

Washington University
Financial Statements
June 30, 2011 and 2010

Washington University
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June 30, 2011 and 2010

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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, 2011 and 2010, 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, 2011

Washington University
Statements of Financial Position
June 30, 2011 and 2010

(Thousands of Dollars)

	<u>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents	\$ 145,404	\$ 176,960
Investments	6,317,781	5,348,482
Collateral received for securities lending	137,698	94,873
Accounts and notes receivable, net	421,813	355,391
Pledges receivable, net	258,790	268,020
Other assets	107,309	97,360
Fixed assets, net	<u>1,905,034</u>	<u>1,905,509</u>
Total assets	<u>\$ 9,293,829</u>	<u>\$ 8,246,595</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 269,369	\$ 257,923
Liability under securities lending transactions	150,293	108,331
Deposits and advances	21,660	29,332
Professional liability	62,252	61,798
Notes and bonds payable	1,264,923	1,254,170
Deferred revenue	86,374	85,706
Liabilities under split-interest agreements	41,671	41,983
Government supported student loans	<u>45,155</u>	<u>45,083</u>
Total liabilities	<u>1,941,697</u>	<u>1,884,326</u>
Net Assets:		
Unrestricted	3,524,552	3,102,479
Temporarily restricted	2,454,645	1,949,717
Permanently restricted	<u>1,372,935</u>	<u>1,310,073</u>
Total net assets	<u>7,352,132</u>	<u>6,362,269</u>
Total liabilities and net assets	<u>\$ 9,293,829</u>	<u>\$ 8,246,595</u>

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

Washington University

Statements of Activities

June 30, 2011 and 2010

<i>(Thousands of Dollars)</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>June 30, 2011 Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>June 30, 2010 Total</u>
Revenues:								
Tuition and fees, gross	\$ 457,254	\$ -	\$ -	\$ 457,254	\$ 427,952	\$ -	\$ -	\$ 427,952
Less: Scholarships	(163,240)			(163,240)	(155,897)	-	-	(155,897)
Tuition and fees, net	294,014	-	-	294,014	272,055	-	-	272,055
Endowment spending distribution	217,081	3,910	-	220,991	220,476	4,590	-	225,066
Investment income	7,234	1,346	-	8,580	6,823	2,230	-	9,053
Gifts	34,332	117,815	-	152,147	48,587	103,946	-	152,533
Grants and contracts revenues								
Direct costs recovered	423,846	-	-	423,846	395,937	-	-	395,937
Facilities and administrative costs recovered	152,831	-	-	152,831	143,823	-	-	143,823
Patient services	698,115	-	-	698,115	643,042	-	-	643,042
Auxiliary enterprises - sales and services	85,247	-	-	85,247	77,781	-	-	77,781
Educational activities - sales and services	97,207	-	-	97,207	96,502	-	-	96,502
Affiliated hospital revenues	80,171	-	-	80,171	80,980	-	-	80,980
Other revenue	32,462	-	-	32,462	33,179	-	-	33,179
Net assets released	98,850	(98,850)	-	-	82,275	(82,275)	-	-
Total Revenues	<u>2,221,390</u>	<u>24,221</u>	<u>-</u>	<u>2,245,611</u>	<u>2,101,460</u>	<u>28,491</u>	<u>-</u>	<u>2,129,951</u>
Expenses:								
Instruction	1,174,205	-	-	1,174,205	1,089,879	-	-	1,089,879
Research	508,124	-	-	508,124	472,493	-	-	472,493
Academic support	145,286	-	-	145,286	142,317	-	-	142,317
Student services	66,397	-	-	66,397	64,731	-	-	64,731
Institutional support	107,851	-	-	107,851	100,753	-	-	100,753
Auxiliary enterprises expenditures	96,790	-	-	96,790	91,487	-	-	91,487
Other deductions	24,242	-	-	24,242	19,741	-	-	19,741
Total Expenses	<u>2,122,895</u>	<u>-</u>	<u>-</u>	<u>2,122,895</u>	<u>1,981,401</u>	<u>-</u>	<u>-</u>	<u>1,981,401</u>
Net operating results	<u>98,495</u>	<u>24,221</u>	<u>-</u>	<u>122,716</u>	<u>120,059</u>	<u>28,491</u>	<u>-</u>	<u>148,550</u>
Non-operating revenues and (expenses):								
Investment returns net of endowment spending	324,907	489,433	6,453	820,793	126,385	236,461	3,344	366,190
Changes and reclassifications of split-interest agreements	3,664	1,141	(1,171)	3,634	(842)	245	2,113	1,516
Permanently restricted gifts			51,012	51,012			168,216	168,216
Gain/(Loss) on fixed asset disposals and other	(4,993)	(9,867)	6,568	(8,292)	6,753	(9,776)	1,078	(1,945)
Non-operating, net	<u>323,578</u>	<u>480,707</u>	<u>62,862</u>	<u>867,147</u>	<u>132,296</u>	<u>226,930</u>	<u>174,751</u>	<u>533,977</u>
Change in net assets before accounting change	422,073	504,928	62,862	989,863	252,355	255,421	174,751	682,527
Cumulative effect of change in accounting principle	-	-	-	-	(1,469,368)	1,469,368	-	-
Net assets, beginning of the year	<u>3,102,479</u>	<u>1,949,717</u>	<u>1,310,073</u>	<u>6,362,269</u>	<u>4,319,492</u>	<u>224,928</u>	<u>1,135,322</u>	<u>5,679,742</u>
Net assets, end of the year	<u>\$ 3,524,552</u>	<u>\$ 2,454,645</u>	<u>\$ 1,372,935</u>	<u>\$ 7,352,132</u>	<u>\$ 3,102,479</u>	<u>\$ 1,949,717</u>	<u>\$ 1,310,073</u>	<u>\$ 6,362,269</u>

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

Washington University
Statements of Cash Flows
June 30, 2011 and 2010

<i>(Thousands of Dollars)</i>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in Net Assets	\$ 989,863	\$ 682,527
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized net (gains) on investments	(1,009,693)	(566,008)
Depreciation expense	147,912	132,742
Permanently restricted gifts	(51,012)	(168,216)
Investments received as gifts - not permanently restricted	(10,077)	(20,029)
Other non-cash adjustments	(14,346)	(19,164)
Changes in assets and liabilities		
Accounts and notes receivable, net	(23,095)	(11,724)
Pledges receivable, net	(13,137)	(18,198)
Accounts payable and accrued expenses	10,386	22,152
Deposits and advances	(7,672)	6,824
Professional liability	454	(1,209)
Deferred revenue	668	5,582
Liabilities under split-interest agreements	(312)	(118)
Net cash provided by operating activities	<u>19,939</u>	<u>45,161</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	3,996,698	4,808,482
Purchases of investments	(3,961,590)	(4,686,057)
Purchases of fixed assets	(154,633)	(229,950)
Student loans disbursed	(29,721)	(27,587)
Student loan payments received	29,080	27,149
Other	(575)	123
Net cash used in investing activities	<u>(120,741)</u>	<u>(107,840)</u>
Cash flows from financing activities:		
Principal payments of debt	(198,885)	(3,964)
Proceeds from long-term debt issuance	204,618	101,782
Contributions restricted for long-term investment	63,442	48,056
Other	71	416
Net cash provided by financing activities	<u>69,246</u>	<u>146,290</u>
Net increase/(decrease) in cash	(31,556)	83,611
Cash at beginning of year	<u>176,960</u>	<u>93,349</u>
Cash at end of year	<u>\$ 145,404</u>	<u>\$ 176,960</u>
Supplemental Data		
Interest paid in cash	\$ 54,734	\$ 46,414
Noncash investing activities:		
Net change in securities lending	(42,826)	112,265
Contributions of securities and other noncash assets	20,712	42,129
Change in accounts payable for fixed assets	(4,771)	(17,890)
Change in accounts payable for investments	5,832	(11,024)
Assets acquired by assuming directly related liabilities	899	871

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

Washington University

Notes to the Financial Statements

June 30, 2011 and 2010

(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, 2011, 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. 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 restrictions or legal 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, except for gains and investment income earned by investment of donor-restricted endowments. Such amounts are not reported as unrestricted net assets until appropriated for expenditure by the Asset Management Committee of the Board of Trustees. 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

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support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Expenses are reported as decreases in unrestricted net assets.

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

	2011		2010	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
General activities	\$ 1,751,454	\$ 946,363	\$ 1,405,613	\$ 931,069
Student assistance	366,906	255,224	291,912	216,278
Buildings and renovations	323,274	145,354	242,550	134,529
Life income	13,011	25,994	9,642	28,197
Total	\$ 2,454,645	\$ 1,372,935	\$ 1,949,717	\$ 1,310,073

Investments

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

At June 30, 2011 and 2010 investments include \$14,434 and \$12,416, respectively, which were purchased with unexpended proceeds from the Series 2011A and Series 2009A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds in 2011, and the Series 2009A and Series 2008A in 2010. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.

Fixed Assets

Fixed assets are stated at cost or fair market values 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, 2011 and 2010 consist of the following:

	2011	2010
Construction in progress	\$ 85,823	\$ 271,671
Land and improvements to land	90,717	83,935
Buildings	2,794,481	2,515,000
Equipment	447,654	432,515
Total cost	3,418,675	3,303,121
Accumulated depreciation	(1,513,641)	(1,397,612)
Total, net	\$ 1,905,034	\$ 1,905,509

Washington University
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(All amounts in thousands of dollars)

Collections

In addition to the Mildred Lane Kemper Art Museum, the University archives rare book collections, works of art, literary works, historical treasures and artifacts. These collections are protected and preserved for public exhibition, education, research and the furtherance of public service. They are neither disposed of for financial gain nor encumbered in any manner. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Financing Receivables

During the year ended June 30, 2011, the University adopted accounting standards for management of financing receivables and the allowance for credit losses. Financing receivables are principally loans made to students or their parents utilizing gifts, endowment payout, and University resources designated for that purpose and from funds provided by the United States government under the Federal Perkins and Health Professional Student Loan programs. Loan funds are reported at estimated realizable value, as it is not practical to determine the fair value of loan fund receivables, which include a large component of federally sponsored student loans. Federally sponsored student loans have significant government restrictions as to marketability, interest rates, and repayment terms. Federal funds are ultimately refundable to the government and are recognized as a liability in the Statements of Financial Position.

The University's loan portfolio includes over 12,800 individual loans and is geographically diverse. The University discontinued its mortgage secured parent loan program during fiscal 2010. That portion of the portfolio is now in run-off. Loans that are made are due on the last business day of the month and are considered past due if the minimum payment is not received within forty-five days subsequent to the due date. At June 30, 2011 and 2010, more than 90% of the parent loans and 80% of the institutional student loans were considered current. Income earned on financing receivables is recorded on an accrual basis.

Tuition and Financial Aid

Undergraduate students receive financial aid based upon demonstrated financial need and academic promise. Graduate students often receive tuition support in connection with research assistant, teaching assistant and fellowship appointments. Total financial aid granted to students by the University, including aid provided to employees and their dependents, was \$237,841 in 2011 and \$227,591 in 2010. 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.

	2011	2010
Scholarships from unrestricted sources	\$ 125,019	\$ 121,457
Scholarship support from gifts, endowment and other restricted sources	<u>38,221</u>	<u>34,440</u>
Total scholarships	163,240	155,897
Employee and dependent tuition benefits	26,183	24,196
Stipends	46,141	44,673
Work study	<u>2,277</u>	<u>2,825</u>
Total	<u>\$ 237,841</u>	<u>\$ 227,591</u>

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(All amounts in thousands of dollars)

Contributions

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

Gifts and conditional promises to give are not recognized until the conditions on which they depend 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 subsequent years, the rates used are credit-adjusted tax exempt borrowing rates in accordance with fair value accounting. Pledges outstanding are discounted with rates ranging from 0.5% to 5.1%. 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.

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

	<u>2011</u>	<u>2010</u>
In one year or less	\$ 119,195	\$ 121,734
Between one year and five years	133,447	138,497
Five or more years	<u>22,575</u>	<u>22,042</u>
	275,217	282,273
Less:		
Discount	(6,062)	(4,497)
Allowance for uncollectible amounts	<u>(10,365)</u>	<u>(9,756)</u>
Total	<u>\$ 258,790</u>	<u>\$ 268,020</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.

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Notes to the Financial Statements

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(All amounts in thousands of dollars)

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 11.

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, 2013.

Operating Results and Allocation of Certain Expenses

The University's measure of operations as presented in the Statements of Activities includes income from tuition and fees, grants and contracts, medical services, contributions for operating programs, the endowment spending distribution and other revenues. Operating expenses are reported on the Statements of Activities by functional categories, after allocating costs for operation and maintenance of plant, interest on indebtedness and depreciation expense. Operating results exclude investment gains/(losses) except for the portion of gains utilized for the endowment spending distribution, permanently restricted gifts, change in the value of split-interest agreements, gains/(losses) on fixed asset disposals and interest rate swaps. Operation and maintenance of plant and depreciation are allocated to functional categories largely based on square footage. Interest expense is allocated based on specific identification of the uses of proceeds. Instruction expenses include instruction, departmental research and patient care costs.

Split-Interest Agreements

The University's split-interest agreements with donors consist primarily of charitable gift annuities and irrevocable charitable remainder trusts for which the University serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements. Contribution revenues for charitable gift annuities and charitable remainder trusts are recognized after recording liabilities for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries. Historically, the discount rate used to calculate present value was from the IRS table of federal mid-term rates used in calculating the permitted charitable contribution. For 2009 and prospectively, upon adoption of accounting guidance for fair value measurements, the discount rate used is a credit-adjusted rate in existence at the date of the gift. The rates used range from 1.04% to 4.88% for both 2011 and 2010. 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, 2011 and 2010, respectively, \$14,870 and \$15,306 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.

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Notes to the Financial Statements

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Cash and Cash Equivalents

The University considers cash on hand and in banks and all highly liquid financial instruments with an original maturity of 90 days or less, except those amounts assigned to and invested by its investment managers, which amounts are classified as investments, to be cash and cash equivalents.

Income Taxes

The University is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code except to the extent the University has unrelated business income. There was no provision for income taxes due on unrelated business income in the current year. The University has no uncertain tax positions that result in material unrecognized tax benefits.

2. FAIR VALUE

The University follows FASB guidance for fair value measurements. This guidance 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 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.

The FASB guidance 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 maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is 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:

- 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 certain hedge and all private market 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.

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The following table presents the financial instruments carried at fair value as of June 30, 2011, by caption on the Statements of Financial Position by the valuation hierarchy defined above. Under applicable accounting guidance, certain alternative investments, such as hedged strategies, that do not have readily determinable fair values, but are redeemable in the near term at investee-reported net asset value per share or its equivalent, are reportable at Level 2. Also, included as Level 2 fixed income and short-term investments are U.S. Treasury securities of approximately \$648,000.

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance June 30, 2011
Investments (by strategy):				
Equity	\$ 1,546,785	\$ 761,538	\$ 132,424	\$ 2,440,747
Fixed income	-	864,744	1,844	866,588
Hedged strategies	-	771,918	661,210	1,433,128
Private equity	-	-	793,898	793,898
Short-term investments	-	148,489	-	148,489
Unspent bond proceeds	14,434	-	-	14,434
Split-interest agreements	41,181	40,160	31,503	112,844
Real assets and other	-	(6,902)	463,687	456,785
Total investments at fair value	<u>1,602,400</u>	<u>2,579,947</u>	<u>2,084,566</u>	<u>6,266,913</u>
Fixed income assets received from security borrowers	-	137,698	-	137,698
Total assets reported at fair value	<u>\$ 1,602,400</u>	<u>\$ 2,717,645</u>	<u>\$ 2,084,566</u>	<u>\$ 6,404,611</u>

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

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The following table presents the financial instruments carried at fair value as of June 30, 2010, by caption on the Statements of Financial Position by the valuation hierarchy defined above. Included as Level 2 fixed income and short-term investments are U.S. Treasury securities of approximately \$531,000.

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance June 30, 2010
Investments (by strategy):				
Equity	\$ 1,236,476	\$ 453,801	\$ 170,872	\$ 1,861,149
Fixed income	-	785,594	41,680	827,274
Hedged strategies	-	675,713	575,415	1,251,128
Private equity	-	-	685,339	685,339
Short-term investments	-	99,176	500	99,676
Unspent bond proceeds	12,416	-	-	12,416
Split-interest agreements	39,715	38,681	27,300	105,696
Real assets and other	-	120,299	337,556	457,855
Total investments at fair value	1,288,607	2,173,264	1,838,662	5,300,533
Fixed income assets received from security borrowers	-	94,873	-	94,873
Total assets reported at fair value	\$ 1,288,607	\$ 2,268,137	\$ 1,838,662	\$ 5,395,406

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

Included as Investments on the Statements of Financial Position, at June 30, 2011 and 2010, respectively, but not reported in the tables above, are accrued investment income of \$10,530 and \$7,756 and investments in affiliates of \$40,338 and \$40,193, which are recorded on the equity basis of accounting. A portion of Level 2 and 3 equity amounts reported above as of June 30, 2011 and 2010 are in hedge-type strategies and a portion of real assets and other are invested in private-equity-type structures. 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 \$28,159 and \$19,450 in 2011 and 2010, respectively.

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

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

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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. Certain alternative investments, such as hedge funds, that do not have readily determinable fair values, but are redeemable in the near term at investee-reported net asset value per share or its equivalent, are also reported at this level. An alternative investment is considered redeemable in the near term if the University has the ability to redeem the investment or a portion thereof up to 180 days beyond the measurement date at NAV. If the redemption extends beyond 180 days, the investment is categorized as Level 3. Inputs are obtained from various sources including market participants, dealers, and brokers.

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

Investments included in Level 3 primarily consist of the University's ownership in alternative investments (principally limited partnership interests in hedge, private equity strategies, real assets, 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 investments, the fair value is determined by the general partners taking into consideration, among other things, the cost of the investments, prices of recent significant placements of investments of the same issuer, and subsequent developments concerning the companies to which the investments relate. The University has performed due diligence with respect to these investments to ensure NAV or partner's capital per share is an appropriate measure of fair value as of June 30. NAV calculated by the investee in a manner consistent with generally accepted accounting principles for investment companies is reported as the fair value of the investment.

Valuation and other considerations concerning the major classes of investments are provided in the following paragraphs.

Equity: The equity class of investments is globally diversified across public markets including domestic, international developed and international emerging. The majority of equity assets are valued at quoted market price in accordance with Level 1 valuation techniques as described above. A moderate component is held in hedge-like strategies which are valued at NAV in accordance with techniques for Level 2 and 3 valuations as described above.

Fixed income and Short-term investments: Investments in this class include domestic and international nominal fixed income and inflation indexed bonds. Fixed income investments are held principally as liquid vehicles for operating needs and as a source of diversification. A significant component of non-endowment fixed income investments is held in highly liquid funds. The valuation of these funds is determined using a market approach in accordance with the techniques for Level 2 as described above.

Hedged strategies: Investments in hedged strategies are made in sub-strategies including event driven, distressed/credit, relative value, long/short equity, and global macro funds. The

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redemption frequency for these funds varies from monthly to 3 years. Similarly, the required redemption notice period varies from 3 to 180 days. The total fair value of hedged strategies, including equity investments with a hedge fund structure, held at June 30, 2011 and 2010 was \$2,131,062 and \$1,829,698, respectively. Of this amount, \$133,165 and \$123,816 at June 30, 2011 and 2010, respectively, was in side pockets with indeterminate redemption periods. Another \$174,494 and \$244,885 were subject to initial investment lock-ups that at June 30, 2011 and 2010, respectively, will expire over the next 8 to 36 months. Some funds subject to lock-up permit early redemptions subject to a fee.

Private equity: Investments in private equity strategies are made in targeted categories including buyout, venture capital, and corporate finance. Redemptions of such funds are not permitted and distributions are received as underlying investments are liquidated. The remaining lives of the agreements under which these investments are made vary from 1 to 16 years assuming all extension options under the agreements are exercised and approved. At June 30, 2011, the University had total private market commitments outstanding of approximately \$778,132.

Real assets and other: Investments in the real assets and other class are made in targeted categories including natural resources and real estate. Such accounts represent approximately 7% of total investments. The majority of these assets are not held directly but are held in private-equity-type structures that invest primarily in real estate and natural resources. The valuation of these funds is determined using a market approach in accordance with the techniques for Level 3 as described above.

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The following tables roll forward the Statements of Financial Position amounts for financial instruments classified by the University within Level 3 of the fair value hierarchy defined above for the years ended June 30, 2011 and 2010.

	Balance June 30, 2010	Net realized and unrealized gains (losses)	Purchases, sales and settlements, net	Transfers in/(out) of Level 3, net	Balance June 30, 2011
Investments (by strategy):					
Equity	\$ 170,872	\$ 37,784	\$ (35,132)	\$ (41,100)	\$ 132,424
Fixed income	41,680	945	(19,805)	(20,976)	1,844
Hedged strategies	575,415	74,639	3,486	7,670	661,210
Private equity	685,339	145,283	(9,188)	(27,536)	793,898
Short-term investments	500	-	(14)	(486)	-
Split-interest agreements	27,300	4,096	856	(749)	31,503
Real assets & other	337,556	82,631	19,081	24,419	463,687
Totals	<u>\$ 1,838,662</u>	<u>\$ 345,378</u>	<u>\$ (40,716)</u>	<u>\$ (58,758)</u>	<u>\$ 2,084,566</u>

The amount of net realized and unrealized gains (losses) for Level 3 investments 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, 2011, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Equity	\$ 30,517
Fixed income	793
Hedged strategies	66,880
Private equity	43,415
Split-interest agreement:	3,105
Real assets and other	48,511
Total	<u>\$ 193,221</u>

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

As a result of adopting new guidance for estimating the fair value of investments, in 2010 certain investments were reclassified at June 30, 2010, to Level 2 assets subject to the University's ability to redeem within 180 days as described above.

The amount of net realized and unrealized gains (losses) for Level 3 investments for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2010, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Equity	\$ 40,957
Fixed income	-
Hedged strategies	68,988
Private equity	37,926
Split-interest agreement:	1,669
Real assets and other	(27,398)
Total	<u>\$ 122,142</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>2011</u>	<u>2010</u>
Investment income	\$ 8,580	\$ 9,053
Endowment dividends and interest income	\$ 32,091	\$ 25,270
Endowment distribution in excess of income	<u>188,900</u>	<u>199,796</u>
Endowment spending distribution	220,991	225,066
Investment gains, net	1,009,693	565,986
Gains distributed as endowment distribution	<u>(188,900)</u>	<u>(199,796)</u>
Investment returns net of endowment spending distribution	<u>820,793</u>	<u>366,190</u>
Net investment gains	<u>\$ 1,050,364</u>	<u>\$ 600,309</u>

At June 30, 2011 and 2010, investments with a fair value of \$146,350 and \$104,693, 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, 2011 and 2010. The University is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers provided \$150,293 and \$108,331 of cash collateral for the loaned securities at June 30, 2011 and 2010, 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 \$137,698 and \$94,873 at June 30, 2011 and 2010, respectively.

4. ENDOWMENT

Effective August 28, 2009, the state of Missouri adopted legislation that incorporates the provisions outlined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The statutory guidelines contained in this legislation relate to the prudent management, investment, and expenditure of donor-restricted endowment funds held by charitable organizations. Additionally, the legislation specifies factors for fiduciaries to consider prior to making a decision to appropriate from or accumulate into an institution's endowment funds.

At, June 30, 2011, the University's endowment consists of 2,818 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. With the adoption of UPMIFA and in accordance with accounting guidance, cumulative investment returns, including reclassifications of deficits in donor-designated funds, totaling \$1,469,368 as of July 1, 2009, previously reported as unrestricted, were reclassified as temporarily restricted net assets.

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

Endowment net asset composition, which includes the effect of changes in endowment investments as well as other endowment-related assets and liabilities, by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (3,249)	\$ 2,164,340	\$ 1,271,617	\$ 3,432,708
Board-designated endowment funds	1,778,094	116,705	-	1,894,799
Total endowment funds	<u>\$ 1,774,845</u>	<u>\$ 2,281,045</u>	<u>\$ 1,271,617</u>	<u>\$ 5,327,507</u>

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Changes in endowment net assets for the year ended June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,516,164	\$ 1,793,556	\$ 1,187,002	\$ 4,496,722
Investment return:				
Net investment income	10,901	23,732	-	34,633
Net appreciation (realized and unrealized)	<u>382,285</u>	<u>619,468</u>	<u>6,952</u>	<u>1,008,705</u>
Total investment return	393,186	643,200	6,952	1,043,338
Gifts	752	1,375	73,863	75,990
Appropriation of endowment assets for expenditure	(75,137)	(145,854)	-	(220,991)
Net transfers to create board designated endowment funds	13,914	6,744	1,296	21,954
Allocation of endowment return to Treasurers Investment Pool	(90,178)	-	-	(90,178)
Reclassification of deficits in donor- designated funds	17,893	(17,893)	-	-
Other activity	<u>(1,749)</u>	<u>(83)</u>	<u>2,504</u>	<u>672</u>
Endowment net assets, end of year	<u>\$ 1,774,845</u>	<u>\$ 2,281,045</u>	<u>\$ 1,271,617</u>	<u>\$ 5,327,507</u>

Of the amount classified as temporarily restricted endowment net assets, \$1,816,387 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

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Endowment net asset composition by type of fund as of June 30, 2010:

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

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

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

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

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

Permanently restricted net assets

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

	<u>2011</u>	<u>2010</u>
Restricted for general activities	\$ 849,493	\$ 812,988
Restricted for student assistance	250,816	211,288
Restricted for buildings and renovations	145,314	134,529
Life income	<u>25,994</u>	<u>28,197</u>
Total endowment net assets classified as permanently restricted net assets	<u>\$ 1,271,617</u>	<u>\$ 1,187,002</u>

Temporarily restricted net assets

Temporarily restricted endowment funds net assets:

	<u>2011</u>	<u>2010</u>
Restricted for general activities	\$ 1,630,310	\$ 1,295,881
Restricted for student assistance	360,302	283,306
Restricted for buildings and renovations	278,476	205,859
Life income	<u>11,957</u>	<u>8,510</u>
Total endowment net assets classified as temporarily restricted net assets	<u>\$ 2,281,045</u>	<u>\$ 1,793,556</u>

Endowment Funds with Deficits

As determined under UPMIFA, 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 \$3,249 and \$21,141 as of June 30, 2011 and 2010, respectively. The 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% to 9.0% annually. Actual returns in any given year may vary from this amount.

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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 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. The Committee also considers the provisions of UPMIFA in determining the amount to appropriate. 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 2011, the spending rate from the pooled endowment was 4.9% of the beginning market value of the pooled endowment. The spending rate is funded from current earnings and, in years when current earnings are insufficient, from previously accumulated earnings of the endowment.

Based on market values, the total return for the endowment fund investments that are administered by the University was 20.7% in 2011 and 12.7% in 2010.

The University's endowed assets are as follows:

	Fair Market Value at June 30, 2011	Fair Market Value at June 30, 2010
Pooled endowment	\$ 5,227,542	\$ 4,448,156
Life income trusts and pools	81,969	81,751
Externally administered trusts	28,159	19,450
Separately invested endowment	11,201	10,686
Total	<u>\$ 5,348,871</u>	<u>\$ 4,560,043</u>

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5. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable at June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Patient services	\$ 178,933	\$ 180,659
Student and parent loans		
Parent loan fund	69,718	76,229
Government student loans	44,025	40,321
Institutional student loans	21,603	19,994
Due from affiliates	68,370	63,129
Other	139,008	76,534
	<u>521,657</u>	<u>456,866</u>
Less: Allowance for concessions and doubtful accounts	<u>(99,844)</u>	<u>(101,475)</u>
Total	<u>\$ 421,813</u>	<u>\$ 355,391</u>

The University is exposed to credit risk on amounts receivable from student and parent loans. Parent loan funds are offered by the University as a way for parents to finance their children's education at a fixed rate. Institutional student loans are offered by the University based on financial need. Both parent and institutional loans typically have ten year terms and, in the case of parent loans, existing economic conditions are evaluated annually in determining the interest rates for these loans. Government sponsored student loans carry minimal risk for the University.

The principal credit quality indicator used by the University for the portfolio of non-government student and parent loans is collection experience. In order to reduce its credit risk, the University has adopted credit policies which include a review of credit limits and maintaining an active collections process with the assistance of third party collection agencies as necessary. At June 30, 2011 the allowance for parent and institutional student loans was \$3,740 compared to \$3,594 at June 30, 2010. Accounts are considered past due if a scheduled payment is forty-five days late. The balance in such accounts was \$8,364 and \$7,492 at June 30, 2011 and June 30, 2010, respectively. Allowances are established based on management's best estimate of exposure at June 30 and are influenced by historical losses, existing economic conditions, and the current payment activity on loans. Activity in these allowances was not significant.

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

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6. NOTES AND BONDS PAYABLE

Outstanding principal on bonds and notes payable at June 30, 2011 and 2010 consists of the following:

Missouri Health and Educational Facilities Authority:	Rates at June 30, 2011	Maturity	2011	2010
\$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	.03% - .35%	September 1, 2030	\$ 142,400	\$ 142,400
\$105,770 of 1998A Series Bonds, due in full	4.75% - 5.00%	November 15, 2037	-	101,529
\$88,000 of 2000B and C Series Variable Rate Bonds, due in full	.03% - .30%	March 1, 2040	88,000	88,000
\$176,490 of 2001A Series Bonds, due in full	5.50%	June 15, 2016	49,788	55,245
\$73,355 of 2001B Series Refunding Bonds, due in full	5.00%	March 1, 2030	-	72,719
\$93,430 of 2003A Series Bonds, due in full	5.00%	February 15, 2033	93,263	93,255
\$25,135 of 2003B Series Variable Rate Bonds, due in full	.03% - .28%	February 15, 2033	25,135	25,135
\$100,000 of 2004 Series A and B Variable Rate Bonds, due annually	.03% - .30%	February 15, 2034	88,300	90,500
\$20,780 of 2005A Series Refunding Bonds, due annually	3.00% - 5.00%	February 15, 2022	15,236	16,328
\$104,020 of 2007A Series Bonds, due in full	5.00%	January 15, 2037	111,612	111,764
\$126,975 of 2007B Series Refunding Bonds, due serially from January 15, 2021 to January 15, 2041	4.20% - 4.50%	January 15, 2041	127,307	127,315
\$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	191,053	191,190
\$93,770 of 2009A Series Educational Facilities Revenue Bonds, due November 15, 2030 (\$20,000) and November 15, 2039 (\$73,770)	4.50% - 5.00%	November 15, 2030 and 2039	98,686	98,782
\$22,985 of 2011A Series Revenue Bonds due in full November 15, 2041	5.00%	November 15, 2041	24,182	-
\$93,350 of 2011B Series Revenue Bonds due in full November 15, 2030 (\$39,050) and November 15, 2037 (\$57,300)	5.00%	November 15, 2030 and 2037	102,941	-
\$77,495 of 2011C Series Revenue Bonds due serially from November 15, 2012 to November 15, 2037	.75% - 5.06%	November 15, 2037	77,495	-
Other Notes Payable			<u>29,525</u>	<u>40,008</u>
Total outstanding notes and bonds payable			<u>\$ 1,264,923</u>	<u>\$ 1,254,170</u>

Bonds payable are redeemable at the option of the University at various times from 2012 through 2041. The University is required to maintain certain ratios and comply with other restrictive covenants principally that the University maintain a ratio of expendable financial resources to debt of at least 1.25 times. The University is in compliance with this covenant. During 2011 and 2010, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled \$51,819 and \$51,463, respectively.

The other notes payable represent notes payable to Bank of America, which was fully paid during 2011, 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:

2012	\$	4,390
2013		6,665
2014		6,890
2015		7,070
2016		55,530
Thereafter		1,184,378

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, 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. 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, 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 \$28,526 at June 30, 2011. 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.

During 2011, through the Missouri Health and Educational Facilities Authority (MOHEFA), the University issued \$196,830 of Series A, B, and C Bonds. \$181,430 of net proceeds from the issuance and other funds 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 \$105,770 of the 1998 Series A and \$73,355 of the 2001 Series B MOHEFA Bonds. In accordance with the terms of the 1998A and 2001B Bond indentures and loan agreements, establishment of the trust results in the legal defeasance of the University’s obligation under the bonds. The transaction has been accounted for as an extinguishment with a recognized loss of \$5,593 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 \$48,553 over the life of the Series 1998A and 2001B bonds. This represents a net present value savings of \$9,796.

The University has other unused lines of credit, which expire annually, aggregating \$173,000 at June 30, 2011. The University expects that these lines of credit will be renewed but can make no assurances.

Washington University

Notes to the Financial Statements

June 30, 2011 and 2010

(All amounts in thousands of dollars)

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. In addition, derivative transactions (primarily futures, options and swaps) can be entered into using a derivatives administrator for multiple purposes including hedging, rebalancing or tactical trading. Hedging derivatives are utilized in the event that the University determines that the endowment should hedge market exposures. Rebalancing derivatives are utilized to synthetically adjust the University's investment allocation towards its policy allocation. Tactical trading derivatives are utilized to implement a view that the University may have on a particular market. Derivative activity, when initiated by the University is executed, settled and managed by the derivatives administrator on a non-discretionary basis. Such instruments are not designated as hedges for accounting purposes. Gains or losses from these derivative instruments are reported as realized and unrealized gains or losses in the Statements of Activities. The contracts and gains or losses they generate are not material to the University's financial statements.

The University has investments in certain funds, generally in the form of limited partnerships, that participate directly, or have the option to participate, in derivative instruments. The University regularly reviews the performance of these funds in the context of its overall investment objectives.

In order to reduce exposure to floating interest rates on variable rate debt, the University entered into a thirty-year interest rate swap agreement in 2004 and a ten-year interest rate swap agreement in 2001. The 2001 swap matured during 2011. The remaining agreement has the effect of fixing the rate of interest on borrowings at approximately 4.26% for \$88,300 of debt. The fair value of the swap is the estimated amount that the University would receive or pay to terminate the agreement at the reporting date, taking into account current interest rates and the current credit-worthiness of the swap counter party. The fair value of the interest rate swaps, reported on the Investments line of the Statements of Financial Position, was a liability of \$6,228 and \$7,146 at June 30, 2011 and 2010, respectively, and are considered Level 2 financial instruments under the FASB guidance on fair value measurements. The change in fair value resulted in a gain of \$918 and losses of \$3,184 in 2011 and 2010, respectively, that are reported in investment returns net of endowment spending on the Statements of Activities. These financial instruments necessarily involve counterparty credit exposure and our own non-performance risk. The counterparties for these swap transactions are major financial institutions that meet the University's criteria for financial stability and credit-worthiness.

Washington University

Notes to the Financial Statements

June 30, 2011 and 2010

(All amounts in thousands of dollars)

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, 2011 approximated \$1,291,374 and \$1,264,923 and at June 30, 2010 approximated \$1,297,731 and \$1,254,170, respectively.

9. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the University had outstanding commitments under certain construction contracts in the amount of \$20,339.

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, 2011 and 2010, respectively, were \$62,252 and \$61,798. 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.

Washington University

Notes to the Financial Statements

June 30, 2011 and 2010

(All amounts in thousands of dollars)

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 own individual 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 2011 and 2010 was \$59,875 and \$56,510, respectively.

11. AGREEMENTS WITH AFFILIATED HOSPITALS

The University is party to affiliation agreements between the University and Barnes-Jewish Hospital (BJH), St. Louis Children's Hospital (SLCH) and 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. The combined revenue is reported as affiliated hospital revenue on the Statements of Activities. At the end of 2011, the University was in the process of negotiating a renewal of its agreement to lease space from SLCH. The rental payments to SLCH for 2011 and 2010 were \$781 and \$759, respectively, and vary annually based on a formula defined in the agreement. There are also agreements between BJH and the University for leased space. Rental payments to BJH in 2011 and 2010 were \$6,080 and \$5,987, respectively. Rental payments received from BJH in 2011 and 2010 were \$2,699 and \$2,786, respectively. The University and BJH also own and operate as tenants in common, the Orthopedic Center in Chesterfield, Missouri under an agreement similar to the affiliation agreements described above.