

WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS Including Independent Auditors' Report

June 30, 2011 and 2010

WHITWORTH UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the President and Board of Trustees
Whitworth University
Spokane, Washington

We have audited the accompanying consolidated statements of financial position of Whitworth University and subsidiaries ("the University") as of June 30, 2011 and 2010 and the related consolidated statements of activities 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 consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 consolidated financial position of Whitworth University and subsidiaries at June 30, 2011 and 2010 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the financial statements, the State of Washington adopted the Uniform Prudent Management of Institutional Funds Act effective July 1, 2009 and as a result, the manner in which the University classifies donor-restricted endowment funds changed beginning with the year ended June 30, 2010.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 10, 2011

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION June 30, 2011 and 2010

	ASSETS	
	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 2,963,619	\$ 12,364,418
Receivables		
Student accounts, net of allowance for doubtful accounts of \$150,000 in 2011 and \$126,000 in 2010	503,859	549,427
Contributions, net	4,019,662	4,854,971
Other	1,540,969	922,657
Inventories	540,300	581,131
Prepaid expenses and other assets	663,061	661,238
Student loans receivable, net	4,333,069	4,483,310
Long-term investments	101,528,305	76,530,654
Deposits held by trustee	7,916,545	21,374,284
Deferred debt acquisition costs	519,280	538,692
Land, buildings and equipment, net	100,027,163	83,805,006
Assets held in trust by others	<u>19,345,804</u>	<u>15,125,639</u>
TOTAL ASSETS	<u>\$ 243,901,636</u>	<u>\$ 221,791,427</u>
	LIABILITIES AND NET ASSETS	
LIABILITIES		
Accounts payable and other liabilities	\$ 3,017,490	\$ 3,533,534
Accrued payroll and related benefits	5,465,859	8,735,164
Student deposits	1,539,583	1,345,520
Deferred revenue	1,283,021	1,553,591
Asset retirement obligations	807,457	803,276
Accrued interest payable	846,102	854,928
Long-term debt	62,220,942	63,082,986
Annuities payable	11,216,404	9,626,787
Federal student loan funds	<u>3,591,234</u>	<u>3,595,505</u>
Total Liabilities	<u>89,988,092</u>	<u>93,131,291</u>
NET ASSETS		
Unrestricted	54,784,126	47,167,877
Temporarily restricted	31,101,516	21,181,049
Permanently restricted	<u>68,027,902</u>	<u>60,311,210</u>
Total Net Assets	<u>153,913,544</u>	<u>128,660,136</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 243,901,636</u>	<u>\$ 221,791,427</u>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

With Comparative Totals for 2010

	2011			2010 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition and fees	\$ 72,040,895			\$ 62,581,053
Less: Scholarships and grants	(28,630,635)			(25,103,513)
Net tuition and fees	43,410,260			37,477,540
Government grants	917,880			750,387
Contributions and gifts	1,892,746	\$ 285,917		2,454,171
Long-term investment income and gains allocated for operations	414,584	1,887,545		2,313,410
Other sources	1,563,517			1,661,479
Investment income	1,065,192	226		957,733
Net gains (losses) on investments	(16,687)	129,840		80,372
Auxiliary enterprises revenues	12,467,497			11,365,409
	61,714,989	2,303,528		57,060,501
Net assets released from restrictions - operating	2,371,689	(2,371,689)		
Total Operating Revenues, Gains and Other Support	64,086,678	(68,161)		57,060,501
OPERATING EXPENSES				
Program expenses				
Instruction	24,977,752			23,463,160
Public service	692,282			726,574
Academic support	6,727,029			5,946,069
Student services	9,268,187			9,161,710
Auxiliary enterprises	11,658,188			10,550,418
Support expenses				
Institutional support	10,798,462			10,480,586
Allocable expenses				
Operation and maintenance of plant	4,250,135			4,703,868
Interest	2,225,072			1,834,105
Unfunded depreciation, amortization, and accretion	5,336,791			5,138,534
Less: Allocated expenses	(11,811,998)			(11,676,507)
Total Operating Expenses	64,121,900			60,328,517
Change in Net Assets from Operating Activities	(35,222)	(68,161)		(3,268,016)
NONOPERATING ACTIVITIES				
Long-term investment income and gains, net of amount allocated for operations	3,457,535	8,859,827	\$ 4,003,421	16,320,783
Contributions and gifts	181,271	1,137,266	3,383,792	4,702,329
Adjustment to actuarial liability for annuities payable	43,992	18,004	305,358	367,354
Other sources	574,852		24,121	598,973
Loss on refinancing of debt				(1,615,908)
Adjustment to prior service cost and actuarial liability for retiree health plan	3,367,352			978,141
Net assets released from restrictions - nonoperating	26,469	(26,469)		
Change in Net Assets from Nonoperating Activities	7,651,471	9,988,628	7,716,692	25,356,791
Change in Net Assets	7,616,249	9,920,467	7,716,692	25,253,408
Net Assets - Beginning of Year	47,167,877	21,181,049	60,311,210	124,126,609
NET ASSETS - END OF YEAR	\$ 54,784,126	\$31,101,516	\$ 68,027,902	\$ 153,913,544
				\$ 128,660,136

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition and fees	\$62,581,053			\$ 62,581,053
Less: Scholarships and grants	(25,103,513)			(25,103,513)
Net tuition and fees	37,477,540			37,477,540
Government grants	750,387			750,387
Contributions and gifts	2,264,180	\$ 189,991		2,454,171
Long-term investment income and gains allocated for operations	359,068	1,954,342		2,313,410
Other sources	1,661,479			1,661,479
Investment income	957,733			957,733
Net gains (losses) on investments	197,515	(117,143)		80,372
Auxiliary enterprises revenues	11,365,409			11,365,409
Net assets released from restrictions - operating	55,033,311	2,027,190		57,060,501
Total Operating Revenues, Gains and Other Support	57,332,722	(272,221)		57,060,501
OPERATING EXPENSES				
Program expenses				
Instruction	23,463,160			23,463,160
Public service	726,574			726,574
Academic support	5,946,069			5,946,069
Student services	9,161,710			9,161,710
Auxiliary enterprises	10,550,418			10,550,418
Support expenses				
Institutional support	10,480,586			10,480,586
Allocable expenses				
Operation and maintenance of plant	4,703,868			4,703,868
Interest	1,834,105			1,834,105
Unfunded depreciation, amortization, and accretion	5,138,534			5,138,534
Less: Allocated expenses	(11,676,507)			(11,676,507)
Total Operating Expenses	60,328,517			60,328,517
Change in Net Assets from Operating Activities	(2,995,795)	(272,221)		(3,268,016)
NONOPERATING ACTIVITIES				
Long-term investment income and gains, net of amount allocated for operations	977,972	2,497,717	\$ 474,383	3,950,072
Contributions and gifts	100,617	2,507,599	1,211,825	3,820,041
Adjustment to actuarial liability for annuities payable	121,320	3,247	246,780	371,347
Other sources	278,575		19,275	297,850
Loss on refinancing of debt	(1,615,908)			(1,615,908)
Adjustment to prior service cost and actuarial liability for retiree health plan	978,141			978,141
Net assets released from restrictions - nonoperating	731,452	(731,452)		
Change in Net Assets from Nonoperating Activities	1,572,169	4,277,111	1,952,263	7,801,543
Change in net assets before reclassification of net assets	(1,423,626)	4,004,890	1,952,263	4,533,527
Net asset reclassification due to a change in law	(13,451,617)	12,538,793	912,824	
Change in Net Assets	(14,875,243)	16,543,683	2,865,087	4,533,527
Net Assets - Beginning of Year	62,043,120	4,637,366	57,446,123	124,126,609
NET ASSETS - END OF YEAR	\$47,167,877	\$21,181,049	\$ 60,311,210	\$ 128,660,136

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended June 30, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 25,253,408	\$ 4,533,527
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	5,336,791	5,138,534
Loss on refinancing of debt		1,615,908
Adjustment to prior service cost and actuarial liability for retiree health plan	(3,367,352)	(978,141)
Actuarial adjustment on annuities payable	(367,354)	(371,347)
Net gains on investments	(17,457,074)	(5,234,343)
Increase (decrease) in allowance on student accounts receivable	24,000	(22,000)
Increase in allowance on contributions receivable	200,000	200,000
Write-off of loan receivable		75,000
Loan cancellations, assignments and write-offs	54,539	105,346
(Increase) decrease in assets		
Student accounts receivable	21,568	33,163
Other receivables	(646,558)	164,478
Inventories, prepaid expenses and other assets	39,008	(319,049)
Contributions receivable for operations	28,246	135,200
Increase (decrease) in liabilities		
Accounts payable, other liabilities and accrued interest payable	519,921	373,223
Accrued payroll and related benefits	98,047	(122,521)
Student deposits	194,063	49,190
Deferred revenue	(270,570)	382,457
Contributions restricted for plant and long-term investment	(4,521,058)	(3,511,168)
Net Cash Flows From Operating Activities	5,139,625	2,247,457
 CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	642,502	548,431
Advances	(546,800)	(631,619)
Purchases of land, buildings and equipment	(22,599,558)	(15,563,688)
Drawdowns of deposits held by trustee	13,607,867	18,166,773
Proceeds from sales of long-term investments	14,907,192	12,305,452
Purchases of long-term investments	(23,851,292)	(9,535,007)
Net Cash Flows From Investing Activities	(17,840,089)	5,290,342
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	5,156,367	2,732,769
Repayments on line of credit		(7,500,000)
Proceeds from issuance of line of credit		2,000,000
Payments on long-term debt	(862,044)	(925,842)
Payments to annuitants	(990,386)	(972,751)
Net change in federal student loan funds	(4,272)	(53,011)
Net Cash Flows From Financing Activities	3,299,665	(4,718,835)
 Net Change in Cash and Cash Equivalents	(9,400,799)	2,818,964
 CASH AND CASH EQUIVALENTS - Beginning of Year	12,364,418	9,545,454
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,963,619	\$ 12,364,418

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Whitworth University, a higher education institution founded in 1890, was incorporated in 1972 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and is located in Spokane, Washington. Whitworth University's primary source of revenue comes from tuition. Other sources of revenue include room and board, gifts, investment earnings, fees and bookstore sales. The financial statements have been prepared on the accrual basis of accounting. The more significant accounting policies are summarized below:

Consolidation - The consolidated financial statements include the accounts of Whitworth University, Whitworth Costa Rica Limited (formed in November 2009), and The Whitworth Foundation (the Foundation), collectively referred to as the "University". The purpose of Whitworth Costa Rica Limited is to provide educational services to Whitworth University students at a campus located in Costa Rica and the purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. See Note 18 for summarized financial information related to these entities. All material transactions and balances between the entities have been eliminated in the consolidated financial statements.

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Cash and Cash Equivalents - The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents do not include investments the University has both the ability and intent to hold long-term.

Student Accounts Receivables - Student accounts receivables include amounts due to the University for tuition and fees. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. Recoveries of student accounts previously written-off are recorded when received. Receivables are generally unsecured.

Inventories - Student bookstore and supply inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

Deposits Held by Trustee - Deposits held by trustee include amounts restricted for construction and debt service as required by the trust indentures. The assets are comprised of cash equivalents and government bonds.

Deferred Debt Acquisition Costs - Certain costs related to the issuance of debt have been deferred and are being amortized over the term of the debt issue. Accumulated amortization approximated \$34,000 and \$13,600 at June 30, 2011 and 2010, respectively.

Land, Buildings and Equipment - Land, buildings, improvements and equipment are recorded at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation. Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes land, buildings, and equipment expenditures in excess of \$5,000. Title to land and buildings is principally in the name of the University.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 40 years
Building and other improvements	5 to 30 years
Equipment	5 to 8 years

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and the resulting gains or losses are reflected in the statement of activities.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Impairment of Long-Lived Assets - The University reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Assets Held in Trust by Others - The University has been designated as beneficiary of several trusts managed by outside foundations. Some of these trusts generate income that is distributed to the University on a periodic basis. Those trusts are generally invested in marketable securities, real estate, or contracts collateralized by real estate.

Deferred Revenue - Certain revenue related to summer and fall courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

Asset Retirement Obligations - The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Balance, Beginning of the year	\$ 803,276	\$ 741,068
Abatements	(61,815)	
Accretion expense	65,996	62,208
Balance, End of the year	\$ 807,457	\$ 803,276

Federal Student Loan Funds - Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Income Tax Status - The Internal Revenue Service has determined that the University and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Donations to the University and Foundation are tax deductible. Whitworth Costa Rica Limited is a taxable corporation for purposes of Costa Rican income tax law.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2011 and 2010. The University's tax returns are subject to review and examination by federal authorities. The tax returns for the current year as well as fiscal years 2008 through 2010 are open to examination by federal authorities.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents (money market funds and certificates of deposit), accounts receivable, other receivables, accounts payable and student deposits approximate fair value because of the short term maturity of these financial instruments.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University. The fair value of bonds payable approximates \$71,000,000 and \$72,000,000 at June 30, 2011 and 2010, respectively

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Investments in real estate are carried at lower of cost or market.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled \$3,173,000 and \$3,299,000 for the years ended June 30, 2011 and 2010, respectively. Advertising costs are expensed when incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Reclassifications - Certain prior year amounts have been reclassified to conform with the June 30, 2011 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The University follows the accounting guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2011:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Equity securities	\$ 6,437,597	\$ 6,437,597		
Fixed income securities	10,168,938	9,338,366	\$ 830,572	
Mutual funds	50,235,681	50,235,681		
Equity index fund	7,551,460		7,551,460	
Global fixed income	6,268,480		6,268,480	
Alternative investments				
Funds of funds	18,140,559			\$ 18,140,559
Private equity funds	2,220,263			2,220,263
Assets held in trust by others	19,345,804			19,345,804
	<u>\$ 120,368,782</u>	<u>\$ 66,011,644</u>	<u>\$ 14,650,512</u>	<u>\$ 39,706,626</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Equity securities	\$ 9,289,665	\$ 9,289,665		
Fixed income securities	10,772,626	10,772,626		
Mutual funds	29,496,728	29,496,728		
Equity index fund	8,674,411		\$ 8,674,411	
Global fixed income	4,636,047		4,636,047	
Alternative investments				
Funds of funds	15,953,113			\$ 15,953,113
Private equity funds	1,485,167			1,485,167
Assets held in trust by others	15,125,639			15,125,639
	<u>\$ 95,433,396</u>	<u>\$ 49,559,019</u>	<u>\$ 13,310,458</u>	<u>\$ 32,563,919</u>

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Equity securities - Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Fixed income securities - Investments in fixed income securities are comprised of U.S. Treasury notes and corporate bonds and notes. U.S. Treasury notes and preferred stock are classified as Level 1 if they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis. Corporate bonds are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Mutual funds - Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Equity index fund - The equity index fund is classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Global fixed income - The global fixed income securities are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Alternative investments - Investments in funds of funds and private equity funds for which there is no readily determinable fair value are classified as Level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of December 31 or March 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

Assets held in trust by others - The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2011:

	Balances June 30, 2010	Net realized and unrealized gains included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2011
Assets					
Funds of funds	\$ 15,953,113	\$ 2,196,131	\$ (8,685)		\$ 18,140,559
Private equity funds	1,485,167	298,265	436,831		2,220,263
Assets held in trust by others	<u>15,125,639</u>	<u>4,068,336</u>	<u>151,829</u>		<u>19,345,804</u>
Total	<u>\$ 32,563,919</u>	<u>\$ 6,562,732</u>	<u>\$ 579,975</u>	<u>\$ -</u>	<u>\$ 39,706,626</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 financial instruments still held at June 30, 2011.

\$ 6,562,732

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010:

	Balances June 30, 2009	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2010
Assets					
Funds of funds	\$ 15,254,217	\$ 187,704	\$ 511,192		\$ 15,953,113
Private equity funds	1,460,793	(36,647)	61,021		1,485,167
Assets held in trust by others	<u>14,711,495</u>	<u>415,813</u>	<u>(1,669)</u>		<u>15,125,639</u>
Total	<u>\$ 31,426,505</u>	<u>\$ 566,870</u>	<u>\$ 570,544</u>	<u>\$ -</u>	<u>\$ 32,563,919</u>

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains or losses relating to Level 3 financial instruments still held at June 30, 2010. \$ 279,909

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. The accounting guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University's interest in the fund. If the University does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments. The University generally considers a redemption period of 90 days or less to be considered near term.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS (cont.)

The following table lists the investments in alternative investments by major category:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity
Fair value, June 30, 2011	\$6,178,153	\$2,809,684	\$5,582,815	\$3,569,907	\$2,220,263
Significant Investment Strategy	Low correlation to standard markets indexes	Low correlation to standard markets indexes	Fund of funds vehicle through which clients can invest in private equity real estate fund or income producing real properties	The fund of funds vehicle expects to invest in partnerships or other commingled funds with portfolio manager that invest in high yield securities, public and private debt, bank loans, trade claims, equity or other distressed obligations	Direct investment in private companies to create gains
Remaining Life	Indefinite	Indefinite	Minimum of 10 years	Minimum of 16 years	1 years
Dollar Amount of Unfunded Commitments	Open	Open	\$1,823,475	\$3,630,085	\$1,425,000
Timing to Draw Down Commitments	N.A.	N.A.	3 to 5 years	3 to 5 years	3 to 5 years
Redemption Terms	One year lock-up period; after that quarterly or annually	Quarterly	With 90 days advance notice	Not Allowed	Not Allowed
Redemption Restrictions	N.A.	N.A.	As liquidity becomes available after redemption request	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.	N.A.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Endowment funds	\$ 60,689,982	\$ 54,087,302
Student loan funds	1,004,133	980,006
Annuity, life income and similar funds	<u>6,333,787</u>	<u>5,243,902</u>
	<u>\$ 68,027,902</u>	<u>\$ 60,311,210</u>

Temporarily restricted net assets consist of the following at June 30:

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 427,372	\$ 650,584
Acquisition of buildings and equipment	2,724,737	1,849,732
Earnings not yet appropriated for spending	27,692,857	18,442,187
Annuity, life income and similar funds	<u>256,550</u>	<u>238,546</u>
	<u>\$ 31,101,516</u>	<u>\$ 21,181,049</u>

Unrestricted restricted net assets consist of the following at June 30:

For current operations	\$ 4,092,628	\$ 1,946,391
Plant	37,568,129	35,479,617
Endowment funds - board designated	10,864,310	7,523,761
Annuity, life income and similar funds	<u>2,259,059</u>	<u>2,218,108</u>
	<u>\$ 54,784,126</u>	<u>\$ 47,167,877</u>

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors were as follows during the years ended June 30:

	<u>2011</u>	<u>2010</u>
Acquisition of land, building and equipment	\$ 26,469	\$ 731,452
Scholarships, instruction and other departmental support	<u>2,371,689</u>	<u>2,299,411</u>
	<u>\$ 2,398,158</u>	<u>\$ 3,030,863</u>

These assets were reclassified to unrestricted net assets.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the consolidated financial statements as contributions receivable and revenue of the appropriate net asset category. Receivables are recorded net of a discount to reflect the estimated present value of the expected future cash flows to be received. Contributions receivable include the following unconditional promises to give at June 30:

	2011	2010
Unrestricted - completed construction projects	\$ 2,499,475	\$ 2,216,028
Temporarily restricted		
Current scholarships, departmental programs and activities	36,483	78,898
Building construction and remodeling	2,052,229	2,974,552
Permanently restricted - Endowment for scholarships and departmental programs and activities	343,755	350,703
Gross unconditional promises to give	4,931,942	5,620,181
Less: Allowance for uncollectible promises	(400,000)	(200,000)
Less: Unamortized discount	(512,280)	(565,210)
Net contributions receivable	\$ 4,019,662	\$ 4,854,971
Amounts due in:		
Within one year	\$ 1,476,362	
One to five years	3,343,080	
Greater than five years	112,500	
	\$ 4,931,942	

Promises due in more than one year were discounted at interest rates ranging between 3.3% and 5.0% at June 30, 2011 and 2010. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately \$4,120,000 and \$4,390,000 as of June 30, 2011 and 2010, respectively. For the years ended June 30, 2011 and 2010, contributions from members of the Board of Trustees were approximately \$3,042,000 and \$3,546,000, respectively.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 6 - LONG TERM INVESTMENTS AND DEPOSITS HELD BY TRUSTEE

The following summarizes the University's investments and deposits held by trustee at June 30:

	2011	2010
Cash and short-term investments	\$ 3,771,958	\$ 11,008,786
Equity securities	6,437,597	9,289,665
Fixed income securities	10,168,938	10,772,626
Mutual funds	50,235,681	29,496,728
Other investments		
Equity index fund	7,551,460	8,674,411
Global fixed income	6,268,480	4,636,047
Funds of funds		
Hedge funds	6,178,153	7,680,293
Commodities	2,809,684	1,871,965
Real estate investments	5,582,815	3,768,876
Limited partnerships	3,569,907	2,631,979
Private equity funds	2,220,263	1,485,167
Notes receivable, collateralized by real estate at 6% to 10%	211,846	229,021
Notes receivable - other	497,000	497,735
Real estate	885,600	2,902,586
Annuity contracts	8,775	8,992
Single premium life insurance policy	133,003	129,558
Cash surrender value of life insurance policies, net of loans	2,913,690	2,820,503
	\$ 109,444,850	\$ 97,904,938

Long-term investments and deposits held by trustee are allocated as follows at June 30:

Long-term investments	\$ 101,528,305	\$ 76,530,654
Deposits held by trustee	7,916,545	21,374,284
	\$ 109,444,850	\$ 97,904,938

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Through the University's investment in other investments, the University is indirectly involved in investment activities such as securities lending, trading in futures, forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure. While these instruments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its respective capital balance in each investment. These interests have varying degrees of liquidity.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 7 - LIFE INSURANCE POLICIES

The University and Foundation have received gifts of several life insurance policies and are designated as both the owner and beneficiary of these life insurance policies. At June 30, 2011 and 2010, the insurance coverage aggregated approximately \$6,082,600 and \$6,079,500, respectively, and the cash surrender value totaled \$2,913,690 and \$2,820,503, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

NOTE 8 - CONSTRUCTION IN PROGRESS

At June 30, 2011, the following projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Funding Source</u>
Science Building	\$ 29,613,006	9/30/2011	Debt and gifts
Various other campus projects	<u>882,600</u>	8/31/2012	Operations
	<u>\$ 30,495,606</u>		

Remaining commitments on signed construction contracts approximate \$3,500,000 as of June 30, 2011.

Subsequent to June 30, 2011, the University entered into a construction contract of approximately \$3,800,000 for the expansion of the Hixson Union Building. This project will provide additional space for student dining services and other university activities in fall 2012.

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 5,561,315			\$ 5,561,315
Buildings	85,777,265	\$ 2,189,189		87,966,454
Buildings and other improvements	15,460,670	190,001		15,650,671
Equipment	12,074,563	994,407	\$ (296,735)	12,772,235
Construction in progress	12,323,934	18,642,881	(471,209)	30,495,606
	<u>131,197,747</u>	<u>22,016,478</u>	<u>(767,944)</u>	<u>152,446,281</u>
Less: Accumulated Depreciation for:				
Buildings	(32,971,232)	(3,415,441)		(36,386,673)
Buildings and other improvements	(7,189,809)	(1,520,995)		(8,710,804)
Equipment	(7,231,700)	(386,676)	296,735	(7,321,641)
Total Accumulated Depreciation	<u>(47,392,741)</u>	<u>(5,323,112)</u>	<u>296,735</u>	<u>(52,419,118)</u>
	<u>\$ 83,805,006</u>	<u>\$ 16,693,366</u>	<u>\$ (471,209)</u>	<u>\$ 100,027,163</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT (cont.)

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2010:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 3,043,023	\$ 2,518,292		\$ 5,561,315
Buildings	74,200,213	11,577,052		85,777,265
Buildings and other improvements	14,134,875	1,501,951	\$ (176,156)	15,460,670
Equipment	13,922,355	982,119	(2,829,911)	12,074,563
Construction in progress	12,051,729	9,721,385	(9,449,180)	12,323,934
	<u>117,352,195</u>	<u>26,300,799</u>	<u>(12,455,247)</u>	<u>131,197,747</u>
Less: Accumulated Depreciation for:				
Buildings	(29,730,789)	(3,240,443)		(32,971,232)
Buildings and other improvements	(6,204,037)	(1,161,928)	176,156	(7,189,809)
Equipment	(9,362,219)	(699,392)	2,829,911	(7,231,700)
Total Accumulated Depreciation	<u>(45,297,045)</u>	<u>(5,101,763)</u>	<u>3,006,067</u>	<u>(47,392,741)</u>
	<u>\$ 72,055,150</u>	<u>\$ 21,199,036</u>	<u>\$ (9,449,180)</u>	<u>\$ 83,805,006</u>

During the year ended June 30, 2010, the University conducted an analysis of all fully depreciated assets and discharged those that were no longer in use for a total of approximately \$3,000,000.

NOTE 10 - LONG-TERM DEBT

The University had the following long-term debt outstanding at June 30:

	2011	2010
Revenue Bonds - 2009 Series	\$ 62,835,000	\$ 63,720,000
Discount on 2009 Series Revenue Bonds	<u>(614,058)</u>	<u>(637,014)</u>
	<u>\$ 62,220,942</u>	<u>\$ 63,082,986</u>

Revenue Bonds Payable - In November 2009, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2009 Revenue and Refunding Bonds in the amount of \$63,720,000 and loan the proceeds to the University. The bonds were issued for the purpose of refinancing the Series 1998, Series 2001 and Series 2006 bonds and for construction and plant improvement projects. These projects include a new residence hall at an estimated cost of approximately \$11,000,000 and a new science building at an estimated cost of approximately \$31,000,000. The outstanding principal balances on the Series 1998 bonds and Series 2001 bonds were paid in full and retired during 2010 using the proceeds of the Series 2009 Bonds. With respect to the Series 2006 bonds, proceeds from the Series 2009 bonds were placed in an escrow account held to defease the bonds in October 2027. The balance in the escrow account, which is not recorded on the University's statement of financial position, at June 30, 2011 was \$12,712,001. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was \$11,850,000 at June 30, 2011.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 10 - LONG-TERM DEBT (cont.)

Interest is payable on the Series 2009 bonds semi-annually on each October 1 and April 1 at rates ranging from 4.000% to 5.875%. Serial bonds are payable in amounts ranging from \$920,000 to \$1,320,000 on October 1, 2011 through October 1, 2019. Term bonds in the amounts of \$7,705,000, \$10,025,000, \$13,290,000, and \$21,885,000 are due October 1, 2024, 2029, 2034, and 2040, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2020 to 2040, in amounts varying from \$1,385,000 to \$4,180,000.

The University has pledged its unrestricted revenues and property of the core campus located in Spokane, Washington (see Note 9) to the repayment of its obligations under the loan agreement. As a condition of the issuance of the 2009 Revenue Bonds, the University has agreed to certain covenants for the protection of bond owners, including maintaining in each fiscal year income available for debt service at least equal to 1.00 times annual debt service for such fiscal year beginning after the date of issuance of the bonds and continuing through the fiscal year that is two fiscal years after the last of the new facilities is placed in service, and 1.25 times annual debt service in each other fiscal year.

Deposits with trustee include proceeds from the Series 2009 bonds held for the following purposes at June 30:

	<u>2011</u>	<u>2010</u>
Debt service reserve fund	\$ 4,250,545	\$ 4,351,057
Holdback account	450,000	450,000
Construction project account	<u>3,216,000</u>	<u>16,573,227</u>
	<u>\$ 7,916,545</u>	<u>\$ 21,374,284</u>

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2011 are:

<u>Year Ended June 30</u>	<u>Principal</u>
2012	\$ 920,000
2013	960,000
2014	1,000,000
2015	1,040,000
2016	1,090,000

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 11 - SPLIT INTEREST AGREEMENTS

The University's investment portfolio contains split interest agreements held by the Foundation. Under a split interest agreement, a donor makes an initial gift to a trust or directly to the Foundation, in which the University has a beneficial interest but is not the sole beneficiary. The terms of some agreements do not allow donors to revoke their gifts. The time period covered by the agreement is expressed either as a specific number of years (or in perpetuity) or as the remaining life of an individual or individuals designated by the donor. The assets are invested and administered by the Foundation and distributions are made to a beneficiary or beneficiaries during the term of the agreement. At the end of the agreement's term, the remaining assets covered by the agreement are distributed to or retained by either the University or another beneficiary or beneficiaries.

Most of the Foundation's agreements consist of irrevocable charitable remainder trusts and charitable gift annuities. Donors may impose restrictions on the University's use of all or a portion of any assets received. The Foundation recognizes a liability for estimated distributions to beneficiaries under these annuity agreements. The Foundation used the applicable discount rates in effect at the time the agreements were received by the Foundation in calculating the present values.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was \$1,500,107 and \$1,091,901, respectively, as of June 30, 2011 and 2010.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The University provides a defined contribution plan for the benefit of substantially all faculty and administration personnel. All costs relating to this plan are being funded currently. The University contributes a fixed percentage of each participant's salary to the plan. The University's contribution to this plan was approximately \$1,873,000 and \$1,826,000 in 2011 and 2010, respectively.

In addition to providing retirement benefits, the University pays a portion of the premiums for certain health care benefits provided to selected retired employees who reach retirement age while working for the University. Effective June 1, 2002, certain retired employees are required to contribute a portion of the cost of their medical insurance coverage. The University accrues for these benefits over the service lives of the employees rather than expense the cost of premiums as they are paid. The plan is unfunded, and the accrued postretirement benefit obligation is included in accrued payroll and related benefits on the statements of financial position.

The University measures postretirement plan obligations as of June 30.

In December 2010, the University changed the medical insurance plan provider under its postretirement benefit plan to help reduce the costs of healthcare. This change substantially reduced the cost of premiums per employee and future liabilities associated with the payment of such costs.

In addition, on June 1, 2011, the University became part of a Voluntary Employee Benefit Association (VEBA) in order to help fund the costs of healthcare for employees who have met certain eligibility requirements.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)

The following is a reconciliation of the benefit obligation and the value of plan assets at June 30:

	<u>2011</u>	<u>2010</u>
Change in projected benefit obligation		
Benefit obligation at July 1	\$ 6,022,728	\$ 7,000,869
Interest cost	401,278	336,085
Service cost	183,367	163,444
Actuarial gain	(3,773,108)	(1,321,224)
Estimated benefits paid	<u>(178,889)</u>	<u>(156,446)</u>
Projected benefit obligation at June 30	<u>\$ 2,655,376</u>	<u>\$ 6,022,728</u>
Change in plan assets		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	192,494	161,219
Participant contribution	54,964	59,952
Actual benefits paid	<u>(247,458)</u>	<u>(221,171)</u>
Fair value of plan assets at June 30	<u>\$ -</u>	<u>\$ -</u>
Funded status		
Underfunded status at June 30	<u>\$ (2,655,376)</u>	<u>\$ (6,022,728)</u>
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	\$ -	\$ -
Current liabilities	87,000	250,000
Noncurrent liabilities	<u>2,568,376</u>	<u>5,772,728</u>
Net amount recognized	<u>\$ 2,655,376</u>	<u>\$ 6,022,728</u>
Amounts not recognized as components of net periodic benefit cost consist of:		
Unrecognized prior service cost	\$ (297,110)	\$ (396,146)
Unrecognized net (gain) or loss	(2,320,211)	1,675,726
Unrecognized net transition obligation	<u>128,737</u>	<u>160,921</u>
Net amount not recognized	<u>\$ (2,488,584)</u>	<u>\$ 1,440,501</u>
Net periodic post retirement benefit expense for the year ended June 30 is comprised of the following:		
Service cost	\$ 183,367	\$ 163,444
Interest cost	401,278	336,085
Amortization of unrecognized net loss	<u>155,976</u>	<u>139,820</u>
Net periodic benefit cost	<u>\$ 740,621</u>	<u>\$ 639,349</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)

The University expects to contribute approximately \$190,000 to its postretirement plan in 2012. These payments have been estimated based on the same assumptions used to measure the University's benefit obligation. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30:	
2012	\$ 87,883
2013	87,358
2014	96,455
2015	94,376
2016	104,257
2017 - 2021	531,975

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2012, and the estimated benefit obligation at June 30, 2012 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1, 2011	\$ 2,655,376
Interest cost	138,245
Service cost	59,806
Actuarial gain	(215,183)
Expected benefits paid	<u>(71,855)</u>
Projected benefit obligation at June 30, 2012	<u>\$ 2,566,389</u>

The above assumptions and calculations are based on information as of June 30, 2011 and 2010, the measurement dates for the Plan. The accrued benefit cost represents the full obligation for the retirees and the current service cost for eligible employees at June 30, 2011. An 11% rate of increase in the per capita costs of covered health care benefits was initially assumed, decreasing 0.5% per year to an ultimate level of 5% beginning in 2018. Discount rates of 5.75% and 6.00% were used to determine the accumulated postretirement benefit obligation for 2011 and 2010, respectively.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2011, to approximately \$2,907,000 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2011 to approximately \$863,000.

It is reasonably possible that changes in these estimates could occur in the near term and that actual results could differ from these estimates and could have a material impact on the financial statements.

NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2011 and 2010, student loans represented 1.78% and 2.02% of total assets, respectively.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE (cont.)

At June 30, 2011 and 2010 student loans consisted of the following:

	2011	2010
Federal government programs	\$ 4,046,243	\$ 4,145,045
Institution programs	631,146	684,630
	<u>4,677,389</u>	<u>4,829,675</u>
Less allowance for doubtful accounts:		
Beginning of year	(346,365)	(346,365)
Write-offs	2,045	
End of year	<u>(344,320)</u>	<u>(346,365)</u>
Student loans receivable, net	<u>\$ 4,333,069</u>	<u>\$ 4,483,310</u>

Funds advanced by the Federal government of \$3,591,234 and \$3,595,505 at June 30, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At June 30, 2011 and 2010, the following amounts were past due under student loan programs:

	Amounts Past Due			
	Less than 240 days	Less than 2 years	More than 2 years	Total
June 30,				
2011	\$ 49,222	\$ -	\$ 222,305	\$ 271,527
2010	61,552	8,383	175,431	245,366

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 14 - ENDOWMENTS

The University's endowment consists of approximately 240 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The State of Washington adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective July 1, 2009. As a result of adopting the provisions of UPMIFA, the University reclassified \$12,538,793 of unrestricted net assets into temporarily restricted net assets which represents the amount of accumulated net gains in existence at June 1, 2009 that had not yet been appropriated for spending by the University's governing board. In addition, the University reclassified \$912,824 of unrestricted net assets into permanently restricted net assets which represents the amount of unrestricted net assets that under the University's interpretation of UPMIFA should be classified as permanently restricted net assets.

The University's governing board has interpreted the State of Washington enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the University has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classifications.

The remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, 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) The duration and preservation of the endowment fund
- (2) The purposes of the University and the endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation or deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the University
- (7) The investment policy of the University

The following table summarizes endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 27,692,857	\$ 60,689,982	\$ 88,382,839
Board-designated endowment funds	10,864,310			10,864,310
Total endowment net assets	\$ 10,864,310	\$ 27,692,857	\$ 60,689,982	\$ 99,247,149

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 14 - ENDOWMENTS (cont.)

The following table summarizes endowment net asset composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (741,079)	\$ 18,442,187	\$ 54,087,302	\$ 71,788,410
Board-designated endowment funds	<u>8,264,840</u>			<u>8,264,840</u>
Total endowment net assets	<u>\$ 7,523,761</u>	<u>\$ 18,442,187</u>	<u>\$ 54,087,302</u>	<u>\$ 80,053,250</u>

Change in endowment net assets for June 30, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2010	\$ 7,523,761	\$ 18,442,187	\$ 54,087,302	\$ 80,053,250
Investment return:				
Investment income (net of fees of \$450,000)	115,200	626,465		741,665
Net appreciation - realized and unrealized	<u>3,343,199</u>	<u>9,994,321</u>	<u>4,003,421</u>	<u>17,340,951</u>
Total investment return	3,458,399	10,620,786	4,003,421	18,082,616
Contributions	9,308	235,244	2,545,297	2,789,849
Transfers in and matured deferred gifts	287,426	282,185	53,962	623,563
Appropriation of endowment assets for expenditure	<u>(414,584)</u>	<u>(1,887,545)</u>		<u>(2,302,129)</u>
Endowment net assets, June 30, 2011	<u>\$ 10,864,310</u>	<u>\$ 27,692,857</u>	<u>\$ 60,689,982</u>	<u>\$ 99,247,149</u>

Change in endowment net assets for June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2009	\$ 19,794,950	\$ 3,374,245	\$ 50,753,921	\$ 73,923,116
Net asset reclassification based on change in law	<u>(13,451,617)</u>	<u>12,538,793</u>	<u>912,824</u>	
Endowment net assets after reclassification	6,343,333	15,913,038	51,666,745	73,923,116
Investment return:				
Investment income (net of fees of \$365,000)	50,816	513,803		564,619
Net appreciation - realized and unrealized	<u>402,743</u>	<u>3,920,818</u>	<u>474,383</u>	<u>4,797,944</u>
Total investment return	453,559	4,434,621	474,383	5,362,563
Contributions		22,201	563,430	585,631
Transfers in and matured deferred gifts	1,085,937	26,669	1,382,744	2,495,350
Appropriation of endowment assets for expenditure	<u>(359,068)</u>	<u>(1,954,342)</u>		<u>(2,313,410)</u>
Endowment net assets, June 30, 2010	<u>\$ 7,523,761</u>	<u>\$ 18,442,187</u>	<u>\$ 54,087,302</u>	<u>\$ 80,053,250</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 14 - ENDOWMENTS (cont.)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were zero and approximately \$741,000 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed 4.5% spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban consumers while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 8% to 9% annually. Actual returns in any year may vary from this amount.

Strategies Employed for Achieving Objectives - 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 capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year 4.5% of its endowment fund's average fair value over the prior three years through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4% to 5% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

As of July 1, 2011, the University modified its spending policy to a model that includes the Higher Education Price Index (HEPI) which requires annual adjustments based on changes in the costs of education.

NOTE 15 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011 and 2010

NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Interest paid (net of capitalized interest)	\$ 2,233,898	\$ 1,260,471
Capitalized interest	1,177,508	948,484
Noncash investing and financing activities		
Construction in progress included in accounts payable	1,086,771	2,131,562
Summary of bond issue		
Proceeds from bond issue		\$ 63,720,000
Discount		(654,231)
Reserve funds used for principal and interest payments on retired bonds		1,577,525
Funds deposited to escrow account for construction projects		(35,190,000)
Funds deposited to escrow account used for principal and interest payments on retired bonds		(24,600,388)
Funds deposited to escrow account for debt service reserves		(4,299,656)
Deferred debt acquisition costs paid from bond proceeds		(553,250)

NOTE 17 - ALLOCATION OF EXPENSES

Expenses by natural classification for the years ended June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Salaries and related costs	\$ 28,825,160	\$ 27,859,999
Benefits	7,100,952	6,777,507
Travel, professional development and cultivation	2,209,367	1,696,688
Materials and supplies	2,666,805	2,640,005
Maintenance of facilities and equipment	3,325,148	2,707,942
Utilities, insurance and taxes	3,545,425	3,363,130
Postage, print shop, board bill, general services	8,734,321	8,199,722
Interest	2,225,072	1,834,105
Depreciation, amortization and accretion	5,336,791	5,138,534
Other expenses	<u>152,859</u>	<u>110,885</u>
Total operating expenses	<u>\$ 64,121,900</u>	<u>\$ 60,328,517</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 18 - CONSOLIDATING STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position as of June 30, 2011 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
ASSETS				
Cash and cash equivalents	\$ 2,369,254	\$ 67,017	\$ 527,348	\$ 2,963,619
Note receivable (payable)	3,116,132	(3,116,132)		
Student accounts receivable, net	503,859			503,859
Contributions receivable, net	4,019,662			4,019,662
Other receivables	1,532,730	8,239		1,540,969
Inventories	540,300			540,300
Prepaid expenses and other assets	663,061			663,061
Student loans receivable, net	4,333,069			4,333,069
Long-term Investments	81,989,853		19,538,452	101,528,305
Deposits held by trustee	7,916,545			7,916,545
Deferred debt acquisition costs	519,280			519,280
Land, buildings and equipment	96,692,852	3,334,311		100,027,163
Assets held in trust by others	19,345,804			19,345,804
	<u>\$ 223,542,401</u>	<u>\$ 293,435</u>	<u>\$ 20,065,800</u>	<u>\$ 243,901,636</u>
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	\$ 2,942,269	\$ 75,221		\$ 3,017,490
Accrued payroll and related benefits	5,465,859			5,465,859
Student deposits	1,539,583			1,539,583
Deferred revenue	1,283,021			1,283,021
Asset retirement obligations	807,457			807,457
Accrued interest payable	846,102			846,102
Long-term debt	62,220,942			62,220,942
Annuities payable			\$ 11,216,404	11,216,404
Federal student loan funds	3,591,234			3,591,234
Total Liabilities	<u>78,696,467</u>	<u>75,221</u>	<u>11,216,404</u>	<u>89,988,092</u>
Net Assets				
Unrestricted	52,306,853	218,214	2,259,059	54,784,126
Temporarily restricted	30,844,965		256,551	31,101,516
Permanently restricted	61,694,116		6,333,786	68,027,902
Total Net Assets	<u>144,845,934</u>	<u>218,214</u>	<u>8,849,396</u>	<u>153,913,544</u>
Total Liabilities and Net Assets	<u>\$ 223,542,401</u>	<u>\$ 293,435</u>	<u>\$ 20,065,800</u>	<u>\$ 243,901,636</u>

NOTE 19 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 10, 2011 which is the date that the financial statements were issued.