

# **Washington University**

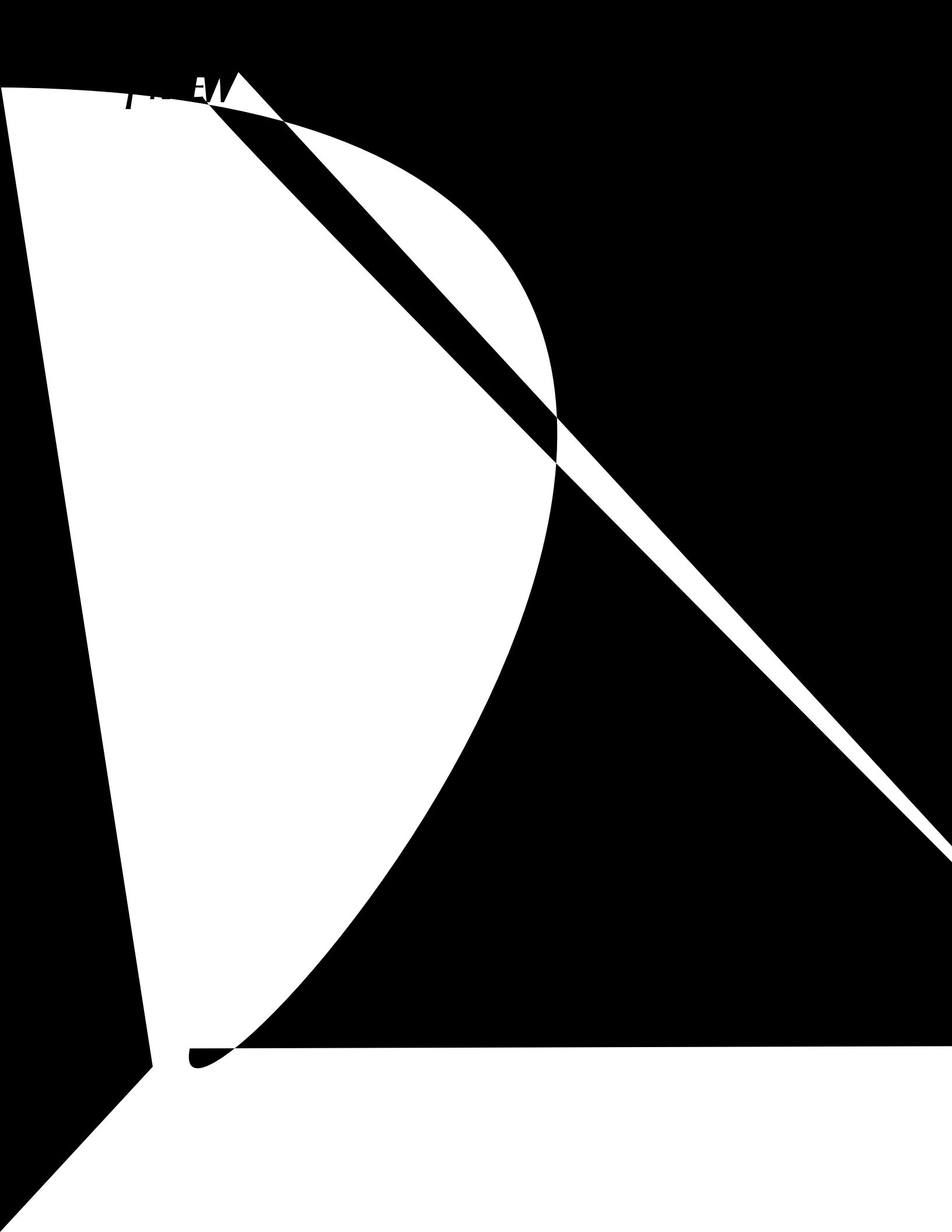
**Financial Statements**

**June 30, 2007 and 2006**

**Washington University**  
**Index**  
**June 30, 2007 and 2006**

---

	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1
<b>Financial Statements</b>	
Statements of Financial Position.....	2
Statements of Activities .....	3
Statements of Cash Flows .....	4
Notes to Financial Statements.....	5-14



**Washington University**  
**Statements of Financial Position**  
**June 30, 2007 and 2006**

**Washington University**  
**Statements of Activities**  
**Years Ended June 30, 2007 and 2006**

(Thousands of Dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2007 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2006 Total
<b>Revenues:</b>								
Tuition and fees, gross	\$ 360,330			\$ 360,330	\$ 336,865			\$ 336,865
Less: Scholarships	(121,915)			(121,915)	(113,795)			(113,795)
Tuition and fees, net	238,415			238,415	223,070			223,070
Endowment spending distribution	191,761	\$ 5,445		197,206	182,577	\$ 5,320		187,897
Investment income	29,746	175		29,921	25,812	304		26,116
Gifts	75,799	79,003		154,802	36,180	54,576		90,756
Grants and contracts revenues								
Direct costs recovered	354,893			354,893	341,491			341,491
Facilities and administrative costs recovered	132,114			132,114	136,256			136,256
Patient services	543,857			543,857	504,713			504,713
Auxiliary enterprises - sales and services	64,585			64,585	59,831			59,831
Educational activities - sales and services	74,267			74,267	68,126			68,126
Affiliated hospital revenues	64,193			64,193	66,192			66,192
Other revenue	28,817			28,817	24,965			24,965
Net assets released	55,837	(55,837)		-	59,653	(59,653)		-
<b>Total Revenues</b>	<b>1,854,284</b>	<b>28,786</b>	<b>-</b>	<b>1,883,070</b>	<b>1,728,866</b>	<b>547</b>	<b>-</b>	<b>1,729,413</b>
<b>Expenses:</b>								
Instruction	929,601			929,601	872,478			872,478
Research	417,045			417,045	417,045			417,045
Student services	83,452			83,452	77,161			77,161
Auxiliary enterprises expenditures	76,332			76,332	72,011			72,011
Other deductions	15,811			15,811	12,356			12,356
<b>Total Expenses</b>	<b>1,720,965</b>	<b>-</b>	<b>-</b>	<b>1,720,965</b>	<b>1,625,531</b>	<b>-</b>	<b>-</b>	<b>1,625,531</b>
<b>Net Operating Results</b>	<b>133,319</b>	<b>28,786</b>	<b>-</b>	<b>162,105</b>	<b>103,335</b>	<b>547</b>	<b>-</b>	<b>103,882</b>
<b>Non-operating revenues and (expenses):</b>								
Investment returns net of endowment spending	845,970	17,502	\$ 5,807	869,279	386,385	9,956	\$ 438	396,779
Changes and reclassifications of split-interest agreements	(1,835)	844	5,025	4,034	(841)	535	1,634	1,328
Permanently restricted gifts			20,428					

3.7 re342TJ15-g)TjETEMC /P MCIDcTw 27.211 0 27.211 0 219f5()7(dLosJ/ on f.211 x 2726c-0.00recl)9(m)t Tj27)CID 18 >64

The accompanying notes are an integral part of the financial statements.

**Washington University**  
**Statements of Cash Flows**  
**Years Ended June 30, 2007 and 2006**

---

# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

*(All amounts in thousands of dollars)*

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Organization**

Washington University in St. Louis (the University), is an institution of higher education that, in furtherance of its role as a charitable and educational institution, engages in various activities, including instruction, research and provision of medical care.

##### **Basis of Presentation**

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, the estimated useful lives of buildings and equipment, the fair value of certain investments, the degree of precision in calculation of self-insurance reserves and adequacy of allowances for doubtful accounts receivable. Actual results could differ from those estimates. Certain prior year amounts presented in the financial statements have been reclassified to be consistent with the basis of presentation in the current year.

##### **Net Assets**

Resources are classified for accounting and reporting purposes according to externally (donor) imposed restrictions. Descriptions of the net asset categories follow.

# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

*(All amounts in thousands of dollars)*

#### **Investments**

Investments are reported at fair value. Fair value is based on quoted prices for securities traded on public exchanges. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities, or other reasonable valuation methodologies such as fair values estimated by investment advisors or other qualified sources. Investments acquired by gift or bequest are initially recorded at market or appraised value at the date so acquired.

Investment gains/(losses) in excess of endowment spending distribution and the unrealized appreciation (depreciation) on investments are reported in the non-operating section of the Statement of Activities.

At June 30, 2007 and 2006, investments include \$50,480 and \$1,078, respectively that were purchased with unexpended proceeds from the Series 2007A and 2004 Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds, respectively. These assets may only be drawn down to pay for specific construction project costs and costs of issuance related to the MOHEFA bonds.

#### **Endowment**

Endowment refers to the resources that have been restricted by the donor or designated by the Board of Trustees for investment to provide future revenue to support the University's activities. The University has an endowment earnings distribution policy designed to stabilize annual spending levels and preserve the real value of the endowment over time, as permitted by the Missouri Uniform Management of Institutional Funds Act. Under this policy, earnings of the pooled



# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

(All amounts in thousands of dollars)

#### Fixed Assets

Fixed assets are stated at cost or fair market values assigned at dates of gifts, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the assets. The cost and accumulated depreciation of fixed assets are removed from the records at the time of disposal. Gains and losses on fixed asset disposals are reported in the non-operating section of the Statement of Activities. Fixed assets by classification at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Construction in progress	\$137,319	\$155,546
Land and improvements to land	70,904	66,805
Buildings	2,057,055	1,884,154
Equipment	<u>348,046</u>	<u>337,596</u>
Total cost	2,613,324	2,444,101
Accumulated depreciation	<u>(1,068,171)</u>	<u>(975,056)</u>
Total, net	<u>\$ 1,545,153</u>	<u>\$1,469,045</u>

#### Collections

In addition to the Mildred Lane Kemper Art Museum, the University archives rare book collections, works of art, literary works, historical treasures and artifacts. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Purchases of collection items totaling \$32 and \$170 were expensed in 2007 and 2006, respectively. There were no sales of collection items and no insurance proceeds for any destroyed items in either year.

#### Student Loans

Loans are made to students utilizing gift and University resources designated for that purpose and from funds provided by the United States government under the Federal Perkins and Health Professions Student Loan programs. While loan funds are reported at estimated realizable value, it is not practical to determine the fair value of loan fund receivables, which are comprised largely of federally sponsored student loans. They have significant government restrictions as to marketability, interest rates, and repayment terms. Federal funds are ultimately refundable to the government and are recognized as a liability in the Statement of Financial Position.

#### Tuition and Financial Aid

Most undergraduate students receive financial aid based upon academic promise and demonstrated financial need. Graduate students often receive tuition support in connection with research assistant, teaching assistant and fellowship appointments. Total financial aid granted to students by the University, including aid provided to employees and their dependents, was \$184,674 in 2007 and \$171,516 in 2006. The table below identifies student aid by type. Scholarships are reported net against tuition in the Statement of Activities. Other amounts are reported as expenses.

	<u>2007</u>	<u>2006</u>
Scholarships from unrestricted sources	\$88,852	\$83,263
Scholarship support from gifts, endowment and other restricted sources	<u>33,063</u>	<u>30,532</u>
Total scholarships	<u>121,915</u>	<u>113,795</u>
Employee and dependent tuition benefits	20,009	18,592
Stipends	40,379	36,739
Work study	<u>2,371</u>	<u>2,390</u>
Total	<u>\$184,674</u>	<u>\$171,516</u>

#### Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Contributions received for capital projects, permanent endowments or perpetual trusts are reported as non-operating revenues. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

(All amounts in thousands of dollars)

Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions, in the form of unconditional promises to give, to be received after one year are discounted at a risk-free rate. Amortization of the discount is recorded as contribution revenue. Allowance is made for uncollectible unconditional promises to give based upon management's judgment, past collections experience and other relevant factors.

A summary of pledges receivable at June 30 is as follows:

	<u>2007</u>	<u>2006</u>
In one year or less	\$70,497	\$62,004
Between one year and five years	74,237	62,300
Five or more years	<u>5,524</u>	<u>6,652</u>
	150,258	130,956
Less:		
Discount	(8,619)	(5,429)
Allowance for uncollectible amounts	<u>(7,655)</u>	<u>(6,351)</u>
Total	<u>\$133,984</u>	<u>\$119,176</u>

#### **Patient Services Revenue**

The University recognizes revenues in the period in which services are rendered. The University has agreements with third-party payers that provide for payment to the University at amounts that are generally less than its established rates. Accordingly, patient revenue is reported net of contractual allowances, at estimated net realizable amounts from patients, third-party payers and others for services rendered.

#### **Tuition and Fee Revenue**

Tuition and fee revenue, net of scholarships, is recorded primarily in the fiscal year in which the educational programs are conducted.

#### **Sponsored Programs**

The University receives grant and contract revenue from governmental and private sources. Revenue associated with the direct costs of sponsored programs is generally recognized as the related costs are incurred. The University records revenue in unrestricted net assets upon its recovery of direct and indirect costs applicable to those sponsored programs that provide for the full or partial reimbursement of such costs. The recovery of indirect costs, also referred to as facilities and administrative costs, is recognized primarily based on predetermined rates negotiated with the federal government through the year ending June 30, 2010.

#### **Operating Results and Allocation of Certain Expenses**

The University's measure of operations as presented in the Statement of Activities includes income from tuition and fees, grants and contracts, medical services, contributions for operating programs, the endowment spending distribution and other revenues. Operating expenses are reported on the Statement of Activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense. Operating results exclude investment gains/(losses) except for the portion of gains utilized for the endowment spending distribution, permanently restricted gifts, change in the value of split-interest agreements, gains/(losses) on fixed asset disposals and interest rate swaps. Operation and maintenance of plant and depreciation are allocated to functional categories largely based on square footage. Interest expense is allocated based on specific identification of the uses of proceeds. Instruction expenses include instruction, departmental research and patient care costs.

#### **Split-Interest Agreements**

The University's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for charitable gift annuities and charitable remainder trusts are recognized after recording liabilities for the present value, calculated using discount rates which represent risk-free rates in existence at the date of the gift, of the estimated future payments to be made to the respective donors and/or other beneficiaries. Annually, the University records the change in value of split-interest agreements by marking to market the assets that are associated with each trust and recalculating the liability for the present value of the estimated future payments to be made to the donors and/or other beneficiaries.

# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

*(All amounts in thousands of dollars)*

#### **Conditional Asset Retirement Obligation**

In 2006, the University implemented the provisions of FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47), and FASB Statement No. 143, "Accounting for Asset Retirement Obligations". The asset retirement obligation for the University relates primarily to the removal of asbestos from certain of its buildings. Known asbestos sites are appropriately encapsulated or controlled in accordance with current environmental regulations pending ultimate removal. Based on the guidance in FIN 47, management of the University determined that sufficient information was available to reasonably estimate the fair value of known asset retirement obligations. The initial application of the Interpretation was recognized as a cumulative effect of a change in accounting principle representing the cumulative accretion and accumulated depreciation for the time period from the date the liability would have been recognized had the provisions of the Interpretation been in effect when the liability was incurred to the date of adoption of this Interpretation. Upon initial adoption in 2006, the University recognized \$14,271 as the cumulative effect of a change in accounting principle in the Statement of Operations for 2006. As of June 30, 2007 and 2006, respectively, \$15,107 and \$15,351 of conditional asset retirement obligations are included within accounts payable and accrued expenses in the Statement of Financial Position. Interest and depreciation expense related to the obligation and asset, are not material to results reported in the Statement of Activities in any year.

#### **Cash and Cash Equivalents**

The University considers cash on hand and in banks and all highly liquid financial instruments with an original maturity of 90 days or less, except those amounts assigned to and invested by its investment managers, which amounts are classified as investments, to be cash and cash equivalents.

#### **Income Taxes**

The University is exempt from federal income taxes under S18ide2ddF9 ex5re

**Washington University**  
**Notes to the Financial Statements**  
**June 30, 2007 and 2006**

---

*(All amounts in thousands of dollars)*

The following summarizes the return on investments, net of investment management fees. Investment income represents earnings on non-endowed funds.

	<u>2007</u>		<u>2006</u>
Investment income	\$29,921		\$26,116
Endowment dividends and interest income	67,886		56,362
Endowment distribution in excess of income	<u>129,320</u>		<u>131,535</u>
Endowment spending distribution	197,206		187,897
Investment gains/(losses), net	998,599		528,314
Gains distributed less endowment distribution	<u>(129,320)</u>		<u>(131,535)</u>
Investment returns net of endowment spending distribution	<u>869,279</u>		<u>396,779</u>
Total	<u>\$1,096,406</u>		<u>\$610,792</u>

At June 30, 2007 and 2006 investments with a fair value of \$717,256 and \$608,368, respectively, were loaned to various brokers for average periods varying from six to seven days or one to three months, depending on the type of loan. The University receives lending fees and continues to earn interest and dividends on the loaned securities. These securities are returnable on demand and are collateralized by cash deposits amounting to 103% of the market value of the securities loaned at June 30, 2007 and 2006. The University is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers have provided \$737,582 and \$624,524 of cash collateral for the loaned securities at June 30, 2007 and 2006, respectively.

**3. ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable at June 30 were as follows:

	<u>2007</u>	<u>2006</u>
Patient services	\$159,398	\$142,833
Student and parent loans	132,530	117,524
Due from affiliated hospitals	29,169	31,134
Other	<u>80,869</u>	<u>77,853</u>
	401,966	369,344
Less: Allowance for doubtful accounts	<u>(90,428)</u>	<u>(81,546)</u>
Total	<u>\$311,538</u>	<u>\$287,798</u>



# Washington University

## Notes to the Financial Statements

### June 30, 2007 and 2006

---

*(All amounts in thousands of dollars)*

The University has a \$40,000 Master Repurchase Agreement with Bank of America under which no balances were outstanding at June 30, 2007, or June 30, 2006, respectively. The other notes payable represent the University's commitment to funding a deferred capital contribution to an affiliated organization, other notes payable to Bank of America and the financing obligation discussed below. An investment asset equal to the deferred capital contribution was also recorded.

Maturities on notes and bonds payable for the next five fiscal years are as follows:

2008	\$7,193
2009	20,876
2010	6,854
2011	20,160
2012	3,390

During 2007, through the Missouri Health and Educational Facilities Authority (MOHEFA), the University issued \$126,975 of Series B Bonds. Net proceeds from the issuance were placed in an irrevocable trust to be used to satisfy all interest and principal payments, including principal to be paid at the first scheduled call date, for \$123,100 of the 2001 Series A MOHEFA Bonds. In accordance with the terms of the 2001A Bond indenture and loan agreement, establishment of the trust results in the legal defeasance of the University's obligation under the bonds. The transaction has been accounted for as an extinguishment with a recognized loss of \$7,269 reported on the Gain/(Loss) on fixed asset disposals and other, line of the Statement of Activities, while the University reduced its aggregate debt service by \$17,716 over the life of the Series 2001A bonds. The University represents this is a net present value savings of \$9,584.

During 2005 the University entered into an agreement to provide certain assurances to a financial institution ("lender") to support third party ("builder") construction of a new building to be leased in part by the University. Under terms of the agreement, if after seven years following construction of the building, the builder fails to meet its obligations to the lender to service debt incurred for construction, the University could be called upon to satisfy those obligations. Should this occur, the University has an option to acquire the building for the amount of such unpaid debt service. In addition, the University installed improvements in support of the research activities undertaken in its leased portion of the building. Some of these improvements were determined to be a portion of the cost of constructing the building. Under Emerging Issues Task Force (EITF) Issue 97-10, The Effect of Lessee Involvement in Asset Construction, the University is deemed to be the owner, for accounting purposes only, of this building project during the construction period. Accordingly, based on estimates obtained from the builder, the University recorded a building at June 30, 2006 of \$25,175 and an offsetting financing obligation in the Statement of Financial Position. The total construction cost is estimated to be approximately \$30 million before the University's leasehold improvements to space the University will occupy. The terms of the lease are such that the building and offsetting obligation do not qualify for derecognition under sale and leaseback accounting rules applied in accordance with the EITF, until the 25-year lease term expires. During the lease term, the University will recognize building depreciation, interest expense for the obligation and estimated rental income for the portions of the building leased to third parties. The building cost and obligation increased to \$25,388 at June 30, 2007.

#### **5. DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS**

In accordance with the University's investment policies, derivative instruments may be purchased and sold to manage the risk and return of investment market positions. Investment managers purchase and sell derivatives on various fixed income instruments to control the risk of fluctuations in interest rates, relative to portfolio benchmarks, on the University's fixed income investments. Certain equity investment managers purchase derivatives to obtain cost efficient exposure to equity markets or to hedge currency. These contracts are funded at the end of each business day, with the resulting changes in the values of the contracts either added to or deducted from the University's custodial account.

**Washington University**  
**Notes to the Financial Statements**  
**June 30, 2007 and 2006**

---

*(All amounts in thousands of dollars)*

In order to reduce exposure to floating interest rates on variable rate debt, the University entered into a thirty-year interest rate swap agreement in 2004 and ten-year interest rate swap agreements in 1998 and 2001. The agreements have

**Washington University**  
**Notes to the Financial Statements**  
**June 30, 2007 and 2006**

---

*(All amounts in thousands of dollars)*

**8. RETIREMENT PLAN**  
14