Washington University

Consolidated Financial Statements

June 30, 2019 and 2018

Washington University
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June 30, 2019 and 2018

Report of Independent Auditors

To the Board of Trustees of Washington University:

We have audited the accompanying consolidated financial statements of Washington University and its affiliates, which comprise the consolidated Statements of Financial Position as of June 30, 2019 and 2018, and the related consolidated Statements of Activities and Cash Flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington University and its affiliates as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

St. Louis, Missouri
September 25, 2019

Washington University
Consolidated Statements of Financial Position
June 30, 2019 and 2018

(thousands of dollars)	2019	2018
Assets		
Cash and cash equivalents	$ 400,100	$ 366,525
Investments	9,723,936	9,248,311
Accounts and notes receivable, net	621,325	494,685
Pledges receivable, net	389,944	439,318
Other assets	272,499	231,280
Fixed assets, net	2,736,428	2,541,137
Total assets	$ 14,144,232	$ 13,321,256
Liabilities		
Accounts payable and accrued expenses	$ 692,819	$ 484,625
Deposits, advances and other	29,945	23,308
Professional liability	84,236	73,756
Deferred revenue and contract liabilities	150,426	137,744
Liabilities under split-interest agreements	38,806	40,842
Government supported student loans	34,981	36,232
Notes and bonds payable	2,064,087	2,030,781
Total liabilities	3,095,300	2,827,288
Net Assets		
Without donor restrictions	5,476,886	5,154,934
With donor restrictions	5,572,046	5,339,034
Total net assets	11,048,932	10,493,968
Total liabilities and net assets	$ 14,144,232	$ 13,321,256

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

Washington University
Consolidated Statements of Activities
June 30, 2019

(thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	June 30, 2019 Total
Revenues			
Tuition and fees, net	$ 441,915		$ 441,915
Endowment spending distribution	331,548	9,764	341,312
Investment return	25,983	1,499	27,482
Gifts	137,035	90,201	227,236
Grants and contracts revenues			
Direct costs recovered	466,504		466,504
Facilities and administrative costs recovered	168,737		168,737
Patient services, net	1,381,149		1,381,149
Auxiliary enterprises - sales and services	126,182		126,182
Educational activities - sales and services	195,738		195,738
Affiliated hospital revenues	125,321		125,321
Other revenue	42,943	15	42,958
Net assets released from restrictions	132,292	(132,292)	-
Total Revenues and other support	3,575,347	(30,813)	3,544,534
Expenses:			
Compensation expense	2,041,168		2,041,168
Supplies, services, and other	1,060,079		1,060,079
Depreciation expense	188,858		188,858
Interest expense	65,629		65,629
Total expenses	3,355,734	-	3,355,734
Net operating results	219,613	(30,813)	188,800
Non-operating revenues and (expenses):			
Investment returns net of endowment spending	139,305	128,890	268,195
Permanently restricted gifts		120,914	120,914
Other non-operating	(36,966)	14,021	(22,945)
Non-operating, net	102,339	263,825	366,164
Change in net assets	321,952	233,012	554,964
Net Assets, Beginning of the Year	5,154,934	5,339,034	10,493,968
Net Assets, End of the Year	$ 5,476,886	$ 5,572,046	$ 11,048,932

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

Washington University
Consolidated Statements of Activities
June 30, 2018

(thousands of dollars)	Without Donor Restrictions	With Donor Restrictions	June 30, 2018 Total
Revenues			
Tuition and fees, net	$ 411,816		$ 411,816
Endowment spending distribution	315,774	7,121	322,895
Investment return	21,245	320	21,565
Gifts	80,958	326,925	407,883
Grants and contracts revenues			
Direct costs recovered	433,429		433,429
Facilities and administrative costs recovered	155,381		155,381
Patient services, net	1,257,407		1,257,407
Auxiliary enterprises - sales and services	114,870		114,870
Educational activities - sales and services	181,235		181,235
Affiliated hospital revenues	127,595		127,595
Other revenue	40,275	(540)	39,735
Net assets released from restrictions	113,491	(113,491)	-
Total Revenues and other support	3,253,476	220,335	3,473,811
Expenses:			
Compensation expense	1,870,098		1,870,098
Supplies, services, and other	950,106		950,106
Depreciation expense	180,470		180,470
Interest expense	63,046		63,046
Total expenses	3,063,720	-	3,063,720
Net operating results	189,756	220,335	410,091
Non-operating revenues and (expenses):			
Investment returns net of endowment spending	225,640	259,678	485,318
Permanently restricted gifts		119,904	119,904
Other non-operating	1,085	(4,609)	(3,524)
Non-operating, net	226,725	374,973	601,698
Change in net assets	416,481	595,308	1,011,789
Net Assets, Beginning of the Year	4,738,453	4,743,726	9,482,179
Net Assets, End of the Year	$ 5,154,934	$ 5,339,034	$ 10,493,968

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

Washington University
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

(thousands of dollars)	2019	2018
Cash flows from operating activities		
Change in net assets	$ 554,964	$ 1,011,789
Adjustments to reconcile change in net assets to cash provided by operating activities		
Realized and unrealized net gains on investments	(644,999)	(835,751)
Depreciation expense	188,858	180,470
Permanently restricted gifts	(120,914)	(119,904)
Investments received as gifts - not permanently restricted	(9,780)	(11,765)
Proceeds from sales of investments received as gifts	9,780	11,765
Other non-cash adjustments	(27,225)	(10,083)
Changes in assets and liabilities		
Accounts and notes receivable, net	(91,692)	(28,290)
Pledges receivable, net	52,044	(215,761)
Accounts payable and accrued expenses	88,511	33,066
Deposits and advances	(24,860)	(17,077)
Other assets and liabilities	6,300	14,301
Net cash (used)/provided by operating activities	(19,013)	12,761
Cash flows from investing activities		
Proceeds from sales and maturities of investments	6,827,007	10,389,420
Purchases of investments	(6,553,046)	(10,278,075)
Sales of investments with securities lending collateral	-	173,889
Purchases of fixed assets	(379,697)	(379,906)
Student loans disbursed	(14,637)	(18,161)
Student loan payments received	21,901	23,087
Other	4	55
Net cash used in investing activities	(98,468)	(89,691)
Cash flows from financing activities		
Principal payments of debt	(22,099)	(22,788)
Proceeds from long-term debt issuance	55,298	423,296
Contributions restricted for long-term investment	79,769	52,038
Proceeds from sales of investments received as gifts	39,338	46,553
Securities lending collateral (sold) received, net	-	(173,889)
Other	(1,250)	(10,625)
Net cash provided by financing activities	151,056	314,585
Net increase in cash	33,575	237,655
Cash		
Beginning of year	366,525	128,870
End of year	$ 400,100	$ 366,525
Supplemental data		
Interest paid in cash	$ 64,212	$ 57,122
Noncash activities		
Contributions of securities and other noncash assets	49,137	59,157
Net change in accounts payable for fixed assets	8,501	4,328
Net change in accounts receivable for investments	(37,185)	(6,654)
Net change in accounts payable for investments	122,649	7,090

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

(All amounts in thousands of dollars)

1. Summary of Significant Accounting Policies

Organization

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

Basis of Presentation and Use of Estimates

The consolidated financial statements have been prepared on the accrual basis of accounting. The consolidated financial statements are consolidated to include the accounts of the university and its affiliates. Significant consolidated affiliates include The Barnard Free Skin and Cancer Hospital, Parallel Properties LLC including its affiliates, Washington University Clinical Associates, LLC and associated physician practices, and Washington University Physicians in Illinois, Inc.

The preparation of consolidated 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 consolidated 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 (see footnote 2), 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 based on the absence or existence of donor-imposed restrictions. Descriptions of the net asset categories follow:

- Net assets without donor restrictions are free of donor-imposed restrictions. Board-designated endowment funds are also included within net assets without donor restrictions.

- Net assets with donor restrictions 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 as well as 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 net assets without donor restrictions. Contributions are reported as increases in the appropriate category of net assets, except that contributions which impose donor restrictions that are met in the same fiscal year they are received are included in revenues without donor restrictions. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in net assets without donor restrictions 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 remain in net assets with donor restrictions until appropriated for expenditure. When a donor restriction expires due to the passage of time or the university's fulfillment of donor stipulated purpose, net assets are reclassified to net assets without donor restrictions and reported in the Consolidated Statements of Activities as net assets released from restrictions. Donor restricted gifts that are to be held in perpetuity are reported in the non-operating section of the Consolidated Statements of Activities. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and

(All amounts in thousands of dollars)

gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the university reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Expenses are reported as decreases in net assets without donor restrictions.

The university's net assets as of June 30, 2019 consist of the following:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 4,891,626	$ 4,891,626
Board-designated endowment funds	2,845,594	271,705	3,117,299
Investment in plant, net	711,525	-	711,525
Pledges	-	389,944	389,944
Other donor-restricted	-	18,771	18,771
Operating and other reserves	1,919,767	-	1,919,767
	$ 5,476,886	$ 5,572,046	$ 11,048,932

The university's net assets as of June 30, 2018 consist of the following:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ -	$ 4,649,476	$ 4,649,476
Board-designated endowment funds	2,757,498	233,195	2,990,693
Investment in plant, net	643,786	-	643,786
Pledges	-	439,318	439,318
Other donor-restricted	-	17,045	17,045
Operating and other reserves	1,753,650	-	1,753,650
	$ 5,154,934	$ 5,339,034	$ 10,493,968

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 Consolidated 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, 2019 and 2018, investments include $39,185 and $133,430, respectively, purchased with unexpended proceeds from the Series 2017 A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds issued July 6, 2017. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.

(All amounts in thousands of dollars)

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. Fixed assets include equipment and other assets acquired through sponsored programs during which title is retained by the resource provider. It is probable the university will be permitted to keep the assets when the program terminates. The cost and accumulated depreciation of fixed assets are removed from the records at the time of disposal. Fixed assets by classification at June 30, 2019 and 2018 consist of the following:

	2019	2018
Construction in progress	$ 489,868	$ 400,842
Land and improvements to land	160,860	150,995
Buildings	4,036,657	3,850,398
Equipment	573,804	553,156
Total cost	5,261,189	4,955,391
Accumulated depreciation	(2,524,761)	(2,414,254)
Total, net	$ 2,736,428	$ 2,541,137

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 Consolidated Statements of Financial Position (see footnote 6).

The university's loan portfolio includes over 7,800 individual loans and is geographically diverse. Loans are considered past due if the minimum payment is not received within thirty-one days past the due date. At June 30, 2019 and 2018, respectively, 90% and 92% of the parent loans and 74% and 77% of the institutional student loans were considered current. Income earned on financing receivables is recorded on an accrual basis.

Deferred Revenue and Contract Liabilities

Deferred revenue is recognized on an accrual basis when payments for services are received in advance of performance by the university. The principle components of deferred revenue are clinical trial receipts, grants and contracts, and prepaid tuition and housing.

(All amounts in thousands of dollars)

Revenue Recognition

On July 1, 2018, the university adopted the Financial Accounting Standards Board, Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (ASC 606). Prior to the adoption of ASC 606, the University recognized revenue under ASC 605, which focused on transaction specific guidance for revenue recognition. ASC 606 affects all contracts entered into with customers that result in a transfer of goods or services or a transfer of non-financial assets. The core principle of the standard is for organizations to recognize revenue in a way that depicts the transfer of goods or services to customers in amounts that reflect the consideration or payment to which the organization expects to be entitled. The university adopted ASC 606 using the modified retrospective method, whereby the cumulative effect of applying the standard is recognized in net assets on the date of adoption. The university elected to apply the new standard only to contracts not completed at the adoption date. Except for Sponsored Research Contracts within Grants and Contracts, Educational Activities Sales and Services and Clinical Trials, substantially all contracts are less than 12 months in duration and the university has elected to expense contract costs as incurred and to not adjust the transaction price for any significant financing component.

The university recorded revenue from contracts with customers during fiscal 2019 in the major service categories presented in the table below. The total amounts reported in Grants and Contracts on the Statement of Activities includes contribution income which is not included in the Sponsored Research Contracts within Grants and Contracts in the table below.

When using the modified retrospective approach, comparative prior period information continues to be accounted for under the accounting standards in effect for the period presented. ASC 606 changed the pattern of revenue recognition for some contracts with customers. Implicit price concessions are now recognized when revenue is first recognized for both tuition and patient services. Bad debt expense for patient services, reported in fiscal 2018 as expense on the Statement of Activities, was reclassified and offsets the revenue line items to which it applies. Clinical trial revenue is adjusted to be consistent with the input method described below.

The effect by line item in the 2019 Statement of Activities of this change is presented in the table below.

	Under ASC 605	Effect	Under ASC 606
Tuition and fees, net of scholarship	$ 441,942	$ (27)	$ 441,915
Sponsored research contracts within grants and contracts	31,577	-	31,577
Patient services	1,492,702	(111,553)	1,381,149
Auxiliary enterprises - sales and services	126,182	-	126,182
Educational activities - sales and services			
Clinical trials revenue	82,337	2,853	85,190
Other activities	110,548	-	110,548
Affiliated hospital revenue	125,321	-	125,321
Supplies, services, and other expense	1,171,659	(111,580)	1,060,079

(All amounts in thousands of dollars)

Tuition and Fees

Tuition and fee revenue, net of scholarships and other implicit price concessions, is recognized over-time using the output method of measuring progress in the fiscal year in which the educational programs are conducted. Students are invoiced at the commencement of each academic period. Payment is due when invoiced. The performance obligation, delivery of educational services, is satisfied as services are rendered. If delivery of the performance obligation is not complete as of fiscal year-end, a contractual liability is recorded. The deferred contract liability at June 30, 2019 and 2018 was $49,992 and $49,893, respectively, and is reported as deferred revenue and contract liabilities on the Statement of Financial Position.

Demonstrated financial need is the major criteria for undergraduate students to receive financial aid. 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, for the years ended June 30, 2019 and 2018, respectively, was $387,069 and $356,526. The table below identifies student aid by type. Scholarships are reported net against tuition in the Consolidated Statements of Activities. Other amounts are reported as expenses.

	2019	2018
Scholarships from unrestricted sources	$ 202,587	$ 188,072
Scholarship support from gifts, endowment and other restricted sources	68,195	59,853
Total scholarships	270,782	247,925
Employee and dependent tuition benefits	37,531	35,025
Stipends	76,443	71,535
Work study	2,313	2,041
Total	$ 387,069	$ 356,526

Gifts

Gifts, including unconditional promises to give, are recognized as revenues in the period the gift or promise is received. Gifts received for permanent endowments or perpetual trusts are reported as non-operating revenues. Gifts of assets other than cash are recorded at their estimated fair value at the date of gift and, unless instructed otherwise by the donor, are liquidated upon receipt or as soon as practical thereafter.

Conditional gifts and promises to give are not recognized until the conditions on which they depend are substantially met. Gifts, in the form of unconditional promises to give, to be received after one year are discounted at credit-adjusted tax exempt borrowing rates in accordance with fair value accounting. Pledges outstanding are discounted with rates ranging from 0.92% to 2.04%. Amortization of the discount is recorded as gift revenue. The university has received gifts which are recorded as gift revenue in the period the gift was made but are payable over a specified payment schedule of up to 10 years or more. During the gift payment term, the university is exposed to credit risk for the entity or individual that has made the gift. An allowance is made for uncollectible unconditional promises to give based upon management's judgment, past collections experience and other relevant factors. During fiscal year 2018, the university received a pledge of $20,000 annually to be paid over a period of 10 years beginning in fiscal year 2019.

(All amounts in thousands of dollars)

A summary of pledges receivable is as follows:

	2019	2018
In one year or less	$ 122,226	$ 148,143
Between two and five years	172,661	208,318
Over five years	116,732	108,721
	411,619	465,182
Less:		
Discount	(16,414)	(19,739)
Allowance for uncollectible amounts	(5,261)	(6,125)
Total	$ 389,944	$ 439,318

Grants and Contracts

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. At contract inception, the university determines whether the goods or services to be provided are to be accounted for as a single performance obligation or as multiple performance obligations. If multiple performance obligations are identified, the university generally uses the cost plus a margin approach to determine the relative standalone selling price of each performance obligation. Revenue from these contracts is earned over-time. Invoicing of the customer, if required, will generally be in accordance with terms of the contract with payment due when invoiced. Generally, the time between the receipt of payment and the transfer of goods and service under these contracts is less than one year.

The university records revenue without donor restrictions upon its recovery of direct and indirect costs applicable to those sponsored programs that provide for the full or partial reimbursement of such costs. Most grants awarded to the university by government agencies are conditional contributions. The principle condition attached to these awards is that the university must incur costs in accordance with the Office of Management and Budget's uniform guidance before costs can be reimbursed. Total amounts promised under these grants for which conditions have not yet been fulfilled are approximately $807,235 at June 30, 2019. The recovery of indirect costs, also referred to as facilities and administrative costs is based on negotiated rates and represents recoveries of facilities and administrative costs incurred under grants and contracts agreements. Recovery of facilities and administrative costs of Federally sponsored programs is at rates negotiated with the Department of Health and Human Services.

In some cases, the sponsor will prepay amounts in anticipation of costs to be incurred. In those cases, amounts received in excess of costs incurred are recorded as contract liabilities. The contract liabilities amounts at June 30, 2019 and 2018 are $13,287 and $12,653, respectively.

Patient Services Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the university expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others. Generally, the university bills the patient and third-party payers several days after the services are performed. Revenue is recognized as performance obligations are satisfied.

(All amounts in thousands of dollars)

Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges which provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

Because the majority of its performance obligations relate to contracts with a duration of less than one year, the university has elected to apply the practical expedient provided in FASB ASC 606-10-50-14a, and therefore is not required to disclose the aggregate amounts of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Generally patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The university also provides services to uninsured patients. The transaction price for both uninsured patients, as well as insured patients with deductibles and coinsurance, is estimated based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. The university determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The university determines its estimate of implicit price concessions based on historical collection experience with these classes of patients using a portfolio approach as a practical expedient. The portfolio approach is being used as there are a large volume of similar contracts with similar classes of customers. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. The effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Contractual adjustments to patient service revenue were $1.79 billion and $1.51 billion for the years ended June 30, 2019 and 2018, respectively.

The university has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. In certain instances, the university may enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. The university reported net accounts receivable for patient services of $168,877 and $172,727, at June 30, 2019 and 2018, respectively.

(All amounts in thousands of dollars)

Auxiliary Enterprises – Sales and Services
Auxiliary enterprises sales and services revenue is primarily earned over-time utilizing the output method of measuring progress. Auxiliary enterprise sales and services contracts will generally constitute a single performance obligation as there is a single promise. This revenue is composed primarily of on and off campus housing charges, dining services, and parking and transportation fees with separate contracts for each type of service. Housing, dining services and parking fees are invoiced to undergraduate students at the beginning of each academic period. Payment is due upon invoice issuance. Graduate students and undergraduates who live off campus sign rental agreements providing for monthly rent payments. Each contract for services in this category has a duration of one year or less. A contract liability is recorded for the delivery of performance obligations that is not completed prior to the fiscal year end. The contract liabilities at June 30, 2019 and 2018 are $10,034 and $10,235, respectively, and are reported as deferred revenue and contract liabilities on the Statement of Financial Position.

Educational Activities – Sales and Services
Clinical trial revenue is earned over-time as the university provides services. The transaction price is negotiated with the customer and is usually based on standard rates for clinical services and the expected cost to complete the contract. Payment terms under these contracts vary but generally provide for the right to invoice the customer as work progresses, either based on units performed or the achievement of billing milestones. Management has determined that an input method using costs incurred as a basis to estimate revenue earned best depicts the pattern of transfer of control to the customer. In those limited cases where prepayments are significant, revenue is deferred until earned and a contract liability is recorded. The contract liabilities at June 30, 2019 and 2018 are $40,954 and $36,120, respectively, and are reported as deferred revenue and contract liabilities on the Statement of Financial Position.

Contracts in other educational sales and services cover a broad range of activities including physician services to affiliated and unaffiliated hospitals, executive education program fees and royalties. Revenue from the contracts in this category is earned over-time as services are rendered. The measure of progress varies according to the nature of the services provided. Invoicing to customers is performed in the cadence required under the contracts and amounts invoiced generally are considered due upon receipt. Accruals for services provided but not yet invoiced are recorded at year end. Amounts receivable under service contracts are $85,497 and $57,156 at June 30, 2019 and 2018, respectively. Fees for executive education programs are often received in advance of the program and represent a contract liability. Such amounts are reported as deferred revenue and contract liabilities in the Statement of Financial Position.

(All amounts in thousands of dollars)

Affiliated Hospital Revenues
Affiliated hospital revenue is earned over-time as the various services are provided as an integrated performance obligation as more fully described in footnote 12. The measure of progress towards completion of those obligations is based on the day-to-day operations of the University's School of Medicine and the affiliated hospitals. Payments are received under the agreement semiannually. Amounts receivable under the agreement are $62,633 and $54,401 at June 30, 2019 and 2018 respectively.

Operating Results
The university's measure of operations as presented in the Consolidated 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 Consolidated Statements of Activities as incurred for employee compensation, depreciation, interest and supplies, services and other. Operating results exclude investment gains (losses) except for the portion of gains utilized for the endowment spending distribution, contributions to be held in perpetuity, and other non-operating amounts.

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. The discount rate used is a credit-adjusted rate in existence at the date of the gift. The rates used range from 1.94% to 3.27% for 2019 and 1.72% to 3.03% for fiscal year 2018. 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.

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, provides certain fringe benefits deemed to be taxable income, or consolidated for-profit affiliates incur taxes. The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act impacts the university in several ways, including new excise taxes on executive compensation and net investment income, increases to unrelated business taxable income (UBTI) , changes to the net operating loss rules, repeal of the alternative minimum tax (AMT), and the computation of UBTI separately for each unrelated trade or business. Further, the Act reduces the U.S. federal corporate tax rate and federal corporate unrelated business income tax rate from 35% to 21%. The overall impact of the Act remains uncertain and the full impact of the Act will not be known until further regulatory guidance is provided to assist the university with calculating income and excise tax liabilities. The university continues to evaluate the impact of tax reform on the organization.

(All amounts in thousands of dollars)

As of June 30, 2019, the university has made a reasonable estimate of the determinable effects of the enactment of the Act on existing deferred tax balances. These amounts are provisional, subject to change and not material to the university's consolidated financial statements. Management believes the university has no uncertain tax positions that result in material unrecognized tax expense/benefits.

Other Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which revises the not-for-profit reporting model. The university adopted this standard in fiscal 2019. This guidance requires the university to reclassify its net assets (i.e., previously unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets with donor restrictions and net assets without donor restrictions. Among other changes are greater disclosure of self-imposed limits on the use of resources without donor restrictions; qualitative and quantitative information on financial resources and liquidity; and expenses reported in both natural and functional classifications. As a result of adopting this standard, the fiscal year 2018 Statement of Financial Position and Statement of Activities have been restated to recognize balances and activity in accordance with the prescribed reclassification of net assets. Reclassifications of net assets without donor restrictions to net assets with donor restrictions as a result of adopting this accounting pronouncement were not material.

During fiscal 2016, the FASB issued ASU 2016-02, Leases. The ASU requires lessees to recognize in the Statements of Financial Position for leases with a term of greater than one year, a liability to make lease payments and a right-of-use asset representing its right to use the asset for the lease term. Generally, lease payments will be recognized as interest expense and as a reduction of the liability. The asset will be amortized over the life of the lease. Accounting by a lessor will be largely unchanged from that required by current generally accepted accounting principles. Adoption of ASU 2016-02 is required for the university's fiscal year 2020. The university is evaluating the impact to the consolidated financial statements.

In August and November 2016, the FASB issued two standards on the presentation of certain items in the statement of cash flows. The standards provide guidance on the appropriate classification of certain cash flow items as operating, investing, and financing activities, including prepayments on debt and debt extinguishment costs. The standards also require the statement of cash flows to present the changes in all cash and cash equivalents, including restricted cash, and provide additional disclosures regarding the nature of restrictions on cash. These standards are effective for fiscal years beginning after December 15, 2018. University management is evaluating the impact this will have on the financial statements beginning in fiscal year 2020.

In August 2018, the FASB issued a standard modifying existing requirements to disclosures on Fair Value Measurement. The standard removes the requirements to disclose transfers between Level 1 and Level 2 of the fair value hierarchy and the changes in unrealized gains and losses for recurring Level 3 fair value measurements, among other disclosures. The standard modifies other disclosure requirements regarding transfers into and out of Level 3 of the fair value hierarchy and investments in entities that calculate net asset value. Finally, the standard adds requirements for disclosures for information surrounding the unobservable input used to develop Level 3 fair value measurements. This standard is effective for fiscal years beginning after December 15, 2019. University management is evaluating the impact this will have on the financial statements beginning in Fiscal Year 2021.

(All amounts in thousands of dollars)

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.

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.

(All amounts in thousands of dollars)

The following table presents the financial instruments carried at fair value as of June 30, 2019, on the Consolidated Statements of Financial Position by caption and by the valuation hierarchy defined above. Amounts measured at net asset value are reported using the practical expedient under ASC topic 820 and excluded from the fair value hierarchy. Included as Level 2 fixed income are U.S. Treasury securities of approximately $714,396.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	Balance June 30, 2019
Investments					
Public equity					
Domestic	$ 5,505	$ 27	$ -	$ 1,250,989	$ 1,256,521
International	21,344	-	-	2,039,837	2,061,181
Fixed income - Nominal	-	778,146	-	-	778,146
Absolute return	-	-	-	1,125,310	1,125,310
Private capital	-	-	130,923	3,208,676	3,339,599
Short-term investments	345,121	12,237	-	-	357,358
Real assets	-	-	110,600	473,025	583,625
Other investments	80,696	(1,101)	70,183	34,485	184,263
Total investments at fair value	452,666	789,309	311,706	8,132,322	9,686,003
Investments not reported at fair value					
Affiliates - Equity basis	-	-	-	-	32,443
Accrued investment income	-	-	-	-	5,490
Total investments	$ 452,666	$ 789,309	$ 311,706	$ 8,132,322	$ 9,723,936

The following table presents the financial instruments carried at fair value as of June 30, 2018, by caption on the Consolidated Statements of Financial Position and by the valuation hierarchy defined above. Included as Level 2 fixed income are U.S. Treasury securities of approximately $564,851.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measured at Net Asset Value	Balance June 30, 2018
Investments					
Public equity					
Domestic	$ 65,034	$ 27	$ -	$ 1,457,753	$ 1,522,814
International	189,839	-	-	1,358,790	1,548,629
Fixed income - Nominal	-	630,837	-	-	630,837
Absolute return	-	-	-	1,682,094	1,682,094
Private capital	-	-	118,087	2,349,105	2,467,192
Short-term investments	353,806	5,286	-	-	359,092
Real assets	-	-	18,833	703,925	722,758
Other investments	177,681	(1,537)	67,688	33,190	277,022
Total investments at fair value	786,360	634,613	204,608	7,584,857	9,210,438
Investments not reported at fair value					
Affiliates - Equity basis	-	-	-	-	33,759
Accrued investment income	-	-	-	-	4,114
Total investments	$ 786,360	$ 634,613	$ 204,608	$ 7,584,857	$ 9,248,311

(All amounts in thousands of dollars)

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.

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. 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. Trustees determine the valuation for beneficial interest trusts and split-interest agreements. Strategic real estate is valued at historical cost and is evaluated annually for impairment.

Investments measured at net asset value primarily consist of the university's ownership in alternative investments (principally limited partnership interests in absolute return, private capital investments, 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 significant unobservable inputs including, 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. Excluding the cost of the investment, significant increases or decreases in the remainder of those inputs could result in a significantly higher or lower fair value measurement. 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. NAVs are calculated by the investees in a manner consistent with generally accepted accounting principles for investment companies.

Significant terms of agreements with external investment managers or funds by major classes of investments are provided in the following tables.

(All amounts in thousands of dollars)

The following table summarizes the significant terms of the agreements with external investment managers or funds by major category at June 30, 2019:

Investments	Unfunded Commitment (1)	Remaining Life (2)	Redemption Terms	Redemption Restrictions
Public equities	$ 72,067	4 Years - No Limit	Daily to annually, with 1 day-1 year notice	Lock-up provision periods range from 0 to 5 years. Certain investments include side pockets subject to external manager discretion.
Fixed income and short-term investments	-	No Limit	Daily, 1-2 days notice	No lock-up provision periods
Absolute return	50,000	No Limit	Monthly to annually, with 30 -180 days notice	Lock-up provision periods range from 0 to 3 years. Certain investments include side pockets subject to external manager discretion.
Private capital	1,716,831	0 - 23 Years	Not eligible for redemption	Not redeemable
Real assets	446,607	0 - 12 Years	Not eligible for redemption	Not redeemable
Total	$ 2,285,505			

Footnote (1): The university is obligated under certain agreements to fund capital calls periodically up to specified commitment amounts. Such commitments are expected to be called over the life of the agreement and are not expected to be fully funded in the subsequent year.

Footnote (2): Assuming all extension options under the agreements are exercised and approved.

(All amounts in thousands of dollars)

The following table summarizes the significant terms of the agreements with external investment managers or funds by major category at June 30, 2018:

Investments	Unfunded Commitment (1)	Remaining Life (2)	Redemption Terms	Redemption Restrictions
Public equities	$ 180,000	4 Years - No Limit	Daily to annually, with 1 day-1 year notice	Lock-up provision periods range from 0 to 5 years. Certain investments include side pockets subject to external manager discretion.
Fixed income and short-term investments	-	No Limit	Daily, 1-2 days notice	No lock-up provision periods
Absolute return	95,230	No Limit	Monthly to annually, with 30 -180 days notice	Lock-up provision periods range from 0 to 3 years. Certain investments include side pockets subject to external manager discretion.
Private capital	1,541,661	0 - 23 Years	Not eligible for redemption	Not redeemable
Real assets	419,530	0 - 12 Years	Not eligible for redemption	Not redeemable
Total	$ 2,236,421			

Footnote (1): Assuming all extension options under the agreements are exercised and approved

Public Equities
Public equities include investments in publicly–traded securities in domestic, developed international, emerging, and frontier markets. The majority of assets are held in pooled comingled funds which are valued at NAV as described above. Investments held in custody accounts are valued at quoted market price in accordance with Level 1 and Level 2 valuation techniques as described above.

Fixed Income and Short-Term Investments
Investments in this class include domestic and international nominal fixed income instruments. 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.

Absolute Return
Investments in absolute return are typically held in commingled funds that employ various uncorrelated investment strategies including but not limited to equity hedged and event driven. These funds are valued at net asset value as described above.

(All amounts in thousands of dollars)

Private Capital
Investments in private capital strategies are made in targeted categories including growth equity, venture capital, distressed credit, and corporate finance. Redemptions of such funds are not permitted and distributions are received as underlying investments are liquidated. These funds are primarily valued at net asset value as described above.

Real Assets
Investments in the real assets class are made in targeted categories. The majority of these assets are held in non-redeemable fund structures that invest primarily in real estate and natural resources. These funds are primarily valued at net asset value as described above.

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, 2019 and 2018.

	Balance June 30, 2018	Net Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements Net	Transfers in/(out) of Level 3, net	Balance June 30, 2019
Investments (by strategy)					
Private capital	$ 118,087	$ 27,647	$ 3,907	$ (18,718)	$ 130,923
Real assets	18,833	4,894	31,288	55,585	110,600
Other investments	67,688	2,308	1,801	(1,614)	70,183
Total	$ 204,608	$ 34,849	$ 36,996	$ 35,253	$ 311,706

It is probable that all of the real assets reported as Level 3 above will be sold at an amount different from the net asset value of the university's ownership interest in partners' capital. The fair value of these investments has been estimated at the expected selling price of these investments based on sale negotiations in process at June 30, 2019.

The amount of realized and unrealized gains (losses) for Level 3 investments for the period included in net assets attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2019, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Private capital	$ 29,126
Real assets	(1,436)
Other investments	1,060
Total	$ 28,750

	Balance June 30, 2017	Net Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements Net	Transfers in/(out) of Level 3, net	Balance June 30, 2018
Investments (by strategy)					
Private capital	$ 94,045	$ 4,933	$ 16,109	$ 3,000	$ 118,087
Real assets	-	(214)	9,945	9,102	18,833
Other investments	66,645	2,890	6,719	(8,566)	67,688
Total	$ 160,690	$ 7,609	$ 32,773	$ 3,536	$ 204,608

(All amounts in thousands of dollars)

The amount of realized and unrealized gains (losses) for Level 3 investments for the period included in net assets attributable to the change in unrealized gains or losses relating to assets still held at June 30, 2018, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Private capital	$	4,968
Real assets		(27,190)
Other investments		1,339
Total	$	(20,883)

3. Investment Return

The following summarizes the return on investments. Investment income represents earnings on non-endowed funds. Return on investments is presented net of investment management fees. Certain investments, including some but not all of those in the absolute return and private capital categories, report investment returns net of fees.

	2019	2018
Investment return	$ 27,482	$ 21,565
Pooled endowment dividends and interest income, net of investment management fees	(35,492)	(27,538)
Pooled endowment distribution in excess of income	376,804	350,433
Pooled endowment spending distribution	341,312	322,895
Investment gains, net	644,999	835,751
Gains distributed as endowment distribution	(376,804)	(350,433)
Investment gains net of endowment spending distribution	268,195	485,318
Net investment return	$ 636,989	$ 829,778

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, 2019, the university's endowment consists of 3,631 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.

(All amounts in thousands of dollars)

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 net assets with donor restrictions, (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, (c) accumulations to the donor-restricted 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 donor-restricted endowment funds that are not restricted in perpetuity are considered 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, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 4,891,626	$ 4,891,626
Board-designated endowment funds	2,845,594	271,705	3,117,299
Total endowment funds	$ 2,845,594	$ 5,163,331	$ 8,008,925

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 2,757,498	$ 4,882,671	$ 7,640,169
Investment return			
Net investment income	(15,332)	(18,647)	(33,979)
Net appreciation (realized and unrealized)	282,227	366,179	648,406
Total investment return	266,895	347,532	614,427
Gifts	140	120,479	120,619
Appropriation of endowment assets for expenditure	(147,447)	(193,865)	(341,312)
Net transfers of funds	9,576	30,582	40,158
Allocation of endowment return to treasurer's investment pool	(44,780)	(23,962)	(68,742)
Other activity	3,712	(106)	3,606
Endowment net assets, end of year	$ 2,845,594	$ 5,163,331	$ 8,008,925

Of the amount classified as endowment net assets with donor restrictions, $2,546,281 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

(All amounts in thousands of dollars)

Endowment net asset composition by type of fund as of June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 4,649,476	$ 4,649,476
Board-designated endowment funds	2,757,498	233,195	2,990,693
Total endowment funds	$ 2,757,498	$ 4,882,671	$ 7,640,169

Changes in endowment net assets for the year ended June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 2,561,367	$ 4,524,663	$ 7,086,030
Investment return			
Net investment income	(11,918)	(14,423)	(26,341)
Net appreciation (realized and unrealized)	367,415	478,789	846,204
Total investment return	355,497	464,366	819,863
Gifts	140	107,116	107,256
Appropriation of endowment assets for expenditure	(139,749)	(183,146)	(322,895)
Net transfers of funds	29,825	(1,504)	28,321
Allocation of endowment return to treasurer's investment pool	(53,623)	(20,933)	(74,556)
Reclassification of deficits in donor-designated funds	35	(35)	-
Other activity	4,006	(7,856)	(3,850)
Endowment net assets, end of year	$ 2,757,498	$ 4,882,671	$ 7,640,169

Of the amount classified as endowment net assets with donor restrictions, $2,465,832 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

Endowment by Purpose

The purpose of endowment funds as of June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Restricted for general activities	$ 2,378,476	$ 3,473,772	$ 5,852,248
Restricted for student assistance	315,546	1,015,986	1,331,532
Restricted for buildings and renovations	151,549	634,711	786,260
Life income	23	38,862	38,885
Total endowment net assets	$ 2,845,594	$ 5,163,331	$ 8,008,925

(All amounts in thousands of dollars)

The purpose of endowment funds as of June 30, 2018:

	Without Donor Restriction	With Donor Restriction	Total
Restricted for general activities	$ 2,316,243	$ 3,235,730	$ 5,551,973
Restricted for student assistance	299,794	974,101	1,273,895
Restricted for buildings and renovations	141,438	635,122	776,560
Life income	23	37,718	37,741
Total endowment net assets	$ 2,757,498	$ 4,882,671	$ 7,640,169

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 remain classified as net assets with donor restrictions. Deficits of this nature were immaterial as of June 30, 2019 and 2018, 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 its policy benchmark, 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 that will exceed the sum of inflation and the spending rate. 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 global 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 at a rate set annually to the schools and other units of the university. Consideration is given to 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 2019, the spending rate from the pooled endowment was 4.5% 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.

(All amounts in thousands of dollars)

The university's endowment assets at June 30 are as follows:

	2019	2018
Pooled endowment and other funds	$ 9,001,587	$ 8,471,155
Life income trusts and pools	79,529	80,779
Externally administered trusts	31,533	32,123
Separately invested endowment	9,140	7,085
Total	9,121,789	8,591,142
Less: Operating funds invested in pool	(991,306)	(903,750)
Net endowment assets	$ 8,130,483	$ 7,687,392

5. Liquidity and Availability of Resources

At June 30, 2019, the university's financial assets available for general expenditures within one year of the balance sheet date are as follows:

	2019
Total assets at year end	$14,144,232
Less:	
Accounts and notes receivable due in more than one year	(107,520)
Pledges receivable unavailable for general expenditure	(301,655)
Donor-restricted endowment funds	(4,981,501)
Board-designated endowment funds	(3,148,982)
Other long-term investments	(1,173,200)
Other assets	(272,499)
Fixed assets	(2,736,428)
Total financial assets available within one year	$1,422,447

The university's endowment funds consist of donor-restricted and board-designated endowment funds. As described in Note 4, the university has an endowment spending distribution policy with a spending rate range of 3.0% to 5.5% of the five-year average market value. For fiscal year 2020, the Board of Trustees approved a spending rate which approximates 4.6% of the beginning market value of the pooled endowment. An endowment payout of $404,956, which includes an allocation to the treasurer's investment pool, will be available for operations during fiscal year 2020.

(All amounts in thousands of dollars)

In addition to these available financial assets, the university's annual expenditures will be primarily funded by current year operating revenues including tuition, patient services income, and sponsored research income. As part of the university's liquidity management, a policy is in place to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. The university also invests cash in excess of daily requirements in short-term investments. Furthermore, although the university does not intend to spend from its board-designated endowment funds other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its board-designated endowment that are free from investment restrictions could be made available if necessary. Other long-term investments are primarily composed of amounts designated by the university as reserves. Such investments are without donor restriction and could be drawn upon in the event of extreme stress. In the event of an unanticipated liquidity need, the university could also draw upon available lines of credit which were approximately $200,000 at June 30, 2019.

6. Accounts and Notes Receivable

Accounts and notes receivable at June 30 were as follows:

	2019	2018
Patient services	$ 472,166	$ 398,705
Student and parent loans		
Parent loan fund	45,076	46,095
Government student loans	26,222	33,332
Institutional student loans	22,333	22,780
Due from affiliates	166,162	108,872
Sponsored project receivables	89,050	56,028
Other	109,352	61,132
	930,361	726,944
Less: Allowance for contractual adjustments and doubtful accounts	(309,036)	(232,259)
Total	$ 621,325	$ 494,685

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.

(All amounts in thousands of dollars)

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, 2019, the allowance for parent and institutional student loans was $4,226 compared to $4,377 at June 30, 2018. 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. The carrying amount of accounts receivable approximate fair value because of the short maturity of these financial instruments.

7. Notes and Bonds Payable

Outstanding principal on bonds and notes payable at June 30, 2019 and 2018 consists of the following:

	Rates at June 30, 2019	Maturity	2019	2018
Missouri Health and Educational Facilities Authority				
$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	.45% - 2.26%	September 1, 2030	$ 142,400	$ 142,400
$88,000 of 2000B and C Series Variable Rate Bonds, due in full	.45% - 2.30%	March 1, 2040	88,000	88,000
$25,135 of 2003B Series Variable Rate Bonds, due in full	.50% - 2.30%	February 15, 2033	25,135	25,135
$22,985 of 2011A Series Revenue Bonds due in full	5.00%	November 15, 2041	22,985	22,985
$96,350 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	.75% - 5.06%	November 15, 2037	54,360	57,740
$200,785 of 2012A Series Revenue Bonds due serially from February 15, 2023 to February 15, 2047	2.39% - 3.69%	February 15, 2047	200,785	200,785
$150,000 of 2014A Series Revenue Bonds due in full	4.07%	October 15, 2044	150,000	150,000
$402,920 of 2016A Series Revenue Bonds due in full January 15, 2036 ($109 ,300) and January 15, 2046 ($293,620)	3.47% - 3.65%	January 15, 2036 and 2046	402,920	402,920
$272,750 of 2016 B Series Revenue Bonds due in full	3.09%	September 15, 2051	272,750	272,750
$375,000 of 2017 A Series Revenue Bonds, due in full	3.65%	August 15, 2057	375,000	375,000
Other Bonds:				
$131,435 of 2015A Series Taxable Bonds due in full	3.79%	October 15, 2055	131,435	131,435
Other notes payable			105,377	68,798
Total outstanding notes and bonds payable			2,067,497	2,034,298
Unamortized original issue premiums/discounts and cost of issuance, net			(3,410)	(3,517)
Total			$ 2,064,087	$ 2,030,781

(All amounts in thousands of dollars)

Bonds payable are redeemable at the option of the university at various times from 2019 through 2057. 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 2019 and 2018, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled $71,054 and $67,862, respectively.

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

2020	$	83,413
2021		14,744
2022		11,743
2023		22,477
2024		2,577
Thereafter		1,932,543

During fiscal 2018, the university issued $375,000 of taxable Series 2017A Missouri Health and Educational Facilities Authority (MOHEFA) bonds. The bonds bear a fixed rate of 3.652% and will mature on August 15, 2057. The proceeds of these bonds will be used to finance various construction projects.

The university has other lines of credit, which generally expire annually, aggregating $407,520, of which $301,956 is available at June 30, 2019. The university expects that these lines of credit will be renewed but can make no assurances.

8. Derivative and Other Financial Instruments

The university utilizes derivative instruments including futures, swaps, and options, to manage market risk, to provide temporary investment exposure in stocks and bonds, and to manage currency and interest rate exposures. When directly implementing a derivative strategy, the university uses a third party manager to execute, settle and manage the positions on a non-discretionary basis. These contracts are valued at periodic intervals such as daily, monthly, and quarterly as well as at June 30, with the resulting changes in the values of the contracts either added to or deducted from the university's custodial account. Gains or losses from these derivative instruments are reported as realized and unrealized gains or losses in the Consolidated Statements of Activities. Indirect strategies in derivatives held by limited partnerships and commingled investment trusts in which the university invests pose no off-balance sheet risk to the university due to the limited liability structure of the investments. Derivatives are also used to manage operating expenses but are not material to the consolidated financial statements. No derivative contracts are designated as hedges for accounting purposes.

9. Functional Expenses

Operating expenses are reported on the Consolidated Statements of Activities in natural categories. Expenses reported by functional categories include allocations of costs for operation and maintenance of plant, interest on indebtedness and depreciation expense. 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 debt proceeds. Instruction expenses include instruction, departmental research and patient care costs.

(All amounts in thousands of dollars)

Operating expenses by functional and natural classification for the year ended June 30, 2019 are as follows:

	Compensation and benefits	Supplies, services and other	Depreciation	Interest	Total
Instruction	$ 1,345,432	$ 738,779	$ 67,951	$ 18,369	$ 2,170,532
Research	332,661	155,509	41,961	10,976	541,107
Academic Support	166,972	-	33,684	11,605	212,260
Student Services	44,379	49,338	6,018	2,793	102,527
Institutional Support	109,307	48,275	5,764	1,151	164,497
Auxiliary Enterprises	18,946	54,136	32,451	20,597	126,130
Other	23,472	14,042	1,029	138	38,681
Total	$ 2,041,168	$ 1,060,079	$ 188,858	$ 65,629	$ 3,355,734

Operating expenses by functional and natural classification for the year ended June 30, 2018 are as follows:

	Compensation and benefits	Supplies, services and other	Depreciation	Interest	Total
Instruction	$ 1,215,660	$ 624,100	$ 62,283	$ 17,418	$ 1,919,461
Research	318,069	168,165	41,377	10,166	537,777
Academic Support	150,790	8,510	31,004	12,892	203,196
Student Services	39,968	47,329	6,557	2,794	96,648
Institutional Support	104,035	44,431	6,173	1,196	155,835
Auxiliary Enterprises	17,580	52,589	29,236	17,748	117,153
Other	23,996	4,982	3,840	832	33,650
Total	$ 1,870,098	$ 950,106	$ 180,470	$ 63,046	$ 3,063,720

10. Commitments and Contingencies

At June 30, 2019, the university had outstanding commitments under certain construction contracts in the amount of $88,956.

The university maintains a self-insurance program for professional liability at the Medical School and a separate program for Washington University Physicians in Illinois. 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 Consolidated 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, 2019 and 2018, respectively, were $84,236 and $73,756. 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.

(All amounts in thousands of dollars)

The university is a party, along with other universities, to an agreement with 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, Consolidated Statements of Activities, financial position or liquidity of the university.

11. 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) and College Retirement Equity Fund (CREF). Under this arrangement, the university and plan participants make monthly contributions to TIAA-CREF. 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 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 2019 and 2018 was $88,923 and $82,065, respectively.

12. Agreements With Affiliated Hospitals

The university has affiliation agreements, that expire December 31, 2027, with Barnes Jewish Hospital (BJH) and St. Louis Children's Hospital (SLCH), collectively the Hospitals. These agreements relate to various operating activities of Barnes Jewish Hospital at Barnes Jewish West County Hospital (BJWCH), Barnes Jewish Orthopedic Center (OC) in Chesterfield, the Siteman Cancer Center – South County, and the Children's Specialty Care Center in Town and Country.

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 and SLCH are responsible for the hospitals and health care delivery facilities. BJH and SLCH 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 and SLCH adjusted net operating income. The combined compensation payments are reported as Affiliated hospital revenue on the Consolidated Statements of Activities (see footnote 1). In addition, the university derives revenue from patient services provided at Barnes-Jewish at St. Peters Hospital under an agreement with that hospital and BJH. During 2013, BJH agreed to fund on a cost-reimbursement basis over a period of years, certain expenditures by the university. Payments of $36,652 and $37,941 were received or accrued as gifts on the Consolidated Statements of Activities under the agreement during 2019 and 2018, respectively.

(All amounts in thousands of dollars)

13. Subsequent Events

The university has performed an evaluation of subsequent events through September 25, 2019, which is the date the consolidated financial statements were issued.