

Washington University
Financial Statements
June 30, 2012 and 2011

Washington University
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June 30, 2012 and 2011

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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, 2012 and 2011, 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 26, 2012

Washington University
Statements of Financial Position
June 30, 2012 and 2011

(thousands of dollars)

	<u>2012</u>	<u>2011</u>
Assets:		
Cash	\$ 148,316	\$ 145,404
Investments	6,334,827	6,317,781
Collateral received for securities lending	40,949	137,698
Accounts and notes receivable, net	377,533	421,813
Pledges receivable, net	248,106	258,790
Other assets	113,533	107,309
Fixed assets, net	<u>1,895,389</u>	<u>1,905,034</u>
Total assets	<u>\$ 9,158,653</u>	<u>\$ 9,293,829</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 268,026	\$ 269,369
Liability under securities lending transactions	53,469	150,293
Deposits and advances	19,931	21,660
Professional liability	68,732	62,252
Notes and bonds payable	1,261,447	1,264,923
Deferred revenue	96,161	86,374
Liabilities under split-interest agreements	42,795	41,671
Government supported student loans	<u>45,222</u>	<u>45,155</u>
Total liabilities	<u>1,855,783</u>	<u>1,941,697</u>
Net Assets:		
Unrestricted	3,542,734	3,524,552
Temporarily restricted	2,329,002	2,454,645
Permanently restricted	<u>1,431,134</u>	<u>1,372,935</u>
Total net assets	<u>7,302,870</u>	<u>7,352,132</u>
Total liabilities and net assets	<u>\$ 9,158,653</u>	<u>\$ 9,293,829</u>

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

Washington University
Statements of Activities
June 30, 2012 and 2011

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

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

Washington University
Statements of Cash Flows
June 30, 2012 and 2011

(thousands of dollars)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (49,262)	\$ 989,863
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized net gains on investments	(14,924)	(1,009,693)
Depreciation expense	154,265	147,912
Permanently restricted gifts	(57,821)	(51,012)
Investments received as gifts - not permanently restricted	(10,181)	(10,077)
Other noncash adjustments	4,140	(4,398)
Changes in assets and liabilities		
Accounts and notes receivable, net	(2,204)	(23,095)
Pledges receivable, net	8,560	(13,137)
Accounts payable and accrued expenses	1,157	10,386
Other assets and liabilities	12,650	(16,810)
Net cash provided by operating activities	<u>46,380</u>	<u>19,939</u>
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	4,607,875	3,996,698
Purchases of investments	(4,548,417)	(3,961,590)
Purchases of fixed assets	(151,614)	(154,633)
Student loans disbursed	(24,023)	(29,721)
Student loan payments received	26,903	29,080
Other	106	(575)
Net cash used in investing activities	<u>(89,170)</u>	<u>(120,741)</u>
Cash flows from financing activities:		
Principal payments of debt	(3,390)	(198,885)
Proceeds from long-term debt issuance	600	204,618
Contributions restricted for long-term investment	48,425	63,442
Other	67	71
Net cash provided by financing activities	<u>45,702</u>	<u>69,246</u>
Net increase/(decrease) in cash	2,912	(31,556)
Cash, beginning of year	<u>145,404</u>	<u>176,960</u>
Cash, end of year	<u>\$ 148,316</u>	<u>\$ 145,404</u>
Supplemental Data		
Interest paid in cash	\$ 49,638	\$ 54,734
Noncash investing activities		
Net change in securities lending	96,750	(42,826)
Contributions of securities and other noncash assets	20,565	20,712
Change in accounts payable for fixed assets	(2,016)	(4,771)
Change in accounts receivable for investments	43,603	(42,730)
Change in accounts payable for investments	(484)	5,832
Assets acquired by assuming directly related liabilities	293	899

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

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Notes to the Financial Statements

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Presentation and Use of Estimates

The financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements include the accounts of the university and its affiliates. Certain prior year amounts presented in the financial statements have been reclassified to be consistent with the basis of presentation in the current year.

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

	<u>2012</u>		<u>2011</u>	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
General activities	\$ 1,647,604	\$ 975,001	\$ 1,751,454	\$ 946,363
Student assistance	345,880	286,172	366,906	255,224
Buildings and Renovations	324,036	146,956	323,274	145,354
Life income	<u>11,482</u>	<u>23,005</u>	<u>13,011</u>	<u>25,994</u>
Total	<u>\$ 2,329,002</u>	<u>\$ 1,431,134</u>	<u>\$ 2,454,645</u>	<u>\$ 1,372,935</u>

Investment

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

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

Fixed Assets

Fixed assets are stated at cost or at fair market values if received as a gift, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of the assets. The cost and accumulated depreciation of fixed assets are removed from the records at the time of disposal. Gains and losses on fixed asset disposals are reported in the nonoperating section of the Statements of Activities. Fixed assets by classification at June 30, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Construction in progress	\$ 95,485	\$ 85,823
Land and improvements to land	94,057	90,717
Buildings	2,891,408	2,794,481
Equipment	<u>428,350</u>	<u>447,654</u>
Total cost	3,509,300	3,418,675
Accumulated depreciation	<u>(1,613,911)</u>	<u>(1,513,641)</u>
Total, net	<u>\$ 1,895,389</u>	<u>\$ 1,905,034</u>

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Collections

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

Financing Receivables

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

The university's loan portfolio includes over 12,700 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, 2012 and 2011, more than 90% of the parent loans and 75% 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 \$248,299 in 2012 and \$237,841 in 2011. 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>2012</u>	<u>2011</u>
Scholarships from unrestricted sources	\$ 128,218	\$ 125,019
Scholarship support from gifts, endowment and other restricted sources	<u>40,875</u>	<u>38,221</u>
Total scholarships	169,093	163,240
Employee and dependent tuition benefits	26,702	26,183
Stipends	49,868	46,141
Work study	<u>2,636</u>	<u>2,277</u>
Total	<u>\$ 248,299</u>	<u>\$ 237,841</u>

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Contributions

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

Gifts and conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions, in the form of unconditional promises to give, to be received after one year are discounted at a risk-free rate for years prior to 2009. After 2008, the rates used are credit-adjusted tax exempt borrowing rates in accordance with fair value accounting. Pledges outstanding are discounted with rates ranging from 0.4% to 5.0%. Amortization of the discount is recorded as contribution revenue. Allowance is made for uncollectible unconditional promises to give based upon management's judgment, past collections experience and other relevant factors.

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

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

Patient Services Revenue

The university recognizes revenues in the period in which services are rendered. The university has agreements with third-party payers that provide for payment to the university at amounts that are generally less than its established rates. Accordingly, patient revenue is reported net of contractual allowances, at estimated net realizable amounts from patients, third-party payers and others for services rendered.

Tuition and Fee Revenue

Tuition and fee revenue, net of scholarships, is recorded primarily in the fiscal year in which the educational programs are conducted.

Auxiliary Enterprises – Sales and Services

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

Educational Activities – Sales and Services

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

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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 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.

During 2012, the university revised its accounting for revenue from certain private sources to recognize grant and contract revenue. Previously, the revenue from these funds had been reported as gifts. The effect of this revision of \$20,356 is reported on the Other line item of the non-operating section of the 2012 Statement of Activities.

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. After 2009, the discount rate used is a credit-adjusted rate in existence at the date of the gift. The rates used range from .63% to 4.04% for 2012 and 1.04% to 4.88% for 2011. 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.

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Conditional Asset Retirement Obligation

The asset retirement obligation for the university relates primarily to the removal of asbestos from certain of its buildings. Known asbestos sites are appropriately encapsulated or controlled in accordance with current environmental regulations pending ultimate removal. As of June 30, 2012 and 2011, respectively, \$16,865 and \$14,870 of conditional asset retirement obligations are included within accounts payable and accrued expenses in the Statements of Financial Position. Additional obligation recognized, obligation settled, and accretion expense were not material to results reported in the Statements of Activities in any year.

Cash and Cash Equivalents

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

Income Taxes

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

Recent Accounting Pronouncements

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

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

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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, 2012 by caption on the Statements of Financial Position and 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 are U.S. Treasury securities of approximately \$720,000.

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance June 30, 2012
Investments:				
Public equity				
Domestic	\$ 369,795	\$ 656,557	\$ 7,000	\$ 1,033,352
International	1,077,725	-	63,948	1,141,673
Fixed income				
Nominal	-	738,025	-	738,025
Real	-	223,215	78,546	301,761
Hedged strategies	-	805,596	616,688	1,422,284
Private equity	-	-	933,553	933,553
Short-term investments	-	103,772	-	103,772
Deposits with bond trustees	-	-	-	-
Split-interest agreements	37,372	42,166	3,271	82,809
Beneficial interest trusts	-	-	26,351	26,351
Real assets	-	-	487,240	487,240
Other investments	-	(8,842)	24,829	15,987
Total investments at fair value	<u>1,484,892</u>	<u>2,560,489</u>	<u>2,241,426</u>	<u>6,286,807</u>
Fixed income assets received from security borrowers	-	40,949	-	40,949
Total assets reported at fair value	<u>\$ 1,484,892</u>	<u>\$ 2,601,438</u>	<u>\$ 2,241,426</u>	<u>\$ 6,327,756</u>

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, 2011, by caption on the Statements of Financial Position by the valuation hierarchy defined above. Also, included as Level 2 fixed income are U.S. Treasury securities of approximately \$648,000.

	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Balance June 30, 2011
Investments:				
Public equity				
Domestic	\$ 371,197	\$ 754,316	\$ 87,589	\$ 1,213,102
International	1,175,588	7,222	44,835	1,227,645
Fixed income				
Nominal	-	630,562	1,844	632,406
Real	-	234,182		234,182
Hedged strategies	-	771,918	661,210	1,433,128
Private equity	-	-	793,898	793,898
Short-term investments	-	148,489	-	148,489
Deposits with bond trustees	14,434	-	-	14,434
Split-interest agreements	41,181	40,160	3,344	84,685
Beneficial interest trusts	-	-	28,159	28,159
Real assets	-	-	438,911	438,911
Other investments		(6,902)	24,776	17,874
Total investments at fair value	1,602,400	2,579,947	2,084,566	6,266,913
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>

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

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

Included as Investments on the Statements of Financial Position, at June 30, 2012 and 2011, respectively, but not reported in the tables above, are accrued investment income of \$7,187 and \$10,530 and investments in affiliates of \$40,833 and \$40,338, which are recorded on the equity basis of accounting. A portion of Level 2 and 3 equity amounts reported above as of June 30, 2012 and 2011 are in hedge-type strategies and a portion of real assets are invested in private equity-type structures. Beneficial interests in 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 \$26,351 and \$28,159 in 2012 and 2011, respectively.

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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 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 net asset value. 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.

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Fixed income and Short-term investments: Investments in this class include domestic and international nominal fixed income (nominal) and inflation indexed bonds (real). Fixed income investments are held principally as liquid vehicles for operating needs and as a source of diversification. A significant component of nonendowment 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 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, 2012 and 2011 was \$2,088,272 and \$2,131,062, respectively. Of this amount, \$129,283 and \$133,165 at June 30, 2012 and 2011, respectively, was in side pockets with indeterminate redemption periods. Another \$144,912 and \$174,494 were subject to initial investment lock-ups that at June 30, 2012 and 2011, respectively, will expire over the next 7 to 24 months. Some funds subject to lock-up permit early redemptions subject to a fee. At June 30, 2012, the university had commitments outstanding of approximately \$38,750 for hedged strategy funds and \$57,500 for equity investments with a hedge fund structure.

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 15 years assuming all extension options under the agreements are exercised and approved. At June 30, 2012, the university had total private market commitments outstanding of approximately \$849,812.

Real assets: Investments in the real assets class are made in targeted categories including natural resources and real estate. Such accounts represent approximately 8% 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, 2012 and 2011.

	<u>Balance June 30, 2011</u>	<u>Net realized and unrealized gains (losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>Transfer in/(out) of Level 3, net</u>	<u>Balance June 30, 2012</u>
Investments:						
Public equity						
Domestic	\$ 87,589	\$ (25,150)	\$ 45	\$ (55,534)	\$ 50	\$ 7,000
International	44,835	(3,543)	42,500	(19,844)	-	63,948
Fixed income						
Nominal	1,844	(210)	-	-	(1,634)	-
Real		70,124	86,968	-	(78,546)	78,546
Hedged strategies	661,210	7,203	83,355	(16,868)	(118,212)	616,688
Private equity	793,898	70,685	187,633	(118,663)	-	933,553
Short-term investments	-	-	-	-	-	-
Deposits with bond trustees	-	-	-	-	-	-
Split-interest agreements	3,344	(198)	125	-	-	3,271
Beneficial interest trusts	28,159	(689)	2,320	(2,645)	(794)	26,351
Real assets	438,911	7,075	88,551	(47,297)	-	487,240
Other investments	24,776	(52)	126	(21)	-	24,829
Totals	<u>\$ 2,084,566</u>	<u>\$ 125,245</u>	<u>\$ 491,623</u>	<u>\$ (260,872)</u>	<u>\$ (199,136)</u>	<u>\$ 2,241,426</u>

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

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

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	<u>Balance June 30, 2010</u>	<u>Net realized and unrealized gains (losses)</u>	<u>Purchases, sales and settlements, net</u>	<u>Transfers in/(out) of Level 3, net</u>	<u>Balance June 30, 2011</u>
Investments:					
Public equity					
Domestic	\$ 99,962	\$ 21,945	\$ (20,905)	\$ (13,413)	\$ 87,589
International	70,910	15,839	(14,227)	(27,687)	44,835
Fixed income					
Nominal	41,680	945	(19,805)	(20,976)	1,844
Real		-	-	-	-
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)	-
Deposits with bond trusts	-	-	-	-	-
Split-interest agreements	7,850	494	(5,000)	-	3,344
Beneficial interest trusts	19,450	3,602	5,856	(749)	28,159
Real assets	312,032	82,178	20,282	24,419	438,911
Other investments	25,524	453	(1,201)	-	24,776
Totals	<u>\$ 1,838,662</u>	<u>\$ 345,378</u>	<u>\$ (40,716)</u>	<u>\$ (58,758)</u>	<u>\$ 2,084,566</u>

Included in the change in net assets is the amount of net unrealized gains/(losses) for Level 3 investments for the period relating to assets still held at June 30, 2011. This amount is reported as investment returns net of endowment spending in the Statements of Activities by type as follows:

Public equity	
Domestic	\$ 20,124
International	10,393
Fixed income	
Nominal	793
Real	-
Hedged Strategies	66,880
Private Equity	43,415
Short-term investments	-
Deposits with bond trustees	-
Split-interest agreements	494
Beneficial interest trusts	2,611
Real assets	48,058
Other investments	<u>453</u>
Total	<u>\$ 193,221</u>

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3. INVESTMENT RETURN

The following summarizes the return on investments. Investment income represents earnings on nonendowed funds. Return on investments is presented net of investment management fees. Certain investments, including some but not all of those in the hedged and private equity categories, report investment returns net of fees. Identifiable fees incurred were \$44,590 and \$38,139 for 2012 and 2011, respectively.

	<u>2012</u>	<u>2011</u>
Investment income	\$ 9,070	\$ 8,580
Pooled endowment dividends and interest income	26,471	32,091
Pooled endowment distribution in excess of income	<u>200,778</u>	<u>188,900</u>
Pooled endowment spending distribution	227,249	220,991
Investment gains, net	14,925	1,009,693
Gains distributed as endowment distribution	<u>(200,778)</u>	<u>(188,900)</u>
Investment returns net of endowment spending distribution	<u>(185,853)</u>	<u>820,793</u>
Net investment gains	<u>\$ 50,466</u>	<u>\$ 1,050,364</u>

At June 30, 2012 and 2011, investments with a fair value of \$51,997 and \$146,350, respectively, were loaned to various brokers for average periods varying from several weeks to several 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, 2012 and 2011. The university is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers provided \$53,469 and \$150,293 of cash collateral for the loaned securities at June 30, 2012 and 2011, 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 \$40,949 and \$137,698 at June 30, 2012 and 2011, respectively.

4. ENDOWMENT

The state of Missouri has 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, 2012, the university's endowment consists of 2,888 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.

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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, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (4,951)	\$ 2,062,877	\$ 1,330,301	\$ 3,388,227
Board-designated endowment funds	<u>1,732,656</u>	<u>115,479</u>	<u>-</u>	<u>1,848,135</u>
Total endowment funds	<u>\$ 1,727,705</u>	<u>\$ 2,178,356</u>	<u>\$ 1,330,301</u>	<u>\$ 5,236,362</u>

Changes in endowment net assets for the year ended June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,774,845	\$ 2,281,045	\$ 1,271,617	\$ 5,327,507
Investment return:				
Net investment income	10,730	17,983	-	28,713
Net appreciation (realized and unrealized)	<u>8,463</u>	<u>5,561</u>	<u>(1,376)</u>	<u>12,648</u>
Total investment return	19,193	23,544	(1,376)	41,361
Gifts	396	6,386	59,953	66,735
Appropriation of endowment asset for expenditure	(92,013)	(135,236)	-	(227,249)
Net transfers to create board designated endowment funds	34,662	3,042	1,323	39,027
Allocation of endowment return to Treasurers Investment Pool	(10,171)	-	-	(10,171)
Reclassification of deficits in donor designated funds	1,702	(1,702)	-	-
Other activity	<u>(909)</u>	<u>1,277</u>	<u>(1,216)</u>	<u>(848)</u>
Endowment net assets at end of year	<u>\$ 1,727,705</u>	<u>\$ 2,178,356</u>	<u>\$ 1,330,301</u>	<u>\$ 5,236,362</u>

Of the amount classified as temporarily restricted endowment net assets, \$1,732,678 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, 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	<u>1,778,094</u>	<u>116,705</u>	<u>-</u>	<u>1,894,799</u>
Total endowment funds	<u>\$ 1,774,845</u>	<u>\$ 2,281,045</u>	<u>\$ 1,271,617</u>	<u>\$ 5,327,507</u>

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 asset 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 at 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.

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>2012</u>	<u>2011</u>
Restricted for general activities	\$ 880,455	\$ 849,493
Restricted for student assistance	279,885	250,816
Restricted for buildings and renovations	146,956	145,314
Life income	<u>23,005</u>	<u>25,994</u>
Total endowment net assets classified as permanently restricted net assets	<u>\$ 1,330,301</u>	<u>\$ 1,271,617</u>

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Temporarily restricted net assets

Temporarily restricted endowment funds net assets:

	<u>2012</u>	<u>2011</u>
Restricted for general activities	\$ 1,572,327	\$ 1,636,554
Restricted for student assistance	337,325	360,302
Restricted for buildings and renovations	257,716	272,232
Life income	<u>10,988</u>	<u>11,957</u>
Total endowment net assets classified as temporarily restricted net assets	<u>\$ 2,178,356</u>	<u>\$ 2,281,045</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 \$4,951 and \$3,249 as of June 30, 2012 and 2011, 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 meet or exceed the return of 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.

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 2012, the spending rate from the pooled endowment was 4.3% of the beginning market value of the pooled endowment. The spending rate is funded from current

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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 1.7% in 2012 and 20.7% in 2011.

The university's endowed assets are as follows:

	Fair Market Value at June 30, 2012	Fair Market Value at June 30, 2011
Pooled endowment	\$ 5,184,931	\$ 5,227,542
Life income trusts and pools	80,259	81,969
Beneficial interest trusts	26,351	28,159
Separately invested endowment	11,655	11,201
Total	<u>\$ 5,303,196</u>	<u>\$ 5,348,871</u>

5. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable at June 30 were as follows:

	2012	2011
Patient services	\$ 201,638	\$ 178,933
Student and parent loans		
Parent loan fund	62,203	69,718
Government student loans	46,553	44,025
Institutional student loans	22,642	21,603
Due from affiliates	83,721	68,370
Other	74,896	139,008
	<u>491,653</u>	<u>521,657</u>
Less: Allowance for concessions and doubtful accounts	<u>(114,120)</u>	<u>(99,844)</u>
Total	<u>\$ 377,533</u>	<u>\$ 421,813</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 nongovernment student and parent loans is collection experience. In order to reduce its credit risk, the university

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has adopted credit policies which include a review of credit limits and maintaining an active collections process with the assistance of third party collection agencies as necessary. At June 30, 2012 the allowance for parent and institutional student loans was \$3,973 compared to \$3,740 at June 30, 2011. Accounts are considered past due if a scheduled payment is forty-five days late. The balance in such accounts was \$8,797 and \$8,364 at June 30, 2012 and June 30, 2011, 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 nondischargeable in bankruptcy, accounts are not typically considered uncollectible until all collection efforts have been exhausted with no receipt of payment. At this time, a loan will be written off.

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6. NOTES AND BONDS PAYABLE

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

Missouri Health and Educational Facilities Authority:	Rates at June 30, 2012	Maturity	2012	2011
\$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	0.01% - 0.30%	September 1, 2030	\$ 142,400	\$ 142,400
\$88,000 of 2000B and C Series Variable Rate Bonds, due in full	0.01% - 0.26%	March 1, 2040	88,000	88,000
\$176,490 of 2001A Series Bonds, due in full	5.50%	June 15, 2016	48,250	48,250
\$93,430 of 2003A Series Bonds, due in full	5.00%	February 15, 2033	93,430	93,430
\$25,135 of 2003B Series Variable Rate Bonds, due in full	0.01% - 0.28%	February 15, 2033	25,135	25,135
\$100,000 of 2004 Series A and B Variable Rate Bonds, due annually	0.01% - 0.28%	February 15, 2034	86,000	88,300
\$20,780 of 2005A Series Refunding Bonds due annually	3.00% - 5.00%	February 15, 2022	13,850	14,940
\$104,020 of 2007 A Series Bonds, due in full	5.00%	January 15, 2037	104,020	104,020
\$126,975 of 2007B Series Refunding Bonds, due serially from January 15, 2021 to January 15, 2041	4.20% - 4.50%	January 15, 2041	126,975	126,975
\$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	193,625	193,625
\$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	93,770	93,770
\$22,985 of 2011A Series Revenue Bonds due in full November 15, 2041	5.00%	November 15, 2041	22,985	22,985
\$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	96,350	96,350
\$77,495 of 2011C Series Revenue Bonds due serially from November 15, 2012 to November 15, 2037	0.75% - 5.06%	November 15, 2037	77,495	77,495
Other Notes Payable			30,419	29,525
Total outstanding notes and bonds payable			1,242,704	1,245,200
Unamortized original issue premiums/ discounts, net			18,743	19,723
Total			<u>\$1,261,447</u>	<u>\$1,264,923</u>

Washington University

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(All amounts in thousands of dollars)

Bonds payable are redeemable at the option of the university at various times from 2013 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 2012 and 2011, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled \$51,082 and \$51,819, respectively.

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

2013	\$	7,665
2014		7,490
2015		7,070
2016		55,530
2017		7,500
Thereafter		1,157,449

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 failed to meet its obligations to the lender to service debt incurred for construction, the university could have been called upon to satisfy those obligations. Should this have occurred, the university would have had an option to acquire the building for the amount of such unpaid debt service. During 2012, the agreement and the option expired. The university entered into an agreement to guarantee up to \$21 million of new builder debt for a period of one year. The guarantee is secured by a deed of trust on the building. Also in 2005, 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 is recognizing 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 \$28,819 at June 30, 2012.

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 was accounted for as an extinguishment with a recognized loss of \$5,593 reported on the 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, 2012. The university expects that these lines of credit will be renewed but can make no assurances.

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(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 nondiscretionary 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 \$86,000 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 creditworthiness of the swap counter party. The fair value of the interest rate swap, reported on the Investments line of the Statements of Financial Position, was a liability of \$7,338 and \$6,228 at June 30, 2012 and 2011, respectively, and is considered a Level 2 financial instrument under the FASB guidance on fair value measurements. The change in fair value resulted in a loss of \$1,110 and gain of \$918 in 2012 and 2011, 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 the university's own nonperformance risk. The counterparties for these swap transactions are major financial institutions that meet the university's criteria for financial stability and creditworthiness.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of accrued investment income and accounts 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

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with similar maturities and credit quality. The fair value of notes and bonds payable with fixed interest rates, reportable as Level 2 in the valuation hierarchy discussed in Note 2, represents the quoted market value. The estimated fair value and carrying amount of all notes and bonds payable at June 30, 2012 approximated \$1,350,859 and \$1,261,447 and at June 30, 2011 approximated \$1,291,374 and \$1,264,923, respectively.

9. COMMITMENTS AND CONTINGENCIES

At June 30, 2012, the university had outstanding commitments under certain construction contracts in the amount of \$19,442.

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, 2012 and 2011, respectively, were \$68,732 and \$62,252. 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, Statement of Activities, 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 own individual retirement accounts through the Teachers Insurance and Annuity Association (TIAA), College Retirement Equity Fund (CREF), and/or the Vanguard Group, Inc. Under this arrangement, the university and plan participants make monthly contributions to TIAA-CREF and/or Vanguard. For employees who were benefits eligible 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 2012 and 2011 was \$62,130 and \$59,875, respectively.

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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. The rental payments to SLCH for 2012 and 2011 were \$782 and \$781, 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 2012 and 2011 were \$6,582 and \$6,080, respectively. Rental payments received from BJH in 2012 and 2011 were \$2,841 and \$2,699, 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.

12. SUBSEQUENT EVENTS

The university has performed an evaluation of subsequent events through September 26, 2012, which is the date the financial statements were issued. In August 2012, the university issued \$200,785 of revenue bonds through the Missouri Health and Educational Facilities Authority (MOHEFA). The bonds bear rates ranging between 2.391% and 3.685% and mature at various dates between 2023 and 2047. The proceeds of these bonds will be used to refinance the 2003A bonds and for various construction projects.