

Washington University

Financial Statements

June 30, 2009 and 2008

Washington University
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Washington University
Statements of Financial Position
June 30, 2009 and 2008

<i>(Thousands of Dollars)</i>	2009	2008
Assets:		
Cash and cash equivalents	\$ 93,349	\$ 4,870
Investments	4,876,790	6,304,900
Collateral received for securities lending	207,137	445,871
Accounts and notes receivable, net	341,136	340,742
Pledges receivable, net	151,364	127,459
Other assets	83,959	67,560
Fixed assets, net	1,823,424	1,683,446
Total assets	\$ 7,577,159	\$ 8,974,848
Liabilities:		
Accounts payable and accrued expenses	\$ 264,631	264,988

Washington University
Statements of Activities
June 30, 2009 and 2008

<i>(Thousands of Dollars)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>June 30, 2009 Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>June 30, 2008 Total</u>
Revenues:								
Tuition and fees, gross	\$ 401,359	\$ -	\$ -	\$ 401,359	\$ 378,949	\$ -	\$ -	\$ 378,949
Less: Scholarships	(143,869)	-	-	(143,869)	(129,705)	-	-	(129,705)
Tuition and fees, net	257,490	-	-	257,490	249,244	-	-	249,244
Endowment spending distribution	225,200	4,655	-	229,855	204,426	4,907	-	209,333
Investment income	11,722	245	-	11,967	25,545	660	-	26,205
Gifts	28,808	119,419	-	148,227	57,982	63,932	-	121,914
Grants and contracts revenues								
Direct costs recovered	352,113	-	-	352,113	346,013	-	-	346,013
Facilities and administrative costs recovered	129,855	-	-	129,855	127,623	-	-	127,623
Patient services	608,067	-	-	608,067	556,737	-	-	556,737
Auxiliary enterprises - sales and services	73,506	-	-	73,506	69,106	-	-	69,106
Educational activities - sales and services	88,801	-	-	88,801	94,418	-	-	94,418
Affiliated hospital revenues	92,616	-	-	92,616	58,172	-	-	58,172
Other revenue	37,536	-	-	37,536	28,703	-	-	28,703
Net assets released	100,254	(100,254)	-	-	67,530	(67,530)	-	-
Total Revenues	2,005,968	24,065	-	2,030,033	1,885,499	1,969	-	1,887,468
Expenses:								
Instruction	1,050,646	-	-	1,050,646	972,579	-	-	972,579
Research	435,170	-	-	435,170	428,938	-	-	428,938
Academic support	149,279	-	-	149,279	138,438	-	-	138,438
Student services	70,064	-	-	70,064	60,711	-	-	60,711
Institutional support	111,530	-	-	111,530	92,077	-	-	92,077
Auxiliary enterprises expenditures	84,628	-	-	84,628	81,944	-	-	81,944
Other deductions	21,299	-	-	21,299	19,271	-	-	19,271
Total Expenses	1,922,616	-	-	1,922,616	1,793,958	-	-	1,793,958
Net operating results	83,352	24,065	-	107,417	91,541	1,969	-	93,510
Non-operating revenues and (expenses):								
Investment returns net of endowment spending	(1,428,333)	(33,289)	(9,391)	(1,471,013)	(341,428)	(8,795)	(5,101)	(355,324)
Changes and reclassifications of split-interest agreements	(2,709)	(903)	(805)	(4,417)	(1,030)	(864)	(2,285)	(4,179)
Permanently restricted gifts	-	-	20,854	20,854	-	-	25,326	25,326
Gain/(Loss) on fixed asset disposals and other	(13,692)	7,177	2,673	(3,842)	(7,047)	(523)	8,342	772
Non-operating, net	(1,444,734)	(27,015)	13,331	(1,458,418)	(349,505)	(10,182)	26,282	(333,405)
Change in net assets	(1,361,382)	(2,950)	13,331	(1,351,001)	(257,964)	(8,213)	26,282	(239,895)
Net assets, beginning of the year	5,680,874	227,878	1,121,991	7,030,743	5,938,838	236,091	1,095,709	7,270,638
Net assets, end of the year	\$ 4,319,492	\$ 224,928	\$ 1,135,322	\$ 5,679,742	\$ 5,680,874	\$ 227,878	\$ 1,121,991	\$ 7,030,743

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Statements of Cash Flows
June 30, 2009 and 2008

<i>(Thousands of Dollars)</i>	2009	2008
Cash flows from operating activities:		
Change in Net Assets	\$ (1,351,001)	\$ (239,895)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized net losses on investments	1,280,834	201,578
Depreciation expense	130,818	121,219
Permanently restricted gifts	(20,854)	(25,326)
Investments received as gifts - not permanently restricted	(9,136)	(16,714)
Other non-cash adjustments	(3,795)	(4,560)
Changes in assets and liabilities		
Accounts and notes receivable, net	(1,261)	(26,689)
Pledges receivable, net	(23,141)	2,385
Accounts payable and accrued expenses	1,408	14,781
Deposits and advances	8,362	(956)
Professional liability	(274)	(11,334)
Deferred revenue	(446)	(6,272)
Liabilities under split-interest agreements	(3,964)	(85)
Net cash provided by operating activities	7,550	8,132
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,234,075	6,755,068
Purchases of investments	(6,058,258)	(6,536,614)
Purchases of fixed assets	(266,804)	

Washington University

Notes to the Financial Statements

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(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 amounts presented in the financial statements have been reclassified to be consistent with the basis of presentation in the current year. The University has performed an evaluation of subsequent events through September 15, 2009, which is the date the financial statements were available to be issued.

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.

Net Assets

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

Unrestricted net assets are free of donor imposed restrictions.

Temporarily restricted net assets consist of gifts and related earnings that are subject to donor-imposed stipulations that have not yet been met by actions of the University and/or passage of time.

Permanently restricted net asset balances include gifts and trusts which2 Tw net au.02 3024 T res o(ces.t*di)7(scl

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the donated or acquired long-lived assets are placed in service. Expenses are reported as decreases in unrestricted net assets.

Temporarily and permanently restricted net assets are for the following purposes:

	2009		2008	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
General activities	\$ 160,353	\$ 793,249	\$ 135,999	\$ 754,876
Student assistance	9,422	202,603	11,465	206,316
Buildings and renovations	47,273	120,894	71,729	134,529
Life income	7,880	18,576	8,685	26,270
Total	\$ 224,928	\$ 1,135,322	\$ 227,878	\$ 1,121,991

Investments

The University adopted FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), effective July 1, 2008. For further discussion see note 2.

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 Statements of Activities.

At June 30, 2009 and 2008, investments include \$16,990 and \$8,652, respectively, which were purchased with unexpended proceeds from the Series 2008A and Series 2007A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds in 2009, and Series 2007A in 2008. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.

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Tuition and Financial Aid

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 \$213,344 in 2009 and \$197,170 in 2008. 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.

	<u>2009</u>	<u>2008</u>
Scholarships from unrestricted sources	\$ 110,462	\$ 97,111
Scholarship support from gifts, endowment and other restricted sources	<u>33,407</u>	<u>32,594</u>
Total scholarships	143,869	129,705
Employee and dependent tuition benefits	23,755	21,196
Stipends	43,136	43,799
Work study	<u>2,584</u>	<u>2,470</u>
Total	<u>\$ 213,344</u>	<u>\$ 197,170</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.

Conditional promises to give

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In 2008, the University implemented the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The University concluded there were no uncertain tax positions that result in material unrecognized tax benefits.

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- Level 1 - Quoted prices in active markets for identical assets or liabilities, such as exchange - traded equity securities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as

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The following table is a roll forward of the Statements of Financial Position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above.

	Balance June 30, 2008	Net realized and unrealized gains (losses)	Purchases, sales and settlements, net	Transfers in/(out) of Level 3	Balance June 30, 2009
Investments:					
Equity	\$ 1,164,908	\$ (309,345)	\$ (69,015)	\$ (54)	\$ 786,494
Fixed income	5,133	(184)	556	(5)	5,500

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Endowment net asset composition by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 1,266,636	\$ 43,888	\$ 1,111,055	\$ 2,421,579
Board-designated endowment funds	1,606,125	41,828	-	1,647,953
Total endowment funds	\$ 2,872,761	\$ 85,716	\$ 1,111,055	\$ 4,069,532

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Permanently restricted net assets

The portion of perpetual endowment funds net assets that is required to be retained permanently by

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allocation that places greater emphasis on equity-based and alternative investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The University has an endowment spending distribution policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. 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 amount per unit of endowment 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 2009, the spending rate from the pooled endowment was 4.3% of the beginning market value of the pooled endowment. When endowment interest and dividends prove to be insufficient to support this policy, the balance is provided from net gains from the sale of assets held by the pooled endowment. When endowment interest and dividends exceed the amounts necessary to maintain this objective, the balance is added to the endowment. The endowment spending distribution exceeded interest and dividends earned by the pooled endowment by \$190,179 and \$153,746 in 2009 and 2008, respectively.

Based on market values, the total return for the endowment fund investments that are administered by the University was (20.5%) in 2009 and (1.5%) in 2008.

The University's endowed assets are as follows:

	Fair Market Value at June 30, 2009	Fair Market Value at June 30, 2008
Pooled endowment	\$ 4,048,945	\$ 5,310,702
Life income trusts and pools	71,007	87,175
Externally administered trusts	18,072	22,571
Separately invested endowment	9,437	8,193
Total	<u>\$ 4,147,461</u>	<u>\$ 5,428,641</u>

5. Accounts and notes receivable

Accounts and notes receivable at June 30 were as follows:

	2009	2008
Patient services	\$ 171,052	\$ 167,547
Student and parent loans	137,502	137,920
Due from affiliated hospitals	53,993	50,214
Other	76,462	77,234
	<u>439,009</u>	<u>432,915</u>
Less: Allowance for concessions and doubtful accounts	<u>(97,873)</u>	<u>(92,173)</u>
Total	<u>\$ 341,136</u>	<u>\$ 340,742</u>

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6. Bonds and notes payable

Outstanding principal on bonds and notes payable at June 30, 2009 and 2008 consists of the following:

Missouri Health and Educational Facilities Authority:	Interest Rates at June 30, 2009	Maturity	2009	2008
\$84,400 of 1984 Series Revenue [oy-Cns of 195r0.9 Var22.7ithefo374wing[Cns)				

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

2010	\$	3,454
2011		18,360
2012		3,390
2013		3,530
2014		3,670

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 was deemed to be the owner, for accounting purposes only, of this building project. 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 value for the obligation of the building.

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In order to reduce exposure to floating interest rates on variable rate debt, the University entered into a thirty-year interest rate swap agreement

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