

Washington University
Financial Statements
June 30, 2012 and 2011

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June 30, 2012 and 2011

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Statements of Financial Position
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(thousands of dollars)

2012

2011

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

Washington University
Statements of Activities
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(thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2012 Total	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2011 Total
Revenues:								
Tuition and fees, gross	\$ 477,491	\$ -	\$ -	\$ 477,491	\$ 457,254	\$ -	\$ -	\$ 457,254
Less: Scholarships	(169,093)			(169,093)	(163,240)			(163,240)
Tuition and fees, net	308,398	-	-	308,398	294,014	-	-	294,014
Endowment spending distribution	223,334	3,915		227,249	217,081	3,910		220,991
Investment income	7,734	1,336		9,070	7,234	1,346		8,580
Gifts	33,961	100,510		134,471	34,332	117,815		152,147
Grants and contracts revenues								
Direct costs recovered	405,084			405,084	423,846			423,846
Facilities and administrative costs recovered	143,585			143,585	152,831			152,831
Patient services	757,955			757,955	698,115			698,115
Auxiliary enterprises - sales and services	85,539			85,539	85,247			85,247
Educational activities - sales and services	107,425			107,425	97,207			97,207
Affiliated hospital revenues	93,331			93,331	80,171			80,171
Other revenue	35,800			35,800	32,462			32,462
Net assets released	93,136	(93,136)		-	98,850	(98,850)		-
Total Revenues	2,295,282	12,625	-	2,307,907	2,221,390	24,221	-	2,245,611
Expenses:								
Instruction	1,254,087			1,254,087	1,174,205			1,174,205
Research	494,741			494,741	508,124			508,124
Academic support	153,354			153,354	145,286			145,286
Student services	68,660			68,660	66,397			66,397
Institutional support	115,825			115,825	107,851			107,851
Auxiliary enterprises expenditures	92,757			92,757	96,790			96,790
Other deductions	23,211			23,211	24,242			24,242
Total Expenses	2,202,635	-	-	2,202,635	2,122,895	-	-	2,122,895
Net Operating Results	92,647	12,625	-	105,272	98,495	24,221	-	122,716
Non-operating revenues and (expenses):								
Investment returns net of endowment spending	(58,037)	(125,864)	(1,952)	(185,853)	324,907	489,433	6,453	820,793
Changes and reclassifications of split-interest agreements	3,265	(1,468)	(2,612)	(815)	3,664	1,141	(1,171)	3,634
Permanently restricted gifts			57,821	57,821			51,012	51,012
Other	(19,693)	(10,936)	4,942	(25,687)	(4,993)	(9,867)	6,568	(8,292)
Non-operating, net	(74,465)	(138,268)	58,199	(154,534)	323,578	480,707	62,862	867,147
Change in net assets	18,182	(125,643)	58,199	(49,262)	422,073	504,928	62,862	989,863
Net assets, beginning of year	3,524,552	2,454,645	1,372,935	7,352,132	3,102,479	1,949,717	1,310,073	6,362,269
Net assets, end of year	\$ 3,542,734	\$ 2,329,002	\$ 1,431,134	\$ 7,302,870	\$ 3,524,552	\$ 2,454,645	\$ 1,372,935	\$ 7,352,132

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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.

Investment

Investment gains/ (losses) in excess of endowment spending distribution and the unrealized appreciation (depreciation) on investments are reported in the nonoperating section of the Statements of Activities. Investments acquired by gift or bequest are initially recorded at market or appraised value at the dates acquired.

At June 30, 2012 and 2011 investments include \$0 and \$14,434, respectively, which were purchased with unexpended proceeds from the Series 2011A and Series 2009A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds in 2011. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.

Fixed Assets

Fixed assets are stated at cost or fair market values if received as a gift, 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 nonoperating section of the Statements of Activities. Fixed assets by classification at June 30, 2012 and 2011 consist of the following:

	2012	2011
Construction in progress	\$ 95,485	\$ 85,823
Land and improvements to land	94,057	90,717
Buildings	2,891,408	2,794,481

(All amounts in thousands of dollars)

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.

Financing Receivables

Financing receivables are principally loans made to students or their parents utilizing gifts, endowment payout, and university resources designated for that purpose and from funds provided by the United States government under the Federal Perkins and Health Professional Student Loan programs. Loan funds are reported at estimated realizable value, as it is not practical to determine the fair value of loan fund receivables, which include a large component of federally sponsored student loans. Federally sponsored student loans 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.

The university is geographically diverse. The university discontinued its mortgage secured parent loan program during fiscal 2010. That portion of the portfolio is now in run-off. Loans that are made are due on the last business day of the month and are considered past due if the minimum payment is not received within forty-five days subsequent to the due date.

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Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Contributions received for permanent endowments or perpetual trusts are reported as nonoperating 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 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 for years prior to 2009. After 2008, the rates used are credit-adjusted tax exempt borrowing rates in accordance with fair value accounting. Pledges outstanding are discounted with rates ranging from 0.4% to 5.0%. Amortization of the discount is recorded as contribution revenue. Allowance is made for uncollectible unconditional promises to give based on relevant factors.

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

	<u>2012</u>	<u>2011</u>
In one year or less	\$ 120,092	\$ 119,195
Between one year and five years	123,160	133,447
Five or more years	<u>21,620</u>	<u>22,575</u>
	264,872	275,217
Less:		
Discount	(4,995)	(6,062)
Allowance for uncollectible amounts	<u>(11,771)</u>	<u>(10,365)</u>
Total	<u>\$ 248,106</u>	<u>\$ 258,790</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.

Auxiliary Enterprises - Sales and Services

Auxiliary enterprises sales and services revenue is recorded in the fiscal year in which earned. This revenue is composed primarily of on and off campus housing charges, dining services board charges and parking and transportation fees.

Educational Activities - Sales and Services

Educational activities sales and services revenue is recorded in the fiscal year in which it is earned. This revenue is composed of a number of activities including clinical trial revenues, management

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(All amounts

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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, 2012 and 2011, respectively, \$16,865 and \$14,870 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 results reported in the Statements 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 Section 501 (c)(3) of the Internal Revenue Code except to the extent the university has unrelated business income. There was no provision for income taxes due on unrelated business income in the current year. The university has no uncertain tax positions that result in material unrecognized tax benefits.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-4 amends Accounting Standards Codification (ASC) 820, Fair Value Measurement (ASC 820), providing a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles, clarifies the application of existing fair value measurement and expands the ASC 820 disclosure requirements, particularly for Level 3 fair value measurements. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011 and are to be applied prospectively. The adoption of ASU 2011-04 is not expected to have a material effect on the university's financial statements but will require certain additional disclosures.

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The following table presents the financial instruments carried at fair value as of June 30, 2011, by caption on the Statements of Financial Position by the valuation hierarchy defined above. Also, included as Level 2 fixed income are U.S. Treasury securities of approximately \$648,000.

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance June 30, 2011
Investments:				
Public equity				
Domestic	\$ 371,197	\$ 754,316	\$ 87,589	\$ 1,213,102
International	1,175,588	7,222	44,835	1,227,645
Fixed income				
Nominal	-	630,562	1,844	632,406
Real	-	234,182	-	234,182
Hedged strategies	-	771,918	661,210	1,433,128
Private equity	-	-	793,898	793,898
Short-term investments	-	148,489	-	148,489
Deposits with bond trustees	14,434	-	-	14,434
Split-interest agreements	41,181	40,160	3,344	84,685
Beneficial interest trusts	-	-	28,159	28,159
Real assets	-	-	438,911	438,911
Other investments	-	(6,902)	24,776	17,8 ET

Other investments classified as Level 2 in the table above is principally the unfavorable fair value of the interest rate swap as discussed in Note 7.

During 2012, \$199,136 of transfers were made from Level 3 to Level 2 primarily as a result of hedge funds becoming available for redemption. During 2011, transfers were made from Level 3 to Level 2 of \$98,520 and from Level 2 to Level 3 of \$95,725 resulting primarily from redetermination of level after taking into account the effect of increases and decreases of hedge funds available for redemption. In addition, based on enhanced transparency, other transfers from Level 3 to Level 2 of \$55,213 were made during 2011. The university recognizes transfers as of the end of the reporting period.

(All amounts in thousands of dollars)

Following is a description of the university's valuation methodologies for assets and liabilities measured at fair value. The methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the university believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at th

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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, 2012 and 2011.

Balance	Net realized and unrealized	Transfer in/(out)	Balance
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Included in the change in net assets is the amount of net unrealized gains/ (losses) for Level 3 investments for the period relating to assets still held at June 30, 2012. This amount is reported as investment returns net of endowment spending in the Statements of Activities by type as follows:

Public equity	
Domestic	\$ (412)
International	(4,131)
Fixed income	
Nominal	(210)
Real	35,062
Hedged Strategies	18,612
Private Equity	3,854
Short-term investments	-
Deposits with bond trustees	-
Split-interest agreements	(197)
Beneficial interest trusts	(1,245)
Real assets	(4,848)
Other investments	(48)
	<hr/>
Total	<u>\$ 46,437</u>

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Balance June 30, 2010	Net realized and unrealized gains (losses)	Purchases, sales and settlements, net	Transfers in/(out) of Level 3, net	Balance
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Included in the change in net assets is the amount of net unrealized gains/ (losses) for Level 3 investments for the period relating to assets still held at June 30, 2011. This amount is

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has adopted credit policies which include a review of credit limits and maintaining an active collections process with the assistance of third party collection agencies as necessary. At June 30, 2012 the allowance for parent and institutional student loans was \$3,973 compared to \$3,740 at June 30, 2011. Accounts are considered past due if a scheduled payment is fortyfive days late. The balance in such accounts was \$8,797 and \$8,364 at June 30, 2012 and June 30, 2011, respectively. The allowance is influenced by historical losses, existing economic conditions, and the current payment activity on loans. Activity in these allowances was not significant.

Parent loans and institutional student loans are sent to a third party collection agency if the loan is past due for a period of time and the university has been unable to collect payment. As these loans are nondischargeable in bankruptcy, accounts are not typically considered uncollectible until all collection efforts have been exhausted with no receipt of payment. At this time, a loan will be written off.

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6. NOTES AND BONDS PAYABLE

Outstanding principal on bonds and notes payable at June 30, 2012 and 2011 consists of the following:

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with similar maturities and credit quality. The fair value of notes and bonds payable with fixed interest rates, reportable as Level 2 in the valuation hierarchy discussed in Note 2, represents the quoted market value. The estimated fair value and carrying amount of all notes and bonds payable at June 30, 2012 approximated \$1,350,859 and \$1,261,447 and at June 30, 2011 approximated

(All amounts in thousands of dollars)

11. AGREEMENTS WITH AFFILIATED HOSPITALS

The