Washington University
Financial Statements
June 30, 2008 and 2007

Washington University
Index
June 30, 2008 and 2007

Report of Independent Auditors

To the Board of Trustees of Washington University

In our opinion, the accompanying statements of financial position and the related statements of activities and cash flows present fairly, in all material respects, the financial position of Washington University (the "University") at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An

Washington University
Statements of Financial Position
June 30, 2008 and 2007

(Thousands of dollars)	2008	2007
Assets		
Cash	$ 4,870	$ 7,188
Investments	6,324,079	6,730,262
Collateral received for securities lending	445,871	737,582
Accounts and notes receivable, net	340,742	311,538
Pledges receivable, net	127,459	133,984
Other assets	57,000	53,453
Fixed assets, net	1,674,827	1,545,153
Total assets	$ 8,974,848	$ 9,519,160
Liabilities		
Accounts payable and accrued expenses	$ 264,988	$ 253,189
Liability under securities lending transactions	445,871	737,582
Deposits and advances	14,146	15,102
Professional liability	63,281	74,615
Notes and bonds payable	988,158	

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

Washington University
Statements of Activities
Years Ended June 30, 2008 and 2007

(Thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2008 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2007 Total
Revenues								
Tuition and fees, gross	$ 378,949	$ -	$ -	$ 378,949	$ 360,330	$ -	$ -	$ 360,330
Less: Scholarships	(129,705)	-	-	(129,705)	(121,915)	-	-	(121,915)
Tuition and fees, net	249,244	-	-	249,244	238,415	-	-	238,415
Endowment spending distribution	204,426	4,907	-	209,333	191,761	5,445	-	197,206
Investment income	25,545	660	-	26,205	29,746	175	-	29,921
Gifts	57,982	63,2017.6(n39,o.2nc0 Tw17.6( )3)-39fg101 Tcpending dis71D[ )17..5(9)14.1(,)0()17.6( )17.6( )17.6( )17.6( )-463204(57,)70.004 Tc0 T						

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Washington University
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

(Thousands of dollars)	**2008**	**2007**
Cash flows from operating activities:		
Change in net assets	$ (239,895)	$ 1,041,555
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized net (gains)/losses on investments	201,578	(998,599)
Depreciation expense	121,219	116,701
Permanently restricted gifts	(25,326)	(20,428)
Investments received as gifts - not permanently restricted	(16,714)	(32,229)
Other adjustments	(4,560)	(1,451)
Changes in assets and liabilities		
Accounts and notes receivable, net	(26,689)	(42,782)
Pledges receivable, net	2,385	(22,775)
Accounts payable and accrued expenses Tw(5)Tj 8 0 0 17 Tw3c0.00advaf-0.92974 adj gifts	14,751	(1,451)

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

(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 and Use of Estimates

The financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the University and its affiliates. Certain prior year

Washington University

(All amounts in thousands of dollars)

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 endowment are distributed to the schools and other units of the University at a rate set annually by the Asset Management Committee of the Board of Trustees. This spending rate must fall within the range of 3.0% to 5.5% of the five-year average market value of a unit of the pooled endowment. For 2008, the spending rate from the pooled endowment was 3.8% of the beginning market value of the pooled endowment. When endowment interest and dividends prove to be insufficient to

(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

(All amounts in thousands of dollars)

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 $197,170 in 2008 and $184,674 in 2007. The table below identifies student aid by type. Scholarships are reported net against tuition in the Statements of Activities. Other amounts are reported as expenses.

	2008	2007
Scholarships from unrestricted sources	$ 97,111	$ 88,852
Scholarship support from gifts, endowment and other restricted sources	32,594	33,063
Total scholarships	129,705	121,915
Employee and dependent tuition benefits	21,196	20,009
Stipends	43,799	40,379
Work study	2,470	2,371
Total	$ 197,170	$ 184,674

(All amounts in thousands of dollars)

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

		2008		2007
In one year or less	$	79,446	$	70,497
Between one year and five years		61,485		74,237
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(All amounts in thousands of dollars)

New Accounting Pronouncements

In July 2006, the National Conference of Commissioners on Uniform State Laws (NCCUSL) released the Uniform Prudent Management of Institutional Funds Act (UPMIFA) of 2006. This is a modernized version of the Uniform Management of Institutional Funds Act of 1972 (UMIFA). The state of Missouri has not yet adopted UPMIFA. In August 2008, the FASB issued Staff Position (FSP) 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures,* which provides guidance on the net asset classification of donor-restricted endowment funds subject to UPMIFA. This Position also expands required disclosures about an organization's endowment, including both donor restricted and board-designated funds, whether or not the organization is subject to UPMIFA. The FSP is effective for fiscal years ending after December 15, 2008.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. This Statement is effective for fiscal years beginning after November 15, 2007.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. This Statement permits all entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). Unrealized gains and losses on items for which the fair value option has been elected would be reported in the Statements of Activities. This Statement is effective for fiscal years beginning after November 15, 2007.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement amends and expands the disclosure requirements in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This Statement requires that organizations provide disclosure in a tabular format of the Statements of Financial Position captions in which derivatives are reported and the fair value amounts of derivative instruments reported in those captions. Similar disclosures are required for the location and amounts of gains and losses reported in the Statements of Activities. This Statement is effective for fiscal years beginning after November 15, 2008.

Management is evaluating the impact of implementing these pronouncements on the University's financial statements.

(All amounts in thousands of dollars)

2. Investments

Investments are as follows:

	Carrying Value 2008	Carrying Value 2007
Equity investments	$ 2,754,713	$ 3,255,649
Fixed income investments	809,541	955,152
Hedged strategies	1,179,112	1,188,426
Private equity	546,520	456,553
Short-term investments	211,304	177,598
Unspent bond proceeds in short-term instruments	8,652	50,480
Split-interest agreements in various investment types	117,208	129,032
Real assets and other	687,098	504,937
	6,314,148	6,717,827
Accrued investment income	9,931	12,435
Total	$ 6,324,079	$ 6,730,262

The majority of private equity investments are carried at estimated fair value provided by the management of the investments as of June 30, when available or as estimated by University management. Because private equity investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material. The amount of gain or loss associated with these investments is reflected in the accompanying financial statements using a method similar to the equity method of accounting.

The University has recorded within investments the market value of assets held by third parties in perpetual trusts of $22,571 and $25,280 in 2008 and 2007, respectively. Investments also include properties held for strategic growth purposes of $41,196 and $16,101 at June 30, 2008 and 2007, respectively.

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

	2008		2007	
Investment income		$ 26,205		$ 29,921
Endowment dividends and interest income	$ 55,587		$ 67,886	
Endowment distribution in excess of income	153,746		129,320	
Endowment spending distribution		209,333		197,206
Investment gains/(losses), net	(201,578)		998,599	
Gains distributed as endowment distribution	(153,746)		(129,320)	
Investment returns net of endowment spending distribution		(355,324)		869,279
Total		$ (119,786)		$ 1,096,406

(All amounts in thousands of dollars)

At June 30, 2008 and 2007 investments with a fair value of $433,071 and $717,256, 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, 2008 and 2007. The University is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers have provided $445,871 and $737,582 of cash collateral for the loaned securities at June 30, 2008 and 2007, respectively.

(All amounts in thousands of dollars)

4. Bonds and Notes Payable

Outstanding principal on bonds and notes payable at June 30, 2008 and 2007 consists of the following:

Missouri Health and Educational Facilities Authority	Interest Rates at June 30, 2008	Maturity	2008	2007
$84,400 of 1984 Series Revenue Refunding Variable Rate Bonds, due serially through maturity	1.55%	September 1, 2009	$ 2,381	$ 4,478
$48,500 of 1985A and 1985B Revenue Variable Rate Bonds, due serially through maturity	1.55%	September 1, 2010	3,984	5,443
$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	2.10%	September 1, 2030	142,400	142,400

(All amounts in thousands of dollars)

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

2009	$ 20,876
2010	6,854
2011	20,160
2012	3,390
2013	3,530

During 2007, through 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 was 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 Statements of Activities, while the University reduced its aggregate debt service by $17,716 over the life of the Series 2001A bonds.

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

(All amounts in thousands of dollars)

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 valued at periodic intervals (daily, monthly, quarterly, etc.) as well as at June 30, with the resulting changes in the values of the contracts either added to or deducted from the University's custodial account. Gains or losses from these derivative instruments are reported as realized and unrealized gains or losses in the Statements of Activities.

The University has investments in certain funds, generally in the form of limited partnerships, that participate directly, or have the option to participate, in derivative instruments. The University regularly reviews the performance of these funds in the context of its overall investment objectives.

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 the effect of fixing the rate of interest on borrowings, respectively, at approximately 4.262% for $94,600 of debt, 5.945% for $13,972 of debt and approximately 5.82% for $10,659 of debt. The fair value of interest rate swaps is the estimated amount that the University would receive or pay to terminate the agreements at the reporting date, taking into account current interest rates and the current credit-worthiness of the swap counter parties. The fair value of the interest rate swaps was a liability of $2,407 at June 30, 2008 and an asset of $1,070 at June 30, 2007. The change in fair value is reported in investment returns net of endowment spending on the Statements of Activities. These financial instruments necessarily involve counterparty credit exposure. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

6. Fair Value of Financial Instruments

Investments are reported at fair value as of the date of the financial statements. The carrying amount of accrued investment income and accounts and notes receivable approximate fair value because of the short maturity of these financial instruments. Pledges receivable and split-interest obligations approximate fair value as they are recorded at net present value.

The carrying amount of accounts payable and other various accruals approximate fair value because of the short maturity of these financial instruments. The carrying amount of notes and bonds payable with variable interest rates approximates their fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality. The fair value of notes and bonds payable with fixed interest rates represents the Jtr4i-0.5(l)a,,(c)-8.56 cJtioo(ox)-8.3(i)-9(m)1324.1(a

(All amounts in thousands of dollars)

(All amounts in thousands of dollars)

9. Agreements With Affiliated Hospitals

In 2007, the affiliation agreement between the University, Barnes-Jewish Hospital (BJH) and St. Louis Children's Hospital (SLCH) was amended to include Barnes-Jewish West County Hospital (BJWCH).

The terms of the affiliation agreements provide for the University to be responsible for providing professional medical staff and direction, supervision of residents and interns, appropriate resources for research and medical education, and participation in joint clinical planning. BJH, SLCH and BJWCH are responsible for the hospitals and health care delivery facilities. BJH, SLCH and BJWCH compensate the University for services provided by the University through a fixed annual base payment (adjusted annually for inflation) and an additional, contingent payment equal to a share of the combined BJH, SLCH and BJWCH adjusted net operating income. In addition, the University has an agreement with SLCH to lease space to the University through April 15, 2014. The rental payments for 2008 and 2007 were $758 and $1,079 respectively, and vary annually based on a formula defined in the agreement.

The University, on behalf of its Medical School (WUSM) and BJH entered into an agreement in 2006 to develop and manage the Center for Orthopaedic and Sports Medicine (COSM) in Chesterfield, Missouri, to accommodate changes in the health care environment and to enhance their individual and shared missions of patient care, research and medical education. WUSM provides supervision and medical direction for BJH medical education programs incl-12.3(n)-0. T12(an)-12.2(nua)-12