Wake Forest®
Baptist Medical Center

WAKE FOREST BAPTIST

Combined Financial Statements for
North Carolina Baptist Hospital and Affiliates,
Wake Forest University Health Sciences and Affiliates, and
Wake Forest University Baptist Medical Center and Affiliates
(With Independent Auditors' Report Thereon)

June 30, 2013 and 2012

WAKE FOREST BAPTIST

Combined Financial Statements

June 30, 2013 and 2012

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

Independent Auditors' Report

The Board of Trustees
Wake Forest Baptist:

Report on the Financial Statements

We have audited the combined financial statements of North Carolina Baptist Hospital and Affiliates, Wake Forest University Health Sciences and Affiliates, and Wake Forest University Baptist Medical Center and Affiliates (collectively, "Wake Forest Baptist"), which comprise the combined balance sheet as of June 30, 2013, and the related combined statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 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 combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Wake Forest Baptist as of June 30, 2013, and the results of its operations and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information of Wake Forest Baptist as of June 30, 2013 and for the year ended is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 combined financial statements or to the 2013 combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

The accompanying combined financial statements of Wake Forest Baptist as of June 30, 2012 and for the year then ended were audited by other auditors whose report thereon dated October 10, 2012 expressed an unqualified opinion on those combined financial statements. In addition, the other auditors referred to above issued a report, dated October 10, 2012, that stated that the combining information of Wake Forest Baptist as of and for the year ended June 30, 2012 was subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2012 combined financial statements or to the 2012 combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and, in their opinion, was fairly stated in all material respects in relation to the combined financial statements taken as a whole.

KPMG LLP

Greensboro, North Carolina
October 10, 2013

Dollars in thousands.

	June 30, 2013	June 30, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 63,270	$ 81,648
Patient receivables, net	351,682	284,313
Estimated third-party payer settlements	75,866	44,484
Accounts, grants, and notes receivable, net	86,631	59,507
Investments and assets whose use is limited	-	89,115
Other current assets	31,157	23,982
Total current assets	608,606	583,049
Accounts, grants, and notes receivable, net	105,120	109,930
Investments and assets whose use is limited	1,260,279	1,213,100
Property and equipment, net	1,060,928	957,558
Other assets	26,556	13,124
Total assets	$ 3,061,489	$ 2,876,761
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accruals	$ 98,619	$ 100,021
Accrued employee compensation	124,352	116,744
Estimated third-party payer settlements	58,998	46,555
Deferred revenue	54,127	56,256
Current portion of long-term debt	145,785	133,522
Other current liabilities	49,648	38,844
Total current liabilities	531,529	491,942
Notes payable and capital leases, net of current portion	19,141	119,705
Bonds payable, net of current portion	668,039	396,657
Retirement benefits	14,478	51,534
Other long-term liabilities	137,201	171,984
Total liabilities	1,370,388	1,231,822
Net assets:		
Unrestricted	1,491,685	1,455,549
Temporarily restricted	55,877	53,704
Permanently restricted	143,539	135,686
Total net assets	1,691,101	1,644,939
Total liabilities and net assets	$ 3,061,489	$ 2,876,761

Dollars in thousands.

	Year Ended June 30, 2013	2012
Operating revenues and support		
Patient service revenue (net of contractual allowances and discounts)	$ 1,708,017	$ 1,715,285
Provision for bad debts	(121,849)	(91,195)
Net patient service revenue	1,586,168	1,624,090
Gifts, grants, and contracts	190,396	210,150
Net student tuition and fees	23,952	21,379
Investment return designated for current operations	21,284	22,976
Other sources	50,134	45,780
Net assets released from restrictions	23,474	27,459
Total operating revenues and support	1,895,408	1,951,834
Recurring operating expenses		
Salaries and wages	896,131	875,762
Employee benefits	202,422	184,498
Purchased services	247,854	273,248
Clinical and laboratory supplies	293,892	296,564
Other operating expenses	164,548	156,911
Depreciation and amortization	99,450	94,370
Financing costs	18,868	18,377
Total operating expenses	1,923,165	1,899,730
Nonrecurring operating expenses		
Integration and restructuring costs	28,800	6,318
Total operating expenses	1,951,965	1,906,048
Operating (deficiency) excess of revenues and support over expenses	(56,557)	45,786
Nonoperating gains (losses)		
Gains from equity-method affiliates	1,133	2,988
Net investment gains	46,111	65,414
Unrealized gains (losses) on interest rate swap valuation	3,687	(21,558)
Other	1,126	(3,884)
(Deficiency) excess of revenues and gains over expenses and losses	(4,500)	88,746

Dollars in thousands.

	Year Ended June 30, 2013	2012
(Deficiency) excess of revenues and gains over expenses and losses	(4,500)	88,746
Pension and postretirement-related gain (loss) other than net periodic cost	34,120	(30,835)
Net unrealized gain (loss) on other-than-trading securities	2,964	(77,020)
Other	3,552	42
Change in unrestricted net assets	36,136	(19,067)
Temporarily restricted net assets		
Contributions	19,317	26,180
Investment return designated for restricted purposes	5,653	5,422
Net assets released from restrictions	(23,474)	(27,459)
Net investment gains (losses)	2,730	(5,203)
Other	(2,053)	(3,902)
Change in temporarily restricted net assets	2,173	(4,962)
Permanently restricted net assets		
Contributions	7,982	9,401
Investment return reinvested in principal	343	313
Net investment gains (losses)	1,144	(6,366)
Other	(1,616)	234
Change in permanently restricted net assets	7,853	3,582
Change in net assets	46,162	(20,447)
Net assets at beginning of period	1,644,939	1,665,386
Net assets at end of period	$ 1,691,101	$ 1,644,939

Dollars in thousands.

	Year Ended June 30, 2013	2012
Operating activities and gains and losses		
Change in net assets	$ 46,162	$ (20,447)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	99,450	94,370
Amortization of bond premium	(1,433)	(443)
(Gains) losses in value of interest rate swaps, net	(3,687)	21,558
Gains from equity-method affiliates	(1,133)	(2,988)
Loss on disposal of property and equipment	1,845	2,244
Non-cash donations	(1,738)	(42)
Gifts and other revenue restricted for long-term investing	(8,303)	(9,550)
Net investment gains (losses)	(41,245)	100,138
Retirement benefits-related gain other than net periodic benefit costs	-	(8,122)
Changes in operating assets and liabilities:		
Patient receivables, net	(67,369)	(37,206)
Estimated third-party payer settlements, net	(18,939)	-
Accounts, grants, and notes receivable, net	(22,314)	(26,699)
Other current assets	(7,175)	(6,967)
Other assets	(13,992)	72
Accounts payable and accruals	(1,402)	50,913
Accrued employee compensation	7,608	(2,883)
Deferred revenues	(2,129)	7,140
Other current liabilities	10,804	(19,963)
Retirement benefits	(37,056)	26,737
Other long-term liabilities	5,722	14,817
Net cash (used in) provided by operating activities	(56,324)	182,679

Dollars in thousands.

	Year Ended June 30, 2013	2012
Net cash (used in) provided by operating activities	(56,324)	182,679
Investing activities		
Purchases of investments	(510,685)	(650,794)
Net proceeds from sales and maturities of investments	596,737	629,465
Net additions to property and equipment	(204,665)	(238,459)
Other investing activities	-	2,150
Net cash used in investing activities	(118,613)	(257,638)
Financing activities		
Principal payments on debt	(388,537)	(122,382)
Proceeds from issuance of debt	573,051	202,226
Termination payments related to interest rate swap agreements	(36,258)	-
Proceeds from private gifts restricted for long-term investing	8,303	9,550
Other financing activities	-	202
Net cash provided by financing activities	156,559	89,596
(Decrease) increase in cash and cash equivalents	(18,378)	14,637
Cash and cash equivalents at the beginning of year	81,648	67,011
Cash and cash equivalents at end of year	$ 63,270	$ 81,648
Supplemental cash flow disclosure information:		
Income taxes paid	$ 703	$ 962
Interest paid	$ 26,002	$ 22,839

1. Organization and Summary of Significant Accounting Policies

a. ***Description of the Organization***

The combined financial statements of the entities collectively known as Wake Forest Baptist (WFB) were prepared to comply with the terms of a Master Trust Indenture (MTI) as well as to capture the entirety of WFB's financial position and results of operations.

Effective July 1, 2010, the Boards of Wake Forest University Health Sciences (WFUHS), North Carolina Baptist Hospital (NCBH), Wake Forest University Baptist Medical Center (WFUBMC) and Wake Forest University (WFU) approved the Medical Center Integration Agreement (the Integration Agreement). The Integration Agreement allows for the leveraging of the combined resources of NCBH and WFUHS to fulfill a single mission: improve health, and optimize performance of the combined organizations, while balancing patient care, education and research. NCBH and WFU 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, collectively referred to as WFB, which is governed by the board of WFUBMC. 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 and dialysis centers. To ensure alignment across the organization, NCBH and WFUHS unrestricted operating income are shared equally between the entities. Although the entities will be operated to maximize 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 MTI. The separate WFUHS master trust indenture 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 joint and severally liable for all debt and other obligations that are to be evidenced and secured under the MTI.

NCBH is a private, non-profit institution dedicated to the provision of healthcare. NCBH, which is based in Winston-Salem, North Carolina, consists of entities that provide services directly to patients and entities that support ancillary functions. NCBH consists of North Carolina Baptist Hospital, Davie County Emergency Health Corporation (DCH), CareNet, Inc. (CareNet), The Hawthorne Inn and Conference Center, Inc. (Hawthorne Inn), North Carolina Baptist Hospital Foundation (the Foundation, the Center for Congregational Health, Inc. (CCH), and Clemmons Medical Park LLC (CMP). NCBH owns a 50% equity interest in MedCost LLC (MedCost), a preferred provider organization, which through the shared ownership agreements are accounted for as an equity-method investment in the combined financial statements.

WFUHS, a wholly-owned affiliate of WFU, based in Winston-Salem, North Carolina, is a private, coeducational, non-profit institution of higher education and research dedicated to medical and health education, healthcare, and biomedical research. WFUHS' consolidated financial statements include the financial statements of WFUHS and its wholly owned affiliates, which are The Dialysis Centers of Wake Forest University; Wake Forest University Baptist Medical Center Community Physicians (CP); Wake Forest Ambulatory Ventures LLC; Wake Forest Innovation Quarter Development Co.; Wake Forest Innovation Quarter CDC; Wake Forest Innovation Quarter Management Co.; WFIQ Holdings, LLC; WFIQ Holdings II, LLC; WFIQ Holdings III, LLC; Seed Stage Associates, LLC; BRF – A 1, LLC; BRF Deck 1, LLC; and BRF – A 1a, LLC.

NCBH and WFUHS each own a 50% equity interest in Dialysis Access Group of Wake Forest University, LLC (DAG) and a 37.5% equity interest in Wake Forest Baptist Imaging, LLC (WFBI).

WFUBMC is the sole member of Lexington Medical Center (LMC). During the year ended June 30, 2013, NCBH and WFUHS each transferred to WFUBMC their 50% equity interests in Northwest Community Care Network (NCCN), a Medicaid care management system.

b. ***Basis of Presentation***

The combined financial statements for WFB have been prepared on the accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP). In accordance with Financial Accounting Standards Board (FASB) accounting standards for consolidated and combined financial statements, the financial statements and related notes are presented as combined statements due to the Integration Agreement. All significant intercompany transactions have been eliminated in combination.

Net assets and revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of WFB 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 by actions of WFB and/or by the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor imposed stipulations that the assets be maintained permanently by WFB. Generally, the donors of these assets permit WFB 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, respectively, 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.

c. ***Cash Equivalents***

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

d. ***Investments and Assets Limited as to Use***

Investments in debt and equity securities, inclusive of assets limited as to use, are reported at fair value. Investments in joint ventures are accounted for using the equity method. Direct real estate investments are recorded at cost less accumulated depreciation.

Gains, losses, and investment income are included in excess of revenues and gains over expenses and losses unless their use is restricted by donor or law.

Investments in alternative investments may include derivative products that are reported at fair value. The investments may individually expose WFB to securities lending, short sales, and trading in futures and forward contract options, and other derivative products. WFB's risk is limited to its carrying value of the instruments. These instruments can only be divested at specific times or based on specific triggering events.

Any other-than-temporary declines are accounted for as a recognized loss within net investment gains whereby the historical cost of the related investment would be adjusted to the then-current fair market value.

WFB' split-interest agreements with donors consist primarily of irrevocable charitable remainder trusts and charitable gift annuities for which WFB serves as trustee. Assets held in these trusts are stated at fair value and are included in investments and assets limited as to use in the combined balance sheet. Contribution revenues are recognized at the dates the trusts are established. WFB records 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 combined statement of operations and changes in net assets.

WFB is the beneficiary of certain trusts and other assets held and administered by others. WFB' share of these assets is recorded at fair value as investments with carrying values adjusted annually for changes in fair value.

e. ***Property and Equipment***

Property and equipment are recorded at cost at the date of acquisition or estimated fair market value on the date received for donated items. Depreciation is calculated on the straight line method over the estimated useful life of each class or component of depreciable asset. Estimated lives range from 3 to 50 years. Depreciation is not calculated on land and construction in progress. Gains or losses on the disposal of property and equipment are included in non-operating gains (losses) in the combined statements of operations and changes in net assets. 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.

f. ***Asset Retirement Obligations***

WFB has asset retirement obligations 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.

g. ***Defined Benefit Plans***

WFB records annual amounts relating to its defined benefit 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. Management reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in other changes in net assets and amortized to net periodic benefit cost over future periods using the corridor method. Management believes that the assumptions used in recording its obligations under the plan 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 benefits.

h. ***Derivative Instruments***

WFB records all derivative instruments in investments and assets limited as to use on the combined balance sheets at their respective fair values. All changes in fair value are reflected in the combined statements of operations and changes in net assets.

i. ***Revenue Recognition***

WFB's revenue recognition policies are:

Net Patient Service Revenue – Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and contractual adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and will be adjusted in future periods as interim or final settlements are determined.

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

Gifts, Grants and Contracts – Revenues under grants and contracts with private and governmental sponsoring organizations are deferred until 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.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions restricted for capital projects or other purposes, permanent endowment funds and contributions under split-interest agreements or perpetual trusts are reported as other changes in net assets. 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 accrued based on management's judgment, based on such factors as prior collection history, type of contribution, relationship with the donor, and nature of fundraising activity.

Net Student Tuition and Fees – Net 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 WFUHS is reflected as a reduction of student tuition and fee revenue. Student aid does not include payments made to students for services rendered to WFUHS.

j. ***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.

WFB 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, WFB recognized EHR incentives of approximately $11,272, which are included in other sources of revenue (separate from net patient service revenue) in the combined statements of operations and changes in net assets.

k. ***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, WFB has recognized approximately $28,800 and $6,318 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 a nonrecurring operating expense in the combined statements of operations and changes in net assets.

l. ***Excess (Deficiency) of Revenues and Gains Over Expenses and Losses***

The combined statements of operations and changes in net assets include excess (deficiency) of revenues and gains over expenses and losses. Changes in unrestricted net assets that are excluded from excess (deficiency) of revenue and gains over expenses and losses, consistent with industry practice, include transfers of assets to and from affiliates for other than goods and services, net unrealized gains and losses of other-than-trading securities, change in pension liability, and capital contributions.

WFB differentiates its operating activities through the use of operating excess (deficiency) of revenues and support over expenses as an intermediate measure of performance. Items that management does not consider to be components of WFB's operating activities are excluded from operating excess (deficiency) and reported as nonoperating items in the combined statements of operations. These include investment returns (realized and unrealized net gains and losses on investments, interest, and dividends) in excess of or less than WFB's approved endowment distribution, other than designated returns on assets held for self-insurance purposes; net gains and losses on interest rate swaps; losses on extinguishment of debt; gains and losses from equity method affiliates; gains and losses on disposal of property and equipment; and other incidental transactions.

m. ***Income Taxes***

WFB includes two primary organizations, NCBH and WFUHS, both of which are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are 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 combined financial statements. If applicable, unrelated business income is reported by all member and subsidiary organizations on IRS Form 990-T. Fiscal years ending on or after June 30, 2010 remain subject to examination by federal and state tax authorities. WFB has evaluated uncertain tax positions for its fiscal years ended June 30, 2013 and 2012, including a quantification of tax risks in areas such as unrelated business income and taxation of its for-profit subsidiaries. This evaluation did not have a material effect on WFB's financial statements for the years ended June 30, 2013 and 2012.

n. ***Use of Estimates***

WFB prepares its combined financial statements in accordance with GAAP, which 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 combined 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, valuation allowances for receivables, environmental liabilities, investments, obligations related to employee benefits, third-party payer settlements, and the ultimate cost of asserted and unasserted malpractice claims. Actual results could differ from those estimates.

June 30, 2013 and 2012 Dollars in thousands.

o. ***Reclassifications***

Certain reclassifications have been made to the financial statement presentation of the year ended June 30, 2012 to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

p. ***Recently Adopted Accounting Standards***

WFB adopted FASB Accounting Standards Update No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," in the current year. This standard expands the required disclosures about fair value measurements. This standard had no effect on the change in net assets in the combined financial statements.

2. Net Patient Service 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. WFB 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, WFB 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 WFB's uninsured patients will be unable or unwilling to pay for the services provided. Thus, WFB 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, is as follows:

	2013	2012
Third-party payers	$ 1,525,946	$ 1,581,517
Self-pay	182,071	133,768
Net patient service revenue	$ 1,708,017	$ 1,715,285

Self-pay revenue shown above is net of charity care charges foregone, which decreased by $39,657 in fiscal year 2013 compared to fiscal year 2012. This decrease is offset by an increase in bad debt expense of $30,654 in fiscal year 2013 compared to fiscal year 2012. This shift from charity care charges foregone to bad debt expense is driven by difficulties in identifying and processing accounts eligible for charity care, as a result of billing system conversion issues encountered in fiscal year 2013.

WFB has agreements with third-party payers that provide for payments to WFB at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Under the Medicare and Medicaid programs, WFB is entitled to reimbursement for certain patient charges at rates determined by federal and state governments. Differences between established billing rates and reimbursements from these programs are recorded as contractual adjustments to arrive at net patient service revenue. A summary of the payment arrangements with major third-party payers is as follows:

> Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. WFB was reimbursed for certain cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports, and audits thereof, by the Medicare administrative contractor. WFB's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2006.
>
> Inpatient reimbursement under the Medicaid program is based on prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under various reimbursement methodologies. WFB is reimbursed for outpatient services at tentative rates with final settlement determined after submission of annual cost reports, and audits thereof, by the fiscal intermediary. WFB's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2005.

Under the North Carolina Medicaid Reimbursement Initiative (MRI), WFB receives additional reimbursement based on Medicaid cost deficits and treatment of a disproportionate share of uninsured patients. These payments require regulatory approval prior to disbursement and are subject to final audit. WFB's policy is to record these amounts as patient service revenue when the payments have been approved by the Centers for Medicare and Medicaid Services. WFB recognized approximately $22,139 of MRI payments in 2013 related to federal fiscal years 2013 and 2012, and $20,231 of MRI payments in 2012 related to federal fiscal years 2012 and 2011.

WFB participates in a provider assessment program administered by the North Carolina Department of Health and Human Services. Under this program, a fee is assessed against the non-Medicaid net patient service revenues of private hospitals. The federal government matches the assessment amount at a rate of nearly 2 to 1, and these amounts are allocated to North Carolina hospitals on a quarterly basis. Amounts recorded by WFB as provider assessment tax expenses under this program are recorded as other operating expenses and amounted to $31,020 and $36,671 during the years ended June 30, 2013 and 2012, respectively. Amounts recorded by WFB as provider assessment tax revenues under this program are recorded as net patient service revenue and amounted to $74,397 and $99,395 during the years ended June 30, 2013 and 2012, respectively.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Therefore, at least a reasonable possibility exists that recorded estimates will change by a material amount in the near term. Estimated retroactive settlement adjustments reduced net patient service revenue by approximately $1,607 and $17,188 during the years ended June 30, 2013 and 2012, respectively. Management believes it is in compliance in all material respects with Medicare and Medicaid laws and regulations. Third-party settlements related to Medicare were a payable of $35,112 at June 30, 2013 and a payable of $20,152 at June 30, 2012. Third-party settlements related to Medicaid were a receivable of $1,028 at June 30, 2013 and a payable of $1,748 at June 30, 2012. WFB has also recorded receivables totaling $35,654 related to MRI and provider assessment revenues not yet paid to WFB at June 30, 2013. No such receivables were recorded at June 30, 2012.

Patient receivables are reduced by an allowance for doubtful accounts. In evaluating the collectibility of patient receivables, WFB 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, WFB analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, 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), WFB records a 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 $239,095 and $197,948, respectively, at June 30, 2013 and $222,988 and $118,743, respectively, at June 30, 2012.

WFB's allowance for doubtful accounts for self-pay patients increased from 82 percent of self-pay accounts receivable at June 30, 2012 to 91 percent of self-pay accounts receivable at June 30, 2013. This increase was primarily due to an increase in the age of self-pay accounts receivable. In addition, WFB's self-pay allowances and expenses (which include charity care charges foregone and bad debt expense) increased $47,928 from $302,071 for fiscal year 2012 to $349,999 for fiscal year 2013. This change was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2013. WFB maintains an allowance for doubtful accounts for patient residuals associated with third-party payers. The allowance was $35,691 and $32,711 at June 30, 2013 and 2012, respectively.

June 30, 2013 and 2012 Dollars in thousands.

Concentration of Credit Risk

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

	2013	2012
Medicare	27%	28%
Medicaid	18%	19%
Self-pay	21%	16%
Other	34%	37%
	100%	100%

3. Charity Care

WFB 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 WFB's charity care policy totaled approximately $93,200 and $91,000 in 2013 and 2012, respectively.

4. Accounts, Grants, and Notes Receivable

Net accounts and grants receivable consist of the following at June 30:

	2013	2012
Accounts receivable	$ 77,412	$ 62,318
Royalties receivable	65,919	65,919
Grants receivable	38,774	32,636
Notes receivable	3,246	4,073
Contributions receivable	6,400	4,491
Accounts and grants receivable, net	191,751	169,437
Less current portion	(86,631)	(59,507)
Accounts and grants receivable, net, long-term	$ 105,120	$ 109,930

June 30, 2013 and 2012 Dollars in thousands.

The following is an analysis of the maturities of contributions receivable at June 30:

	2013	2012
One year or less	$ 515	$ 1,409
Two to five years	3,876	3,009
More than five years	3,286	631
Contributions receivable, gross	7,677	5,049
Estimated uncollectible amounts	(472)	(322)
Discount to present value	(805)	(236)
Contributions receivable, net	$ 6,400	$ 4,491

5. Investments and Assets Limited as to Use

Investments and assets limited as to use consist of the following at June 30:

	2013	2012
Short-term investments [(a)]	$ 46,209	$ 159,178
Absolute return [(b)]	92,044	42,272
Commodities [(c)]	28,633	27,442
Fixed income [(d)]	262,500	307,184
Private equity [(e)]	592	616
Public equity [(f)]	280,921	253,838
Real estate [(g)]	19,732	17,541
Pooled investments held at WFU [(h)]	448,871	433,256
Beneficial interest in perpetual trusts and assets held by others [(i)]	20,033	19,748
Other [(j)]	60,744	41,140
Total investments and assets limited as to use	1,260,279	1,302,215
Less current portion	-	(89,115)
Total investments and assets limited as to use, long-term	$ 1,260,279	$ 1,213,100

(a) ***Short-term investments –*** includes short duration U.S. Treasury debt securities and other short-term, higher quality debt securities, cash and money market mutual funds.

(b) ***Absolute return –*** includes investments in hedge funds and hedge fund-of-funds that invest both long and short on a global basis primarily in a wide range of securities and other instruments, including equity securities (common stocks), credit securities (both investment grade and non-investment grade), commodities, currencies, futures contracts, options, and other derivative instruments. The investment objective of this asset class is to produce attractive long-term risk-adjusted returns with low correlation to traditional asset classes.

(c) ***Commodities –*** includes investments in hedge funds and hedge fund-of-funds that invest in a wide range of commodities, securities, and financial instruments with a focus on commodities markets. This class also includes commodity (i.e. precious metals, industrial materials and energy) mutual funds. The investment objective of this class is to produce attractive long-term risk-adjusted returns in excess of traditional commodity index exposure.

(d) ***Fixed income –*** includes corporate bonds, mortgage-backed securities, asset-backed securities, mutual funds, and other fixed income securities.

(e) ***Private equity –*** includes various illiquid venture capital investments.

(f) ***Public equity –*** includes investments primarily in U.S. and non-U.S. (including emerging markets) common stocks, mutual funds, and exchange traded funds. This class also includes investments in hedge funds and hedge fund-of-funds that invest on both a long and short basis in global equity markets. The investment objective for this class is capital appreciation over the long term.

(g) ***Real estate –*** includes direct investments in commercial and residential real estate, as well as real estate mutual funds.

(h) ***Pooled investments held at WFU*** – includes a diversified portfolio of debt and equity securities and other investment interests, including alternative investment vehicles.

(i) ***Beneficial interest in perpetual trusts –*** includes trusts and certain other assets held and administered by others for which WFB has an unconditional right to receive all or a portion of the specified cash flows.

(j) ***Other –*** includes primarily investment in joint ventures and other miscellaneous investments.

June 30, 2013 and 2012 Dollars in thousands.

At June 30, 2013 and 2012, WFB held a total of 9,244,024 units and 9,102,585 units in the WFU endowment pool with a fair value of $48.56 and $47.60 per unit, which represented approximately 41% and 43%, respectively, of the overall pool. Redemptions are subject to underlying pool liquidity. The composition of all pooled investments held at WFU as of June 30 is as follows:

	2013	2012
Short-term investments	$ 56,335	$ 54,634
Absolute return	286,822	221,348
Commodities	58,652	48,970
Fixed Income	244,995	306,971
Private equity	107,127	107,023
Public equity	236,950	201,225
Real estate	91,372	79,696
Total pooled investments held at WFU	$ 1,082,253	$ 1,019,867

WFU's pooled investment approximate aggregate unfunded private capital commitments are approximately $121,382. 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 multiyear time frame. WFU believes it has adequate liquidity to meet these obligations.

Private investments are generally made through limited partnership agreements where WFU is normally one of many limited partners. Under the terms of such agreements, WFU is required to provide funding, up to the total amount committed by WFU, 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 return all capital to investors before the stated maturity date. While the timing and amount of future calls and distributions in any particular year are inherently uncertain, WFU considers these factors when allocating to private investments and believes that is has adequate liquidity to meet its obligations.

June 30, 2013 and 2012 Dollars in thousands.

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

	2013
Daily, with 1 to 5 days' notice	$ 313,854
Monthly, with 5 to 15 days' notice	129,870
Quarterly, with 5 to 95 days' notice	64,935
Semi-annually, with 45 to 95 days' notice	54,113
Yearly, with 60 to 180 days' notice	140,693
Liquidity within 2 years	86,580
Illiquid	292,208
Total pooled investments held at WFU	$ 1,082,253

Investment Return

Total investment return included in change in unrestricted net assets is comprised of the following:

	2013	2012
Interest and dividend income	$ 32,988	$ 32,475
Realized gains	31,479	65,842
Unrealized gains (losses)	5,892	(86,947)
Total investment return included in change in unrestricted net assets	$ 70,359	$ 11,370

June 30, 2013 and 2012 Dollars in thousands.

Total investment return is reflected in the combined statements of operations and changes in net assets as follows:

	2013	2012
Operating:		
Investment return designated for current operations	$ 21,284	$ 22,976
Nonoperating:		
Net investment gains	46,111	65,414
Other changes in unrestricted net assets:		
Net unrealized gain (loss) on other-than-trading securities	2,964	(77,020)
Total investment return included in change in unrestricted net assets	70,359	11,370
Investment return designated for temporarily restricted purposes	5,653	5,422
Temporarily restricted net gains (losses) on investments	2,730	(5,203)
Investment return reinvested in principal	343	313
Permanently restricted net gains (losses) on investments	1,144	(6,366)
Total investment return included in change in restricted net assets	9,870	(5,834)
Total investment return	$ 80,229	$ 5,536

June 30, 2013 and 2012 Dollars in thousands.

Assets Limited as to Use

Assets limited as to use consist of the following at June 30:

	2013		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	$ 241,217	$ -	$ 241,217
Donor-restricted endowment funds	-	148,032	148,032
Total endowment funds	241,217	148,032	389,249
Funds designated for capital improvements	583,236	-	583,236
Funds designated for settlement of professional liability costs	72,562	-	72,562
Collateral for derivative agreements	-	4,600	4,600
Beneficial interests in perpetual trusts and assets held by others	-	20,032	20,032
Funds held under retirement and benefit plans	26,060	-	26,060
Designated for restricted purposes	1,678	15,195	16,873
Assets limited as to use	924,753	187,859	1,112,612
Other unrestricted investments			132,643
Investments in equity-method affiliates			15,024
Investments and assets limited as to use			$ 1,260,279

	2012		
	Internally Designated	Externally Restricted	Total
Board-designated endowment funds	$ 235,140	$ -	$ 235,140
Donor-restricted endowment funds	-	139,761	139,761
Total endowment funds	235,140	139,761	374,901
Funds designated for capital improvements	598,488	-	598,488
Funds designated for settlement of professional liability costs	73,939	-	73,939
Collateral for derivative agreements	-	45,580	45,580
Beneficial interests in perpetual trusts and assets held by others	-	19,748	19,748
Funds held under retirement and benefit plans	20,297	-	20,297
Designated for restricted purposes	-	17,180	17,180
Assets limited as to use	927,864	222,269	1,150,133
Other unrestricted investments			136,802
Investments in equity-method affiliates			15,280
Investments and assets limited as to use			$ 1,302,215

6. Endowment

WFB' pooled endowment funds consist of approximately 481 individual funds established for a variety of purposes, but primarily to support the academic activities of WFB, including both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. Gift annuities, beneficial interest in perpetual trusts, assets held by others and contributions receivable are not considered components of the endowment.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing WFB to appropriate for expenditure or accumulate so much of an endowment fund as WFB 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, WFB' policy is to report as permanently restricted net assets (i) the original value of gifts donated to the permanent endowment, (ii) the original value of subsequent gifts to the permanent endowment, and (iii) 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 WFB in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, WFB considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(a) The duration and preservation of the fund.

(b) The purpose of the donor-restricted endowment fund.

(c) General economic conditions.

(d) The possible effect of inflation and deflation.

(e) The expected total return from income and the appreciation of investments.

(f) Other resources of the WFU's Investment Committee.

(g) The investment policies of the WFU's Investment Committee.

June 30, 2013 and 2012 Dollars in thousands.

WFUHS' endowment net assets consist of the following at June 30:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 32,620	$ 115,412	$ 148,032
Board-designated endowment funds	241,217	-	-	241,217
Total pooled endowment funds	241,217	32,620	115,412	389,249
Other non-pooled endowment funds	(835)	12,861	-	12,026
Endowment net assets	$ 240,382	$ 45,481	$ 115,412	$ 401,275

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 31,279	$ 108,482	$ 139,761
Board-designated endowment funds	235,140	-	-	235,140
Total pooled endowment funds	235,140	31,279	108,482	374,901
Other non-pooled endowment funds	(844)	10,428	-	9,584
Endowment net assets	$ 234,296	$ 41,707	$ 108,482	$ 384,485

June 30, 2013 and 2012 Dollars in thousands.

Changes in WFUHS' endowment net assets for the year ended June 30 are as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 234,296	$ 41,707	$ 108,482	$ 384,485
Investment return:				
Investment income	6,008	3,233	325	9,566
Net appreciation	11,212	5,961	558	17,731
Total investment return	17,220	9,194	883	27,297
Contribution	(11)	-	6,626	6,615
Appropriation for expenditure	(11,123)	(5,420)	(579)	(17,122)
Endowment net assets, end of year	$ 240,382	$ 45,481	$ 115,412	$ 401,275

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 244,789	$ 46,525	$ 101,136	$ 392,450
Investment return:				
Investment income	3,903	2,011	210	6,124
Net appreciation (depreciation)	(2,638)	(1,770)	405	(4,003)
Total investment return	1,265	241	615	2,121
Contribution	109	-	7,310	7,419
Appropriation for expenditure	(11,867)	(5,059)	(579)	(17,505)
Endowment net assets, end of year	$ 234,296	$ 41,707	$ 108,482	$ 384,485

June 30, 2013 and 2012 Dollars in thousands.

In addition to permanently restricted endowment, WFUHS has permanently restricted trusts held and administered by others, annuities and other split-interest agreements, gifts, and student loan funds that are not considered part of the endowment. The values of these assets are summarized as follows at June 30:

	2013	2012
Trusts held and administered by others	$ 13,505	$ 13,157
Annuities and other split-interest agreements	2,629	2,401
Gifts	4,352	3,296
Student loan funds	4,786	4,797
Total other permanently restricted assets	$ 25,272	$ 23,651

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gifts. In accordance with GAAP, deficiencies of this nature reported in unrestricted net assets are $1,424 and $1,631 as of June 30, 2013 and 2012, respectively.

NCBH has permanently restricted endowment funds of $1,971 and $3,553 at June 30, 2013 and 2012, respectively. These funds are governed by separate UPMIFA polices.

LMC has permanently restricted endowment funds of $884 and $882 at June 30, 2013 and 2012, respectively.

7. Property and Equipment

Property and equipment are summarized as follows at June 30:

	2013	2012
Land	$ 131,370	$ 127,880
Buildings and other improvements	1,182,983	1,111,406
Fixed and moveable equipment	798,863	690,950
Construction in progress	191,225	213,667
	2,304,441	2,143,903
Less: accumulated depreciation	(1,243,513)	(1,186,045)
Total property and equipment	$ 1,060,928	$ 957,858

Total depreciation and amortization expense was $99,450 and $94,370 for the years ended June 30, 2013 and 2012, respectively.

WFB's policy is to capitalize interest incurred on debt during the construction of projects exceeding one year. WFB capitalized interest of $5,934 and $3,007 in 2013 and 2012, respectively.

June 30, 2013 and 2012 Dollars in thousands.

The following table presents the activity for the asset retirement obligations for the years ended June 30, 2013 and 2012. Such amounts are included in other long-term liabilities in the accompanying combined balance sheets. Management used its incremental cost of borrowing rate to discount the obligation to present value based on the remaining life of the related asset; these rates ranged from 1.75% to 2.88%.

	2013	2012
Asset retirement obligations, beginning balance	$ 4,233	$ 4,095
Accretion	128	250
Reduction due to property sales	-	(112)
Asset retirement obligations, ending balance	$ 4,361	$ 4,233

Sale-Leaseback Agreements

In 2006, WFB entered into a sale-leaseback agreement for certain assets. The initial lease term is 20 years with four 5-year renewal options. The lease is classified as an operating lease. Operating lease payments in each year from 2014 to 2018 are $7,441, $7,516, $7,591, $7,667, and $7,744, respectively.

In 2010, WFB entered into a sale-leaseback agreement to sell and lease back certain assets. The initial lease is 16 years with three 5 year renewal options. The lease is classified as an operating lease. Operating lease payments are due monthly and expected payments for 2014 to 2018 are $5,107, $5,236, $5,366, $5,501, and $5,368, respectively.

WFB 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 long-term liabilities in the accompanying combined balance sheets.

June 30, 2013 and 2012 Dollars in thousands.

8. Debt

Debt consists of the following at June 30:

	2013	2012
Series 2012A [a]	$ 118,405	$ -
Series 2012A Unamortized Bond Premium	4,340	-
Series 2012B [a]	112,605	-
Series 2012B Unamortized Bond Premium	15,959	-
Series 2012C [a]	59,045	-
Series 2012D [a]	62,892	-
Series 2010 [b]	299,010	307,185
Series 2010 Unamortized Bond Premium	9,752	10,662
Series 2008A [c]	-	59,500
Series 2008B [c]	-	29,610
Total bonds payable	682,008	406,957
Loan agreement [d]	-	89,115
Term note [e]	-	9,241
Line of credit [f]	-	96,476
Commercial loan [g]	-	29,340
Line of credit [h]	126,450	-
Loan agreement [i]	19,680	-
Equipment loan [j]	261	1,304
Loan agreement [k]	-	11,962
Promissory note [l]	320	400
Promissory note [m]	169	229
JV external notes [n]	860	2,181
Capital leases [o]	-	100
Capital leases [p]	1,589	2,520
Capital leases [q]	1,628	59
Total notes payable and capital leases	150,957	242,927
Total debt	832,965	649,884
Less current portion	145,785	133,522
Total long-term debt	$ 687,180	$ 516,362

June 30, 2013 and 2012 Dollars in thousands.

Debt is reflected in the combined balance sheets at June 30 as follows:

	2013	2012
Current portion of long-term debt	$ 145,785	$ 133,522
Notes payable and capital leases, net of current portion	19,141	119,705
Bonds payable, net of current portion	668,039	396,657
Total debt	$ 832,965	$ 649,884

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

The Series 2012A bonds mature in full in fiscal year 2046. The fixed rate instruments bear interest at fixed coupon rates of 4.00% and 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 2039 and in increasing annual amounts of $9,425 to $20,200.

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 2012D bonds were issued in an aggregate principal amount not to exceed $80,000 and mature in full in fiscal year 2043. The bonds were issued in the Bank-Bought Rate Mode and bear interest at an Index Floating Rate based on an Adjusted LIBOR rate plus a spread of 0.87%. At the option of NCBH, 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 2034 and in increasing annual amounts of $14,075 to $15,295.

(b) ***Series 2010 Revenue Bonds*** – revenue bonds issued by NCBH, representing funds borrowed by the entities pursuant to loan agreements with the NCMCC. As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under an

MTI structure. The MTI provides the flexibility for multiple parties to participate in debt issuances as part of an obligated group.

The Series 2010 bonds mature in full in 2034. Per the bond agreements, the principal and sinking fund payments on the bonds are due on June 1 of each year in increasing annual amounts of $7,705 to $12,330. The fixed rate instruments bear interest at coupon rates ranging from 2.00% to 5.25%. The total all-in yield rate on the Series 2010 bonds, without giving effect to outstanding swap agreements, is 4.71%.

(c) ***Series 2008 Revenue Bonds*** – revenue bonds issued by WFUHS, representing funds borrowed by the entities pursuant to loan agreements with the NCMCC. As a conduit issuer, the NCMCC loans the debt proceeds to the borrower and the bonds are issued by the NCMCC under an 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 proceeds from the issuance of the Series 2012 bonds during the period ended March 31, 2013.

(d) ***Loan agreement*** – represents a variable rate loan agreement held by WFUHS, based on the one-month LIBOR plus a premium of 0.39% to provide funding of $89,115 with a one year maturity date. The loan proceeds were used to redeem the Series 2008 C and D bonds that were previously supported by a direct-pay letter of credit. Interest payments were due monthly with the principal balance due in full at maturity. This taxable loan was guaranteed by both NCBH and WFUBMC and was fully refinanced with tax-exempt debt in fiscal year 2013.

(e) ***Term note*** – represents an unsecured term note held by WFUHS, with a fixed rate of 3.07% for $9,900 to refinance a previously outstanding variable rate loan agreement. Fixed payments of interest and principal are due monthly with a final maturity date of October 1, 2021. This taxable loan is guaranteed by both NCBH and WFUBMC. In April 2013, this term note was refinanced and consolidated with debt reflected in loan agreement (i) below.

(f) ***Line of credit*** – consists of an unsecured credit facility in the amount of $125,000 held by NCBH to provide financing for various construction projects. The line of credit is due on July 13, 2013 and bears interest at the one-month LIBOR plus 0.45. This line of credit was fully refinanced with proceeds from the Series 2012 bonds.

(g) ***Commercial loan*** – represents an unsecured variable rate credit facility held by WFUHS, based on the one-month LIBOR plus a premium of 0.60% with a total commitment amount of $30,000 and a maturity date of February 15, 2013. Interest payments are due monthly with the principal balance due in full at maturity. In October 2012, this commercial loan was refinanced and consolidated with debt reflected in line of credit (h) below.

(h) ***Line of credit*** – consists of an unsecured credit facility in the amount of $200,000 held by WFUBMC to provide for the working capital needs of NCBH, WFUHS, and the Medical Center. The line of credit is due on October 30, 2013 and bears interest at the one-month LIBOR plus 0.45%. This taxable line of credit is guaranteed by both NCBH and WFUHS. Management intends to renew a portion of this facility upon expiration.

(i) ***Loan agreement*** – represents an unsecured loan agreement held by WFUHS, with a variable rate based on 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.

(j) ***Equipment loan*** – represents an equipment loan held by WFUHS, with a fixed rate of 6.05% for $7,300 to finance the purchase of furniture, fixtures, and equipment for the BRF-A1, LLC laboratory building. Fixed principal payments along with accrued interest are due quarterly with a final maturity date of September 15, 2013.

(k) ***Loan agreement*** – represents an unsecured loan agreement held by WFUHS, with a fixed rate of 6.375% for $14,500 to provide permanent taxable financing for the construction BRF-A1a facility. Fixed principal payments along with accrued interest are due monthly with a final balloon payment due on the final maturity date of December 31, 2016. In April 2013, this loan was refinanced and consolidated with debt reflected in loan agreement (i) above.

(l) ***Promissory note*** – represents a non-interest bearing contractual lien against WFUHS, for $800 from the City of Winston-Salem to provide grant funding for the construction of the Green Park Courtyard in the Piedmont Triad Research Park. The grant states that in the event that an additional $17,400 in taxable property value are created within the Park within 10 years, then the promissory note shall be marked satisfied and paid in full and canceled of record. Fixed payments of principal are due annually with a final maturity date of June 1, 2017.

(m) ***Promissory note*** – represents a 20 year, non-interest bearing loan with the City of Winston-Salem to provide grant funding for the cleanup of a Brownsfields designated site. Fixed principal payments are deferred for the first ten years of the loan with monthly payments commencing in year 11.

(n) ***JV external notes*** – includes various notes payable held by WFB affiliates, with interest rates ranging from 4.25% to 5.3% and final maturities between 2013 and 2015.

(o) ***Capital leases*** – consists of a capital lease obligation held by DCH, maturing in June 2013. The lease has a fixed interest rate of 3.39% and is secured by leased equipment.

(p) ***Capital leases*** – comprised of capital lease obligations held by NCBH, maturing at various dates through 2015. The obligations have fixed interest rates of 5.10% and are secured by leased equipment.

(q) ***Capital leases*** – consists of capital lease obligations held by WFUHS, maturing at various dates through 2017. The leases have fixed interest rates ranging from 4.07% to 5.42% and are secured by leased equipment.

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

June 30, 2013 and 2012 Dollars in thousands.

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.

Aggregate annual maturities of notes, bonds payable and capital leases are as follows:

	Year Ending June 30
2014	$ 145,785
2015	17,690
2016	17,159
2017	17,351
2018	18,421
All years thereafter	616,559
	$ 832,965

The 2014 maturities include a line of credit of $126,450 that management intends to renew in 2014 with a maturity date beyond 2014.

9. Interest Rate Swaps

Management directs the effective mix of fixed and variable rate debt in its debt portfolio, and manages exposure to increasing interest expense from variable-rate debt, by utilizing interest rate swap agreements. The following table summarizes the general terms for each of the outstanding agreements related to WFB as of June 30:

	Party	Counter-party	Rate Paid	Rate Received	Final Maturity	Collateral Provisions	Settlement Frequency	2013 Notional Amount	2012 Notional Amount
2002 Interest rate swap agreement	WFUHS	Bank of America	Fixed 3.67%	67% of 1-month LIBOR	July 1, 2034	100% of exposure, $250 min.	Weekly	$ 25,314	$ 79,700
2007 Interest rate swap agreement	WFUHS	Bank of America	Fixed 3.52%	67% of 1-month LIBOR	July 1, 2034	100% of exposure, $250 min.	Weekly	$ -	$ 96,350
2010 Interest rate swap agreement	NCBH	Deutsche Bank	3-month LIBOR	Fixed 2.72%	March 1, 2015	n/a	Quarterly	$ 30,000	$ 30,000

WFB records all interest rate swap agreements as other assets or liabilities in the combined balance sheets at their respective fair values. The fair value of the interest rate swap agreements is the estimated amount that the entity would pay to terminate the swap agreements at the reporting date, taking into account current forward interest rates and the current creditworthiness of the swap counterparties. All changes in fair value are reflected as a gain or loss in non-operating activities on the combined statements of operations and changes in net assets. The periodic net cash settlements with counterparties are accounted for as adjustments to interest expense.

The aggregate fair value of all interest rate swaps that are in a liability position on June 30, 2013 and 2011 is $4,552 and $45,057, respectively, for which WFB has posted collateral of $4,600 and $45,580 as of June 30, 2013 and 2012, respectively. The collateral to support the swaps is included in assets limited as to use.

In the year ended June 30, 2013, WFUHS made payments totaling $36,258 to alter these interest rate swap agreements, resulting in the termination of the 2007 agreement and the reduction of the notional amount of the 2002 agreement.

As of June 30, 2013, WFB's adjusted debt portfolio, after taking into account the aforementioned swap agreements, was approximately 67% fixed.

10. Fair Values of Assets and Liabilities

Under GAAP, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also prioritizes, for the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value based on the transparency of inputs used in the valuation of an asset or liability as of the measurement date. 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).

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

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

Level 2 – valuations for assets and liabilities as determined through direct or indirect observations other than quoted market prices, including investments in which WFB is a unit of account holder within a fund that holds underlying assets that are traded in active exchange markets with readily available pricing.

Level 3 – valuations for assets and liabilities that are derived from other valuation methodologies including discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. These valuation methodologies are based on unobservable inputs in situations where there is little or no market activity for the asset or liability. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of WFB's interest therein, its classification in Level 2 or 3 is based on WFB'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, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities. In general, for Level 2 and Level 3 investments, WFB utilizes the investment manager of the asset 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.

June 30, 2013 and 2012 Dollars in thousands.

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

	2013			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Short-term investments	$ 46,209	$ -	$ -	$ 46,209
Absolute return	3	-	92,041	92,044
Commodities	12,605	-	16,028	28,633
Fixed income	172,914	72,063	17,523	262,500
Private equity	-	-	592	592
Public equity	56,482	172,866	49,901	279,249
Real estate	11,077	-	204	11,281
Pooled investments held at WFU	-	208,587	240,284	448,871
Beneficial interest in perpetual trusts and assets held by others	-	-	20,033	20,033
Other	13,275	32,445	-	45,720
Investments at fair value	312,565	485,961	436,606	1,235,132
Real estate valued at cost				10,123
Equity method affiliates				15,024
Total investments and assets limited as to use				$ 1,260,279
Other assets at fair value:				
Interest rate swaps	$ -	$ 1,158	$ -	$ 1,158
Other liabilities at fair value:				
Employee benefits	$ -	$ 26,060	$ -	$ 26,060
Interest rate swaps	-	4,552	-	4,552
Annuities payable	-	3,898	-	3,898
Total other liabilities at fair value	$ -	$ 34,510	$ -	$ 34,510

June 30, 2013 and 2012 Dollars in thousands.

	2012			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Short-term investments	$ 159,178	$ -	$ -	$ 159,178
Absolute return	-	-	42,272	42,272
Commodities	10,347	-	17,095	27,442
Fixed income	241,825	65,359	-	307,184
Private equity	-	-	616	616
Public equity	83,270	127,001	43,567	253,838
Real estate	6,716	-	220	6,936
Pooled investments held at WFU	-	180,438	252,818	433,256
Beneficial interest in perpetual trusts and assets held by others	-	-	19,748	19,748
Other	21	5,541	20,298	25,860
Investments at fair value	501,357	378,339	396,634	1,276,330
Real estate valued at cost				10,605
Equity method affiliates				15,280
Total investments and assets limited as to use				$ 1,302,215
Other assets at fair value:				
Interest rate swaps	$ -	$ 1,718	$ -	$ 1,718
Other liabilities at fair value:				
Employee benefits	$ -	$ -	$ 20,298	$ 20,298
Interest rate swaps	-	45,057	-	45,057
Annuities payable	-	4,189	-	4,189
Total other liabilities at fair value	$ -	$ 49,246	$ 20,298	$ 69,544

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

WFB has real estate investments, valued at cost less accumulated depreciation for buildings, and investments in joint ventures, carried on the equity method at June 30, 2013 and 2012.

June 30, 2013 and 2012 Dollars in thousands.

The 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 Series 2012C and 2012D bonds are and the Series 2008 bonds were variable rate debt maturities that approximate fair value. The carrying amounts of the remaining notes and capital leases approximate fair value. These debt instruments are categorized under Level 2 of the fair value hierarchy. The following table presents the fair value of debt at June 30:

	2013	2012
Series 2012A	$ 107,129	$ -
Series 2012B	119,434	-
Series 2012C	59,045	-
Series 2012D	62,892	-
Series 2010	319,140	339,186
Series 2008A	-	59,500
Series 2008B	-	29,610
Total fair value of bonds payable	667,640	428,296
Notes payable and capital leases	150,957	242,927
Total fair value of debt	$ 818,597	$ 671,223

The following table presents the activity for Level 3 investments for the year ended June 30:

	2013					
	Beginning Balance	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers Into and (Out) of Level 3	Ending Balance
Level 3 investments:						
Absolute return	$ 42,272	$ 6,769	$ 43,000	$ -	$ -	$ 92,041
Commodities	17,095	(1,067)	-	-	-	16,028
Fixed income	-	1,023	16,500	-	-	17,523
Private equity	616	(24)	-	-	-	592
Public equity	43,567	6,334	-	-	-	49,901
Real estate	220	(16)	-	-	-	204
Pooled investments held at WFU	252,818	17,810	56,692	(75,097)	(11,939)	240,284
Beneficial interest in perpetual		-	-	-	-	
trusts and assets held by others	19,748	2,003	478	(2,196)	-	20,033
Other	20,298	2,325	4,488	(1,051)	(26,060)	-
Total Level 3 investments	$ 396,634	$ 35,157	$ 121,158	$ (78,344)	$ (37,999)	$ 436,606

June 30, 2013 and 2012 Dollars in thousands.

	2012					
	Beginning Balance	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers Into and (Out) of Level 3	Ending Balance
Level 3 investments:						
Absolute return	$ -	$ 272	$ 42,000	$ -	$ -	$ 42,272
Commodities	-	(305)	17,400	-	-	17,095
Private equity	647	(31)	-	-	-	616
Public equity	-	(1,433)	45,000	-	-	43,567
Real estate	-	-	220	-	-	220
Pooled investments held at WFU	200,459	5,267	82,747	(41,059)	5,404	252,818
Beneficial interest in perpetual trusts and assets held by others	21,485	1,798	395	(2,310)	(1,620)	19,748
Other	17,895	271	2,943	(811)	-	20,298
Total Level 3 investments	$ 240,486	$ 5,839	$ 190,705	$ (44,180)	$ 3,784	$ 396,634

Transfers into and out of Level 3 are typically the result of a change in observation of significant valuation inputs required by various models. At June 30, 2013 and 2012, WFB's ability to redeem investments in the near term at net asset value substantially represents the net transfers out of Level 3.

11. Net Assets

Temporarily restricted net assets are composed of the following as of June 30:

	2013	2012
Private gifts and pledges	$ 9,364	$ 8,855
Private grants and contracts	3	2,335
Donor-restricted return	46,510	42,514
Total temporarily restricted net assets	$ 55,877	$ 53,704

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

	2013	2012
Designated for clinical mission	$ 4,139	$ 5,011
Student scholarship	5,576	4,056
Instruction and research	36,610	36,078
Academic support	9,552	8,559
Total temporarily restricted net assets	$ 55,877	$ 53,704

June 30, 2013 and 2012 Dollars in thousands.

Permanently restricted net assets are composed of the following at June 30:

	2013	2012
Donor-restricted endowments	$ 118,267	$ 112,035
Gifts and pledges	4,352	3,296
Student loan funds	4,786	4,797
Interests in perpetual trusts held by others	13,505	13,157
Annuity and other split-interest agreements	2,629	2,401
Total permanently restricted net assets	$ 143,539	$ 135,686

Such permanently restricted net assets are designated for the following purposes as of June 30:

	2013	2012
Designated for clinical mission	$ 2,855	$ 3,553
Student scholarship	27,011	25,367
Instruction and research	91,262	85,720
Academic support	22,411	21,046
Total permanently restricted net assets	$ 143,539	$ 135,686

12. Benefit Plans

Substantially all employees of NCBH, WFUHS, and LMC are eligible to participate in defined contribution benefit plans. NCBH, WFUHS and LMC contribute specified percentages of each employee's salary to the plans. Total contributions were $25,097, $24,075, and $1,628, respectively, for the year ended June 30, 2013, and $16,148, $27,219, and $647, respectively, for the year ended June 30, 2012.

NCBH has a defined benefit pension plan covering substantially all employees of NCBH who were employed prior to December 31, 2011. The benefits are based on years of service and the employee's compensation during the last five years of employment. NCBH's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

On June 2, 2011, the Board of NCBH approved that effective as of December 31, 2011, the pension plan would be amended to provide that (i) no further benefits will accrue after December 31, 2011; (ii) no new employees will be eligible to enter the pension plan after December 31, 2011; and (iii) all participants who are active employees of NCBH on December 31, 2011 will become fully vested in their accrued benefits under the pension plan on such date.

June 30, 2013 and 2012 Dollars in thousands.

NCBH did not make any contributions to the defined benefit pension plan in fiscal years 2013 and 2012, and does not expect to make a contribution in fiscal year 2014. The consolidated balance sheets include a pension liability of $13,950 and $46,649 at June 30, 2013 and 2012, respectively.

The following tables summarize the valuation of the defined benefit pension plan's investments by the fair value hierarchy levels as of June 30:

	2013			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Short-term investments	$ 5,252	$ 999	$ -	$ 6,251
Fixed income	20,954	138,597	-	159,551
Public equity	33,290	114,402	-	147,692
Other	8,815	985	-	9,800
Total plan investments	68,311	254,983	-	323,294
Accruals carried at cost				(14,225)
Total plan assets				$ 309,069

	2012			
	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Investments at fair value:				
Short-term investments	$ 19,033	$ 13	$ -	$ 19,046
Fixed income	20,178	132,950	-	153,128
Public equity	17,761	104,192	-	121,953
Other	8,335	616	-	8,951
Total plan investments	65,307	237,771	-	303,078
Accruals carried at cost				(8,342)
Total plan assets				$ 294,736

The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities. Methods and assumptions used by WFB in estimating the fair value of each class of financial instruments are discussed in detail in Note 10.

June 30, 2013 and 2012 Dollars in thousands.

The defined benefit pension plan's investment strategy, as set by the Pension Committee, is to provide adequate risk-adjusted returns while protecting the funded status of the plan. The actual allocation of the overall plan assets, as well as the performance of the individual managers, is reviewed by the Pension Committee and their independent investment consultant on a quarterly basis. Expected long-term allocation targets, as well as the actual asset allocation as of June 30, are as follows:

	Allocation Target	**2013**	**2012**
Asset category:			
Equities	35.0%	46.0%	41.0%
Fixed income	45.0%	51.0%	56.0%
Absolute return	12.5%	0.0%	0.0%
Real assets	7.5%	3.0%	3.0%
Total plan assets	100.0%	100.0%	100.0%

At June 30, 2013 and 2012, the accumulated benefit obligation for pension benefits is $323,019 and $341,385, respectively, as compared to the fair value of the plan assets of $309,069 and $294,736, respectively. At June 30, 2013 and 2012, the plan is underfunded in relation to accumulated benefits by $13,950 and $46,649, respectively.

Estimated future benefit payments for the defined benefit pension plan are as follows:

	Year Ending June 30
2014	$ 10,517
2015	11,418
2016	12,352
2017	13,358
2018	14,430
2019 to 2023	88,809

In addition to NCBH's pension plan, WFUHS sponsors a defined benefit postretirement medical and dental plan that covers all WFUHS full-time employees who elect coverage and satisfy the plan eligibility requirements when they retire. On June 2, 2011, the Board of WFUHS approved that effective as of January 1, 2012, the defined benefit postretirement plan would be discontinued for most future retirees. The minimum age required for post-retirement benefits will increase from 60 to 62. However, the additional requirement of the rule of 75 (age and service) remains unchanged. All current retirees and currently eligible employees previously grandfathered will continue to be eligible for benefits under this plan. Any WFUHS employee who is within 5 years of meeting the new retirement eligibility of age 62 with combined age and years of service equal to at least 75 as of January 1, 2012 will be grandfathered into this benefit. 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 pension and postretirement-related gain (loss) other than net periodic costs in the combined statement of operations and changes in net assets for the year ended June 30, 2012.

June 30, 2013 and 2012 Dollars in thousands.

The accumulated net actuarial loss and prior service credit for the defined postretirement benefits plan that will be amortized from unrestricted net assets into net periodic benefit cost over future years are $2,482 and $6,058, respectively.

Plan assets for the defined postretirement benefits plan are held in trust and are considered Level 1 in the fair value hierarchy and consist of the following:

	2013	2012
Short-term investments	$ 2,032	$ 5,318
Commodities	7,020	4,915
Fixed income	12,364	16,984
Public equity	12,890	8,655
Real estate	5,289	3,058
Other	1,608	-
Total plan assets	$ 41,203	$ 38,930

Estimated future benefits to be paid, net of participant contributions, for the defined postretirement benefits plan are as follows:

	Year Ending June 30
2014	$ 1,814
2015	2,037
2016	2,222
2017	2,433
2018	2,537
2019 to 2023	12,675

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

June 30, 2013 and 2012 Dollars in thousands.

The following tables provide a reconciliation of the changes in WFB's portion of the plans' benefit obligations and fair value of assets for the years ended June 30:

	NCBH Pension Benefits		WFUHS Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation				
Benefit obligation, beginning of year	$ 341,385	$ 297,492	$ 42,604	$ 59,480
Service cost	-	-	517	1,344
Interest cost	16,160	16,514	1,865	2,220
Plan amendments	-	-	-	(26,847)
Participants' contributions	-	-	1,675	1,522
Actuarial (gains) losses	(24,750)	35,243	(5,494)	8,122
Benefits paid	(9,776)	(7,864)	(3,400)	(3,237)
Benefit obligation, end of year	323,019	341,385	37,767	42,604
Change in plan assets:				
Fair value of plan assets, beginning of year	294,736	286,172	38,930	38,926
Actuarial return on plan assets	24,109	16,428	2,273	4
Employer's contributions	-	-	1,725	1,715
Participants' contributions	-	-	1,675	1,522
Benefits paid	(9,776)	(7,864)	(3,400)	(3,237)
Fair value of plan assets, end of year	309,069	294,736	41,203	38,930
Amounts recognized in the combined balance sheets (funded status):				
Other assets	-	-	3,436	-
Retirement benefits	(13,950)	(46,649)	-	(3,674)
Total asset (liability)	$ (13,950)	$ (46,649)	$ 3,436	$ (3,674)
Amounts recognized in unrestricted net assets:				
Prior service credit	$ -	$ -	$ 11,320	$ 17,379
Net actuarial loss	(34,587)	(63,820)	(16,358)	(25,340)
Total	$ (34,587)	$ (63,820)	$ (5,038)	$ (7,961)

June 30, 2013 and 2012 Dollars in thousands.

Components of net periodic benefit cost for the plans for years ended June 30 are as follows:

	NCBH Pension Benefits		WFUHS Postretirement Benefits	
	2013	2012	2013	2012
Service cost	$ -	$ -	$ 517	$ 1,344
Interest cost	16,160	16,514	1,865	2,220
Expected return on plan assets	(22,661)	(21,217)	(2,725)	(2,547)
Amortization of prior service cost (credit)	-	-	(6,059)	(4,633)
Amortization of net loss	3,035	199	3,940	5,616
Total net periodic pension cost	$ (3,466)	$ (4,504)	$ (2,462)	$ 2,000

The prior-service costs and credits 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.

Assumptions used in the measurement of WFB's benefit obligations and benefit costs are as follows:

	NCBH Pension Benefits				WFUHS Postretirement Benefits			
	2013		2012		2013		2012	
	Obligation	Cost	Obligation	Cost	Obligation	Cost	Obligation	Cost
Weighted-average assumptions:								
Discount rate	5.26%	4.80%	4.80%	5.63%	4.87%	4.47%	4.47%	4.47%
Expected return on plan assets	7.25%	7.75%	7.75%	7.75%	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase	n/a	n/a	n/a	4.00%	n/a	n/a	n/a	n/a
Rate of healthcare cost increase, trend for next year	n/a	n/a	n/a	n/a	8.00%	8.50%	8.50%	9.00%
Rate of healthcare cost increase, ultimate trend rate	n/a	n/a	n/a	n/a	4.50%	4.50%	4.50%	4.50%

The plans' expected return on plan assets is based on expectations regarding each asset category and average long-term rate of returns for a portfolio allocated across these categories. The expected return assumed on plan assets is reviewed annually and adjusted as appropriate to reflect changes in the expected market performance of the investments.

June 30, 2013 and 2012 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:

	1% increase		1% decrease	
Effect on total service and interest cost components of net periodic benefit cost	$	14	$	(12)
Effect on postretirement benefit obligation	$	255	$	(221)

Recent federal health care legislation includes several provisions that may affect 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 $0 and $130, respectively, as of June 30, 2013 and 2012. This change has been reflected as an actuarial loss.

In addition to the aforementioned benefit plans, the Board of Directors 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.

13. Contingencies and Other Commitments

a. ***Construction***

The estimated cost to complete construction in progress at June 30, 2013 is $132,134.

b. ***Grant Awards***

As of June 30, 2013 and 2012, $185,776 and $239,308, respectively, of cumulative grant awards for which services have not yet been performed were not recorded. WFB does not record the grant awards until the services have been performed.

Expenditures and indirect costs related to governmental 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 WFB's financial position.

c. ***Professional Liability Insurance***

WFB maintains professional liability coverage, which included a $4,000 per occurrence and a $16,000 annual aggregate self-insurance limit for the year ended June 30, 2013. WFB estimates its professional liability on an actuarial basis. WFB's accrued professional liability costs, including estimated claims incurred but not reported, amounted to approximately $75,634 and $73,939 at

June 30, 2013 and 2012, respectively, and are included in other current and other long-term liabilities in the accompanying combined balance sheets. In the opinion of management, adequate provision has been made for the related risk.

d. ***Employee Health and Dental Insurance***

WFB self-insures employee health and dental insurance. WFB provides an accrual for actual claims reported but not paid and a provision for incurred but not reported claims based on historical trends. WFB's accrued employee health and dental costs, including estimated claims incurred but not reported, amounted to approximately $12,119 and $11,380 at June 30, 2013 and 2012, respectively, and are included in other current and other-long term liabilities in the accompanying combined balance sheets.

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

e. ***Workers' Compensation Insurance***

WFB self-insures workers' compensation liability with excess commercial insurance providing per loss and aggregate annual coverage. WFB provides an accrual for actual claims reported but not paid and a provision for incurred but not reported claims based on historical trends. WFB's accrued workers' compensation costs, including estimated claims incurred but not reported, amounted to approximately $6,791 and $5,612 at June 30, 2013 and 2012, respectively, and are included in other current and other-long term liabilities in the accompanying combined balance sheets.

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

f. ***Loan and Security Agreement***

On June 29, 2011, NCBH entered into a Loan and Security Agreement (Loan) with a local acute care hospital (Hospital) to provide up to $25,000 to refinance existing debt and finance new capital projects. The Loan consist of two parts: (1) a $22,000 amortizing loan with a fixed interest rate of 6.09% and final maturity of April 1, 2036 and (2) a $3,000 interest-only tranche loan with a variable interest rate equal to one-month LIBOR plus 2.50% and a final maturity of July 29, 2016. Up until June 29, 2013, and upon receipt of a borrowing request from the Hospital, NCBH was to make advances of the funds so long as the aggregate principal amount did not exceed $25,000. As of June 30, 2013, NCBH had made $24,376 in advances under the Loan, of which the entire amount is outstanding as of June 30, 2013 and is included in accounts, grants, and notes receivable, in the accompanying combined balance sheets. To secure the Loan, the Hospital granted NCBH a valid, first priority continuing security interest in and lien upon all accounts, equipment, fixtures, whether now owned or hereafter acquired. In addition, the Hospital delivered to NCBH a leasehold deed of trust to create a valid, first priority lien on the Leasehold Property.

Loans receivable, which are included in accounts, grants, and notes receivable, consisted of the balance of the Loan as of June 30, 2013. Loans receivable are carried at unpaid principal balances, less an allowance for loan losses. The allowance for loan losses is increased by charges to other nonoperating losses. No allowance for loan losses was recorded as of June 30, 2013. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. WFB does not charge loan fees. Loans are placed on nonaccrual when management believes, after considering economic conditions, business conditions, and collection efforts that the loans are impaired or collection of interest is doubtful. Uncollected interest previously accrued is charged. Interest income on nonaccrual loans is recognized only to the extent cash payments are received.

g. ***Litigation***

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

h. ***Royalties Receivable***

Management has recorded revenue and a related receivable for licensing fees for "VAC System" technologies. On October 6, 1993, Wake Forest University (later, WFUHS) and Kinetic Concepts, Inc. (KCI) entered into a license agreement that granted 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 long term accounts and grants receivable in the accompanying 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 long term liabilities in the accompanying combined balance sheets. 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.

June 30, 2013 and 2012 Dollars in thousands.

14. Functional Expenses

WFB provides patient, education and other services within its geographic location. Expenses related to providing these services for the years ended June 30 are as follows:

	2013	2012
Patient services	$ 1,398,943	$ 1,347,698
Instruction and departmental research	68,715	59,911
Institutional support	277,134	282,806
Sponsored research, training, and other programs	183,496	190,303
Academic support	12,877	11,901
Auxiliary enterprises	5,057	8,024
Libraries	3,550	3,522
Student services	2,193	1,883
Total operating expenses	$ 1,951,965	$ 1,906,048

Depreciation of plant assets, interest expense, and plant operation and maintenance expense are allocated to program and supporting activities based on periodic inventories of facilities.

15. Related-Party Transactions

WFUHS engages in various related party transactions with WFU relating to operating activities such as legal, compliance, internal audit, investment management, and other internal services and incur certain expenses on behalf of each other. These expenses are recorded in the related operating expense categories in the accompanying combined statements of operations, and net expenses totaled approximately $7,473 and $6,399 for the years ended June 30, 2013 and 2012.

NCBH owns a 50% equity share of MedCost, the third-party administrator for WFB's self-insured employee health and dental insurance. During the years ended June 30, 2013 and 2012, WFB paid MedCost approximately $5,983 and $5,769, respectively, for these services.

16. Subsequent Events

WFB has performed an evaluation of subsequent events through October 10, 2013, which is the date the financial statements were issued.

WAKE FOREST BAPTIST

Combining Balance Sheet Information, Current Year

June 30, 2013 *Dollars in thousands.*

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [1]
Assets									
Current assets:									
Cash and cash equivalents	$ 23,149	$ 17,882	$ 20,550	$ 2,621	$ (932)	$ 63,270	$ (2,987)	$ 932	$ 61,215
Patient receivables, net	260,034	77,974	12,993	681	-	351,682	(416)	-	351,266
Estimated third-party payer settlements	73,505	-	2,361	-	-	75,866	-	-	75,866
Accounts, grants, and notes receivable, net	9,599	81,168	5,269	181	(9,586)	86,631	(152)	323	86,802
Other current assets	31,786	6,944	129,695	134	(137,402)	31,157	(82)	404	31,479
Total current assets	398,073	183,968	170,868	3,617	(147,920)	608,606	(3,637)	1,659	606,628
Accounts, grants, and notes receivable, net	32,478	84,777	-	-	(12,135)	105,120	-	1,757	106,877
Investments and assets whose use is limited	714,983	618,525	1,900	6,276	(81,405)	1,260,279	(35,263)	7,776	1,232,792
Property and equipment, net	677,240	320,927	59,248	3,670	(157)	1,060,928	(4,229)	-	1,056,699
Other assets	14,167	11,969	420	-	-	26,556	-	-	26,556
Total assets	$ 1,836,941	$ 1,220,166	$ 232,436	$ 13,563	$ (241,617)	$ 3,061,489	$ (43,129)	$ 11,192	$ 3,029,552
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accruals	$ 49,646	$ 55,240	$ 10,084	$ 394	$ (16,745)	$ 98,619	$ (438)	$ 404	$ 98,585
Accrued employee compensation	50,891	70,415	3,046	-	-	124,352	-	-	124,352
Estimated third-party payer settlements	58,584	-	414	-	-	58,998	-	-	58,998
Deferred revenue	-	52,776	1,351	-	-	54,127	-	-	54,127
Current portion of long-term debt and capital leases	9,385	9,531	129,450	529	(3,110)	145,785	(853)	323	145,255
Other current liabilities	114,714	59,143	1,405	1,950	(127,564)	49,648	(887)	-	48,761
Total current liabilities	283,220	247,105	145,750	2,873	(147,419)	531,529	(2,178)	727	530,078
Notes payable and capital leases, net of current portion	698	19,025	3,691	331	(4,604)	19,141	(2,088)	1,757	18,810
Bonds payable, net of current portion	485,905	182,134	-	-	-	668,039	-	-	668,039
Retirement benefits	14,478	-	-	-	-	14,478	-	-	14,478
Other long-term liabilities	33,313	109,210	8,828	158	(14,308)	137,201	(158)	7,208	144,251
Total liabilities	817,614	557,474	158,269	3,362	(166,331)	1,370,388	(4,424)	9,692	1,375,656
Net assets:									
Unrestricted	1,014,157	470,270	72,275	10,201	(75,218)	1,491,685	(38,705)	1,500	1,454,480
Temporarily restricted	3,199	51,738	1,008	-	(68)	55,877	-	-	55,877
Permanently restricted	1,971	140,684	884	-	-	143,539	-	-	143,539
Total net assets	1,019,327	662,692	74,167	10,201	(75,286)	1,691,101	(38,705)	1,500	1,653,896
Total liabilities and net assets	$ 1,836,941	$ 1,220,166	$ 232,436	$ 13,563	$ (241,617)	$ 3,061,489	$ (43,129)	$ 11,192	$ 3,029,552

[1] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

See Independent Auditors' Report.

WAKE FOREST BAPTIST

Combining Statement of Operations and Changes in Net Assets Information, Current Year

Year Ended June 30, 2013 *Dollars in thousands.*

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [1]
Operating revenues and support									
Patient service revenue (net of contractual allowances and discounts)	$ 1,213,218	$ 400,930	$ 95,467	$ 9,037	$ (10,635)	$ 1,708,017	$ (6,545)	$ -	$ 1,701,472
Provision for bad debts	(75,951)	(31,937)	(13,697)	(264)	-	(121,849)	229	-	(121,620)
Net patient service revenue	1,137,267	368,993	81,770	8,773	(10,635)	1,586,168	(6,316)	-	1,579,852
Gifts, grants, and contracts	3,901	186,127	368	-	-	190,396	-	296	190,692
Net student tuition and fees	259	23,693	-	-	-	23,952	-	-	23,952
Investment return designated for current operations	1,437	19,847	-	-	-	21,284	-	-	21,284
Other sources	29,540	124,466	2,167	248	(106,287)	50,134	(1,305)	104	48,933
Net assets released from restrictions	728	22,112	634	-	-	23,474	-	-	23,474
Total operating revenues and support	1,173,132	745,238	84,939	9,021	(116,922)	1,895,408	(7,621)	400	1,888,187
Recurring operating expenses									
Salaries and wages	439,033	427,544	28,399	1,155	-	896,131	(1,155)	-	894,976
Employee benefits	113,647	80,730	7,818	227	-	202,422	(227)	-	202,195
Purchased services	202,701	137,479	10,063	3,053	(105,442)	247,854	(1,739)	-	246,115
Clinical and laboratory supplies	247,169	43,565	13,108	651	(10,601)	293,892	(148)	-	293,744
Other operating expenses	102,942	46,154	14,213	2,116	(877)	164,548	(2,447)	395	162,496
Depreciation and amortization	65,080	28,807	4,798	765	-	99,450	(997)	-	98,453
Financing costs	11,953	6,899	172	59	(215)	18,868	(227)	168	18,809
Total recurring operating expenses	1,182,525	771,178	78,571	8,026	(117,135)	1,923,165	(6,940)	563	1,916,788
Nonrecurring operating expenses									
Integration and restructuring costs	22,673	6,127	-	-	-	28,800	-	-	28,800
Total operating expenses	1,205,198	777,305	78,571	8,026	(117,135)	1,951,965	(6,940)	563	1,945,588
Operating excess (deficiency) of revenues and support over expenses	(32,066)	(32,067)	6,368	995	213	(56,557)	(681)	(163)	(57,401)
Nonoperating gains (losses)									
Gains (losses) from equity-method affiliates	6,548	3,304	-	-	(8,719)	1,133	20	508	1,661
Net investment gains (losses)	40,234	5,601	56	435	(215)	46,111	(1,239)	168	45,040
Unrealized gains (losses) on interest rate swap valuation	(560)	4,247	-	-	-	3,687	-	-	3,687
Other	383	863	-	56	(176)	1,126	67	176	1,369
Excess (deficiency) of revenues and gains over expenses and losses	14,539	(18,052)	6,424	1,486	(8,897)	(4,500)	(1,833)	689	(5,644)

[1] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

See Independent Auditors' Report.

Combining Statement of Operations and Changes in Net Assets Information, Current Year, continued

Year Ended June 30, 2013

Dollars in thousands.

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [1]
Excess (deficiency) of revenues and gains over expenses and losses	14,539	(18,052)	6,424	1,486	(8,897)	(4,500)	(1,833)	689	(5,644)
Equity transfer from (to) affiliate	-	-	66,262	(6,046)	(60,216)	-	-	-	-
Pension and postretirement-related gain (loss) other than net periodic cost	29,279	4,649	192	-	-	34,120	-	-	34,120
Net unrealized gain (loss) on other-than-trading securities	2,914	-	50	-	-	2,964	(2,033)	-	931
Other	3,440	-	(653)	(1,200)	1,965	3,552	1,200	(1,965)	2,787
Change in unrestricted net assets	50,172	(13,403)	72,275	(5,760)	(67,148)	36,136	(2,666)	(1,276)	32,194
Temporarily restricted net assets									
Contributions	600	17,822	895	-	-	19,317	-	-	19,317
Investment return designated for restricted purposes	-	5,653	-	-	-	5,653	-	-	5,653
Net assets released from restrictions	(728)	(22,112)	(634)	-	-	(23,474)	-	-	(23,474)
Net investment gains	185	2,545	-	-	-	2,730	-	-	2,730
Other	(1,937)	(863)	747	(95)	95	(2,053)	-	-	(2,053)
Change in temporarily restricted net assets	(1,880)	3,045	1,008	(95)	95	2,173	-	-	2,173
Permanently restricted net assets									
Contributions	22	7,960	-	-	-	7,982	-	-	7,982
Investment return reinvested in principal	-	343	-	-	-	343	-	-	343
Net investment gains	-	1,144	-	-	-	1,144	-	-	1,144
Other	(1,604)	(896)	884	-	-	(1,616)	-	-	(1,616)
Change in permanently restricted net assets	(1,582)	8,551	884	-	-	7,853	-	-	7,853
Change in net assets	46,710	(1,807)	74,167	(5,855)	(67,053)	46,162	(2,666)	(1,276)	42,220
Net assets at beginning of period	972,617	664,499	-	16,056	(8,233)	1,644,939	(36,039)	2,776	1,611,676
Net assets at end of period	$ 1,019,327	$ 662,692	$ 74,167	$ 10,201	$ (75,286)	$ 1,691,101	$ (38,705)	$ 1,500	$ 1,653,896

[1] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

See Independent Auditors' Report.

WAKE FOREST BAPTIST

Combining Balance Sheet Information, Prior Year

June 30, 2012 *Dollars in thousands.*

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [1]
Assets									
Current assets:									
Cash and cash equivalents	$ 29,072	$ 32,200	$ 13,778	$ 7,144	$ (546)	$ 81,648	$ (2,352)	$ 546	$ 79,842
Patient receivables, net	204,912	68,898	9,180	1,323	-	284,313	(781)	-	283,532
Estimated third-party payer settlements	43,907	-	577	-	-	44,484	(106)	-	44,378
Accounts, grants, and notes receivable, net	52,967	84,995	1,302	145	(79,902)	59,507	-	-	59,507
Investments and assets whose use is limited	-	89,115	-	-	-	89,115	-	-	89,115
Other current assets	18,407	2,891	2,684	-	-	23,982	-	-	23,982
Total current assets	349,265	278,099	27,521	8,612	(80,448)	583,049	(3,239)	546	580,356
Accounts, grants, and notes receivable, net	17,887	94,451	-	-	(2,408)	109,930	-	-	109,930
Investments and assets whose use is limited	704,279	520,423	1,968	6,152	(19,722)	1,213,100	(32,311)	11,343	1,192,132
Property and equipment, net	557,631	341,557	51,033	8,144	(807)	957,558	(5,283)	-	952,275
Other assets	10,805	8,051	420	142	(6,294)	13,124	(77)	-	13,047
Total assets	$ 1,639,867	$ 1,242,581	$ 80,942	$ 23,050	$ (109,679)	$ 2,876,761	$ (40,910)	$ 11,889	$ 2,847,740
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accruals	$ 52,800	$ 60,232	$ 59,978	$ 3,598	$ (76,587)	$ 100,021	$ (74)	$ 35	$ 99,982
Accrued employee compensation	49,701	63,852	3,191	-	-	116,744	-	-	116,744
Estimated third-party payer settlements	46,555	-	-	-	-	46,555	-	-	46,555
Deferred revenue	-	56,243	-	13	-	56,256	(13)	-	56,243
Current portion of long-term debt and capital leases	9,206	123,599	3,318	-	(2,601)	133,522	-	-	133,522
Other current liabilities	23,150	13,823	9	1,862	-	38,844	(883)	-	37,961
Total current liabilities	181,412	317,749	66,496	5,473	(79,188)	491,942	(970)	35	491,007
Notes payable & capital leases, net of current portion	98,065	21,301	6,691	1,362	(7,714)	119,705	(3,742)	2,380	118,343
Bonds payable, net of current portion	309,672	86,985	-	-	-	396,657	-	-	396,657
Retirement benefits	47,205	3,674	655	-	-	51,534	-	-	51,534
Other long-term liabilities	30,896	148,373	7,100	159	(14,544)	171,984	(159)	6,698	178,523
Total liabilities	667,250	578,082	80,942	6,994	(101,446)	1,231,822	(4,871)	9,113	1,236,064
Net assets:									
Unrestricted	963,985	483,673	-	15,961	(8,070)	1,455,549	(36,039)	2,776	1,422,286
Temporarily restricted	5,079	48,693	-	95	(163)	53,704	-	-	53,704
Permanently restricted	3,553	132,133	-	-	-	135,686	-	-	135,686
Total net assets	972,617	664,499	-	16,056	(8,233)	1,644,939	(36,039)	2,776	1,611,676
Total liabilities and net assets	$ 1,639,867	$ 1,242,581	$ 80,942	$ 23,050	$ (109,679)	$ 2,876,761	$ (40,910)	$ 11,889	$ 2,847,740

[1] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

See Independent Auditors' Report.

WAKE FOREST BAPTIST

Combining Statement of Operations and Changes in Net Assets Information, Prior Year

Year Ended June 30, 2012

Dollars in thousands.

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [1]
Operating revenues and support									
Patient service revenue (net of contractual allowances and discounts)	$ 1,221,805	$ 393,096	$ 81,713	$ 19,153	$ (482)	$ 1,715,285	$ (6,253)	$ -	$ 1,709,032
Provision for bad debts	(43,004)	(32,238)	(15,662)	(291)	-	(91,195)	219	-	(90,976)
Net patient service revenue	1,178,801	360,858	66,051	18,862	(482)	1,624,090	(6,034)	-	1,618,056
Gifts, grants, and contracts	3,059	206,591	500	-	-	210,150	-	-	210,150
Net student tuition and fees	198	21,181	-	-	-	21,379	-	-	21,379
Investment return designated for current operations	1,932	21,344	-	(300)	-	22,976	300	-	23,276
Other sources	23,519	146,227	6,779	35	(130,780)	45,780	(927)	-	44,853
Net assets released from restrictions	834	26,123	-	502	-	27,459	-	-	27,459
Total operating revenues and support	1,208,343	782,324	73,330	19,099	(131,262)	1,951,834	(6,661)	-	1,945,173
Recurring operating expenses									
Salaries and wages	433,530	406,942	30,747	4,543	-	875,762	(1,017)	-	874,745
Employee benefits	100,544	74,866	8,664	424	-	184,498	(194)	-	184,304
Purchased services	236,986	149,924	6,048	9,853	(129,563)	273,248	(1,718)	-	271,530
Clinical and laboratory supplies	234,827	49,491	11,501	745	-	296,564	(145)	-	296,419
Other operating expenses	104,743	44,332	7,764	1,869	(1,797)	156,911	(1,738)	-	155,173
Depreciation and amortization	61,316	26,953	4,768	1,333	-	94,370	(1,051)	-	93,319
Financing costs	11,202	7,049	209	85	(168)	18,377	(275)	190	18,292
Total recurring operating expenses	1,183,148	759,557	69,701	18,852	(131,528)	1,899,730	(6,138)	190	1,893,782
Nonrecurring operating expenses									
Integration and restructuring costs	4,396	1,922	-	-	-	6,318	-	-	6,318
Total operating expenses	1,187,544	761,479	69,701	18,852	(131,528)	1,906,048	(6,138)	190	1,900,100
Operating excess (deficiency) of revenues and support over expenses	20,799	20,845	3,629	247	266	45,786	(523)	(190)	45,073
Nonoperating gains (losses)									
Gains (losses) from equity-method affiliates	4,668	1,591	(3,806)	-	535	2,988	67	(67)	2,988
Net investment gains (losses)	77,243	(11,614)	43	4	(262)	65,414	(934)	71	64,551
Net gains (losses) on interest rate swap valuation	55	(21,613)	-	-	-	(21,558)	-	-	(21,558)
Other	(1,309)	(1,469)	(24)	(1,208)	126	(3,884)	1,142	-	(2,742)
Excess (deficiency) of revenues and gains over expenses and losses	101,456	(12,260)	(158)	(957)	665	88,746	(248)	(186)	88,312

[1] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

See Independent Auditors' Report.

Combining Statement of Operations and Changes in Net Assets Information, Prior Year, continued

Year Ended June 30, 2012 *Dollars in thousands.*

	NCBH	WFUHS	WFUBMC	Other Subs and Affiliates	Eliminations	Total WFB	Non-Designated Entities	Eliminations	Total Combined Group [(1)]
Excess (deficiency) of revenues and gains over expenses and losses	101,456	(12,260)	(158)	(957)	665	88,746	(248)	(186)	88,312
Pension and postretirement-related gains (losses) other than net periodic cost	(39,886)	9,069	(18)	-	-	(30,835)	-	-	(30,835)
Net unrealized loss on other-than-trading securities	(76,937)	-	(83)	-	-	(77,020)	-	-	(77,020)
Other	42	-	-	-	-	42	-	-	42
Change in unrestricted net assets	(15,325)	(3,191)	(259)	(957)	665	(19,067)	(248)	(186)	(19,501)
Temporarily restricted net assets									
Private gifts, grants, and contracts	1,544	23,910	207	519	-	26,180	-	-	26,180
Investment return designated for restricted purposes	-	5,414	-	-	8	5,422	-	-	5,422
Net assets released from restrictions	(834)	(26,123)	-	(502)	-	(27,459)	-	-	(27,459)
Net investment loss	(65)	(5,138)	-	-	-	(5,203)	-	-	(5,203)
Other	-	(3,670)	(8)	-	(224)	(3,902)	-	-	(3,902)
Change in temporarily restricted net assets	645	(5,607)	199	17	(216)	(4,962)	-	-	(4,962)
Permanently restricted net assets									
Private gifts, grants, and contracts	165	9,236	-	-	-	9,401	-	-	9,401
Investment return reinvested in principal	-	313	-	-	-	313	-	-	313
Net investment loss	-	(6,366)	-	-	-	(6,366)	-	-	(6,366)
Other	-	234	60	-	(60)	234	-	-	234
Change in permanently restricted net assets	165	3,417	60	-	(60)	3,582	-	-	3,582
Change in net assets	(14,515)	(5,381)	-	(940)	389	(20,447)	(248)	(186)	(20,881)
Net assets at beginning of period	987,132	669,880	-	16,996	(8,622)	1,665,386	(35,791)	2,962	1,632,557
Net assets at end of period	$ 972,617	$ 664,499	$ -	$ 16,056	$ (8,233)	$ 1,644,939	$ (36,039)	$ 2,776	$ 1,611,676

[(1)] *Represents only those WFB entities that are Obligated Group members or Designated Members under the MTI.*

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