WHITWORTH COLLEGE

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

June 30, 2007 and 2006

WHITWORTH COLLEGE

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Virchow Krause & company

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Whitworth College (which will operate as Whitworth University effective July 1, 2007) as of June 30, 2007 and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Whitworth College for the year ended June 30, 2006 were audited by other auditors whose report dated September 1, 2006 expressed an unqualified opinion on those statements.

We conducted our audit 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 College'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 audit provides 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 College at June 30, 2007 and the changes in its net assets and their cash flow for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, Whitworth College adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2007 and adopted the provisions of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, in 2006.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
October 8, 2007

WHITWORTH COLLEGE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

ASSETS

	2007	2006
Cash and cash equivalents	$ 15,299,850	$ 6,757,502
Receivables		
Student accounts, net of allowance for doubtful accounts of $152,000 in 2007 and $125,000 in 2006	681,621	474,365
Contributions, net	4,868,708	4,451,059
Loans	112,930	100,656
Other	771,420	385,071
Inventories	488,813	551,275
Prepaid expenses and other assets	394,991	567,988
Student loans receivable, net of allowance for doubtful accounts of $347,700 in 2007 and 2006	4,388,570	4,249,684
Long-term investments	98,236,461	81,932,987
Deferred debt acquisition costs	1,038,404	452,566
Land, buildings and equipment, net	53,056,135	50,466,577
Assets held in trust by others	19,062,168	17,998,080
TOTAL ASSETS	$ 198,400,071	$ 168,387,810

LIABILITIES AND NET ASSETS

	2007	2006
LIABILITIES		
Checks in excess of bank balance	$ 94,383	$ 98,548
Accounts payable and other liabilities	1,651,042	2,107,249
Accrued payroll and related benefits	8,767,619	5,614,105
Student deposits	875,229	551,960
Deferred revenue	1,227,152	1,076,274
Asset retirement obligations	664,291	440,364
Accrued interest payable	306,270	177,867
Long-term debt and capital lease obligation	26,576,968	14,458,473
Line of credit		2,500,000
Annuities payable	13,193,844	11,962,379
Federal student loan funds	3,647,995	3,629,272
Total Liabilities	57,004,793	42,616,491
NET ASSETS		
Unrestricted		
Undesignated	461,078	2,342,149
Net investment in property and equipment	33,694,063	30,785,393
Board designated	36,797,743	29,164,002
Total unrestricted	70,952,884	62,291,544
Temporarily restricted	10,817,599	10,885,166
Permanently restricted	59,624,795	52,594,609
Total Net Assets	141,395,278	125,771,319
TOTAL LIABILITIES AND NET ASSETS	$ 198,400,071	$ 168,387,810

See accompanying notes to financial statements.

WHITWORTH COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2007 and Comparative Totals for 2006

	2007				2006
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2006 Total
REVENUES					
Tuition and fees	$ 48,928,530			$ 48,928,530	$ 44,968,175
Less: Scholarships and grants	(17,196,318)			(17,196,318)	(16,326,454)
Net tuition and fees	31,732,212			31,732,212	28,641,721
Auxiliary enterprises revenues	9,309,338			9,309,338	8,575,872
Government grants	938,475			938,475	810,731
Contributions and gifts	3,108,265	$ 1,956,370	$ 5,055,240	10,119,875	8,825,143
Investment income	2,935,691	481		2,936,172	2,311,274
Other income	1,600,680		32,569	1,633,249	1,465,220
Change in value of beneficial interest in split-interest agreements			(2,034,241)	(2,034,241)	(2,962,701)
Net gains on investments	7,872,484	755,459	3,976,618	12,604,561	7,358,067
	57,497,145	2,712,310	7,030,186	67,239,641	55,025,327
Net assets released from restrictions	2,779,877	(2,779,877)			
Total Revenues	60,277,022	(67,567)	7,030,186	67,239,641	55,025,327
EXPENSES					
Program expenses					
Instruction	20,581,630			20,581,630	18,652,295
Public service	735,785			735,785	778,867
Academic support	4,400,024			4,400,024	4,325,087
Student services	6,928,655			6,928,655	6,125,198
Auxiliary enterprises	8,697,312			8,697,312	7,463,913
Support expenses					
Institutional support	8,030,483			8,030,483	8,127,683
Allocable expenses					
Operation and maintenance of plant	3,676,553			3,676,553	3,816,483
Interest	816,564			816,564	739,126
Depreciation, amortization and accretion	4,295,567			4,295,567	3,555,539
Less: Allocated expenses	(8,788,684)			(8,788,684)	(8,111,148)
Total Expenses	49,373,889			49,373,889	45,473,043
Change in net assets before cumulative effect of change in accounting principle and before effect of adoption of FASB Statement No. 158	10,903,133	(67,567)	7,030,186	17,865,752	9,552,284
Cumulative effect of change in accounting principle					(417,406)
Effect of adoption of FASB Statement No. 158	(2,241,793)			(2,241,793)	
Change in Net Assets	8,661,340	(67,567)	7,030,186	15,623,959	9,134,878
NET ASSETS - Beginning of Year	62,291,544	10,885,166	52,594,609	125,771,319	116,636,441
NET ASSETS - END OF YEAR	$ 70,952,884	$ 10,817,599	$ 59,624,795	$ 141,395,278	$ 125,771,319

See accompanying notes to financial statements.

WHITWORTH COLLEGE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and fees	$ 44,968,175			$ 44,968,175
Less: Scholarships and grants	(16,326,454)			(16,326,454)
Net tuition and fees	28,641,721			28,641,721
Auxiliary enterprises revenues	8,575,872			8,575,872
Government grants	810,731			810,731
Contributions and gifts	2,549,618	$ 1,169,717	$ 5,105,808	8,825,143
Investment income	2,311,274			2,311,274
Other income	1,485,972		(20,752)	1,465,220
Change in value of beneficial interest in split-interest agreements	57,946	(87,952)	(2,932,695)	(2,962,701)
Net gains on investments	4,904,247	672,270	1,781,550	7,358,067
	49,337,381	1,754,035	3,933,911	55,025,327
Net assets released from restrictions	1,602,912	(1,602,912)		
Total Revenues	50,940,293	151,123	3,933,911	55,025,327
EXPENSES				
Program expenses				
Instruction	18,652,295			18,652,295
Public service	778,867			778,867
Academic support	4,325,087			4,325,087
Student services	6,125,198			6,125,198
Auxiliary enterprises	7,463,913			7,463,913
Support expenses				
Institutional support	8,127,683			8,127,683
Allocable expenses				
Operation and maintenance of plant	3,816,483			3,816,483
Interest	739,126			739,126
Depreciation, amortization and accretion	3,555,539			3,555,539
Less: Allocated expenses	(8,111,148)			(8,111,148)
Total Expenses	45,473,043			45,473,043
Change in net assets before cumulative effect of change in accounting principle	5,467,250	151,123	3,933,911	9,552,284
Cumulative effect of change in accounting principle	(417,406)			(417,406)
Change in Net Assets	5,049,844	151,123	3,933,911	9,134,878
NET ASSETS - Beginning of Year	57,241,700	10,734,043	48,660,698	116,636,441
NET ASSETS - END OF YEAR	$ 62,291,544	$ 10,885,166	$ 52,594,609	$ 125,771,319

See accompanying notes to financial statements.

WHITWORTH COLLEGE

Consolidated Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 15,623,959	$ 9,134,878
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Cumulative effect of change in accounting principle		417,406
Effect of adoption of FASB Statement No. 158	2,241,793	
Depreciation, amortization and accretion	4,093,932	3,555,539
Increase in asset retirement obligations	201,635	
Actuarial adjustment on annuities payable	2,598,408	3,387,095
Net gains on investments	(12,604,561)	(7,358,067)
Increase in allowance on student receivables	27,000	(14,912)
Loan cancellations, assignments and writeoffs	64,472	135,547
Loss from sale of property	226,913	44,003
(Increase) decrease in assets		
Student accounts receivables	(234,256)	(55,495)
Loans and other receivables	(398,623)	96,271
Inventories, prepaid expenses and other assets	235,459	(202,083)
Contributions receivable for operations	406,907	(261,405)
Increase (decrease) in liabilities		
Accounts payable, other liabilities and accrued interest payable	377,654	285,481
Accrued payroll and related benefits	911,721	708,563
Student deposits	323,269	(66,875)
Deferred revenue	150,878	156,539
Contributions restricted for plant and long-term investment	(6,635,491)	(5,175,380)
Net Cash Flows From Operating Activities	7,611,069	4,787,105
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	732,688	894,577
Advances	(936,046)	(818,633)
Purchases of land, buildings and equipment	(7,555,169)	(9,693,612)
Purchases of long-term investments, net	(4,763,001)	(5,005,438)
Net Cash Flows From Investing Activities	(12,521,528)	(14,623,106)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	5,810,935	4,602,731
Increase (decrease) in checks in excess of bank balance	(4,165)	70,960
Proceeds from line of credit		2,500,000
Repayments on line of credit	(2,500,000)	
Proceeds from issuance of long-term debt	12,896,487	
Payments on long-term debt and capital lease obligation	(777,992)	(759,812)
Payments for deferred debt acquisition costs	(624,238)	
Payments to annuitants	(1,366,943)	(1,399,252)
Net change in federal student loan funds	18,723	(8,016)
Net Cash Flows From Financing Activities	13,452,807	5,006,611
Net Change in Cash and Cash Equivalents	8,542,348	(4,829,390)
CASH AND CASH EQUIVALENTS - Beginning of Year	6,757,502	11,586,892
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,299,850	$ 6,757,502

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Whitworth College (which will operate as Whitworth University effective July 1, 2007), 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 College'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.

Consolidation - The consolidated financial statements include the accounts of Whitworth College and Whitworth Foundation (the Foundation), collectively referred to as the "College". The purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth College. Transactions between these entities are eliminated upon consolidation. See Note 17 for summarized financial information related to the Foundation. All material transactions and balances between Whitworth College and the Foundation have been eliminated in the consolidated financial statements.

General - These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the College as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classifying net assets and transactions into three classes: net assets permanently restricted, temporarily restricted or unrestricted, as follows:

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. 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.

Contributions of assets other than cash are recorded at their estimated fair value at date of the gift.

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

Income and net gains on investments of endowment and similar funds are reported as follows:

- as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- as increases in unrestricted net assets in all other cases.

Losses from investments of endowment and similar funds are reported as decreases in temporarily restricted net assets to the extent of prior accumulated earnings with the remainder reflected as reductions to unrestricted net assets.

Certain long-lived assets, such as the College's real estate assets, are reviewed for impairment in value whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. In performing the review, if the fair value, less selling costs, from the disposition of the asset is less than its carrying value, an impairment loss is recognized.

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the College has adopted the following accounting policies:

Reporting as Temporarily Restricted Revenues - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment - Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed in service.

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

Student Accounts Receivables - Student accounts receivables include amounts due to the College 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. Receivables are generally unsecured.

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

Contributions Receivable - Gifts, bequests and unconditional promises to give are recorded as contribution receivables and revenues. Contributions received are distinguished for each net asset category in accordance with donor-imposed restrictions. Contributions received, including unconditional promises, are recognized as revenue when the donor commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances for collectibility (fair value). Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, discounted at an appropriate interest rate. Conditional promises to give are not included as support until the conditions are substantially met.

Gifts obtained by the Foundation are recorded at market value at the date of gift. The donors can receive either annuity or trust income from the properties during their lifetime. When an annuity gift is received, the present value of the annuity payable is recorded as a contribution. The actuarial present values of annuities payable are determined by applying actuarial assumptions to reflect the time value of money (through discounts for interest), and the probability of payment (by means of decrements such as death or trust maturities), between the valuation date and the expected dates of payment. Following the death of the donors or the maturity of the trust agreement, the remaining interest in the properties is available for use by the College.

Gifts of irrevocable trust funds that are held by others for the benefit of the College are recorded as net assets of the College.

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.

Student Loans Receivables - Loans receivable from students, representing advances for undergraduate and graduate loan programs, are stated net of an allowance for doubtful accounts. The allowance is intended to provide for the principal and interest portions of loans which may not be collected from borrowers in repayment status as well as from borrowers who are not yet in repayment status (still enrolled in school or in grace period following graduation). These estimated uncollectible amounts can be affected by changes in the borrower's economic circumstances. As a result of these changes, it is reasonably possible that the allowance for doubtful accounts could change in the near term.

Deferred Debt Issuance Costs - Certain costs related to the issuance of debt have been deferred and are being amortized over the term of the debt issue, using the effective interest rate method.

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

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 College capitalizes land, buildings, and equipment expenditures in excess of $5,000. Title to land and buildings is principally in the name of the College or Foundation.

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.

The College reviews its property and equipment assets for impairment in value whenever events or circumstances indicate that the carrying value may not be recoverable. In performing the review, if expected future undiscounted cash flows from the use of the asset or the fair value, less selling costs, from the disposition of the asset is less than its carrying value, an impairment loss is recognized.

Deferred Revenue - Deferred revenue consists of payments from students that are to be carried over to the following year. The revenue is recognized in future periods when earned.

Asset Retirement Obligations - On July 1, 2005, the College adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations.* FIN No. 47 clarifies that the term "conditional asset retirement obligation," as used in SFAS No. 143, *Accounting for Asset Retirement Obligations.* This interpretation refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the institution. The College has asbestos and other hazardous materials within buildings that qualify for asset retirement obligations. Prior to the adoption of FIN No. 47, the College recorded costs incurred to remediate asset retirement obligations as a current period expense. As a result of FIN No. 47, the College is required to recognize a liability and corresponding asset for the fair value of a conditional asset retirement obligation when the obligation is incurred. The liability is accreted to the date of settlement of the obligation and the asset is depreciated over the life of the related asset. Adjustments for changes resulting from the passage of time and changes to either the timing or amount of the original present value estimate underlying the obligation will be made in the year incurred.

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

The College owns certain buildings that contain encapsulated asbestos material. An expense of $417,406 was recorded in the June 30, 2006 financial statements for asbestos clean-up costs as a cumulative effect of a change in accounting principle as required by FIN 47.

The estimate of the losses that are probable from environmental remediation liabilities for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the College's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The College utilized a credit-adjusted risk-free rate to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have an impact on the financial statements.

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.

Revenue Recognition - Tuition, room and board and student fee revenues are recognized in the period in which the services are provided. Grant revenue, for exchange transactions, is recognized either when the services are provided or when the funds are expended.

Income Tax Status - The Internal Revenue Service has determined that the College and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. They are also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

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 College records financial instruments at cost, with the exception of investments which are reflected in the financial statements at market value and those items received as gifts which are valued at fair value at the date of gift. The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, deposits held in custody for others, accounts payable and accrued liabilities and deposits approximate fair value because of the short maturity of these financial instruments. The carrying amount of contributions receivable is recorded using appropriate discount rates. The beneficial interest in perpetual trusts is reported at fair value of the trust assets.

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

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 annuities payable is based on life expectancies, quoted market prices, and the present value discount included in the carrying amount. The carrying amounts of long-term debt approximate fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Investments in securities traded on national or international securities exchanges are carried at fair value based on values provided by external investment managers or quoted market values. Investments in hedge funds, private equity funds, real estate funds, fund of funds and similar nonmarketable equity interests consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are valued utilizing the most current information provided by the general partner or investment manager. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments and other pertinent information. Where applicable, independent appraisers are utilized to assist in the valuation. These values are determined under the direction of, and subject to approval by, management and the Investment Committee of Whitworth College.

The preparation of financial statements requires management to make estimates and assumptions about the effects of matters that are inherently uncertain. The accounting policies considered potentially significant in this respect are the valuation of the hedge funds, private equity funds, real estate funds, fund of funds and similar nonmarketable equity interests. Values for these instruments are often estimated using techniques such as discounted cash flow analysis and comparisons to similar instruments. Estimates developed using these methods are subjective and require judgment regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that appropriately reflect market and credit risks. Estimates, by their nature, are based on judgment and available information. Changes in assumptions could have a significant effect on the fair value of the instruments. Actual results could differ from these estimates and could have a material impact on the financial statements.

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled $2,784,000 and $2,734,000 for the years ended June 30, 2007 and 2006, 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.

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

Postretirement Benefits - In September 2006, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158). SFAS No. 158 amends SFAS No. 87, 88, 106 and 132(R). This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur in unrestricted net assets. Accordingly, the College must record an additional liability of $2,241,793 for the unfunded status of its postretirement plan. SFAS No. 158 is effective for fiscal years ending after June 15, 2007.

Reclassifications - Certain prior year amounts have been reclassified to conform with the June 30, 2007 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2007	2006
Endowment funds	$ 48,528,347	$ 41,996,078
Student loan funds	848,223	815,654
Annuity, life income and similar funds	10,248,225	9,782,877
	$ 59,624,795	$ 52,594,609

Temporarily restricted net assets consist of the following at June 30, 2007 and 2006:

	2007	2006
Gifts and other unexpended revenues and gains		
Available for:		
Scholarships, instruction and other departmental support	$ 1,191,878	$ 1,461,140
Acquisition of buildings and equipment	5,890,120	4,642,305
Long-term investment funds	3,735,581	4,781,721
	$ 10,817,599	$ 10,885,166

NOTE 3 - 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:

	2007	2006
Acquisition of land, building and equipment	$ 952,685	$ 574,748
Scholarships, instruction and other departmental support	1,827,192	1,028,164
	$ 2,779,877	$ 1,602,912

These assets were reclassified to unrestricted net assets.

NOTE 4 - 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:

	2007	2006
Unrestricted	$ 34,428	$ 411,375
Unrestricted - completed construction projects	488,046	2,652,608
Current scholarships, departmental programs and activities	315,403	346,108
Endowment for scholarships and departmental programs and activities	486,466	1,382,398
Building construction and remodeling	4,224,538	81,098
Gross unconditional promises to give	5,548,881	4,873,587
Less: Unamortized discount	(680,173)	(422,528)
Net contributions receivable	$ 4,868,708	$ 4,451,059
Amounts due in:		
Within one year	$ 1,502,930	$ 1,669,521
One to five years	3,365,778	2,776,138
After five years		5,400
	$ 4,868,708	$ 4,451,059

Promises due in more than one year were discounted at an interest rate of 5% and 4.375% at June 30, 2007 and 2006, respectively. Promises due in less than one year were not discounted.

NOTE 5 - LONG TERM INVESTMENTS

The carrying values of long-term investments at June 30 were as follows:

	2007	2006
At market value:		
Corporate stocks and bonds and mutual funds	$ 72,671,609	$ 62,644,455
Certificates of deposit	1,200,000	1,175,039
At estimated market value:		
Alternative investments		
Funds of hedge funds	13,863,024	8,965,782
Private equity funds	1,045,492	569,855
Commodities funds	1,602,603	1,841,221
At cost:		
Real estate	4,181,155	3,186,903
Receivables, collateralized by real estate, bearing interest at 6% to 10%	443,758	463,803
Single premium life insurance policy	119,453	113,990
Annuity contracts	9,615	8,786
Cash surrender value of life insurance policies, net of policy loans	3,099,752	2,963,153
	$ 98,236,461	$ 81,932,987

The College's total return on investments includes the following for the years ended June 30:

	2007	2006
Investment income	$ 2,936,172	$ 2,311,274
Net realized and unrealized gains on investments held at fair market value	12,604,561	7,430,190
Net realized gain (loss) on investments held at cost		(72,123)
	$ 15,540,733	$ 9,669,341

The College's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the College with a long-term asset mix that balances its long-term return goals with an appropriate level of risk.

Investment income is shown net of investment fees of $144,000 and $121,000 for the years ended June 30, 2007 and 2006, respectively.

NOTE 6 - LIFE INSURANCE POLICIES

The College 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, 2007 and 2006, the insurance coverage aggregated approximately $7,081,950 and $7,397,515, respectively, and the cash surrender value totaled $3,099,752 and $2,963,152, respectively. Premium payments are required to be made by the donor to continue coverage to the maturity dates.

NOTE 7 - CONSTRUCTION IN PROGRESS

At June 30, 2007, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
Whitworth Drive Project	$ 4,160	6/30/2008	Gifts/Debt
BJ Renovations	4,335	9/30/2007	Operations
Visual Arts - Construction	767,893	8/31/2008	Gifts
Southwest Recreational Fields	177,079	11/30/2007	Gifts/Operations
Underground Primary Feeder Replacement	220,524	11/30/2007	Operations
Science Bldg - Arch/Engineering Costs	85,522	11/30/2007	Debt
	$ 1,259,513		

Remaining commitments on signed construction contracts totaled $9,100,000 as of June 30, 2007.

NOTE 8 - LAND, BUILDINGS AND EQUIPMENT

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

	2007	2006
Land	$ 2,622,023	$ 2,520,898
Buildings	64,427,204	55,027,552
Buildings and other improvements	11,335,682	10,129,953
Equipment	22,172,497	20,475,011
Construction in progress	1,259,513	7,348,161
	101,816,919	95,501,575
Less: Accumulated depreciation	(48,760,784)	(45,034,998)
	$ 53,056,135	$ 50,466,577

NOTE 9 - LONG-TERM DEBT

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

	2007	2006
Revenue Bonds - 1998 Series	$ 9,070,000	$ 9,680,000
Revenue Bonds - 2001 Series	4,500,000	4,600,000
Revenue Bonds - 2006 Series	12,850,000	
Discount on 1998 Series Revenue Bonds	(124,966)	(130,847)
Premium on 2006 Series Revenue Bonds	45,867	
	$ 26,340,901	$ 14,149,153

NOTE 9 - LONG-TERM DEBT (cont.)

Revenue Bonds Payable - The Series 1998, 2001 and 2006 Revenue Bonds, in the original amount of $14,255,000, $5,000,000 and $12,850,000, were issued through the Washington Higher Education Facilities Authority (WHEFA) in December 1998, October 2001 and September 2006, respectively. As a condition of the issuance of the bonds, the College has agreed to certain covenants for the protection of bond owners, including maintaining Unrestricted Net Assets equal to at least .85 times outstanding indebtedness. Also, the College may not incur any additional indebtedness in an aggregated outstanding amount exceeding $1,000,000 unless the College maintains (i) Debt Service Ratio not greater than 0.1:1.00 and (ii) following the incurrence of any additional indebtedness, the ratio of Unrestricted Net Assets to Indebtedness (as defined) will be at least .85:1.00. At June 30, 2007, the College was in compliance with these covenants. Real and personal property of the College collateralize the bonds.

Series 1998 Revenue Bonds - The loan agreements with WHEFA require the College to maintain a specific debt rating on the Series 1998 Revenue Bonds. Therefore, the College has purchased a bond insurance policy, which enhances the credit rating of the 1998 Bonds to meet the Authority's requirement. MBIA Insurance Corporation insured the 1998 Bonds.

Principal payments on the 1998 Bonds are due annually while interest is due biannually. The last payment is due October 1, 2028. Interest accrues at rates ranging from 4.25% to 5.0%.

The 1998 Bonds maturing on or before October 1, 2008, are not subject to optional redemption. The 1998 Bonds maturing on or after October 1, 2009, are subject to redemption at the option of the College, in whole or in part, on October 1, 2008, or on any date thereafter, at a price equal to 100% of the principal amount of such bonds to be redeemed plus accrued interest to the redemption date.

The College held certain funds from the 1998 Bond proceeds in deposits with trustees at June 30, 2007 and 2006. These funds are required by the loan agreement to be held on reserve and are included within investments on the statements of financial position.

Series 2001 Revenue Bonds - Principal and interest payments on the 2001 Revenue Bond are due biannually. The last payment is due April 1, 2015. The 2001 Bond is also subject to redemption at the option of the College. Interest accrues at a rate of 5.20%.

Series 2006 Revenue Bonds - Principal payments are due annually commencing October 1, 2008, and interest is due biannually in April and October, commencing April 1, 2007. Interest accrues at rates ranging from 3.80% to 4.50%.

Maturities of debt outstanding are as follows for the fiscal years ending June 30: 2008 - $740,000; 2009 - $1,070,000; 2010 - $1,095,000; 2011 - $1,115,000 and 2012 - $1,145,000.

NOTE 10 - CAPITAL LEASE OBLIGATION

The College leases furniture under a capital lease expiring in the year 2010. Amortization expense for these assets totaled $68,750 for each of the years ended June 30, 2007 and 2006, respectively. The equipment obtained through the lease is included in equipment in the financial statements. Capitalized cost and accumulated amortization for the equipment at June 30 is as follows:

	2007	2006
Equipment	$ 550,000	$ 550,000
Less: Accumulated amortization	(275,000)	(206,250)
	$ 275,000	$ 343,750

The following is a schedule of future minimum lease payments under the capital lease together with the present value of the minimum lease payments as of June 30, 2007:

Year ending June 30:	
2008	$ 83,706
2008	83,706
2010	83,706
Total minimum lease payments	251,118
Less: Amount representing interest	(15,051)
Present value of minimum lease payments	$ 236,067

NOTE 11 - LINE OF CREDIT

The College has two unsecured lines of credit available from US Bank for operating and working capital purposes. The lines of credit are a revolving $1,500,000 line and a revolving step-down $2,500,000 line which will go down to $2,000,000 by January 31, 2009. Outstanding balances under the lines of credit accrue interest at prime rate (8.25% as of June 30, 2007) less 0.5%. During 2007, the College repaid draw downs of $2,500,000 which were outstanding as of June 30, 2006 and did not utilize the lines of credit.

NOTE 12 - SPLIT INTEREST AGREEMENTS

The College'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 College 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 College or another beneficiary or beneficiaries.

NOTE 12 - SPLIT INTEREST AGREEMENTS (cont.)

Most of the Foundation's agreements consist of irrevocable charitable remainder trusts and charitable gift annuities. Donors may impose restrictions on the College'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 a 6% discount rate in calculating the present values. The actuarial assumptions that were applied in the calculations conform to those required by the Washington State Insurance Regulations, and management believes that they represent sound and appropriate assumptions in accordance with generally accepted actuarial standards. Changes in actuarial assumptions could have a significant effect on the College's financial condition and statement of activities.

NOTE 13 - EMPLOYEE BENEFIT PLANS

The College 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 College contributes a fixed percentage of each participant's salary to the plan. The College's contribution to this plan was approximately $1,316,000 and $1,164,000 in 2007 and 2006, respectively.

In addition to providing pension benefits, the College pays a portion of the premiums for certain health care benefits provided to selected retired employees who reach retirement age while working for the College. Effective June 1, 2002, certain retired employees are required to contribute a portion of the cost of their medical insurance coverage. The College accrues for these benefits over the service lives of the employees rather than expense the cost of premiums as they are paid.

The College accounts for its postretirement benefits other than pensions in accordance with Statement of Financial Accounting Standards (SFAS) No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* In 2007, the College adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* for the disclosure of its postretirement benefits. SFAS No. 158 requires the recognition of the unfunded status of each postretirement benefit plan as a liability on the College's statement of financial position. The initial impact of SFAS No. 158 due to previously unrecognized actuarial gains and losses and prior service costs is reflected as a cumulative change in accounting principle in the statement of activities.

The College measures postretirement plan obligations as of June 30.

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

Accumulated postretirement benefit obligation components and the incremental effect of applying SFAS No. 158 on the statement of financial position are as follows for the year ended June 30:

	After Application of SFAS No. 158	Before Application of SFAS No. 158	
	2007	2007	2006
Active employees	$ (2,740,373)	$ (2,740,373)	$ (2,128,189)
Current retirees	(2,384,494)	(2,384,494)	(2,194,215)
Accumulated postretirement benefit obligation	(5,124,867)	(5,124,867)	(4,322,404)
Unrecognized prior service cost	–	(693,256)	(792,292)
Unrecognized net loss	–	2,677,579	2,454,113
Unrecognized transition obligation	–	257,474	289,658
Accrued postretirement benefit obligation	$ (5,124,867)	$ (2,883,070)	$ (2,370,925)

The above accrued postretirement benefit obligation is included in accrued payroll and related benefits on the statements of financial position.

The following is a reconciliation of the benefit obligation and the value of plan assets at June 30, 2007:

Change in projected benefit obligation	
Benefit obligation at July 1	$ 4,322,404
Interest cost	320,662
Service cost	132,533
Actuarial loss	507,168
Benefits paid	(157,900)
Projected benefit obligation at June 30	$ 5,124,867
Change in plan assets	
Fair value of plan assets at July 1	$ –
Employer contribution	157,900
Participant contribution	48,348
Benefits paid	(206,248)
Fair value of plan assets at June 30	$ –

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

Net periodic post retirement benefit expense for the year ended June 30, 2007 is comprised the following:

Service cost	$ 132,533
Interest cost	320,662
Amortization of transition obligation	32,184
Amortization of prior service cost	(99,037)
Amortization of unrecognized net loss	283,546
Net periodic benefit cost	$ 669,888

The College expects to contribute $169,477 to its postretirement plan in 2008. These payments have been estimated based on the same assumptions used to measure the College's benefit obligation. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30,	
2008	$ 169,477
2009	176,673
2010	182,059
2011	187,518
2012	202,400
2013 - 2017	1,120,358

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2008, and the estimated benefit obligation at June 30, 2008 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1	$ 5,124,867
Interest cost	303,889
Service cost	134,351
Actuarial loss	(167,460)
Expected benefits paid	(169,477)
Projected benefit obligation at June 30	$ 5,226,170

The above assumptions and calculations are based on information as of June 30, 2007 and 2006, 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, 2007. A 11.0% rate of increase in the per capita costs of covered health care benefits was assumed at June 30, 2007, decreasing 0.5% per year to an ultimate level of 5.0% beginning in 2018. A discount rate of 6.25% was used to determine the accumulated postretirement benefit obligation for both 2007 and 2006.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2007, to approximately $3,449,533 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2007 to approximately $715,053.

NOTE 14 - ALLOCATION OF EXPENSES

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

	2007	2006
Salaries and related costs	$ 22,288,551	$ 20,912,740
Benefits	6,442,392	5,373,256
Travel, professional development and cultivation	1,414,421	1,190,175
Materials and supplies	1,577,420	2,178,765
Maintenance of facilities and equipment	2,877,890	2,673,212
Utilities, insurance and taxes	2,771,328	2,555,767
Postage, print shop, board bill, general services	6,770,998	6,189,503
Interest	816,564	739,127
Depreciation, amortization and accretion	4,295,567	3,532,581
Other expenses	118,758	127,917
Total operating expenses	$ 49,373,889	$ 45,473,043

NOTE 15 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the College to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, and accounts receivable. The College places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of credit exposure to any one financial institution: however, cash balances periodically exceed federally insured limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Student receivables and other receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the College'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 College's programs and activities.

NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	2007	2006
Interest paid	$ 688,161	$ 746,390
Capitalized interest	401,703	
Noncash investing and financing activities		
Construction in progress included in accounts payable	359,955	1,065,413

NOTE 17 - WHITWORTH FOUNDATION

The consolidated statements of financial position, activities and cash flows include the accounts of the Foundation. Summarized financial information with respect to the Foundation as of June 30 is as follows:

	2007	2006
Cash and cash equivalents	$ 986,267	$ 470,508
Inter-fund receivable		500,000
Contributions receivable	151	156
Investments		
Corporate stocks and bonds	18,498,972	18,904,223
Real estate	2,695,600	1,693,750
Receivables, collateralized by real estate	42,447	44,804
Annuity contracts	9,615	8,786
Cash surrender value of life insurance policies, net of policy loans	3,099,752	2,963,153
Total assets	$ 25,332,804	$ 24,585,380
Annuities payable	$ 13,193,844	$ 11,962,379
Total liabilities	$ 13,193,844	$ 11,962,379
Net assets:		
Unrestricted	$ 1,621,537	$ 1,356,433
Temporarily restricted	269,198	1,483,691
Permanently restricted	10,248,225	9,782,877
Total liabilities and net assets	$ 25,332,804	$ 24,585,380