

Washington University
Consolidated Financial Statements
June 30, 2021 and 2020

Washington University
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June 30, 2021 and 2020

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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 affiliates (the "University"), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities 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.

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, 2021 and 2020, 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
October 4, 2021

PricewaterhouseCoopers LLP, 6 Cardinal Way, Suite 1100, St. Louis, MO 63102
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Washington University
Consolidated Statements of Financial Position
June 30, 2021 and 2020

(thousands of dollars)

	2021	2020
Assets		
Cash and cash equivalents	\$ 263,944	\$ 316,246
Investments	16,461,152	10,616,526
Accounts and notes receivable, net	646,996	552,592
Pledges receivable, net	407,232	441,909
Right-of-use assets	88,698	
Other assets	327,370	273,473
Fixed assets, net	<u>3,017,355</u>	<u>2,902,823</u>
Total assets	<u>\$ 21,212,747</u>	<u>\$ 15,103,569</u>
Liabilities		
Accounts payable and accrued expenses	\$ 623,047	\$ 575,332
Deposits, advances and other	34,280	33,388
Lease liability	99,666	
Professional liability	95,793	91,493
Deferred revenue and contract liabilities	161,045	158,348
Liabilities under split-interest agreements	40,883	38,690
Government supported student loans	17,550	22,671
Notes and bonds payable	<u>2,390,378</u>	<u>2,415,342</u>
Total liabilities	<u>3,462,642</u>	<u>3,335,264</u>
Net Assets		
Without donor restrictions	8,371,599	5,885,728
With donor restrictions	<u>9,378,506</u>	<u>5,882,577</u>
Total net assets	<u>17,750,105</u>	<u>11,768,305</u>
Total liabilities and net assets	<u>\$ 21,212,747</u>	<u>\$ 15,103,569</u>

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

Washington University
Consolidated Statements of Activities
Year Ended June 30, 2021

<i>(thousands of dollars)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Tuition and fees	\$ 433,334	\$	\$ 433,334
Endowment spending distribution	354,542	11,237	365,779
Investment return	10,933	184	11,117
Gifts	76,625	81,829	158,454
Grants and contracts revenues			
Direct costs recovered	507,306		507,306
Facilities and administrative costs recovered	194,793		194,793
Patient services, net	1,667,815		1,667,815
Auxiliary enterprises - sales and services	90,249		90,249
Educational activities - sales and services	215,868		215,868
Affiliated hospital revenues	154,448		154,448
Other revenue	38,492	2	38,494
Net assets released from restrictions	107,829	(107,829)	-
Total Revenues and other support	3,852,234	(14,577)	3,837,657
Expenses:			
Compensation expense	2,252,936		2,252,936
Supplies, services, and other	1,124,898		1,124,898
Depreciation expense	213,825		213,825
Interest expense	71,485		71,485
Total expenses	3,663,144	-	3,663,144
Net operating results	189,090	(14,577)	174,513
Non-operating revenues and (expenses):			
Investment returns net of endowment spending	2,323,518	3,417,121	5,740,639
Permanently restricted gifts		71,323	71,323
Other non-operating	(26,737)	22,062	(4,675)
Non-operating, net	2,296,781	3,510,506	5,807,287
Change in net assets	2,485,871	3,495,929	5,981,800
Net Assets, Beginning of the Year	5,885,728	5,882,577	11,768,305
Net Assets, End of the Year	\$ 8,371,599	\$ 9,378,506	\$ 17,750,105

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

Washington University
Consolidated Statements of Activities
Year Ended June 30, 2020

<i>(thousands of dollars)</i>	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other support			
Tuition and fees	\$ 451,500	\$	\$ 451,500
Endowment spending distribution	351,383	10,489	361,872
Investment return	19,990	1,182	21,172
Gifts	101,843	142,845	244,688
Grants and contracts revenues			
Direct costs recovered	483,265		483,265
Facilities and administrative costs recovered	177,421		177,421
Patient services, net	1,482,562		1,482,562
Auxiliary enterprises - sales and services	102,434		102,434
Educational activities - sales and services	183,974		183,974
Affiliated hospital revenues	146,460		146,460
Other revenue	94,352	2	94,354
Net assets released from restrictions	123,173	(123,173)	-
Total Revenues and other support	3,718,357	31,345	3,749,702
Expenses:			
Compensation expense	2,183,944		2,183,944
Supplies, services, and other	1,103,911		1,103,911
Depreciation expense	201,973		201,973
Interest expense	70,200		70,200
Total expenses	3,560,028	-	3,560,028
Net operating results	158,329	31,345	189,674
Non-operating revenues and (expenses):			
Investment returns net of endowment spending	307,030	171,445	478,475
Permanently restricted gifts		80,184	80,184
Other non-operating	(56,517)	27,557	(28,960)
Non-operating, net	250,513	279,186	529,699
Change in net assets	408,842	310,531	719,373
Net Assets, Beginning of the Year	5,476,886	5,572,046	11,048,932
Net Assets, End of the Year	\$ 5,885,728	\$ 5,882,577	\$ 11,768,305

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

Washington University
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

(thousands of dollars)

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 5,981,800	\$ 719,373
Adjustments to reconcile change in net assets to cash provided by operating activities		
Realized and unrealized net gains on investments	(6,177,960)	(899,464)
Depreciation expense	213,825	201,973
Permanently restricted gifts	(71,323)	(80,184)
Investments received as gifts - not permanently restricted	(12,173)	(11,070)
Proceeds from sales of investments received as gifts	12,173	11,070
Debt extinguishment costs		9,635
Operating leases	10,968	
Other non-cash adjustments	29,908	59,127
Changes in assets and liabilities		
Accounts and notes receivable, net	(67,005)	47,113
Pledges receivable, net	30,454	(49,691)
Accounts payable and accrued expenses	46,248	(6,907)
Other assets and liabilities	(52,379)	18,984
Net cash (used)/provided by operating activities	<u>(55,464)</u>	<u>19,959</u>
Cash flows from investing activities		
Proceeds from sales and maturities of investments	6,909,906	5,805,217
Purchases of investments	(6,612,196)	(5,925,802)
Purchases of fixed assets	(345,458)	(397,220)
Student loans disbursed	(14,376)	(15,516)
Student loan payments received	20,565	20,459
Other		45
Net cash used in investing activities	<u>(41,559)</u>	<u>(512,817)</u>
Cash flows from financing activities		
Principal payments of debt	(185,011)	(150,436)
Proceeds from long-term debt issuance	159,486	509,037
Contributions restricted for long-term investment	65,002	55,465
Proceeds from sales of investments received as gifts	10,400	19,152
Debt extinguishment costs		(9,635)
Other	(5,156)	(14,579)
Net cash provided by financing activities	<u>44,721</u>	<u>409,004</u>
Net decrease in cash	<u>(52,302)</u>	<u>(83,854)</u>
Cash and cash equivalents		
Beginning of year	<u>316,246</u>	<u>400,100</u>
End of year	<u>\$ 263,944</u>	<u>\$ 316,246</u>
Supplemental data		
Interest paid in cash	\$ 71,662	\$ 66,566
Noncash activities		
Contributions of securities and other noncash assets	23,103	36,211
Net change in accounts payable for investments	1,470	(114,118)
Right-of-use assets obtained in exchange for lease liabilities	686	

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

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(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 recorded 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 represent net assets that 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. Net assets required to be held in perpetuity at June 30, 2021 and 2020, are \$2,442,688 and \$2,365,401, respectively.

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

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(All amounts in thousands of dollars)

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 with donor restrictions 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 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, 2021 consist of the following:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$	\$ 8,268,427	\$ 8,268,427
Board-designated endowment funds	4,753,833	645,821	5,399,654
Investment in plant, net	790,380		790,380
Pledges		407,232	407,232
Other donor-restricted		57,026	57,026
Operating and other reserves	2,827,386		2,827,386
	<u>\$ 8,371,599</u>	<u>\$ 9,378,506</u>	<u>\$ 17,750,105</u>

The university's net assets as of June 30, 2020 consist of the following:

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$	\$ 5,103,500	\$ 5,103,500
Board-designated endowment funds	3,085,820	299,974	3,385,794
Investment in plant, net	762,165		762,165
Pledges		441,909	441,909
Other donor-restricted		37,194	37,194
Operating and other reserves	2,037,743		2,037,743
	<u>\$ 5,885,728</u>	<u>\$ 5,882,577</u>	<u>\$ 11,768,305</u>

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, 2021 and 2020, investments include \$163,403 and \$274,683, respectively, purchased with unexpended proceeds from the Series 2017 A Missouri Health and Educational

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Facilities Authority (MOHEFA) revenue bonds issued July 6, 2017 and the Series 2020A taxable revenue bonds issued April 3, 2020. The 2017A MOHEFA funds and the 2020A bond funds may be utilized for the purposes set forth in the relevant bond documents.

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, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Construction in progress	\$ 320,701	\$ 311,806
Land and improvements to land	190,825	178,356
Buildings	4,743,990	4,502,505
Equipment	<u>663,409</u>	<u>619,921</u>
Total cost	5,918,925	5,612,588
Accumulated depreciation	<u>(2,901,570)</u>	<u>(2,709,765)</u>
Total fixed assets, net	<u>\$ 3,017,355</u>	<u>\$ 2,902,823</u>

Collections

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

Leases

The university determines if an arrangement is or contains a lease at inception based on whether the contract conveys the right to control the use of identified property, plant, or equipment in exchange for consideration. The university has both leases under which it is obligated as a lessee and leases for which it is the lessor. Operating leases in which the university is a lessee are included in right-of-use (ROU) assets and lease liabilities on the consolidated statements of financial position. The university has elected the short-term lease exception under ASC 842 for all leases, and therefore, leases with an initial term of 12 months or less are not included on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The interest rate implicit in lease contracts is typically not readily determinable, and as such, the university uses its collateralized borrowing rate using a period comparable with the lease term in determining the present value of lease payments. The lease term may, at the university's discretion, include options to extend or to terminate the lease that the university is

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reasonably certain to exercise. Lease expense for lease payments is recognized on a straight-line basis over the lease term within the supplies, services and other line of the consolidated statement of activities. Variable lease payments based on an index or rate, such as the consumer price index, are initially measured using the index or rate in effect at lease commencement. The university has lease agreements with non-lease components that relate to the lease components. The university elected the practical expedient to account for non-lease components and the lease components to which they relate as a single lease component for all leases. Leasing arrangements for which the university is the lessor are not material to the consolidated financial statements.

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.

The university's loan portfolio includes over 5,800 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, 2021 and 2020, respectively 95% and 94% of the parent loans and 73% and 74% 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.

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, 2021 and 2020 was \$50,657 and \$45,962, respectively, and is reported as deferred revenue and contract liabilities on the consolidated 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, 2021 and 2020, respectively, was \$423,790 and \$413,029.

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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.

	2021	2020
Scholarships from unrestricted sources	\$ 227,169	\$ 221,068
Scholarship support from gifts, endowment and other restricted sources	<u>77,632</u>	<u>74,081</u>
Total scholarships	304,801	295,149
Employee and dependent tuition benefits	38,198	38,446
Stipends	79,221	77,326
Work study	<u>1,570</u>	<u>2,108</u>
Total	<u>\$ 423,790</u>	<u>\$ 413,029</u>

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 0.20% 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.

A summary of pledges receivable is as follows:

	2021	2020
In one year or less	\$ 152,990	\$ 165,399
Between two and five years	145,371	153,459
Over five years	<u>125,702</u>	<u>144,145</u>
	424,063	463,003
Less:		
Discount	(8,132)	(12,540)
Allowance for uncollectible amounts	<u>(8,699)</u>	<u>(8,554)</u>
Total	<u>\$ 407,232</u>	<u>\$ 441,909</u>

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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 \$889,722 and \$879,544 at June 30, 2021 and June 30, 2020, respectively. 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.

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.

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

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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 \$2.13 billion and \$1.84 billion for the years ended June 30, 2021 and 2020, 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 \$175,945 and \$144,755, at June 30, 2021 and 2020, respectively.

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.

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. The university 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, 2021 and 2020 are \$50,800 and \$56,325,

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respectively, and are reported as deferred revenue and contract liabilities on the consolidated 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 \$64,239 and \$72,635 at June 30, 2021 and 2020, 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 consolidated statement of financial position.

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 13. 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 \$74,708 and \$68,577 at June 30, 2021 and 2020 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 0.53% to 1.98% for 2021 and 1.37% to 2.31% for fiscal year 2020. 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. For the years ending June 30, 2021 and 2020, the change in fair value was an increase of \$1,661 and a decrease of \$2,964, respectively. As of June 30, 2021

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and 2020, the university's liability under charitable gift annuities was \$18,248 and \$19,710, respectively.

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, 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%.

As of June 30, 2021, 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.

Effects of the Pandemic

The outbreak of COVID -19 has caused domestic and global disruption in operations for institutions of higher education. The impact (i) may affect the cost of operations and (ii) may materially affect financial markets and consequently the returns on and value of the university's investments. Other adverse consequences of COVID-19 or any other similar outbreaks in the future may include, but are not limited to, decline in enrollment, decline in demand for university housing and decline in demand for university programs that involve travel or have international connections. The full impact of COVID-19 or any other similar outbreaks in the future and the scope of any adverse impact on the university's finances and operations cannot be fully determined at this time.

The university received funding from the federal Coronavirus Aid, Relief and Economic Security ("CARES") Act Provider Relief Fund, recognized as a portion of "Other Revenues" in the consolidated statement of activities as of June 30, 2020, to be retained and used only for reimbursement of eligible expenses and lost revenues in accordance with laws, regulations and guidance issued by the U.S. Department of Health and Human Services.

Recent Accounting Pronouncements

During fiscal 2016, the FASB issued ASU 2016-02, Leases, along with subsequently issued supplemental ASUs (collectively, ASC 842). This guidance requires lessees to recognize a lease liability and a ROU asset on a discounted basis, for substantially all leases, as well as provide

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additional disclosures regarding leasing arrangements (refer to footnote 8). The university adopted this standard as of July 1, 2020, the effective date, and applied the guidance to each lease that existed as of that date. As a result, prior comparative periods were not adjusted. The university elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The university capitalized ROU assets and lease liabilities of \$104,504 and \$117,989, respectively, on the balance sheet at July 1, 2020 with the excess of lease liabilities over ROU assets charged to net assets without donor restrictions. Upon adoption, there was no material change to the consolidated net assets, statements of activities, or cash flows.

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued by the FASB during June 2016 and was adopted by the university during fiscal year 2021. ASU 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. This is a shift from the previous probable loss model to an expected loss model which requires an estimate of the future collectability of cash flows. The amendments in this update broaden the information an entity must consider when developing its expected credit loss estimate such as past events, historical loss, experience with similar assets, and current market and economic conditions. There was no significant impact to the university's financial statements or footnote disclosures upon adoption.

In August 2018, the FASB issued ASU 2018-13, *Changes to the Disclosure Requirements for Fair Value Measurement*, which was adopted by the university as of July 1, 2020 (see footnote 2). 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.

ASU 2020-07, *Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, was issued by the FASB in September 2020 in order to address stakeholders' concerns regarding lack of transparency in the measurement of contributed nonfinancial assets as well as the amount of those contributions used in the university's programs and other activities. Under this ASU, nonprofit entities should present contributed nonfinancial assets as a separate line item in the consolidated statement of activities and also quantitatively disclose the disaggregation of such assets by type. In addition, an entity should disclose various qualitative information regarding the assets such as valuation techniques, how the assets were used, restrictions on use, etc. While the ASU adds presentation and disclosure requirements, it does not change the recognition and measurement requirements for contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021, however, the university has chosen to early adopt this guidance during the current fiscal year. Contributed nonfinancial assets are not material to the university's financial statements and, therefore, line-item presentation and disclosure requirements have been omitted.

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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.

The following table presents the financial instruments carried at fair value as of June 30, 2021, 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 \$774,142.

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	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, 2021
Investments					
Public equity					
Domestic	\$ 290,611			\$ 1,625,359	\$ 1,915,970
International	61,800			2,948,440	3,010,240
Fixed income - Nominal		1,076,289			1,076,289
Absolute return				1,027,832	1,027,832
Private capital			254,301	7,741,398	7,995,699
Short-term investments	348,033	11,756			359,789
Real assets			749	715,436	716,185
Other investments	210,017	749	68,022	36,946	315,734
Total investments at fair value	910,461	1,088,794	323,072	14,095,411	16,417,738
Investments not reported at fair value					
Affiliates - Equity basis					40,876
Accrued investment income					2,538
Total investments	\$ 910,461	\$ 1,088,794	\$ 323,072	\$ 14,095,411	\$ 16,461,152

The following table presents the financial instruments carried at fair value as of June 30, 2020, 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 \$656,460.

	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, 2020
Investments					
Public equity					
Domestic	\$ 134,100	\$ 27		\$ 938,834	\$ 1,072,961
International	96,173			2,098,450	2,194,623
Fixed income - Nominal		820,224			820,224
Absolute return				1,015,840	1,015,840
Private capital			158,996	4,224,579	4,383,575
Short-term investments	137,437	3,824			141,261
Real assets			2,128	534,686	536,814
Other investments	314,574	(650)	69,724	31,241	414,889
Total investments at fair value	682,284	823,425	230,848	8,843,630	10,580,187
Investments not reported at fair value					
Affiliates - Equity basis					33,561
Accrued investment income					2,778
Total investments	\$ 682,284	\$ 823,425	\$ 230,848	\$ 8,843,630	\$ 10,616,526

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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.

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The following table summarizes the significant terms of the agreements with external investment managers or funds by major category at June 30, 2021:

Investments	Unfunded Commitment (1)	Remaining Life (2)	Redemption Terms	Redemption Restrictions
Public equities	\$	No Limit	Daily to annually, with same day-180 day 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		No Limit	Quarterly to semi-annually with 45 – 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	1,691,267	0 - 28 Years	Not eligible for redemption	Not redeemable
Real assets	337,723	0 - 11 Years	Not eligible for redemption	Not redeemable
Total	<u>\$ 2,028,990</u>			

Footnote (1): Includes \$21 million nonbinding unfunded commitments. 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): For private equities and real assets, assuming all extension options under the agreements are exercised and approved except for funds with no fund life end date or unlimited extension.

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The following table summarizes the significant terms of the agreements with external investment managers or funds by major category at June 30, 2020:

Investments	Unfunded Commitment (1)	Remaining Life (2)	Redemption Terms	Redemption Restrictions
Public equities	\$ 1,805	2 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		1 Year - No Limit	Quarterly to semi-annually with 45 – 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	1,700,420	0 - 29 Years	Not eligible for redemption	Not redeemable
Real assets	335,813	0 - 11 Years	Not eligible for redemption	Not redeemable
Total	<u>\$ 2,038,038</u>			

Footnote (1): Includes \$28 million nonbinding unfunded commitments. 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): For private equities and real assets, assuming all extension options under the agreements are exercised and approved except for funds with no fund life end date or unlimited extension.

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

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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.

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 consolidated statement 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, 2021 and 2020.

	Balance June 30, 2020	Net Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements Net	Transfers in/(out) of Level 3, net	Balance June 30, 2021
Investments (by strategy)					
Private capital	\$ 158,996	\$ 246,611	\$ (202,365)	\$ 51,059	\$ 254,301
Real assets	2,128	101	(1,480)		749
Other investments	69,724	9,928	2,519	(14,149)	68,022
Total	<u>\$ 230,848</u>	<u>\$ 256,640</u>	<u>\$ (201,326)</u>	<u>\$ 36,910</u>	<u>\$ 323,072</u>

	Balance June 30, 2019	Net Realized and Unrealized Gains (Losses)	Purchases, Sales and Settlements Net	Transfers in/(out) of Level 3, net	Balance June 30, 2020
Investments (by strategy)					
Private capital	\$ 130,923	\$ (1,296)	\$ 31,425	\$ (2,056)	\$ 158,996
Real assets	110,600	363	(108,835)		2,128
Other investments	70,183	643	102	(1,204)	69,724
Total	<u>\$ 311,706</u>	<u>\$ (290)</u>	<u>\$ (77,308)</u>	<u>\$ (3,260)</u>	<u>\$ 230,848</u>

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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, 2021 and 2020 respectively, reported as investment returns net of endowment spending in the consolidated statements of activities by type of investment is:

	2021	2020
Private capital	\$ 43,818	\$ (129)
Real assets	(823)	3,973
Other investments	8,023	(341)
Total	<u>\$ 51,018</u>	<u>\$ 3,503</u>

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.

	2021	2020
Investment income	<u>\$ 11,117</u>	<u>\$ 21,172</u>
Pooled endowment dividends and interest income, net of investment management fees	(71,542)	(59,117)
Pooled endowment distribution in excess of income	<u>437,321</u>	<u>420,989</u>
Pooled endowment spending distribution	<u>365,779</u>	<u>361,872</u>
Investment gains, net	6,177,960	899,464
Gains distributed as endowment distribution	<u>(437,321)</u>	<u>(420,989)</u>
Investment gains net of endowment spending distribution	<u>5,740,639</u>	<u>478,475</u>
Net investment return	<u>\$ 6,117,535</u>	<u>\$ 861,519</u>

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, 2021, the university's endowment consists of 3,785 individual donor-restricted endowment funds and Board of Trustees or management-designated endowment funds for a variety of purposes plus split-interest agreements and other net assets where the assets have been designated for endowment. The net assets associated with endowment funds, including funds designated by the Board of Trustees or management to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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The university has interpreted Missouri UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the university classifies as 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, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$	\$ 8,268,427	\$ 8,268,427
Board-designated endowment funds	<u>4,753,833</u>	<u>645,821</u>	<u>5,399,654</u>
Total endowment funds	<u>\$ 4,753,833</u>	<u>\$ 8,914,248</u>	<u>\$ 13,668,081</u>

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	<u>\$ 3,085,820</u>	<u>\$ 5,403,474</u>	<u>\$ 8,489,294</u>
Investment return			
Net investment income	(29,528)	(40,961)	(70,489)
Net appreciation (realized and unrealized)	<u>2,468,932</u>	<u>3,714,753</u>	<u>6,183,685</u>
Total investment return	2,439,404	3,673,792	6,113,196
Gifts	109	78,578	78,687
Appropriation of endowment assets for expenditure	(150,971)	(214,808)	(365,779)
Net transfers of funds	29,884	2,797	32,681
Allocation of endowment return to treasurer's investment pool	(653,549)	(29,804)	(683,353)
Other activity	<u>3,136</u>	<u>219</u>	<u>3,355</u>
Endowment net assets, end of year	<u>\$ 4,753,833</u>	<u>\$ 8,914,248</u>	<u>\$ 13,668,081</u>

Of the amount classified as endowment net assets with donor restrictions, \$ 5,540,335 represents the portion of endowment funds subject to time restrictions under Missouri's enacted version of UPMIFA.

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Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$	\$ 5,103,500	\$ 5,103,500
Board-designated endowment funds	3,085,820	299,974	3,385,794
Total endowment funds	<u>\$ 3,085,820</u>	<u>\$ 5,403,474</u>	<u>\$ 8,489,294</u>

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	<u>\$ 2,845,594</u>	<u>\$ 5,163,331</u>	<u>\$ 8,008,925</u>
Investment return			
Net investment income	(24,515)	(33,356)	(57,871)
Net appreciation (realized and unrealized)	446,000	438,638	884,638
Total investment return	421,485	405,282	826,767
Gifts	83	79,937	80,020
Appropriation of endowment assets for expenditure	(150,064)	(211,808)	(361,872)
Net transfers of funds	15,834	(2,815)	13,019
Allocation of endowment return to treasurer's investment pool	(51,171)	(28,772)	(79,943)
Other activity	4,059	(1,681)	2,378
Endowment net assets, end of year	<u>\$ 3,085,820</u>	<u>\$ 5,403,474</u>	<u>\$ 8,489,294</u>

Of the amount classified as endowment net assets with donor restrictions, \$2,686,050 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, 2021:

	Without Donor Restriction	With Donor Restriction	Total
Restricted for general activities	\$ 3,479,522	\$ 6,052,357	\$ 9,531,879
Restricted for student assistance	687,806	1,571,424	2,259,230
Restricted for buildings and renovations	586,505	1,244,725	1,831,230
Life income		45,742	45,742
Total endowment net assets	<u>\$ 4,753,833</u>	<u>\$ 8,914,248</u>	<u>\$ 13,668,081</u>

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The purpose of endowment funds as of June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Restricted for general activities	\$ 2,321,054	\$ 3,621,441	\$ 5,942,495
Restricted for student assistance	407,464	1,013,383	1,420,847
Restricted for buildings and renovations	357,278	743,597	1,100,875
Life income	24	25,053	25,077
Total endowment net assets	<u>\$ 3,085,820</u>	<u>\$ 5,403,474</u>	<u>\$ 8,489,294</u>

Endowment Funds with Deficits

As determined under UPMIFA, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (i.e., deficit). When donor endowment deficits exist, they remain classified as net assets with donor restrictions. Deficits of this nature were immaterial as of June 30, 2021 and 2020. The deficits resulted largely from unfavorable market fluctuations.

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 2021, the spending rate from the pooled endowment was 4.4% 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.

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

	2021	2020
Pooled endowment and other funds	\$ 15,310,698	\$ 9,547,820
Life income trusts and pools	88,583	76,091
Externally administered trusts	37,338	30,804
Separately invested endowment	9,674	8,577
Total	15,446,293	9,663,292
Less: Operating funds invested in pool	(1,780,908)	(1,148,092)
Net endowment assets	\$ 13,665,385	\$ 8,515,200

The amounts above include term endowments of \$150,012 and \$102,870 as of June 30, 2021 and 2020, respectively.

5. Liquidity and Availability of Resources

At June 30, 2021 and 2020, the university's financial assets available for general expenditures within one year of the balance sheet date are as follows:

	2021	2020
Total assets at year end	\$ 21,212,747	\$ 15,103,569
Less:		
Accounts and notes receivable due in more than one year	(96,258)	(104,244)
Pledges receivable unavailable for general expenditure	(307,854)	(332,861)
Donor-restricted endowment funds	(8,283,442)	(5,135,123)
Board-designated endowment funds	(5,381,943)	(3,380,077)
Other long-term investments	(2,089,396)	(1,590,748)
Right-of-use assets	(88,698)	
Other assets	(327,370)	(273,473)
Fixed assets	(3,017,355)	(2,902,823)
Total financial assets available within one year	\$ 1,620,431	\$ 1,384,220

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 of a unit of the pooled endowment. For fiscal year 2022, the Board of Trustees approved a spending rate which will generate an endowment payout equaling or exceeding that of fiscal year 2021, including an allocation to the treasurer's investment pool, that will be available for operations during fiscal year 2022.

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

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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 \$250,000 of available lines of credit at June 30, 2021.

6. Accounts and Notes Receivable

Accounts and notes receivable at June 30 were as follows:

	2021	2020
Patient services	\$ 489,726	\$ 418,149
Student and parent loans		
Parent loan fund	43,037	44,928
Government student loans	15,656	20,042
Institutional student loans	19,127	21,987
Due from affiliates	155,096	157,276
Sponsored project receivables	98,222	71,590
Other	145,830	98,673
	<u>966,694</u>	<u>832,645</u>
Less: Allowance for contractual adjustments and doubtful accounts	<u>(319,698)</u>	<u>(280,053)</u>
Total	<u>\$ 646,996</u>	<u>\$ 552,592</u>

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7. Notes and Bonds Payable

Outstanding principal on bonds and notes payable at June 30, 2021 and 2020 consists of the following:

	Rates at June 30, 2021	Maturity	2021	2020
Missouri Health and Educational Facilities Authority				
\$142,400 of 1996A, B, C and D Series Variable Rate Bonds, due in full	0.11% - 0.13%	September 1, 2030	\$	\$ 132,400
\$88,000 of 2000B and C Series Variable Rate Bonds, due in full	0.01% - 0.03%	March 1, 2040	88,000	88,000
\$25,135 of 2003B Series Variable Rate Bonds, due in full	0.02%	February 15, 2033	25,135	25,135
\$77,495 of 2011C Series Revenue Bonds due serially from November 15, 2012 to November 15, 2037	.75% - 5.06%	November 15, 2037	49,595	51,890
\$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
\$450,000 of 2020 A Series Revenue Bonds, due in full	3.23%	May 15, 2050	450,000	450,000
Other Bonds:				
\$131,435 of 2015A Series Taxable Bonds due in full	3.79%	October 15, 2055	131,435	131,435
Other notes payable			254,953	145,783
Total outstanding notes and bonds payable			2,400,573	2,426,098
Unamortized original issue premiums/discounts and cost of issuance, net			(10,195)	(10,756)
Total			\$ 2,390,378	\$ 2,415,342

Bonds payable are redeemable at the option of the university at various times from 2021 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 2021 and 2020, interest, accretion of debt discount and related fees incurred on notes and bonds payable totaled \$75,531 and \$72,003, respectively.

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

2022	\$ 76,658
2023	58,127
2024	2,577
2025	2,627
2026	147,434
Thereafter	2,113,150

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During fiscal 2021, the university borrowed \$132,400 under a five year term note, the proceeds of which were used to retire the balance of the 1996 MOHEFA bonds. During fiscal 2020, the university issued \$450,000 of Series 2020A Missouri Health and Educational Facilities Authority (MOHEFA) bonds. The bonds bear a fixed rate of 3.23% and will mature on May 15, 2050. 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 \$370,220, of which \$257,695 is available at June 30, 2021. The university expects that these lines of credit will be renewed but can make no assurances.

8. Operating Leases

The university and its consolidated affiliates primarily lease laboratories, office space, and medical offices for educational, research, and patient care purposes under operating leases expiring through 2031. At June 30, 2021, the weighted average remaining lease term was 6.5 years and the weighted average discount rate was 3.05%. Total lease expense of \$28,188 is included in supplies, services, and other on the consolidated statement of activities as of June 30, 2021.

The undiscounted cash flows due by fiscal year related to significant non-cancelable operating leases with initial terms in excess of one year as of June 30, 2021, along with a reconciliation to the discounted amount recorded as of June 30, 2021 were as follows:

2022	\$	23,213
2023		20,549
2024		15,364
2025		12,180
2026		11,586
Thereafter		27,108
Total minimum lease payments	\$	110,000
Less: Imputed interest		(10,334)
Total lease liabilities	\$	99,666

9. 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

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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.

10. 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.

Operating expenses by functional and natural classification for the year ended June 30, 2021 are as follows:

	Compensation and benefits	Supplies, services and other	Depreciation	Interest	Total
Instruction	\$ 1,489,996	\$ 814,548	\$ 75,136	\$ 18,189	\$ 2,397,869
Research	375,891	168,192	54,943	13,278	612,304
Academic Support	176,099		32,063	10,354	218,516
Student Services	43,105	45,323	5,318	2,443	96,189
Institutional Support	124,096	25,399	4,538	799	154,832
Auxiliary Enterprises	19,745	60,265	39,749	26,263	146,022
Other	24,004	11,171	2,078	159	37,412
Total	<u>\$ 2,252,936</u>	<u>\$ 1,124,898</u>	<u>\$ 213,825</u>	<u>\$ 71,485</u>	<u>\$ 3,663,144</u>

Operating expenses by functional and natural classification for the year ended June 30, 2020 are as follows:

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	Compensation and benefits	Supplies, services and other	Depreciation	Interest	Total
Instruction	\$ 1,437,775	\$ 772,494	\$ 71,378	\$ 18,769	\$ 2,300,416
Research	349,358	158,325	48,975	13,817	570,475
Academic Support	183,997		32,524	10,652	227,173
Student Services	45,838	45,295	6,125	2,710	99,968
Institutional Support	124,582	58,171	5,362	1,037	189,152
Auxiliary Enterprises	19,624	54,167	35,372	23,058	132,221
Other	22,770	15,459	2,237	157	40,623
Total	<u>\$ 2,183,944</u>	<u>\$ 1,103,911</u>	<u>\$ 201,973</u>	<u>\$ 70,200</u>	<u>\$ 3,560,028</u>

11. Commitments and Contingencies

At June 30, 2021 and 2020, the university had outstanding commitments under certain construction contracts in the amount of \$262,844 and \$109,955, respectively.

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, 2021 and 2020, respectively, were \$95,793 and \$91,493. 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.

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12. 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. The amount of contribution made by the university is based on employee's hire date, age and/or base salary. Vesting provisions are full and immediate. The university's share of the cost of these benefits in 2021 and 2020 was \$71,490 and \$95,214, respectively. During the period July 1, 2020 through October 31, 2020, employer contributions to the plan were temporarily suspended in response to the COVID-19 pandemic. The university provides dependent tuition benefits to qualified retirees. The liability under this plan was \$18,917 and \$22,027 as of June 30, 2021 and 2020, respectively.

13. Agreements with Affiliated Hospitals

The university has affiliation agreements with Barnes Jewish Hospital (BJH), St. Louis Children's Hospital (SLCH), and Barnes Jewish West County Hospital (BJWCH), collectively the Hospitals, which expire December 31, 2027, but may be canceled upon a one-year written notice by either party. These agreements relate to various operating activities of the Hospitals including Orthopedic Center (OC) in Chesterfield, the Siteman Cancer Center – South County, Center for Advanced Medicine (CAM) in South County, BJH Psychiatric Support Center (PSC), and the Children's Specialty Care Center in Town and Country.

Under the terms of the affiliation agreement, the university trains and supervises medical residents and interns and manages certain clinical and research activities of the Hospitals. BJH, SLCH, and BJWCH are responsible for the hospitals and health care delivery facilities and compensate the university for services provided by the university through a fixed annual base payment (adjusted annually for inflation) plus an additional variable payment based on the combined Hospitals' net operating income. 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. Payments to the university under affiliation agreements are reported as affiliated hospital revenue on the consolidated statements of activities (see footnote 1). During 2013, BJH agreed to fund on a cost-reimbursement basis over a period of years, certain expenditures by the university. Payments of \$17,923 and \$21,507 were received or accrued as gifts on the consolidated statements of activities under the agreement during 2021 and 2020, respectively.

14. Subsequent Events

The university has performed an evaluation of subsequent events through October 4, 2021, which is the date the consolidated financial statements were issued.