Washington University

Financial Statements
June 30, 2008 and 2007

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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, 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 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.

PricewaterhouseCoopers LLP

September 11, 2008

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	995,090
Deferred revenue	77,205	83,476
Liabilities under split-interest agreements	46,065	46,150
Government supported student loans	44,391	43,318
Total liabilities	1,944,105	2,248,522
Net assets		
Unrestricted	5,680,874	5,938,838
Temporarily restricted	227,878	236,091
Permanently restricted	1,121,991	1,095,709
Total net assets	7,030,743	7,270,638
Total liabilities and net assets	$ 8,974,848	$ 9,519,160

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	63,932	-	121,914	75,799	79,003	-	154,802
Grants and contracts revenues								
Direct costs recovered	346,013	-	-	346,013	354,893	-	-	354,893
Facilities and administrative costs recovered	127,623	-	-	127,623	132,114	-	-	132,114
Patient services	556,737	-	-	556,737	543,857	-	-	543,857
Auxiliary enterprises - sales and services	69,106	-	-	69,106	64,585	-	-	64,585
Educational activities - sales and services	94,418	-	-	94,418	74,267	-	-	74,267
Affiliated hospital revenues	58,172	-	-	58,172	64,193	-	-	64,193
Other revenue	28,703	-	-	28,703	28,817	-	-	28,817
Net assets released	67,530	(67,530)	-	-	55,837	(55,837)	-	-
Total revenues	1,885,499	1,969	-	1,887,468	1,854,284	28,786	-	1,883,070
Expenses								
Instruction	972,579	-	-	972,579	929,601	-	-	929,601
Research	428,938	-	-	428,938	431,789	-	-	431,789
Academic support	138,438	-	-	138,438	125,324	-	-	125,324
Student services	60,711	-	-	60,711	58,656	-	-	58,656
Institutional support	92,077	-	-	92,077	83,452	-	-	83,452
Auxiliary enterprises expenditures	81,944	-	-	81,944	76,332	-	-	76,332
Other deductions	19,271	-	-	19,271	15,811	-	-	15,811
Total expenses	1,793,958	-	-	1,793,958	1,720,965	-	-	1,720,965
Net operating results	91,541	1,969	-	93,510	133,319	28,786	-	162,105
Non-operating revenues and (expenses)								
Investment returns net of endowment spending	(341,428)	(8,795)	(5,101)	(355,324)	845,970	17,502	5,807	869,279
Changes and reclassifications of split-interest agreements	(1,030)	(864)	(2,285)	(4,179)	(1,835)	844	5,025	4,034
Permanently restricted gifts	-	-	25,326	25,326	-		20,428	20,428
Gain/(Loss) on fixed asset disposals and other	(7,047)	(523)	8,342	772	(13,866)	(5,994)	5,569	(14,291)
Non-operating, net	(349,505)	(10,182)	26,282	(333,405)	830,269	12,352	36,829	879,450
Change in net assets	(257,964)	(8,213)	26,282	(239,895)	963,588	41,138	36,829	1,041,555
Net assets, beginning of the year	5,938,838	236,091	1,095,709	7,270,638	4,975,250	194,953	1,058,880	6,229,083
Net assets, end 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

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

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	14,781	28,148
Deposits and advances	(956)	(1,291)
Professional liability	(11,334)	(12,558)
Deferred revenue	(6,272)	7,632
Liabilities under split-interest agreements	(85)	801
Net cash provided by operating activities	8,132	62,724
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,755,068	6,136,199
Purchases of investments	(6,536,614)	(6,138,418)
Purchases of fixed assets	(232,820)	(186,801)
Other	1,117	359
Net cash used in investing activities	(13,249)	(188,661)
Cash flows from financing activities:		
Principal payments of debt	(7,249)	(133,026)
Proceeds from long-term debt issuance	-	239,526
Contributions restricted for long-term investment	15,539	20,842
Other	(5,491)	105
Net cash provided by financing activities	2,799	127,447
Net increase/(decrease) in cash	(2,318)	1,510
Cash at beginning of year	7,188	5,678
Cash at end of year	$ 4,870	$ 7,188
Supplemental data		
Interest paid in cash	$ 41,833	$ 38,837
Net change in securities lending	291,711	(113,058)
Noncash investing activities		
Contributions of securities and other noncash assets	29,515	38,562
Assets acquired by assuming directly related liabilities	699	213

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 amounts presented in the financial statements have been reclassified to be consistent with the basis of presentation in the current year.

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.

Revision

During fiscal 2008, the University reviewed certain operating cash flow activity related to changes in accounts receivable and payable resulting from unsettled investment transactions that should have been included in investing activities and changes in amounts payable for fixed asset acquisitions that should have been treated as an investing activity in the Statement of Cash Flows for the year ended June 30, 2007. The impact of the revisions was a reduction of $44,320 in net cash provided by operating activities and a decrease of $44,320 in net cash used in investing activities. The revisions have no effect on net cash flows for the year. The Statement of Financial Position and Statement of Activities for fiscal 2007 were not impacted as a result of these adjustments. The University has reflected these transactions in its financial statements as of June 30, 2007 within the financial statements issued for June 30, 2008 for comparative purposes.

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 which, by donor restriction are required to be held in perpetuity.

(All amounts in thousands of dollars)

Revenues from sources other than contributions and investment returns are reported as increases in unrestricted net assets. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose restrictions that are met in the same fiscal year they are received are included in unrestricted revenues. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the gains and income are recognized. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and 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:

	2008		**2007**	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
General activities	$ 135,999	$ 754,876	$ 142,944	$ 734,206
Student assistance	11,465	206,316	10,902	195,088
Buildings and renovations	71,729	134,529	73,254	134,529
Life income	8,685	26,270	8,991	31,886
Total	$ 227,878	$ 1,121,991	$ 236,091	$ 1,095,709

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 Statements of Activities.

At June 30, 2008 and 2007, investments include $8,652 and $50,480, respectively that were purchased with unexpended proceeds from the Series 2007A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds. These assets may only be drawn down to pay for specific construction project costs and costs of issuance related to the MOHEFA bonds.

(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 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 $153,746 and $129,320 in 2008 and 2007, respectively.

Minor deficiencies for donor-restricted endowment funds, resulting from declines in market value, are recorded in unrestricted net assets and temporarily restricted net assets when appropriate. As the market value of the portfolio increases, a deficiency will reverse. The allocation of deficiencies is recorded in accordance with SFAS 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. There was no adjustment necessary in 2008 or 2007.

Based on market values, the total return for the endowment fund investments that are administered by the University was (1.5%) in 2008 and 20.1% in 2007.

The University's endowed assets are as follows:

	Carrying Value	
	2008	**2007**
Pooled endowment	$ 5,310,702	$ 5,529,262
Life income trusts and pools	87,175	95,173
Externally administered trusts	22,571	25,280
Separately invested endowment	8,193	8,293
Total	$ 5,428,641	$ 5,658,008

(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, 2008 and 2007 consist of the following:

	2008	2007
Construction in progress	$ 221,576	$ 137,319
Land and improvements to land	73,367	70,904
Buildings	2,180,296	2,057,055
Equipment	381,906	348,046
Total cost	2,857,145	2,613,324
Accumulated depreciation	(1,182,318)	(1,068,171)
Total, net	$ 1,674,827	$ 1,545,153

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 $133 and $32 were expensed in 2008 and 2007, 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 Statements of Financial Position.

(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

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 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. The rates used range from 2.4% to 5.2% and 3.2% to 5.2% for 2008 and 2007, respectively. 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.

(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
Five or more years	1,646	5,524
	142,577	150,258
Less		
Discount	(5,916)	(8,619)
Allowance for uncollectible amounts	(9,202)	(7,655)
Total	$ 127,459	$ 133,984

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 earned. This revenue is composed of a number of activities including clinical trial revenues, management services and salary reimbursements from affiliated hospitals, consulting, laboratory fees and conference center revenues.

Affiliated Hospital Revenues
Affiliated hospital revenue is recorded in the fiscal year in which earned. This revenue is composed of amounts received from affiliated hospitals for various services as more fully described in note 9.

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.

(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, 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. The rates used range from 3.2% to 9.6% for 2008 and 2007. 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.

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, 2008 and 2007, respectively, $15,191 and $15,107 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.

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.

(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.

3. Accounts and Notes Receivable

Accounts and notes receivable at June 30 were as follows:

	2008	2007
Patient services	$ 167,547	$ 159,398
Student and parent loans	137,920	132,530
Due from affiliated hospitals	50,214	29,169
Other	77,234	80,869
	432,915	401,966
Less: Allowance for doubtful accounts	(92,173)	(90,428)
Total	$ 340,742	$ 311,538

(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
$105,770 of 1998A Series Bonds, due in full	4.75%-5.00%	November 15, 2037	101,394	101,331
$88,000 of 2000B and C Series Variable Rate Bonds, due in full	1.60%-2.60%	March 1, 2040	88,000	88,000
$176,490 of 2001A Series Bonds, due serially from June 15, 2011 to June 15, 2016	5.50%	June 15, 2016	55,834	56,109
$73,355 of 2001B Series Refunding Bonds, due in full	5.00%	March 1, 2030	72,683	72,666
$93,430 of 2003A Series Bonds, due in full	5.00%	February 15, 2033	93,239	93,231
$25,135 of 2003B Series Variable Rate Bonds, due in full	2.05%	February 15, 2033	25,135	25,135
$100,000 of 2004 Series A and B Variable Rate Bonds, due annually	1.60%-2.05%	February 15, 2034	94,600	96,500
$20,870 of 2005A Series Refunding Bonds, due annually	3.00%-5.00%	February 15, 2022	18,409	19,409
$104,020 of 2007A Series Bonds, due in full	5.00%	January 15, 2037	112,049	112,187
$126,975 of 2007B Series Refunding Bonds, due serially from January 15, 2021 to January 15, 2041	4.20%-4.50%	January 15, 2041	127,331	127,339
Other notes payable			50,719	50,862
Total outstanding bonds and notes payable			$ 988,158	$ 995,090

Bonds payable are redeemable at the option of the University at various times from 2008 through 2041. The University is required to maintain certain ratios and comply with other restrictive covenants, principally that the University maintain unrestricted net assets equal to at least two times its general liabilities. During 2008 and 2007, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled $43,115 and $45,553, respectively.

The other notes payable represent notes payable to Bank of America and the financing obligation discussed below.

(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 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 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 Statements of Financial Position. Upon full occupancy, the total construction cost is estimated to be approximately $30,000 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 $26,088 at June 30, 2008.

The University entered into an agreement with the Missouri Higher Education Loan Authority (MOHELA) for a one-year term beginning with the academic year 2008-2009, through June 30, 2009, with an option to renew through June 30, 2011, for the purpose of the University making Stafford Loans to its graduate and professional students. MOHELA extended a line of credit to the University in an aggregate amount not to exceed $40,000. Current loans outstanding are $3,426. The University uses these funds to administer student loans and then sells the loans to MOHELA to relieve the line of credit. The University has two other unused lines of credit aggregating $43,000 at June 30, 2008.

(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 quoted market value. The estimated fair value and carrying amount of all notes and bonds payable at June 30, 2008 approximated $979,480 and $988,158, and at June 30, 2007 approximated $990,514 and $995,090, respectively.

(All amounts in thousands of dollars)

7. Commitments and Contingencies

At June 30, 2008, the University had outstanding commitments under certain construction contracts in the amount of $191,599.

At June 30, 2008, the University had outstanding commitments primarily for investments in partnerships of approximately $777,340.

The University maintains a self-insurance program for professional liability. This program is supplemented with commercial excess insurance above the University's self-insurance retention. Funding for the program reserves is based on claims made. The assets supporting the funded reserve are reported as investments in the Statements of Financial Position. The University also accrues for an estimate of claims incurred but not reported. Reserves, funded and unfunded, are based upon actuarial studies and represent undiscounted estimated claims and related costs. The total self-insurance reserves at June 30, 2008 and June 30, 2007, respectively, were $63,281 and $74,615. Self-insurance reserves are necessarily estimates based on historical loss experience and other factors, and while management believes that the reserves are adequate, the ultimate liabilities may be in excess of or less than the amounts provided.

The University is a party, along with other universities, to an agreement with a captive insurance company and a reciprocal risk retention group for purposes of obtaining general liability and auto liability insurance coverage in excess of a pre-determined retention level. Under the terms of these agreements, the University can be called upon to make additional capital contributions. In management's view, any such capital calls would not be material.

The University is involved in various legal proceedings arising in the normal course of operations. Although the outcome of any legal proceeding cannot be predicted with certainty, it is the opinion of the University's management that the outcome of these proceedings individually or in the aggregate, will not have a material adverse effect on the business, financial position or liquidity of the University.

8. Retirement Plan

The University provides its faculty and staff with a defined contribution (403(b)) retirement savings plan in which employee contributions, University contributions and investment earnings accumulate to assist employees at retirement. Participating employees have individually owned retirement accounts through the Teachers Insurance and Annuity Association (T.I.A.A.), College Retirement Equity Fund (CREF), and/or the Vanguard Group, Inc. Under this arrangement, the University and plan participants make monthly contributions to either T.I.A.A.-CREF and/or Vanguard. For benefits-eligible employees as of August 31, 2006, the amount of contribution made by the University, commencing after two years of eligible service, is based upon the employee's age and salary. For benefits-eligible employees hired or rehired on or after August 31, 2006, the University contribution commences after two years of eligible service and is based upon the employee's years of eligible service and salary. Vesting provisions are full and immediate. The University's share of the cost of these benefits in 2008 and 2007 was $50,476 and $48,087, respectively.

(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 including management, supervision and oversight of clinical services and research at COSM. All professional fee revenue and expense accrues to WUSM. WUSM has exercised an option to purchase the entire site. BJH leases and occupies space related to the technical services components of COSM. The annual operating income or loss from the technical services component of COSM is combined with BJH, SLCH and BJWCH adjusted net operating income for the additional payment under the affiliation agreements.