

# **Whitworth University**

Consolidated Financial Statements

June 30, 2021 and 2020

# Whitworth University

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## **Independent Auditors' Report**

To the Board of Trustees of  
Whitworth University

We have audited the accompanying consolidated financial statements of Whitworth University and subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whitworth University and subsidiaries as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly US, LLP*

Minneapolis, Minnesota  
October 11, 2021

# Whitworth University

## Consolidated Statements of Financial Position

June 30, 2021 and 2020

(In Thousands of Dollars)

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,661	\$ 3,345
Receivables:		
Student accounts, net of allowance for doubtful accounts of \$402 in 2021 and \$384 in 2020	1,412	1,496
Contributions, net	10,224	5,124
Other	2,333	1,871
Other assets	2,292	2,041
Student loans receivable, net	2,297	2,906
Investments	214,431	170,910
Deposits held by trustee	8,471	20,008
Land, buildings and equipment, net	129,011	115,634
Assets held in trust by others	31,727	28,096
	<u>406,859</u>	<u>351,431</u>
Total assets	<u>\$ 406,859</u>	<u>\$ 351,431</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and other liabilities	\$ 4,287	\$ 3,527
Accrued payroll and related benefits	5,656	5,956
Student deposits	2,231	4,060
Deferred revenue	1,785	708
Service concession arrangement obligations	3,953	260
Asset retirement obligations	1,180	1,118
Accrued interest payable	1,097	1,114
Long-term debt	93,652	95,706
Annuities payable	8,465	7,861
Federal student loan funds	1,753	2,340
	<u>124,059</u>	<u>122,650</u>
Total liabilities	<u>124,059</u>	<u>122,650</u>
<b>Net Assets</b>		
Without donor restrictions	77,790	68,750
With donor restrictions	205,010	160,031
	<u>282,800</u>	<u>228,781</u>
Total net assets	<u>282,800</u>	<u>228,781</u>
Total liabilities and net assets	<u>\$ 406,859</u>	<u>\$ 351,431</u>

See notes to consolidated financial statements

**Whitworth University**

Consolidated Statement of Activities  
Year Ended June 30, 2021  
With Comparative Totals for 2020  
(In Thousands of Dollars)

	2021		2020
	Without Donor Restrictions	With Donor Restrictions	
<b>Revenues, Gains and Other Support</b>			
<b>Operating Revenues</b>			
Tuition and fees, net of scholarships and grants of \$59,382 and \$58,773, respectively	\$ 53,309		\$ 53,309
Government grants	6,756		6,756
Contributions and gifts	2,714	\$ 5,565	8,279
Long-term investment income and gains allocated for operations	615	4,123	4,738
Other sources	857		857
Investment returns	1,088		1,088
Auxiliary enterprises revenues	12,011		12,011
	77,350	9,688	87,038
Net assets released from restrictions, operating	5,091	(5,091)	
Total operating revenues, gains and other support	82,441	4,597	87,038
<b>Operating Expenses</b>			
Program expenses			
Instruction	30,683		30,683
Public service	1,031		1,031
Academic support	6,976		6,976
Student services	19,048		19,048
Auxiliary enterprises	10,429		10,429
Support expenses			
Institutional support	11,829		11,829
Allocable expenses			
Operation and maintenance of plant	5,869		5,869
Interest	3,644		3,644
Unfunded depreciation, amortization and accretion	5,913		5,913
Less allocated expenses	(15,426)		(15,426)
Total operating expenses	79,996		79,996
Change in net assets from operating activities	2,445	4,597	7,042
<b>Nonoperating Activities</b>			
Long-term investment income and net gains, net of amount allocated for operations	5,143	26,955	32,098
Change in value of assets held in trust by others		3,692	3,692
Contributions and gifts	357	8,195	8,552
Adjustment to actuarial liability for annuities payable	93	2,206	2,299
Other sources	10	118	128
Adjustment to prior service cost and actuarial liability for retiree health plan	208		208
Net assets released from restrictions, nonoperating	784	(784)	
Change in net assets from nonoperating activities	6,595	40,382	46,977
Change in net assets	9,040	44,979	54,019
<b>Net Assets, Beginning</b>	68,750	160,031	228,781
<b>Net Assets, Ending</b>	\$ 77,790	\$ 205,010	\$ 282,800
	\$ 228,781		\$ 228,781

See notes to consolidated financial statements

**Whitworth University**

Consolidated Statement of Activities

Year Ended June 30, 2020

(In Thousands of Dollars)

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>			
<b>Operating Revenues</b>			
Tuition and fees, net of scholarships and grants of \$58,773	\$ 53,033		\$ 53,033
Government grants	2,508		2,508
Contributions and gifts	2,578	\$ 717	3,295
Long-term investment income and gains allocated for operations	592	3,901	4,493
Other sources	1,288		1,288
Investment returns	1,922		1,922
Auxiliary enterprises revenues	11,692		11,692
	<u>73,613</u>	<u>4,618</u>	<u>78,231</u>
Net assets released from restrictions, operating	5,240	(5,240)	
	<u>78,853</u>	<u>(622)</u>	<u>78,231</u>
Total operating revenues, gains and other support	<u>78,853</u>	<u>(622)</u>	<u>78,231</u>
<b>Operating Expenses</b>			
Program expenses			
Instruction	32,762		32,762
Public service	1,609		1,609
Academic support	8,017		8,017
Student services	16,861		16,861
Auxiliary enterprises	10,594		10,594
Support expenses			
Institutional support	14,500		14,500
Allocable expenses			
Operation and maintenance of plant	6,791		6,791
Interest	3,671		3,671
Unfunded depreciation, amortization and accretion	5,519		5,519
Less allocated expenses	(15,981)		(15,981)
	<u>84,343</u>		<u>84,343</u>
Total operating expenses	<u>84,343</u>		<u>84,343</u>
Change in net assets from operating activities	(5,490)	(622)	(6,112)
<b>Nonoperating Activities</b>			
Long-term investment income and net gains, net of amount allocated for operations	105	(350)	(245)
Change in value of assets held in trust by others		6,082	6,082
Contributions and gifts	959	3,840	4,799
Adjustment to actuarial liability for annuities payable	21	14	35
Other sources	28	(15)	13
Adjustment to prior service cost and actuarial liability for retiree health plan	(128)		(128)
Net assets released from restrictions, nonoperating	3,784	(3,784)	
	<u>4,769</u>	<u>5,787</u>	<u>10,556</u>
Change in net assets from nonoperating activities	<u>4,769</u>	<u>5,787</u>	<u>10,556</u>
Change in net assets	(721)	5,165	4,444
<b>Net Assets, Beginning</b>	<u>69,471</u>	<u>154,866</u>	<u>224,337</u>
<b>Net Assets, Ending</b>	<u>\$ 68,750</u>	<u>\$ 160,031</u>	<u>\$ 228,781</u>

See notes to consolidated financial statements

**Whitworth University**

Consolidated Statements of Cash Flows  
Years Ended June 30, 2021 and 2020  
(In Thousands of Dollars)

	<u>2021</u>	<u>2020</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 54,019	\$ 4,444
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation, amortization and accretion	5,913	5,519
Adjustment to prior service cost and actuarial liability for retiree health plan	(208)	128
Adjustment to actuarial liability for annuities payable	(2,299)	41
Net gains on investments	(34,438)	(2,172)
Change in value of assets held in trust by others	(3,692)	(6,082)
Change in allowance on student accounts receivable	18	34
Loan cancellations, assignments and write-offs	71	107
Change in assets:		
Student accounts receivable	66	3
Other receivables	(462)	(811)
Other assets	(251)	690
Contributions receivable for operations	(3,464)	(32)
Change in liabilities:		
Accounts payable, other liabilities and accrued interest payable	(179)	1,226
Accrued payroll and related benefits	(92)	(432)
Student deposits	(1,829)	2,323
Deferred revenue	1,077	(874)
Contributions restricted for plant and long-term investment	(8,552)	(4,799)
Net cash flows from operating activities	<u>5,698</u>	<u>(687)</u>
<b>Cash Flows From Investing Activities</b>		
Student loans receivable		
Principal repayments	702	690
Advances	(164)	(302)
Purchases of land, buildings and equipment	(18,915)	(15,045)
Proceeds from sales of long-term investments	155,423	106,238
Purchases of long-term investments	(160,551)	(98,031)
Net cash flows from investing activities	<u>(23,505)</u>	<u>(6,450)</u>
<b>Cash Flows From Financing Activities</b>		
Contributions received restricted for plant and long-term investment	7,255	6,341
Service concession arrangement obligations	3,693	260
Drawdowns of debt proceeds/deposits held by trustee	11,537	2,494
Payments on long-term debt	(1,915)	(1,114)
Payments to annuitants	(860)	(857)
Net change in federal student loan funds	(587)	(874)
Net cash flows from financing activities	<u>19,123</u>	<u>6,250</u>
Net change in cash and cash equivalents	1,316	(887)
<b>Cash and Cash Equivalents, Beginning</b>	<u>3,345</u>	<u>4,232</u>
<b>Cash and Cash Equivalents, Ending</b>	<u>\$ 4,661</u>	<u>\$ 3,345</u>
<b>Supplemental Disclosures</b>		
Interest paid (net of capitalized interest)	<u>\$ 2,932</u>	<u>\$ 3,481</u>
Capitalized interest	<u>\$ 712</u>	<u>\$ 386</u>
Construction in progress included in accounts payable	<u>\$ 1,727</u>	<u>\$ 805</u>
<b>Summary of Bond Issue</b>		
Par amount of bonds issued		\$ 19,485
Net premium on bond issuance		989
Funds deposited to capital project fund escrow account		(20,000)
Funds deposited into capitalized interest fund		(219)
Funds used towards bond issuance costs		(255)

See notes to consolidated financial statements



# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

### 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 and investment earnings. 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, 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 19 for summarized financial information related to these entities. All 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 two 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:

**With Donor Restrictions** - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time. The University's net assets held in perpetuity are endowment funds invested to support scholarships and various academic programs.

**Without Donor Restrictions** - Net assets that are not subject to donor-imposed stipulations.

The Board of Trustees has established policies that affect the presentation of board designations on net assets without donor restrictions. Bequests without donor restrictions under \$250 are distributed to current unrestricted funds. By board approved policy, bequests without restrictions over \$250 are added to the board designated endowment. The same methodology is applied to matured deferred gifts. The board has designated other funds for future capital projects and related initiatives and has delegated to management the authority to approve expenditures of these funds.

Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in that category. Income earned on donor restricted funds is initially classified as net assets with donor restrictions and is reclassified to net assets without donor restrictions when expenses are incurred for their intended purpose.

Unconditional contributions, including 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 donor-imposed 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 two classes of net assets. Conditional promises to give are those with a measurable performance or other barrier and a right of return 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 revenues in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues in net assets with donor restrictions; the restrictions are considered to be met and released when the asset is placed in service, unless stipulated otherwise by the donor.

# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

Gains and losses on investments are reflected in the net asset category of the corresponding assets.

### Measure of Operations

Operating revenues and expenses relate primarily to educational programs and supporting activities, net assets released from donor restrictions to support operating expenditures, and transfers from board-designated and other non-operating funds to support current operating activities. Nonoperating activities consist primarily of investment returns in excess (less than) amounts made available for current support, via the University's spending policy, gifts for long-term purposes such as plant projects and endowment funds and gains or losses on debt financing transactions.

### Tuition and Fees Revenue

The University provides academic instruction toward baccalaureate degrees and master degrees. Tuition and fee revenue is recognized in the fiscal year in which the academic programs are delivered. Institutional scholarships awarded to students reduce the amount of revenue recognized. In addition, students who adjust their course load or withdraw completely within the first eight weeks of the semester may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized. Payments for services are due August 15<sup>th</sup> for Fall semester and January 15<sup>th</sup> for the Spring semester. Performance obligations for certain ancillary services are satisfied when the service is performed. The University applies the practical expedient as allowed for within the accounting standards and, therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less. All remaining performance obligations will be satisfied in connection with the completion of the 2021/2022 academic year. The University determines the transaction price based on standard charges for goods and services provided, reduced by discounts relating to institutional scholarships, both funded and unfunded, in accordance with the University's policies.

### Auxiliary Revenue

The University also provides auxiliary services, such as residence and food services. Revenue from these services is recognized in the fiscal year in which the goods and services are provided. Students that withdraw from the University within the first eight weeks of the semester may receive a partial refund in accordance with the University's refund policy. Refunds issued reduce the amount of revenue recognized.

### Government Grants

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 government grants are considered to be conditional contributions as the transactions are non-reciprocal in nature and contain a right of return. As such, revenues from grants are recognized when the conditions are met, that is as allowable expenditures under such agreements are incurred, and reported as increases in net assets without donor restrictions.

The Coronavirus Aid, Relief, and Economics Security (CARES) Act provided budgetary relief to higher education institutions. Congress set aside approximately \$14.25 billion of the \$30.75 billion allotted to the Education Stabilization Fund through the Higher Education Emergency Relief Fund (HEERF). Each institution received one grant comprised of two parts. Under the legislation, no less than 50 percent of the full grant was to be used for direct emergency aid to students. The remaining portion of the full grant was to be used by institutions to cover any costs associated with significant changes to the delivery of instruction due to the coronavirus. The University was awarded approximately \$2,840 of HEERF funding; \$1,420 related to the student portion and \$1,420 related to the institutional portion.

# Whitworth University

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## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

For fiscal 2020, \$712 of the student relief portion of the grant was disbursed to students and recognized as federal grant revenue, and correspondingly student services expense (grants to students for unanticipated costs). \$712 of the institutional portion of the grant was recognized as federal grants revenue in fiscal 2020. The remaining \$708 related to the student portion was recognized in fiscal year 2021 after disbursements were made to students. The remaining \$708 related to the institutional portion was also recognized as grant revenue in fiscal year 2021.

The HEERF II was authorized by the Coronavirus Response and Relief Supplemental Appropriations Act, 2021 and was signed into law on December 27, 2020. In total, the CRRSAA authorized \$82 billion in support for education. The University was awarded approximately \$4,295 of HEERF II funding. Of this amount, \$1,420 related to the student portion and \$2,875 related to the institutional portion. The entire amount of the student relief portion of the grant was expended and recognized as federal grants income and student aid expense in fiscal 2021. Similarly, the entire amount of the institutional portion of the grant was recognized as federal grants income in fiscal 2021.

The HEERF III was authorized by the American Rescue Plan and was signed into law on March 11, 2021. In total, the ARP authorized \$40 billion in support to institutes of higher education to serve students and ensure learning continues during the COVID-19 pandemic. The University was awarded approximately \$7,588 of HEERF III funding. Of this amount, \$3,795 related to the student portion and \$3,793 related to the institutional portion. As of June 30, 2021, none of the student relief portion and \$877 of the institutional portion of the grant were expended. In accordance with related accounting guidance, the amount recognized as revenue within the statement of activities for the institutional portion was limited to the amount that was utilized to date for the student portion.

### **Deferred Revenue**

Certain revenue related to summer courses and programs is deferred and recognized as revenue as the performance obligation is satisfied, that is, ratably over the duration of the summer course and program delivery. Students are generally billed for courses and programs prior to the start of the course or program.

### **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. Certain cash held by the University is restricted for the Perkins Loan Fund.

### **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.

### **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 short-term investments.

# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

### 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 five thousand dollars. 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	50 to 60 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.

### Impairment of Long-Lived Assets

The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. For the years ended June 30, 2021 and 2020, there were no impairment losses of significance recognized for long-lived assets.

### 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.

### 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 obligations.

# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

Changes in the accrual for asset retirement obligations during the years ended June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Balance, Beginning of the year	\$ 1,118	\$ 1,060
Abatements	-	-
Accretion expense	62	58
Balance, End of year	<u>\$ 1,180</u>	<u>\$ 1,118</u>

### Income Tax Status

The Internal Revenue Service has determined that both the University and Foundation are exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University and Foundation are not subject to federal income taxes except to the extent they generate income from certain activities not substantially related to their tax-exempt purpose (unrelated trade or business activities). 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, 2021 and 2020. The University's tax returns are subject to review and 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.

### Fund-Raising and Advertising Expenses

Fund-raising expenses totaled \$3,015 and \$2,611 for the years ended June 30, 2021 and 2020, 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 and in Note 19. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

### Reclassifications

Certain amounts appearing in the 2020 financial statements have been reclassified to conform with the 2021 presentation. The reclassifications have no effect on the reported amounts of total net assets or changes in total net assets.

# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

### New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is now effective for fiscal year 2021 with the one year deferral that was provided by the FASB given the pandemic disruption. The University adopted the pronouncement and determined it to have minimal impact on its consolidated financial statements.

### 2. Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include endowments and accumulated earnings restricted by donors or the University's Board of Trustees, bond reserves that can only be used for specific capital projects, assets held for or by others and annuity reserves.

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 4,661	\$ 3,345
Short-term investments	33,415	26,345
Contributions receivable	10,224	5,124
Accounts receivable from students and others	3,745	3,367
Student loan receivables	2,297	2,906
Long-term investments	181,016	144,565
Deposits held by trustee	8,471	20,008
Assets held in trust by others	<u>31,727</u>	<u>28,096</u>
Financial assets at June 30	<u>275,556</u>	<u>233,756</u>
Less those unavailable for general expenditure within one year:		
Contributions receivable for construction projects and endowments	4,583	4,623
Short-term investments held for plant and endowment	12,428	9,233
Receivables due beyond one year	1,014	859
Student loan receivables restricted for financial aid purposes	2,297	2,906
Endowment assets restricted by donors, net of appropriation for next year	147,622	112,369
Endowment assets designated by the Board of Trustees, net of appropriation for next year	18,858	15,528
Bond proceeds and reserves restricted by use	8,471	20,008
Investments held for others connected to split-interest agreements	18,531	16,321
Assets held in trust by others	<u>31,727</u>	<u>28,096</u>
Financial assets not available for expenditure within one year	<u>245,531</u>	<u>209,943</u>
Financial assets available to meet cash needs for general purposes within one year	<u>\$ 30,024</u>	<u>\$ 23,813</u>

# Whitworth University

## Notes to Consolidated Financial Statements

June 30, 2021 and 2020

(in thousands of dollars)

The University's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 60 days of operating expense coverage at any point in time. As of June 30, 2021, the University has achieved this target.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has an unsecured \$4,000 line of credit with Wells Fargo Bank currently available through January 2, 2022. No funds have been drawn from this line since its inception. Borrowings under this line of credit bear interest at an annual rate of 2.50 percent above the Daily One Month LIBOR in effect from time to time. Interest is payable on the last day of each month.

### 3. Restrictions and Limitations on Net Asset Balances

Net assets with donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Scholarships, instruction and other departmental support	\$ 7,365	\$ 2,712
Gifts restricted for capital acquisitions	6,030	1,571
Student loan funds	1,136	1,114
Endowment funds	183,349	149,018
Annuity, life income and similar funds	7,130	5,616
	<u>\$ 205,010</u>	<u>\$ 160,031</u>

Net assets without donor restrictions consist of the following at June 30:

	<u>2021</u>	<u>2020</u>
Operations	\$ 10,742	\$ 8,298
Plant	44,062	40,974
Endowment funds	19,858	16,228
Annuity, life income and similar funds	3,128	3,250
	<u>\$ 77,790</u>	<u>\$ 68,750</u>

### 4. Net Assets Released From Restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors totaled \$5,875 and \$9,024 during the years ended June 30, 2021 and 2020, respectively. The expenses related to capital expenditures (\$784 and \$3,784 for 2021 and 2020, respectively), scholarships, instruction and other departmental support (\$5,091 and \$5,240 for 2021 and 2020, respectively).

# Whitworth University

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### 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:

	<u>2021</u>	<u>2020</u>
Without donor restrictions, completed capital projects	\$ 1,355	\$ 1,414
Without donor restrictions, operating	335	501
With donor restrictions:		
Current scholarships, departmental programs and activities	4,488	873
Building construction and remodeling	2,934	1,073
Endowment for scholarships and departmental programs and activities	<u>1,649</u>	<u>1,901</u>
Gross unconditional promises to give	10,761	5,762
Less allowance for uncollectible promises	(400)	(400)
Less unamortized discount	<u>(137)</u>	<u>(238)</u>
Total	<u>\$ 10,224</u>	<u>\$ 5,124</u>
Amounts due in:	\$	
Within one	3,322	
One to five years	<u>7,439</u>	
	<u>\$ 10,761</u>	

Promises due in more than one year were discounted at rates ranging between 0.6 and 8 percent at June 30, 2021 and 2020. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately \$2,184 and \$3,245 as of June 30, 2021 and 2020, respectively. For the years ended June 30, 2021 and 2020, contributions (new pledges and cash gifts) from members of the Board of Trustees were approximately \$999 and \$1,390, respectively.

At June 30, 2021, the University had approximately \$7,652 of conditional contributions outstanding on various grants, whereby, the conditions will be met upon incurring certain qualifying expenditures. The majority of that total pertains to the HEERF funding described in Note 1.

### 6. Fair Value Measurements

#### Fair Value Hierarchy

Fair value is defined in the accounting 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 are 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.



Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 -Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

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 market-corroborated inputs.

Level 3 -Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

### Valuation Techniques and Inputs

Level 1 assets include:

- Investments in equity securities for which quoted prices are readily available.
- Investments in certain fixed income securities (U.S. Treasury notes) as they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis.
- Investments in mutual funds for which quoted prices are readily available.

Level 2 assets include:

- Investments in certain fixed income securities (corporate bonds and notes) for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs 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.

Level 3 assets include:

- Assets held in trust by others for which quoted prices are not readily available. The fair values are estimated using an income approach by calculating the present value of the future distributions expected to be received based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Since the University has an irrevocable right to receive the income earned from the trusts' assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets.

# Whitworth University

## Notes to Consolidated Financial Statements

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Alternative investments in privately-held investment funds are measured at fair value using the net asset value per share (or its equivalent) of such investment funds as a practical expedient for fair value. The University has estimated the fair value of privately-held investment funds by using the net asset value provided by the investee as of June 30.

There have been no changes in the techniques and inputs used as of June 30, 2021 and 2020.

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 information about the University's assets measured at fair value on a recurring basis as of June 30, 2021:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Equity securities	\$ 1,631	\$ 1,631	\$ -	\$ -
Fixed income securities	20,506	3,598	16,908	-
Global equity index	51,715	51,715	-	-
Mutual funds:				
Domestic equity	7,956	7,956	-	-
Domestic fixed income	32,273	32,273	-	-
International equity	33,327	33,327	-	-
International fixed income	2,036	2,036	-	-
Assets held in trust by others	31,727	-	-	31,727
Subtotal by valuation hierarchy	181,171	\$ 132,536	\$ 16,908	\$ 31,727
Alternative investments measured using net asset value	54,497			
Total assets at fair value	\$ 235,668			

# Whitworth University

## Notes to Consolidated Financial Statements

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The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2020:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Assets:</b>				
Equity securities	\$ 1,191	\$ 1,191	\$ -	\$ -
Fixed income securities	14,360	4,156	10,204	-
<b>Mutual funds:</b>				
Domestic equity	53,606	53,606	-	-
Domestic fixed income	21,881	21,881	-	-
International equity	23,457	23,457	-	-
International fixed income	2,119	2,119	-	-
Assets held in trust by others	28,096	-	-	28,096
		<u>106,410</u>	<u>10,204</u>	<u>28,096</u>
Subtotal by valuation hierarchy	144,710	<u>\$ 106,410</u>	<u>\$ 10,204</u>	<u>\$ 28,096</u>
Alternative investments measured using net asset value	44,980			
Total assets at fair value	<u>\$ 189,690</u>			

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2021:

	<u>Balances June 30, 2020</u>	<u>Unrealized Gains</u>	<u>Purchases and Additions</u>	<u>Sales and Distributions</u>	<u>Net Transfers in (Out) of Level 3</u>	<u>Balances June 30, 2021</u>
<b>Assets:</b>						
Assets held in trust by others	\$ 28,096	\$ 3,692	\$ -	\$ (61)	\$ -	\$ 31,727

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level assets still held at June 30, 2021.

\$ 3,692

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2020:

	<u>Balances June 30, 2019</u>	<u>Unrealized Gains</u>	<u>Purchases and Additions</u>	<u>Sales and Distributions</u>	<u>Net Transfers in (Out) of Level 3</u>	<u>Balances June 30, 2020</u>
<b>Assets:</b>						
Assets held in trust by others	\$ 21,701	\$ 6,082	\$ 405	\$ (92)	\$ -	\$ 28,096

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level assets still held at June 30, 2020.

\$ 6,082

# Whitworth University

## Notes to Consolidated Financial Statements

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The University uses the NAV as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value; and (b) prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2021 and 2020:

	Hedge Funds	Fixed Income	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2021	\$ 9,778	\$ 15,723	\$ 14,255	\$ 2,821	\$ 11,921
Fair value, June 30, 2020	7,977	12,077	14,717	949	9,260
Significant investment strategy	Low correlation to standard market indexes	The fund of funds vehicle expected to invest in commingled funds with portfolio managers that invest in securities, public and private debt, or bank loans	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 comingled 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	N.A.	N.A.	Minimum of 10 years	Minimum of 16 years	4 years
Dollar amount of unfunded commitments	N.A.	N.A.	\$ 1,175	\$ 487	\$ 5,049
Timing to draw down commitments	N.A.	N.A.	3 to 5 years	3 to 5 years	3 to 5 years
Redemption terms	N.A.	Daily	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 restriction in place	N.A.	N.A.	N.A.	N.A.	N.A.

## Whitworth University

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### 7. Investments and Deposits Held by Bond Trustee

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

	<u>2021</u>	<u>2020</u>
At fair value:		
Equity securities	\$ 1,631	\$ 1,191
Fixed income securities	20,506	14,359
Global equity index	51,715	-
Mutual funds:		
Domestic equity	7,956	53,606
Domestic fixed income	32,273	21,881
International equity	33,327	23,457
International fixed income	2,036	2,119
Alternative investments:		
Funds of funds:		
Fixed income	15,722	12,077
Hedge funds	9,778	7,977
Real assets	14,255	14,717
Limited partnerships	2,821	949
Private equity funds	11,921	9,260
	<u>203,941</u>	<u>161,593</u>
Total investments at fair value	203,941	161,593
At cost:		
Cash and short-term investments	15,219	25,673
Real estate	23	23
Single premium life insurance policy	168	166
Cash surrender value of life insurance policies	3,551	3,463
	<u>\$ 222,902</u>	<u>\$ 190,918</u>

Investments and deposits held by bond trustee are allocated as follows at June 30:

	<u>2021</u>	<u>2020</u>
Short-term investments	\$ 33,415	\$ 26,345
Long-term investments	181,016	144,565
Deposits held by trustee (Note 11)	8,471	20,008
	<u>\$ 222,902</u>	<u>\$ 190,918</u>
Total	\$ 222,902	\$ 190,918

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

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### 8. 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, 2021 and 2020, the insurance coverage aggregated approximately \$6,171 and \$6,167, respectively, and the cash surrender value totaled \$3,551 and \$3,463, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

### 9. Construction in Progress

At June 30, 2021, the following projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Funding Source</u>
Health science building	\$ 10,163	9/30/2022	Debt/Gifts
Facilities service building	4,283	9/30/2021	Debt
HUB building	202	9/30/2021	Debt/Gifts
Innovation lab	36	6/30/2023	Gifts
Dorms roofing	113	12/31/2021	Operations
	<u>\$ 14,797</u>		

Remaining commitments on signed construction contracts approximate \$7,000 as of June 30, 2021.

### 10. Land, Buildings and Equipment

Activity relating to land, buildings and equipment and the related accumulated depreciation amounts for the year ended June 30, 2021 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 4,934	\$ 699	\$ -	\$ 5,633
Buildings	162,255	5,036	(660)	166,631
Buildings and other improvements	28,043	839	-	28,882
Equipment	18,027	673	(25)	18,675
Construction in progress	2,206	12,591	-	14,797
	<u>215,465</u>	<u>19,838</u>	<u>(685)</u>	<u>234,618</u>
Less accumulated depreciation for:				
Buildings	(70,791)	(3,868)	230	(74,429)
Buildings and other improvements	(15,147)	(1,077)	-	(16,224)
Equipment	(13,893)	(1,086)	25	(14,954)
	<u>(99,831)</u>	<u>(6,031)</u>	<u>255</u>	<u>(105,607)</u>
Total accumulated depreciation	<u>(99,831)</u>	<u>(6,031)</u>	<u>255</u>	<u>(105,607)</u>
	<u>\$ 115,634</u>	<u>\$ 13,807</u>	<u>\$ (430)</u>	<u>\$ 129,011</u>

# Whitworth University

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Activity relating to land, buildings and equipment and the related accumulated depreciation amounts for the year ended June 30, 2020 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>
Land	\$ 4,934	\$ -	\$ -	\$ 4,934
Buildings	148,125	14,130	-	162,255
Buildings and other improvements	26,254	1,789	-	28,043
Equipment	18,074	481	(528)	18,027
Construction in progress	3,848	2,206	(3,848)	2,206
	<u>201,235</u>	<u>18,606</u>	<u>(4,376)</u>	<u>215,465</u>
Less accumulated depreciation for:				
Buildings	(67,660)	(3,131)	-	(70,791)
Buildings and other improvements	(14,342)	(805)	-	(15,147)
Equipment	(12,780)	(1,641)	528	(13,893)
Total accumulated depreciation	<u>(94,782)</u>	<u>(5,577)</u>	<u>528</u>	<u>(99,831)</u>
	<u>\$ 106,453</u>	<u>\$ 13,029</u>	<u>\$ (3,848)</u>	<u>\$ 115,634</u>

The University has pledged its property of the core campus located in Spokane, Washington to the repayment of its obligations under the loan agreements for the Series 2012, 2016 and 2019 Revenue Bonds (see Note 11).

## 11. Long-Term Debt

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

	<b>2021</b>	<b>2020</b>
Revenue Bonds, 2012 Series	\$ 17,225	\$ 17,545
Premium on 2012 Series Revenue Bonds	357	370
Revenue and Refunding Bonds, 2016 Series	54,445	56,040
Premium on 2016 Series Revenue and Refunding Bonds	1,988	2,089
Revenue Bonds, 2019 Series	19,485	19,485
Net premium on 2019 Series Revenue Bonds	894	958
	<u>94,394</u>	<u>96,487</u>
Less deferred debt acquisition costs, net	<u>(742)</u>	<u>(781)</u>
	<u>\$ 93,652</u>	<u>\$ 95,706</u>

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### 2012 Series Revenue Bonds

In February 2012, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2012 Revenue Bonds in the amount of \$19,500 and loan the proceeds to the University. The bonds were issued for the purpose of remodeling and expanding the dining facilities, building a new campus recreation center, residence hall design and furniture, various infrastructure projects, and updating certain underground steam distribution lines.

Interest is payable on the Series 2012 bonds semi-annually on each October 1 and April 1 at rates ranging from 3.00 percent to 5.25 percent. Serial bonds are payable in amounts ranging from \$320 to \$345 on October 1, 2020 through October 1, 2022. Term bonds in the amounts of \$2,000, \$2,565, \$3,310 and \$8,675 are due on October 1, 2027, 2032, 2037 and 2046, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2023 to 2046, in amounts varying from \$360 to \$1,180.

### 2016 Series Revenue and Refunding Bonds

In December 2016, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2016A Nontaxable Revenue and Refunding Bonds in the amount of \$47,660 and Series 2016B Taxable Refunding Revenue Bonds in the amount of \$12,875 and loan the proceeds to the University. The bonds were issued for the purpose of refinancing the outstanding balance of the Series 2009 bonds previously issued by the Authority and lent to the University in November 2009 and for the construction of a new athletics administration building and other facility improvements for the University. With respect to the Series 2009 bonds, proceeds from the 2016A and 2016B Series bonds were placed in an escrow account held to defease the Series 2009 bonds. In October 2019, the funds in the escrow account were used to defease the Series 2009 bonds in full.

Interest is payable on the Series 2016 bonds semi-annually on each October 1 and April 1 at rates ranging from 2.31 percent to 5.00 percent. Serial bonds are payable in amounts ranging from \$1,595 to \$3,435 on October 1, 2020 through October 1, 2036. Term bonds schedule to mature on October 1, 2040, which was the same term of the refunded 2009 Series bonds, are subject to mandatory sinking fund redemptions in the amounts of \$3,610, \$3,795, \$3,990 and \$4,195 on October 1, 2037, 2038, 2039 and 2040, respectively. The University was not required to establish a reserve fund for the 2016 Series bonds.

### 2019 Series Revenue Bonds

In December 2019, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2019 Revenue Bonds in the amount \$19,485 and loan the proceeds to the University. The bonds were issued for the purpose of design, construction, installation and furnishing of a new Health Science Building.

Interest is payable on the Series 2019 bonds semi-annually on each October 1 and April 1 at a fixed rate of 4.00 percent. Term bonds scheduled to mature on October 1, 2049, are subject to mandatory annual sinking fund redemptions in amounts ranging from \$1,475 on October 1, 2041 to \$3,365 on October 1, 2049. The University was not required to establish a reserve fund for the 2019 Series bonds.



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The University has pledged its unrestricted revenues and property of the core campus located in Spokane, Washington (see Note 10) to the repayment of its obligations under the loan agreements. As a condition of the issuance of the 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 held by trustee (Note 7) at June 30, 2021 include debt service reserves related to the Series 2012 bonds and of unspent bond proceeds for construction related to the Series 2019 bonds.

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2021 are:

	<u>Principal</u>
Years ending June 30,	
2022	\$ 1,985
2023	2,070
2024	2,165
2025	1,980
2026	2,380

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 \$255 and \$215 at June 30, 2021 and 2020, respectively.

## 12. 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 \$835 and \$956, respectively, as of June 30, 2021 and 2020.

# Whitworth University

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### 13. 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 \$1,327 and \$2,564 in 2021 and 2020, respectively. As a budgetary response to the ongoing pandemic, beginning January 1, 2021 the University decided to decrease the employer contribution by half to the defined contribution plan. The contributions will be restored to prior levels beginning in fiscal year 2022.

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. 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.

The University is 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. The University contributed approximately \$65 and \$245 annually to the VEBA plan in 2021 and 2020, respectively.

The following is a reconciliation of the benefit obligation, which is included in accrued payroll and related benefits on the statements of financial position, and the value of plan assets at June 30:

	<u>2021</u>	<u>2020</u>
Change in projected benefit obligation:		
Benefit obligation at July 1	\$ 2,008	\$ 1,880
Interest cost	52	73
Service cost	6	9
Actuarial loss (gain)	(200)	119
Estimated benefits paid	(66)	(73)
	<u>\$ 1,800</u>	<u>\$ 2,008</u>
Projected benefit obligation at June 30		
Change in plan assets:		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	35	72
Participant contribution	29	28
Actual benefits paid	(64)	(100)
	<u>\$ -</u>	<u>\$ -</u>
Fair value of plan assets at June 30		
Funded status:		
Underfunded status at June 30	<u>\$ (1,800)</u>	<u>\$ (2,008)</u>

## Whitworth University

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	<u>2021</u>	<u>2020</u>
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	\$ -	\$ -
Current liabilities	77	88
Noncurrent liabilities	<u>1,723</u>	<u>1,920</u>
Net amount recognized	<u>\$ 1,800</u>	<u>\$ 2,008</u>
Amounts not recognized as components of net periodic benefit cost consist of:		
Unrecognized prior service cost	\$ -	\$ -
Unrecognized net gain	(1,754)	(1,741)
Unrecognized net transition obligation	<u>-</u>	<u>-</u>
Net amount not recognized	<u>\$ (1,754)</u>	<u>\$ (1,741)</u>
Net periodic post-retirement benefit expense for the year ended June 30 is comprised of the following:		
Service cost	\$ 6	\$ 9
Interest cost	52	73
Net amortization and deferral	<u>(187)</u>	<u>(179)</u>
Net periodic benefit cost	<u>\$ (129)</u>	<u>\$ (97)</u>

The University expects to contribute approximately \$45 to its postretirement plan in 2022. 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:

Years ending June 30:	
2022	\$ 80
2023	81
2024	82
2025	83
2026	83
2027 - 2031	322

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2022, and the estimated benefit obligation at June 30, 2022 are as follows:

Change in projected benefit obligation:	
Benefit obligation at July 1, 2021	\$ 1,800
Interest cost	40
Service cost	6
Actuarial gain	-
Expected benefits paid	<u>(66)</u>
Projected benefit obligation at June 30, 2022	<u>\$ 1,780</u>

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The above assumptions and calculations are based on information as of June 30, 2021 and 2020, 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, 2021. A 9 percent rate of increase in the per capita costs of covered health care benefits was initially assumed, decreasing 0.5 percent per year to an ultimate level of 5 percent. A discount rate of 4 percent and 3.25 percent was used to determine the accumulated postretirement benefit obligation for 2021 and 2020, 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, 2021, to \$1,932 and the increase the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2021 to approximately \$116.

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 consolidated financial statements.

### 14. 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, 2021 and 2020, student loans receivable represented 0.57 percent and 0.87 percent of total assets.

The Extension Act amended section 461 of the Higher Education Act to end the University's authority to make new Perkins Loans after June 30, 2018. The University is not required to assign the outstanding Perkins Loans to the Department of Education or liquidate their Perkins Loan Revolving Funds due to the wind-down of the Perkins Loan Program. However, the University may choose to liquidate at any time in the future. As of June 30, 2021, the University continues to service the Perkins Loan Program.

At June 30, 2021 and 2020, student loans consisted of the following:

	<u>2021</u>	<u>2020</u>
Federal government programs	\$ 1,648	\$ 2,250
Institution program	955	962
	<u>2,603</u>	<u>3,212</u>
Less allowance for doubtful accounts:		
Beginning of year	(306)	(306)
Write-offs	<u>-</u>	<u>-</u>
End of year	<u>(306)</u>	<u>(306)</u>
Student loans receivable, net	<u>\$ 2,297</u>	<u>\$ 2,906</u>

Funds advanced by the Federal government of \$1,753 and \$2,340 at June 30, 2021 and 2020, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

# Whitworth University

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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, 2021 and 2020, the following amounts were past due under student loan programs:

	Amounts Past Due			Total
	Less Than 240 Days	Less Than 2 Years	More Than 2 Years	
June 30:				
2021	\$ 63	\$ -	\$ 1	\$ 64
2020	73	32	49	154

### 15. Endowments

The University's endowment consists of approximately 400 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 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.

## Whitworth University

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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 net assets with donor restrictions 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, 2021:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gifts	
Donor-restricted endowment funds	\$ -	\$ 79,263	\$ 104,086	\$ 183,349
Board-designated endowment funds	19,858	-	-	19,858
Total endowment net assets	<u>\$ 19,858</u>	<u>\$ 79,263</u>	<u>\$ 104,086</u>	<u>\$ 203,207</u>

The following table summarizes endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gifts	
Donor-restricted endowment funds	\$ -	\$ 51,978	\$ 97,040	\$ 149,018
Board-designated endowment funds	16,228	-	-	16,228
Total endowment net assets	<u>\$ 16,228</u>	<u>\$ 51,978</u>	<u>\$ 97,040</u>	<u>\$ 165,246</u>



## 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 the 4.5 percent 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 7 percent to 9 percent 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 approximately 4.5 percent 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. The University's spending policy follows a model that includes the Higher Education Price Index (HEPI) which requires annual adjustments based on changes in the costs of education. Actual spending in any given year may vary from the calculated appropriation based on factors such as market conditions, student eligibility, as well as spending policies of other organizations controlling outside trusts. 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 percent to 5 percent 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.

## 16. Concentrations

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. The University had significant outstanding pledges from one donor totaling approximately 58 percent and one donor totaling approximately 18 percent of contributions receivable, as of June 30 2021 and 2020, respectively. As of June 30, 2021 and 2020, the University had an investment of \$51,715 and \$39,591 respectively, which were concentrated in one fund.

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

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### 17. Related Party Transactions

The University has been conducting business transactions with Avista Utilities for many years; in April 2011, an officer of Avista Utilities was selected as a member of the University Board of Trustees. The University paid approximately \$1,249 and \$1,265 to Avista Utilities for electricity and natural gas during the years ended June 30 2021 and 2020, respectively.

### 18. Expenses by Natural and Functional Classification

The University's primary service is academic instruction. Expenses included within student services and auxiliaries are incurred in support of the primary service activities. Natural expenses that relate to more than one functional expense category, such as interest and depreciation, are allocated based on factors such as square footage.

Expenses by natural and functional classification for the year ended June 30, 2021 were as follows:

	<b>Academic Instruction, Research and Support</b>	<b>Student Services and Auxiliaries</b>	<b>Administration</b>	<b>Total</b>
Salaries and wages	\$ 22,324	\$ 9,157	\$ 5,628	\$ 37,109
Benefits	5,334	2,123	2,174	9,631
Travel, professional development and cultivation	102	462	56	620
Materials and supplies	1,037	359	67	1,463
Maintenance of facilities and equipment	1,513	2,192	1,522	5,227
Utilities, insurance and taxes	1,934	1,614	717	4,265
General services, postage, print shop, board bill	2,151	6,681	1,125	9,957
Student emergency grants	-	2,129	-	2,129
Interest	1,622	1,799	223	3,644
Depreciation, amortization and accretion	2,635	2,913	365	5,913
Other expenses	38	48	(48)	38
Total expenses	<u>\$ 38,690</u>	<u>\$ 29,477</u>	<u>\$ 11,829</u>	<u>\$ 79,996</u>

## Whitworth University

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Expenses by natural and functional classification for the year ended June 30, 2020 were as follows:

	<b>Academic Instruction, Research and Support</b>	<b>Student Services and Auxiliaries</b>	<b>Administration</b>	<b>Total</b>
Salaries and wages	\$ 23,267	\$ 8,868	\$ 6,460	\$ 38,595
Benefits	6,500	2,175	2,642	11,317
Travel, professional development and cultivation	575	1,139	698	2,412
Materials and supplies	1,092	302	68	1,462
Maintenance of facilities and equipment	1,827	1,574	1,760	5,161
Utilities, insurance and taxes	1,962	1,584	775	4,321
General services, postage, print shop, board bill	2,935	6,632	1,509	11,076
Student emergency grants	-	712	-	712
Interest	1,677	1,769	226	3,672
Depreciation, amortization and accretion	2,526	2,647	346	5,519
Other expenses	27	53	16	96
Total expenses	<u>\$ 42,388</u>	<u>\$ 27,455</u>	<u>\$ 14,500</u>	<u>\$ 84,343</u>

# Whitworth University

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### 19. Consolidating Information

The consolidated information as of June 30, 2021 is presented below:

	<u>Whitworth University</u>	<u>Whitworth Costa Rica Limited</u>	<u>Foundation</u>	<u>Total</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 4,551	\$ 23	\$ 87	\$ 4,661
Student accounts receivable, net	1,412	-	-	1,412
Contributions receivable, net	10,224	-	-	10,224
Other receivables	2,332	1	-	2,333
Other assets	1,292	1,000	-	2,292
Student loans receivable, net	2,297	-	-	2,297
Short term investments	33,415	-	-	33,415
Long term investments	162,485	-	18,531	181,016
Deposits held by trustee	8,471	-	-	8,471
Land, buildings and equipment, net	129,011	-	-	129,011
Assets held in trust by others	31,727	-	-	31,727
	<u>387,217</u>	<u>1,024</u>	<u>18,618</u>	<u>406,859</u>
Total assets	<u>\$ 387,217</u>	<u>\$ 1,024</u>	<u>\$ 18,618</u>	<u>\$ 406,859</u>
<b>Liabilities and Net Assets:</b>				
Accounts payable and other liabilities	\$ 4,286	\$ 1	\$ -	\$ 4,287
Accrued payroll and related benefits	5,656	-	-	5,656
Student deposits	2,231	-	-	2,231
Deferred revenue	1,785	-	-	1,785
Service concession arrangement obligations	3,953	-	-	3,953
Asset retirement obligations	1,180	-	-	1,180
Accrued interest payable	1,097	-	-	1,097
Long-term debt	93,652	-	-	93,652
Annuities payable	-	-	8,465	8,465
Federal student loan funds	1,753	-	-	1,753
	<u>115,593</u>	<u>1</u>	<u>8,465</u>	<u>124,059</u>
Total liabilities	<u>115,593</u>	<u>1</u>	<u>8,465</u>	<u>124,059</u>
<b>Net Assets:</b>				
Without donor restrictions	73,639	1,023	3,128	77,790
With donor restrictions	197,985	-	7,025	205,010
	<u>271,624</u>	<u>1,023</u>	<u>10,153</u>	<u>282,800</u>
Total net assets	<u>271,624</u>	<u>1,023</u>	<u>10,153</u>	<u>282,800</u>
Total liabilities and net assets	<u>\$ 387,217</u>	<u>\$ 1,024</u>	<u>\$ 18,618</u>	<u>\$ 406,859</u>

## Whitworth University

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#### 20. Department of Education Financial Responsibility Information

The Department of Education (ED) revised the regulations for financial responsibility which are required to be implemented for reports issued after July 1, 2020. The regulations require the University to provide additional disclosures, including a financial responsibility supplemental schedule, to assist ED in measuring financial responsibility through the composite score of financial ratios. The financial responsibility supplemental schedule must contain all financial elements required to calculate the composite score ratios, with a cross-reference to the financial statement line or note that contains the element.

Note 10 provides information on the University's land, buildings, and equipment, net, but does not provide a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of land, buildings, and equipment, net, at June 30, 2021 based on the July 1, 2019 implementation date.

Pre-implementation:		
Land, buildings, and equipment, net at June 30, 2020	\$	97,085
Less depreciation		(5,523)
Less disposals		(471)
		<u>91,091</u>
Total pre-implementation land, buildings and equipment, net at June 30, 2021		<u>91,091</u>
Post-implementation with debt:		
Land, buildings, and equipment, net, with outstanding debt for original purchase at June 30, 2020		-
Plus additions		735
Less depreciation		(32)
		<u>703</u>
Total post-implementation land, buildings and equipment, net, with debt at June 30, 2021		<u>703</u>
Post-implementation without debt:		
Land, buildings, and equipment, net, without debt for original purchase at June 30, 2020		16,343
Plus additions		6,512
Less depreciation		(435)
		<u>22,420</u>
Total post-implementation land, buildings and equipment, net, without debt at June 30, 2021		<u>22,420</u>
Construction in progress		<u>14,797</u>
Total land, buildings and equipment, net, at June 30, 2021	\$	<u><u>129,011</u></u>

## Whitworth University

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Note 11 provides information on the University's long-term debt, but does not provide a breakout by the implementation date of July 1, 2019. The following table provides a breakdown of long-term debt for long-term purposes, at June 30, 2021 based on the July 1, 2019 implementation date.

Pre-implementation:	
Long-term debt for long-term purposes, July 1, 2020	\$ 75,698
Less current year repayments and amortization	<u>(1,991)</u>
Long-term debt, pre-implementation at June 30, 2021	<u>73,707</u>
Post-implementation with debt:	
Debt issued in fiscal 2020 for capital projects spanning fiscal years 2021 and 2022 (includes \$8,471 in unspent debt proceeds that remains in escrow at June 30, 2021 with the balance being related to amounts spent and reflected in construction in progress)	19,242
Debt issued in fiscal 2020 used for capital additions in fiscal year 2021	<u>703</u>
Long-term debt, post-implementation at June 30, 2021	<u>19,945</u>
Total long-term debt at June 30, 2021	<u>\$ 93,652</u>

Notes 3 and 15 provide information on the University's breakdown of net assets with either time or purpose restrictions. The following table provides a breakdown of those net assets with donor restrictions at June 30, 2021.

Scholarships, instruction and department support (Note 3)	\$ 6,394
Gifts restricted for capital acquisition (Note 3)	6,745
Student loan funds (Note 3)	1,392
Accumulated gains – endowment funds (Note 15)	<u>79,263</u>
Net assets with donor restrictions – time or purpose	<u>\$ 93,794</u>

## 21. Subsequent Events

The University has evaluated subsequent events through October 11, 2021, which is the date that the financial statements were issued.