Webster
UNIVERSITY

Office of the Vice President & CFO
Finance & Administration

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, 2014.

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, 2014. 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

Greg Gunderson
Vice President and Chief Financial Officer

November 13, 2014

Webster University
Educational Facilities Improvement & Refunding Revenue Bonds Series
2011 - Compliance Ratios
May 31, 2014

Liquidity Ratio

Unrestricted Resources (1) / Long-Term Indebtness (2)	=	212,292,790 / 59,913,941	=	354%
		Minimum Ratio		75%
		Excess over Minimum		279%

Maximum Annual Debt Service

Maximum Annual Debt Service / Unrestricted Gross Revenues (3)	=	9,970,873 / 207,388,349	=	4.81%
		Maximum Ratio		10.00%
		Excess under Maximum		5.19%

1 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.

2 Defined by the 2011 Bond Trust Indenture as exclusive of non-recourse indebtedness.

3 Defined by the 2011 Bond Trust Indenture as tuition and fees and all other unrestricted revenues as shown on the financial statments 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.

Webster UNIVERSITY

Finance Office

2014 Continuing Disclosure Statistics
November 2014

Worldwide Enrollment:

Academic Year	Undergraduate Headcount	FTE	Graduate Headcount	FTE	Total Headcount	FTE
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
2010-2011	4,892	4,020	16,655	8,432	21,547	12,452

2014-2015 full-time Faculty Profile:

Status	Number of Faculty	Percentage of Faculty
Visiting	5	2%
Probationary	56	26%
FDL	94	44%
Tenure	57	27%
Total	212	100%

Freshman Applications (Main Campus Only):

	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
Applications	1,863	1,783	1,704	1,739	1,650
Acceptances	1,038	1,021	1,008	1,014	929
Acceptances as percentage of applications	55.7%	57.2%	59.2%	58.3%	56.3%
Enrollment	463	498	418	480	424
Enrollment as percentage of acceptance	44.6%	48.8%	41.2%	47.3%	45.6%

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

	Fall 2014	Fall 2013	Fall 2012	Fall 2011	Fall 2010
Average SAT Score[1]	N/A	N/A	N/A	N/A	1,678
Average ACT Score	24	24	24	24	24
Percentage in top 10% of class	17%	19%	20%	20%	19%
Percentage in top 25% of class	42%	45%	45%	49%	51%

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 2011, 2012, 2013 and 2014, not enough incoming freshmen took the SAT to calculate a valid average SAT score.

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Home Campus: St. Louis, MO, USA

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[2]
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
2011-2012	$22,340	$25,940	$32,070	$570	$605
2010-2011	$21,688	$25,294	$30,658	$570	$585

[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.

[2] All graduate tuition is charged at the per credit hour rate.

Webster University

Auditor's Report and Consolidated Financial Statements

May 31, 2014 and 2013

Webster University

May 31, 2014 and 2013

Contents

BKD LLP
CPAs & Advisors
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314.231.5544 // fax 314.231.9731 // bkd.com

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, 2014 and 2013, 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 financial position of Webster University as of May 31, 2014 and 2013, 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 10, 2014

Webster University

Consolidated Statements of Financial Position

May 31, 2014 and 2013

(Dollars in Thousands)

Assets

	2014	2013
Current Assets		
Cash	$ 24,247	$ 28,852
Receivables - current, net of allowance; 2014 - $6,237, 2013 - $5,627	35,106	33,306
Short-term investments	45,481	51,316
Prepayments and deferred charges	1,004	790
Total current assets	105,838	114,264
Noncurrent Contributions Receivable	3,295	4,461
Student Loans Receivable, Net of Allowance - $40	2,175	2,132
Property and Equipment, Net	152,277	152,769
Long-term Investments	179,691	156,880
Escrowed Bond Investments	8,300	6,931
Beneficial Interest in Charitable Remainder Trust	5,389	4,402
Equity Investment in Joint Venture	2,033	260
Long-term Prepaid Expense and Other	864	520
Gifts Held in Trust	395	383
Deferred Bond Issuance Costs, Net	927	1,003
Total assets	$ 461,184	$ 444,005

See Notes to Consolidated Financial Statements

Liabilities and Net Assets

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 3,339	$ 946
Accounts payable and accrued expenses	16,182	15,747
Current accrued benefit costs	158	230
Deposits and deferred revenue	28,398	29,279
Total current liabilities	48,077	46,202
Annuities and Trusts Payable	649	655
Accrued Benefit Costs	681	5,220
Asset Retirement Obligation	1,953	1,899
Note and Bonds Payable	73,839	76,442
U.S. Government Grants Refundable	1,622	1,602
Total liabilities	126,821	132,020
Net Assets		
Unrestricted	287,391	268,711
Temporarily restricted	27,559	24,867
Permanently restricted	19,413	18,407
Total net assets	334,363	311,985
Total liabilities and net assets	$ 461,184	$ 444,005

Webster University
Consolidated Statements of Activities
Years Ended May 31, 2014 and 2013
(Dollars in Thousands)

	Year Ended May 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue, Gains and Other Support				
Tuition and fees, net of scholarship allowances; 2014 - $27,606, 2013 - $25,832	$ 185,199	$ -	$ -	$ 185,199
Auxiliary enterprises	10,447	-	-	10,447
Private gifts and grants	1,454	1,418	-	2,872
Investment return - operating	4,123	-	-	4,123
Federal grants and contracts	1,714	-	-	1,714
Other income	3,453	-	-	3,453
Net assets released from restrictions	1,551	(1,551)	-	-
Total operating revenue, gains and other support	207,941	(133)	-	207,808
Operating Expenses				
Instruction	80,488	-	-	80,488
Academic support	39,110	-	-	39,110
Institutional support	49,500	-	-	49,500
Student services	17,329	-	-	17,329
Auxiliary	10,227	-	-	10,227
Public service	1,106	-	-	1,106
Other	1,017	-	-	1,017
Total operating expenses	198,777	-	-	198,777
Change in Net Assets From Operating Activities	9,164	(133)	-	9,031
Non-operating Activities				
Investment return - non-operating	9,224	2,923	52	12,199
Change in value of split-interest agreements	-	(1)	(19)	(20)
Permanently restricted private gifts and contracts	-	-	876	876
Change in donor designation	-	(97)	97	-
Other	-	-	-	-
Change in Net Assets From Non-operating Activities	9,224	2,825	1,006	13,055
Foreign Currency Translation	292	-	-	292
Change in Net Assets	18,680	2,692	1,006	22,378
Net Assets, Beginning of Year	268,711	24,867	18,407	311,985
Net Assets, End of Year	$ 287,391	$ 27,559	$ 19,413	$ 334,363

See Notes to Consolidated Financial Statements

Year Ended May 31, 2013			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 186,842	$ -	$ -	$ 186,842
10,722	-	-	10,722
1,984	936	-	2,920
4,676	-	-	4,676
1,554	-	-	1,554
3,118	-	-	3,118
1,898	(1,898)	-	-
210,794	(962)	-	209,832
82,471	-	-	82,471
40,818	-	-	40,818
51,342	-	-	51,342
17,488	-	-	17,488
9,909	-	-	9,909
1,207	-	-	1,207
1,049	-	-	1,049
204,284	-	-	204,284
6,510	(962)	-	5,548
13,177	3,973	150	17,300
-	97	(19)	78
-	-	597	597
-	(1,000)	1,000	-
(782)	-	-	(782)
12,395	3,070	1,728	17,193
(46)	-	-	(46)
18,859	2,108	1,728	22,695
249,852	22,759	16,679	289,290
$ 268,711	$ 24,867	$ 18,407	$ 311,985

Webster University
Consolidated Statements of Cash Flows
Years Ended May 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Operating Activities		
Change in net assets	$ 22,378	$ 22,695
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	11,726	11,762
Amortization of bond premium	1,243	1,177
Donated property and equipment	(286)	-
Effect of currency translation adjustments	(599)	(229)
Loss on disposal of property and equipment	14	70
Net realized and unrealized gains on investments	(11,370)	(16,716)
Loss on equity investment in joint venture	91	-
Change in value of split-interest agreements	20	(78)
Change in value of accrued benefit costs	(4,611)	(299)
Contributions received restricted for long-term investment	(876)	(597)
Contributions received restricted for acquisition of long-lived assets	(1,344)	(421)
Changes in		
Receivables	(1,665)	7,806
Prepayments and deferred charges	(557)	1,330
Accounts payable and accrued expenses	(183)	3,210
Deposits and deferred revenue	(881)	(823)
U.S. government grants refundable	20	(7)
Net cash provided by operating activities	13,120	28,880
Investing Activities		
Purchase of property and equipment	(8,910)	(15,546)
Proceeds from disposition of property and equipment	68	49
Investment in joint venture	(1,864)	(260)
Purchase of investments	(102,809)	(130,665)
Proceeds from disposition of investments	95,688	125,079
Net cash used in investing activities	(17,827)	(21,343)
Financing Activities		
Proceeds from contributions restricted for permanent investment in endowment and loan funds	876	597
Proceeds from contributions restricted for acquisition of long-lived assets	1,344	421
Increase in escrowed bond investments	(1,369)	(117)
Principal payments on long-term debt	(712)	(686)
Proceeds from issuance of annuities and trusts payable	65	3
Payments on annuities and trusts payable	(102)	(9)
Net cash provided by financing activities	102	209

(Continued)

Webster University
Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2014 and 2013
(Dollars in Thousands)

	2014	2013
Increase (Decrease) in Cash	$ (4,605)	$ 7,746
Cash, Beginning of Year	28,852	21,106
Cash, End of Year	$ 24,247	$ 28,852
Supplemental Cash Flows Information		
Interest paid	$ 3,558	$ 3,577
In-kind contributions	$ 379	$ 30
Property and equipment included in accounts payable	$ 617	$ 174

Webster University
Notes to Consolidated Financial Statements
May 31, 2014 and 2013

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 22,000 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 and Asia. The University has international assets totaling $14,262,000 and $9,187,000 at May 31, 2014 and 2013, respectively, and international revenues totaling $33,645,000 and $31,431,000, 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, 2014, cash consisted primarily of checking account balances under earnings credit arrangements.

At May 31, 2014, the University's cash accounts exceeded federally insured limits by approximately $19,316,000.

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, 2014 and 2013, are as follows:

Building	10 - 40 years
Improvements	10 - 20 years
Equipment	5 years
Furniture and fixtures	10 years

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. 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 that is 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.

Deferred Bond Issuance Costs

Bond issuance costs consist of legal, underwriting and other fees for services rendered in connection with the issuance of long-term debt. Bond issuance costs are amortized over the life of the related debt. Amortization expense was $77,000 for both of the years ended May 31, 2014 and 2013.

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 statement of activities. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Scholarship allowances for the years ended May 31, 2014 and 2013, were $27,606,000 and $25,832,000, 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 or removed 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 that have not yet been 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 taxable income.

The University or one of its subsidiaries files tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. For operations in certain foreign jurisdictions, the University may be subject to examinations for up to five years. With a few exceptions, the University is no longer subject to U.S. federal or non-U.S. examinations by tax authorities for years before 2011.

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 that the University owns.

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

	2014	2013
	(In Thousands)	
Beginning of year	$ 1,899	$ 1,848
Liabilities settled	-	(1)
Accretion expense	54	52
End of year	$ 1,953	$ 1,899

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.

Non-Operating Activities Other Expense

For the year ended May 31, 2013, Non-Operating Activities Other Expense of $782,000 is a one-time change to recognize rent expense of operating leases on a straight-line basis.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statements to conform to the 2014 consolidated financial statement presentation. 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:

	2014	2013
	(In Thousands)	
Accounts receivable from students (net of allowance; 2014 - $6,225, 2013 - $5,627)	$ 28,723	$ 28,576
Other receivables (net of allowance; 2014 - $12, 2013 - $0)	2,654	2,429
Grants receivable	2,407	875
Contributions receivable, net	4,617	5,887
Total receivables	38,401	37,767
Less noncurrent contributions receivable	3,295	4,461
Receivables - current	$ 35,106	$ 33,306

Contributions receivable consisted of the following:

	May 31, 2014		
	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)	
Due within one year	$ 805	$ 616	$ 1,421
Due in one to five years	1,270	250	1,520
Due in more than five years	2,728	12	2,740
	4,803	878	5,681
Less			
Allowance for uncollectible contributions	104	42	146
Unamortized discount	881	37	918
	$ 3,818	$ 799	$ 4,617

	May 31, 2013		
	Temporarily Restricted	Permanently Restricted	Total
		(In Thousands)	
Due within one year	$ 916	$ 619	$ 1,535
Due in one to five years	1,260	491	1,751
Due in more than five years	4,091	18	4,109
	6,267	1,128	7,395
Less			
Allowance for uncollectible contributions	114	54	168
Unamortized discount	1,294	46	1,340
	$ 4,859	$ 1,028	$ 5,887

The interest rate utilized for discounting contributions receivable for 2014 and 2013 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. The University matches federal awards with a 33 percent match. Additionally, 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 $2,181,000 and $2,135,000 at May 31, 2014 and 2013, respectively. U.S. government grants refundable were $1,622,000 and $1,602,000 at May 31, 2014 and 2013, 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, 2014 and 2013, was $36,000 and $43,000, respectively.

Loans that are 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 that are in repayment status and are considered current. Delinquent loans are those that are active but not current with payments. Although ultimate collectibility 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, 2014 and 2013. 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, 2014 and 2013, was 29.78 percent and 22.64 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 $7,000 and $19,000 were cancelled for the years ended May 31, 2014 and 2013, respectively.

The remainder of the loans receivable, $34,000 and $37,000 at May 31, 2014 and 2013, 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:

	2014	2013
	(In Thousands)	
Land and improvements	$ 24,875	$ 24,049
Buildings and improvements	194,438	190,816
Equipment	48,539	42,845
Collections and works of art	4,813	4,526
Construction in progress	8,528	8,302
Other	2,446	2,449
	283,639	272,987
Less accumulated depreciation	131,362	120,218
	$ 152,277	$ 152,769

Depreciation expense for the years ended May 31, 2014 and 2013, was $11,577,000 and $11,605,000, respectively.

Note 5: Investments, Investment Return and Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset 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 that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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

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

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, 2014 and 2013:

	2014			
		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)
	(In Thousands)			
Money market - short-term	$ 13,308	$ 13,308	$ -	$ -
Money market - long-term	276	276	-	-
International time deposits	3,320	3,320	-	-
Equity securities				
Financials	3,328	3,328	-	-
Industrials	2,234	2,234	-	-
Information technology	1,738	1,738	-	-
Consumer discretionary	878	878	-	-
Other	2,654	2,654	-	-
U.S. government bonds and notes	874	874	-	-
Corporate bonds and notes	35,967	35,967	-	-
Mutual funds				
Bond funds	66,497	66,497	-	-
Large value	15,091	15,091	-	-
Large blend	399	399	-	-
Large growth	14,405	14,405	-	-
Medium growth	10,816	10,816	-	-
International large blend	17,349	17,349	-	-
Other	286	286	-	-
Limited partnership investments	23,964	-	23,964	-
Alternative strategies	11,487	-	-	11,487
Other	301	301	-	-
Total investments	225,172	189,721	23,964	11,487
Less short-term investments	45,481	45,481	-	-
Total long-term investments	$ 179,691	$ 144,240	$ 23,964	$ 11,487
Escrowed bond investments				
Money market funds	$ 3,190	$ 3,190	$ -	$ -
U.S. government bonds and notes	418	-	418	-
Municipal bonds	4,692	4,692	-	-
	$ 8,300	$ 7,882	$ 418	$ -
Beneficial interest in charitable remainder trust	$ 5,389	$ -	$ 5,389	$ -

		2013		
		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)
		(In Thousands)		
Money market - short-term	$ 16,768	$ 16,768	$ -	$ -
Money market - long-term	569	569	-	-
Certificates of deposit	150	150	-	-
International time deposits	2,996	2,996	-	-
Equity securities				
Financials	2,684	2,684	-	-
Industrials	1,685	1,685	-	-
Information technology	1,354	1,354	-	-
Consumer discretionary	1,049	1,049	-	-
Other	2,121	2,121	-	-
U.S. government bonds and notes	778	778	-	-
Corporate bonds and notes	38,038	38,038	-	-
Mutual funds				
Bond funds	60,696	60,696	-	-
Large value	12,905	12,905	-	-
Large blend	478	478	-	-
Large growth	11,754	11,754	-	-
Medium growth	9,650	9,650	-	-
International large blend	14,299	14,299	-	-
Other	196	196	-	-
Limited partnership investments	20,041	-	20,041	-
Alternative strategies	9,666	-	-	9,666
Other	319	319	-	-
Total investments	208,196	178,489	20,041	9,666
Less short-term investments	51,316	51,316	-	-
Total long-term investments	$ 156,880	$ 127,173	$ 20,041	$ 9,666
Escrowed bond investments				
Money market funds	$ 1,666	$ 1,666	$ -	$ -
U.S. government bonds and notes	419	-	419	-
Municipal bonds	4,846	4,846	-	-
	$ 6,931	$ 6,512	$ 419	$ -
Beneficial interest in charitable remainder trust	$ 4,402	$ -	$ 4,402	$ -

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, 2014. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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, then 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. See the table below for inputs and valuation techniques used for Level 3 investments.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which the University expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which the University does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of investments are the responsibility of the Finance Department. The Finance Department contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Finance Department challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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.

Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Alternative Strategies	Other	Total
		(In Thousands)	
Balance, June 1, 2012	$ 8,303	$ 335	$ 8,638
Total realized and unrealized gains (losses) included in change in net assets	835	(162)	673
Purchases	601	-	601
Sales/liquidations	(73)	(173)	(246)
Balance, May 31, 2013	9,666	-	9,666
Total realized and unrealized gains included in change in net assets	640	-	640
Purchases	1,181	-	1,181
Balance, May 31, 2014	$ 11,487	$ -	$ 11,487

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

	Fair Value at May 31, 2014	Valuation Technique	Unobservable Inputs
		(In Thousands)	
Multi-strategy hedge funds	$ 11,270	Net Asset Value	Net Asset Valuation
Venture capital	$ 217	Net Asset Value	Net Asset Valuation

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, 2014 and 2013.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets				
Cash	$ 24,247	$ 24,247	$ 28,852	$ 28,852
Investments	$ 225,172	$ 225,172	$ 208,196	$ 208,196
Accounts and contributions receivable	$ 38,401	$ 38,401	$ 37,767	$ 37,767
Student loans receivable	$ 2,175	$ 2,175	$ 2,132	$ 2,132
Beneficial interest charitable remainder trust	$ 5,389	$ 5,389	$ 4,402	$ 4,402
Escrowed bond investments	$ 8,300	$ 8,300	$ 6,931	$ 6,931
Gifts held in trust	$ 395	$ 395	$ 383	$ 383
Financial liabilities				
Annuities and trusts payable	$ 649	$ 649	$ 655	$ 655
Note and bonds payable	$ 77,178	$ 82,415	$ 77,388	$ 82,888

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).
- The carrying amount approximates fair value (cash, gifts held in trust, accounts receivable, student loans receivable).

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:

	2014				
		Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
		(In Thousands)			
Multi-strategy hedge funds (A)	$	11,270	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)	$	217	None	None: Cannot be redeemed until dissolution of the partnership. Extension to May 2015 approved by the board in March 2013	N/A
Limited partnerships (C)	$	23,964	None	Last business day of the month or last business day of the year	30-95 days

	2013			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	(In Thousands)			
Multi-strategy hedge funds (A)	$ 9,473	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)	$ 193	None	None: Cannot be redeemed until dissolution of the partnership. Extension to May 2015 approved by the board in March 2013	N/A
Limited partnerships (C)	$ 20,041	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 that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment amounts reported in the consolidated statements of financial position.

Total investment return is comprised of the following:

	2014	2013
	(In Thousands)	
Interest and dividend income	$ 5,130	$ 5,479
Net realized and unrealized gains on investments reported at fair value	11,192	16,497
	$ 16,322	$ 21,976

	2014	2013
	(In Thousands)	
Investment return - operating	$ 4,123	$ 4,676
Investment return - non-operating	12,199	17,300
	$ 16,322	$ 21,976

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 were $5,389,000 and $4,402,000 at May 31, 2014 and 2013, 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 that the University's estimate of the beneficial interest in trust will materially change in the near term.

Note 7: Equity Investment in Joint Venture

The University has an investment in a joint venture that was formed to operate Webster University Ghana. During 2014 and 2013, the University paid $1,864,000 and $260,000, respectively, for equity in the joint venture. The University shares in 49 percent of the profits and losses in the joint venture. Total losses recognized by the University for 2014 and 2013, respectively, were $91,000 and $0.

Note 8: Notes and Bonds Payable

	2014	2013
	(In Thousands)	
Notes payable to bank; due in quarterly installments of 150,000 Swiss francs through 2030; with interest payable quarterly at interest rates of 4.15% and 5.20%; secured by property owned in Geneva, Switzerland, with a current cost of $25,630,000 (using May 31, 2014, exchange rates)	$ 11,034	$ 10,923
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 $1,145,000 and $1,416,000 at May 31, 2014 and 2013, respectively	62,530	62,801
Note payable to bank; fixed interest rate of 5.69% with interest only payments for 41 months beginning September 1, 2008. From the 42nd month forward (February 2012), payments of principal and interest shall be in the amount of $22,000. The loan matures January 1, 2017, at which time the entire outstanding principal and interest is due. The note is secured by real estate	3,614	3,664
	77,178	77,388
Less current maturities	3,339	946
	$ 73,839	$ 76,442

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 that the University maintains a liquidity ratio and a maximum annual debt service ratio at certain levels. The University is also required to maintain a minimum Debt Reserve Fund balance of $5,171,000 and make 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.

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.

Aggregate annual maturities and sinking fund requirements of long-term debt at May 31, 2014, are:

	(In Thousands)
2015	$ 3,339
2016	3,384
2017	6,897
2018	3,346
2019	3,540
Thereafter	56,672
	$ 77,178

Note 9: 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, 2014 and 2013, of $546,000 and $531,000, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 6.0 percent and rates of return of 4.9 percent to 10.8 percent. At May 31, 2014 and 2013, the University holds $1,000,000 and $932,000 of long-term investments against these estimated liabilities, respectively. Contribution revenue recognized under such agreements was $160,000 and $10,000 for the years ended May 31, 2014 and 2013, 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 $395,000 and $383,000 at May 31, 2014 and 2013, respectively, and included in investments in the University's statements of financial position. The University has recorded a liability at May 31, 2014 and 2013, of $103,000 and $123,000, respectively, which represents the present value of the future obligations to make distributions to the designated 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 discount rate 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, 2014 and 2013.

Note 10: Net Assets

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

2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Undesignated	$ 40,013	$ -	$ -	$ 40,013
Quasi-endowment fund	97,404	-	-	97,404
University as lender program - quasi-endowment	55	-	-	55
Departmental activities	1,051	-	-	1,051
Student loans	654	-	44	698
Retirement of indebtedness	6,519	-	-	6,519
Plant renewal fund	62,471	-	-	62,471
Net investment in plant	76,025	-	-	76,025
Future buildings and capital maintenance	3,527	14,323	1,400	19,250
Accumulated foreign currency translation adjustment	(4,420)	-	-	(4,420)
Library operations	-	1,099	-	1,099
Future educational activity expenses	4,092	4,390	38	8,520
Scholarships	-	7,747	17,931	25,678
	$ 287,391	$ 27,559	$ 19,413	$ 334,363

2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Undesignated	$ 39,443	$ -	$ -	$ 39,443
Quasi-endowment fund	82,932	-	-	82,932
University as lender program - quasi-endowment	1,085	-	-	1,085
Departmental activities	951	-	-	951
Student loans	654	-	43	697
Retirement of indebtedness	6,372	-	-	6,372
Plant renewal fund	59,001	-	-	59,001
Net investment in plant	76,392	-	-	76,392
Future buildings and capital maintenance	3,133	14,246	1,400	18,779
Accumulated foreign currency translation adjustment	(4,712)	-	-	(4,712)
Library operations	-	1,017	-	1,017
Future educational activity expenses	3,460	3,424	37	6,921
Scholarships	-	6,180	16,927	23,107
	$ 268,711	$ 24,867	$ 18,407	$ 311,985

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.

	2014	2013
	(In Thousands)	
Scholarships	$ 650	$ 620
Instruction program activities	287	278
Academic support program activities	87	79
Institutional support program activities	41	42
Passage of specified time	470	619
Donor Plaza constructed and placed into service	-	200
Student service program activities and other	16	60
	$ 1,551	$ 1,898

Note 11: 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 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, 2014 and 2013, was:

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Donor-restricted	$ (177)	$ 11,234	$ 19,370	$ 30,427
Quasi-endowment	97,637	-	-	97,637
Total endowment fund	$ 97,460	$ 11,234	$ 19,370	$ 128,064

2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Donor-restricted	$ (239)	$ 9,073	$ 18,364	$ 27,198
Quasi-endowment	84,257	-	-	84,257
Total endowment fund	$ 84,018	$ 9,073	$ 18,364	$ 111,455

Changes in endowment net assets for the years ended May 31, 2014 and 2013, were:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment Net Assets, Beginning of Year	$ 84,018	$ 9,073	$ 18,364	$ 111,455
Investment return	10,445	3,104	59	13,608
Contributions	-	9	920	929
Change in reserve for contributions receivable	-	(8)	(44)	(52)
Management fees	(89)	(26)	(7)	(122)
Board designation of endowment funds	6,085	-	-	6,085
Change in value of split interest agreements	-	(1)	(19)	(20)
Change in donor designation	-	-	97	97
Appropriation of endowment assets for expenditure	(2,999)	(917)	-	(3,916)
Endowment Net Assets, End of Year	$ 97,460	$ 11,234	$ 19,370	$ 128,064

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In Thousands)			
Endowment Net Assets, Beginning of Year	$ 64,135	$ 5,682	$ 16,636	$ 86,453
Investment return	13,946	4,163	157	18,266
Contributions	-	8	660	668
Change in reserve for contributions receivable	-	(7)	(63)	(70)
Management fees	(87)	(27)	(7)	(121)
Board designation of endowment funds	8,575	-	-	8,575
Change in value of split interest agreements	-	96	(19)	77
Change in donor designation	-	-	1,000	1,000
Appropriation of endowment assets for expenditure	(2,551)	(842)	-	(3,393)
Endowment Net Assets, End of Year	$ 84,018	$ 9,073	$ 18,364	$ 111,455

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at May 31, 2014 and 2013, consisted of:

	2014	2013
	(In Thousands)	
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	$ 19,370	$ 18,364
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA		
Scholarships	$ 7,573	$ 6,013
Educational activity expenses	1,488	1,117
Library operations	1,099	1,016
Future period operations - Loretto Hilton Center	985	808
Future period operations - without restrictions	89	119
	$ 11,234	$ 9,073

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 $177,000 and $239,000, at May 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

The University has adopted investment and spending policies for endowment assets that support its mission over the long term. Accordingly, the policies ensure that 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. 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 that combines return enhancement and risk reduction.

Note 12: 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, 2014, exchange rates). These leases have varying terms which may include renewal options and cost-of-living escalation clauses.

Future minimum lease payments at May 31, 2014, were:

	(In Thousands)
2015	$ 9,430
2016	7,097
2017	6,447
2018	4,797
2019	3,579
Later years	23,523
	$ 54,873

Rent expense under operating leases and rental contracts was $12,574,000 and $12,887,000 in 2014 and 2013, respectively.

Note 13: 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 $4,705,000 and $4,697,000 for 2014 and 2013, 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 $839,000 and $5,450,000 at May 31, 2014 and 2013, respectively. The net periodic cost was $677,000 and $770,000 for the years ended May 31, 2014 and 2013.

Note 14: 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 15: 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, 2014 and 2013, is as follows:

	2014	2013
	(In Thousands)	
Balance, beginning of year	$ (4,712)	$ (4,666)
Translation adjustment	292	(46)
Balance, end of year	$ (4,420)	$ (4,712)

In addition, transaction gains and losses result due to exchange rate changes on transactions denominated in currencies other than the functional currency. Losses and gains on foreign currency transactions are included in the appropriate functional expense categories of the consolidated statements of activities. Gains (losses) on foreign currency transactions were $(62,000) and $148,000 for 2014 and 2013, respectively.

Note 16: 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 that 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 this estimate materially in the near term.

At May 31, 2014 and 2013, a contingency was recorded in the amount of $829,000 and $774,000, respectively, representing 7.6 percent of the value of services supplied by Webster University, USA to its subsidiary, Webster University, Geneva, Switzerland, for the period January 1, 2006 through May 31, 2014. This is in response to the Swiss Federal Tax Administration's preliminary finding that the value of these services are subject to Swiss Value Added Tax (VAT). The University believes this finding is without merit and in contradiction of Swiss law and guidelines issued by the Swiss Federal Tax Administration, and the matter is in current litigation in the Swiss judicial system.

Note 17: 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.