



OFFICER'S CERTIFICATE  
FINANCIAL COVENANTS &  
CERTIFICATE OF COMPLIANCE

In accordance with Article V, Section 5.11 of the Health and Educational Facilities Authority of the State of Missouri, Educational Facilities Improvement and Refunding Revenue Bonds (Webster University Project) Series 2011 Loan Agreement, we have attached our computations of 1) the Liquidity Ratio and 2) the Maximum Annual Debt Service Ratio for the Fiscal Year Ended May 31, 2016.

In addition, in accordance with Article V, Section 5.11, we advise you that we have made a review of our activities under the Series 2011 Loan Agreement during the Fiscal Year ended May 31, 2016. To the best of our knowledge, we have kept, observed, performed and fulfilled each and every covenant, provision, and condition of the Loan Agreement and we are not in default in the performance or observance of any of the terms, covenants, provisions or conditions thereof.

WEBSTER UNIVERSITY

A handwritten signature in cursive script that reads "Tatyana Karaman". The signature is written in black ink and includes a long horizontal flourish at the end.

Tatyana Karaman  
Vice President and Chief Financial Officer

November 11, 2016

Webster University  
 Educational Facilities Improvement & Refunding Revenue Bonds Series  
 2011 - Compliance Ratios  
 May 31, 2016

Liquidity Ratio

<u>Unrestricted Resources (1)</u>	=	<u>156,696,184</u>	=	<u>283%</u>
<u>Long-Term Indebtness (2)</u>		<u>55,379,645</u>		
		Minimum Ratio		<u>75%</u>
		Excess over Minimum		<u>208%</u>

Maximum Annual Debt Service

<u>Maximum Annual Debt Service</u>	=	<u>10,119,470</u>	=	<u>5.16%</u>
<u>Unrestricted Gross Revenues (3)</u>		<u>196,240,290</u>		
		Maximum Ratio		<u>10.00%</u>
		Excess under Maximum		<u>4.84%</u>

- <sup>1</sup> Defined by the 2011 Bond Trust Indenture as unrestricted net assets of the Institution, plus available temporarily restricted assets, less the difference of net property, plant, and equipment and the aggregate principal amount of all outstanding long-term indebtedness, as reflected on the most recently completed audited financial statements of the Institution.
- <sup>2</sup> Defined by the 2011 Bond Trust Indenture as exclusive of non-recourse indebtedness.
- <sup>3</sup> Defined by the 2011 Bond Trust Indenture as tuition and fees and all other unrestricted revenues as shown on the financial statements or such period, excluding, (a) financial aid, tuition discounts, and fee discounts, (b) unrealized gains or losses on investments, (c) any pledges by donors made in such period but not actually collected, and (d) revenues from facilities pledged to non-recourse indebtedness required to pay debt service on such non-recourse indebtedness, and including (x) net assets released from temporary restriction in such period and (y) any donations actually collected in such period, the pledge of which was recorded as restricted revenues for a prior period.



**2016 Continuing Disclosure Statistics  
November 2016**

**Worldwide Enrollment:**

Academic Year	Undergraduate		Graduate		Total	
	Headcount	FTE	Headcount	FTE	Headcount	FTE
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
2013-2014	4,997	4,209	15,247	7,436	20,244	11,635
2012-2013	4,966	4,147	15,614	7,629	20,580	11,776
2011-2012	4,946	4,075	16,043	7,954	20,989	12,029

**2016-2017 full-time Faculty Profile:**

Status	Number of Faculty	Percentage of Faculty
Visiting	2	0.9%
Probationary	39	18.3%
FDL	85	39.9%
Tenure	73	34.3%
Non-Status	7	3.3%
Adminstrator	7	3.3%
<b>Total</b>	<b>213</b>	<b>100%</b>

**Freshman Applications (Main Campus Only):**

	<u>Fall 2016</u>	<u>Fall 2015</u>	<u>Fall 2014</u>	<u>Fall 2013</u>	<u>Fall 2012</u>
Applications	2,630	1,994	1,863	1,783	1,704
Acceptances	1,225	1,119	1,038	1,021	1,008
Acceptances as percentage of applications	46.6%	56.1%	55.7%	57.2%	59.2%
Enrollment	456	427	463	498	418
Enrollment as percentage of acceptance	37.2%	38.1%	44.6%	48.8%	41.2%

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

	<u>Fall 2016</u>	<u>Fall 2015</u>	<u>Fall 2014</u>	<u>Fall 2013</u>	<u>Fall 2012</u>
Average SAT Score <sup>1</sup>	N/A	N/A	N/A	N/A	N/A
Average ACT Score	25	24	24	24	24
Percentage in top 10% of class	16%	22%	17%	19%	20%
Percentage in top 25% of class	46%	48%	42%	45%	45%

<sup>1</sup> 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 2012, 2013, 2014, 2015 and 2016 not enough incoming freshmen took the SAT to calculate a valid average SAT score.

**Tuition and Fees:**

<b>Academic Year</b>	<b>Non- Conservatory Undergraduate Flat Fee<sup>1</sup></b>	<b>Conservatory Undergraduate Flat Fee<sup>1</sup></b>	<b>Undergraduate Flat Fee with Room and Board</b>	<b>Undergraduate per Credit Hour</b>	<b>Graduate per Credit Hour</b>
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
2013-2014	\$23,700	\$27,520	\$33,990	\$610	\$645
2012-2013	\$23,010	\$26,720	\$32,960	\$590	\$625

<sup>1</sup> 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.

# **Webster University**

**Independent Auditor's Report and Consolidated Financial Statements**

**May 31, 2016 and 2015**

**Webster University**  
**May 31, 2016 and 2015**

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**Consolidated Financial Statements**

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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, 2016 and 2015, 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.

Board of Trustees  
Webster University  
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*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Webster University as of May 31, 2016 and 2015, 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 3, 2016



**Webster University**  
**Consolidated Statements of Financial Position**  
**May 31, 2016 and 2015**

**Assets**

	<u>2016</u>	<u>2015</u>
<b>Current Assets</b>		
Cash	\$ 18,652,708	\$ 22,053,713
Receivables - current, net of allowance; 2016 - \$6,850,077, 2015 - \$6,347,642	31,453,242	34,320,516
Short-term investments	13,484,765	29,460,735
Prepayments and deferred charges	<u>1,911,299</u>	<u>1,249,005</u>
Total current assets	<u>65,502,014</u>	<u>87,083,969</u>
<b>Noncurrent Contributions Receivable</b>	4,050,684	2,123,885
<b>Student Loans Receivable, Net of Allowance - 2016 and 2015 - \$40,000</b>	2,826,732	2,251,162
<b>Property and Equipment, Net</b>	181,763,100	154,728,109
<b>Long-term Investments</b>	167,291,672	189,749,978
<b>Escrowed Bond Investments</b>	7,838,283	7,295,609
<b>Beneficial Interest in Charitable Remainder Trust</b>	5,443,440	5,749,632
<b>Long-term Prepaid Expense and Other</b>	1,016,534	1,470,670
<b>Gifts Held in Trust</b>	<u>338,820</u>	<u>381,250</u>
Total assets	<u>\$ 436,071,279</u>	<u>\$ 450,834,264</u>

*See Notes to Consolidated Financial Statements*

## Liabilities and Net Assets

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 6,829,890	\$ 3,351,459
Accounts payable and accrued expenses	17,847,202	17,157,128
Current accrued benefit costs	73,030	141,844
Deposits and deferred revenue	<u>27,725,277</u>	<u>26,462,217</u>
Total current liabilities	<u>52,475,399</u>	<u>47,112,648</u>
<b>Annuities and Trusts Payable</b>	524,112	613,907
<b>Accrued Benefit Costs</b>	245,046	425,444
<b>Asset Retirement Obligation</b>	2,037,163	1,994,161
<b>Long-term Debt</b>	63,502,907	69,113,881
<b>U.S. Government Grants Refundable</b>	<u>1,634,713</u>	<u>1,627,661</u>
Total liabilities	<u>120,419,340</u>	<u>120,887,702</u>
<b>Net Assets</b>		
Unrestricted	268,126,487	281,260,115
Temporarily restricted	21,625,845	26,926,784
Permanently restricted	<u>25,899,607</u>	<u>21,759,663</u>
Total net assets	<u>315,651,939</u>	<u>329,946,562</u>
Total liabilities and net assets	<u>\$ 436,071,279</u>	<u>\$ 450,834,264</u>

**Webster University**  
**Consolidated Statements of Activities**  
**Years Ended May 31, 2016 and 2015**

	Year Ended May 31, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating Revenue, Gains and Other Support</b>				
Tuition and fees, net of scholarship allowances: 2016 - \$31,595,218, 2015 - \$29,983,855	\$ 164,520,453	\$ -	\$ -	\$ 164,520,453
Auxiliary enterprises	11,071,725	-	-	11,071,725
Private gifts and grants	1,446,408	1,892,999	-	3,339,407
Investment return - operating	5,965,543	-	-	5,965,543
Federal grants and contracts	1,696,693	-	-	1,696,693
Other income	4,217,558	-	-	4,217,558
Net assets released from restrictions	5,978,073	(5,978,073)	-	-
<b>Total operating revenue, gains and other support</b>	<b>194,896,453</b>	<b>(4,085,074)</b>	<b>-</b>	<b>190,811,379</b>
<b>Operating Expenses</b>				
Instruction	78,848,140	-	-	78,848,140
Academic support	36,921,829	-	-	36,921,829
Institutional support	51,198,487	-	-	51,198,487
Student services	17,090,669	-	-	17,090,669
Auxiliary	11,547,334	-	-	11,547,334
Public service	1,163,678	-	-	1,163,678
Other	1,050,612	-	-	1,050,612
<b>Total operating expenses</b>	<b>197,820,749</b>	<b>-</b>	<b>-</b>	<b>197,820,749</b>
<b>Change in Net Assets From Operating Activities</b>	<b>(2,924,296)</b>	<b>(4,085,074)</b>	<b>-</b>	<b>(7,009,370)</b>
<b>Non-operating Activities</b>				
Investment return - non-operating	(8,463,793)	(1,220,881)	(16,514)	(9,701,188)
Change in value of split-interest agreements	-	(1,546)	(60,936)	(62,482)
Permanently restricted private gifts and contracts	-	-	3,149,752	3,149,752
Change in donor designation	(74,455)	6,562	67,893	-
Net assets restricted for matching grants	(999,749)	-	999,749	-
<b>Change in Net Assets From Non-operating Activities</b>	<b>(9,537,997)</b>	<b>(1,215,865)</b>	<b>4,139,944</b>	<b>(6,613,918)</b>
<b>Foreign Currency Translation</b>	<b>(671,335)</b>	<b>-</b>	<b>-</b>	<b>(671,335)</b>
<b>Change in Net Assets</b>	<b>(13,133,628)</b>	<b>(5,300,939)</b>	<b>4,139,944</b>	<b>(14,294,623)</b>
<b>Net Assets, Beginning of Year</b>	<b>281,260,115</b>	<b>26,926,784</b>	<b>21,759,663</b>	<b>329,946,562</b>
<b>Net Assets, End of Year</b>	<b>\$ 268,126,487</b>	<b>\$ 21,625,845</b>	<b>\$ 25,899,607</b>	<b>\$ 315,651,939</b>

See Notes to Consolidated Financial Statements

**Year Ended May 31, 2015**

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 173,587,318	\$ -	\$ -	\$ 173,587,318
10,984,298	-	-	10,984,298
1,247,202	624,822	-	1,872,024
5,494,849	-	-	5,494,849
1,717,644	-	-	1,717,644
3,582,068	-	-	3,582,068
2,255,037	(2,255,037)	-	-
<u>198,868,416</u>	<u>(1,630,215)</u>	<u>-</u>	<u>197,238,201</u>
82,077,603	-	-	82,077,603
38,512,623	-	-	38,512,623
54,165,542	-	-	54,165,542
17,734,130	-	-	17,734,130
11,275,197	-	-	11,275,197
1,139,277	-	-	1,139,277
1,045,277	-	-	1,045,277
<u>205,949,649</u>	<u>-</u>	<u>-</u>	<u>205,949,649</u>
<u>(7,081,233)</u>	<u>(1,630,215)</u>	<u>-</u>	<u>(8,711,448)</u>
962,544	999,611	56,911	2,019,066
-	(1,231)	(75,371)	(76,602)
-	-	1,664,777	1,664,777
(700,000)	-	700,000	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>262,544</u>	<u>998,380</u>	<u>2,346,317</u>	<u>3,607,241</u>
<u>687,309</u>	<u>-</u>	<u>-</u>	<u>687,309</u>
<u>(6,131,380)</u>	<u>(631,835)</u>	<u>2,346,317</u>	<u>(4,416,898)</u>
<u>287,391,495</u>	<u>27,558,619</u>	<u>19,413,346</u>	<u>334,363,460</u>
<u>\$ 281,260,115</u>	<u>\$ 26,926,784</u>	<u>\$ 21,759,663</u>	<u>\$ 329,946,562</u>

**Webster University**  
**Consolidated Statements of Cash Flows**  
**Years Ended May 31, 2016 and 2015**

	2016	2015
<b>Operating Activities</b>		
Change in net assets	\$ (14,294,623)	\$ (4,416,898)
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	13,383,298	12,232,757
Amortization of premium on long-term debt	(224,116)	(271,010)
Amortization of bond premiums on securities	143,777	1,251,908
Donated property and equipment	(155,500)	-
Effect of currency translation adjustments	260,912	2,223,694
Loss on disposal of property and equipment	15,204	39,451
Net realized and unrealized losses on investments	12,119,997	173,230
Loss on other assets	461,652	251,713
(Gain) loss on beneficial interest in charitable remainder trust	306,192	(360,686)
Change in value of split-interest agreements	62,482	76,602
Change in value of accrued benefit costs	(249,212)	(271,542)
Contributions received restricted for long-term investment	(3,149,752)	(1,664,777)
Contributions received restricted for acquisition of long-lived assets	(143,214)	(152,960)
Changes in		
Receivables	364,905	1,880,783
Prepayments, deferred charges and other assets	(669,810)	(201,687)
Accounts payable and accrued expenses	(1,076,502)	470,178
Deposits and deferred revenue	1,263,060	(1,936,137)
U.S. government grants refundable	7,052	5,943
	<b>8,425,802</b>	<b>9,330,562</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(37,534,553)	(15,768,820)
Write-off foreign assets	-	13,117
Proceeds from disposition of property and equipment	9,000	-
Purchase of investments	(149,573,329)	(129,052,291)
Proceeds from disposition of investments	175,743,831	133,588,915
Leasing commissions paid	(2,653)	-
	<b>(11,357,704)</b>	<b>(11,219,079)</b>
<b>Financing Activities</b>		
Proceeds from contributions restricted for permanent investment in endowment and loan funds	3,149,752	1,664,777
Proceeds from contributions restricted for acquisition of long-lived assets	143,214	152,960
Decrease (increase) in escrowed bond investments	(542,674)	1,004,223
Principal payments on long-term debt	(3,109,548)	(3,028,510)
Proceeds from issuance of annuities and trusts payable	-	10,858
Payments on annuities and trusts payable	(109,847)	(109,201)
	<b>(469,103)</b>	<b>(304,893)</b>

(Continued)

**Webster University**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended May 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Decrease in Cash</b>	\$ (3,401,005)	\$ (2,193,410)
<b>Cash, Beginning of Year</b>	<u>22,053,713</u>	<u>24,247,123</u>
<b>Cash, End of Year</b>	<u>\$ 18,652,708</u>	<u>\$ 22,053,713</u>
 <b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 3,361,748	\$ 3,498,020
In-kind contributions	\$ 155,925	\$ 11,918
Property and equipment included in accounts payable	\$ 2,888,234	\$ 1,121,658
Property and equipment acquired through bond proceeds	\$ 1,599,348	\$ -
Bond issuance costs paid through bond proceeds	\$ 338,753	\$ -

# **Webster University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2016 and 2015**

#### **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 17,000 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 \$38,623,355 and \$12,826,187 at May 31, 2016 and 2015, respectively, and international revenues totaling \$29,626,584 and \$30,668,201, 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, 2016, the University's cash accounts exceeded federally insured limits by approximately \$14,960,000.

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

***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, 2016 and 2015, are as follows:

Building	10 - 40 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 its fair value.

\$495,730 was recognized in asset impairments during the year ended May 31, 2016. No asset impairment was recognized during the year ended May 31, 2015.



# **Webster University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2016 and 2015**

#### ***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.

# **Webster University**

## **Notes to Consolidated Financial Statements**

### **May 31, 2016 and 2015**

**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, 2016 and 2015, were \$31,595,218 and \$29,983,855, 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.

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

**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:

	<b>2016</b>	<b>2015</b>
Beginning of year	\$ 1,994,161	\$ 1,953,057
Liabilities settled	-	(641)
Accretion expense	43,002	41,745
End of year	<u>\$ 2,037,163</u>	<u>\$ 1,994,161</u>

**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.

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

**Reclassifications**

Certain reclassifications have been made to the 2015 consolidated financial statements for the adoption of ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, that were deemed to be immaterial. These reclassifications had no effect on the change in net assets.

**Note 2: Receivables**

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

	<u>2016</u>	<u>2015</u>
Accounts receivable from students (net of allowance; 2016 - \$6,850,077, 2015 - \$6,347,642)	\$ 26,309,039	\$ 26,944,621
Other receivables	3,042,656	5,967,834
Grants receivable	536,066	523,749
Contributions receivable, net	<u>5,616,165</u>	<u>3,008,197</u>
Total receivables	35,503,926	36,444,401
Less noncurrent contributions receivable	<u>4,050,684</u>	<u>2,123,885</u>
Receivables - current	<u><u>\$ 31,453,242</u></u>	<u><u>\$ 34,320,516</u></u>

**Contributions Receivable**

Contributions receivable consisted of the following:

	<u>May 31, 2016</u>		
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Due within one year	\$ 834,801	\$ 820,225	\$ 1,655,026
Due in one to five years	327,000	1,875,624	2,202,624
Due in more than five years	<u>2,825,000</u>	<u>-</u>	<u>2,825,000</u>
	3,986,801	2,695,849	6,682,650
Less			
Allowance for uncollectible contributions	24,265	128,709	152,974
Unamortized discount	<u>791,817</u>	<u>121,694</u>	<u>913,511</u>
	<u><u>\$ 3,170,719</u></u>	<u><u>\$ 2,445,446</u></u>	<u><u>\$ 5,616,165</u></u>

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

	May 31, 2015		
	Temporarily Restricted	Permanently Restricted	Total
Due within one year	\$ 659,343	\$ 293,393	\$ 952,736
Due in one to five years	216,167	344,160	560,327
Due in more than five years	2,268,337	5,916	2,274,253
	3,143,847	643,469	3,787,316
Less			
Allowance for uncollectible contributions	43,389	30,546	73,935
Unamortized discount	672,641	32,543	705,184
	\$ 2,427,817	\$ 580,380	\$ 3,008,197

The interest rate utilized for discounting contributions receivable for 2016 and 2015 ranged from 1.2 percent to 8.0 percent, for both years.

**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 \$2,346,428 and \$2,259,340 at May 31, 2016 and 2015, respectively. U.S. government grants refundable were \$1,634,713 and \$1,627,661 at May 31, 2016 and 2015, 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, 2016 and 2015, was \$32,561 and \$38,623, 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.

**Webster University**  
**Notes to Consolidated Financial Statements**  
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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, 2016 and 2015. 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, 2016 and 2015, was 33.68 percent and 22.88 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 \$24,914 and \$3,875 were cancelled for the years ended May 31, 2016 and 2015, 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, 2016 and 2015, were \$489,856 and \$0, respectively.

The remainder of the loans receivable, \$30,448 and \$31,822 at May 31, 2016 and 2015, 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:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 24,599,665	\$ 24,323,498
Buildings and improvements	238,619,478	201,392,091
Equipment	54,576,021	49,458,736
Collections and works of art	4,905,873	4,812,873
Construction in progress	6,860,132	10,262,583
Other	<u>2,620,550</u>	<u>2,576,588</u>
	332,181,719	292,826,369
Less accumulated depreciation	<u>150,418,619</u>	<u>138,098,260</u>
	<u>\$ 181,763,100</u>	<u>\$ 154,728,109</u>

Depreciation expense for the years ended May 31, 2016 and 2015, was approximately \$13,228,000 and \$12,097,000, respectively.

**Webster University**  
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The University began the construction of the Interdisciplinary Science Building during 2016. The total estimated cost to complete the project as of May 31, 2016, was approximately \$41,500,000. Subsequent to year-end, the University entered into a second construction contract for the Garden Avenue Parking Garage expansion which has an estimated cost of approximately \$11,900,000.

**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, 2016 and 2015:

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

	2016			
	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	\$ 13,457,146	\$ 13,457,146	\$ -	\$ -
Money market - long-term	12,448,846	12,448,846	-	-
Equity securities				
Financials	3,171,819	3,171,819	-	-
Health care	2,648,828	2,648,828	-	-
Industrials	2,378,767	2,378,767	-	-
Information technology	3,307,869	3,307,869	-	-
Consumer discretionary	2,296,156	2,296,156	-	-
Other	6,097,758	6,097,758	-	-
U.S. government bonds and notes	3,781,611	3,781,611	-	-
Corporate bonds and notes	3,417,262	3,417,262	-	-
Mutual funds				
Bond funds	47,929,019	47,929,019	-	-
Large value	1,955,440	1,955,440	-	-
Large blend	13,265,855	13,265,855	-	-
Large growth	7,494,011	7,494,011	-	-
Medium blend	4,361,727	4,361,727	-	-
Medium growth	1,545,567	1,545,567	-	-
Medium value	3,290,603	3,290,603	-	-
Small blend	2,403,671	2,403,671	-	-
International large growth	3,696,302	3,696,302	-	-
International large blend	16,843,947	16,843,947	-	-
International large value	2,147,422	2,147,422	-	-
Other	868,216	868,216	-	-
ETF's	14,420,528	14,420,528	-	-
Closed end funds	423,152	423,152	-	-
Other	199,567	199,567	-	-
	<u>173,851,089</u>	<u>\$ 173,851,089</u>	<u>\$ -</u>	<u>\$ -</u>
Alternative strategies (A)	<u>6,925,348</u>			
Total investments	180,776,437			
Less short-term investments	<u>13,484,765</u>			
Total long-term investments	<u>\$ 167,291,672</u>			
Escrowed bond investments				
Money market funds	\$ 2,712,693	\$ 2,712,693	\$ -	\$ -
Municipal bonds	4,915,590	4,915,590	-	-
Other	210,000	-	210,000	-
	<u>\$ 7,838,283</u>	<u>\$ 7,628,283</u>	<u>\$ 210,000</u>	<u>\$ -</u>
Beneficial interest in charitable remainder trust	<u>\$ 5,443,440</u>	<u>\$ -</u>	<u>\$ 5,443,440</u>	<u>\$ -</u>



**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

	2015			
	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	\$ 325,799	\$ 325,799	\$ -	\$ -
Money market - long-term	424,030	424,030	-	-
International time deposits	2,717,799	2,717,799	-	-
Equity securities				
Financials	3,622,074	3,622,074	-	-
Industrials	2,203,891	2,203,891	-	-
Information technology	1,456,142	1,456,142	-	-
Consumer discretionary	967,062	967,062	-	-
Other	2,586,442	2,586,442	-	-
U.S. government bonds and notes	1,286,225	1,286,225	-	-
Corporate bonds and notes	32,616,299	32,616,299	-	-
Mutual funds				
Bond funds	71,273,449	71,273,449	-	-
Large value	15,537,779	15,537,779	-	-
Large blend	318,446	318,446	-	-
Large growth	15,754,078	15,754,078	-	-
Medium growth	12,631,190	12,631,190	-	-
International large blend	17,381,150	17,381,150	-	-
Other	6,400,167	6,400,167	-	-
Other	285,422	285,422	-	-
	<u>187,787,444</u>	<u>\$ 187,787,444</u>	<u>\$ -</u>	<u>\$ -</u>
Alternative strategies (A)	7,514,973			
Limited partnership investments (A)	<u>23,908,296</u>			
Total investments	219,210,713			
Less short-term investments	<u>29,460,735</u>			
Total long-term investments	<u>\$ 189,749,978</u>			
Escrowed bond investments				
Money market funds	\$ 2,079,367	\$ 2,079,367	\$ -	\$ -
U.S. government bonds and notes	417,935	-	417,923	-
Municipal bonds	4,798,307	4,798,307	-	-
	<u>\$ 7,295,609</u>	<u>\$ 6,877,674</u>	<u>\$ 417,923</u>	<u>\$ -</u>
Beneficial interest in charitable remainder trust	<u>\$ 5,749,632</u>	<u>\$ -</u>	<u>\$ 5,749,632</u>	<u>\$ -</u>

**Webster University**  
**Notes to Consolidated Financial Statements**  
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- (A) In accordance with Subtopic 820-10, certain investments measured at fair value using the net asset value 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, 2016.

***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.

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

***Fair Value of Financial Instruments***

The following table presents estimated fair values of the University's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at May 31, 2016 and 2015:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets</b>				
Cash	\$ 18,652,708	\$ 18,652,708	\$ 22,053,713	\$ 22,053,713
Investments	\$ 180,776,437	\$ 180,776,437	\$ 219,210,713	\$ 219,210,713
Accounts and contributions receivable	\$ 35,503,926	\$ 35,503,926	\$ 36,444,401	\$ 36,444,401
Student loans receivable	\$ 2,826,732	\$ 2,826,732	\$ 2,251,162	\$ 2,251,162
Beneficial interest charitable remainder trust	\$ 5,443,440	\$ 5,443,440	\$ 5,749,632	\$ 5,749,632
Escrowed bond investments	\$ 7,838,283	\$ 7,838,283	\$ 7,295,609	\$ 7,295,609
Gifts held in trust	\$ 338,820	\$ 338,820	\$ 381,250	\$ 381,250
<b>Financial liabilities</b>				
Annuities and trusts payable	\$ 524,112	\$ 524,112	\$ 613,907	\$ 613,907
Long-term debt	\$ 70,332,797	\$ 75,904,122	\$ 72,465,340	\$ 77,504,179

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated statements of financial position at amounts other than fair value:

- Discounted future cash flows using a discount rate commensurate with risks involved and the remaining maturities (contributions receivable).
- Actuarial evaluation of the estimated payments required under obligation (annuities and trusts payable, beneficial interest in charitable trusts).
- Borrowing rates currently available to the University for debt with similar terms and maturities (notes payable).
- Quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities (bonds payable and escrowed bond investments).
- The carrying amount approximates fair value (cash, gifts held in trust, accounts receivable, student loans receivable).

**Webster University**  
**Notes to Consolidated Financial Statements**  
**May 31, 2016 and 2015**

***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:

		2016		
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 6,711,841	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)	\$ 213,507	None	None: Cannot be redeemed until dissolution of the partnership. Extension to June 2017 approved by the board in June 2016	N/A

**Webster University**  
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2015				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multi-strategy hedge funds (A)	\$ 7,279,176	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)	\$ 235,797	None	None: Cannot be redeemed until dissolution of the partnership. Extension to June 2016 approved by the board in April 2015	N/A
Limited partnerships (C)	\$ 23,908,296	None	Last business day of the month or last business day of the year	30-95 days

- (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 several limited partnerships. The investments are generally subject to an initial lock-up period, which expires after 1 - 2 years. All investments have surpassed the initial lock-up period. Therefore, all funds are redeemable with a notice period of between 30 and 95 days.

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.

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Total investment return is comprised of the following:

	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 8,255,330	\$ 7,601,239
Net realized and unrealized losses on investments reported at fair value	(11,990,975)	(87,324)
	<b>\$ (3,735,645)</b>	<b>\$ 7,513,915</b>
	<b>2016</b>	<b>2015</b>
Investment return - operating	\$ 5,965,543	\$ 5,494,849
Investment return - non-operating	(9,701,188)	2,019,066
	<b>\$ (3,735,645)</b>	<b>\$ 7,513,915</b>

**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 \$5,443,440 and \$5,749,632 at May 31, 2016 and 2015, 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 statement 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**

	2016	2015
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 \$23,078,305 (using May 31, 2016, exchange rates)	\$ 8,727,222	\$ 9,854,937
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 \$649,826 and \$873,942 at May 31, 2016 and 2015, respectively	57,254,826	59,913,942
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	1,938,101	-
Note payable to bank; fixed interest rate of 5.69% with interest only payments for 41 months beginning September 1, 2008. From the 42 month forward (February 2012), payments of principal and interest shall be in the amount of \$21,596. The loan matures January 1, 2017, at which time the entire outstanding principal and interest is due. The note is secured by real estate.	3,507,922	3,562,405
	71,428,071	73,331,284
Less current maturities	6,829,890	3,351,459
Less unamortized debt issuance costs	1,095,274	865,944
	\$ 63,502,907	\$ 69,113,881

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 are 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 maintains a minimum Debt Reserve Fund balance of \$5,170,610 as required and makes monthly deposits of varying amounts to a Debt Service Reserve Fund to fund semiannual interest and principal payments based on the refunded Series 2001 bonds. Unamortized debt issuance costs were \$712,513 and \$786,103 at May 31, 2016 and 2015, respectively.

**Webster University**  
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In October 2015, the University issued Educational Facilities Revenue Bonds, Series 2015 in the aggregate principal amount of \$26,000,000. The Bond proceeds will be 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. As of May 31, 2016, the University has not fully drawn on the aggregate principal amount. The Series 2015 Bonds must be fully drawn by March 31, 2017. Unamortized debt issuance costs at May 31, 2016, were \$323,168.

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 \$59,593 and \$79,841 at May 31, 2016 and 2015, respectively.

Aggregate annual maturities and sinking fund requirements of long-term debt at May 31, 2016, are:

2017	\$ 6,829,890
2018	4,129,945
2019	4,333,252
2020	3,808,513
2021	3,682,568
Thereafter	48,643,903
	<u>\$ 71,428,071</u>

**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, 2016 and 2015, of \$477,296 and \$540,564, 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, 2016 and 2015, the University holds \$824,259 and \$963,548 of long-term investments against these estimated liabilities, respectively. Contribution revenue recognized under such agreements was \$20,000 for the year ended May 31, 2015. There was no contribution revenue recognized under such agreements for the year ended May 31, 2016.

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 \$338,820 and \$381,250 at May 31, 2016 and 2015, respectively, and included in investments in the University's statements of financial position. The University has recorded a liability at May 31, 2016 and 2015, of \$46,816 and \$73,343, respectively, which represents the present value of the future obligations to make distributions to the designated



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beneficiaries. On an annual basis, the University revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a rate of return of 6.0 percent and applicable mortality tables. The portion of the trust attributable to the future interest of the University is recorded in the statement of activities as temporarily restricted contributions in the period the trust is established. There was no contribution revenue recognized under such agreements for the years ended May 31, 2016 and 2015.

**Note 9: Net Assets**

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Undesignated	\$ 35,023,095	\$ -	\$ -	\$ 35,023,095
Quasi-endowment fund	88,249,427	-	-	88,249,427
Departmental activities	1,309,817	-	-	1,309,817
Student loans	653,617	-	44,427	698,044
Retirement of indebtedness	7,333,381	-	-	7,333,381
Plant renewal fund	23,938,012	-	-	23,938,012
Net investment in plant	111,430,303	-	-	111,430,303
Future buildings and capital maintenance	4,092,471	9,349,128	1,400,000	14,841,599
Accumulated foreign currency translation adjustment	(4,404,630)	-	-	(4,404,630)
Library operations	-	1,008,451	-	1,008,451
Future educational activity expenses	500,994	4,713,284	22,703	5,236,981
Scholarships	-	6,554,982	24,432,477	30,987,459
	<u>\$ 268,126,487</u>	<u>\$ 21,625,845</u>	<u>\$ 25,899,607</u>	<u>\$ 315,651,939</u>

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	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Undesignated	\$ 35,152,024	\$ -	\$ -	\$ 35,152,024
Quasi-endowment fund	96,753,586	-	-	96,753,586
Departmental activities	1,187,515	-	-	1,187,515
Student loans	653,617	-	44,202	697,819
Retirement of indebtedness	6,750,952	-	-	6,750,952
Plant renewal fund	57,955,085	-	-	57,955,085
Net investment in plant	82,294,823	-	-	82,294,823
Future buildings and capital maintenance	3,824,180	13,674,862	1,400,000	18,899,042
Accumulated foreign currency translation adjustment	(3,733,295)	-	-	(3,733,295)
Library operations	-	1,098,531	-	1,098,531
Future educational activity expenses	421,628	4,140,554	47,239	4,609,421
Scholarships	-	8,012,837	20,268,222	28,281,059
	<u>\$ 281,260,115</u>	<u>\$ 26,926,784</u>	<u>\$ 21,759,663</u>	<u>\$ 329,946,562</u>

***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.

	2016	2015
Scholarships	\$ 631,544	\$ 700,632
Instruction program activities	603,162	395,977
Academic support program activities	98,394	93,886
Institutional support program activities	145,061	90,383
Passage of specified time	281,331	295,832
Construction costs of Donor Plaza	800,000	-
Construction costs of Interdisciplinary Science Building	3,413,021	637,090
Student service program activities and other	5,560	41,237
	<u>\$ 5,978,073</u>	<u>\$ 2,255,037</u>

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**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 depreciation 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, 2016 and 2015, was:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted	\$ (169,960)	\$ 9,218,717	\$ 25,855,180	\$ 34,903,937
Quasi-endowment	88,419,387	-	-	88,419,387
Total endowment fund	<u>\$ 88,249,427</u>	<u>\$ 9,218,717</u>	<u>\$ 25,855,180</u>	<u>\$ 123,323,324</u>

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	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted	\$ (179,695)	\$ 11,412,786	\$ 21,715,465	\$ 32,948,556
Quasi-endowment	96,933,281	-	-	96,933,281
Total endowment fund	<u>\$ 96,753,586</u>	<u>\$ 11,412,786</u>	<u>\$ 21,715,465</u>	<u>\$ 129,881,837</u>

Changes in endowment net assets for the years ended May 31, 2016 and 2015, were:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Endowment Net Assets, Beginning of Year</b>	\$ 96,753,586	\$ 11,412,786	\$ 21,715,465	\$ 129,881,837
Investment return	(3,593,632)	(1,065,189)	(9,222)	(4,668,043)
Contributions	-	10,682	3,334,495	3,345,177
Change in reserve for contributions receivable	-	(8,904)	(184,969)	(193,873)
Management fees	(123,533)	(41,950)	(7,295)	(172,778)
Board designation of endowment funds	85,000	-	-	85,000
Centennial Matching Program	(999,749)	-	999,749	-
Change in value of split interest agreements	-	(1,546)	(60,936)	(62,482)
Change in donor designation	-	(788)	67,893	67,105
Appropriation of endowment assets for expenditure	<u>(3,872,245)</u>	<u>(1,086,374)</u>	<u>-</u>	<u>(4,958,619)</u>
<b>Endowment Net Assets, End of Year</b>	<u>\$ 88,249,427</u>	<u>\$ 9,218,717</u>	<u>\$ 25,855,180</u>	<u>\$ 123,323,324</u>

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	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment Net Assets, Beginning of Year</b>	\$ 97,459,198	\$ 11,234,749	\$ 19,369,520	\$ 128,063,467
Investment return	4,016,243	1,198,478	64,966	5,279,687
Contributions	-	9,923	1,711,573	1,721,496
Change in reserve for contributions receivable	-	(8,246)	(50,663)	(58,909)
Management fees	(112,917)	(33,211)	(8,055)	(154,183)
Board designation of endowment funds	85,000	-	-	85,000
Change in value of split interest agreements	-	(1,231)	(75,371)	(76,602)
Change in donor designation	(700,000)	-	700,000	-
Appropriation of endowment assets for expenditure	(3,993,938)	(987,676)	3,495	(4,978,119)
<b>Endowment Net Assets, End of Year</b>	<b>\$ 96,753,586</b>	<b>\$ 11,412,786</b>	<b>\$ 21,715,465</b>	<b>\$ 129,881,837</b>

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at May 31, 2016 and 2015, consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	<u>\$ 25,855,180</u>	<u>\$ 21,715,465</u>
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Scholarships	\$ 6,256,632	\$ 7,742,067
Educational activity expenses	1,127,754	1,529,549
Library operations	1,008,451	1,098,531
Future period operations - Loretto Hilton Center	795,385	985,528
Future period operations - without restrictions	30,495	57,111
	<u>\$ 9,218,717</u>	<u>\$ 11,412,786</u>

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 \$169,960 and \$179,695, at May 31, 2016 and 2015, 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.

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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, 2016, exchange rates). These leases have varying terms which may include renewal options and escalation clauses.

Future minimum lease payments at May 31, 2016, were:

2017	\$ 7,908,572
2018	5,781,847
2019	4,659,781
2020	3,964,384
2021	3,574,190
Later years	9,984,059
	<u>\$ 35,872,833</u>

Rent expense under operating leases and rental contracts was \$15,407,820 and \$14,444,281 in 2016 and 2015, respectively.

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**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 \$4,529,419 and \$4,707,514 for 2016 and 2015, 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 \$318,076 and \$567,288 at May 31, 2016 and 2015, 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, 2016 and 2015, is as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ (3,733,295)	\$ (4,420,604)
Translation adjustment	<u>(671,335)</u>	<u>687,309</u>
Balance, end of year	<u>\$ (4,404,630)</u>	<u>\$ (3,733,295)</u>

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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) loss on foreign currency transactions were \$(203,613) and \$3,008,698 for 2016 and 2015, 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 events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were issued.