Washington University
Consolidated Financial Statements
June 30, 2018 and 2017

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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 subsidiaries (the "university"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets and of 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 university'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 university'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 subsidiaries as of June 30, 2018 and 2017, and the changes in its net assets and its 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, 2018

Washington University
Consolidated Statements of Financial Position
June 30, 2018 and 2017

(thousands of dollars)	2018	2017
Assets		
Cash and cash equivalents	$ 366,525	$ 128,870
Investments	9,248,311	8,522,943
Collateral received for securities lending	-	178,231
Accounts and notes receivable, net	494,685	463,682
Pledges receivable, net	439,318	202,762
Other assets	231,280	191,768
Fixed assets, net	2,541,137	2,331,063
Total assets	$ 13,321,256	$ 12,019,319
Liabilities		
Accounts payable and accrued expenses	$ 484,625	$ 439,939
Liabilities under securities lending transactions	-	173,889
Deposits, advances and other	23,308	20,760
Professional liability	73,756	69,106
Deferred revenue	137,744	121,386
Liabilities under split-interest agreements	40,842	35,048
Government supported student loans	36,232	44,810
Notes and bonds payable	2,030,781	1,632,202
Total liabilities	2,827,288	2,537,140
Net assets		
Unrestricted	5,154,934	4,738,453
Temporarily restricted	3,413,014	2,942,867
Permanently restricted	1,926,020	1,800,859
Total net assets	10,493,968	9,482,179
Total liabilities and net assets	$ 13,321,256	$ 12,019,319

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

Washington University
Consolidated Statements of Activities
Year Ended June 30, 2018

(thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2018 Total
Revenues				
Tuition and fees, gross	$ 659,893	$ -	$ -	$ 659,893
Less: Scholarships	(247,924)			(247,924)
Tuition and fees, net	411,969	-	-	411,969
Endowment spending distribution	315,774	7,121		322,895
Investment income	21,245	320		21,565
Gifts	80,958	326,925		407,883
Grants and contracts revenues				
Direct costs recovered	433,507			433,507
Facilities and administrative costs recovered	155,381			155,381
Patient services, net	1,327,124			1,327,124
Auxiliary enterprises - sales and services	114,870			114,870
Educational activities - sales and services	180,874			180,874
Affiliated hospital revenues	127,595			127,595
Other revenue	40,017	(540)		39,477
Net assets released from restriction	113,491	(113,491)		-
Total revenues and other support	3,322,805	220,335	-	3,543,140
Expenses				
Instruction	1,988,694			1,988,694
Research	537,777			537,777
Academic support	203,196			203,196
Student services	96,666			96,666
Institutional support	155,835			155,835
Auxiliary enterprises expenditures	117,153			117,153
Other deductions	33,727			33,727
Total expenses	3,133,048	-	-	3,133,048
Net operating results	189,757	220,335	-	410,092
Non-operating revenues and (expenses)				
Investment returns net of endowment spending	225,639	260,272	(594)	485,317
Permanently restricted gifts			119,904	119,904
Gain (loss) on fixed asset disposals and other	1,085	(10,460)	5,851	(3,524)
Fair value of assets acquired in excess of consideration paid				-
Non-operating, net	226,724	249,812	125,161	601,697
Change in net assets	416,481	470,147	125,161	1,011,789
Net assets				
Beginning of the year	4,738,453	2,942,867	1,800,859	9,482,179
End of the year	$ 5,154,934	$ 3,413,014	$ 1,926,020	$ 10,493,968

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

Washington University
Consolidated Statements of Activities
Year Ended June 30, 2017

(thousands of dollars)	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30, 2017 Total
Revenues				
Tuition and fees, gross	$ 626,033	$ -	$ -	$ 626,033
Less: Scholarships	(232,546)			(232,546)
Tuition and fees, net	393,487	-	-	393,487
Endowment spending distribution	298,994	6,596		305,590
Investment income	12,174	369		12,543
Gifts	75,839	107,461		183,300
Grants and contracts revenues				
Direct costs recovered	408,630			408,630
Facilities and administrative costs recovered	144,988			144,988
Patient services, net	1,194,694			1,194,694
Auxiliary enterprises - sales and services	115,768			115,768
Educational activities - sales and services	156,775			156,775
Affiliated hospital revenues	116,731			116,731
Other revenue	35,849			35,849
Net assets released from restriction	127,438	(127,438)		-
Total revenues and other support	3,081,367	(13,012)	-	3,068,355
Expenses				
Instruction	1,812,306			1,812,306
Research	507,786			507,786
Academic support	185,692			185,692
Student services	88,918			88,918
Institutional support	146,386			146,386
Auxiliary enterprises expenditures	115,088			115,088
Other deductions	37,237			37,237
Total expenses	2,893,413	-	-	2,893,413
Net operating results	187,954	(13,012)	-	174,942
Non-operating revenues and (expenses)				
Investment returns net of endowment spending	232,055	256,987	3,691	492,733
Permanently restricted gifts			68,466	68,466
Gain (loss) on fixed asset disposals and other	(42,563)	(3,983)	10,219	(36,327)
Fair value of assets acquired in excess of consideration paid	23,761	3,573	10,250	37,584
Non-operating, net	213,253	256,577	92,626	562,456
Change in net assets	401,207	243,565	92,626	737,398
Net assets				
Beginning of the year	4,337,246	2,699,302	1,708,233	8,744,781
End of the year	$ 4,738,453	$ 2,942,867	$ 1,800,859	$ 9,482,179

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

Washington University
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

(thousands of dollars)	2018	2017
Cash flows from operating activities		
Change in net assets	$ 1,011,789	$ 737,398
Adjustments to reconcile change in net assets to cash provided by operating activities		
Realized and unrealized net gains on investments	(835,751)	(804,486)
Depreciation expense	180,470	173,987
Permanently restricted gifts	(119,904)	(68,466)
Investments received as gifts - not permanently restricted	(11,765)	(8,797)
Proceeds from sales of investments received as gifts	11,765	8,797
Debt extinguishment costs	-	27,738
Fair value of non-cash assets acquired in excess of consideration paid	-	(37,509)
Other non-cash adjustments	(10,083)	7,955
Changes in assets and liabilities		
Accounts and notes receivable, net	(28,290)	(19,760)
Pledges receivable, net	(215,761)	26,738
Accounts payable and accrued expenses	33,066	55,272
Deposits and advances	(17,077)	(25,256)
Other assets and liabilities	14,301	(7,204)
Net cash provided by operating activities	12,761	66,407
Cash flows from investing activities		
Proceeds from sales and maturities of investments	10,389,420	6,471,569
Purchases of investments	(10,278,075)	(6,414,436)
Sales (Purchases) of investments with securities lending collateral	173,889	(130,431)
Purchases of fixed assets	(379,906)	(223,272)
Student loans disbursed	(18,161)	(19,558)
Student loan payments received	23,087	22,655
Other	55	(28)
Net cash used in investing activities	(89,691)	(293,501)
Cash flows from financing activities		
Principal payments of debt	(22,788)	(272,093)
Proceeds from long-term debt issuance	423,296	288,663
Contributions restricted for long-term investment	52,038	16,601
Proceeds from sales of investments received as gifts	46,553	48,970
Securities lending collateral (sold) received, net	(173,889)	130,431
Debt extinguishment costs	-	(27,738)
Other	(10,625)	(2,313)
Net cash provided by financing activities	314,585	182,521
Net increase/(decrease) in cash	237,655	(44,573)
Cash		
Beginning of year	128,870	173,443
End of year	$ 366,525	$ 128,870
Supplemental data		
Interest paid in cash	$ 57,122	$ 49,522
Noncash activities		
Fair value of assets acquired in excess of consideration paid	-	(37,509)
Contributions of securities and other noncash assets	59,157	58,242
Net change in accounts payable for fixed assets	4,328	(6,568)
Net change in accounts receivable for investments	(6,654)	(678)
Net change in accounts payable for investments	7,090	2,483

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.

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 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. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. Permanently restricted gifts received 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 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

(All amounts in thousands of dollars)

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.

	2018		2017	
	Temporarily Restricted	**Permanently Restricted**	**Temporarily Restricted**	**Permanently Restricted**
General activities	$ 2,355,920	$ 1,300,627	$ 1,996,993	$ 1,226,591
Student assistance	553,676	448,502	472,681	399,311
Buildings and renovations	491,345	151,312	460,451	150,658
Life income	12,073	25,579	12,742	24,299
Total	$ 3,413,014	$ 1,926,020	$ 2,942,867	$ 1,800,859

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, 2018, investments include $133,430 purchased with unexpended proceeds from the Series 2017 A Missouri Health and Educational Facilities Authority (MOHEFA) revenue bonds issued July 6, 2017. At June 30, 2017, investments included $7,582 purchased with unexpended proceeds from the Series 2016 A and Series 2014 A MOHEFA revenue bonds issued in February 2016 and August 2014, respectively. These funds may only be expended for specific construction project costs and costs of issuance related to the MOHEFA bonds.

Fair Value of Financial Instruments
The carrying amount of accrued investment income, accounts receivable, accounts payable and other various accruals approximate fair value because of the short maturity of these financial instruments. The carrying amount of notes and bonds payable with variable interest rates approximates their fair value because the variable rates reflect current market rates for bonds with similar maturities and credit quality.

(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. Gains and losses on fixed asset disposals are reported in the non-operating section of the Consolidated Statements of Activities. Fixed assets by classification at June 30, 2018 and 2017 consist of the following:

	2018	2017
Construction in progress	$ 400,842	$ 282,513
Land and improvements to land	150,995	146,326
Buildings	3,850,398	3,673,747
Equipment	553,156	486,528
Total cost	4,955,391	4,589,114
Accumulated depreciation	(2,414,254)	(2,258,051)
Total, net	$ 2,541,137	$ 2,331,063

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 5).

The university's loan portfolio includes over 8,800 individual loans and is geographically diverse. Loans that are made are due on the first day of the month and are considered past due if the minimum payment is not received within thirty-one days past the due date. At June 30, 2018 and 2017, respectively, 92% and 92% of the parent loans and 77% and 80% of the institutional student loans were considered current. Income earned on financing receivables is recorded on an accrual basis.

(All amounts in thousands of dollars)

Deferred Revenue
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.

Tuition and Financial Aid
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, was $356,526 in 2018 and $326,646 in 2017. 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.

	2018	2017
Scholarships from unrestricted sources	$ 188,072	$ 182,362
Scholarship support from gifts, endowment and other restricted sources	59,853	50,184
Total scholarships	247,925	232,546
Employee and dependent tuition benefits	35,025	32,628
Stipends	71,535	58,919
Work study	2,041	2,553
Total	$ 356,526	$ 326,646

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 0.78% 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 2018, the university received a pledge of $20,000 annually to be received over a period of 10 years.

(All amounts in thousands of dollars)

A summary of pledges receivable is as follows:

	2018	2017
In one year or less	$ 148,143	$ 101,098
Between two and five years	208,318	99,520
Over five years	108,721	10,543
	465,182	211,161
Less:		
Discount	(19,739)	(2,792)
Allowance for uncollectible amounts	(6,125)	(5,607)
Total	$ 439,318	$ 202,762

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. Also, reported in this caption are cost reimbursements from hospitals for services provided by university personnel in support of the hospital's clinical activities.

Tuition and Fee Revenue
Tuition and fee revenue, net of scholarships, is recorded 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, and parking and transportation fees.

Educational Activities – Sales and Services
Educational activities sales and services revenue is recorded in the fiscal year in which it is earned. This revenue is composed of a number of activities including clinical trial revenues, management services and salary reimbursements from affiliated hospitals, consulting, laboratory fees, conference center revenues and revenues from licensing and royalties.

Affiliated Hospital Revenues
Affiliated hospital revenue is recorded in the fiscal year in which earned. This revenue is composed of amounts received from affiliated hospitals for various services as more fully described in footnote 10.

(All amounts in thousands of dollars)

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. 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 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. During fiscal 2018, the university and the Federal government operated under an agreement that established facilities and administrative cost reimbursement rates under Federal grants and contracts through June 30, 2021.

Operating Results and Allocation of Certain Expenses

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 by functional categories, after allocating 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. Operating results exclude investment gains (losses) except for the portion of gains utilized for the endowment spending distribution, permanently restricted gifts, the fair value of net assets acquired in excess of consideration paid, 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 1.72% to 3.03% for 2018 and 1.02% to 3.03% for 2017. 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.

(All amounts in thousands of dollars)

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 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) by the amount of certain fringe benefits for which a deduction is not allowed, 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.

As of June 30, 2018, 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.

Fair Value of Net Assets Acquired in Excess of Consideration Paid

The Barnard Free Skin and Cancer Hospital, also known as Barnard Cancer Institute (BCI), was established in accordance with the will of George D. Barnard principally to provide care, treatment and hospitalization to persons suffering from cancer or skin diseases and diseases allied thereto. In connection with termination of a trust supporting BCI and a court-approved settlement agreement entered into in 2006, the exempt purposes of BCI were redefined to consist of (a) providing financial support for medical, surgical and/or nursing care to persons suffering from cancer or skin diseases or diseases allied thereto who are unable to pay for such care, (b) the study of cancer, and (c) outreach programs and the dissemination of information in regard to these diseases and their treatment. BCI leases its owned property to the university or Barnes Jewish Hospital. BCI has no employees and contracts with the university for administrative services. University personnel occupy a majority of seats on the board of directors of BCI. Effective July 1, 2016, BCI entered into a contract with the university to pool its endowment with the endowment of the university for investment purposes, with the result that the BCI endowment is managed according to the university's endowment policy. Based on the factors of majority board control and combined economic interest, the assets, liabilities and operating results of BCI have been consolidated with the university financial results as of and for the fiscal year ended June 30, 2017. The net assets of BCI as of July 1, 2016 are reported as Fair value of net assets acquired in excess of consideration paid on the Consolidated Statements of Activities. BCI assets, liabilities and net assets at June 30, 2017 were $38,739, $187, and $38,552, respectively. BCI revenues and changes in net assets for 2018 and 2017 were not material to the university's financial statements.

(All amounts in thousands of dollars)

Recent Accounting Pronouncements

During fiscal 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14, which will be effective for the university in fiscal 2019, will provide for presentation in the financial statements of two net asset categories; net assets with donor restrictions and net assets without donor restrictions, instead of the currently required three categories. 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. The university is evaluating the impact of ASU 2016-14 to the consolidated financial statements.

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.

During 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09, effective in fiscal 2019, 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 (payment) to which the organization expects to be entitled. Since 2014 the FASB has issued a number of clarifying updates. The university is currently evaluating the impact the adoption of ASU 2014-09 and subsequent updates will have on its consolidated financial statements.

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.

(All amounts in thousands of dollars)

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.

The following table presents the financial instruments carried at fair value as of June 30, 2018, 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 $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 equities	-	-	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
Fixed income assets received from security borrowers	-	-	-	-	-
Total assets reported at fair value	$ 786,360	$ 634,613	$ 204,608	$ 7,584,857	$ 9,210,438

(All amounts in thousands of dollars)

The following table presents the financial instruments carried at fair value as of June 30, 2017, 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 $672,807.

	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, 2017
Investments					
Public equity					
Domestic	$ 159,856	$ 7,163	$ -	$ 1,489,956	$ 1,656,975
International	397,290	-	-	1,441,174	1,838,464
Fixed income - Nominal	-	751,331	-	-	751,331
Absolute return	-	-	-	1,738,040	1,738,040
Private equities	-	-	94,045	1,476,963	1,571,008
Short-term investments	181,168	1,534	-	-	182,702
Real assets	-	-	-	595,750	595,750
Other investments	45,427	(2,057)	66,645	33,636	143,651
Total investments at fair value	783,741	757,971	160,690	6,775,519	8,477,921
Fixed income assets received from security borrowers	-	178,231	-	-	178,231
Total assets reported at fair value	$ 783,741	$ 936,202	$ 160,690	$ 6,775,519	$ 8,656,152

Included as investments on the Consolidated Statements of Financial Position, at June 30, 2018 and 2017, respectively, but not reported in the tables above, are accrued investment income of $4,114 and $4,484 and investments in affiliates of $33,759 and $40,538, which are recorded on the equity basis of accounting. 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.

(All amounts in thousands of dollars)

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 measured at net asset value primarily consist of the university's ownership in alternative investments (principally limited partnership interests in absolute return, private equity 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.

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 equities	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			

(All amounts in thousands of dollars)

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

The following table summarizes the significant terms of the agreements with external investment managers or funds by major category at June 30, 2017:

Investments	Unfunded Commitment (1)	Remaining Life (2)	Redemption Terms	Redemption Restrictions
Public equities	$ 18,750	No Limit	Daily to Annually, 1-180 days notice	Lock-up provision periods range from 0 to 3 years. Some investments contain 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	135,385	No Limit	Monthly to Annually, 3 days to 90 days notice	Lock-up provision periods range from 0 to 2 years. Some investments contain side pockets subject to external manager discretion.
Private equities	1,570,532	0 - 24 Years	Not eligible for redemption	Not redeemable
Real assets	332,243	0 - 13 Years	Not eligible for redemption	Not redeemable
Total	$ 2,056,910			

Footnote (1): Not all of the unfunded commitments are expected to be funded in the subsequent year

Footnote (2): 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.

(All amounts in thousands of dollars)

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 long/short equity, event driven and relative value. These funds are valued at net asset value as described above.

Private Equities
Investments in private equities strategies are made in targeted categories including buyout, 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, 2018 and 2017.

	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 equities	$ 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

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

(All amounts in thousands of dollars)

	Balance June 30, 2016	Net Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements Net	Transfers in/(out) of Level 3, net	Balance June 30, 2017
Investments (by strategy)					
Private equities	$ 141,248	$ 6,923	$ (54,126)	$ -	$ 94,045
Other investments	62,683	3,307	1,822	(1,167)	66,645
Total	$ 203,931	$ 10,230	$ (52,304)	$ (1,167)	$ 160,690

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, 2017, reported as investment returns net of endowment spending in the Statements of Activities by type of investment is:

Private equities	$ 7,217
Other investments	2,180
Total	$ 9,397

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 equity categories, report investment returns net of fees. Other fees paid directly to investment managers and internal investment management costs were $69,011 and $64,499 for 2018 and 2017, respectively.

	2018	2017
Investment income	$ 21,565	$ 12,543
Pooled endowment dividends and interest income, net of investment management fees	(27,538)	(6,164)
Pooled endowment distribution in excess of income	350,433	311,754
Pooled endowment spending distribution	322,895	305,590
Investment gains, net	835,751	804,487
Gains distributed as endowment distribution	(350,433)	(311,754)
Investment gains net of endowment spending distribution	485,318	492,733
Net investment return	$ 829,778	$ 810,866

At June 30, 2018, the university had no securities out on loan. During the current fiscal year, the university terminated all accounts which had lendable securities. At June 30, 2017, investments with a fair value of $173,570 were loaned to various brokers on an open-ended basis for average periods varying from several days 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 or U.S. Treasury securities amounting to 102.7% of the market value of the securities loaned at June 2017.

(All amounts in thousands of dollars)

The university is indemnified against borrower default by the financial institution that is acting as its lending agent. The borrowers provided $178,207 of collateral in the form of cash or U.S. Treasury securities for the loaned securities at June 30, 2017. Cash collateral is reinvested in other vehicles by the lending agent. Cash and non-cash collateral had a fair value of $178,231 at June 30, 2017 and is reported in Collateral received for securities lending on the Consolidated Statements of Financial Position. The cost basis of collateral of $173,889 at June 30, 2017 is reported as Liabilities under securities lending transactions on the Consolidated Statements of Financial Position.

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, 2018, the university's endowment consists of 3,541 individual donor-restricted endowment funds and Board of Trustees or management-designated endowment funds for a variety of purposes plus split-interest agreements and other net assets where the assets have been designated for endowment. The net assets associated with endowment funds, including funds designated by the Board of Trustees or management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The university has interpreted Missouri 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, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (166)	$ 2,816,366	$ 1,833,276	$ 4,649,476
Board-designated endowment funds	2,757,498	233,195		2,990,693
Total endowment funds	$ 2,757,332	$ 3,049,561	$ 1,833,276	$ 7,640,169

(All amounts in thousands of dollars)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,561,367	$ 2,795,236	$ 1,729,427	$ 7,086,030
Investment return				
Net investment income	(11,918)	(14,423)		(26,341)
Net appreciation (realized and unrealized)	367,415	479,354	(565)	846,204
Total investment return	355,497	464,931	(565)	819,863
Gifts	140	559	106,557	107,256
Appropriation of endowment assets for expenditure	(139,749)	(183,146)	-	(322,895)
Net transfers of funds	29,825	(6,866)	5,362	28,321
Allocation of endowment return to treasurers investment pool	(53,623)	(20,933)	-	(74,556)
Reclassification of deficits in donor-designated funds	35	(35)		-
Other activity	3,840	(185)	(7,505)	(3,850)
Endowment net assets, end of year	$ 2,757,332	$ 3,049,561	$ 1,833,276	$ 7,640,169

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

Endowment net asset composition by type of fund as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (200)	$ 2,579,388	$ 1,729,427	$ 4,308,615
Board-designated endowment funds	2,561,567	215,848		2,777,415
Total endowment funds	$ 2,561,367	$ 2,795,236	$ 1,729,427	$ 7,086,030

(All amounts in thousands of dollars)

Changes in endowment net assets for the year ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 2,316,271	$ 2,529,810	$ 1,639,696	$ 6,485,777
Investment return				
Net investment income	(2,655)	(2,062)		(4,717)
Net appreciation (realized and unrealized)	344,158	453,375	3,861	801,394
Total investment return	341,503	451,313	3,861	796,677
Gifts	179	1,826	67,764	69,769
Appropriation of endowment assets for expenditure	(131,648)	(173,942)	-	(305,590)
Net transfers of funds	84,459	10,333	14,743	109,535
Allocation of endowment return to treasurers investment pool	(55,668)	(18,008)	-	(73,676)
Reclassification of deficits in donor-designated funds	3,789	(3,789)	-	-
Other activity	2,482	(2,307)	3,363	3,538
Endowment net assets, end of year	$ 2,561,367	$ 2,795,236	$ 1,729,427	$ 7,086,030

Of the amount classified as temporarily restricted endowment net assets, $2,265,185 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

Permanently Restricted Net Assets

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

	2018	2017
Restricted for general activities	$ 1,218,398	$ 1,166,424
Restricted for student assistance	437,987	388,046
Restricted for buildings and renovations	151,312	150,658
Life income	25,579	24,299
Total endowment net assets classified as permanently restricted net assets	$ 1,833,276	$ 1,729,427

Temporarily Restricted Net Assets

Temporarily restricted endowment funds net assets:

	2018	2017
Restricted for general activities	$ 2,017,498	$ 1,874,381
Restricted for student assistance	536,114	462,794
Restricted for buildings and renovations	483,810	445,233
Life income	12,139	12,828
Total endowment net assets classified as temporarily restricted net assets	$ 3,049,561	$ 2,795,236

(All amounts in thousands of dollars)

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 immaterial as of June 30, 2018 and 2017, 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 fiveyear average market value of a unit of the pooled endowment. For 2018, 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:

	Fair Market Value at June 30, 2018	Fair Market Value at June 30, 2017
Pooled endowment and other funds	$ 8,471,155	$ 7,872,501
Life income trusts and pools	80,779	75,686
Externally administered trusts	32,123	37,040
Separately invested endowment	7,085	6,512
Total	8,591,142	7,991,739
Less: Operating funds invested in pool	(903,750)	(776,781)
Net endowment assets	$ 7,687,392	$ 7,214,958

5. Accounts and Notes Receivable

Accounts and notes receivable at June 30 were as follows:

	2018	2017
Patient services	$ 398,705	$ 327,044
Student and parent loans		
Parent loan fund	46,095	45,091
Government student loans	33,332	40,200
Institutional student loans	22,780	23,229
Due from affiliates	108,872	117,483
Sponsored project receivables	56,028	62,667
Other	61,132	45,948
	726,944	661,662
Less: Allowance for contractual adjustments and doubtful accounts	(232,259)	(197,980)
Total	$ 494,685	$ 463,682

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, 2018, the allowance for parent and institutional student loans was $4,377 compared to $4,400 at June 30, 2017. Accounts are considered past due if a scheduled payment is thirty-one days late. The balance in such accounts was $8,386 and $7,569 at June 30, 2018 and June 30, 2017, respectively. Allowances are established based on management's best estimate of exposure at June 30 and are influenced by historical losses, existing economic conditions, and the current payment activity on loans. Activity in these allowances was not significant.

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

6. Notes and Bonds Payable

Outstanding principal on bonds and notes payable at June 30, 2018 and 2017 consists of the following:

	Rates at June 30, 2018	Maturity	2018	2017
Missouri Health and Educational Facilities Authority				
$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	.57% - 1.81%	September 1, 2030	$ 142,400	$ 142,400
$88,000 of 2000B and C Series Variable Rate Bonds, due in full	.53% - 1.78%	March 1, 2040	88,000	88,000
$25,135 of 2003B Series Variable Rate Bonds, due in full	.49% - 1.90%	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	57,740	61,215
$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	-
Other Bonds:				
$131,435 of 2015A Series Taxable Bonds due in full	3.79%	October 15, 2055	131,435	131,435
Other notes payable			68,798	39,816
Total outstanding notes and bonds payable			2,034,298	1,633,791
Unamortized original issue premiums/discounts and cost of issuance, net			(3,517)	(1,589)
Total			$ 2,030,781	$ 1,632,202

(All amounts in thousands of dollars)

Bonds payable are redeemable at the option of the university at various times from 2018 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 2018 and 2017, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled $67,862 and $54,036, respectively.

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

2019	$	17,273
2020		2,470
2021		57,199
2022		2,380
2023		22,475
Thereafter		1,932,501

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.

During fiscal 2017, the university issued $272,750 of taxable Series 2016B bonds. $243,395 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 $149,625 of the 2008 Series A MOHEFA Bonds and $93,770 of the 2009 Series A MOHEFA Bonds. In accordance with the terms of the MOHEFA 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 $23,980 reported on the Gain (Loss) on fixed asset disposals and other line of the Consolidated Statements of Activities.

The university has other lines of credit, which generally expire annually, aggregating $298,500, of which $243,595 is available at June 30, 2018. The university expects that these lines of credit will be renewed but can make no assurances.

7. 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

(All amounts in thousands of dollars)

operating expenses but are not material to the consolidated financial statements. No derivative contracts are designated as hedges for accounting purposes.

8. Commitments and Contingencies

At June 30, 2018, the university had outstanding commitments under certain construction contracts in the amount of $190,356.

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, 2018 and 2017, respectively, were$73,756 and $69,106. 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 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.

9. 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 2018 and 2017 was $82,065 and $75,739, respectively.

(All amounts in thousands of dollars)

10. Agreements With Affiliated Hospitals

The university has affiliation agreements, extended during fiscal 2018 to December 31, 2027, with Barnes Jewish Hospital (BJH) and St. Louis Children's Hospital (SLCH), collectively the Hospitals. This includes 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. 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 $37,941 and $34,483 were received or accrued as gifts on the Consolidated Statements of Activities under the agreement during 2018 and 2017, respectively.

11. Subsequent Events

The university has performed an evaluation of subsequent events through September 25, 2018, which is the date the consolidated financial statements were issued.