Webster University

Independent Auditor’s Report and Consolidated Financial Statements

May 31, 2019 and 2018

Webster University
May 31, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Trustees
Webster University
Webster Groves, Missouri

We have audited the accompanying consolidated financial statements of Webster University (the "University"), which comprise the consolidated statements of financial position as of May 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers 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 consolidated financial position of Webster University as of May 31, 2019 and 2018, 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.

Emphasis of Matters

As discussed in Note 2 to the consolidated financial statements, in 2019, the University adopted new accounting guidance, Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities,* ASU 2014-09 (Topic 606), *Revenue from Contracts with Customers,* and ASU 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*. Our opinion is not modified with respect to these matters.

BKD, LLP

St. Louis, Missouri
October 31, 2019

Webster University

Consolidated Statements of Financial Position

May 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	$ 11,765,555	$ 9,213,162
Receivables - current, net of allowance; 2019 - $9,281,608, 2018 - $9,056,140	13,284,639	26,527,018
Short-term investments	3,379,621	4,523,855
Prepayments and deferred charges	2,693,713	2,028,252
Total current assets	31,123,528	42,292,287
Noncurrent Contributions Receivable, Net of Allowance; 2019 - $17,200; 2018 - $46,400	1,720,138	1,534,475
Student Loans Receivable, Net of Allowance; 2019 & 2018 - $249,156	2,417,754	2,700,550
Property and Equipment, Net	209,648,775	227,691,693
Long-Term Investments	152,722,553	160,792,636
Escrowed Bond Investments	475,899	213,349
Beneficial Interest in Charitable Remainder Trust	6,712,427	7,152,738
Long-Term Prepaid Expense and Other	750,183	746,183
Total assets	$ 405,571,257	$ 443,123,911

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt and capital lease obligation	$ 4,884,712	$ 3,061,752
Line of credit	9,000,000	-
Accounts payable and accrued expenses	15,175,029	15,046,267
Current accrued benefit costs	25,727	36,123
Deposits and deferred revenue	5,594,172	21,805,975
Total current liabilities	34,679,640	39,950,117
Annuities and Trusts Payable	448,065	527,294
Accrued Benefit Costs	61,407	96,633
Asset Retirement Obligation	1,427,873	2,118,761
Long-Term Debt and Capital Lease Obligation	96,570,355	104,025,715
U.S. Government Grants Refundable	1,663,716	1,662,446
Total liabilities	134,851,056	148,380,966
Net Assets		
Without donor restrictions	219,408,309	242,319,594
With donor restrictions	51,311,892	52,423,351
Total net assets	270,720,201	294,742,945
Total liabilities and net assets	$ 405,571,257	$ 443,123,911

Webster University

Consolidated Statements of Activities

Years Ended May 31, 2019 and 2018

	Year Ended May 31, 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue, Gains and Other Support			
Tuition and fees, net of scholarship allowances; 2019 - $36,360,039, 2018 - $35,796,687	$ 135,671,180	$ -	$ 135,671,180
Auxiliary enterprises	10,919,223	-	10,919,223
Private gifts and grants	1,732,986	646,304	2,379,290
Investment return - operating, net	6,174,014	-	6,174,014
Federal grants and contracts	2,035,636	-	2,035,636
Other income	4,695,724	-	4,695,724
Net assets released from restrictions	2,407,196	(2,407,196)	-
Total operating revenue, gains and other support	163,635,959	(1,760,892)	161,875,067
Operating Expenses			
Administration & student wages	43,521,901	-	43,521,901
Instructional wages	39,532,044	-	39,532,044
Benefits	20,793,873	-	20,793,873
Operating leases & rentals	10,723,099	-	10,723,099
Depreciation & amortization	15,384,976	-	15,384,976
Utilities and insurance	7,968,479	-	7,968,479
Services & professional fees	12,393,466	-	12,393,466
Software	4,216,273	-	4,216,273
Advertising	5,047,334	-	5,047,334
Supplies & equipment	3,157,815	-	3,157,815
Travel & entertainment	3,671,956	-	3,671,956
Interest & finance expense	3,668,721	-	3,668,721
Other operational expenses	7,981,514	-	7,981,514
	178,061,451	-	178,061,451
Change in Net Assets From Operating Activities Before Currency Exchange	(14,425,492)	(1,760,892)	(16,186,384)
(Gain) loss on currency exchange	1,774,563	-	1,774,563
Change in Net Assets From Operating Activities	(16,200,055)	(1,760,892)	(17,960,947)
Non-operating Activities			
Investment return, net	(6,788,061)	(491,058)	(7,279,119)
Change in value of split interest agreements	-	(15,981)	(15,981)
Donor restricted private gifts & grants - in perpetuity	-	641,372	641,372
Change in donor designation	-	-	-
Loss on bond defeasance	-	-	-
Net assets restricted for matching grants	(515,100)	515,100	-
Change in Net Assets From Non-operating Activities	(7,303,161)	649,433	(6,653,728)
Foreign Currency Translation	591,931	-	591,931
Change in Net Assets	(22,911,285)	(1,111,459)	(24,022,744)
Net Assets, Beginning of Year	242,319,594	52,423,351	294,742,945
Net Assets, End of Year	$ 219,408,309	$ 51,311,892	$ 270,720,201

See Notes to Consolidated Financial Statements

Year Ended May 31, 2018		
Without Donor Restrictions	With Donor Restrictions	Total
$ 144,979,023	$ -	$ 144,979,023
11,401,360	-	11,401,360
1,140,411	1,050,859	2,191,270
5,849,658	-	5,849,658
1,725,395	-	1,725,395
3,995,290	-	3,995,290
2,289,498	(2,289,498)	-
171,380,635	(1,238,639)	170,141,996
46,621,350	-	46,621,350
43,290,987	-	43,290,987
21,704,241	-	21,704,241
11,644,721	-	11,644,721
15,182,452	-	15,182,452
7,354,463	-	7,354,463
14,713,518	-	14,713,518
5,155,858	-	5,155,858
5,238,997	-	5,238,997
2,896,717	-	2,896,717
4,168,750	-	4,168,750
3,575,617	-	3,575,617
8,808,900	-	8,808,900
190,356,571	-	190,356,571
(18,975,936)	(1,238,639)	(20,214,575)
(1,933,832)	-	(1,933,832)
(17,042,104)	(1,238,639)	(18,280,743)
2,825,346	2,726,870	5,552,216
-	(186,810)	(186,810)
-	714,674	714,674
66,826	(66,826)	-
(4,705,593)	-	(4,705,593)
(538,668)	538,668	-
(2,352,089)	3,726,576	1,374,487
(934,525)	-	(934,525)
(20,328,718)	2,487,937	(17,840,781)
262,648,312	49,935,414	312,583,726
$ 242,319,594	$ 52,423,351	$ 294,742,945

Webster University
Consolidated Statements of Cash Flows
Years Ended May 31, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (24,022,744)	$ (17,840,781)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	15,384,976	15,182,452
Amortization of premium on long-term debt	(598,044)	(448,533)
Donated property and equipment	(5,215)	(218,050)
Effect of currency translation adjustments	843,414	(591,114)
(Gain) loss on disposal of property and equipment	(123,383)	3,398
Net realized and unrealized (gains) losses on investments	5,456,241	(7,030,843)
(Gain) loss on beneficial interest in charitable remainder trust	440,311	(736,851)
Change in value of split-interest agreements	15,981	186,810
Change in value of accrued benefit costs	(45,622)	(101,155)
Contributions received restricted for long-term investment	(551,810)	(714,674)
Contributions received restricted for acquisition of long-lived assets	(55,000)	(588,556)
Loss on extinguishment of long-term debt	-	4,705,593
Changes in		
Receivables	13,339,512	3,218,916
Prepayments, deferred charges and other assets	(669,461)	(962,830)
Accounts payable and accrued expenses	710,711	(1,707,512)
Deposits and deferred revenue	(16,211,803)	(2,211,655)
U.S. government grants refundable	1,270	1,591
Net cash used in operating activities	(6,090,666)	(9,853,794)
Investing Activities		
Purchase of property and equipment	(7,189,166)	(26,094,266)
Proceeds from disposition of property and equipment	5,449,388	-
Write off of foreign assets	75,813	29,288
Purchase of investments	(64,166,849)	(74,261,397)
Proceeds from disposition of investments	73,264,640	82,739,120
Leasing commissions paid	-	(2,027)
Net cash provided by (used in) investing activities	7,433,826	(17,589,282)

(Continued)

Webster University
Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2019 and 2018

	2019	2018
Financing Activities		
Proceeds from contributions restricted for permanent investment in endowment and loan funds	$ 551,810	$ 714,674
Proceeds from contributions restricted for acquisition of long-lived assets	55,000	588,556
Decrease in escrowed bond investments		417,064
Proceeds from debt issuance	-	49,690,000
Extinguishment of bonds payable	-	(54,070,000)
Payments for bond issuance costs	-	(575,701)
Principal payments on long-term debt	(2,388,645)	(2,296,278)
Principal payments under capital lease obligation	(311,457)	-
Borrowings under line of credit agreement	27,500,000	-
Repayments under line of credit agreement	(18,500,000)	-
Proceeds from issuance of annuities and trusts payable	-	17,537
Payments on annuities and trusts payable	(95,210)	(96,077)
Termination of annuities and trusts payable	-	348,716
Net cash provided by (used in) financing activities	6,811,498	(5,261,509)
Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash Equivalents	8,154,658	(32,704,585)
Cash, Cash Equivalents and Restricted Cash Equivalents, Beginning of Year	12,893,020	45,597,605
Cash, Cash Equivalents and Restricted Cash Equivalents, End of Year	$ 21,047,678	$ 12,893,020
Supplemental Cash Flows Information		
Interest paid	$ 3,234,809	$ 3,461,044
In-kind contributions	$ 20,115	$ 248,901
Property and equipment included in accounts payable	$ 162,947	$ 1,436,784
Capital lease obligations incurred	$ 1,142,674	$ -
Proceeds from disposition of property and equipment which satisfied note payable	$ 2,819,646	$ -

The following table provides a reconciliation of cash, cash equivalents and restricted cash equivalents reported within the statements of financial position to the statements of cash flows:

	2019	2018
Cash and cash equivalents	$ 11,765,555	$ 9,213,162
Restricted cash equivalents - escrowed bond investments	475,899	213,349
Cash and cash equivalents held in investments	8,806,224	3,466,509
Total cash, cash equivalents and restricted cash equivalents shown in the Statements of Cash Flows	$ 21,047,678	$ 12,893,020

Webster University

Notes to Consolidated Financial Statements

May 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Webster University (the "University") is a not-for-profit, private university located in Webster Groves, Missouri. The University's community is a highly diverse population of more than 12,000 men and women who represent approximately 100 nationalities, nearly every racial, ethnic, cultural and socioeconomic background and students who range from traditional college age to older adults. The University is an independent, nondenominational, international educational institution offering both undergraduate and graduate degree programs. Webster University, founded in 1915 with its home campus based in St. Louis, Missouri, USA, is the only Tier 1, private, nonprofit university with campus locations around the world including metropolitan, military, online and corporate, as well as American style traditional campuses in North America, Europe, Asia and Africa. The University has international assets totaling $39,309,138 and $44,786,853 at May 31, 2019 and 2018, respectively, and international revenues totaling $27,910,746 and $28,730,015, respectively, for the years then ended. The University's primary source of revenue is tuition and fees paid by students. The majority of students rely on funds received from federal financial aid programs under Title IV of the *Higher Education Act of 1965*, as amended, to pay for a substantial portion of their tuition.

Principles of Consolidation

The consolidated financial statements include the accounts of the University and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reporting period, as well as, disclosure of contingent assets and liabilities. Significant items subject to such estimates and assumptions include valuations of certain investments which do not have readily determinable fair values, allowances for uncollectible accounts, self-funded health insurance reserves, contingency reserves and calculations of asset retirement obligations. Actual results ultimately could differ from management's estimates and assumptions.

Cash, Cash Equivalents and Restricted Cash Equivalents

The University considers all domestic bank checking account deposits and all international bank deposits used for operations to be cash. At May 31, 2019, the University's cash accounts exceeded federally insured limits by approximately $4,050,000.

Amounts included in cash equivalents (included in investments) represent funds in money market funds.

Amounts included in restricted cash equivalents (included in escrowed bond investments) represent funds in money market funds held by a trustee under the terms of the University's indentures.

Accounts Receivable

Accounts receivable are stated at the amount of consideration from students, of which the University has an unconditional right to receive. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are due on payment due dates set by the University for each term after issuance of the statement of account unless the student elects an alternative payment option. For those students who have not made other payment arrangements, accounts past due at academic term end are considered delinquent. Delinquent receivables are written off according to the University's policy with consideration given to specific student circumstances.

Student Loans Receivable

Prior to June 1, 2018, the University made loans to students under the Federal Perkins Loan Program. Under the terms of the program, these loans are subject to forgiveness or assignment back to the federal government under certain circumstances. Such loans receivable are recorded net of estimated uncollectible amounts. The amount to be forgiven or assigned is based on the occurrence of certain future events which cannot be anticipated.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation, except for donated assets, which are recorded at fair value on the date of donation. Depreciation is calculated using the straight-line method to allocate the cost of various classes of assets over their estimated useful lives. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Property and equipment are removed from the accounting records at the time of disposal.

The estimated useful lives used in calculating depreciation for the years ended May 31, 2019 and 2018, are as follows:

Building	10 - 50 years
Improvements	10 - 20 years
Equipment	5 years
Furniture and fixtures	10 years

Long-Lived Asset Impairment

The University evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds it fair value.

There was no asset impairment for the years ended May 31, 2019 or 2018.

Investments and Net Investment Return

Investments are carried at fair value. The University considers cash and money market funds held by investment managers as part of the investment portfolio. Investments acquired by gift or bequest are recorded at fair or appraised value at the date acquired. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments. Net investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, net of investment fees.

Net investment return initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other net investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Escrowed Bond Investments

The University is required to maintain separate accounts for proceeds of bond financings. These accounts are comprised of cash and money market accounts.

Split-Interest Agreements

The University's split-interest agreements with donors consists 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 at the date the agreements are established. In addition, the fair value of the estimated future payments to be made to the beneficiaries under these agreements is recorded as a liability.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or grantor-imposed restrictions. The governing board has designated, from net assets without donor restrictions, net assets for investments (board-designated endowment), student loans, retirement of indebtedness, plant renewal fund and net investment in plant.

Net assets with donor restrictions are subject to donor or grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

Revenues are recognized over the academic year as services are provided. Tuition and fee revenue is recognized over the term of the academic term as the University provides services to students. Revenue is reported at the amount of consideration which the University expects to be entitled in exchange for providing instruction and other educational services. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided for scholarships and other price concessions provided to students. Scholarship allowances for the years ended May 31, 2019 and 2018, were $36,360,039 and $35,796,687, respectively.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

The University receives donated works of art. These works of art are capitalized and recognized as gift revenue at the appraised value and are not subject to depreciation. Art items sold are reported as with or without donor restriction gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

Deferred Revenue

Revenue from tuition, room and board and other fees that are billed in advance are deferred and recognized over the periods to which the fees relate.

Government Grants

Support funded by grants is recognized as the University meets the conditions prescribed by the grant agreement, by performing the contracted services or incurring expenditures eligible for reimbursement. Grant activities and expenditures are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The University is exempt from income taxes under Section 501 of the Internal Revenue Code and similar provisions of state law. However, the University is subject to federal income tax on any unrelated business income.

The University or one of its subsidiaries files tax returns in the U.S. federal jurisdiction and various foreign jurisdictions.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in Note 13 to the consolidated financial statements. Functional expenses present the natural classification detail of expenses by function. Expenses from operations and maintenance, depreciation and amortization, information technology, marketing, and insurance are allocated to programs, institutional support, and fundraising based on time expended, usage and other methods.

Licensure

As an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the United States Department of Education. The University is accredited through the Higher Learning Commission. Accreditation was granted in 1925 and in 2018 was reaffirmed through 2027-2028.

Asset Retirement Obligation (ARO)

An ARO associated with the retirement of a tangible long-lived asset is recognized as a liability in the period in which it is incurred or becomes determinable even when the timing and/or method of settlement may be conditional on a future event. The University's conditional AROs primarily relate to asbestos contained in buildings the University owns.

A summary of changes in the AROs liability is included in the table below:

	2019	2018
Beginning of year	$ 2,118,761	$ 2,081,465
Change in estimated ARO	(720,255)	-
Accretion expense	29,367	37,296
End of year	$ 1,427,873	$ 2,118,761

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Changes in Accounting Principles

Presentation of Financial Statements of Not-For-Profit Entities

In 2019, the University adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. A summary of the changes is as follows:

Consolidated Statements of Financial Position

- The statements of financial position distinguish between two new classes of net assets – those without donor-imposed restrictions and those with. This is a change from the previously presented three classes of net assets – unrestricted, temporarily and permanently restricted.

Consolidated Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

<u>*Notes to the Financial Statements*</u>

- Expenses are reported by both nature and function in one location.
- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Board of Trustees designations as of the end of the year are disclosed.

This change had no impact on previously reported total change in net assets.

Revenue from Contracts with Customers

On June 1, 2018, the University adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers at June 1, 2018. The University did not have a material cumulative effect as a result of adopting this guidance and expects the impact to be immaterial on an ongoing basis. The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to students in amounts that reflect the consideration to which the University expects to be entitled in exchange for those goods or services. The amount to which the University expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Restricted Cash Equivalents

In 2019, the University changed its method of accounting for restricted cash equivalents by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows* (Topic 230): *Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash equivalents to be included with cash when reconciling beginning and end of the period balances on the statement of cash flows. The following 2018 statement of cash flows line items were affected by the adoption of ASU 2016-18:

	May 31, 2018		
	As Previously Reported	As Adjusted	Effect of Change
Purchase of investments	$ (73,225,091)	$ (74,261,397)	$ (1,036,306)
Proceeds from disposition of investments	$ 83,793,511	$ 82,739,120	$ (1,054,391)
Net cash provided by (used in) investing activities	$ (15,498,585)	$ (17,589,282)	$ (2,090,697)
Decrease in escrowed bond investments	$ 6,638,937	$ 417,064	$ (6,221,873)
Net cash provided by (used in) financing activities	$ 960,364	$ (5,261,509)	$ (6,221,873)
Increase (decrease) in cash, cash equivalents and restricted cash equivalents	$ (24,392,015)	$ (32,704,585)	$ (8,312,570)
Cash, cash equivalents and restricted cash equivalents, beginning of year	$ 33,605,177	$ 45,597,605	$ 11,992,428
Cash, cash equivalents and restricted cash equivalents, end of year	$ 9,213,162	$ 12,893,020	$ 3,679,858

Note 3: Receivables

The major components of receivables at May 31 consisted of the following:

	2019	2018
Accounts receivable from students (net of allowance; 2019 - $9,281,608, 2018 - $9,056,140)	$ 8,297,313	$ 23,208,019
Other receivables	3,448,516	1,637,539
Grants receivable	583,674	581,227
Contribution receivable, net	2,675,274	2,634,708
Total receivables	15,004,777	28,061,493
Less noncurrent contributions receivable	1,720,138	1,534,475
Receivables - current	$ 13,284,639	$ 26,527,018

Contributions Receivable

Contributions receivable consisted of the following:

	With Donor Restrictions	
	2019	2018
Due within one year	$ 1,097,721	$ 1,166,476
Due in one to five years	574,204	996,676
Due in more than five years	3,398,073	2,962,261
	5,069,998	5,125,413
Less		
Allowance for uncollectible contributions	103,772	83,479
Unamortized discount	2,290,952	2,407,226
	$ 2,675,274	$ 2,634,708

The interest rate utilized for discounting contributions receivable ranged from 1.6 percent to 8.0 percent for 2019 and 2018.

Note 4: Student Loans Receivable

The University loans money to students with exceptional financial need through the Federal Perkins Loan program. Determination of financial need is based on a nationally recognized methodology and regulations promulgated by the U.S. Department of Education. The loans are long-term and bear an interest rate of 5 percent. The University acts as the lender with the loan made primarily with government funds. A liability is recorded to recognize the funds advanced from the U.S. Department of Education for original funding of the loans. The University holds the loans until maturity, assignment or cancellation. A third party manages the portfolio on behalf of the University. As loan payments are received from borrowers, the funds are applied to both the recorded asset and liability as these funds are then used to create additional loans to qualified students. The Perkins Loan portfolio was $2,267,950 and $2,492,615 at May 31, 2019 and 2018, respectively. U.S. government grants refundable were $1,663,716 and $1,662,446 at May 31, 2019 and 2018, respectively.

Interest does not accrue on Perkins Loans until the student leaves school and enters repayment status. Typically, there is a nine-month grace period upon graduation before interest begins to accrue and payments are required. Interest income for the years ended May 31, 2019 and 2018, was $31,041 and $27,180, respectively.

Loans determined to be uncollectible after appropriate due diligence procedures have been performed can be assigned to the U.S. Department of Education. Thus, the ultimate credit risk of the portfolio is low. Loans are classified as: In School, In Grace, Active and Delinquent. In School and In Grace loans represent loans made to students who are still in school or who are in the nine-month grace period following graduation. Active loans are those loans in repayment status and are considered current. Delinquent loans are those active but not current with payments. Although ultimate collectability can be ensured by the U.S. Department of Education, the University has established an allowance for uncollectible loans. The allowance was $40,000 at May 31, 2019 and 2018. Loan default rates (Perkins Federal Cohort Rate) are monitored by the U.S. Department of Education based on a legislated formula and measured at June 30 of each year. An institution with a default rate that equals or exceeds 50 percent for each of the three most recent years may be ineligible for participation in the Federal Perkins Loan program and may be required to liquidate its revolving student loan fund. The University's Perkins Federal Cohort Rate at May 31, 2019 and 2018, was 36.11 percent and 31.85 percent, respectively.

Loans may also be deferred or cancelled based on federal guidelines. Cancelled loans are repaid to the University by the federal government. Loans totaling $12,694 and $4,260 were cancelled for the years ended May 31, 2019 and 2018, respectively.

In connection with the December 1, 2014, announcement of ending Webster University's partnership with Regents University London, the University offered 10 year, interest free loans to the students negatively impacted by its dissolution. Monthly payments on these loans begin 30 days after the student graduates or ceases to be enrolled in a declared academic program at Webster University. The loan balances at May 31, 2019 and 2018, were $370,132 and $427,667, respectively. The allowance was $209,156 at May 31, 2019 and 2018.

The remainder of the loans receivable, $29,068 and $29,424 at May 31, 2019 and 2018, respectively, represent amounts advanced from a University loan fund. As dictated by donor bequest, the fund is to be used as a revolving loan fund for able but needy students. Terms of these loans are similar to those of the Federal Perkins Loan program.

Note 5: Property and Equipment

Property and equipment at May 31 consists of:

	2019	2018
Land and improvements	$ 24,570,340	$ 24,725,973
Buildings and improvements	300,333,852	306,549,650
Equipment	68,212,675	62,871,278
Collections and works of art	5,160,787	5,155,573
Construction in progress	182,793	4,040,547
Other	1,886,751	2,838,103
	400,347,198	406,181,124
Less accumulated depreciation	190,698,423	178,489,431
	$ 209,648,775	$ 227,691,693

Depreciation expense for the years ended May 31, 2019 and 2018, was approximately $15,300,000 and $15,053,000, respectively.

Note 6: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, 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 full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2019 and 2018:

Webster University
Notes to Consolidated Financial Statements
May 31, 2019 and 2018

	2019				
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV [(a)]
Cash and cash equivalents	$ 8,806,224	$ 8,806,224	$ -	$ -	$ -
Equity securities					
Financials	5,382,313	5,382,313	-	-	-
Health care	3,965,143	3,965,143	-	-	-
Industrials	3,257,670	3,257,670	-	-	-
Information technology	5,581,906	5,581,906	-	-	-
Consumer staples	2,591,202	2,591,202	-	-	-
Consumer discretionary	2,543,374	2,543,374	-	-	-
Other	6,330,627	6,330,627	-	-	-
Government bonds and notes	7,786,646	7,786,646	-	-	-
Corporate bonds and notes	10,572,814	10,572,814	-	-	-
Mutual funds					
Bond funds	22,328,729	22,328,729	-	-	-
Large value	1,358,472	1,358,472	-	-	-
Large blend	20,222,549	20,222,549	-	-	-
Large growth	5,859,895	5,859,895	-	-	-
Medium blend	788,497	788,497	-	-	-
Medium growth	3,997,531	3,997,531	-	-	-
Medium value	3,416	3,416	-	-	-
Small blend	3,140,310	3,140,310	-	-	-
Managed futures	709,648	709,648	-	-	-
International large growth	38,170	38,170	-	-	-
International large blend	11,687,534	11,687,534	-	-	-
Other	164,802	164,802	-	-	-
ETF’s	15,483,325	15,483,325	-	-	-
Closed-end funds	90,487	90,487	-	-	-
Other	1,769,752	1,769,752	-	-	-
Alternative investments					
Multi-strategy hedge funds	10,308,385	-	-	-	10,308,385
Venture capital	111,321	-	-	-	111,321
Private equity	1,221,432	-	-	-	1,221,432
	156,102,174	$ 144,461,036	$ -	$ -	$ 11,641,138
Less short-term investments	3,379,621				
Total long-term investments	$ 152,722,553				
Escrowed bond investments Money market funds	$ 475,899	$ -	$ 475,899	$ -	$ -
Beneficial interest in charitable remainder trust	$ 6,712,427	$ -	$ 6,712,427	$ -	$ -

		2018			
		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV [(a)]
Cash and cash equivalents	$ 3,466,509	$ 3,466,509	$ -	$ -	$ -
Equity securities					
Financials	5,623,229	5,623,229	-	-	-
Health care	5,390,793	5,390,793	-	-	-
Industrials	4,749,572	4,749,572	-	-	-
Information technology	4,614,728	4,614,728	-	-	-
Consumer discretionary	3,536,127	3,536,127	-	-	-
Other	9,774,845	9,774,845	-	-	-
Government bonds and notes	6,885,022	6,885,022	-	-	-
Corporate bonds and notes	8,308,283	8,308,283	-	-	-
Mutual funds					
Bond funds	22,014,214	22,014,214	-	-	-
Large value	5,676,359	5,676,359	-	-	-
Large blend	15,830,681	15,830,681	-	-	-
Large growth	6,259,609	6,259,609	-	-	-
Medium blend	1,292,437	1,292,437	-	-	-
Medium growth	592,203	592,203	-	-	-
Medium value	522,725	522,725	-	-	-
Managed futures	31,880	31,880	-	-	-
International large growth	1,532,813	1,532,813	-	-	-
International large blend	12,485,090	12,485,090	-	-	-
Other	103,379	103,379	-	-	-
ETF's	28,862,239	28,862,239	-	-	-
Closed-end funds	194,745	194,745	-	-	-
Other	6,408,916	6,408,916	-	-	-
Alternative investments					
Multi-strategy hedge funds	10,445,888	-	-	-	10,445,888
Venture capital	138,519	-	-	-	138,519
Private equity	575,686	-	-	-	575,686
	165,316,491	$ 154,156,398	$ -	$ -	$ 11,160,093
Less short-term investments	4,523,855				
Total long-term investments	$ 160,792,636				
Escrowed bond investments Money market funds	$ 213,349	$ -	$ 213,349	$ -	$ -
Beneficial interest in charitable remainder trust	$ 7,152,738	$ -	$ 7,152,738	$ -	$ -

(A) In accordance with Subtopic 820-10, certain investments measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended May 31, 2019.

Investments and Escrowed Bond Investments

Where quoted market prices are available in an active market, investments are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are estimated by using quoted prices of investments with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters including, but not limited to, interest rates, volatilities, cumulative loss projections and cash flows. Such investments are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, investments are classified within Level 3 of the hierarchy.

Beneficial Interest in Charitable Remainder Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Alternative Investments

The fair value of alternative investments has been estimated using the NAV per share of the investments. Alternative investments held at May 31, consist of the following:

	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 10,308,385	None	March 31, June 30, September 30 or December 31: Last business day of the year	Quarterly liquidity with a 75 day notice period.
Venture capital (B)	$ 111,321	None	N/A	N/A
Private equity (C)	$ 1,221,432	$ 1,772,482	Illiquid	No redemption rights

	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$ 10,445,888	None	March 31, June 30, September 30 or December 31: Last business day of the year	Quarterly liquidity with a 75 day notice period.
Venture capital (B)	$ 138,519	None	N/A	N/A
Private equity (C)	$ 575,686	$ 2,415,027	Illiquid	No redemption rights

(A) This category includes investments in multi-strategy, off-shore hedge funds and funds of funds that employ a variety of low volatility, absolute return oriented strategies.

(B) This category includes investments in stock, preferred stock, stock warrants and secured notes in firms in the areas of pharmaceuticals, green technology, medical technology and devices and enabling platforms. These investments are locked in for the life of the agreement.

(C) This category includes a private equity limited partnership that invests primarily in corporate finance investments, as well as venture capital investments. The investments can never be liquidated at the University's request. Instead, the nature of the investment in this category is that distributions are received through the liquidation of the underlying assets of the fund. The fair values of the investments in this category have been estimated using the NAV of the University's ownership interest in the partners' capital.

The University invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible changes in the values of investment securities will occur in the near term and such changes could materially affect the investment amounts reported in the consolidated statements of financial position.

Note 7: Beneficial Interest in Charitable Remainder Trust

The University is a beneficiary under a charitable remainder unitrust agreement administered by a third party. The University's beneficial interest in the trust assets was $6,712,427 and $7,152,738 at May 31, 2019 and 2018, respectively. Distributions from the trust will be made as specified in the trust agreement.

The trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. At the end of the trust's term, the University's beneficial interest in the trust's assets are available to the University. The portion of the trust attributable to the future interest of the University is recorded in the consolidated statements of activities as temporarily restricted contributions in the period the trust is established. Given the nature of the estimate, it is reasonably possible the University's estimate of the beneficial interest in trust will materially change in the near term.

Note 8: Long-Term Debt and Capital Lease Obligations

	2019	2018
Notes payable to bank; due in quarterly installments of 150,000 Swiss francs through 2030; with interest payable quarterly at interest rates of 4.15%; secured by property owned in Geneva, Switzerland, with a current cost of $22,855,683 (using May 31, 2019, exchange rates)	$ 6,848,634	$ 7,584,291
Notes payable to bank; due in varying quarterly installments in Euros through 2023; with interest payable quarterly at an interest rate of 2.20%; secured by properties owned in Vienna, Austria, with a current cost of $25,850,196 (using May 31, 2019, exchange rates)	13,536,670	17,763,486
Series 2015 Education Facilities Improvement and Funding Revenue Bonds (Series 2015 Bonds); maturing in varying amounts starting in 2018 through 2040; fixed interest rate of 2.61% payable semi-annually	24,300,000	25,160,000
Series 2017 Education Facilities Refunding Revenue Bonds (Series 2017 Bonds); maturing in varying amounts starting in fiscal year 2020 through 2036; varying interest rates of 2.75% to 5.00% payable semi-annually; includes a bond premium of $3,844,212 at May 31, 2019	53,534,212	54,132,257
Note payable to bank (2008); fixed interest rate of 2.79%; payable $19,031 monthly through 2021	3,137,042	3,274,552
Capital lease obligation, payable annually at $152,582; lease term expires at July 31, 2022	457,729	-
Capital lease obligation, payable annually at a range of $90,000 to $186,744; lease term expires October 30, 2021	373,488	-
	102,187,775	107,914,586
Less current maturities	4,884,712	3,061,752
Less unamortized debt issuance costs	732,708	827,119
	$ 96,570,355	$ 104,025,715

The University has secured notes payable to banks for properties in Austria and Switzerland. In July 2018, the University sold the dormitory in Austria and paid off one mortgage that had been valued at $2,904,405 as of May 31, 2018. There was no material gain or loss related to this transaction.

In October 2015, the University issued Educational Facilities Revenue Bonds, Series 2015 in the aggregate principal amount of $26,000,000. The Bond proceeds were used to finance, refinance and reimburse the costs of certain improvements and renovations to certain education facilities including the academic Interdisciplinary Science Building on the campus in Webster Groves, Missouri. The Series 2015 Bonds are secured by a first lien security interest in all Unrestricted Gross Revenues of the University, subject only to Permitted Encumbrances. Unamortized debt issuance costs were $251,210 and $274,372 at May 31, 2019 and 2018, respectively.

In June 2017, the University issued Educational Facilities Refunding Revenue Bonds, Series 2017 in the aggregate principal amount of $49,690,000. The Bond proceeds were used to refinance the remaining Series 2011 Bonds. The Series 2017 Bonds are secured by a first lien security interest in all Unrestricted Gross Revenues of the University. The bond indenture contains covenants, including the requirement the University maintains a liquidity ratio and a maximum annual debt service ratio at certain levels. Unamortized debt issuance costs were $459,405 and $519,909 at May 31, 2019 and 2018, respectively.

The fixed rate note payable to bank was assumed by the University in August 2008. The note imposes substantial penalties in the event of early extinguishment and is secured by a money market account in the amount of $3,148,753 reported as investments. Unamortized debt issuance costs were $22,093 and $32,838 at May 31, 2019 and 2018, respectively.

Capital leases include a lease for software for five years expiring October 30, 2021, and a lease for computer equipment for four years expiring on July 31, 2022.

Aggregate annual maturities and sinking fund requirements of long-term debt and capital lease obligations at May 31, 2019, are:

	Long-Term Debt (Excluding Leases)	Capital Lease Obligations
2020	$ 4,545,477	$ 339,265
2021	5,962,053	339,325
2022	8,813,502	180,454
2023	6,139,475	-
2024	6,278,956	-
Thereafter	69,617,095	-
	$ 101,356,558	859,044
Less amount representing interest		(27,827)
Present value of future minimum lease payments		$ 831,217

Property and equipment include the following property under capital leases at May 31:

	2019
Equipment	$ 1,418,919
Less accumulated depreciation	500,343
	$ 918,576

Note 9: Line of Credit

The University has a $30 million revolving bank line of credit due on demand. At May 31, 2019, there was $9 million borrowed against this line. The line is collateralized by certain investments with a market value of approximately $67.7 million. Interest is charged based on the London Interbank Offered Rate (LIBOR) in effect plus a margin of 0.75 percent, which was 3.22 percent on May 31, 2019, and is due monthly when any amount is advanced on the line.

Note 10: Annuities and Trusts Payable

The University has been the recipient of several gift annuities which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The University has recorded a liability for the charitable gift annuities at May 31, 2019 and 2018, of $448,065 and $527,294, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a rate of return of 6.0 percent and current IRS mortality tables. At May 31, 2019 and 2018, the University holds $586,885 and $728,111 of long-term investments against these estimated liabilities, respectively. Contribution revenue recognized under such agreements was $35,000 for the year ended May 31, 2018. There was no related contribution revenue recognized for the year ended May 31, 2019.

Note 11: Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions at May 31 have been designated for the following purposes:

	2019	2018
Board-designated endowment	$ 88,342,280	$ 95,134,153
Departmental activities	1,938,672	1,885,222
Net investment in plant	108,193,702	120,604,227
Undesignated	25,598,232	29,952,500
Accumulated foreign currency translation	(4,664,577)	(5,256,508)
	$ 219,408,309	$ 242,319,594

Net Assets With Donor Restrictions

Net assets with donor restrictions at May 31 are restricted for the following purposes or periods:

	2019	2018
Subject to expenditure for a specified purpose		
Student loans	$ 44,851	$ 44,803
Future buildings and capital maintenance	8,099,092	8,059,727
Future educational activities	2,004,236	2,390,583
Scholarships	339,198	270,123
	10,487,377	10,765,236
Endowments		
Subject to University spending policy and appropriation		
Educational activity	2,643,271	3,048,784
Fixed term trust	3,679	6,139
Future period operations	862,508	1,034,892
Scholarships	7,721,719	9,182,895
Underwater endowments	71,851	46,044
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	29,270,347	28,082,301
Donor restricted pool deficiencies	251,140	257,060
	40,824,515	41,658,115
	$ 51,311,892	$ 52,423,351

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2019	2018
Satisfaction of purpose restriction		
Scholarships	$ 48,939	$ 46,448
Instruction and academic support program activities	759,026	393,606
Construction costs	135,000	419,306
	942,965	859,360
Restricted purpose spending-rate distributions and appropriations		
Scholarships	831,978	796,173
Instruction program activities	240,171	232,399
Academic support program activities	150,611	154,962
Institutional support program activities	234,127	239,398
Student service program activities and other	7,344	7,206
	1,464,231	1,430,138
	$ 2,407,196	$ 2,289,498

Note 12: Endowment

The University's endowment consists of individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated). As required by GAAP, net assets associated with endowment funds, including board-designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body is subject to the State of Missouri Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net asset to net asset without donor restrictions. The governing body of the University has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the University considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The University has interpreted UPMIFA to not permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the University and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or deprecation of investments
6. Other resources of the University
7. Investment policies of the University

The composition of net assets by type of endowment fund at May 31, 2019 and 2018, was:

	2019		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 88,342,280	$ -	$ 88,342,280
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	29,521,487	29,521,487
Accumulated investment gains	-	11,303,028	11,303,028
Total endowment funds	$ 88,342,280	$ 40,824,515	$ 129,166,795

	2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**
Board-designated endowment funds	$ 95,134,153	$ -	$ 95,134,153
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	28,339,361	28,339,361
Accumulated investment gains	-	13,318,755	13,318,755
Total endowment funds	$ 95,134,153	$ 41,658,116	$ 136,792,269

Changes in endowment net assets for the years ended May 31, 2019 and 2018, were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 95,134,153	$ 41,658,116	$ 136,792,269
Investment return (loss)	(1,237,041)	(425,628)	(1,662,669)
Contributions	-	633,453	633,453
Change in reserve for contributions receivable	-	21,749	21,749
Management fees	(221,199)	(98,463)	(319,662)
Centennial Matching Program	(515,500)	515,500	-
Change in value of split interest agreements	-	(15,981)	(15,981)
Appropriation of endowment assets for expenditure	(4,818,133)	(1,464,231)	(6,282,364)
Endowment Net Assets, End of Year	$ 88,342,280	$ 40,824,515	$ 129,166,795

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 93,297,513	$ 39,013,675	$ 132,311,188
Investment return	7,499,093	3,135,460	10,634,553
Contributions	-	732,981	732,981
Change in reserve for contributions receivable	-	(5,477)	(5,477)
Management fees	(269,730)	(114,105)	(383,835)
Centennial Matching Program	(538,668)	538,668	-
Change in value of split interest agreements	-	(186,810)	(186,810)
Change in donor designation	(25,362)	(26,138)	(51,500)
Appropriation of endowment assets for expenditure	(4,828,693)	(1,430,138)	(6,258,831)
Endowment Net Assets, End of Year	$ 95,134,153	$ 41,658,116	$ 136,792,269

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the University is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. At May 31, 2019 and 2018, funds with original gift values of $2,001,851 and $1,247,944, fair values of $1,678,860 and $944,840 and deficiencies of $322,991 and $303,104, respectively, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets to support its mission over the long term. Accordingly, the policies ensure the growth of the endowment is sufficient to offset inflation plus a reasonable spending rate, thereby preserving the purchasing power of the endowment for future generations.

Under the University's investment policy, unless otherwise stated by the donor of the principal, 4.5 percent of the three-year rolling average market value average of investments is available for spending utilizing a December 31 measurement date. In addition, a 0.5 percent fee in connection with their services associated with the administration of the endowment funds is charged annually. The fee is applicable to the entire endowment pool and is included in unrestricted appropriation of endowment assets for expenditure. Investment earnings in excess of the 4.5 percent spending policy are reinvested. This is consistent with the University's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified time, as well as to provide additional real growth through new gifts and investment return.

To satisfy its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The University targets a diversified asset allocation which combines return enhancement and risk reduction.

Note 13: Functional Expenses

Certain operating expenses as reported in the statements of activities are allocated to these functional expenses for the years ended May 31, 2019 and 2018, are as follows:

	2019								
	Program Services						Support Services		
	Instruction	Student Services	Academic Support	Auxiliary Expense	Public Service	Total Program Services	Institutional Support	Fundraising	Grand Total
Labor	$ 51,720,733	$ 11,088,720	$ 20,996,880	$ 1,348,459	$ 666,264	$ 85,821,056	$ 16,297,823	$ 1,728,939	$ 103,847,818
Leases, Utilities & Insurance	3,063,105	2,343,675	7,312,286	3,161,368	66,932	15,947,366	2,606,147	138,065	18,691,578
Depreciation & Amortization	5,794,796	1,741,618	3,402,268	820,077	106,203	11,864,962	3,289,583	230,431	15,384,976
Interest & Finance Expense	-	-	-	-	-	-	3,668,721	-	3,668,721
Professional Services & Advertising	3,295,808	2,355,059	2,748,582	3,240,209	228,053	11,867,711	5,315,082	258,007	17,440,800
Software	1,565,972	470,358	941,650	221,409	28,673	3,228,062	925,998	62,213	4,216,273
Other Costs	2,261,590	2,364,590	4,379,650	797,299	145,657	9,948,786	4,585,817	276,682	14,811,285
(Gain)/Loss on Currency Exchange	-	-	-	-	-	-	1,774,563	-	1,774,563
	$ 67,702,004	$ 20,364,020	$ 39,781,316	$ 9,588,821	$ 1,241,782	$ 138,677,943	$ 38,463,734	$ 2,694,337	$ 179,836,014

	2018								
		Program Services					Support Services		
	Instruction	Student Services	Academic Support	Auxiliary Expense	Public Service	Total Program Services	Institutional Support	Fundraising	Grand Total
Labor	$ 57,013,380	$ 11,232,551	$ 21,321,744	$ 1,359,772	$ 714,618	$ 91,642,065	$ 17,766,454	$ 2,208,059	$ 111,616,578
Leases, Utilities & Insurance	2,940,327	2,150,970	7,889,708	3,589,917	57,376	16,628,298	2,210,650	160,236	18,999,184
Depreciation & Amortization	6,119,136	1,546,921	3,327,639	824,611	103,851	11,922,158	2,969,065	291,229	15,182,452
Interest & Finance Expense	-	-	-	-	-	-	3,575,617	-	3,575,617
Professional Services & Advertising	4,423,010	1,848,081	3,443,499	3,706,223	218,344	13,639,157	5,851,573	461,785	19,952,515
Software	2,039,229	521,599	1,144,767	278,047	35,017	4,018,659	1,039,001	98,198	5,155,858
Other Costs	2,978,645	2,041,983	4,480,159	552,050	169,305	10,222,142	5,230,319	421,906	15,874,367
(Gain)/Loss on Currency Exchange	-	-	-	-	-	-	(1,933,832)	-	(1,933,832)
	$ 75,513,727	$ 19,342,105	$ 41,607,516	$ 10,310,620	$ 1,298,511	$ 148,072,479	$ 36,708,847	$ 3,641,413	$ 188,422,739

Note 14: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of May 31, 2019, comprise the following:

Financial Assets	
Cash and cash equivalents	$ 11,765,555
Short-term investments	3,379,621
Investments - endowments with donor restrictions expected to be met within one year	2,576,647
Investments - endowments with donor restrictions perpetual or long-term	38,247,868
Other long-term investments	111,898,038
Noncurrent contributions receivable, net	1,720,138
Other receivables	13,284,639
Total financial assets available at year end	182,872,506
Less those unavailable for general expenditure within one year, due to:	
Pledges not expected to be collected within one year	1,720,138
Contractual or donor-imposed restrictions:	
Restricted by donor for perpetual purpose or time beyond one year	29,521,487
Subject to appropriation and satisfaction of donor restrictions	8,726,381
Collateral for long-term debt	3,148,753
Board Designation	
Board-designated endowment - amounts set aside for long term investing	20,575,263
Board-designated endowment - pledges as collateral for $30 million operating line of credit	67,767,017
	131,459,039
Financial assets available to meet cash needs for general expenditure within one year	51,413,467
Add back:	
Board-designated endowment	88,342,280
Financial assets available to meet cash needs for general expenditure within one year with board approval	$ 139,755,747

As part of Webster University's liquidity management, it has a policy to structure its liquid financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Webster University invests cash in excess of bank daily requirements in short-term investments.

The University's endowment funds of $129.2 million consist of donor-restricted endowments approximating $40.8 million and funds designated by the board approximating $88.4 million as board-designated endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. The corpus of the donor-restricted endowment funds are not available for general expenditure.

The University appropriates spending to the board-designated endowment based on the University's policy, $3.6 million from the board-designated endowment will be available for spending based on the University's policy in the next 12 months. Although the University does not intend to spend from its board-designated endowment other than amounts appropriated for general expenditure as part of its annual spending policy, amounts from its board-designated endowment could be made available if necessary, with board approval.

The University can draw upon a $30 million available line of credit to meet cash needs during operational fluctuations; this is collateralized by some of the University's investments related to its board-designated endowment funds. As of May 31, 2019, the University had borrowed $9 million against the line.

The University manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The University forecasts its future cash flows and monitors its liquidity on a regular basis. During the years ended May 31, 2019 and 2018, the level of liquidity and reserves was managed within requirements.

Note 15: Operating Leases

The University leases space at various sites domestically and at campuses abroad (future minimum payments for foreign locations are stated in United States dollars using May 31, 2019, exchange rates). These leases have varying terms which may include renewal options and escalation clauses.

Future minimum lease payments at May 31, 2019, were:

2020	$ 7,116,344
2021	6,120,663
2022	4,956,798
2023	3,898,565
2024	3,262,412
Later years	10,465,247
	$ 35,820,029

Rent expense under operating leases and rental contracts was $10,732,473 and $11,632,494 in 2019 and 2018, respectively.

Note 16: Retirement and Postretirement Employee Health Insurance Benefit Plans

The University participates in a defined contribution retirement plan which covers regular full-time employees through the Teachers Insurance and Annuity Association ("T.I.A.A."). Under this arrangement, the University and plan participants make monthly contributions to T.I.A.A. to purchase individually owned annuity contracts. The plan provides for the University to contribute an amount of 1.0 percent - 3.5 percent greater than the employee's contribution as specified by the plan agreement. Vesting provisions are full and immediate. There are no unfunded past service costs. The University's share of the cost of these benefits was $4,191,788 and $4,425,316 for 2019 and 2018, respectively.

The University participates in an unfunded defined benefit postretirement plan which provides certain health, vision and dental benefits to eligible employees. Employees age 55 and over become eligible for benefits after completing 15 years of full-time service. The plan is contributory; with retiree contributions adjusted periodically and contains cost-sharing features such as deductibles and coinsurance. Effective June 1, 2014, the plan was amended, requiring all new early retiree enrollees (age 55-65) to pay 100 percent of premiums for the plan. The accrued benefit obligation related to the postretirement employee health insurance benefit plan was $87,134 and $132,732 at May 31, 2019 and 2018, respectively.

Note 17: Insurance Coverage

The University participates in the College and University Risk Management Association of Missouri ("CURMA"), which provides the property, crime, general and auto liability and excess liability insurance. Should actual insurance losses exceed CURMA's estimates, the University could be required to contribute additional funds. Management believes the risk of additional loss is minimal and any additional contributions that may be required would not materially impact the overall financial position or operations of the University.

Note 18: Revenue from Contracts with Students

Revenue from contracts with students for tuition and auxiliary enterprises is reported at the amount that reflects the consideration to which the University expects to be entitled in exchange for providing instruction and housing. These amounts are due from students, third-party payers and others and includes variable consideration for corporate discounts, scholarships and financial aid.

Revenue is recognized as performance obligations are satisfied, which is ratably over the academic term. Generally, the University bills students prior to the beginning of the academic term, and student accounts receivable are due on payment due dates set by the University for each term unless the student elects a payment plan. For the year ended May 31, 2018, the University billed summer tuition in advance and deferred unearned tuition to be recognized in the subsequent year. For the year ended May 31, 2019, summer tuition was billed subsequent to year-end.

The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during certain limited, stated refund periods. The University's policy regarding the withdrawal refund percentages is available in the University's catalog available online.

Tuition, housing and board revenue are considered to be separate contracts. The University allocates the fees charged to students to tuition and housing based on standalone charges to students for tuition and housing.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

The University has identified performance obligations associated with the provision of its educational instruction and other educational services, housing services, and other academic related services and used the output measure for recognition as the period of time over which the services are provided to its students. The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdrew during certain limited, stated refund periods. If a student withdraws at a time when only a portion, or none of the tuition is refundable, then in accordance with its revenue recognition policy, the University continued to recognize the tuition that is not refunded pro-rata over the applicable period of instruction. The University does not record revenue on amounts estimated to be refunded.

Because all of the University's performance obligations relate to contracts with a duration of less than one year, the University has elected to apply the optional exemption provided in FASB Accounting Standards Codification 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transactions price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied performance obligations referred to above are primarily related to providing instruction to students. The performance obligations for these contracts are generally completed when the academic term is completed.

During the years ended May 31, 2019 and 2018, the University recognized revenue of $21,805,975 and $24,017,630, respectively, that was recorded as deposits and deferred revenue at the beginning of the year.

At May 31, 2019, the University deferred tuition and housing revenue of $5,594,172 that it expects to recognize in 2020 when the summer and fall 2020 academic terms are completed.

Significant Judgments

The University determines the transaction price based on standard charges for services provided net of scholarship allowances in accordance with the University's policy.

The University estimates the transaction price for students based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any scholarship allowances. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the student's ability to pay are recorded as bad debt expense. The University has determined that the primary nature, amount, timing and uncertainty of revenue and cash flows are affected by the timing of repayment, the student's demographics and their ability to pay for the services.

Disaggregation of Revenue

The composition of net tuition and fees and auxiliary enterprises revenue for the years ended May 31, 2019 and 2018, is as follows.

	2019	2018
Tuition and fees, net	$ 135,671,180	$ 144,979,023
Auxiliary enterprises		
Room and board	10,449,892	10,969,426
Other auxiliary enterprises	469,332	431,934
	10,919,223	11,401,360
	$ 146,590,403	$ 156,380,383

Note 19: Foreign Currency Translation

The accounts and transactions of subsidiaries located outside the United States are translated into United States dollars using the exchange rates in effect at the date of the consolidated statements of financial position and the average exchange rates prevailing throughout the period, respectively, in accordance with GAAP. An analysis of the changes in the cumulative foreign currency translation adjustment for the years ended May 31, 2019 and 2018, is as follows:

	2019	2018
Balance, beginning of year	$ (5,256,508)	$ (4,321,983)
Translation adjustment	591,931	(934,525)
Balance, end of year	$ (4,664,577)	$ (5,256,508)

In addition, transaction gains and losses result from exchange rate changes on transactions denominated in currencies other than the functional currency. Gains (losses) on foreign currency transactions were ($1,774,563) and $1,933,832 for 2019 and 2018, respectively.

Note 20: Contingencies

The University is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the University. Events could occur that would change management's opinion and have a material adverse impact in the near term.

Note 21: Subsequent Events

Subsequent events have been evaluated through October 31, 2019, which is the date the consolidated financial statements were issued.

Note 22: Future Changes in Accounting Principles

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the consolidated balance sheets as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The standard is effective for the University for the fiscal year beginning June 1, 2019. The University is evaluating the impact the standard will have on the consolidated financial statements.