

**Washington University**  
**Financial Statements**  
**June 30, 2010 and 2009**

**Washington University**  
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**June 30, 2010 and 2009**

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## 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, 2010 and 2009, 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 audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 4 to the accompanying financial statements, the University changed the manner in which it accounts for endowments to comply with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted during the year ended June 30, 2010.

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", is written over a horizontal line.

September 21, 2010

**Washington University**  
**Statements of Financial Position**  
**June 30, 2010 and 2009**

*(Thousands of Dollars)*

	<u>2010</u>	<u>2009</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 176,960	\$ 93,349
Investments	5,348,482	4,876,790
Collateral received for securities lending	94,873	207,137
Accounts and notes receivable, net	355,391	341,136
Pledges receivable, net	268,020	151,364
Other assets	97,360	83,959
Fixed assets, net	1,905,509	1,823,424
	<u>1,905,509</u>	<u>1,823,424</u>
Total assets	<u>\$ 8,246,595</u>	<u>\$ 7,577,159</u>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 257,923	\$ 264,631
Liability under securities lending transactions	108,331	224,375
Deposits and advances	29,332	22,508
Professional liability	61,798	63,007
Notes and bonds payable	1,254,170	1,156,114
Deferred revenue	85,706	80,014
Liabilities under split-interest agreements	41,983	42,101
Government supported student loans	45,083	44,667
	<u>45,083</u>	<u>44,667</u>
Total liabilities	<u>1,884,326</u>	<u>1,897,417</u>
<b>Net Assets:</b>		
Unrestricted	3,102,479	4,319,492
Temporarily restricted	1,949,717	224,928
Permanently restricted	1,310,073	1,135,322
	<u>1,310,073</u>	<u>1,135,322</u>
Total net assets	<u>6,362,269</u>	<u>5,679,742</u>
Total liabilities and net assets	<u>\$ 8,246,595</u>	<u>\$ 7,577,159</u>

**Washington University**

**Washington University**  
**Statements of Cash Flows**  
**June 30, 2010 and 2009**

(Thousands of Dollars)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities:</b>		
Change in Net Assets	\$ 682,527	\$ (1,351,001)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized net (gains) losses on investments	(566,008)	1,280,834
Depreciation expense	132,742	130,818
Permanently restricted gifts	(168,216)	(20,854)
Investments received as gifts - not permanently restricted	(20,029)	(9,136)
Other non-cash adjustments	(19,164)	(3,795)
Changes in assets and liabilities		
Accounts and notes receivable, net	(11,724)	3,100
Pledges receivable, net	(18,198)	(23,141)
Accounts payable and accrued expenses	22,152	1,408
Deposits and advances	6,824	8,362
Professional liability	(1,209)	(274)
Deferred revenue	5,582	(446)
Liabilities under split-interest agreements	(118)	(3,964)
Net cash provided by operating activities	<u>45,161</u>	<u>11,911</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of investments	4,808,482	6,234,075
Purchases of investments	(4,686,057)	(6,058,258)
Purchases of fixed assets	(229,950)	(266,804)
Student loans disbursed	(27,587)	(31,746)
Student loan payments received	27,149	27,385
Other	123	(13)
Net cash used in investing activities	<u>(107,840)</u>	<u>(95,361)</u>
<b>Cash flows from financing activities:</b>		
Principal payments of debt	(3,964)	(23,641)
Proceeds from long-term debt issuance	101,782	191,448
Contributions restricted for long-term investment	48,056	15,546
Other	416	(11,424)
Net cash provided by financing activities	<u>146,290</u>	<u>171,929</u>
Net increase in cash	83,611	88,479
Cash at beginning of year	<u>93,349</u>	<u>4,870</u>
Cash at end of year	<u>\$ 176,960</u>	<u>\$ 93,349</u>
<b>Supplemental Data</b>		
Interest paid in cash	\$ 46,414	\$ 39,345
Noncash investing activities:		
Net change in securities lending	112,265	238,733
Contributions of securities and other noncash assets	42,129	13,954
Change in accounts payable for fixed assets	(17,890)	328
Change in accounts payable for investments	(11,024)	9,268
Assets acquired by assuming directly related liabilities	871	669

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

**Washington University**  
**Notes to the Financial Statements**  
**June 30, 2010 and 2009**

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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 Statement of Cash Flows for the year ended June 30, 2009 has been modified to present student loan activity as investing activities rather than operating activities. The effect of the modification was to increase net cash provided by operating activities and net cash used in investing activities by \$4,361. The University has performed an evaluation of subsequent events through September 21, 2010, which is the date the financial statements were 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-

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*(All amounts in thousands of dollars)*

reported in the Statements of Activities as net assets released from restrictions. Permanently restricted gifts received are reported in the non-operating section of the Statements of Activities. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when 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. See footnote 4 for discussion of increase in temporarily restricted net assets.

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
General activities	\$ 1,405,613	\$ 931,069	\$ 160,353	\$ 793,249
Student assistance	291,912	216,278	9,422	202,603
Buildings and renovations	242,550	134,529	47,273	120,894
Life income	9,642	28,197	7,880	18,576
Total	\$ 1,949,717	\$ 1,310,073	\$ 224,928	\$ 1,135,322

**Investments**

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. Investments acquired by gift or bequest are initially recorded at market or appraised value at the date so acquired.

At June 30, 2010 and 2009, investments include \$12,416 and \$16,990, respectively, which were purchased with unexpended proceeds from the Series 2009A and Series 2008A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds in 2010, and the Series 2008A and Series 2007A in 2009. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.



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*(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 Statements of Activities. Fixed assets by classification at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 271,671	\$ 241,313
Land and improvements to land	83,935	80,050
Buildings	2,515,000	2,381,088
Equipment	<u>432,515</u>	<u>397,884</u>
Total cost	3,303,121	3,100,335
Accumulated depreciation	<u>(1,397,612)</u>	<u>(1,276,911)</u>
Total, net	<u>\$ 1,905,509</u>	<u>\$ 1,823,424</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 \$177 and \$24 were expensed in 2010 and 2009, respectively. Sales of collection items totaled \$6 and \$804 in 2010 and 2009, respectively.

**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 Statements of Financial Position.

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*(All amounts in thousands of dollars)*

**Tuition and Financial Aid**

Undergraduate students receive financial aid based upon demonstrated financial need and academic promise. 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 \$227,591 in 2010 and \$213,344 in 2009. 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.

	<b>2010</b>	<b>2009</b>
Scholarships from unrestricted sources	\$ 121,457	\$ 110,462
Scholarship support from gifts, endowment and other restricted sources	<u>34,440</u>	<u>33,407</u>
Total scholarships	155,897	143,869
Employee and dependent tuition benefits	24,196	23,755
Stipends	44,673	43,136
Work study	<u>2,825</u>	<u>2,584</u>
Total	<u>\$ 227,591</u>	<u>\$ 213,344</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.

Gifts and conditional promises to give are not recognized until the conditions on which they depend

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*(All amounts in thousands of dollars)*

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

	<b>2010</b>	<b>2009</b>
In one year or less	\$ 121,734	\$ 88,498
Between one year and five years	138,497	73,954
Five or more years	22,042	2,511
	<u>282,273</u>	<u>164,963</u>
Less:		
Discount	(4,497)	(4,190)
Allowance for uncollectible amounts	(9,756)	(9,409)
	<u>(14,253)</u>	<u>(13,599)</u>
Total	<u>\$ 268,020</u>	<u>\$ 151,364</u>

**Patient Services Revenue**

The University recognizes reven

# Washington University

## Notes to the Financial Statements

### June 30, 2010 and 2009

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*(All amounts in thousands of dollars)*

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

The University's measure of operations as presented in the Statements 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 Statements 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 of the estimated future payments to be made to the respective donors and/or other beneficiaries. Historically, the discount rate used to calculate present value was from the IRS table of federal mid-term rates used in calculating the permitted charitable contribution. For 2009 and prospectively, upon adoption of accounting guidance for fair value measurements, the discount rate used is a credit-adjusted rate in existence at the date of the gift. The rates used range from 1.36% to 4.20% for both 2010 and 2009. Annually, the University records the change in value of split-interest agreements by recording at fair value 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.

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

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. As of June 30, 2010 and 2009, respectively, \$15,306 and \$15,197 of conditional asset retirement obligations are included within accounts payable and accrued expenses in the Statements of Financial Position. Additional obligation recognized, obligation settled, and accretion expense were not material to

**Washington University**  
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*(All amounts in thousands of dollars)*

**2. FAIR VALUE**

The University follows FASB guidance for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair

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*(All amounts in thousands of dollars)*

The following table presents the financial instruments carried at fair value as of June 30, 2010, by caption on the Statements of Financial Position by the valuation hierarchy defined above. Under new accounting guidance issued in September 2009, certain alternative investments, such as hedged strategies, that do not have readily determinable fair values, but are redeemable in the near term at investee-reported net asset value per share or its equivalent, are reportable at Level 2. This guidance has been applied to these types of investments at June 30, 2010. See below for further discussion of this change. Also, included as Level 2 fixed income and short-term investments are U.S. Treasury securities in excess of \$531,000.

	<b>Quoted prices in active markets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Balance June 30, 2010</b>
Investments (by strategy):				
Equity	\$ 1,236,476	\$ 453,801	\$ 170,872	\$ 1,861,149
Fixed income	-	785,594	41,680	827,274
Hedged strategies	-	675,713	575,415	1,251,128
Private equity	-	-	685,339	685,339
Short-term investments	-	99,176	500	99,676
Unspent bond proceeds	12,416	-	-	12,416
Split-interest agreements	39,715	38,681	27,300	105,696
Real assets and other	-	120,299	337,556	457,855
Total investments at fair value	1,288,607	2,173,264	1,838,662	5,300,533
Invested assets received from security borrowers	-	94,873	-	94,873

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*(All amounts in thousands of dollars)*

The following table presents the financial instruments carried at fair value as of June 30, 2009, by

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## Notes to the Financial Statements

### June 30, 2010 and 2009

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*(All amounts in thousands of dollars)*

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Certain alternative investments, such as hedge funds, that do not have readily determinable fair values, but are redeemable in the near term at investee-reported net asset value per share or its equivalent, are also reported at this level. An alternative investment is considered redeemable in the near term if the University has the ability to redeem the investment or a portion thereof up to 180 days beyond the measurement date at NAV. If the redemption extends beyond 180 days, the investment is categorized as Level 3. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity, real estate, and other similar funds). The fair values (Net Asset Value ("NAV") or partner's capital per share) of the securities held by limited partnerships that do not have readily determinable fair values are determined by the respective general partners and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partners taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The University has performed due diligence with respect to these investments to ensure NAV or partner's capital per share is an appropriate measure of fair value as of June 30. Under new accounting guidance issued in September 2009, alternative investment NAV calculated by the investee in a manner consistent with generally accepted accounting principles for investment companies may be reported as the fair value of the investment. The use of NAV as a practical expedient to determining and reporting of fair value has been applied to the following groups of investments.

**Hedged Strategies:** Investments in hedged strategies are made in targeted categories of market exposure including event driven, distressed/credit, relative value, long/short, global macro/commodity trading funds and fund of funds. The redemption frequency for these funds varies from monthly to every 3 years. Similarly, the required redemption notice period varies from 3 to 180 days. The total fair value of hedged strategies, including equity investments with a hedge fund structure, held at June 30, 2010 is \$1,829,698. Of this amount, \$123,816 is in side pockets with indeterminate redemption periods. Another \$244,885 is subject to initial investment lock-ups that will expire over the next 3 to 48 months. Some funds subject to lock-up permit early redemptions subject to a fee.

**Private Equities:** Investments in private equities are made in targeted categories of market exposure including buyout, venture capital, corporate finance, real estate and natural resources. Redemptions of such funds are not permitted and distributions are received as underlying investments are liquidated. The remaining lives of the agreements under which these investments are made vary from 1 to 17 years assuming all extension options under the agreements are exercised and approved. At June 30, 2010, the University had outstanding commitments for investments in private equity partnerships of approximately \$782,937.



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*(All amounts in thousands of dollars)*

The following tables roll forward the Statements of Financial Position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above for the years ended June 30, 2010 and 2009.

	<b>Balance June 30, 2009</b>	<b>Net realized and unrealized gains (losses)</b>	<b>Purchases, sales and settlements, net</b>	<b>Transfers in/(out) of Level 3</b>	<b>Balance June 30, 2010</b>
Investments:					
Equity	\$ 786,494	\$ 123,019	\$ (208,729)	\$ (529,912)	\$ 170,872
Fixed income	5,500	-	36,314	(134)	41,680
Hedged strategies	1,126,998	150,696	(26,567)	(675,712)	575,415
Private equity	565,963	72,252	47,124	-	685,339
Short-term investments	2,494	-	(1,994)	-	500
Split-interest agreements	21,655	608	5,691	(654)	27,300
Real assets & other	321,464	(31,162)	47,254	-	337,556
	<u>\$ 2,830,568</u>	<u>\$ 315,413</u>	<u>\$ (100,907)</u>	<u>\$ (1,206,412)</u>	<u>\$ 1,838,662</u>
Totals					

As a result of adopting new guidance for estimating the fair value of investments, certain investments have been reclassified at June 30, 2010, to Level 2 assets subject to criteria disclosed above.

The amount of net realized and unrealized gains (losses) for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2010, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Equity	\$ 40,957
Fixed income	-
Hedged strategies	68,988
Private equity	37,926
Short-term investments	-
Split-interest agreements	1,669
Real assets and other	(27,398)
	<u>\$ 122,142</u>
Total	

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	<b>Balance June 30, 2008</b>	<b>Net realized and unrealized gains (losses)</b>	<b>Purchases, sales and settlements, net</b>	<b>Transfers in/(out) of Level 3</b>	<b>Balance June 30, 2009</b>
Investments:					
Equity	\$ 1,164,908	\$ (309,345)	\$ (69,015)	\$ (54)	\$ 786,494
Fixed income	5,133	(184)	556	(5)	5,500
Hedged strategies	1,197,879	(130,090)	59,209	-	1,126,998
Private equity	546,463	(124,453)	143,953	-	565,963
Short-term investments	1,939	(411)	966	-	2,494
Split-interest agreements	26,203	(4,997)	410	39	21,655
Real assets & other	417,498	(161,977)	65,943	-	321,464
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	\$ 3,360,023	\$ (731,457)	\$ 202,022	\$ (20)	\$ 2,830,568

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\$1,469,368 as of July 1, 2009, previously reported as unrestricted, were reclassified as temporarily restricted net assets.

The University has interpreted Missouri UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted until the donor-imposed stipulations attached to those amounts have been met by actions of the University and or passage of time and appropriated for expenditure in a

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Endowment net asset composition, which includes the effect of changes in endowment investments as well as other endowment-related assets and liabilities, by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (21,141)	\$ 1,704,831	\$ 1,187,002	\$ 2,870,692
Board-designated endowment funds	1,537,305	88,725	-	1,626,030
Total endowment funds	<u>\$ 1,516,164</u>	<u>\$ 1,793,556</u>	<u>\$ 1,187,002</u>	<u>\$ 4,496,722</u>

Changes in endowment net assets for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment net assets, beginning of year</b>	\$ 2,872,761	\$ 85,716	\$ 1,111,055	\$ 4,069,532
Net assets reclassified based on adoption of UPMIFA	(1,448,227)	1,448,227	-	-
Endowment net assets after reclassification	1,424,534	1,533,943	1,111,055	4,069,532
Investment return:				
Net investment income	248	28,796	-	29,044
Net appreciation (realized and unrealized)	200,213	366,511	3,786	570,510
Total investment return	200,461	395,307	3,786	599,554
Gifts	1,072	3,671	71,867	76,610
Appropriation of endowment assets for expenditure	(70,868)	(154,198)	-	(225,066)
Net transfers to create board designated endowment funds	38,019	(3,342)	874	35,551
Allocation of endowment return to Treasurers Investment Pool	(58,989)	-	-	(58,989)
Reclassification of deficits in donor-designated funds	(21,141)	21,141	-	-
Other activity	3,076	(2,966)	(580)	(470)
<b>Endowment net assets, end of year</b>	<u>\$ 1,516,164</u>	<u>\$ 1,793,556</u>	<u>\$ 1,187,002</u>	<u>\$ 4,496,722</u>

Of the amount classified as temporarily restricted endowment net assets, \$1,414,529 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

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*(All amounts in thousands of dollars)*

**Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)**

**Permanently restricted net assets**

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

	<b>2010</b>	<b>2009</b>
Restricted for general activities	\$ 812,988	\$ 772,787
Restricted for student assistance	211,288	198,797
Restricted for buildings and renovations	134,529	120,894
Life income	28,197	18,577
Total endowment net assets classified as permanently restricted net assets	\$ 1,187,002	\$ 1,111,055

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*(All amounts in thousands of dollars)*

**Strategies Employed for Achieving Investment Objectives**

To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized



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*(All amounts in thousands of dollars)*

**6. BONDS AND NOTES PAYABLE**

Outstanding principal on bonds and notes payable at June 30, 2010 and 2009 consists of the following:

	<b>Interest Rates</b>			
	<b>at June 30, 2010</b>	<b>Maturity</b>	<b>2010</b>	<b>2009</b>
<b>Missouri Health and Educational Facilities Authority:</b>				

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*(All amounts in thousands of dollars)*

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

2011	\$	18,360
2012		3,390
2013		3,530
2014		3,670
2015		3,815
Thereafter		

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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 contracts and gains or losses they generate are not significant to the University's financial statements.

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 1998 swap matured on July 21, 2008. The agreements have the effect of fixing the rate of interest on borrowings, respectively, at approximately 4.26% for \$90,500 of debt, and 5.82% for \$9,980 of debt. The fair value of the 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, reported on the Investments line of the Statements of Financial Position, was a liability of \$7,146 and \$3,962 at June 30, 2010 and 2009, respectively, and is considered a Level 2 financial instrument under the FASB guidance on fair value measurements. The change in fair value resulted in losses of \$3,184 and \$1,555 in 2010 and 2009, respectively, that are reported in investment returns net of endowment spending on the Statements of Activities. These financial instruments necessarily involve counterparty credit exposure and our own non-performance risk. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

#### **8. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The carrying amount of accrued investment income and accounts and notes receivable approximate fair value because of the short maturity of these financial instruments. 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 quoted market value. The estimated fair value and carrying amount of all notes and bonds payable at June 30, 2010 approximated \$1,297,731 and \$1,254,170 and at June 30, 2009 approximated \$1,182,817 and \$1,156,114, respectively.

#### **9. COMMITMENTS AND CONTINGENCIES**

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*(All amounts in thousands of dollars)*