

WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

June 30, 2008 and 2007

WHITWORTH UNIVERSITY

TABLE OF CONTENTS

Independent Auditors' Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3 - 4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 24



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Whitworth University and The Whitworth Foundation (the "University") as of June 30, 2008 and 2007 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whitworth University and The Whitworth Foundation at June 30, 2008 and 2007 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, Whitworth University adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, in 2007.

Virchow, Krause & Company, LLP

Minneapolis, Minnesota
October 6, 2008

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2008 and 2007

ASSETS		
	2008	2007
Cash and cash equivalents	\$ 10,363,503	\$ 15,205,467
Receivables		
Student accounts, net of allowance for doubtful accounts of \$165,000 in 2008 and \$152,000 in 2007	739,067	681,621
Contributions, net	4,829,532	4,868,708
Loans	100,579	112,930
Other	767,814	771,420
Inventories	641,728	488,813
Prepaid expenses and other assets	422,472	394,991
Student loans receivable, net of allowance for doubtful accounts of \$344,000 in 2008 and \$348,000 in 2007	4,516,618	4,388,570
Long-term investments	101,133,276	98,236,461
Deferred debt acquisition costs	987,516	1,038,404
Land, buildings and equipment, net	60,627,828	53,056,135
Assets held in trust by others	17,985,572	19,062,168
TOTAL ASSETS	\$ 203,115,505	\$ 198,305,688
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 2,695,032	\$ 1,651,042
Accrued payroll and related benefits	8,387,873	8,767,619
Student deposits	649,664	875,229
Deferred revenue	1,672,534	1,227,152
Asset retirement obligations	737,363	664,291
Accrued interest payable	294,277	306,270
Long-term debt and capital lease obligation	25,763,721	26,576,968
Annuities payable	11,826,961	13,193,844
Federal student loan funds	3,654,574	3,647,995
Total Liabilities	55,681,999	56,910,410
NET ASSETS		
Unrestricted		
Undesignated	1,429,091	461,078
Designated for investment in property and equipment	6,182,427	7,574,851
Investment in property and equipment	33,570,295	26,119,212
Board designated	40,358,561	36,797,743
Total unrestricted	81,540,374	70,952,884
Temporarily restricted	5,550,243	10,817,599
Permanently restricted	60,342,889	59,624,795
Total Net Assets	147,433,506	141,395,278
TOTAL LIABILITIES AND NET ASSETS	\$ 203,115,505	\$ 198,305,688

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2008 and Comparative Totals for 2007

	2008			Total	2007 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUES					
Tuition and fees	\$ 53,963,757			\$ 53,963,757	\$ 48,928,530
Less: Scholarships and grants	(19,184,443)			(19,184,443)	(17,196,318)
Net tuition and fees	34,779,314			34,779,314	31,732,212
Auxiliary enterprises revenues	9,864,821			9,864,821	9,309,338
Government grants	821,507			821,507	938,475
Contributions and gifts	2,515,470	\$ 875,209	\$ 3,691,583	7,082,262	10,119,875
Investment income	2,917,126	570		2,917,696	2,936,172
Other income	2,050,119		34,365	2,084,484	1,633,249
Change in value of beneficial interest in split-interest agreements	357,845		(415,902)	(58,057)	(2,034,241)
Net gains (losses) on investments	4,549,981	210,958	(2,591,952)	2,168,987	12,604,561
	57,856,183	1,086,737	718,094	59,661,014	67,239,641
Net assets released from restrictions	6,354,093	(6,354,093)			
Total Revenues	64,210,276	(5,267,356)	718,094	59,661,014	67,239,641
EXPENSES					
Program expenses					
Instruction	22,012,462			22,012,462	20,231,630
Public service	793,695			793,695	735,785
Academic support	4,095,131			4,095,131	4,400,024
Student services	7,939,346			7,939,346	7,278,655
Auxiliary enterprises	9,096,678			9,096,678	8,697,312
Support expenses					
Institutional support	9,685,474			9,685,474	8,030,483
Allocable expenses					
Operation and maintenance of plant	4,496,805			4,496,805	3,676,553
Interest	1,176,064			1,176,064	816,564
Depreciation	4,113,035			4,113,035	4,033,236
Amortization	50,888			50,888	38,404
Accretion	73,072			73,072	223,927
Less: Allocated expenses	(9,909,864)			(9,909,864)	(8,788,684)
Total Expenses	53,622,786			53,622,786	49,373,889
Change in net assets before effect of adoption of FASB Statement No. 158	10,587,490	(5,267,356)	718,094	6,038,228	17,865,752
Effect of adoption of FASB Statement No. 158					(2,241,793)
Change in Net Assets	10,587,490	(5,267,356)	718,094	6,038,228	15,623,959
NET ASSETS - Beginning of Year	70,952,884	10,817,599	59,624,795	141,395,278	125,771,319
NET ASSETS - END OF YEAR	\$ 81,540,374	\$ 5,550,243	\$ 60,342,889	\$ 147,433,506	\$ 141,395,278

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES				
Tuition and fees	\$ 48,928,530			\$ 48,928,530
Less: Scholarships and grants	<u>(17,196,318)</u>			<u>(17,196,318)</u>
Net tuition and fees	31,732,212			31,732,212
Auxiliary enterprises revenues	9,309,338			9,309,338
Government grants	938,475			938,475
Contributions and gifts	3,108,265	\$ 1,956,370	\$ 5,055,240	10,119,875
Investment income	2,935,691	481		2,936,172
Other income	1,600,680		32,569	1,633,249
Change in value of beneficial interest in split-interest agreements			(2,034,241)	(2,034,241)
Net gains on investments	<u>7,872,484</u>	<u>755,459</u>	<u>3,976,618</u>	<u>12,604,561</u>
	57,497,145	2,712,310	7,030,186	67,239,641
Net assets released from restrictions	<u>2,779,877</u>	<u>(2,779,877)</u>		
Total Revenues	<u>60,277,022</u>	<u>(67,567)</u>	<u>7,030,186</u>	<u>67,239,641</u>
EXPENSES				
Program expenses				
Instruction	20,231,630			20,231,630
Public service	735,785			735,785
Academic support	4,400,024			4,400,024
Student services	7,278,655			7,278,655
Auxiliary enterprises	8,697,312			8,697,312
Support expenses				
Institutional support	8,030,483			8,030,483
Allocable expenses				
Operation and maintenance of plant	3,676,553			3,676,553
Interest	816,564			816,564
Depreciation	4,033,236			4,033,236
Amortization	38,404			38,404
Accretion	223,927			223,927
Less: Allocated expenses	<u>(8,788,684)</u>			<u>(8,788,684)</u>
Total Expenses	<u>49,373,889</u>			<u>49,373,889</u>
Change in net assets before effect of adoption of FASB Statement No. 158	10,903,133	(67,567)	7,030,186	17,865,752
Effect of adoption of FASB Statement No. 158	<u>(2,241,793)</u>			<u>(2,241,793)</u>
Change in Net Assets	8,661,340	(67,567)	7,030,186	15,623,959
NET ASSETS - Beginning of Year	<u>62,291,544</u>	<u>10,885,166</u>	<u>52,594,609</u>	<u>125,771,319</u>
NET ASSETS - END OF YEAR	<u>\$ 70,952,884</u>	<u>\$ 10,817,599</u>	<u>\$ 59,624,795</u>	<u>\$ 141,395,278</u>

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

Consolidated Statements of Cash Flows Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,038,228	\$ 15,623,959
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Effect of adoption of FASB Statement No. 158		2,241,793
Depreciation	4,113,035	4,033,236
Amortization	50,888	38,404
Accretion	73,072	223,927
Actuarial adjustment on annuities payable	45,637	2,598,408
Net gains on investments	(2,168,987)	(12,604,561)
Increase in allowance on student accounts receivable	13,000	27,000
Decrease in allowance on student loans receivable	(4,000)	
Loan cancellations, assignments and write-offs	68,728	64,472
Loss from sale of property		226,913
(Increase) decrease in assets		
Student accounts receivable	(70,446)	(234,256)
Loans and other receivables	15,957	(398,623)
Inventories, prepaid expenses and other assets	(180,396)	235,459
Contributions receivable for operations	159,077	406,907
Increase (decrease) in liabilities		
Accounts payable, other liabilities and accrued interest payable	98,140	377,654
Accrued payroll and related benefits	(379,746)	911,721
Student deposits	(225,565)	323,269
Deferred revenue	445,382	150,878
Contributions restricted for plant and long-term investment	(4,324,570)	(6,635,491)
Net Cash Flows From Operating Activities	3,767,434	7,611,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	569,093	732,688
Advances	(761,869)	(936,046)
Purchases of land, buildings and equipment	(10,750,871)	(7,555,169)
Proceeds from sales of long-term investments	29,308,231	28,135,694
Purchases of long-term investments	(28,959,463)	(32,898,695)
Net Cash Flows From Investing Activities	(10,594,879)	(12,521,528)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	4,204,669	5,810,935
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	(813,247)	(777,992)
Payments for deferred debt acquisition costs		(624,238)
Payments to annuitants	(1,412,520)	(1,366,943)
Net change in federal student loan funds	6,579	18,723
Net Cash Flows From Financing Activities	1,985,481	13,456,972
Net Change in Cash and Cash Equivalents	(4,841,964)	8,546,513
CASH AND CASH EQUIVALENTS - Beginning of Year	15,205,467	6,658,954
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 10,363,503	\$ 15,205,467

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation - The consolidated financial statements include the accounts of Whitworth University and The Whitworth Foundation (the Foundation), collectively referred to as the "University". The purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. 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 University 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 University 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 University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

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

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

Revenues 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.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

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.

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the University 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 University 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 University has both the ability and intent to hold long-term.

Student Accounts Receivables - Student accounts receivables include amounts due to the University for tuition and fees and are carried at the unpaid balance of the original amount billed to students. The receivables are less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written-off when deemed uncollectible. Recoveries of student accounts receivable previously written-off are recorded when received. Receivables are generally unsecured.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007

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 University.

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

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.

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 under the Federal Perkins loan program and is recognized as it is charged. Perkins student loans receivable 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 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.

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.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

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 University capitalizes land, buildings, and equipment expenditures in excess of \$5,000. Title to land and buildings is principally in the name of the University 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 University 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 - Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets.

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 University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation. It is reasonably possible that changes in this estimate could occur and that actual results could differ from this estimate and could have a significant effect 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.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008 and 2007

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

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 University 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 carrying amounts of cash and cash equivalents, accounts receivable and other receivables, amounts held for others, accounts payable and deposits are reasonable estimates of fair value due to the short-term maturity of these financial instruments. The carrying amounts of trust receivables and beneficial interest in funds held in trust are recorded using appropriate discount rates. The beneficial interest in perpetual trusts is reported at fair value of the trust assets.

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 annuities payable are 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 marketable securities are recorded at fair value. The values of publicly traded fixed income, equity securities and mutual funds are based on values provided by external investment managers or quoted market prices and exchange rates, if applicable.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

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

Assets held by other trustees, hedge funds, commodities, real estate investment trusts, private equity and limited partnerships are recorded based on estimated fair values. Methods for determining estimated fair values included discounted cash flows and estimates provided by trustees and general partners. The estimated fair value of certain of the limited partnerships and hedge fund investments is based on valuations provided by external investment managers as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through June 30. The University believes the carrying amounts of these investments are a reasonable estimate of fair value. Because these investments are not readily marketable, their estimated fair value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Such differences could be material.

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

Other investments are carried at cost.

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. The University's discounted market value of those assets was \$17,985,572 and \$19,062,168 as of June 30, 2008 and 2007, respectively.

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled \$3,040,000 and \$2,809,000 for the years ended June 30, 2008 and 2007, 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.

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 University recorded an additional liability of \$2,241,793 for the unfunded status of its postretirement plan during the year ended June 30, 2007.

Reclassifications - Certain prior year amounts have been reclassified to conform with the June 30, 2008 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

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

New Accounting Pronouncements - In July 2006, The FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes and requires financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 for nonpublic enterprises with conduit or public debt. The University has evaluated the implications of FIN 48, and has determined that there is no material impact on the University's financial statements.

In February 2007, the FASB issued Statement on Financial Accounting Standards No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. Certain specified items are eligible for the irrevocable fair value measurement option as established by SFAS 159. SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The University is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The University has not yet completed its analysis of the effects of this interpretation and has not determined if the adoption of SFAS 157 will have a material impact on the financial statements.

In August 2008, the FASB issued FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures*. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. FSP 117-1 is effective for financial statements issued for fiscal years ending after December 15, 2008. The University is currently evaluating the impact that the adoption of this Statement will have on its net assets.

In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*. This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. The University is currently evaluating the impact that the adoption of this Statement will have on its financial position, results of operations and cash flows.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 2 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	<u>2008</u>	<u>2007</u>
Endowment funds	\$ 51,640,271	\$ 48,528,347
Student loan funds	882,588	848,223
Annuity, life income and similar funds	<u>7,820,030</u>	<u>10,248,225</u>
	<u>\$ 60,342,889</u>	<u>\$ 59,624,795</u>

Temporarily restricted net assets consist of the following at June 30, 2008 and 2007:

Gifts and other unexpended revenues and gains		
Available for:		
Scholarships, instruction and other departmental support	\$ 955,032	\$ 1,191,878
Acquisition of buildings and equipment	815,851	5,890,120
Long-term investment funds	<u>3,779,360</u>	<u>3,735,581</u>
	<u>\$ 5,550,243</u>	<u>\$ 10,817,599</u>

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:

	<u>2008</u>	<u>2007</u>
Acquisition of land, building and equipment	\$ 5,707,257	\$ 952,685
Scholarships, instruction and other departmental support	<u>646,836</u>	<u>1,827,192</u>
	<u>\$ 6,354,093</u>	<u>\$ 2,779,877</u>

These assets were reclassified to unrestricted net assets.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

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:

	<u>2008</u>	<u>2007</u>
Unrestricted	\$ 36,800	\$ 34,428
Unrestricted - completed construction projects	376,480	488,046
Current scholarships, departmental programs and activities	151,584	315,403
Endowment for scholarships and departmental programs and activities	1,030,885	486,466
Building construction and remodeling	<u>3,912,178</u>	<u>4,224,538</u>
Gross unconditional promises to give	5,507,927	5,548,881
Less: Unamortized discount	<u>(678,395)</u>	<u>(680,173)</u>
Net contributions receivable	<u>\$ 4,829,532</u>	<u>\$ 4,868,708</u>
Amounts due in:		
Within one year	\$ 918,722	
One to five years	<u>3,910,810</u>	
	<u>\$ 4,829,532</u>	

Promises due in more than one year were discounted at an interest rate of 5% at June 30, 2008 and 2007. Promises due in less than one year were not discounted.

Approximately \$3,400,000 of the total contributions receivable at June 30, 2008 represent amounts due from three donors.

Amounts due from members of the Board of Trustees were approximately \$4,015,000 and \$3,948,000 as of June 30, 2008 and 2007, respectively.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 5 - LONG TERM INVESTMENTS

The following summarizes the University's investments at June 30:

	2008	2007
Cash and short-term investments	\$ 1,350,000	\$ 1,200,000
Marketable securities		
Stocks	10,662,318	13,399,102
Corporate and government bonds	5,159,763	7,575,760
Mutual funds	36,932,664	36,401,123
Other investments	42,213,371	31,804,893
Real estate	2,070,333	4,183,005
Notes receivable, collateralized by real estate at 6% to 10%	426,711	443,758
Annuity contracts	9,145	9,615
Single premium life insurance policy	122,786	119,453
Cash surrender value of life insurance policies, net of loans	2,186,185	3,099,752
	\$ 101,133,276	\$ 98,236,461

The following summarizes the composition of other investments in the University's investment portfolio at June 30, 2008 and 2007:

Values based on quoted market prices or alternative structures with underlying investments whose values are based on quoted market prices:

Index funds	\$ 10,454,140	\$ 8,196,103
Global fixed income	6,956,103	7,097,672
	\$ 17,410,243	\$ 15,293,775

Values based on estimates provided by fund managers or general partners:

Hedge funds and fund of hedge funds	\$ 15,925,183	\$ 13,245,467
Commodities	1,983,050	1,602,603
Real estate investment trust (REIT)	4,173,479	
Private equity	568,575	170,671
Limited partnerships	2,152,841	1,492,377
	\$ 24,803,128	\$ 16,511,118
Total Other Investments	\$ 42,213,371	\$ 31,804,893

For the years ended June 30, 2008 and 2007, the investment performance of the other investments included approximately \$179,000 and \$2,215,000 of net investment gains, \$773,000 and \$596,000 of investment income, and \$136,000 and \$156,000 of investment management fees, respectively. As of June 30, 2008, the University has commitments to make further investments in several of its other investments totaling approximately \$3,300,000.

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 financial statements.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 5 - LONG TERM INVESTMENTS (cont.)

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 share in each investment pool.

NOTE 6 - 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, 2008 and 2007, the insurance coverage aggregated approximately \$5,530,600 and \$7,081,950, respectively, and the cash surrender value totaled \$2,186,185 and \$3,099,752, 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, 2008, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
Visual Arts Building	\$ 5,977,395	9/30/2008	Gifts
Science Bldg - Arch/Engineering Costs	943,044	7/31/2011	Debt
East Residence Hall	858,210	7/31/2009	Gifts/Debt
Alder Hall Steamline	789,561	6/30/2009	Debt
Arend Windows	340,425	7/31/2009	Operations
Mechanical Room Update	200,609	6/30/2009	Operations
Westminster	192,800	1/31/2009	Operations
Miscellaneous Campus Improvements	140,424	6/30/2009	Gifts/Operations
Acoustical Project	102,770	6/30/2009	Gifts/Operations
Recycling Building	59,560	6/30/2009	Operations
HUB Remodeling	19,987	7/31/2011	Debt
Whitworth Drive Project	4,160	6/30/2009	Gifts/Debt
	<u>\$ 9,628,945</u>		

Remaining commitments on signed construction contracts totaled \$11,100,000 as of June 30, 2008.

During May 2008, in accordance with internal procurement and conflict of interest policies, the University conducted an open bid to select a construction company to build its newest residence hall. An institutional committee with campus wide representation awarded the winning bid in the amount of \$7,100,000 to a construction company owned by the father of one of the University's Board of Trustees members. The total amounts payable to the construction company as of June 30, 2008 was approximately \$183,000.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 8 - LAND, BUILDINGS AND EQUIPMENT

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

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,622,023	\$ 436,000	\$	\$ 3,058,023
Buildings	64,427,204	851,630		65,278,834
Buildings and other improvements	11,335,682	1,219,062		12,554,744
Equipment	22,172,497	808,604		22,981,101
Construction in progress	1,259,513	8,369,432		9,628,945
	<u>101,816,919</u>	<u>11,684,728</u>		<u>113,501,647</u>
Less: Accumulated Depreciation for:				
Buildings	(26,434,653)	(2,435,782)		(28,870,435)
Buildings and other improvements	(5,031,861)	(491,129)		(5,522,990)
Equipment	(17,294,270)	(1,186,124)		(18,480,394)
Total Accumulated Depreciation	<u>(48,760,784)</u>	<u>(4,113,035)</u>		<u>(52,873,819)</u>
	<u>\$ 53,056,135</u>	<u>\$ 7,571,693</u>	<u>\$</u>	<u>\$ 60,627,828</u>

NOTE 9 - LONG-TERM DEBT

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

	2008	2007
Revenue Bonds - 1998 Series	\$ 8,830,000	\$ 9,070,000
Revenue Bonds - 2001 Series	4,000,000	4,500,000
Revenue Bonds - 2006 Series	12,850,000	12,850,000
Discount on 1998 Series Revenue Bonds	(119,086)	(124,966)
Premium on 2006 Series Revenue Bonds	44,008	45,867
	<u>\$ 25,604,922</u>	<u>\$ 26,340,901</u>

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 University 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 University may not incur any additional indebtedness in an aggregated outstanding amount exceeding \$1,000,000 unless the University 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, 2008, the University was in compliance with these covenants. Real and personal property of the University collateralize the bonds.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 9 - LONG-TERM DEBT (cont.)

Series 1998 Revenue Bonds - The loan agreements with WHEFA require the University to maintain a specific debt rating on the Series 1998 Revenue Bonds. Therefore, the University 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 4.35% 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 University, 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 University held certain funds from the 1998 Bond proceeds in deposits with trustees at June 30, 2008 and 2007. 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, 2016. The 2001 Bond is also subject to redemption at the option of the University. 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: 2009 - \$1,070,000; 2010 - \$1,095,000; 2011 - \$1,115,000; 2012 - \$1,145,000 and 2013 - \$1,175,000.

NOTE 10 - CAPITAL LEASE OBLIGATION

The University 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, 2008 and 2007, 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:

	2008	2007
Equipment	\$ 550,000	\$ 550,000
Less: Accumulated amortization	<u>(343,750)</u>	<u>(275,000)</u>
	<u>\$ 206,250</u>	<u>\$ 275,000</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 10 - CAPITAL LEASE OBLIGATION (cont.)

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, 2008:

Year ending June 30:		
2009	\$	83,706
2010		83,706
Total minimum lease payments		167,412
Less: Amount representing interest		(8,613)
		<u>158,799</u>
Present value of minimum lease payments	\$	<u>158,799</u>

NOTE 11 - LINES OF CREDIT

The University 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 (4% as of June 30, 2008) less 0.5%. During 2008, the University did not utilize the lines of credit.

Subsequent to June 30, 2008, the University entered into a new line of credit agreement in the amount of \$12,000,000 that will serve as bridge financing for construction projects until bonds are issued during the year ended June 30, 2009.

NOTE 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 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 University's financial condition and statement of activities.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 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 \$1,412,000 and \$1,316,000 in 2008 and 2007, respectively.

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

The University 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 University 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 University'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 for the year ended June 30, 2007.

The University measures postretirement plan obligations as of June 30.

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:

	<u>2008</u>	<u>2007</u>
Active employees	\$ (3,033,707)	\$ (2,740,373)
Current retirees	<u>(2,192,463)</u>	<u>(2,384,494)</u>
Accrued postretirement benefit obligation	<u>\$ (5,226,170)</u>	<u>\$ (5,124,867)</u>

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

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

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

	2008	2007
Change in projected benefit obligation		
Benefit obligation at July 1	\$ 5,124,867	\$ 4,322,404
Interest cost	303,889	320,662
Service cost	134,351	132,533
Actuarial loss/(gain)	(188,347)	507,168
Benefits paid	(148,590)	(157,900)
Projected benefit obligation at June 30	\$ 5,226,170	\$ 5,124,867
Change in plan assets		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	152,402	157,900
Participant contribution	45,721	48,348
Benefits paid	(198,123)	(206,248)
Fair value of plan assets at June 30	\$ -	\$ -

Net periodic post retirement benefit expense for the year ended June 30, 2008 is comprised the following:

Service cost	\$ 134,351
Interest cost	303,889
Amortization of unrecognized net loss	181,046
Net periodic benefit cost	\$ 619,286

The University expects to contribute \$231,954 to its postretirement plan in 2009. These payments have been estimated based on the same assumptions used to measure the University's benefit obligation. Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending June 30,	
2009	\$ 231,954
2010	234,538
2011	242,654
2012	264,048
2013	281,102
2014 - 2018	1,570,936

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2009, and the estimated benefit obligation at June 30, 2009 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1	\$ 5,226,170
Interest cost	406,762
Service cost	183,740
Actuarial loss	1,379,861
Expected benefits paid	<u>(195,665)</u>
Projected benefit obligation at June 30	<u>\$ 7,000,868</u>

The above assumptions and calculations are based on information as of June 30, 2008 and 2007, 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, 2008. An 11.0% rate of increase in the per capita costs of covered health care benefits was assumed at June 30, 2008, 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 2008 and 2007.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2008, to approximately \$5,732,360 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2008 to approximately \$715,053.

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

NOTE 14 - ALLOCATION OF EXPENSES

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

	<u>2008</u>	<u>2007</u>
Salaries and related costs	\$ 24,287,089	\$ 22,288,551
Benefits	6,420,132	6,442,392
Travel, professional development and cultivation	1,572,389	1,414,421
Materials and supplies	2,306,294	1,577,420
Maintenance of facilities and equipment	2,998,149	2,877,890
Utilities, insurance and taxes	3,141,594	2,771,328
Postage, print shop, board bill, general services	7,384,530	6,770,998
Interest	1,176,064	816,564
Depreciation, amortization and accretion	4,236,995	4,295,567
Other expenses	<u>99,550</u>	<u>118,758</u>
Total operating expenses	<u>\$ 53,622,786</u>	<u>\$ 49,373,889</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 15 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments, marketable securities and other investments, and accounts receivable. The University limits the amount of credit exposure to any one financial institution; however, cash balances periodically exceed federally insured limits. 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 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.

NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	<u>2008</u>	<u>2007</u>
Interest paid	\$ 1,188,057	\$ 688,161
Capitalized interest	28,160	401,703
Noncash investing and financing activities		
Construction in progress included in accounts payable	1,293,812	359,955

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 17 - THE 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:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 782,655	\$ 986,267
Other receivables	984	151
Investments		
Corporate stocks and bonds	16,988,956	18,498,972
Real estate	1,695,600	2,695,600
Receivables, collateralized by real estate	40,329	42,447
Annuity contracts	9,145	9,615
Cash surrender value of life insurance policies, net of policy loans	<u>2,186,185</u>	<u>3,099,752</u>
Total assets	<u>\$ 21,703,854</u>	<u>\$ 25,332,804</u>
Annuities payable	<u>\$ 11,826,961</u>	<u>\$ 13,193,844</u>
Total liabilities	<u>\$ 11,826,961</u>	<u>\$ 13,193,844</u>
Net assets:		
Unrestricted	\$ 1,798,308	\$ 1,621,537
Temporarily restricted	258,555	269,198
Permanently restricted	<u>7,820,030</u>	<u>10,248,225</u>
Total liabilities and net assets	<u>\$ 21,703,854</u>	<u>\$ 25,332,804</u>

NOTE 18 - SUBSEQUENT EVENT

Subsequent to June 30, 2008, the investment markets have experienced a significant decline in value. It is highly likely that the values of the University's investments have decreased by material amounts since June 30, 2008.

In addition, effective September 29, 2008, participants in the Common Fund Short Term Fund (the "Short Term Fund") have had their liquidity in the Short Term Fund substantially restricted. Wachovia Bank, as trustee, is initiating the termination of the Short Term Fund, no longer accepting deposits, establishing procedures for liquidation and distribution of the Short Term Fund's assets and is resigning as trustee. Wachovia Bank has limited the ability of institutions to withdraw funds from the Short Term Fund and has established a time line for liquidation based on the maturities of the underlying securities. Participants have not to date incurred any losses to their invested principal, and the Common Fund is seeking a successor trustee for the Short Term Fund in order to re-establish the program in largely the same form. At June 30, 2008, the University had \$6.8 million invested in the Short Term Fund, which was included in Cash and Cash Equivalents on the Statements of Financial Position. However, as of September 29, 2008, the University had \$12.0 million invested in the Short Term Fund. The University believes that it has sufficient cash reserves available from other resources to cover operating costs until it is able to withdraw all of its cash from the Short Term Fund.