WAKE FOREST UNIVERSITY

OMB Circular A-133 Reports

June 30, 2013

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

The Board of Trustees
Wake Forest University:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Wake Forest University (the University), which comprise the consolidated balance sheet as of June 30, 2013, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the University as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the University's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Greensboro, North Carolina
October 17, 2013

WAKE FOREST UNIVERSITY

Consolidated Balance Sheet

June 30, 2013
(with summarized comparative financial information as of June 30, 2012)

(Dollars in thousands)

		Supplementary information			
Assets		**Reynolda Campus**	**WFUHS**	**2013**	**2012**
Cash and cash equivalents	$	30,119	17,882	48,001	75,600
Accounts receivable, net		12,098	156,300	168,398	181,191
Patient receivables, net		—	77,974	77,974	68,898
Contributions receivable, net		84,145	6,400	90,545	58,687
Notes receivable, net		22,875	3,245	26,120	27,801
Investments		820,711	618,525	1,439,236	1,353,115
Investments in real estate		27,730	—	27,730	27,199
Other assets		6,734	18,913	25,647	16,480
Deposits with bond trustee		71,184	—	71,184	5,347
Land, buildings, and equipment, net		428,564	320,927	749,491	703,151
Total assets	$	1,504,160	1,220,166	2,724,326	2,517,469
Liabilities and Net Assets					
Liabilities:					
Accounts payable and accruals	$	42,096	125,655	167,751	153,146
Other liabilities and deferrals		70,386	217,231	287,617	282,257
Annuities payable		23,405	3,898	27,303	28,488
Notes payable and capital leases		31,604	23,081	54,685	175,062
Bonds payable		282,809	187,609	470,418	251,886
Postretirement benefits		13,022	—	13,022	18,374
Government grants refundable		9,827	—	9,827	9,945
Total liabilities		473,149	557,474	1,030,623	919,158
Net assets:					
Unrestricted		451,705	470,270	921,975	954,518
Temporarily restricted		338,374	51,738	390,112	294,737
Permanently restricted		240,932	140,684	381,616	349,056
Total net assets		1,031,011	662,692	1,693,703	1,598,311
Total liabilities and net assets	$	1,504,160	1,220,166	2,724,326	2,517,469

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Activities

Year ended June 30, 2013
(with summarized comparative financial information for the year ended June 30, 2012)

(Dollars in thousands)

	2013				2012
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**Total**
Operating revenues:					
Student tuition and fees	$ 298,715	—	—	298,715	286,251
Less student aid	(87,834)	—	—	(87,834)	(85,038)
Net student tuition and fees	210,881	—	—	210,881	201,213
Government grants and contracts	186,463	—	—	186,463	198,790
Private grants and contracts	4,706	16,961	—	21,667	39,898
Contributions	22,071	30,410	—	52,481	33,732
Investment return designated for current operations	37,808	23,238	—	61,046	60,658
Patient revenue, net	368,993	—	—	368,993	360,858
Other	132,203	—	—	132,203	153,617
Sales and services of auxiliary enterprises	77,564	—	—	77,564	75,712
Net assets released from restrictions	46,132	(46,132)	—	—	—
Total operating revenues	1,086,821	24,477	—	1,111,298	1,124,478
Operating expenses:					
Salaries and wages	594,942	—	—	594,942	567,079
Employee benefits	124,210	—	—	124,210	113,174
Student aid	8,969	—	—	8,969	12,480
Services	172,947	—	—	172,947	189,595
Clinical and laboratory supplies	43,565	—	—	43,565	49,491
Other operating expenses	96,704	—	—	96,704	94,374
Integration and restructuring costs	6,127	—	—	6,127	1,922
Depreciation and amortization	55,313	—	—	55,313	51,224
Interest on debt	15,947	—	—	15,947	13,617
Total operating expenses	1,118,724	—	—	1,118,724	1,092,956
Operating (deficit) excess	(31,903)	24,477	—	(7,426)	31,522
Nonoperating activities:					
Restricted contributions	—	23,830	29,548	53,378	31,799
Net assets released from restriction	5,460	(5,460)	—	—	—
Investment return in excess of (less than) amounts designated for current operations	11,450	10,172	3,985	25,607	(47,148)
Actuarial gain (loss) on annuity obligations	—	—	349	349	(3,791)
Unrealized gain (loss) on interest rate swaps	12,561	—	—	12,561	(34,664)
Postretirement related changes other than net periodic cost	7,529	—	—	7,529	8,787
Gain from affiliates, equity method	3,304	—	—	3,304	1,591
Donor designation changes	(42,687)	43,658	(971)	—	—
Other, net	1,743	(1,302)	(351)	90	(4,060)
Change from nonoperating activities	(640)	70,898	32,560	102,818	(47,486)
Change in net assets	(32,543)	95,375	32,560	95,392	(15,964)
Net assets at beginning of year	954,518	294,737	349,056	1,598,311	1,614,275
Net assets at end of year	$ 921,975	390,112	381,616	1,693,703	1,598,311

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

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

Year ended June 30, 2013

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student tuition and fees	$ 264,055	—	—	264,055
Less student aid	(76,867)	—	—	(76,867)
Net student tuition and fees	187,188	—	—	187,188
Government grants and contracts	8,725	—	—	8,725
Private grants and contracts	2,229	194	—	2,423
Contributions	16,159	29,355	—	45,514
Investment return designated for current operations	17,961	17,585	—	35,546
Patient revenue, net	—	—	—	—
Other	7,737	—	—	7,737
Sales and services of auxiliary enterprises	77,564	—	—	77,564
Net assets released from restrictions	24,020	(24,020)	—	—
Total operating revenues	341,583	23,114	—	364,697
Operating expenses:				
Salaries and wages	167,398	—	—	167,398
Employee benefits	43,480	—	—	43,480
Student aid	3,480	—	—	3,480
Services	35,468	—	—	35,468
Clinical and laboratory supplies	—	—	—	—
Other operating expenses	56,039	—	—	56,039
Integration and restructuring costs	—	—	—	—
Depreciation and amortization	26,506	—	—	26,506
Interest on debt	9,048	—	—	9,048
Total operating expenses	341,419	—	—	341,419
Operating (deficit) excess	164	23,114	—	23,278
Nonoperating activities:				
Restricted contributions	—	23,830	21,588	45,418
Net assets released from restriction	5,460	(5,460)	—	—
Investment return in excess of (less than) amounts designated for current operations	5,849	7,627	2,498	15,974
Actuarial gain (loss) on annuity obligations	—	—	1,124	1,124
Unrealized gain (loss) on interest rate swaps	8,314	—	—	8,314
Postretirement related changes other than net periodic cost	2,880	—	—	2,880
Gain from affiliates, equity method	—	—	—	—
Donor designation changes	(42,687)	43,658	(971)	—
Other, net	880	(439)	(230)	211
Change from nonoperating activities	(19,304)	69,216	24,009	73,921
Change in net assets	(19,140)	92,330	24,009	97,199
Net assets at beginning of year	470,845	246,044	216,923	933,812
Net assets at end of year	$ 451,705	338,374	240,932	1,031,011

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Statement of Activities

Wake Forest University Health Sciences
(Supplementary Information)

Year ended June 30, 2013

(Dollars in thousands)

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:				
Student tuition and fees	$ 34,660	—	—	34,660
Less student aid	(10,967)	—	—	(10,967)
Net student tuition and fees	23,693	—	—	23,693
Government grants and contracts	177,738	—	—	177,738
Private grants and contracts	2,477	16,767	—	19,244
Contributions	5,912	1,055	—	6,967
Investment return designated for current operations	19,847	5,653	—	25,500
Patient revenue, net	368,993	—	—	368,993
Other	124,466	—	—	124,466
Sales and services of auxiliary enterprises	—	—	—	—
Net assets released from restrictions	22,112	(22,112)	—	—
Total operating revenues	745,238	1,363	—	746,601
Operating expenses:				
Salaries and wages	427,544	—	—	427,544
Employee benefits	80,730	—	—	80,730
Student aid	5,489	—	—	5,489
Services	137,479	—	—	137,479
Clinical and laboratory supplies	43,565	—	—	43,565
Other operating expenses	40,665	—	—	40,665
Integration and restructuring costs	6,127	—	—	6,127
Depreciation and amortization	28,807	—	—	28,807
Interest on debt	6,899	—	—	6,899
Total operating expenses	777,305	—	—	777,305
Operating (deficit) excess	(32,067)	1,363	—	(30,704)
Nonoperating activities:				
Restricted contributions	—	—	7,960	7,960
Net assets released from restriction	—	—	—	—
Investment return in excess of (less than) amounts designated for current operations	5,601	2,545	1,487	9,633
Actuarial gain (loss) on annuity obligations	—	—	(775)	(775)
Unrealized gain (loss) on interest rate swaps	4,247	—	—	4,247
Postretirement related changes other than net periodic cost	4,649	—	—	4,649
Gain from affiliates, equity method	3,304	—	—	3,304
Donor designation changes	—	—	—	—
Other, net	863	(863)	(121)	(121)
Change from nonoperating activities	18,664	1,682	8,551	28,897
Change in net assets	(13,403)	3,045	8,551	(1,807)
Net assets at beginning of year	483,673	48,693	132,133	664,499
Net assets at end of year	$ 470,270	51,738	140,684	662,692

See accompanying notes to consolidated financial statements.

WAKE FOREST UNIVERSITY

Consolidated Statement of Cash Flows

Year ended June 30, 2013
(with summarized comparative financial information for the year ended June 30, 2012)

(Dollars in thousands)

	Supplementary information			
	Reynolda Campus	WFUHS	2013	2012
Cash flows from operating activities:				
Change in net assets	$ 97,199	(1,807)	95,392	(15,964)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	26,506	28,807	55,313	51,224
Net (appreciation) depreciation on investments	(28,100)	(9,290)	(37,390)	30,738
Noncash gifts	(2,198)	(1,687)	(3,885)	(129)
Private gifts restricted for capital and long-term investment	(45,418)	(7,960)	(53,378)	(31,799)
Other revenue restricted for long-term investment	(90)	(343)	(433)	(465)
Loss on disposals of property and equipment	70	1,666	1,736	1,976
Gain from equity method affiliates	—	(3,304)	(3,304)	(1,591)
Unrealized (gain) loss on interest rate swaps	(8,314)	(4,247)	(12,561)	34,664
Bad debt expense	1,283	31,937	33,220	33,428
Postretirement curtailment gain	—	—	—	(8,122)
Write-off of bond issuance costs and original discount	—	576	576	1,016
Changes in operating assets and liabilities:				
Accounts and patient receivables	(2,348)	(19,672)	(22,020)	(58,759)
Contributions receivable	(18,409)	(1,909)	(20,318)	(4,110)
Notes receivable	(5)	—	(5)	17
Other assets and other liabilities and deferrals	9,825	(9,727)	98	3,989
Accounts payable and accruals	4,776	1,572	6,348	7,675
Postretirement benefits	(1,678)	(3,674)	(5,352)	(7,390)
Annuities payable	(894)	(291)	(1,185)	2,271
Net cash provided by operating activities	32,205	647	32,852	38,669
Cash flows from investing activities:				
Purchases of land, buildings, and equipment	(82,935)	(15,522)	(98,457)	(101,344)
Proceeds from sale of land, buildings, and equipment	251	5,679	5,930	1,755
Repayments of notes receivable	—	981	981	730
Disbursements of loans to students and other	(3,249)	(296)	(3,545)	(2,509)
Repayments of loans to students and other	4,118	143	4,261	3,520
Purchases of investments	(782,520)	(74,604)	(857,124)	(640,832)
Net proceeds from sales and maturities of investments	733,432	79,378	812,810	599,250
(Increase) decrease in deposits with bond trustee	(65,837)	—	(65,837)	8,435
Net cash used in investing activities	(196,740)	(4,241)	(200,981)	(130,995)
Cash flows from financing activities:				
Change in government grants refundable	(118)	—	(118)	(158)
Proceeds from notes payable	2,984	21,648	24,632	109,070
Payments on notes payable	(3,667)	(141,342)	(145,009)	(19,655)
Proceeds from issuance of bonds payable	125,000	188,065	313,065	—
Proceeds from borrowings from affiliates	—	37,450	37,450	—
Payments on bonds payable	(4,880)	(89,110)	(93,990)	(97,966)
Payments of bond issuance costs	(1,052)	—	(1,052)	—
Payments to terminate interest rate swaps	—	(36,258)	(36,258)	—
Proceeds from private gifts restricted for capital and long-term investment	32,685	7,960	40,645	30,715
Net realized gains restricted for long-term investment	212	520	732	351
Other revenue restricted for long-term investment	90	343	433	465
Net cash provided by (used in) financing activities	151,254	(10,724)	140,530	22,822
Net decrease in cash and cash equivalents	(13,281)	(14,318)	(27,599)	(69,504)
Cash and cash equivalents at beginning of year	43,400	32,200	75,600	145,104
Cash and cash equivalents at end of year	$ 30,119	17,882	48,001	75,600
Supplemental disclosures of cash flow information:				
Cash paid for interest	$ 7,072	7,853	14,925	13,489
Assets acquired under capital leases	2,984	1,649	4,633	65

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Description of Wake Forest University

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

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

The Integration Agreement created an integrated academic medical center that combines clinical care, education and research under a single management and debt structure referred to as Wake Forest Baptist (WFB). One of the nation's preeminent academic medical centers, WFB is an integrated health care system that operates over 50 subsidiaries. It provides a continuum of care that includes primary care centers, outpatient rehabilitation, dialysis centers and home health care.

To ensure alignment across the organization, WFUHS and NCBH unrestricted operating income are shared equally between the entities. Although the entities will be operated to maximize the value at the total WFB level, revenues, expenses, existing and new assets and debt will continue to be accounted for generally at the individual entity levels. Effective March 26, 2011, NCBH, WFUHS, and WFUBMC formed a single obligated group (Obligated Group) under the existing NCBH master trust indenture (MTI). The separate WFUHS MTI was discharged and new obligations were issued to WFUHS obligation holders under the MTI. In addition, substantially all of the subsidiaries of NCBH, WFUHS, and WFUBMC were included in the single credit group (Combined Group) as Designated Members. The effect of the new credit structure is that each member of the Obligated Group becomes jointly and severally liable for all debt and other obligations that are to be evidenced and secured under the MTI.

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

(b) Basis of Presentation

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

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

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

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

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

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

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 deficit presented in the consolidated statement of activities. The University considers the following items to be nonoperating activities: restricted contributions for capital and long-term investment and the related net assets released from restriction, investment return in excess of or less than amounts designated for current operations, actuarial gain or loss on annuity obligations, unrealized gain or loss on interest rate swaps, postretirement related changes other than net periodic cost, gain or loss from affiliates (equity method), donor designation changes, and other, net.

(c) 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, money market funds and accounts. 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 the bank accounts is minimal.

(d) Revenue Recognition

The University's revenue recognition polices are as follows:

Student tuition and fees – Student tuition and fees are recorded as revenue during the year that the related services are rendered. 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 of gross student tuition and fee revenue. Student aid does not include payments made to students for services rendered to the University.

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

Patient revenue, net – WFUHS records patient revenue net of contractual adjustments. WFUHS has agreements with third-party payors that provide for payments to WFUHS at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Patient revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity care – WFUHS provides care 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; accordingly, such amounts are not reported in net patient revenue.

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. The amounts of direct and indirect costs incurred for services and supplies furnished under WFUHS' charity care policy totaled approximately $13,585 and $15,040 in 2013 and 2012, respectively.

HITECH Incentive Funding for Meaningful Use of Electronic Health Records (EHR) – The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain healthcare providers that use certified EHR technology. The program is commonly referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. To qualify for incentives under the HITECH Act, healthcare providers must meet designated EHR meaningful use criteria as defined by the Centers for Medicare and Medicaid Services (CMS). Incentive payments are awarded to healthcare providers who have attested to CMS that applicable meaningful use criteria have been met. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period. WFUHS recognizes revenue for EHR incentive payments in the period in which it has obtained reasonable assurance that it is in compliance with the applicable EHR meaningful use requirements. Accordingly, for the fiscal year ended June 30, 2013, WFUHS recognized EHR incentives of approximately $6,589, which are included in other sources of revenue (separate from net patient service revenue) in the consolidated statement of activities.

(e) Contributions

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

(f) Investments

Investments in readily marketable debt and equity securities are stated at their fair values, which are determined based on quoted market prices. Investments in private equity and absolute return funds are reported at estimated fair value, utilizing their net asset values. Those net asset values are determined by the investment managers and are reviewed and evaluated by the University’s or WFUHS’ investment offices. These estimated fair values may differ from the values that would have been used had a ready market existed for these investments. Investments in equity method affiliates are accounted for using the equity method.

(g) Investments in Real Estate

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

(h) Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which the University serves as trustee. 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.

(i) 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 2 also includes investments in funds reported at their net asset values when these investments are redeemable at or near the balance sheet date.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 also includes investments in funds reported at their net asset values when these investments are not redeemable at or near the balance sheet date.

The carrying amounts of cash and cash equivalents (Level 1), patient receivables (Level 2), and accounts receivable (Level 2) approximate fair value because of the terms and relatively short maturity of these financial instruments. The carrying amounts of contributions receivable represent the present value of estimated future cash flows, which approximates fair value (Level 3). Investments (Levels 1–3, see note 8) and deposits with bond trustee (Level 1) are reported at fair value as of the date of the consolidated financial statements. A reasonable estimate of the fair value of notes receivable from students under government loan programs cannot be made because such loans are not sellable and can only be assigned to the U.S. government or its designees. The fair value of receivables from students under University loan programs (Level 2) approximates carrying value.

The carrying amounts of accounts payable and other accruals (Level 2) approximate fair value because of the relatively short maturity of these financial instruments. Annuities payable (Level 2) are recorded at fair value using a single discount rate equivalent to the University's nonexempt borrowing rate. The carrying amounts of notes and bonds payable (Level 2) with variable interest rates approximate their fair value because substantially all of these financial instruments bear interest at rates that approximate current market rates for borrowings with similar maturities and credit quality. The disclosure of fair value of fixed-rate debt maturities is determined using a relative price approach, by discounting future principal and interest payments at the market yield to maturity, and at the market yield to each call date. The fair value of the Series 2009 fixed-rate tax-exempt bonds (Level 2) was $114,020 and $119,701 at June 30, 2013 and 2012, respectively.

(j) Bond Issuance Costs

Costs related to the registration and issuance of bonds 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 other assets on the consolidated balance sheet.

(k) Deposits with Bond Trustee

Deposits with bond trustee consist of unexpended proceeds of certain bonds payable. These funds are invested in a money rate savings account and are used for construction of certain facilities.

(l) Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost at date of acquisition or estimated fair market value on the date received for donated items. Depreciation is calculated 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 acquiring these assets.

(m) Integration and Restructuring Costs

As a result of the Integration Agreement and management's continued efforts toward the creation of an integrated academic medical center, WFUHS has recognized $6,127 and $1,922 for the years ended June 30, 2013 and 2012, respectively, in associated integration and restructuring costs, which include payments to third parties for assistance with the integration agreement and establishment of an integrated clinical documentation and billing system as well as the recognition of termination benefits related to a reduction in force. Given the nature of these costs and in accordance with management's policy for the recognition of revenue and expense related to continuing operations, the integration and restructuring costs have been reported as an expense in the consolidated statement of activities.

(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. There were no impairment losses recorded for Reynolda Campus and WFUHS for the years ended June 30, 2013 and 2012.

(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.

(p) Government Grants Refundable

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

(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.

(Continued)

(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, assumed rates of return, turnover rates, and healthcare cost trend rates. The University reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded as a change in unrestricted net assets and amortized to net periodic benefit cost over future periods using the corridor method. The University believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions. The net periodic benefit costs are recognized as employees render the services necessary to earn the postretirement benefits.

On June 2, 2011, WFUHS' Board of Directors approved that effective as of January 1, 2012, the postretirement medical and dental plan would be discontinued for most future retirees and was communicated to all employees on September 30, 2011. The minimum age required for postretirement benefits increased from 60 to 62. However, the additional requirement of the rule of 75 (age and service) remained unchanged. All current retirees and currently eligible employees previously grandfathered continued to be eligible for benefits under this plan. Any WFUHS employee who is within five 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 was grandfathered into this benefit plan. These events triggered a reassessment of the postretirement benefit plan obligations and costs as of June 30, 2012, to reflect the plan curtailment and plan changes. As a result of these changes, WFUHS recognized a one-time curtailment gain of $8,097, which represents the immediate recognition of unrecognized prior service related to prior plan amendments. This gain is included in employee benefits expense in the consolidated statement of activities for the year ended June 30, 2012.

WFUHS' Board of Directors additionally approved various changes to other existing retirement plans, including a permanent freeze of the WFUHS Money Purchase Pension Plan, the merger of the existing Tax-Deferred Annuity Plan and the Private 457(b) Deferred Compensation Plan with the NCBH sponsored 403(b) and 457(b) plans. All changes were effective January 1, 2012.

(s) 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 land, buildings, and equipment, and the valuation of nonreadily marketable investments, investments in real estate, allowances for receivables, AROs, professional liabilities, interest rate swap obligations and obligations related to employee benefits. Actual results could differ from those estimates.

(t) Income Taxes

The University is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes is made in the consolidated financial statements. Unrelated business income of the University is reported on Form 990-T. The University recognizes the effect of income tax positions only if those positions are more likely than not of being sustained.

(u) Reclassifications

Certain amounts previously reported in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications have no effect on total assets, liabilities or net assets as previously reported.

(v) Comparative Financial Information

The consolidated financial statements include certain prior year information for comparative purposes, which does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended June 30, 2012 from which this information was derived.

(w) Recently Adopted Accounting Standards

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*, in 2011. This ASU requires the reason for the fair value measurement to be disclosed, a description of the valuation techniques, and descriptions of the inputs used for all Level 2 and Level 3 fair value measurements. The University implemented this standard in fiscal year 2013 and it had no effect on the change in net assets in the consolidated financial statements.

(Continued)

(Dollars in thousands)

(2) Accounts Receivable

The following is an analysis of accounts receivable at June 30, 2013 and 2012 (see note 19 for additional information):

	2013			2012
	Reynolda Campus	WFUHS	Total	Total
Accounts receivable	$ 10,032	118,364	128,396	146,993
Grants receivable	2,502	38,774	41,276	35,365
Total accounts receivable	12,534	157,138	169,672	182,358
Less allowance for bad debts	(436)	(838)	(1,274)	(1,167)
Accounts receivable, net	$ 12,098	156,300	168,398	181,191

(3) Patient Revenue and Patient Receivables

Net patient service revenue is recorded when patient services are performed at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. WFUHS recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, WFUHS recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of WFUHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, WFUHS records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payer sources, and the related provision for bad debts are as follows:

	WFUHS	
	2013	2012
Third-party payers	$ 327,640	316,071
Self-pay	73,290	77,025
Provision for bad debts	(31,937)	(32,238)
Patient revenue, net	$ 368,993	360,858

WFUHS has agreements with third-party payers that provide for payments to WFUHS at amounts different from its established rates. Payment arrangements with nongovernmental payers are a negotiated percentage increase to the Medicare fee schedule allowable. Under the Medicare and Medicaid programs, WFUHS is entitled to reimbursement for billed CPT codes at fee schedule rates determined by federal and state

(Continued)

(Dollars in thousands)

governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue.

Patient receivables are reduced by an allowance for doubtful accounts. In evaluating the collectibility of patient receivables, WFUHS analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, WFUHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (e.g., for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), WFUHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patient receivables are recorded net of allowance for contractual adjustments and uncollectible accounts of \$78,419 and \$44,093, respectively, at June 30, 2013 and \$98,741 and \$35,499, respectively, at June 30, 2012.

WFUHS' allowance for doubtful accounts for self-pay patients increased from 82% of self-pay accounts receivable at June 30, 2012 to 90% of self-pay accounts receivable at June 30, 2013. In addition, WFUHS' self-pay allowances and expenses (which include charity care charges foregone and bad debt expense) decreased \$1,679 from \$65,358 for fiscal year 2012 to \$63,679 for fiscal year 2013. Both increases were the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2013. WFUHS does not maintain a material allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

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

	2013	2012
Medicare	23%	26%
Medicaid	19	16
Self-pay	30	25
Other	28	33
	100%	100%

(Dollars in thousands)

(4) Contributions Receivable

The following is an analysis of the maturities of the University's contributions receivable at June 30, 2013 and 2012:

		2013			
		Reynolda Campus	WFUHS	Total	2012 Total
One year or less	$	21,377	515	21,892	21,887
Between one and five years		33,450	3,876	37,326	26,213
More than five years		93,198	3,286	96,484	57,346
Gross contributions receivable		148,025	7,677	155,702	105,446
Less estimated uncollectible amounts		(5,831)	(472)	(6,303)	(4,954)
Less discount to present value		(58,049)	(805)	(58,854)	(41,805)
Contributions receivable, net	$	84,145	6,400	90,545	58,687

Contributions receivable, net for Reynolda Campus included perpetual commitments from a foundation with a long-standing history of support to the University. These long-term unconditional promises to give represented 42% of Reynolda Campus' net contributions receivable as of June 30, 2013.

(5) Notes Receivable

The following is an analysis of notes receivable at June 30, 2013 and 2012:

		2013			
		Reynolda Campus	WFUHS	Total	2012 Total
Student loans receivable	$	20,040	916	20,956	21,604
Other notes receivable		3,164	4,135	7,299	8,568
Total notes receivable		23,204	5,051	28,255	30,172
Less estimated uncollectible amounts		(329)	(1,806)	(2,135)	(2,371)
Notes receivable, net	$	22,875	3,245	26,120	27,801

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, 2013 and 2012, student loans receivable consisted of Federal loan programs of $19,140 and $19,791, respectively, and institutional loan programs of $1,816 and $1,813, respectively. The University participates in the Perkins federal revolving loan program. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $9,827 and $9,945 at June 30, 2013 and 2012, respectively, are ultimately refundable to the federal government and are reported as government grants refundable on the consolidated balance sheet. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the federal government. Amounts due under the Perkins loan program are guaranteed by the federal government and, therefore, no allowance for uncollectible amounts is reported under the program. 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, 2013 and 2012, the allowance for uncollectible institutional student loan amounts was $387 and $420, respectively.

(Dollars in thousands)

(6) Investments

Investments at June 30, 2013 and 2012 consist of the following:

		2013	2012
Short-term investments[a]	$	84,547	134,593
Absolute return[b]		286,822	221,348
Commodities:[c]			
Timberland		22,768	23,191
Energy		28,993	18,340
Other		17,840	16,085
Fixed income:[d]			
Domestic		346,079	381,356
International		82,277	82,750
Private equity[e]		108,707	108,655
Public equity:[f]			
Domestic		133,324	126,298
International		132,400	99,563
Real estate:[g]			
Commercial		38,313	35,721
Residential		19,887	22,142
Other		41,154	28,040
Beneficial interest in perpetual trusts and assets held by others[h]		24,258	24,936
Other		71,867	30,097
Total investments	$	1,439,236	1,353,115

(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.

(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.

(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.

The University invests a substantial portion of these assets into an internal long-term pool on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of each quarter within which the transaction took place. At June 30, 2013, a total of 22,435,685 units existed in the long-term pool with a fair value of $48.56 per unit. At June 30, 2012, a total of 21,482,088 units existed in the long-term pool with a fair value of $47.60 per unit.

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.

(Dollars in thousands)

The components of total investment return as reflected in the consolidated statement of activities are as follows:

		2013	2012
Investment income, net	$	29,880	21,877
Realized gains, net		47,517	27,560
Changes in unrealized appreciation (depreciation)		9,256	(35,927)
Total investment return		86,653	13,510
Investment return designated for current operations		(61,046)	(60,658)
Investment return in excess of (less than) amounts designated for current operations	$	25,607	(47,148)

Investment income has been reduced by investment fees of $11,047 and $9,414 in 2013 and 2012, respectively.

(7) Endowment

The University's pooled endowment consists of approximately 1,500 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Gift annuities, beneficial interest in perpetual trusts and assets held by others, and contributions receivable are not considered components of the endowment.

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

The portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 or risk while maintaining sufficient liquidity to meet disbursement needs.

The portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. The University diversifies its investments among various asset classes incorporating multiple strategies and investment advisors to help manage risk. Major investment decisions are approved by the Board's Investment Policy Committee, which oversees the University's investments in accordance with established guidelines. 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 endowment spending rate for the years ended June 30, 2013 and 2012 was 5.3%, 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.

(Dollars in thousands)

Endowment net assets consist of the following at June 30, 2013 and 2012:

		2013				2012
		Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Reynolda Campus:						
Donor-restricted endowment funds	$	(7,499)	220,429	211,639	424,569	361,147
Board-designated endowment funds		235,794	—	—	235,794	254,501
Endowment net assets		228,295	220,429	211,639	660,363	615,648
WFUHS:						
Donor-restricted endowment funds		(1,631)	45,481	115,412	159,262	148,558
Board-designated endowment funds		242,013	—	—	242,013	235,927
Endowment net assets		240,382	45,481	115,412	401,275	384,485
Total endowment net assets	$	468,677	265,910	327,051	1,061,638	1,000,133

Changes in endowment net assets for the years ended June 30, 2013 and 2012 are as follows:

		2013				2012
		Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Reynolda Campus:						
Beginning balance	$	246,388	169,295	199,965	615,648	640,002
Investment return:						
Investment income net of fees		3,138	5,475	35	8,648	3,937
Net appreciation		10,776	20,991	221	31,988	587
Total investment return		13,914	26,466	256	40,636	4,524
Contributions		11	(14)	12,490	12,487	29,333
Appropriation for expenditure		(11,066)	(18,976)	(101)	(30,143)	(29,607)
Transfers due to donor redesignations		(22,089)	43,658	(971)	20,598	(3,677)
Transfers to (from) Board-designated funds		1,137	—	—	1,137	(24,927)
Ending balance	$	228,295	220,429	211,639	660,363	615,648

(Continued)

(Dollars in thousands)

Transfers due to donor redesignations in fiscal year 2013 include $43,658 related to a donor designating an unrestricted contribution received during the fiscal year ended June 30, 2011 to a term endowment fund. This redesignation is reflected in the accompanying consolidated statement of activities in nonoperating activities.

		2013				
		Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**	**2012 Total**
WFUHS:						
Beginning balance	$	234,296	41,707	108,482	384,485	392,450
Investment return:						
Investment income net of fees		6,008	3,233	325	9,566	6,124
Net appreciation (depreciation)		11,212	5,961	558	17,731	(4,003)
Total investment return		17,220	9,194	883	27,297	2,121
Contributions		(11)	—	6,626	6,615	7,419
Appropriation for expenditure		(11,123)	(5,420)	(579)	(17,122)	(17,505)
Transfers due to donor redesignations		—	—	—	—	—
Transfers to (from) Board -designated funds		—	—	—	—	—
Ending balance	$	240,382	45,481	115,412	401,275	384,485

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift. Deficiencies of this nature are reported in unrestricted net assets as follows: Reynolda Campus and WFUHS, respectively, were $7,499 and $1,631 as of June 30, 2013; and $8,113 and $1,631 as of June 30, 2012.

(Dollars in thousands)

(8) Fair Values of Assets and Liabilities

The following table summarizes the valuation of the University's assets and liabilities within the fair value hierarchy levels as of June 30, 2013:

	2013				2012
	Level 1	Level 2	Level 3	Total	Total
Financial assets:					
Cash and cash equivalents	$ 48,001	—	—	48,001	75,600
Investments:					
Short-term investments	84,547	—	—	84,547	134,593
Absolute return	—	107,730	179,092	286,822	221,348
Commodities:					
Timberland	—	—	22,768	22,768	23,191
Energy	9,965	—	19,028	28,993	18,340
Other	11,314	—	6,526	17,840	16,085
Fixed income:					
Domestic	280,776	—	65,303	346,079	381,356
International	70,180	—	12,097	82,277	82,750
Private equity	—	—	108,707	108,707	108,655
Public equity:					
Domestic	49,611	35,160	48,553	133,324	126,298
International	80,885	24,042	27,473	132,400	99,563
Real estate:					
Commercial	—	—	38,313	38,313	35,721
Residential	—	—	19,887	19,887	22,142
Other	7,982	—	33,172	41,154	28,040
Beneficial interest in perpetual trusts and assets held by others	—	—	24,258	24,258	24,936
Other	1,441	32,583	37,843	71,867	30,097
Deposits with bond trustee	71,184	—	—	71,184	5,347
Total assets	$ 715,886	199,515	643,020	1,558,421	1,434,062
Financial liabilities:					
Other liabilities and deferrals:					
Interest rate swap agreements	$ —	20,030	—	20,030	68,849
Other employee benefits	—	32,583	—	32,583	25,738
Annuities payable	—	27,303	—	27,303	28,488
Total liabilities	$ —	79,916	—	79,916	123,075

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the University underlying holdings, which may be marketable. These shares or units are generally reported at the net asset value reported by the fund managers. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the University's interest therein, its classification in Level 2 or 3 is based on the University's ability to redeem its interest at or near June 30. If the interest can be redeemed in the near term, the investment is classified as Level 2. 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 change in circumstances that caused the transfer. There were no significant transfers between Level 1 and Level 2 securities during the year ended June 30, 2013.

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 June 30, 2013.

Obligations under split-interest agreements reported in annuities payable were discounted at a rate that is equivalent to the University's nonexempt borrowing rate of 3.96% at June 30, 2013, and 3.02% at June 30, 2012.

(Dollars in thousands)

The following table presents the reconciliation of Level 3 assets measured at fair value for the year ended June 30, 2013. Both observable and unobservable inputs may be used to determine the fair value of positions that the University has classified as Level 3.

		Balance as of June 30, 2012	Total realized and unrealized gains (losses)	Purchases	Sales	Net transfers out of Level 3	Balance as of June 30, 2013
Investments:							
Absolute return	$	145,692	26,041	32,725	(25,366)	—	179,092
Commodities:							
Timberland		23,191	17	706	(1,146)	—	22,768
Energy		14,903	(283)	6,096	(1,688)	—	19,028
Other		4,856	(330)	2,000	—	—	6,526
Fixed income:							
Domestic		145,558	732	14,640	(68,677)	(26,950)	65,303
International		21,916	480	9,892	(17,882)	(2,309)	12,097
Private equity		108,655	3,909	20,127	(23,984)	—	108,707
Public equity:							
Domestic		35,804	5,610	20,656	(13,517)	—	48,553
International		17,976	2,126	20,369	(12,998)	—	27,473
Real estate:							
Commercial		35,721	1,541	9,872	(8,821)	—	38,313
Residential		22,142	995	5,231	(8,481)	—	19,887
Other		21,833	1,920	10,907	(1,488)	—	33,172
Interests in perpetual trusts and assets held by others		24,936	2,164	478	(3,320)	—	24,258
Other		30,097	2,255	39,125	(1,051)	(32,583)	37,843
Total assets	$	653,280	47,177	192,824	(188,419)	(61,842)	643,020

For the year ended June 30, 2013, a change in the University's ability to redeem investments in the near term at net asset value represents almost all of the net transfers from Level 3 to Level 2.

The University's aggregate unfunded private capital commitments are approximately $121,382 or 8.4% of total investments at June 30, 2013. Of these commitments, $44,909 relates to private equity, $20,010 relates to real estate, $10,816 relates to commodities, $16,417 relates to absolute return, and $29,230 relates to fixed income. These commitments are expected to be called over a multi-year time frame. The University believes it has adequate liquidity and funding sources to meet these obligations.

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 capital calls are made by fund managers. 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 takes these factors into consideration when allocating to private investments and believes that it has adequate liquidity to meet its obligations.

(Dollars in thousands)

Investment liquidity as of June 30, 2013 is aggregated below based on redemption or sale period:

Daily, with 1 – 5 days notice	$	574,573
Monthly, with 5 – 15 days notice		159,130
Quarterly, with 5 – 95 days notice		68,258
Semi-annually, with 45 – 95 days notice		54,113
Yearly, with 60 – 180 days notice		140,693
Liquidity within 2 years, with 60 – 95 days notice		86,580
Illiquid		355,889
Total as of June 30, 2013	$	1,439,236

(9) Land, Buildings, and Equipment

Land, buildings, and equipment are summarized as follows at June 30, 2013 and 2012:

		2013			
		Reynolda Campus	**WFUHS**	**Total**	**2012 Total**
Land and improvements	$	21,945	97,376	119,321	119,724
Buildings and other improvements		493,676	379,394	873,070	869,193
Equipment and furnishings		80,353	177,281	257,634	232,022
Construction in progress		110,563	15,106	125,669	71,668
		706,537	669,157	1,375,694	1,292,607
Less accumulated depreciation		(277,973)	(348,230)	(626,203)	(589,456)
	$	428,564	320,927	749,491	703,151

Total depreciation expense on buildings, improvements, equipment, and furnishings was $54,315 and $50,184 for the years ended June 30, 2013 and 2012, respectively.

The University's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. Interest cost of $4,055 and $2,446 was capitalized in the years ended June 30, 2013 and 2012, respectively.

The liabilities associated with AROs for the years ended June 30, 2013 and 2012, respectively, were $13,845 and $13,142 for Reynolda Campus, and $3,785 and $3,659 for WFUHS. These liabilities are reported in other liabilities and deferrals on the consolidated balance sheet.

(Dollars in thousands)

(10) Notes, Capital Leases, and Bonds Payable

Notes, capital leases, and bonds payable at June 30, 2013 and 2012 consist of the following:

Reynolda Campus	**Years to nominal maturity**	**Interest rate at June 30, 2013**			**2013**	**2012**
Notes payable and capital leases:						
Construction loan	<1	0.54%	variable	$	27,361	28,747
1994 Construction loan	2	4.19	fixed		930	1,823
Promissory note	6	4.00	fixed		950	1,175
Capital leases	3	1.32 to 14.45	fixed		2,363	542
Total notes payable and capital leases					31,604	32,287
Bonds payable:						
2004 Series A tax-exempt	<1 to 7	0.05%	variable		28,065	29,785
2004 Series B tax-exempt	<1 to 7	0.05	variable		17,480	20,640
2009 Series serial tax-exempt	27	4.00 to 5.00	fixed		49,430	49,430
2009 Series term tax-exempt	26	5.00	fixed		60,570	60,570
2012 Series serial taxable	14	2.60 to 3.10	fixed		20,425	—
2012 Series term taxable	29	3.45 to 3.70	fixed		104,575	—
Unamortized bond premium					2,264	2,351
Total bonds payable					282,809	162,776
Total notes payable, capital leases, and bonds payable				$	314,413	195,063

Reynolda Campus has a construction loan financing agreement with a bank that permits the University to borrow up to $50,000, bearing interest at one-month LIBOR plus 0.35%. The loan agreement requires annual reviews on the March 31 anniversary date with interest payable quarterly. The Reynolda Campus intends to maintain a similar agreement with a bank in 2014 eliminating the required principal and interest balloon payment due on March 31, 2014.

Reynolda Campus has outstanding $45,545 of tax-exempt North Carolina Facilities Finance Agency Revenue Bonds, Series 2004A and Series 2004B. The obligations of the University are evidenced by a loan agreement dated December 1, 2004, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2004 tax-exempt bonds are due annually through 2020 in varying amounts from $5,045 to $7,340. The interest rate on the bonds is determined weekly, and at the option of the University may be converted to a fixed rate. The University's obligation under the loan agreement is an unsecured, unconditional obligation.

The North Carolina Facilities Finance Agency Revenue Bonds, Series 2009, are evidenced by a loan agreement dated May 1, 2009, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2009 tax-exempt bonds have final maturities of January 1, 2039 for the serial bonds and January 1, 2038 for the term bonds. The 2009 bonds maturing on January 1, 2038 are subject to mandatory redemption through 2038 in increasing annual amounts of $7,410 to $10,005. Interest is payable each January 1 and July 1. The University's obligation under the loan agreement is an unsecured, unconditional obligation.

(Dollars in thousands)

The Series 2012 taxable bonds are evidenced by a loan agreement dated August 2, 2012, by and between the University and Branch Banking and Trust Company, as trustee. The Series 2012 taxable bonds have final maturities of January 15, 2027 for the serial bonds and January 15, 2042 for the term bonds. The 2012 bonds maturing on January 15, 2032 and January 15, 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.

WFUHS	Years to nominal maturity	Interest rate at June 30, 2013		2013	2012
Notes payable and capital leases:					
Loan agreement				$ —	89,115
Commercial loan				—	29,340
Loan agreement				—	9,241
Loan agreement	<1 to 10	0.84%	variable	19,680	—
Equipment loan	<1	6.05%	fixed	261	1,304
Loan agreement				—	11,962
Promissory note	4	noninterest bearing		320	400
Promissory note	8	8.00%	fixed	1,192	1,354
Capital leases	4	4.07% to 5.42%	fixed	1,628	59
Total notes payable and capital leases				23,081	142,775
Bonds payable:					
Series 2012 B	<1 to 21	2.00% to 5.00%	fixed	112,605	—
Series 2012 C	<1 to 21	0.87%	variable	59,045	—
2008 Series A tax-exempt				—	59,500
2008 Series B tax-exempt				—	29,610
Unamortized bond premium				15,959	—
Total bonds payable[(a)]				187,609	89,110
Total notes payable, capital leases, and bonds payable				$ 210,690	231,885

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

Bonds issued under the MTI are payable solely from the Obligated Group's revenues (as defined by the MTI). Additionally, the Combined Group must remain compliant with certain covenants and restrictions required by the MTI and loan agreements underlying the bonds. The Combined Group is subject to covenants under the MTI containing restrictions or limitations with respect to indebtedness, property encumbrance, consolidation or merger or transfer of assets. In addition, the Combined Group has agreed that it will not create any lien upon its property, accounts, or revenue now owned or hereafter acquired other than "permitted liens" as described in the MTI. WFUHS believes it is in compliance with such covenants and restrictions as of June 30, 2013. As of June 30, 2013, WFUHS is jointly and severally liable for $494,399 of bonds payable borrowed by the other members of the Obligated Group and for $89,000 under WFUBMC's line of credit. 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 2012 Revenue Bonds represent bonds issued by Wake Forest Baptist Obligated Group, representing funds borrowed by the entities pursuant to loan agreements with the North Carolina Medical Care Commission (NCMCC). As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under a MTI structure. The MTI provides the flexibility for multiple parties to participate in the debt issuances as part of an obligated group.

The Series 2012B bonds mature in full in fiscal year 2034. The fixed rate instruments bear interest at fixed coupon rates ranging from 2.00% to 5.00%. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2013 and in increasing annual amounts of $3,385 to $7,000.

The Series 2012C bonds mature in full in fiscal year 2034. The bonds were issued in the Index Floating Rate Mode and bear interest at an Index Floating Rate based on the SIFMA Index plus a spread of 0.74%. At the option of WFUHS, the bonds may be converted to various interest rate modes. Per the bond agreements, the principal and sinking fund payments on the bonds are due on December 1 of each year beginning in 2013 and in increasing annual amounts of $2,090 to $4,825.

The Series 2008 Revenue Bonds represent 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 2008 bonds were refunded in full with the proceeds from the issuance of the Series 2012 bonds during fiscal year 2013.

WFUHS entered a loan agreement during fiscal year 2013, with a variable interest rate based upon the one-month LIBOR plus a premium of 0.65% for $20,014 to refinance two previously outstanding fixed rate notes. Fixed principal payments and accrued interest are due monthly with a final maturity date of April 1, 2023. This taxable loan is guaranteed by both NCBH and WFUBMC.

(Dollars in thousands)

Aggregate annual maturities of notes, capital leases, and bonds payable for each of the five fiscal years subsequent to June 30, 2013 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2014	$	34,435	9,531	43,966
2015		6,918	7,772	14,690
2016		7,126	8,039	15,165
2017		7,345	8,191	15,536
2018		6,900	8,326	15,226
In total thereafter		249,425	152,872	402,297
	$	312,149	194,731	506,880

The 2014 maturities include a construction loan for $27,361 for Reynolda Campus that management intends to renew in 2014 with a maturity date beyond 2014.

(11) 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. The University has entered into interest rate swap agreements to manage interest cost and risks associated with its variable rate debt portfolios.

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

(Dollars in thousands)

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

	Reynolda Campus		WFUHS	
	November 2006 interest rate swap	**October 2008 interest rate swap**	**August 2002 interest rate swap**	**February 2007 interest rate swap**
Notional amount	$ 28,065	50,000	25,314	—
Effective date	November 6, 2006	October 1, 2008	August 20, 2002	February 26, 2007
Maturity date	January 1, 2020	January 1, 2038	July 1, 2034	July 1, 2034
Rate received	67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR	67% of one-month LIBOR
Rate paid	3.38%	3.61%	3.67%	3.52%
Collateral provisions	None	100% liability if > $20,000	100% asset/liability – $250 min	100% asset/liability – $250 min
Settlement frequency	Monthly	Monthly	Weekly	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 fair value of the interest rate swap agreements is 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. 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. During the year ended June 30, 2013, WFUHS made payments totaling $36,258 to terminate the 2007 agreement and to reduce the notional amount of the 2002 agreement. Collateral held by counterparties at June 30, 2013 and 2012, respectively, was $0 and $300 for Reynolda Campus, and $4,600 and $45,580 for WFUHS.

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

	2013		2012	
	Fair value	**Gain**	**Fair value**	**Loss**
Reynolda Campus:				
November 2006 interest rate swap	$ (2,883)	1,116	(3,999)	(987)
October 2008 interest rate swap	(12,595)	7,198	(19,793)	(12,064)
Total	(15,478)	8,314	(23,792)	(13,051)
WFUHS:				
August 2002 interest rate swap	(4,552)	4,247	(21,098)	(9,867)
February 2007 interest rate swap	—	—	(23,959)	(11,746)
Total	(4,552)	4,247	(45,057)	(21,613)
Grand total	$ (20,030)	12,561	(68,849)	(34,664)

(Dollars in thousands)

As of June 30, 2013, the University's adjusted debt portfolio, after taking into account the aforementioned swap agreements, was 100% fixed rate for Reynolda Campus, and approximately 84% fixed rate for WFUHS.

(12) Net Assets

Temporarily restricted net assets are composed of the following at June 30, 2013 and 2012:

	2013			2012
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Gifts and pledges	$ 117,945	6,254	124,199	81,400
Grants and contracts	—	3	3	2,335
Donor-restricted endowments	220,429	45,481	265,910	211,002
	$ 338,374	51,738	390,112	294,737

Such temporarily restricted net assets are available for the following purposes as of June 30, 2013 and 2012:

	2013			2012
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Student scholarships	$ 147,190	5,576	152,766	91,685
Instruction and research	70,416	36,610	107,026	100,695
Academic support	48,611	9,552	58,163	50,294
Subsequent period operations, capital, and other	72,157	—	72,157	52,063
	$ 338,374	51,738	390,112	294,737

(Dollars in thousands)

Permanently restricted net assets are composed of the following at June 30, 2013 and 2012:

	2013			2012
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Donor-restricted endowments	$ 211,639	115,412	327,051	308,447
Gifts and pledges	14,647	4,352	18,999	9,568
Student loan funds	1,128	4,786	5,914	5,866
Interests in perpetual trusts and assets held by others	3,469	13,505	16,974	16,464
Annuity and other split-interest agreements	10,049	2,629	12,678	8,711
	$ 240,932	140,684	381,616	349,056

The future return from donor-restricted endowments is available for the following purposes as of June 30, 2013 and 2012:

	2013			2012
	Reynolda Campus	**WFUHS**	**Total**	**Total**
Student scholarships	$ 143,410	21,352	164,762	157,931
Instruction and research	46,025	77,299	123,324	113,080
Academic support	16,016	16,761	32,777	31,361
Subsequent period operations and other	6,188	—	6,188	6,075
	$ 211,639	115,412	327,051	308,447

(Dollars in thousands)

(13) Functional Expenses

Expenses are reported in the consolidated statement of activities in natural categories. Functional expenses for the years ended June 30, 2013 and 2012 are categorized as follows:

	2013			
	Reynolda Campus	**WFUHS**	**Total**	**2012 Total**
Instruction and departmental research	$ 114,709	68,715	183,424	170,095
Patient services	—	487,812	487,812	448,883
Sponsored research, training, and other programs	10,832	183,496	194,328	201,941
Organized activities	1,981	—	1,981	2,006
Academic support	22,586	12,877	35,463	32,209
Libraries	12,997	3,550	16,547	15,934
Student services	28,150	2,193	30,343	28,081
Institutional support	73,685	18,662	92,347	118,429
Auxiliary enterprises	76,479	—	76,479	75,378
Total operating expenses	$ 341,419	777,305	1,118,724	1,092,956

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

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

(Dollars in thousands)

(14) Contingencies and Other Commitments

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

		Reynolda Campus	WFUHS	Total
Year ending June 30:				
2014	$	10,034	243	10,277
2015		10,236	149	10,385
2016		10,441	89	10,530
2017		10,564	50	10,614
2018		10,775	24	10,799
	$	52,050	555	52,605

Total income from real estate was $10,197 and $9,756 for Reynolda Campus and $2,340 and $3,531 for WFUHS for the years ended June 30, 2013 and 2012, respectively.

The estimated cost to complete construction in progress at June 30, 2013 and 2012, respectively, were $32,844 and $84,119 for Reynolda Campus, and $7,002 and $9,560 for WFUHS.

Grant awards not yet funded and for which services have not yet been performed are not recorded until services have been performed. At June 30, 2013, such grant awards amounted to $9,191 and $185,776 for Reynolda Campus and WFUHS, respectively.

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

The University is involved in legal actions arising in the normal course of activities and is subject to periodic audits and inquiries by regulatory agencies. Although the ultimate outcome of such matters is not determinable at this time, management, after taking into consideration advice of legal counsel, believes that the resolutions of pending matters will not have a materially adverse effect, individually or in the aggregate, upon the University's consolidated financial statements.

(15) Sale-Leaseback Agreement

In 2006, WFUHS entered into a sale-leaseback agreement to sell and lease back certain assets. The initial lease term is 20 years with four renewal options of five years each and the lease is classified as an operating lease. Operating lease payments in each year from 2014 to 2018 are $7,441, $7,516, $7,591, $7,667, and $7,744, 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.

(Dollars in thousands)

Operating lease payments are due monthly and expected payments each year from 2014 to 2018 are $5,107, $5,236, $5,366, $5,501, and $5,638 respectively.

WFUHS has a deferred gain related to the sale and lease back of certain assets. The deferred gain was $26,965 and $28,911 for 2013 and 2012, respectively, and is included in other liabilities and deferrals on the consolidated balance sheet.

(16) 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 year ended June 30, 2013 and 2012, respectively, were $11,027 and $10,408 for Reynolda Campus and $24,075 and $27,219 for WFUHS.

Reynolda Campus and WFUHS have accrued $2,093 and $3,683 at June 30, 2013, respectively, for a liability associated with a defined benefit supplemental executive retirement plan. These liabilities are included in other liabilities and deferrals on the consolidated balance sheet.

(17) 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. Retired employees of WFUHS must satisfy the "Rule of 75", meaning that the employees' age and years of service must equal or exceed 75 at retirement with a minimum age of 60. Employees of Reynolda House, Inc. are not eligible for the plans. The plans are contributory with retiree contributions established based on the University contributions being fixed amounts. As discussed in note 1, the WFUHS plan was frozen on January 1, 2012.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at June 30, 2013 and 2012:

		2013			2012
		Reynolda Campus	WFUHS	Total	Total
Benefit obligations at June 30	$	(13,022)	(37,767)	(50,789)	(57,304)
Fair value of plan assets at June 30		—	41,203	41,203	38,930
Total (liability) asset at June 30	$	(13,022)	3,436	(9,586)	(18,374)

(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, 2013 and 2012:

	2013			
	Reynolda Campus	**WFUHS**	**Total**	**2012 Total**
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 14,700	42,604	57,304	72,812
Service cost	747	517	1,264	2,084
Interest cost	658	1,865	2,523	2,914
Plan amendments	—	—	—	(26,847)
Participants' contributions	678	1,675	2,353	2,174
Actuarial (gain) loss	(2,730)	(5,494)	(8,224)	8,379
Benefits paid	(1,031)	(3,400)	(4,431)	(4,212)
Benefit obligation at end of year	13,022	37,767	50,789	57,304
Change in plan assets:				
Fair value of plan assets at beginning of year	—	38,930	38,930	38,926
Actual return on plan assets	—	2,273	2,273	4
Employer contributions	353	1,725	2,078	2,038
Participants' contributions	678	1,675	2,353	2,174
Benefits paid	(1,031)	(3,400)	(4,431)	(4,212)
Fair value of plan assets at end of year	—	41,203	41,203	38,930
Total (liability) asset	$ (13,022)	3,436	(9,586)	(18,374)
Amounts recognized in unrestricted net assets:				
Prior service credit	$ —	11,320	11,320	17,374
Net actuarial gain (loss)	3,255	(16,358)	(13,103)	(24,814)
Total increase (decrease)	$ 3,255	(5,038)	(1,783)	(7,440)

(Continued)

(Dollars in thousands)

The following table provides the components of net periodic benefit cost for the years ended June 30, 2013 and 2012:

	2013			2012
	Reynolda Campus	WFUHS	Total	Total
Service cost	$ 747	517	1,264	2,084
Interest cost	658	1,865	2,523	2,914
Expected return on plan assets	—	(2,725)	(2,725)	(2,547)
Amortization of prior service cost (credit)	5	(6,059)	(6,054)	(4,623)
Amortization of net actuarial loss	—	3,940	3,940	5,616
Curtailment gain	—	—	—	(8,097)
Net periodic benefit cost	$ 1,410	(2,462)	(1,052)	(4,653)

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

The actuarial net (gain) loss and prior service cost (credit) for the defined postretirement benefits plans that will be amortized from accumulated nonoperating income into net periodic benefit cost (credit) over the next fiscal year for Reynolda Campus and WFUHS are $(145) and $(3,576), respectively.

The weighted average discount rate used to determine the accumulated postretirement benefit obligation at June 30, 2013 for Reynolda Campus and WFUHS, respectively, was 5.01% and 4.87%, and at June 30, 2012 was 4.56% and 4.47%, respectively. The discount rate reflects the current yield curve results as of June 30, 2013 and 2012. For management purposes, Reynolda Campus used 9.00% and 9.50%, and WFUHS used 8.50% and 9.00% for 2013 and 2012, 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. The expected healthcare costs trend for the post-65 assumed an annual rate of 3.50% for 2013 and 2012. The expected return assumed on plan assets for WFUHS was 7.00% for 2013 and 7.00% for 2012. The rate is reviewed annually and adjusted as appropriate to reflect changes in the expected market performance of the investments.

Plan assets for WFUHS are held in trust and almost all are invested in equity securities that would be considered Level 1 in the fair value hierarchy.

(Dollars in thousands)

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

		One percentage increase	One percentage decrease
Reynolda Campus:			
Effect on total service and interest cost components of net periodic benefit cost	$	31	(27)
Effect on postretirement benefit obligation		181	(160)
WFUHS:			
Effect on total service and interest cost components of net periodic benefit cost	$	14	(12)
Effect on postretirement benefit obligation		255	(221)

Aggregate benefits expected to be paid by the University in each of the next five fiscal years subsequent to June 30, 2013 and thereafter are as follows:

		Reynolda Campus	WFUHS	Total
2014	$	571	1,814	2,385
2015		631	2,037	2,668
2016		688	2,222	2,910
2017		757	2,433	3,190
2018		804	2,537	3,341
Five years thereafter		4,851	12,675	17,526
	$	8,302	23,718	32,020

The expected benefits to be paid are based on the same assumptions used to measure the University's benefit obligation at June 30, 2013 and include estimated future employee service.

(Dollars in thousands)

Recent federal health care legislation includes several provisions that may affect the University's benefit plans, including imposing an excise tax on high cost coverage, eliminating lifetime and annual coverage limits, and imposing inflation-adjusted fees for each person covered by a health insurance policy for each policy plan year ending after September 30, 2012, through September 30, 2019. For the postretirement benefit plan, the changes due to recent federal health care legislation increase the postretirement benefit obligation by approximately $0 and $57 for Reynolda Campus, and $0 and $130 for WFUHS, respectively, for June 30, 2013 and 2012. This change has been reflected as an actuarial loss.

(18) Related-Party Transactions

WFUHS and NCBH participate in various expansion projects, share certain facilities and provide various services, and incur certain expenses on behalf of each other. The 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:

		2013	2012
Revenue from MCIA	$	36,156	63,218
Other revenue from NCBH		68,979	67,395
Total revenue from NCBH	$	105,135	130,613
Accounts receivable from NCBH, net	$	4,761	4,671

In addition to the aforementioned transactions, WFUHS and NCBH each incur expenses in the course of managing WFB as an integrated academic medical center. Beginning in 2013, 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. In the year ended June 30, 2013, this resulted in a net transfer of $34,483 in expenses from WFUHS to NCBH, which was recorded by WFUHS as a reduction in expense.

In October 2012, WFUBMC entered into an unsecured line of credit in the amount of $200,000 to provide for the working capital needs of NCBH, WFUHS and their affiliates. This line of credit is guaranteed by both NCBH and WFUHS. The outstanding balance of this line of credit was $126,450 as of June 30, 2013. A liability of $37,450 due to WFUBMC has been recorded in other liabilities and deferrals for the proceeds of this line of credit that have been utilized by WFUHS.

(19) Royalties Receivable

Management has recorded revenue and a related receivable for licensing fees for "VAC System" technologies. On October 6, 1993, WFU (later WFUHS) and Kinetic Concepts, Inc. (KCI) entered into a license agreement that grants the licensee the exclusive worldwide right and license to make, sell and sublicense products and services related to the patented technologies. WFUHS and KCI jointly brought various suits for patent infringement against a number of entities. One such suit was brought against Smith & Nephew, Inc. (S&N) for infringement of certain asserted claims of certain patents based on a wound healing device made and sold by S&N. Following a jury trial in the Western District of Texas, the jury held that the asserted claims of the patents were valid and infringed by S&N. Subsequently, the district court granted S&N's motion for judgment as a matter of law and overturned the jury verdict, concluding that the asserted claims of the patents were invalid for obviousness. WFUHS and KCI appealed that decision to the United States Court of Appeals for the Federal Circuit. The Court of Appeals reversed the District Court's judgment as a matter of law, finding the asserted claims of the patents valid and remanding back to the Texas District Court to address certain outstanding motions and to determine damages. WFUHS and S&N subsequently settled the litigation and entered into a license agreement providing for S&N to pay WFUHS royalties of 10% of S&N's net revenues.

In February 2011, KCI failed to pay royalties under its license and brought a declaratory judgment suit in the United States District Court, Western District of Texas against WFUHS seeking a judgment that the patents are invalid and not infringed and that KCI owes no royalties on them. WFUHS subsequently terminated KCI's license on March 18, 2011 and sued KCI for patent infringement in the Middle District of North Carolina, as well as for breach of contract, among other causes of action. The cases were consolidated and transferred to the Western District of Texas. These unpaid royalties for the period July 1, 2010 through March 18, 2011 are accrued under accounts receivable in the consolidated balance sheet and amount to $65,919 at June 30, 2013 and 2012. The receivable balance includes the inventors' share, which represents 50% of the amount after expenses or a gross amount of $30,315. A matching liability for amounts due to the inventors is included in other liabilities and deferrals in 2013 and 2012. WFUHS believes the KCI suit is without merit and is vigorously defending its rights under the license agreement and is vigorously prosecuting its claims for infringement by KCI. The parties have been in active litigation for a year and the trial is set for April 7, 2014. To date, there have been no meaningful settlement discussions between the parties and discovery and motions practice continue.

(20) Professional Liability Insurance

WFB maintains professional liability coverage, which included a $4,000 per occurrence and a $16,000 annual aggregate self-insurance retention for the year ended June 30, 2013. WFUHS estimates its professional liability on an actuarial basis. WFUHS' accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $40,086 and $38,538 at June 30, 2013 and 2012, respectively, and are included in other liabilities and deferrals on the consolidated balance sheet. In the opinion of management, adequate provision has been made for the related risk.

(21) Subsequent Events

The University has evaluated events occurring after June 30, 2013 through October 17, 2013, which represents the date the consolidated financial statements were issued and determined that all significant events and disclosures are included in the consolidated financial statements.