

Webster University

Accountants' Report and Consolidated Financial Statements

May 31, 2007 and 2006

Webster University
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Independent Accountants' Report on Consolidated Financial Statements

Board of Directors
Webster University
Webster Groves, Missouri

We have audited the accompanying consolidated statements of financial position of Webster University as of May 31, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

September 5, 2007

Webster University
Consolidated Statements of Financial Position
May 31, 2007 and 2006

Assets

	2007	2006
Current Assets		
Cash and cash equivalents	\$ 17,376,130	\$ 7,716,353
Accounts receivable, net of allowance; 2007 - \$9,418,029, 2006 - \$8,524,621	38,091,091	34,966,817
Notes receivable	76,501,686	70,104,464
Short-term investments	32,170,292	27,557,425
Prepayments and deferred charges	1,295,131	947,697
Total current assets	<u>165,434,330</u>	<u>141,292,756</u>
Noncurrent Contributions Receivable	2,210,195	836,372
Student Loans Receivable, net of allowance - \$40,000	1,925,250	1,984,406
Property and Equipment, net	117,751,779	114,968,892
Long-Term Investments	65,365,703	51,644,786
Escrowed Bond Investments	6,594,817	8,153,628
Gifts Held in Trust	987,020	976,290
Deferred Bond Issuance Costs, net	<u>1,702,236</u>	<u>1,814,475</u>
Total assets	<u>\$ 361,971,330</u>	<u>\$ 321,671,605</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Lines of credit	\$ 76,456,607	\$ 70,081,718
Current maturities of long-term debt	2,049,636	1,623,416
Accounts payable and accrued expenses	13,534,506	12,274,542
Current accrued benefit costs	140,000	—
Deposits and deferred revenue	<u>24,080,825</u>	<u>22,014,360</u>
Total current liabilities	<u>116,261,574</u>	<u>105,994,036</u>
Annuities and Trusts Payable	1,201,365	1,215,148
Accrued Benefit Costs	3,076,917	2,448,184
Note and Bonds Payable	63,642,328	65,780,605
U.S. Government Grants Refundable	<u>1,513,450</u>	<u>1,482,597</u>
Total liabilities	<u>185,695,634</u>	<u>176,920,570</u>
Net Assets		
Unrestricted	151,708,229	125,533,399
Temporarily restricted	12,291,526	8,244,506
Permanently restricted	<u>12,275,941</u>	<u>10,973,130</u>
Total net assets	<u>176,275,696</u>	<u>144,751,035</u>
Total liabilities and net assets	<u>\$ 361,971,330</u>	<u>\$ 321,671,605</u>

Webster University
Consolidated Statements of Activities and Changes in Net Assets
Years Ended May 31, 2007 and 2006

	Year Ended May 31, 2007			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Revenue, Gains and Other Support				
Tuition and fees, net of scholarship allowances; 2007 - \$14,708,000, 2006 - \$14,004,000	\$ 149,870,760	\$ —	\$ —	\$ 149,870,760
Auxiliary enterprises	7,048,786	—	—	7,048,786
Private gifts and grants	1,391,241	2,900,447	—	4,291,688
Investment and dividend income	7,582,313	13,619	—	7,595,932
Federal grants and contracts	1,272,006	—	—	1,272,006
Other income	9,945,980	—	—	9,945,980
Net assets released from restrictions	1,212,282	(1,212,282)	—	—
Assets restricted for endowment matching	—	—	—	—
Total operating revenue, gains and other support	<u>178,323,368</u>	<u>1,701,784</u>	<u>—</u>	<u>180,025,152</u>
Operating Expenses				
Instruction	59,431,292	—	—	59,431,292
Academic support	40,059,365	—	—	40,059,365
Institutional support	40,337,232	—	—	40,337,232
Student services	12,243,107	—	—	12,243,107
Auxiliary	3,972,131	—	—	3,972,131
Public service	796,249	—	—	796,249
Other	209,361	—	—	209,361
Total operating expenses	<u>157,048,737</u>	<u>—</u>	<u>—</u>	<u>157,048,737</u>
Change in Net Assets from Operating Activities	<u>21,274,631</u>	<u>1,701,784</u>	<u>—</u>	<u>22,976,415</u>
Non-Operating Activities				
Return on investments	5,761,827	2,345,236	106,616	8,213,679
Change in value of split-interest agreements	(1,040)	—	2,620	1,580
Permanently restricted private gifts and contracts	—	—	1,193,575	1,193,575
Change in Net Assets from Non-Operating Activities	<u>5,760,787</u>	<u>2,345,236</u>	<u>1,302,811</u>	<u>9,408,834</u>
Foreign Currency Translation	<u>(420,451)</u>	<u>—</u>	<u>—</u>	<u>(420,451)</u>
Cumulative Effect of Change in Accounting Principle – FIN 47	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Effect of Adoption of Recognition Provisions of FASB Statement No. 158	<u>(440,137)</u>	<u>—</u>	<u>—</u>	<u>(440,137)</u>
Change in Net Assets	26,174,830	4,047,020	1,302,811	31,524,661
Net Assets, Beginning of Year	<u>125,533,399</u>	<u>8,244,506</u>	<u>10,973,130</u>	<u>144,751,035</u>
Net Assets, End of Year	<u>\$ 151,708,229</u>	<u>\$ 12,291,526</u>	<u>\$ 12,275,941</u>	<u>\$ 176,275,696</u>

See Notes to Consolidated Financial Statements

Year Ended May 31, 2006

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 139,652,782	\$ —	\$ —	\$ 139,652,782
5,411,659	—	—	5,411,659
2,319,841	2,184,238	—	4,504,079
6,527,582	13,728	—	6,541,310
1,284,408	170,500	—	1,454,908
12,321,600	—	—	12,321,600
884,932	(884,932)	—	—
<u>(349,500)</u>	<u>349,500</u>	<u>—</u>	<u>—</u>
<u>168,053,304</u>	<u>1,833,034</u>	<u>—</u>	<u>169,886,338</u>
57,818,537	—	—	57,818,537
38,525,133	—	—	38,525,133
35,410,253	—	—	35,410,253
11,347,418	—	—	11,347,418
3,279,208	—	—	3,279,208
791,402	—	—	791,402
<u>156,771</u>	<u>—</u>	<u>—</u>	<u>156,771</u>
<u>147,328,722</u>	<u>—</u>	<u>—</u>	<u>147,328,722</u>
<u>20,724,582</u>	<u>1,833,034</u>	<u>—</u>	<u>22,557,616</u>
2,922,547	1,345,244	48,973	4,316,764
(1,022)	—	(45,232)	(46,254)
<u>—</u>	<u>—</u>	<u>577,589</u>	<u>577,589</u>
<u>2,921,525</u>	<u>1,345,244</u>	<u>581,330</u>	<u>4,848,099</u>
<u>(283,419)</u>	<u>—</u>	<u>—</u>	<u>(283,419)</u>
(226,452)	—	—	(226,452)
<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
23,136,236	3,178,278	581,330	26,895,844
<u>102,397,163</u>	<u>5,066,228</u>	<u>10,391,800</u>	<u>117,855,191</u>
<u>\$ 125,533,399</u>	<u>\$ 8,244,506</u>	<u>\$ 10,973,130</u>	<u>\$ 144,751,035</u>

Webster University
Consolidated Statements of Cash Flows
Years Ended May 31, 2007 and 2006

	2007	2006
Operating Activities		
Change in net assets	\$ 31,524,661	\$ 26,895,844
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	8,545,754	7,947,420
Effect of currency translation adjustments	54,263	(175,564)
Net realized and unrealized gains on investments	(8,802,573)	(4,464,361)
Change in value of split-interest agreements	(1,580)	46,254
Gain on sale of building	—	(5,343,457)
Cumulative effect of change in accounting principle – FIN 47	—	226,452
Change in value of accrued benefit costs	768,733	362,471
Contributions received restricted for long-term investment	(1,193,575)	(577,590)
Contributions received restricted for acquisition of long-lived assets	(2,398,103)	(1,128,935)
Changes in		
Accounts and other receivables	(4,438,941)	(6,299,170)
Prepayments and deferred charges	(347,434)	779,360
Accounts payable and accrued expenses	1,259,964	2,286,593
Deposits and deferred revenue	2,066,465	2,381,398
U.S. Government grants refundable	30,853	13,624
	<u>27,068,487</u>	<u>22,950,339</u>
Investing Activities		
Net change in note receivable	(6,397,222)	(42,603,133)
Purchase of property and equipment	(11,637,254)	(23,473,533)
Proceeds from disposition of property and equipment	276,411	92,989
Purchase of investments	(41,713,996)	(27,896,311)
Proceeds from sale of building	—	4,706,457
Proceeds from disposition of investments	32,182,785	14,077,059
	<u>(27,289,276)</u>	<u>(75,096,472)</u>
Financing Activities		
Proceeds from contributions restricted for permanent investment in endowment and loan funds	1,193,575	577,590
Proceeds from contributions restricted for acquisition of long-lived assets	2,398,103	1,128,935
Decrease in escrowed bond investments	1,558,811	12,698,533
Cost of bond issuance	—	(20,990)
Proceeds from issuance of long-term debt	—	997,767
Principal payments on long-term debt	(1,621,879)	(1,640,387)
Net borrowings under line of credit agreements	6,374,889	42,597,640
Proceeds from issuance of annuities and trust payable	57,485	2,268
Payments on annuities and trusts payable	(80,418)	(80,259)
	<u>9,880,566</u>	<u>56,261,097</u>

Webster University
Consolidated Statements of Cash Flows (Continued)
Years Ended May 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Increase in Cash and Cash Equivalents	\$ 9,659,777	\$ 4,114,964
Cash and Cash Equivalents, Beginning of Year	<u>7,716,353</u>	<u>3,601,389</u>
Cash and Cash Equivalents, End of Year	<u>\$ 17,376,130</u>	<u>\$ 7,716,353</u>
 Supplemental Cash Flows Information		
Interest paid	\$ 5,841,724	\$ 4,744,338
In-kind contributions	\$ 123,375	\$ 178,000
Relief of debt from Regent's College	\$ —	\$ 296,264
Prepaid rent incurred with sale of building	\$ —	\$ 637,000

Webster University
Notes to Consolidated Financial Statements
May 31, 2007 and 2006

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. Founded in 1915, the University has over 100 extended campuses located throughout the United States, as well as campuses in Austria, China, England, the Netherlands, Switzerland and Thailand. The University has international assets totaling \$8,475,773 and \$5,865,748 at May 31, 2007 and 2006, respectively, and international revenues totaling \$20,879,450 and \$18,898,723, 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 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The University considers all highly liquid investments used for operating purposes with a maturity of three months or less at date of purchase to be cash equivalents. At May 31, 2007 and 2006, cash equivalents consisted primarily of interest bearing accounts and money market funds.

The University maintains its cash accounts with high credit quality financial institutions. The total cash balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000 per institution. The University had cash balances on deposit with various banks at May 31, 2007 and 2006 that exceeded the balance insured by the FDIC.

Webster University
Notes to Consolidated Financial Statements
May 31, 2007 and 2006

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% 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.

Notes Receivable

Notes receivable consists of loans made to students directly by the University under the Federal Family Education Loan program that had yet to be sold on the secondary market at May 31, 2007 and 2006. During 2007 and 2006, the University recorded a premium on sales of loans made to students of \$6,909,014 and \$4,053,164, respectively.

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 recorded at cost, except for property received by gift, which is recorded at fair value on the date of receipt. Property and equipment are depreciated on a straight-line basis over the following range of estimated useful lives: buildings, 10 to 40 years; improvements, 5 years; and equipment, furniture and fixtures 3 to 10 years.

The University capitalized interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was:

	2007	2006
Total interest expense incurred on borrowings for project	\$ 183,672	\$ 1,291,174
Interest income from investment of proceeds of borrowing for project	29,496	527,178
Net interest cost capitalized	\$ 154,176	\$ 763,996

Webster University
Notes to Consolidated Financial Statements
May 31, 2007 and 2006

	2007	2006
Interest capitalized	\$ 154,176	\$ 763,996
Interest charged to expense	7,014,413	5,234,383
Total net interest incurred	\$ 7,168,589	\$ 5,998,379

Investments and Investment Return

Investments in equity securities, debt securities and mutual funds having a readily determinable fair value are carried at fair value. 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.

Under the University's investment policy, unless otherwise stipulated by the donor of the principal, 4.5% of the three-year rolling average market value of investments is available for spending. Investment earnings in excess of the 4.5% spending policy are reinvested. The 4.5% spending policy and income earned on cash and cash equivalents are included in investment and dividend income in the accompanying Consolidated Statements of Activities and Changes in Net Assets. See Note 5 for additional information regarding the University's spending policy.

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 and investment contracts (approved by the bond issuer). These investment contracts provide a guaranteed rate of return to the University and have maturity dates which approximate the cash needs relative to the respective construction project or debt service requirement.

Gifts Held in Trust

Gifts held in trust represent the fair value of the University's charitable remainder trust accounts. See Note 8 for additional information regarding the University's charitable remainder trust accounts.

Webster University
Notes to Consolidated Financial Statements
May 31, 2007 and 2006

Deferred Bond Issuance Costs

Debt issuance costs consisting of fees paid for the services of attorneys, underwriters, accountants, printers and others are capitalized and amortized over the life of the bonds in a manner consistent with the principal paid on the underlying debt.

Net Assets

Unrestricted net assets represent those net assets whose use is not restricted by donor-imposed stipulations. 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, net investment in plant and the presidential fund for future site expansion.

Temporarily restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the University pursuant to those stipulations. 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 and Changes in Net Assets as net assets released from restrictions.

Permanently restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations and must be maintained by the University in perpetuity, with the income earned available for current use and other purposes specified by the donors.

Revenue Recognition

Revenues are recognized over the term to which they relate. Tuition and fees are presented net of scholarship allowances. Scholarship allowances are discounts provided by the University to the student.

Scholarship Allowances

Tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the Consolidated Statements of Activities and Changes in Net Assets. 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. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship allowance. Scholarship allowances for the years ended May 31, 2007 and 2006 were \$14,707,676 and \$14,004,569, respectively.