Webster University

Independent Auditor's Report and Consolidated Financial Statements

May 31, 2018 and 2017

Webster University
May 31, 2018 and 2017

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, which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

St. Louis, Missouri
November 12, 2018

Webster University
Consolidated Statements of Financial Position
May 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	$ 9,213,162	$ 33,605,177
Receivables - current, net of allowance; 2018 - $9,056,140, 2017 - $8,117,500	26,527,018	28,738,377
Short-term investments	4,523,855	242,343
Prepayments and deferred charges	2,028,252	1,021,347
Total current assets	42,292,287	63,607,244
Noncurrent Contributions Receivable, Net of Allowance; 2018 - $46,400; 2017 - $35,500	1,534,475	2,635,465
Student Loans Receivable, Net of Allowance; 2018 - $249,156, 2017 - $272,747	2,700,550	2,607,118
Property and Equipment, Net	227,691,693	226,187,810
Long-Term Investments	160,792,636	168,611,725
Escrowed Bond Investments	213,349	6,852,286
Beneficial Interest in Charitable Remainder Trust	7,152,738	6,415,886
Long-Term Prepaid Expense and Other	746,183	790,258
Gifts Held in Trust	-	348,956
Total assets	$ 443,123,911	$ 478,056,748

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	$ 3,061,752	$ 5,060,898
Accounts payable and accrued expenses	15,046,267	28,105,750
Current accrued benefit costs	36,123	47,187
Deposits and deferred revenue	21,805,975	24,017,630
Total current liabilities	39,950,117	57,231,465
Annuities and Trusts Payable	527,294	419,264
Accrued Benefit Costs	96,633	186,724
Asset Retirement Obligation	2,118,761	2,081,465
Long-Term Debt	104,025,715	103,893,249
U.S. Government Grants Refundable	1,662,446	1,660,855
Total liabilities	148,380,966	165,473,022
Net Assets		
Unrestricted	242,319,594	262,648,312
Temporarily restricted	24,039,187	22,707,973
Permanently restricted	28,384,164	27,227,441
Total net assets	294,742,945	312,583,726
Total liabilities and net assets	$ 443,123,911	$ 478,056,748

Webster University
Consolidated Statements of Activities
Years Ended May 31, 2018 and 2017

	Year Ended May 31, 2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue, Gains and Other Support				
Tuition and fees, net of scholarship allowances; 2018 - $35,796,687, 2017 - $33,581,869	$ 144,979,023	$ -	$ -	$ 144,979,023
Auxiliary enterprises	11,401,360	-	-	11,401,360
Private gifts and grants	1,140,411	1,050,859	-	2,191,270
Investment return - operating	5,849,658	-	-	5,849,658
Federal grants and contracts	1,725,395	-	-	1,725,395
Other income	3,995,290	-	-	3,995,290
Net assets released from restrictions	2,289,498	(2,289,498)	-	-
Total operating revenue, gains and other support	171,380,635	(1,238,639)	-	170,141,996
Operating Expenses				
Instruction	72,263,419	-	-	72,263,419
Academic support	31,548,950	-	-	31,548,950
Institutional support	54,172,018	-	-	54,172,018
Student services	17,115,923	-	-	17,115,923
Auxiliary	11,504,786	-	-	11,504,786
Public service	1,322,591	-	-	1,322,591
Other	910,250	-	-	910,250
Total operating expenses	188,837,937	-	-	188,837,937
Change in Net Assets From Operating Activities	(17,457,302)	(1,238,639)	-	(18,695,941)
Non-operating Activities				
Investment return - non-operating	3,240,544	2,580,799	146,071	5,967,414
Change in value of split-interest agreements	-	(2,756)	(184,054)	(186,810)
Permanently restricted private gifts and contracts	-	-	714,674	714,674
Loss on bond defeasance	(4,705,593)	-	-	(4,705,593)
Change in donor designation	66,826	(8,190)	(58,636)	-
Net assets restricted for matching grants	(538,668)	-	538,668	-
Change in Net Assets From Nonoperating Activities	(1,936,891)	2,569,853	1,156,723	1,789,685
Foreign Currency Translation	(934,525)	-	-	(934,525)
Change in Net Assets	(20,328,718)	1,331,214	1,156,723	(17,840,781)
Net Assets, Beginning of Year	262,648,312	22,707,973	27,227,441	312,583,726
Net Assets, End of Year	$ 242,319,594	$ 24,039,187	$ 28,384,164	$ 294,742,945

See Notes to Consolidated Financial Statements

	Year Ended May 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	$ 155,544,019	$ -	$ -	$ 155,544,019
	11,120,248	-	-	11,120,248
	1,033,668	495,300	-	1,528,968
	6,250,699	-	-	6,250,699
	1,712,461	-	-	1,712,461
	4,808,152	-	-	4,808,152
	3,265,787	(3,265,787)	-	-
	183,735,034	(2,770,487)	-	180,964,547
	74,363,951	-	-	74,363,951
	32,022,612	-	-	32,022,612
	58,573,997	-	-	58,573,997
	16,651,285	-	-	16,651,285
	11,226,158	-	-	11,226,158
	1,127,133	-	-	1,127,133
	985,276	-	-	985,276
	194,950,412	-	-	194,950,412
	(11,215,378)	(2,770,487)	-	(13,985,865)
	6,270,209	3,854,180	72,672	10,197,061
	-	(1,565)	13,080	11,515
	-	-	626,429	626,429
	-	-	-	-
	-	-	-	-
	(615,653)	-	615,653	-
	5,654,556	3,852,615	1,327,834	10,835,005
	82,647	-	-	82,647
	(5,478,175)	1,082,128	1,327,834	(3,068,213)
	268,126,487	21,625,845	25,899,607	315,651,939
	$ 262,648,312	$ 22,707,973	$ 27,227,441	$ 312,583,726

Webster University
Consolidated Statements of Cash Flows
Years Ended May 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (17,840,781)	$ (3,068,213)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	15,182,452	14,807,570
Amortization of premium on long-term debt	(448,533)	(183,008)
Donated property and equipment	(218,050)	(44,500)
Effect of currency translation adjustments	(591,114)	(381,725)
Loss on disposal of property and equipment	3,398	26,868
Net realized and unrealized (gains) losses on investments	(7,030,843)	(12,358,654)
Loss on other assets	-	188,276
Gain on beneficial interest in charitable remainder trust	(736,851)	(972,446)
Change in value of split-interest agreements	186,810	(11,515)
Change in value of accrued benefit costs	(101,155)	(84,165)
Contributions received restricted for long-term investment	(714,674)	(626,429)
Contributions received restricted for acquisition of long-lived assets	(588,556)	(148,488)
Loss on extinguishment of long-term debt	4,705,593	-
Changes in		
Receivables	3,218,916	4,354,358
Prepayments, deferred charges and other assets	(962,830)	927,714
Accounts payable and accrued expenses	(1,707,512)	713,970
Deposits and deferred revenue	(2,211,655)	(3,707,653)
U.S. government grants refundable	1,591	26,175
Net cash used in operating activities	(9,853,794)	(541,865)
Investing Activities		
Purchase of property and equipment	(26,094,266)	(21,804,411)
Write off of foreign assets	29,288	-
Purchase of investments	(73,225,091)	(80,000,140)
Proceeds from disposition of investments	83,793,511	104,281,158
Leasing commissions paid	(2,027)	(2,368)
Net cash provided by (used in) investing activities	(15,498,585)	2,474,239
Financing Activities		
Proceeds from contributions restricted for permanent investment in endowment and loan funds	714,674	626,429
Proceeds from contributions restricted for acquisition of long-lived assets	588,556	148,488
Decrease in escrowed bond investments	6,638,937	985,997
Proceeds from debt issuance	49,690,000	18,087,900
Extinguishment of bonds payable	(54,070,000)	-
Payments for bond issuance costs	(575,701)	-
Principal payments on long-term debt	(2,296,278)	(6,725,247)
Proceeds from issuance of annuities and trusts payable	17,537	5,448
Payments on annuities and trusts payable	(96,077)	(108,920)
Termination of annuities and trusts payable	348,716	-
Net cash provided by financing activities	960,364	13,020,095

(Continued)

Webster University
Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2018 and 2017

	2018	2017
Increase (Decrease) in Cash	$ (24,392,015)	$ 14,952,469
Cash, Beginning of Year	33,605,177	18,652,708
Cash, End of Year	$ 9,213,162	$ 33,605,177
Supplemental Cash Flows Information		
Interest paid	$ 3,461,044	$ 3,360,283
In-kind contributions	$ 248,901	$ 42,950
Property and equipment included in accounts payable	$ 1,436,784	$ 12,428,373
Property and equipment acquired through bond proceeds	$ -	$ 27,031,603

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 14,000 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 $44,786,853 and $44,497,926 at May 31, 2018 and 2017, respectively, and international revenues totaling $28,730,015 and $27,973,026, 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

The University considers all domestic bank checking account deposits and all international bank deposits used for operations to be cash. At May 31, 2018, the University's cash accounts exceeded federally insured limits by approximately $4,509,000.

Accounts Receivable

Accounts receivable are stated at the amount billed to students. The University provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Payment in full or payment arrangements are required at the time of registration. In the event an account is referred to an agency or attorney for collection, the student promises to pay, in addition to all amounts otherwise due to the University, the costs and expenses of such collection and/or representation not to exceed 33 percent of the amount owed, including, without limitation, reasonable attorneys' fees and expenses, to the extent permitted by applicable law. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Student Loans Receivable

The University makes 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. 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, 2018 and 2017, 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.

$975,886 was recognized in asset impairments during the year ended May 31, 2017.

Investments and Investment Return

Investments are carried at fair value. The University considers 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. 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.

Investment return initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted 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, money market accounts, Federal National Mortgage obligations and obligations of municipal governments.

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

For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions applicable to law. Accordingly, the net assets of the University are classified in the accompanying consolidated financial statements in the categories that follow:

Unrestricted net assets are not subject to donor-imposed restrictions. Included in unrestricted net assets are Board-designated net assets which the governing board, rather than a donor, has designated for investment (quasi-endowment), student loans, retirement of indebtedness, plant renewal fund and net investment in plant.

Temporarily restricted net assets are subject to legal or donor-imposed stipulations that will be satisfied by either actions of the University, the passage of time or both. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets are subject to donor-imposed stipulations that they be invested to provide a perpetual source of income to the University. Generally, donors of these assets require the University to maintain and invest the original contribution in perpetuity, but permit the use of some or all investment returns for general or specific purposes.

Revenue Recognition

Revenues are recognized over the academic year as services are provided. Student tuition and fee revenues are presented net of scholarship allowances in the consolidated statements of activities. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount paid by students and/or third parties making payments on the students' behalf. Scholarship allowances for the years ended May 31, 2018 and 2017, were $35,796,687 and $33,581,869, respectively.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements 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 unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets 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 reported at the present value of estimated future cash flows. The discount is included in accretion of 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 unrestricted or temporarily restricted gains or losses depending on donor stipulations, if any, placed on the items at the time of acquisition.

Deferred Revenue

Deferred revenue consists of amounts billed or received for educational, auxiliary or other services not yet earned.

Government Grants

Revenues from governmental grants and contracts are recognized when allowable expenditures are incurred under such agreements. Single audits and audits by the granting department or agency may result in requests for reimbursement of disallowed expenditures.

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 the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on various assumptions of resources expended in support of the University's mission.

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.

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:

	2018	2017
Beginning of year	$ 2,081,465	$ 2,037,163
Accretion expense	37,296	44,302
End of year	$ 2,118,761	$ 2,081,465

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.

Revisions

Certain revisions have been made to the 2017 financial statements to move a prepaid expense from current assets to long-term and reduce the amount of underwater donor restricted endowments for amounts that were quasi-endowment related and recognize a gain on beneficial interest in trust for cash flow purposes. These revisions did not have a significant impact on the line items impacted.

Note 2: Receivables

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

	2018	2017
Accounts receivable from students (net of allowance; 2018 - $9,056,140, 2017 - $8,114,399)	$ 23,208,019	$ 25,462,434
Other receivables	1,637,539	1,720,727
Grants receivable	581,227	505,586
Contributions receivable, net	2,634,708	3,685,095
Total receivables	28,061,493	31,373,842
Less noncurrent contributions receivable	1,534,475	2,635,465
Receivables - current	$ 26,527,018	$ 28,738,377

Contributions Receivable

Contributions receivable consisted of the following:

	May 31, 2018		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 485,057	$ 681,419	$ 1,166,476
Due in one to five years	300,802	695,874	996,676
Due in more than five years	2,953,261	9,000	2,962,261
	3,739,120	1,386,293	5,125,413
Less			
Allowance for uncollectible contributions	16,548	66,931	83,479
Unamortized discount	2,359,564	47,662	2,407,226
	$ 1,363,008	$ 1,271,700	$ 2,634,708

	May 31, 2017		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	$ 432,035	$ 687,233	$ 1,119,268
Due in one to five years	267,170	1,250,383	1,517,553
Due in more than five years	1,687,400	-	1,687,400
	2,386,605	1,937,616	4,324,221
Less			
Allowance for uncollectible contributions	5,897	93,171	99,068
Unamortized discount	465,867	74,191	540,058
	$ 1,914,841	$ 1,770,254	$ 3,685,095

The interest rate utilized for discounting contributions receivable for 2018 and 2017 ranged from 1.6 percent to 8.0 percent and 1.2 percent and 8.0 percent, respectively.

Note 3: 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 $2,492,615 and $2,386,821 at May 31, 2018 and 2017, respectively. U.S. government grants refundable were $1,662,446 and $1,660,855 at May 31, 2018 and 2017, 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, 2018 and 2017, was $27,180 and $40,498, 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, 2018 and 2017. 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, 2018 and 2017, was 31.85 percent and 29.52 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 $4,260 and $14,733 were cancelled for the years ended May 31, 2018 and 2017, 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, 2018 and 2017, were $427,667 and $463,302, respectively. The allowance was $209,156 and $232,747 at May 31, 2018 and 2017, respectively.

The remainder of the loans receivable, $29,424 and $29,982 at May 31, 2018 and 2017, 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 4: Property and Equipment

Property and equipment at May 31 consists of:

	2018	2017
Land and improvements	$ 24,725,973	$ 24,797,130
Buildings and improvements	306,549,650	260,467,650
Equipment	62,871,278	56,229,437
Collections and works of art	5,155,573	4,937,523
Construction in progress	4,040,547	41,174,417
Other	2,838,103	2,747,627
	406,181,124	390,353,784
Less accumulated depreciation	178,489,431	164,165,974
	$ 227,691,693	$ 226,187,810

Depreciation expense for the years ended May 31, 2018 and 2017, was approximately $15,053,000 and $14,649,000, respectively.

The University began renovation of the Sverdrup Business and Technology complex during 2018. The total estimated cost to complete the projects as of May 31, 2018, was approximately $1,150,000.

Note 5: Investments, Investment Return and 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, 2018 and 2017:

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		2018		
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market - short-term	$ 239,147	$ 239,147	$ -	$ -
Money market - long-term	3,227,362	3,227,362	-	-
Equity securities				
Financials	5,623,229	5,623,229	-	-
Information technology	5,390,793	5,390,793	-	-
Health care	4,749,572	4,749,572	-	-
Energy	4,614,728	4,614,728	-	-
Industrials	3,536,127	3,536,127	-	-
Other	9,774,845	9,774,845	-	-
U.S. 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	-	-
International mid blend	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	-	-
	154,156,398	$ 154,156,398	$ -	$ -
Alternative strategies (A)	11,160,093			
Total investments	165,316,491			
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	$ -

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	2017			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market - short-term	$ 19,672	$ 19,672	$ -	$ -
Money market - long-term	5,537,534	5,537,534	-	-
Equity securities				
Financials	4,680,620	4,680,620	-	-
Health care	4,401,943	4,401,943	-	-
Industrials	3,272,903	3,272,903	-	-
Information technology	4,787,172	4,787,172	-	-
Consumer discretionary	3,965,098	3,965,098	-	-
Other	7,827,359	7,827,359	-	-
U.S. government bonds and notes	5,804,599	5,804,599	-	-
Corporate bonds and notes	3,898,171	3,898,171	-	-
Mutual funds				
Bond funds	36,619,209	36,619,209	-	-
Large value	6,629,127	6,629,127	-	-
Large blend	13,269,662	13,269,662	-	-
Large growth	7,512,133	7,512,133	-	-
Medium blend	2,262,516	2,262,516	-	-
Medium growth	2,322,001	2,322,001	-	-
Medium value	3,948,769	3,948,769	-	-
Managed futures	2,235,269	2,235,269	-	-
International large growth	4,010,071	4,010,071	-	-
International large blend	11,190,177	11,190,177	-	-
Other	1,370,750	1,370,750	-	-
ETF's	31,117,908	31,117,908	-	-
Closed-end funds	367,237	367,237	-	-
Other	1,127,893	1,127,893	-	-
	168,177,793	$ 168,177,793	$ -	$ -
Alternative strategies (A)	676,275			
Total investments	168,854,068			
Less short-term investments	242,343			
Total long-term investments	$ 168,611,725			
Escrowed bond investments				
Money market funds	$ 6,435,222	$ 6,435,222	$ -	$ -
Municipal bonds	417,064	417,064	-	-
	$ 6,852,286	$ 6,852,286	$ -	$ -
Beneficial interest in charitable remainder trust	$ 6,415,886	$ -	$ 6,415,886	$ -

(A) In accordance with Subtopic 820-10, certain investments measured at fair value using the 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, 2018.

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 net asset value per share of the investments. Alternative investments held at May 31, consist of the following:

	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

	2017				
		Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	$	329,206	None	June 30 or December 31: Last business day of the year	At least 95 days written notice prior to June 30 or December 31; at least 60 days written notice prior to the last business day of the year
Venture capital (B)	$	130,202	None	Redeemed subsequent to year-end in June 2017 per extension approved by the board in June 2016	N/A
Private equity (C)	$	216,867	$ 2,774,336	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.

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	$ 4,807,939	$ 4,435,631
Net realized and unrealized gains on investments reported at fair value	7,009,133	12,012,129
	$ 11,817,072	$ 16,447,760

	2018	2017
Investment return - operating	$ 5,849,658	$ 6,250,699
Investment return - non-operating	5,967,414	10,197,061
	$ 11,817,072	$ 16,447,760

Note 6: 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 $7,152,738 and $6,415,886 at May 31, 2018 and 2017, 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.

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Note 7: Long-Term Debt

	2018	2017
Notes payable to bank; due in quarterly installments of 150,000 Swiss francs through 2030; with interest payable quarterly at interest rates of 1.85% and 4.15%; secured by property owned in Geneva, Switzerland, with a current cost of $23,277,769 (using May 31, 2018, exchange rates)	$ 7,584,291	$ 8,327,433
Notes payable to bank; due in varying quarterly installments in Euros through 2023; with interest payable quarterly at interest rates of 2.20% and 2.40%; secured by properties owned in Vienna, Austria, with a current cost of $35,544,810 (using May 31, 2018, exchange rates)	17,763,486	17,665,016
Series 2011 Educational Facilities Improvement and Funding Revenue Bonds (Series 2011 Bonds); maturing in varying amounts through 2036; interest rates varying from 4.0% to 5.0%, includes bond premium of $466,818 at May 31, 2017	-	54,536,818
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	25,160,000	26,000,000
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 $4,442,257 at May 31, 2018	54,132,257	-
Note payable to bank; fixed interest rate of 2.79%; payable $19,031 monthly through 2021; secured by real estate	3,274,552	3,408,231
	107,914,586	109,937,498
Less current maturities	3,061,752	5,060,898
Less unamortized debt issuance costs	827,119	983,351
	$ 104,025,715	$ 103,893,249

In July 2011, the University issued Educational Facilities Improvement and Refunding Revenue Bond Series 2011 in the aggregate principal amount of $61,385,000. The Bond proceeds were used, together with other funds contributed by the University, to (1) refund outstanding Series 2001 Bonds and Series 2005 Bonds and (2) construct a new academic classroom building containing approximately 90,000 square feet on the Webster Groves, Missouri campus. The East Academic Building houses the George Herbert Walker School of Business and Technology and provides general purpose classrooms.

The Series 2011 Bonds were secured by a first lien security interest in all Unrestricted Gross Revenues of the University and a mortgage on certain real estate, all improvements and all buildings, fixtures and other real property on the collateral located in Webster Groves, Missouri. The bond indenture contains covenants, including the requirement the University maintains a liquidity ratio and a maximum annual debt service ratio at certain levels. The University maintained a minimum Debt Reserve Fund balance of $5,170,610 at May 31, 2017, to fund semiannual interest and principal payments based on the refunded Series 2001 bonds. During 2018, the Series 2011 Bonds were refinanced by the Series 2017 Bonds. The covenants remain in place however the minimum Deserve Reserve Fund is no longer required.

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 $274,372 and $298,366 at May 31, 2018 and 2017, 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. Unamortized debt issuance costs were $519,909 at May 31, 2018.

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. Unamortized debt issuance costs were $32,838 and $42,982 at May 31, 2018 and 2017, respectively.

Aggregate annual maturities and sinking fund requirements of long-term debt at May 31, 2018, are:

2019	$ 3,061,752
2020	4,891,651
2021	6,329,720
2022	9,193,875
2023	6,536,503
Thereafter	77,901,085
	$ 107,914,586

Note 8: 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, 2018 and 2017, of $527,294 and $402,545, 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, 2018 and 2017, the University holds $728,111 and $732,441 of long-term investments against these estimated liabilities, respectively. Contribution revenue recognized under such agreements was $35,000 and $10,000 for the years ended May 31, 2018 and May 31, 2017, respectively.

The University administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the University's use. Assets held in the charitable remainder trusts are recorded at fair value of $348,956 at May 31, 2017, and were included in investments in the University's statements of financial position. The University recorded a liability at May 31, 2017, of $16,719 which represents the present value of the future obligations to make distributions to the designated beneficiaries. In 2018, the charitable remainder trust was terminated.

Note 9: Net Assets

Details of the University's net assets as of May 31 are as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated	$ 29,952,500	$ -	$ -	$ 29,952,500
Quasi-endowment fund	95,134,153	-	-	95,134,153
Departmental activities	1,597,106	-	-	1,597,106
Student loans	-	-	44,803	44,803
Retirement of indebtedness	-	-	-	-
Plant renewal fund	-	-	-	-
Net investment in plant	120,604,227	-	-	120,604,227
Future buildings and capital maintenance	-	8,059,727	1,400,000	9,459,727
Accumulated foreign currency translation adjustment	(5,256,508)	-	-	(5,256,508)
Library operations	-	1,115,999	-	1,115,999
Future educational activity expenses	288,116	5,364,401	2,561	5,655,078
Scholarships	-	9,499,060	26,936,800	36,435,860
	$ 242,319,594	$ 24,039,187	$ 28,384,164	$ 294,742,945

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	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Undesignated	$ 38,934,972	$ -	$ -	$ 38,934,972
Quasi-endowment fund	93,295,442	-	-	93,295,442
Departmental activities	1,515,332	-	-	1,515,332
Student loans	-	-	44,461	44,461
Retirement of indebtedness	6,370,195	-	-	6,370,195
Plant renewal fund	4,807,337	-	-	4,807,337
Net investment in plant	117,233,664	-	-	117,233,664
Future buildings and capital maintenance	4,092,471	7,890,494	1,400,000	13,382,965
Accumulated foreign currency translation adjustment	(4,321,983)	-	-	(4,321,983)
Library operations	-	1,078,458	-	1,078,458
Future educational activity expenses	720,882	5,304,133	7,465	6,032,480
Scholarships	-	8,434,888	25,775,515	34,210,403
	$ 262,648,312	$ 22,707,973	$ 27,227,441	$ 312,583,726

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.

	2018	2017
Scholarships	$ 817,321	$ 708,767
Instruction program activities	858,592	707,243
Academic support program activities	158,911	103,762
Institutional support program activities	27,264	133,236
Construction costs of Interdisciplinary Science Building	419,312	1,601,173
Student service program activities and other	8,098	11,606
	$ 2,289,498	$ 3,265,787

Note 10: 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 (quasi-endowment). As required by GAAP, net assets associated with endowment funds, including quasi-endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University's governing body has interpreted the state of Missouri Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. 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, 2018 and 2017, was:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (257,059)	$ 13,318,756	$ 28,339,360	$ 41,401,057
Quasi-endowment	95,391,212	-	-	95,391,212
Total endowment fund	$ 95,134,153	$ 13,318,756	$ 28,339,360	$ 136,792,269

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ (172,031)	$ 11,832,766	$ 27,180,909	$ 38,841,644
Quasi-endowment	93,469,544	-	-	93,469,544
Total endowment fund	$ 93,297,513	$ 11,832,766	$ 27,180,909	$ 132,311,188

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Changes in endowment net assets for the years ended May 31, 2018 and 2017, were:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 93,297,513	$ 11,832,766	$ 27,180,909	$ 132,311,188
Investment return	7,499,093	2,989,815	145,645	10,634,553
Contributions	-	13,277	719,704	732,981
Change in reserve for contributions receivable	-	(105)	(5,372)	(5,477)
Management fees	(269,730)	(109,465)	(4,640)	(383,835)
Centennial Matching Program	(538,668)	-	538,668	-
Change in value of split interest agreements	-	(2,756)	(184,054)	(186,810)
Change in donor designation	(25,362)	25,362	(51,500)	(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	$ 13,318,756	$ 28,339,360	$ 136,792,269

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 88,249,427	$ 9,218,717	$ 25,855,180	$ 123,323,324
Investment return	10,549,067	3,892,816	76,669	14,518,552
Contributions	-	1,983	718,819	720,802
Change in reserve for contributions receivable	-	(99)	(92,424)	(92,523)
Management fees	(241,890)	(92,589)	(6,068)	(340,547)
Board designation of endowment funds	85,000	-	-	85,000
Centennial Matching Program	(615,653)	-	615,653	-
Change in value of split interest agreements	-	(1,565)	13,080	11,515
Appropriation of endowment assets for expenditure	(4,728,438)	(1,186,497)	-	(5,914,935)
Endowment Net Assets, End of Year	$ 93,297,513	$ 11,832,766	$ 27,180,909	$ 132,311,188

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at May 31, 2018 and 2017, consisted of:

	2018	2017
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	$ 28,339,360	$ 27,180,909
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Scholarships	$ 9,228,939	$ 8,169,615
Educational activity expenses	1,935,567	1,626,113
Library operations	1,115,999	1,078,458
Future period operations - Loretto Hilton Center	1,029,878	948,009
Future period operations - without restrictions	8,373	10,571
	$ 13,318,756	$ 11,832,766

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. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated $257,059 and $172,031 at May 31, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes 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. 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 11: 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, 2018, exchange rates). These leases have varying terms which may include renewal options and escalation clauses.

Future minimum lease payments at May 31, 2018, were:

2019	$ 7,328,423
2020	6,131,039
2021	5,225,983
2022	4,275,208
2023	3,644,405
Later years	13,225,699
	$ 39,830,757

Rent expense under operating leases and rental contracts was $11,632,494 and $12,303,735 in 2018 and 2017, respectively.

Note 12: 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 $4,425,316 and $4,479,559 for 2018 and 2017, 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 $132,732 and $233,911 at May 31, 2018 and 2017, respectively.

Note 13: 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 14: 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, 2018 and 2017, is as follows:

	2018	2017
Balance, beginning of year	$ (4,321,983)	$ (4,404,630)
Translation adjustment	(934,525)	82,647
Balance, end of year	$ (5,256,508)	$ (4,321,983)

In addition, transaction gains and losses result from exchange rate changes on transactions denominated in currencies other than the functional currency. Losses on foreign currency transactions are included in the appropriate functional expense categories of the consolidated statements of activities. Gain on foreign currency transactions were $1,933,832 and $610,164 for 2018 and 2017, respectively.

Note 15: 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 16: Subsequent Events

Subsequent to year end, the University sold certain dorms in Vienna, Austria, for approximately $8,200,000. The property sold was included in net property and equipment as of May 31, 2018, and had a carrying value of approximately $7,950,000.

Subsequent to year end, the University took out a $30 million revolving line of credit (Line). The Line is collateralized by certain investments. Interest will be charged based on the London Interbank Offered Rate (LIBOR) in effect plus margin of 0.75 percent per annum and is due monthly when any amount is advanced on the Line.

Subsequent events have been evaluated through November 12, 2018, which is the date the consolidated financial statements were issued.

Note 17: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption. The standard is effective for the University for the fiscal year beginning June 1, 2018. The University is in the process of evaluating the impact the amendment will have on the financial statements.

Not-for-Profit Entities

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU aims to improve the usefulness of information provided to users of not-for-profit (NFP) financial statements by eliminating diversity in practice, enhancing financial performance comparability among NFPs and increasing transparency around NFPs' liquidity management and financial resource availability. This ASU applies to the University's fiscal year beginning June 1, 2018.

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.

2018 Continuing Disclosure Statistics
November 2018

Worldwide Enrollment:

Academic Year	Undergraduate Headcount	FTE	Graduate Headcount	FTE	Total Headcount	FTE
2018-2019	4,191	3,570	9,101	4544	13,292	8,115
2017-2018	4,265	3,645	10,206	4,927	14,471	8,572
2016-2017	4,407	3,729	11,431	5,528	15,838	9,257
2015-2016	4,630	3,947	12,751	6,186	17,381	10,133
2014-2015	4,935	4,196	14,099	6,816	19,034	11,012

Freshman Applications (Main Campus Only):

	Fall 2018	Fall 2017	Fall 2016	Fall 2015	Fall 2014
Applications	2,505	2,812	2,630	1,994	1,863
Acceptances	1,423	1,506	1,225	1,119	1,038
Acceptances as percentage of applications	56.8%	53.6%	46.6%	56.1%	55.7%
Enrollment	494	525	456	427	463
Enrollment as percentage of acceptance	34.7%	34.9%	37.2%	38.1%	44.6%

Freshman Standardized Test Scores & High School Rank (Main Campus Only):

	Fall 2018	Fall 2017	Fall 2016	Fall 2015	Fall 2014
Average SAT Score[1]	N/A	N/A	N/A	N/A	N/A
Average ACT Score	24	24	24	24	24
Percentage in top 10% of class	19.4%	16.5%	15.1%	21.8%	17%
Percentage in top 25% of class	44%	42.2%	43.6%	47.9%	42%

1 In 2009, the SAT formula for scoring was revised to include a writing sample. The maximum possible score was increased to 2400 from 1600.
In 2014-2018 not enough incoming freshmen took the SAT to calculate a valid average SAT score.

Tuition and Fees:

Academic Year	Non–Conservatory Undergraduate Flat Fee[1]	Conservatory Undergraduate Flat Fee[1]	Undergraduate Flat Fee with Room and Board	Undergraduate per Credit Hour	Graduate per Credit Hour
2018-2019	$27,700	$32,100	$38,750	$710	$750
2017-2018	$26,900	$31,100	$37,950	$690	$730
2016-2017	$26,100	$30,100	$37,560	$670	$705
2015-2016	$25,300	$29,250	$36,430	$650	$685
2014-2015	$24,500	$28,400	$35,100	$630	$665

[1] The undergraduate flat fee rate applies to students taking between 13 and 18 credit hours per semester. Conservatory undergraduates are those participating in the Theater program.