2022
		Reynolda Campus	WFUHS	Total	Total
One year or less	$	37,552	7,232	44,784	54,198
Between one and five years		55,618	3,325	58,943	70,793
More than five years		87,118	300	87,418	92,205
Contributions receivable, gross		180,288	10,857	191,145	217,196
Estimated uncollectible amounts		(8,427)	(1,090)	(9,517)	(12,076)
Discount to present value		(56,471)	(447)	(56,918)	(58,021)
Contributions receivable, net	$	115,390	9,320	124,710	147,099

Contributions receivable are discounted at a rate commensurate with the scheduled timing of receipt. Such amounts outstanding as of June 30, 2023, and 2022, were discounted at rates ranging from 2.41% to 2.77% for Reynolda Campus, respectively, and 4.24% to 5.74% 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 43% and 58% of Reynolda Campus' net contributions receivable as of June 30, 2023 and 2022, respectively.

(Dollars in Thousands)

(7) Notes Receivable

The following is an analysis of notes receivable at June 30, 2023 and 2022:

		2023			2022
		Reynolda Campus	WFUHS	Total	Total
Student loans receivable	$	5,403	293	5,696	7,730
Other notes receivable		2,987	240	3,227	3,218
Total notes receivable		8,390	533	8,923	10,948
Less estimated uncollectible amounts		(570)	(274)	(844)	(854)
Notes receivable, net	$	7,820	259	8,079	10,094

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, 2023 and 2022, student loans receivable consisted of Federal loan programs of $5,093 and $7,061, respectively, and institutional loan programs of $603 and $669, respectively. The University participates in the Perkins federal revolving loan program. Cumulative funds advanced by the Federal government of $0 at June 30, 2023 and 2022, have been refunded to the federal government. The University is in the process of refunding the accumulated interest income related to the Federal Perkins Loan Program. 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 $445 and $458, respectively, for June 30, 2023 and 2022. 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, 2023 and 2022, the allowance for uncollectible institutional student loan amounts was $155 and $156, respectively.

(Dollars in Thousands)

(8) Investments

Investments at June 30, 2023 and 2022 consist of the following:

		2023	2022
Short-term investments[a]	$	19,348	20,380
Absolute return[b]		1,936,782	1,854,674
Commodities[c]		27,091	16,963
Fixed income:[d]			
Domestic		430,367	446,673
International		9,354	8,826
Private equity[e]		962	1,000
Public equity:[f]			
Domestic		63,994	42,397
International		57,396	35,771
Real estate[g]		15,732	12,078
Beneficial interest in perpetual trusts and assets held by others[h]		30,956	30,225
Other[i]		412,992	352,072
Total investments	$	3,004,974	2,821,059

(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 $1,929,778 and $1,846,021 of funds managed by Verger valued under the NAV practical expedient in fiscal years 2023 and 2022, respectively, whose underlying investments were comprised of 55.0% and 55.4% of equities, 13.7% and 14.3% of real assets, 18.7% and 18.9% of absolute return, and 12.6% and 11.4% fixed income in fiscal years 2023 and 2022, respectively.

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

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

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

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

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

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

(i) Includes primarily funds held under retirement and benefit plans and other miscellaneous investments.

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

(9) Endowment

The University’s unitized pooled endowment (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. Separately managed long-term investments, planned giving investments, beneficial interest in perpetual trusts and assets held by others, and contributions receivable are not considered components of the endowment.

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

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

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

The University has adopted investment and spending policies for endowment assets that support the objectives of optimizing long-term returns and providing a sustainable level of endowment income distribution to support the University's activities through the annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment. The University's primary investment objective is to maximize total return within reasonable and prudent levels of risk while maintaining sufficient liquidity to meet disbursement needs. The endowment spending rate is calculated as a percentage of the average of the previous three-year semiannual moving market value per unit and subject to a 10% maximum annual growth or decline in per-unit spending. The endowment spending rate for the years ended June 30, 2023 and 2022, was 4.5% and 4.7%, respectively, for Reynolda Campus, and 5.3% for WFUHS.

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

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

(Dollars in Thousands)

Endowment net assets consist of the following at June 30, 2023 and 2022:

	2023			2022
	Without donor restriction	**With donor restriction**	**Total**	**Total**
Reynolda Campus:				
Donor-restricted endowment funds:				
Historical value	$ —	521,062	521,062	496,667
Appreciation	—	304,724	304,724	308,562
Underwater endowments	—	(2,119)	(2,119)	(2,315)
Total donor-restricted endowment funds	—	823,667	823,667	802,914
Board-designated endowment funds	259,831	—	259,831	261,738
Total endowment net assets	$ 259,831	823,667	1,083,498	1,064,652
WFUHS:				
Donor-restricted endowment funds:				
Historical value	$ —	237,762	237,762	181,912
Appreciation	—	52,117	52,117	52,096
Underwater endowments	—	(594)	(594)	(799)
Total donor-restricted endowment funds	—	289,285	289,285	233,209
Board-designated endowment funds	498,483	—	498,483	496,692
Other non-pooled endowment funds	164	29,019	29,183	25,223
Total endowment net assets	$ 498,647	318,304	816,951	755,124

(Dollars in Thousands)

Changes in endowment net assets for the years ended June 30, 2023 and 2022 are as follows:

	2023			2022
	Without donor restriction	**With donor restriction**	**Total**	**Total**
Reynolda Campus:				
Endowment, beginning of year	$ 261,738	802,914	1,064,652	1,076,700
Investment returns, net	7,151	32,437	39,588	3,052
Contributions	1,353	21,409	22,762	24,602
Transfers	—	2	2	27
Appropriation for expenditure	(10,411)	(33,095)	(43,506)	(39,729)
Endowment, end of year	$ 259,831	823,667	1,083,498	1,064,652
WFUHS:				
Endowment, beginning of year	$ 496,738	258,386	755,124	786,210
Investment returns, net	23,102	11,986	35,088	(9,205)
Contributions	—	56,764	56,764	9,151
Transfers	2,946	—	2,946	944
Appropriation for expenditure	(24,139)	(8,832)	(32,971)	(31,976)
Endowment, end of year	$ 498,647	318,304	816,951	755,124

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, 2023, and 2022 the amount by which funds were underwater was calculated as follows:

	2023			2022
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Aggregate original gift amount	$ 22,461	9,807	32,268	38,195
Aggregate fair value	20,342	9,213	29,555	35,081
Aggregate deficiency	$ (2,119)	(594)	(2,713)	(3,114)

(Dollars in Thousands)

The purpose of endowed net assets as of June 30, 2023 and 2022 are as follows:

	2023			2022
	Without donor restriction	With donor restriction	Total	Total
Reynolda Campus:				
Instruction and research	$ 8,922	211,492	220,414	215,200
Student aid	19,390	554,783	574,173	560,058
Program support	231,519	57,392	288,911	289,394
Total endowment net assets	$ 259,831	823,667	1,083,498	1,064,652
WFUHS:				
Instruction and research	$ 201,292	127,132	328,424	277,989
Student aid	5,381	64,646	70,027	67,562
Healthcare services	12,070	1,252	13,322	12,816
Program support	279,904	125,274	405,178	396,757
Total endowment net assets	$ 498,647	318,304	816,951	755,124

(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:

	2023				
	Level 1	Level 2	Level 3	NAV	Total
Financial assets:					
Cash and cash equivalents	$ 86,738	—	—	—	86,738
Investments:					
Short-term investments	19,348	—	—	—	19,348
Absolute return	7,004	—	—	1,929,778	1,936,782
Commodities	27,091	—	—	—	27,091
Fixed income:					
Domestic	430,367	—	—	—	430,367
International	9,354	—	—	—	9,354
Private equity	—	—	862	100	962
Public equity:					
Domestic	63,994	—	—	—	63,994
International	57,396	—	—	—	57,396
Real estate	15,732	—	—	—	15,732
Beneficial interest in perpetual trusts and assets held by others	—	—	30,956	—	30,956
Other	—	132,653	—	280,339	412,992
Total assets	$ 717,024	132,653	31,818	2,210,217	3,091,712

(Dollars in Thousands)

	2023				
	Level 1	Level 2	Level 3	NAV	Total
Financial liabilities:					
Other liabilities and deferrals:					
Employee benefits – nonrecurring	$ —	132,653	—	—	132,653
Interest rate swap agreements	—	8,003	—	—	8,003
Annuities payable	—	22,140	—	—	22,140
Total liabilities	$ —	162,796	—	—	162,796

	2022				
	Level 1	Level 2	Level 3	NAV	Total
Financial assets:					
Cash and cash equivalents	$ 71,406	—	—	—	71,406
Investments:					
Short-term investments	20,380	—	—	—	20,380
Absolute return	8,654	—	—	1,846,020	1,854,674
Commodities	16,963	—	—	—	16,963
Fixed income:					
Domestic	446,673	—	—	—	446,673
International	8,826	—	—	—	8,826
Private equity	—	—	902	98	1,000
Public equity:					
Domestic	42,397	—	—	—	42,397
International	35,771	—	—	—	35,771
Real estate	12,078	—	—	—	12,078
Beneficial interest in perpetual trusts and assets held by others	—	—	30,225	—	30,225
Other	—	111,432	—	240,640	352,072
Total assets	$ 663,148	111,432	31,127	2,086,758	2,892,465
Financial liabilities:					
Other liabilities and deferrals:					
Employee benefits – nonrecurring	$ —	111,432	—	—	111,432
Interest rate swap agreements	—	12,446	—	—	12,446
Annuities payable	—	20,106	—	—	20,106
Total liabilities	$ —	143,984	—	—	143,984

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

The University's policy is to recognize transfers into and out of Levels 1, 2, and 3 as of the end of the year or when a change in level becomes known. There were no transfers between Level 1 and Level 2 securities during the years ended June 30, 2023 or 2022. Transfers into and out of Level 3 are typically the result of a change in observation of significant valuation inputs required by various models.

(Dollars in Thousands)

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 2.80% and 3.02% at June 30, 2023 and 2022, respectively.

The following tables present the reconciliation of Level 3 assets measured at fair value for the years ended June 30, 2023 and June 30, 2022, respectively. Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified as Level 3.

	Balances as of June 30, 2022	Total realized and unrealized (losses) gains	Purchases	Sales	Net transfers out of Level 3	June 30, 2023
Investments:						
Private equity	$ 902	—	—	(40)	—	862
Beneficial interest in perpetual trusts and assets held by others	30,225	770	2,047	(2,086)	—	30,956
Total Level 3 investments	$ 31,127	770	2,047	(2,126)	—	31,818

	Balances as of June 30, 2021	Total realized and unrealized (losses) gains	Purchases	Sales	Net transfers out of Level 3	June 30, 2022
Investments:						
Private equity	$ 948	(10)	—	(36)	—	902
Beneficial interest in perpetual trusts and assets held by others	33,733	(3,326)	1,574	(1,756)	—	30,225
Total Level 3 investments	$ 34,681	(3,336)	1,574	(1,792)	—	31,127

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, 2023, redemption frequency and the corresponding notice period for all investments are as follows:

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

(Dollars in Thousands)

(11) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2023 and 2022:

		2023			2022
		Reynolda Campus	WFUHS	Total	Total
Land	$	50,696	113,427	164,123	155,964
Buildings and other improvements		1,061,772	512,740	1,574,512	1,490,268
Equipment and furnishings		152,187	320,246	472,433	442,003
Construction in progress		63,615	21,327	84,942	129,931
		1,328,270	967,740	2,296,010	2,218,166
Less accumulated depreciation		(591,340)	(623,546)	(1,214,886)	(1,134,947)
	$	736,930	344,194	1,081,124	1,083,219

Total depreciation expense on buildings, improvements, equipment, and furnishings was $89,650 and $85,054 for the years ended June 30, 2023 and 2022, respectively.

As of June 30, 2023, gross land, buildings, and equipment includes $60,993 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 $1,060 and $2,583 was capitalized in the years ended June 30, 2023 and 2022, respectively.

The liabilities associated with AROs for the years ended June 30, 2023 and 2022 were $5,070 and $5,342, respectively, for Reynolda Campus, and $2,659 and $2,659, 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.

(Dollars in Thousands)

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, 2023.

Components of lease balances	Classification in consolidated balance sheet	WFU	WFUHS	Total	2022 Total
Assets:					
Operating lease assets	Right-of-use assets-operating	$ 23,400	111,601	135,001	152,772
Finance lease assets	Land, buildings, and equipment, net	4,597	32,854	37,451	38,134
Total leased assets		27,997	144,455	172,452	190,906
Liabilities:					
Operating lease liabilities	Operating lease obligations	22,361	116,303	138,664	156,744
Finance lease liabilities	Notes payable and finance leases	4,192	36,558	40,750	41,418
Total lease liabilities		$ 26,553	152,861	179,414	198,162

Components of lease expense	Classification in consolidated statement of activities	WFU	WFUHS	Total	2022 Total
Operating lease expense	Other operating expenses	$ 4,069	28,082	32,151	32,660
Finance lease expense:					
Amortization of leased assets	Depreciation and amortization	2,217	1,923	4,140	4,094
Interest on lease liabilities	Interest on debt	103	1,723	1,826	1,659
Total finance lease expense		2,320	3,646	5,966	5,753
Variable and short-term lease expense	Other operating expenses	—	3,846	3,846	1,987
Total lease expense		$ 6,389	35,574	41,963	40,400

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.

(Dollars in Thousands)

Other information:

	2023		2022	
	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS
Weighted average remaining lease term – finance leases	3.23 years	18.01 years	1.89 years	19.01 years
Weighted average remaining lease term – operating leases	7.96 years	4.80 years	8.81 years	5.59 years
Weighted average discount rate – finance leases	1.89 %	4.55 %	0.77 %	4.55 %
Weighted average discount rate – operating leases	2.04 %	2.87 %	1.98 %	2.89 %

Payments due include options to extend finance leases through fiscal year 2032, are summarized below as of June 30, 2023:

	Reynolda Campus	WFUHS	Total
2024	$ 1,722	1,449	3,171
2025	1,095	1,500	2,595
2026	672	1,491	2,163
2027	688	1,529	2,217
2028	15	1,600	1,615
In total thereafter	—	28,989	28,989
	$ 4,192	36,558	40,750

(Dollars in Thousands)

Payments due include options to extend operating leases through fiscal year 2032, are summarized below as of June 30, 2023:

		Reynolda Campus	WFUHS	Total
2024	$	3,215	24,760	27,975
2025		2,874	24,353	27,227
2026		2,392	24,298	26,690
2027		2,464	23,966	26,430
2028		2,354	11,657	14,011
In total thereafter		9,062	7,269	16,331
	$	22,361	116,303	138,664

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

		Reynolda Campus	WFUHS	Total
Year ending June 30:				
2024	$	5,062	846	5,908
2025		4,702	335	5,037
2026		4,075	251	4,326
2027		4,158	214	4,372
2028		3,758	185	3,943
	$	21,755	1,831	23,586

Total income from real estate was $7,152 and $7,670 for Reynolda Campus and $1,132 and $1,089 for WFUHS for the years ended June 30, 2023 and 2022, respectively.

(Dollars in Thousands)

(13) Notes, Finance Leases, and Bonds Payable

Notes, finance leases, and bonds payable at June 30, 2023 and 2022 consist of the following:

Reynolda Campus	Years to nominal maturity	Interest rate at June 30, 2022			2023	2022
Notes payable and finance leases:						
Line of credit	>1	SOFR plus 0.56%	Variable	$	49,562	49,562
Promissory note	>1	LIBOR plus 0.75%	Variable		5,025	13,125
Finance leases	<1 to 4	0.37 to 2.55%	Fixed		4,192	3,559
Other installment loans	1 to 3	0.53% to 1.46%	Fixed		939	905
Total notes payable and finance leases					59,718	67,151
Bonds payable:						
2012 Series serial taxable	20	2.60% to 3.10%	Fixed		20,425	20,425
2012 Series term taxable	20	3.45% to 3.70%	Fixed		104,575	104,575
2016 Series serial tax-exempt	24	4.00% to 5.00%	Fixed		132,785	134,165
2016 Series term tax-exempt	24	2.75% to 3.00%	Fixed		22,370	22,370
2018 Series serial tax-exempt	26	4.47%	Fixed		12,100	12,100
2018 Series term tax-exempt	26	3.38% to 5.00%	Fixed		15,920	15,920
2018 Series term tax-exempt	26	3.50% to 5.00%	Fixed		69,950	69,950
2021 Series term taxable	29	2.91%	Fixed		25,000	25,000
2021 Series bullet taxable	29	3.01%	Fixed		100,000	100,000
Unamortized bond premium					23,065	24,034
Unamortized bond issuance costs					(3,069)	(3,201)
Total bonds payable					523,121	525,338
Total notes payable, finance leases, and bonds payable				$	582,839	592,489

During 2023, the University has adhered to the ISDA 2020 LIBOR Fallback Protocol and amended applicable variable rate promissory note to mirror the Fallback Protocol. As a result, any financing agreements which referenced LIBOR have been amended to reflect a transition to SOFR effective July 1, 2023.

Reynolda Campus entered into a restated capital projects financing agreement with Truist Bank that permits the University to borrow up to $150,000. The line of credit is due on July 3, 2025 and bears interest at the SOFR plus 0.56%, 5.6% at June 30, 2023.

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. On March 23, 2023, the financing agreement was amended to reflect a benchmark replacement from LIBOR to SOFR. For the year ended June 30, 2023, it bears interest at one month SOFR plus 0.11%, 5.92% at June 20, 2023.

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 was restructured in the current year resulting in repayments of $6,600. A replacement promissory note for $400 is due November 30, 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 Truist Bank, 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.

(Dollars in Thousands)

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 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 nominal maturity	Interest rate at June 30, 2022			2023	2022
Notes payable and finance leases:						
Loan agreement	—	LIBOR plus 0.65%	Variable	$	—	1,668
Loan agreement	<1 to 3	1.88%	Fixed		2,852	3,545
Loan agreement	<1 to 2	SOFR plus 1.25%	Variable		1,248	1,748
Finance lease	18	4.50%	Fixed		36,308	37,583
Finance lease	2	4.25% to 6.16%	Fixed		250	276
Total notes payable					40,658	44,820
Bonds payable:						
Series 2019 A	<1 to 10	5.00 %	Fixed		34,935	37,030
Series 2012 B	<1 to 10	2.00% to 5.00%	Fixed		72,025	76,950
Unamortized bond premium					12,611	13,822
Unamortized bond issuance costs					(759)	(832)
Total bonds payable					118,812	126,970
Total notes payable, finance leases, and bonds payable				$	159,470	171,790

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 thereafter 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, 2023. As of June 30, 2023, WFUHS is jointly and severally liable for $696,770 of bonds payable borrowed by the other members of the Obligated Group and for $19,999 and $18,768, 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.

The 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 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 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 payments on the bonds are due on December 1 of each year beginning in 2014 and in increasing annual amounts ranging from $3,385 to $7,000.

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. This taxable loan guaranteed by both NCBH and WFUBMC matured on April 1, 2023.

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.

Wake Forest Ambulatory Ventures, LLC entered into a notes payable obligation, with variable interest rates based on one month SOFR plus a premium of 1.25% and final maturities in 2025. The interest rate at June 30, 2023 was 6.05%.

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 4.50%.

(Continued)

(Dollars in Thousands)

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

WFUBMC entered into an unsecured credit facility with a total borrowing capacity of $100,000 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC. The line of credit is due on June 3, 2024, and bears interest at daily simple SOFR plus 0.55%, which is 5.61% at June 30, 2023. The facility is structured with WFUBMC as the Borrower and NCBH and WFUHS as Co-obligors. WFUHS has no outstanding balance on the facility at June 30, 2023 and 2022.

An additional unsecured credit facility with a total borrowing capacity of $200,000 was entered into in June 2021 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC. The line of credit is due on May 27, 2024, and bears interest at the term SOFR rate plus 0.65%, which is at 4.74% at June 30, 2023. The facility is structured with NCBH, WFUHS and WFUBMC as Co-borrowers. There is no outstanding balance on the facility at June 30, 2023 and 2022.

Aggregate annual maturities of notes, finance leases, and bonds payable for each of the five fiscal years subsequent to June 30, 2023 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2024	$	14,514	11,856	26,370
2025		14,537	12,482	27,019
2026		55,584	10,639	66,223
2027		13,068	10,759	23,827
2028		13,735	10,539	24,274
In total thereafter		451,405	91,343	542,748
	$	562,843	147,618	710,461

Costs related to the registration and issuance of bonds, totaling $19,996 and $11,852, 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 $837 and $1,138, respectively, for 2023 and $840 and $1,137, respectively, for 2022.

(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.

(Dollars in Thousands)

During fiscal 2023 the University has adhered to the ISDA 2020 IBOR Fallbacks Protocol. As a result, any interest rate swap agreements which referenced LIBOR have been amended to reflect a transition to SOFR effective July 1, 2023.

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.

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

		Reynolda Campus		WFUHS
		October 2008 interest rate swap	July 2018 interest rate swap	August 2002 interest rate swap
Notional amount	$	50,000	4,625	17,339
Effective date		October 1, 2008	July 2, 2018	August 20, 2002
Maturity date		January 1, 2038	July 1, 2026	July 1, 2034
Rate received		67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR
Rate paid		3.61 %	2.44 %	3.67 %
Collateral provisions		100% liability if > $20,000	None	100% asset/ liability – $250 min
Settlement frequency		Monthly	Monthly	Weekly

The University records all interest rate swap agreements in other liabilities and deferrals on the consolidated balance sheet at their respective fair values. The estimated amount the University would pay to terminate the swap agreements at the reporting date, taking into account current forward interest rates and the current forward creditworthiness of the swap counterparties, approximates the fair value of the interest rate swap. All changes in fair value are reflected as a gain or loss in nonoperating activities in the consolidated statement of activities. Periodic net cash settlement amounts with counterparties are accounted for as adjustments to interest expense on the related debt and collateral to support the swaps is included in investments on the consolidated balance sheet. Collateral held by counterparties at June 30, 2023 and 2022, respectively, was $0 and $0 for Reynolda Campus, and $1,250 and $1,890 for WFUHS.

(Dollars in Thousands)

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

	2023		2022	
	Fair value	**Gain (Loss)**	**Fair value**	**Gain (Loss)**
Reynolda Campus:				
October 2008 interest rate swap	$ (6,835)	3,618	(10,453)	9,127
December 2016 interest rate swap	(171)	(119)	(52)	328
Total	(7,006)	3,499	(10,505)	9,455
WFUHS:				
August 2002 interest rate swap	(996)	945	(1,941)	2,011
Grand total	$ (8,002)	4,444	(12,446)	11,466

As of June 30, 2023, the University's adjusted debt portfolio, after taking into account the aforementioned swap agreements, was approximately 100% fixed or synthetically fixed rate for Reynolda Campus, and 100% fixed rate or synthetically fixed for WFUHS.

(Dollars in Thousands)

(15) Net Assets

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

	2023		
	Without donor restriction	With donor restriction	Total
Reynolda Campus:			
Operating	$ 429,226	—	429,226
Endowment	259,831	823,667	1,083,498
Investment in plant, net	183,271	—	183,271
Donor pledges and gifts	—	192,476	192,476
Trust (annuity, perpetual, split-interest) and loan agreements	—	19,088	19,088
Total net assets	$ 872,328	1,035,231	1,907,559
WFUHS:			
Operating	$ 139,450	—	139,450
Endowment	498,647	270,463	769,110
Investment in plant, net	213,670	—	213,670
Donor pledges and gifts	—	29,716	29,716
Trust (annuity, perpetual, split-interest) and loan agreements	—	19,970	19,970
Total net assets	$ 851,767	320,149	1,171,916

(Dollars in Thousands)

	2022		
	Without donor restriction	**With donor restriction**	**Total**
Reynolda Campus:			
Operating	$ 375,017	—	375,017
Endowment	261,738	802,914	1,064,652
Investment in plant, net	175,017	—	175,017
Donor pledges and gifts	—	210,722	210,722
Trust (annuity, perpetual, split-interest) and loan agreements	—	18,116	18,116
Total net assets	$ 811,772	1,031,752	1,843,524
WFUHS:			
Operating	$ 97,102	—	97,102
Endowment	496,738	258,386	755,124
Investment in plant, net	232,593	—	232,593
Donor pledges and gifts	—	9,684	9,684
Trust (annuity, perpetual, split-interest) and loan agreements	—	18,863	18,863
Total net assets	$ 826,433	286,933	1,113,366

(16) Functional Expenses

Expenses are presented by functional classification in accordance with the overall mission of the University. The University's primary program services are academic, instruction and research, and health care and related services. Expenses for auxiliary enterprises, library, and student services are incurred in support of academic instruction and research, and as such are included therein. Plant operation and maintenance expense is allocated to program and supporting activities based upon direct costing or allocated using a variety of allocation techniques such as square footage. The amounts allocated in 2023 and 2022 were $159,091 and $155,368, respectively.

(Dollars in Thousands)

Expenses are reported in the consolidated statements of activities in natural categories. Functional expenses for the years ended June 30, 2023 and 2022 are categorized as follows:

2023

	Academic, instruction, and research		Health care and other related services		Administration and other institutional support		Total	
	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS
Salaries and wages	$ 212,494	202,274	—	672,521	31,988	3,810	244,482	878,605
Employee benefits	58,048	40,058	—	140,353	5,619	894	63,667	181,305
Student aid	4,084	9,345	—	—	—	—	4,084	9,345
Services	65,710	64,317	—	115,659	10,949	38,982	76,659	218,958
Clinical and laboratory supplies	—	18,085	—	93,229	—	—	—	111,314
Other operating expenses	69,251	31,512	—	58,439	2,717	1,537	71,968	91,488
Depreciation and amortization	46,421	12,661	—	18,426	5,762	6,380	52,183	37,467
Interest on debt	19,361	2,536	—	2,836	747	1,278	20,108	6,650
Total expenses	$ 475,369	380,788	—	1,101,463	57,782	52,881	533,151	1,535,132

2022

	Academic, instruction, and research		Health care and other related services		Administration and other institutional support		Total	
	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS	Reynolda Campus	WFUHS
Salaries and wages	$ 205,762	173,789	—	606,362	35,773	1,445	241,535	781,596
Employee benefits	56,027	36,679	—	132,441	7,048	305	63,075	169,425
Student aid	3,596	8,953	—	—	—	—	3,596	8,953
Services	59,882	55,641	—	91,833	8,291	29,353	68,173	176,827
Clinical and laboratory supplies	—	22,620	—	88,614	—	—	—	111,234
Other operating expenses	62,461	32,117	—	52,571	1,885	4,208	64,346	88,896
Depreciation and amortization	44,874	11,793	—	17,412	5,032	5,943	49,906	35,148
Interest on debt	17,693	2,769	—	3,164	726	1,395	18,419	7,328
Total expenses	$ 450,295	344,361	—	992,397	58,755	42,649	509,050	1,379,407

(17) Contingencies and Other Commitments

The estimated cost to complete construction in progress at June 30, 2023 and 2022, respectively, were $81,638 and $87,148 for Reynolda Campus, and $40,735 and $79,505 for WFUHS.

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

The University is self-insured for dental benefits, self-insured or fully insured for retiree medical benefits (depending on retiree benefit elections), and self-insured for active employees receiving medical benefits. The University provides an accrual for actual claims reported but not paid and a provision for incurred but not reported claims based on historical trends. Accrued employee health and dental costs, including estimated claims incurred but not reported, amounted to approximately $2,504 and $1,639 at June 30, 2023 and 2022, respectively, for Reynolda Campus and $8,655 and $7,061 at June 30, 2023 and 2022, respectively, for WFUHS and are included in other liabilities and deferrals in the accompanying consolidated balance sheet.

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

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

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

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

The University is involved in various legal matters arising in the normal course of activities. 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.

(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 2024 to 2027 are $8,220, $8,302, $8,385, and $7,229 respectively.

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 2024 to 2027 are $6,539, $6,702, $6,870 and $7,041, respectively.

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 $7,502 and $9,449 at June 30, 2023 and 2022, 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, 2023 and 2022, respectively, were $16,183 and $15,601 for Reynolda Campus and $65,071 and $51,011 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 $983 and $3,474 at June 30, 2023, respectively, and $1,134 and $3,302 at June 30, 2022, 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.

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

(Dollars in Thousands)

The following table provides a reconciliation of the changes in each plan's benefit obligation, fair value of plan assets, and funded status for the years ended June 30, 2023 and 2022:

		2023			2022
		Reynolda Campus	**WFUHS**	**Total**	**Total**
Change in benefit obligation:					
Benefit obligation at beginning of year	$	11,724	21,120	32,844	40,829
Service cost		445	—	445	591
Interest cost		544	798	1,342	1,046
Participants' contributions		569	92	661	769
Actuarial (gain)		(434)	(832)	(1,266)	(6,993)
Benefits paid		(1,299)	(1,765)	(3,064)	(3,398)
Special termination benefits		—	—	—	—
Benefit obligation at end of year		11,549	19,413	30,962	32,844
Change in plan assets:					
Fair value of plan assets at beginning of year		—	—	—	—
Employer's contributions		730	1,673	2,403	2,629
Participants' contributions		569	92	661	769
Benefits paid		(1,299)	(1,765)	(3,064)	(3,398)
Fair value of plan assets at end of year		—	—	—	—
Total liability	$	(11,549)	(19,413)	(30,962)	(32,844)
Amounts recognized in unrestricted net assets:					
Prior service cost	$	(1,926)	(24)	(1,950)	(2,340)
Net actuarial (gain) loss		(6,871)	(6,160)	(13,031)	(14,105)
Total decrease	$	(8,797)	(6,184)	(14,981)	(16,445)

(Dollars in Thousands)

The following table provides the components of net periodic benefit cost for the years ended June 30, 2023 and 2022:

	2023			2022
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Service cost	$ 445	—	445	591
Interest cost	544	798	1,342	1,046
Amortization of prior service credit	(374)	(16)	(390)	(390)
Amortization of net actuarial (gain) loss	(402)	(1,938)	(2,340)	(824)
Special termination benefits	—	—	—	—
Net periodic benefit cost	$ 213	(1,156)	(943)	423

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 weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2023 for Reynolda Campus and WFUHS, respectively, was 5.15% and 5.07%, and at June 30, 2022 was 4.78% and 4.59%, respectively. The discount rate reflects the current yield curve results as of June 30, 2023 and 2022. For management purposes, Reynolda Campus used 8.20% and 6.60%, and WFUHS used 7.10% and 7.45% for 2023 and 2022, respectively, for the annual rate of increase in the per capita cost of covered healthcare benefits for the first year, and a 4.50% rate was assumed in each year as the ultimate rate.

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

	Reynolda Campus	**WFUHS**	**Total**
2024	$ 683	1,991	2,674
2025	715	1,948	2,663
2026	737	1,897	2,634
2027	783	1,846	2,629
2028	818	1,786	2,604
Five years thereafter	4,627	7,674	12,301

(Dollars in Thousands)

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2023 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.

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

		2023	2022
Revenue from MCIA	$	312,774	223,296
Corporate service allocation, net		37,233	73,384
Other professional fees, net		45,644	(29,114)
Total net revenue from NCBH	$	395,651	267,566
Accounts receivable from (payable to) NCBH	$	136,354	(24,861)

In 2015, WFUBMC entered into an unsecured, taxable line of credit with a total borrowing capacity of $125,000 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. WFUBMC's outstanding balance on the line of credit was $19,199 as of June 30, 2023 and 2022; WFUHS had no outstanding liability under the line of credit as of June 30, 2023 and 2022.

An additional unsecured credit facility with a total borrowing capacity of $200,000 was entered into in June 2021 to provide for the working capital needs of NCBH, WFUHS, and WFUBMC. The line of credit is due on May 27, 2024, and bears interest at the term SOFR rate plus 0.65%. The facility is structured with NCBH, WFUHS, and WFUBMC as co-borrowers. There is no outstanding balance on the facility at June 30, 2023 and 2022.

As part of the master agreement between the Enterprise and Advocate Aurora, CMHA contributed $47,000 to WFUHS in fiscal year 2023 to create an academic endowment to be used to support academic enrichment activities such as recruitment of academic and research faculty, bridge funding for researchers, new or enhanced academic programs, and related development of flagship/destination clinical programs (the New Academic Endowment). The agreement stipulates that the New Academic Endowment should be invested without distribution until January 1, 2028, at which time and continuing each year thereafter, 4.75% of the prior year ending balance of the New Academic Endowment shall be made available in equal quarterly installments to WFUBMC. Additionally, the agreement has a "right of return" clause that states that if WFUBMC terminates its participation in the new Advocate Enterprise within the first ten years, the New Academic Endowment must be returned to CMHA within thirty days following the effective date of such termination. Because of this condition upon the contribution, WFUHS recorded the $47,000 to other liabilities and deferrals upon receipt in February 2023. The funds are invested similarly to WFUHS' traditional endowments, but the $47,000 will not be moved from other liabilities and deferrals to restricted contributions until May 2032, when the "right of return" clause will expire.

(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, 2023. WFUHS estimates its professional liability on an actuarial basis. WFUHS' accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $51,258 and $45,784 at June 30, 2023 and 2022, respectively, and are included in other liabilities and deferrals in the accompanying consolidated balance sheets. In the opinion of management, adequate provision has been made for the related risk.

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

(23) Subsequent Events

Management has evaluated subsequent events from June 30, 2023 through November 7, 2023, the date the financial statements were issued, and determined that there are no items to disclose.