

Washington University

Financial Statements

June 30, 2009 and 2008

Washington University
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June 30, 2009 and 2008

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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, 2009 and 2008, 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 15, 2009

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

| <i>(Thousands of Dollars)</i> | <u>2009</u> | <u>2008</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 93,349 | \$ 4,870 |
| Investments | 4,876,790 | 6,304,900 |
| Collateral received for securities lending | 207,137 | 445,871 |
| Accounts and notes receivable, net | 341,136 | 340,742 |
| Pledges receivable, net | 151,364 | 127,459 |
| Other assets | 83,959 | 67,560 |
| Fixed assets, net | <u>1,823,424</u> | <u>1,683,446</u> |
| Total assets | <u>\$ 7,577,159</u> | <u>\$ 8,974,848</u> |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 264,631 | \$ 264,988 |
| Liability under securities lending transactions | 224,375 | 445,871 |
| Deposits and advances | 22,508 | 14,146 |
| Professional liability | 63,007 | 63,281 |
| Notes and bonds payable | 1,156,114 | 988,158 |
| Deferred revenue | 80,014 | 77,205 |
| Liabilities under split-interest agreements | 42,101 | 46,065 |
| Government supported student loans | <u>44,667</u> | <u>44,391</u> |
| Total liabilities | <u>1,897,417</u> | <u>1,944,105</u> |
| Net Assets: | | |
| Unrestricted | 4,319,492 | 5,680,874 |
| Temporarily restricted | 224,928 | 227,878 |
| Permanently restricted | <u>1,135,322</u> | <u>1,121,991</u> |
| Total net assets | <u>5,679,742</u> | <u>7,030,743</u> |
| Total liabilities and net assets | <u>\$ 7,577,159</u> | <u>\$ 8,974,848</u> |

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

Washington University
Statements of Activities
June 30, 2009 and 2008

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

The accompanying notes are an integral part of these financial statements

Washington University
Statements of Cash Flows
June 30, 2009 and 2008

| <i>(Thousands of Dollars)</i> | <u>2009</u> | <u>2008</u> |
|--|------------------|-----------------|
| Cash flows from operating activities: | | |
| Change in Net Assets | \$ (1,351,001) | \$ (239,895) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Realized and unrealized net losses on investments | 1,280,834 | 201,578 |
| Depreciation expense | 130,818 | 121,219 |
| Permanently restricted gifts | (20,854) | (25,326) |
| Investments received as gifts - not permanently restricted | (9,136) | (16,714) |
| Other non-cash adjustments | (3,795) | (4,560) |
| Changes in assets and liabilities | | |
| Accounts and notes receivable, net | (1,261) | (26,689) |
| Pledges receivable, net | (23,141) | 2,385 |
| Accounts payable and accrued expenses | 1,408 | 14,781 |
| Deposits and advances | 8,362 | (956) |
| Professional liability | (274) | (11,334) |
| Deferred revenue | (446) | (6,272) |
| Liabilities under split-interest agreements | (3,964) | (85) |
| Net cash provided by operating activities | <u>7,550</u> | <u>8,132</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales and maturities of investments | 6,234,075 | 6,755,068 |
| Purchases of investments | (6,058,258) | (6,536,614) |
| Purchases of fixed assets | (266,804) | (232,820) |
| Other | (13) | 1,117 |
| Net cash used in investing activities | <u>(91,000)</u> | <u>(13,249)</u> |
| Cash flows from financing activities: | | |
| Principal payments of debt | (23,641) | (7,249) |
| Proceeds from long-term debt issuance | 191,448 | - |
| Contributions restricted for long-term investment | 15,546 | 15,539 |
| Other | (11,424) | (5,491) |
| Net cash provided by financing activities | <u>171,929</u> | <u>2,799</u> |
| Net increase/(decrease) in cash | 88,479 | (2,318) |
| Cash at beginning of year | <u>4,870</u> | <u>7,188</u> |
| Cash at end of year | <u>\$ 93,349</u> | <u>\$ 4,870</u> |
| Supplemental Data | | |
| Interest paid in cash | \$ 39,345 | \$ 41,833 |
| Noncash investing activities: | | |
| Net change in securities lending | 238,733 | 291,711 |
| Contributions of securities and other noncash assets | 13,954 | 29,515 |
| Change in accounts payable for fixed assets | 328 | 16,833 |
| Change in accounts payable for investments | 9,268 | (13,250) |
| Assets acquired by assuming directly related liabilities | 669 | 699 |

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

Washington University

Notes to the Financial Statements

June 30, 2009 and 2008

(All amounts in thousands of dollars)

1. Summary of Significant Accounting Policies

Organization

Washington University in St. Louis (the University), is an institution of higher education that, in furtherance of its role as a charitable and educational institution, engages in various activities, including instruction, research and provision of medical care.

Basis of Presentation and Use of Estimates

The financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the University and its affiliates. Certain prior year amounts presented in the financial statements have been reclassified to be consistent with the basis of presentation in the current year. The University has performed an evaluation of subsequent events through September 15, 2009, which is the date the financial statements were available to be issued.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, the estimated useful lives of buildings and equipment, the fair value of certain investments, the degree of precision in calculation of self-insurance reserves and adequacy of allowances for doubtful accounts receivable. Actual results could differ from those estimates.

Net Assets

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

Unrestricted net assets are free of donor imposed restrictions.

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

Permanently restricted net asset balances include gifts and trusts which, by donor restriction, are required to be held in perpetuity.

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

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Notes to the Financial Statements
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(All amounts in thousands of dollars)

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

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

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

Investments

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

Investment gains/(losses) in excess of endowment spending distribution and the unrealized appreciation (depreciation) on investments are reported in the non-operating section of the Statements of Activities.

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

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Notes to the Financial Statements
June 30, 2009 and 2008

(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, 2009 and 2008 consist of the following:

| | <u>2009</u> | <u>2008</u> |
|-------------------------------|---------------------|---------------------|
| Construction in progress | \$ 241,313 | \$ 221,576 |
| Land and improvements to land | 80,050 | 75,564 |
| Buildings | 2,381,088 | 2,186,718 |
| Equipment | <u>397,884</u> | <u>381,906</u> |
| Total cost | 3,100,335 | 2,865,764 |
| Accumulated depreciation | <u>(1,276,911)</u> | <u>(1,182,318)</u> |
| Total, net | <u>\$ 1,823,424</u> | <u>\$ 1,683,446</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 \$24 and \$133 were expensed in 2009 and 2008, respectively. Sales of collection items totaled \$804 in 2009 and there were no sales of collection items in 2008.

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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Notes to the Financial Statements
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(All amounts in thousands of dollars)

Tuition and Financial Aid

Undergraduate students receive financial aid based upon academic promise and demonstrated financial need. Graduate students often receive tuition support in connection with research assistant, teaching assistant and fellowship appointments. Total financial aid granted to students by the University, including aid provided to employees and their dependents, was \$213,344 in 2009 and \$197,170 in 2008. The table below identifies student aid by type. Scholarships are reported net against tuition in the Statements of Activities. Other amounts are reported as expenses.

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

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Contributions received for capital projects, permanent endowments or perpetual trusts are reported as non-operating revenues. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Conditional promises to give 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. For 2009, the rates used are credit-adjusted tax exempt borrowing rates in accordance with SFAS 157. Pledges outstanding are discounted with rates ranging from 1.5% to 5.2%. 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.

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Notes to the Financial Statements
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(All amounts in thousands of dollars)

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

| | <u>2009</u> | <u>2008</u> |
|-------------------------------------|-------------------|-------------------|
| In one year or less | \$ 88,498 | \$ 79,446 |
| Between one year and five years | 73,954 | 61,485 |
| Five or more years | <u>2,511</u> | <u>1,646</u> |
| | 164,963 | 142,577 |
| Less: | | |
| Discount | (4,190) | (5,916) |
| Allowance for uncollectible amounts | <u>(9,409)</u> | <u>(9,202)</u> |
| Total | <u>\$ 151,364</u> | <u>\$ 127,459</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 services and salary reimbursements from affiliated hospitals, consulting, laboratory fees, conference center revenues and revenues from licensing and royalties.

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 10.

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.

Washington University

Notes to the Financial Statements

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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, discounted at a risk-free rate for years prior to 2009. In accordance with SFAS 157, for 2009 the liabilities are calculated using discount rates which represent credit-adjusted risk-free rates in existence at the date of the gift. The rates used range from 2.4% to 9.6% for 2009 and 2008. 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, 2009 and 2008, respectively, \$15,197 and \$15,191 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.

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

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 enacted UPMIFA effective August 28, 2009 and will be in effect for fiscal 2010. 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 FSP 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. These disclosures are reported in note 3. The FSP is effective for fiscal years ending after December 15, 2008.

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 this pronouncement on the University's financial statements.

2. Fair Value

Effective July 1, 2008, the University adopted SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS 157 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect the University's assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the University for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

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- Level 1 - Quoted prices in active markets for identical assets or liabilities, such as exchange - traded equity securities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Examples of Level 2 include U.S. Treasury securities and corporate bonds.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including investments in hedge and private equity strategies.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of June 30, 2009, by caption on the Statements of Financial Position by the SFAS 157 valuation hierarchy defined above. Reported as Level 2 fixed income and short-term investments are U.S. Treasury securities in excess of \$480,000.

| | Quoted prices in active markets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Balance June 30, 2009 |
|---|--|---|--|--------------------------|
| Investments (by strategy): | | | | |
| Equity | \$ 987,956 | \$ - | \$ 786,494 | \$ 1,774,450 |
| Fixed income | - | 713,415 | 5,500 | 718,915 |
| Hedged strategies | - | - | 1,126,998 | 1,126,998 |
| Private equity | - | - | 565,963 | 565,963 |
| Short-term investments | - | 94,901 | 2,494 | 97,395 |
| Unspent bond proceeds | 16,021 | 969 | - | 16,990 |
| Split-interest agreements | 39,881 | 32,099 | 21,655 | 93,635 |
| Real assets and other | 87 | 113,118 | 321,464 | 434,669 |
| Total investments at fair value | 1,043,945 | 954,502 | 2,830,568 | 4,829,015 |
| Invested assets received from security borrowers | - | 207,137 | - | 207,137 |
| Total assets reported at fair value | \$ 1,043,945 | \$ 1,161,639 | \$ 2,830,568 | \$ 5,036,152 |

Included as Investments on the Statements of Financial Position, but not reported in the table above, are accrued investment income of \$7,421 and investments in affiliates of \$40,354, which are recorded on the equity basis of accounting in accordance with APB 18. A portion of Level 3 equity amounts reported above are in hedge-type strategies and a portion of real assets and other are invested in private-equity-type strategies.

Following is a description of the University's valuation methodologies for assets and liabilities measured at fair value.

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Fair value for Level 1 is based upon quoted prices in active markets that the University has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The University does not adjust the quoted price for such assets and liabilities.

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. 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 significant 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. Where appropriate, the University has reported NAV or partner's capital per share as reported by the general partners as the fair value of the investment.

The methods described above 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 the reporting date.

Perpetual trusts held by third parties are valued at the present value of the future distributions expected to be received over the term of the agreement. The University has recorded within investments the market value of assets held by third parties in perpetual trusts of \$18,072 and \$22,571 in 2009 and 2008, respectively. Investments also include properties held for strategic growth purposes of \$22,017 at both June 30, 2009 and 2008, which approximates fair value. Investments acquired by gift or bequest are initially recorded at market or appraised value at the date so acquired.

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

| | Balance June 30, 2008 | Net realized and unrealized gains (losses) | Purchases, sales and settlements, net | Transfers in/(out) of Level 3 | Balance June 30, 2009 |
|---------------------------|----------------------------------|---|--|--|----------------------------------|
| Investments: | | | | | |
| Equity | \$ 1,164,908 | \$ (309,345) | \$ (69,015) | \$ (54) | \$ 786,494 |
| Fixed income | 5,133 | (184) | 556 | (5) | 5,500 |
| 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 |
| Totals | <u>\$ 3,360,023</u> | <u>\$ (731,457)</u> | <u>\$ 202,022</u> | <u>\$ (20)</u> | <u>\$ 2,830,568</u> |

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, 2009 reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

| | |
|---------------------------|---------------------|
| Equity | \$ (288,451) |
| Fixed income | 57 |
| Hedged strategies | (111,241) |
| Private equity | (139,132) |
| Short-term investments | (411) |
| Split-interest agreements | (3,583) |
| Real assets and other | <u>(165,937)</u> |
| Total | <u>\$ (708,698)</u> |

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3. Investment Return

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

| | <u>2009</u> | <u>2008</u> |
|--|-----------------------|---------------------|
| Investment income | \$ 11,967 | \$ 26,205 |
| Endowment dividends and interest income | \$ 39,676 | \$ 55,587 |
| Endowment distribution in excess of income | <u>190,179</u> | <u>153,746</u> |
| Endowment spending distribution | 229,855 | 209,333 |
| Investment gains/(losses), net | (1,280,834) | (201,578) |
| Gains distributed as endowment distribution | <u>(190,179)</u> | <u>(153,746)</u> |
| Investment returns net of endowment spending distribution | <u>(1,471,013)</u> | <u>(355,324)</u> |
| Net investment losses | <u>\$ (1,229,191)</u> | <u>\$ (119,786)</u> |

At June 30, 2009 and 2008 investments with a fair value of \$218,200 and \$433,071, 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, 2009 and 2008. The University is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers provided \$224,375 and \$445,871 of cash collateral for the loaned securities at June 30, 2009 and 2008, respectively. Most, if not all, of the cash is reinvested in other vehicles by the lending agent. Such collateral was invested in fixed income securities and had a fair value of \$207,137 and \$445,871 at June 30, 2009 and 2008, respectively.

4. Endowment

Effective July 1, 2008, the University adopted Financial Accounting Standards Board Staff Position No. 117-1, *Net Asset Classification for Funds Subject to UPMIFA* (FSP FAS 117-1). The University's endowment consists of 2,584 individual donor restricted endowment funds and Board of Trustees or management-designated endowment funds for a variety of purposes plus split interest agreements and other net assets where the assets have been designated for endowment. The net assets associated with endowment funds, including funds designated by the Board of Trustees or management to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The University has interpreted Missouri UMIFA 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

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temporarily restricted until the donor-imposed stipulations attached to those amounts have been met by actions of the University and or passage of time.

The University had the following endowment activities during the years ended June 30, 2009 and 2008 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2008:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|---------------------|
| Donor-restricted endowment funds | \$ 2,100,591 | \$ 60,767 | \$ 1,099,488 | \$ 3,260,846 |
| Board-designated endowment funds | 2,066,847 | 49,822 | - | 2,116,669 |
| Total endowment funds | <u>\$ 4,167,438</u> | <u>\$ 110,589</u> | <u>\$ 1,099,488</u> | <u>\$ 5,377,515</u> |

Changes in endowment net assets for the year ended June 30, 2008:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-------------------------------|-------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 4,416,786 | \$ 114,817 | \$ 1,069,821 | \$ 5,601,424 |
| Investment return: | | | | |
| Net investment income | 55,359 | 3,239 | - | 58,598 |
| Net depreciation (realized and unrealized) | (165,519) | (9,929) | (5,375) | (180,823) |
| Total investment return | (110,160) | (6,690) | (5,375) | (122,225) |
| Gifts | 1,491 | 2,560 | 28,424 | 32,475 |
| Appropriation of endowment assets for expenditure | (204,426) | (4,907) | - | (209,333) |
| Net transfers to create board designated endowment funds | 88,948 | 1,978 | - | 90,926 |
| Allocation of endowment return to Treasurers Investment Pool | (17,763) | - | - | (17,763) |
| Other activity | (7,438) | 2,831 | 6,618 | 2,011 |
| Endowment net assets, end of year | <u>\$ 4,167,438</u> | <u>\$ 110,589</u> | <u>\$ 1,099,488</u> | <u>\$ 5,377,515</u> |

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

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

Changes in endowment net assets for the year ended June 30, 2009:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Endowment net assets, beginning of year | \$ 4,167,436 | \$ 110,589 | \$ 1,099,490 | \$ 5,377,515 |
| Investment return: | | | | |
| Net investment income | 39,748 | 2,456 | - | 42,204 |
| Net depreciation (realized and unrealized) | <u>(1,258,638)</u> | <u>(25,545)</u> | <u>(10,105)</u> | <u>(1,294,288)</u> |
| Total investment return | (1,218,890) | (23,089) | (10,105) | (1,252,084) |
| Gifts | 123 | 1,116 | 20,204 | 21,443 |
| Appropriation of endowment assets for expenditure | (225,200) | (4,655) | - | (229,855) |
| Net transfers to create board designated endowment funds | 9,732 | 14,622 | 526 | 24,880 |
| Allocation of endowment return to Treasurers Investment Pool | 131,768 | - | - | 131,768 |
| Other activity | <u>7,792</u> | <u>(12,867)</u> | <u>940</u> | <u>(4,135)</u> |
| Endowment net assets, end of year | <u>\$ 2,872,761</u> | <u>\$ 85,716</u> | <u>\$ 1,111,055</u> | <u>\$ 4,069,532</u> |

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Permanently restricted net assets

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

| | <u>2009</u> | <u>2008</u> |
|--|---------------------|---------------------|
| Restricted for general activities | \$ 772,787 | \$ 742,945 |
| Restricted for student assistance | 198,797 | 194,950 |
| Restricted for buildings and renovations | 120,894 | 134,529 |
| Life income | <u>18,577</u> | <u>27,064</u> |
| Total endowment net assets classified as permanently restricted net assets | <u>\$ 1,111,055</u> | <u>\$ 1,099,488</u> |

Temporarily restricted net assets

Term endowment funds net assets:

| | <u>2009</u> | <u>2008</u> |
|--|------------------|-------------------|
| Restricted for general activities | \$ 53,318 | \$ 54,388 |
| Restricted for student assistance | 3,973 | 4,442 |
| Restricted for buildings and renovations | 17,595 | 36,467 |
| Life income | <u>10,830</u> | <u>15,292</u> |
| Total endowment net assets classified as temporarily restricted net assets | <u>\$ 85,716</u> | <u>\$ 110,589</u> |

Endowment Funds with Deficits

As determined under UMIFA, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (i.e., deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$36,660 as of June 30, 2009. Deficits at June 30, 2008 were not significant. The 2009 deficits resulted largely from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments.

Return Objectives and Risk Parameters

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against various indices, based on the endowment's target allocation applied to the appropriate individual benchmarks. The University expects its endowment funds, over time, to provide an average rate of return of approximately 8.0 percent to 9.0 percent annually. Actual returns in any given year may vary from this amount.

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 gains) and current yield (interest and dividends). The University targets a diversified asset

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

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The University has an endowment spending distribution policy designed to stabilize annual spending levels and preserve the real value of the endowment over time. Under this policy, earnings of the pooled endowment are distributed to the schools and other units of the University at a rate set annually by the Asset Management Committee of the Board of Trustees. This spending amount per unit of endowment must fall within the range of 3.0% to 5.5% of the five-year average market value of a unit of the pooled endowment. For 2009, the spending rate from the pooled endowment was 4.3% of the beginning market value of the pooled endowment. When endowment interest and dividends prove to be insufficient to support this policy, the balance is provided from net gains from the sale of assets held by the pooled endowment. When endowment interest and dividends exceed the amounts necessary to maintain this objective, the balance is added to the endowment. The endowment spending distribution exceeded interest and dividends earned by the pooled endowment by \$190,179 and \$153,746 in 2009 and 2008, respectively.

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

The University's endowed assets are as follows:

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

5. Accounts and notes receivable

Accounts and notes receivable at June 30 were as follows:

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

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6. Bonds and notes payable

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

| Missouri Health and Educational Facilities Authority: | Interest Rates at June 30, 2009 | Maturity | 2009 | 2008 |
|--|--|-------------------------|---------------------|-------------------|
| \$84,400 of 1984 Series Revenue Refunding Variable Rate Bonds, repaid during 2009 | - | - | \$ - | \$ 2,381 |
| \$48,500 of 1985A and 1985B Revenue Variable Rate Bonds, repaid during 2009 | - | - | - | 3,984 |
| \$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full | 0.27% - 0.35% | September 1, 2030 | 142,400 | 142,400 |
| \$105,770 of 1998A Series Bonds, due in full | 4.75% - 5.00% | November 15, 2037 | 101,460 | 101,394 |
| \$88,000 of 2000B and C Series Variable Rate Bonds, due in full | 0.18% - 0.27% | 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 | 55,547 | 55,834 |
| \$73,355 of 2001B Series Refunding Bonds, due in full | 5.00% | March 1, 2030 | 72,700 | 72,683 |
| \$93,430 of 2003A Series Bonds, due in full | 5.00% | February 15, 2033 | 93,247 | 93,239 |
| \$25,135 of 2003B Series Variable Rate Bonds, due in full | 0.30% | February 15, 2033 | 25,135 | 25,135 |
| \$100,000 of 2004 Series A and B Variable Rate Bonds, due annually | 0.18% - 0.30% | February 15, 2034 | 92,600 | 94,600 |
| \$20,780 of 2005A Series Refunding Bonds, due annually | 3.00%-5.00% | February 15, 2022 | 17,384 | 18,409 |
| \$104,020 of 2007A Series Bonds, due in full | 5.00% | January 15, 2037 | 111,910 | 112,049 |
| \$126,975 of 2007B Series Refunding Bonds, due serially from January 15, 2021 to January 15, 2041 | 4.20% - 4.50% | January 15, 2041 | 127,323 | 127,331 |
| \$193,625 of 2008A Series Educational Facilities Revenue Bonds, due March 15, 2018 (\$44,000) and March 15, 2039 (\$149,625) | 5.25% - 5.38% | March 15, 2018 and 2039 | 191,322 | - |
| Other Notes Payable | | | 37,086 | 50,719 |
| Total outstanding bonds and notes payable | | | <u>\$ 1,156,114</u> | <u>\$ 988,158</u> |

Bonds payable are redeemable at the option of the University at various times from 2009 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 2009 and 2008, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled \$46,578 and \$43,115, respectively.

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

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

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

During 2005, the University entered into an agreement to provide certain assurances to a financial institution ("lender") to support third party ("builder") construction of a new building to be leased in part by the University. Under terms of the agreement, if after seven years following construction of the building, the builder fails to meet its obligations to the lender to service debt incurred for construction, the University could be called upon to satisfy those obligations. Should this occur, the University has an option to acquire the building for the amount of such unpaid debt service. In addition, the University installed improvements in support of the research activities undertaken in its leased portion of the building. Some of these improvements were determined to be a portion of the cost of constructing the building. Under Emerging Issues Task Force (EITF) Issue 97-10, The Effect of Lessee Involvement in Asset Construction, the University was deemed to be the owner, for accounting purposes only, of this building project. The terms of the lease are such that the building and offsetting obligation do not qualify for derecognition under sale and leaseback accounting rules applied in accordance with the EITF, until the 25-year lease term expires. During the lease term, the University will recognize building depreciation, interest expense for the obligation and estimated rental income for the portions of the building leased to third parties. The building cost and obligation increased to \$26,756 at June 30, 2009. 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 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, 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. There are no loans outstanding at June 30, 2009. 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 \$73,000 at June 30, 2009.

7. 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.

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In order to reduce exposure to floating interest rates on variable rate debt, the University entered into a thirty-year interest rate swap agreement 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 4.262% for \$92,600 of debt, and 5.82% for \$10,330 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 \$3,962 and \$2,407 at June 30, 2009 and 2008 respectively and is considered a Level 2 financial instrument under SFAS 157. 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 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, 2009 approximated \$1,182,817 and \$1,156,114 and at June 30, 2008 approximated \$979,480 and \$988,158, respectively.

9. Commitments and contingencies

At June 30, 2009, the University had outstanding commitments under certain construction contracts in the amount of \$153,933.

At June 30, 2009, the University had outstanding commitments primarily for investments in partnerships of approximately \$787,587.

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, 2009 and June 30, 2008, respectively, were \$63,007 and \$63,281. 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.

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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.

10. 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 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 2009 and 2008 was \$53,939 and \$50,476, respectively.

11. 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 December 31, 2010. The rental payments for 2009 and 2008 were \$737 and \$758 respectively, and vary annually based on a formula defined in the agreement.

Washington University
Notes to the Financial Statements
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(All amounts in thousands of dollars)

The University, on behalf of its Medical School (WUSM) and BJH entered into an agreement in 2006 to develop and manage the Orthopedic Center (OC) 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 OC. All professional fee revenue and expense accrues to WUSM. WUSM exercised an option to purchase the entire site and sold an undivided interest in it to BJH, with the result that the University and BJH own the facility as tenants in common. BJH occupies the space it owns and provides the technical services components of OC. The annual operating income or loss from the technical services component of OC is combined with BJH, SLCH and BJWCH adjusted net operating income for the additional payment under the affiliation agreements.