WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

June 30, 2009 and 2008

WHITWORTH UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Whitworth University and The Whitworth Foundation ("the University") as of June 30, 2009 and 2008 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Whitworth University and The Whitworth Foundation at June 30, 2009 and 2008 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.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 8, 2009

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2009 and 2008

ASSETS

	2009	2008
Cash and cash equivalents	$ 9,545,454	$ 10,363,503
Receivables		
Student accounts, net of allowance for doubtful accounts of $148,000 in 2009 and $165,000 in 2008	560,590	739,067
Contributions, net	4,909,507	4,829,532
Loans	75,000	100,579
Other	1,087,135	767,814
Inventories	500,997	641,728
Prepaid expenses and other assets	422,323	422,472
Student loans receivable, net of allowance for doubtful accounts of $346,000 in 2009 and $344,000 in 2008	4,505,468	4,516,618
Long-term investments	73,658,538	101,133,276
Deferred debt acquisition costs	936,627	987,516
Land, buildings and equipment, net	72,055,150	60,627,828
Assets held in trust by others	14,711,495	17,985,572
TOTAL ASSETS	$ 182,968,284	$ 203,115,505

LIABILITIES AND NET ASSETS

	2009	2008
LIABILITIES		
Accounts payable and other liabilities	$ 2,508,603	$ 2,695,032
Accrued payroll and related benefits	9,835,826	8,387,873
Student deposits	1,296,330	1,001,845
Deferred revenue	1,171,134	1,320,353
Asset retirement obligations	741,068	737,363
Accrued interest payable	281,294	294,277
Line of credit	5,500,000	
Capital lease obligation	80,842	158,799
Long-term debt	24,538,944	25,604,922
Annuities payable	9,239,118	11,826,961
Federal student loan funds	3,648,516	3,654,574
Total Liabilities	58,841,675	55,681,999
NET ASSETS		
Unrestricted	62,043,120	81,540,374
Temporarily restricted	4,637,366	5,550,243
Permanently restricted	57,446,123	60,342,889
Total Net Assets	124,126,609	147,433,506
TOTAL LIABILITIES AND NET ASSETS	$ 182,968,284	$ 203,115,505

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2009
With Comparative Totals for 2008

	2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2008 Total
REVENUES					
Tuition and fees	$ 59,122,825			$ 59,122,825	$ 53,963,757
Less: Scholarships and grants	(22,049,262)			(22,049,262)	(19,184,443)
Net tuition and fees	37,073,563			37,073,563	34,779,314
Auxiliary enterprises revenues	10,434,160			10,434,160	9,864,821
Government grants	750,724			750,724	629,073
Contributions and gifts	2,151,964	$ 2,009,247	$ 1,620,858	5,782,069	7,082,262
Investment income	1,946,407			1,946,407	2,917,696
Other income	1,847,611		78,139	1,925,750	2,084,484
Actuarial adjustment on annuities payable	88,390	(23,255)	(1,714,789)	(1,649,654)	(577,449)
Net gains (losses) on investments	(18,128,253)	(127,360)	(2,880,974)	(21,136,587)	2,688,379
	36,164,566	1,858,632	(2,896,766)	35,126,432	59,468,580
Net assets released from restrictions	2,771,509	(2,771,509)			
Total Revenues	38,936,075	(912,877)	(2,896,766)	35,126,432	59,468,580
EXPENSES					
Program expenses					
Instruction	24,016,387			24,016,387	21,820,028
Public service	813,929			813,929	793,695
Academic support	4,809,271			4,809,271	4,095,131
Student services	9,228,512			9,228,512	7,939,346
Auxiliary enterprises	9,647,515			9,647,515	9,096,678
Support expenses					
Institutional support	9,917,715			9,917,715	9,685,474
Allocable expenses					
Operation and maintenance of plant	4,982,450			4,982,450	4,496,805
Interest	924,043			924,043	1,176,064
Depreciation, amortization and accretion	5,115,174			5,115,174	4,236,995
Less: Allocated expenses	(11,021,667)			(11,021,667)	(9,909,864)
Total Expenses	58,433,329			58,433,329	53,430,352
Change in Net Assets	(19,497,254)	(912,877)	(2,896,766)	(23,306,897)	6,038,228
NET ASSETS - Beginning of Year	81,540,374	5,550,243	60,342,889	147,433,506	141,395,278
NET ASSETS - END OF YEAR	$ 62,043,120	$ 4,637,366	$ 57,446,123	$ 124,126,609	$ 147,433,506

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES				
Tuition and fees	$ 53,963,757			$ 53,963,757
Less: Scholarships and grants	(19,184,443)			(19,184,443)
Net tuition and fees	34,779,314			34,779,314
Auxiliary enterprises revenues	9,864,821			9,864,821
Government grants	629,073			629,073
Contributions and gifts	2,515,470	$ 875,209	$ 3,691,583	7,082,262
Investment income	2,917,126	570		2,917,696
Other income	2,050,119		34,365	2,084,484
Actuarial adjustment on annuities payable	1,144,002	166,536	(1,887,987)	(577,449)
Net gains (losses) on investments	3,763,824	44,422	(1,119,867)	2,688,379
	57,663,749	1,086,737	718,094	59,468,580
Net assets released from restrictions	6,354,093	(6,354,093)		
Total Revenues	64,017,842	(5,267,356)	718,094	59,468,580
EXPENSES				
Program expenses				
Instruction	21,820,028			21,820,028
Public service	793,695			793,695
Academic support	4,095,131			4,095,131
Student services	7,939,346			7,939,346
Auxiliary enterprises	9,096,678			9,096,678
Support expenses				
Institutional support	9,685,474			9,685,474
Allocable expenses				
Operation and maintenance of plant	4,496,805			4,496,805
Interest	1,176,064			1,176,064
Depreciation, amortization and accretion	4,236,995			4,236,995
Less: Allocated expenses	(9,909,864)			(9,909,864)
Total Expenses	53,430,352			53,430,352
Change in Net Assets	10,587,490	(5,267,356)	718,094	6,038,228
NET ASSETS - Beginning of Year	70,952,884	10,817,599	59,624,795	141,395,278
NET ASSETS - END OF YEAR	$ 81,540,374	$ 5,550,243	$ 60,342,889	$ 147,433,506

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (23,306,897)	$ 6,038,228
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	5,115,174	4,236,995
Actuarial adjustment on annuities payable	2,863,824	565,030
Net (gains) losses on investments	21,136,587	(2,688,379)
Increase (decrease) in allowance on student accounts receivable	(17,000)	13,000
Increase (decrease) in allowance on student loans receivable	2,000	(4,000)
Loan cancellations, assignments and write-offs	93,827	68,728
Loss from disposal of assets	8,000	
(Increase) decrease in assets		
Student accounts receivable	195,477	(70,446)
Loans and other receivables	(293,742)	15,957
Inventories, prepaid expenses and other assets	140,880	(180,396)
Contributions receivable for operations	(1,012)	159,077
Increase (decrease) in liabilities		
Accounts payable, other liabilities and accrued interest payable	188,180	98,140
Accrued payroll and related benefits	1,447,953	(379,746)
Student deposits	294,485	126,616
Deferred revenue	(149,219)	93,201
Contributions restricted for plant and long-term investment	(3,276,385)	(4,324,570)
Net Cash Flows From Operating Activities	4,442,132	3,767,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	555,783	569,093
Advances	(640,460)	(761,869)
Purchases of land, buildings and equipment	(16,883,494)	(10,750,871)
Proceeds from sales of long-term investments	14,789,405	29,308,231
Purchases of long-term investments	(9,413,294)	(28,959,464)
Net Cash Flows From Investing Activities	(11,592,060)	(10,594,880)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	3,197,422	4,204,669
Repayments on line of credit	(5,700,000)	
Proceeds from issuance of line of credit	11,200,000	
Payments on long-term debt and capital lease obligation	(1,143,935)	(813,247)
Payments to annuitants	(1,215,550)	(1,412,520)
Net change in federal student loan funds	(6,058)	6,579
Net Cash Flows From Financing Activities	6,331,879	1,985,481
Net Change in Cash and Cash Equivalents	(818,049)	(4,841,964)
CASH AND CASH EQUIVALENTS - Beginning of Year	10,363,503	15,205,467
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 9,545,454	$ 10,363,503

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The accounting policies of the University reflect practices common to universities and colleges and conform to accounting principles generally accepted in the United States of America ("GAAP"). The more significant accounting policies are summarized below:

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. See Note 18 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.

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.

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

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. 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.

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 fair 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 gift 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 portion 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 and is recognized as it is charged. Government student loan programs (Perkins) that become uncollectible can be assigned to the federal government for collection. 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 Acquisition 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.

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.

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

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 are less than its carrying value, an impairment loss is recognized.

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

Deferred Revenue - 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 probably 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.

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.

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

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.

Value of Financial Instruments at Cost - The carrying amounts of cash and cash equivalents, accounts receivable, other receivables, accounts payable and student deposits approximate fair value because of the short term maturity of these financial instruments.

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

The carrying amount of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

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

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

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

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled $3,781,000 and $3,040,000 for the years ended June 30, 2009 and 2008, 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.

Reclassifications - Certain prior year amounts have been reclassified to conform with the June 30, 2009 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

New Accounting Pronouncements - In March 2008, the FASB issued Statement on Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (SFAS 161). 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 hedge 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. As of June 30, 2009, the University does not believe the adoption of SFAS 161 will materially impact the financial statement amounts. However, additional footnote disclosures may be required regarding the use of derivative instruments and hedging items.

NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Effective July 1, 2008, the University adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. SFAS 157 establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of the asset or liability as of the measurement date. SFAS 157 expands disclosures about instruments measured at fair value. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS 157 does not require any new fair value measurements.

Subsequent to the issuance of SFAS 157, the FASB issued additional Financial Staff Positions (FSP) which provides implementation guidance related to fair value measurements. The University has adopted the applicable FSPs as appropriate during fiscal year 2009.

Effective July 1, 2008, the University adopted FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*, which among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any asset or liability that is not currently required to be measured at fair value.

As noted above, SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

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

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2009:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 8,133,166	$ 8,133,166		
Fixed income securities	396,665	396,665		
Mutual funds	29,099,426	29,099,426		
Equity index fund	8,300,977		$ 8,300,977	
Global fixed income	3,724,912		3,724,912	
Funds of funds	15,254,217			$ 15,254,217
Private equity funds	1,460,793			1,460,793
Assets held in trust by others	14,711,495			14,711,495
Total Assets	$ 81,081,651	$ 37,629,257	$ 12,025,889	$ 31,426,505

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

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

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

Fixed income securities - Investments in fixed income securities are comprised of U.S. Treasury notes. U.S. Treasury notes are classified as Level 1 as they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis.

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

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

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

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

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

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

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

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2009:

	Balances June 30, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Net transfers in (out) of Level 3	Balances June 30, 2009
Assets					
Funds of funds	$ 24,234,553	$ (5,280,364)	$ (3,699,972)		$ 15,254,217
Private equity funds	568,575	(102,522)	994,740		1,460,793
Assets held in trust by others	17,985,572	(3,008,337)	(265,740)		14,711,495
Total	$ 42,788,700	$ (8,391,223)	$ (2,970,972)	$ -	$ 31,426,505

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to Level 3 financial instruments still held at June 30, 2009.	$ (4,062,519)

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2009	2008
Endowment funds	$ 50,753,921	$ 51,640,271
Student loan funds	960,727	882,588
Annuity, life income and similar funds	5,731,475	7,820,030
	$ 57,446,123	$ 60,342,889

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

	2009	2008
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 913,040	$ 955,032
Acquisition of buildings and equipment	95,784	815,851
Long-term investment funds	3,628,542	3,779,360
	$ 4,637,366	$ 5,550,243

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES (cont.)

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

	2009	2008
For current operations (deficit)	$ (2,842,452)	$ 1,429,091
Designated for investment in property, plant and equipment		6,182,427
Invested in property, plant and equipment	42,931,633	33,570,295
Long-term investment funds	21,953,939	40,358,561
	$ 62,043,120	$ 81,540,374

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

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

	2009	2008
Acquisition of land, building and equipment	$ 2,529,259	$ 5,707,257
Scholarships, instruction and other departmental support	242,250	646,836
	$ 2,771,509	$ 6,354,093

These assets were reclassified to unrestricted net assets.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

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

	2009	2008
Unrestricted	$ 5,025	$ 36,800
Unrestricted - completed construction projects	2,462,325	376,480
Current scholarships, departmental programs and activities	117,712	151,584
Endowment for scholarships and departmental programs and activities	944,842	1,030,885
Building construction and remodeling	1,976,028	3,912,178
Gross unconditional promises to give	5,505,932	5,507,927
Less: Unamortized discount	(596,425)	(678,395)
Net contributions receivable	$ 4,909,507	$ 4,829,532
Amounts due in:		
Within one year	$ 463,109	
One to five years	4,446,398	
	$ 4,909,507	

NOTE 5 - CONTRIBUTIONS RECEIVABLE (cont.)

Promises due in one to five years received prior to July 1, 2008 were discounted at interest rates of 5.0% at June 30, 2009 and 2008. Promises due in one to five years received after June 30, 2008 were discounted at interest rate of 3.5% at June 30, 2009. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately $3,606,000 and $4,015,000 as of June 30, 2009 and 2008, respectively. For the years ended June 30, 2009 and 2008, contributions from members of the Board of Trustees were approximately $1,440,000 and $771,000, respectively.

NOTE 6 - LONG TERM INVESTMENTS

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

	2009	2008
Cash and short-term investments	$ 2,036,795	$ 3,956,327
Equity securities	8,133,166	10,754,724
Fixed income securities	396,665	380,509
Mutual funds	29,099,426	39,013,185
Other investments		
Equity index fund	8,300,977	10,454,140
Global fixed income	3,724,912	6,956,103
Funds of funds		
Hedge funds	8,407,199	15,925,183
Commodities	1,042,642	1,983,050
Real estate investments	3,788,251	4,173,479
Limited partnerships	2,016,125	2,152,841
Private equity funds	1,460,793	568,575
Notes receivable, collateralized by real estate at 6% to 10%	280,610	426,711
Real estate	2,030,265	2,070,333
Annuity contracts	8,689	9,145
Single premium life insurance policy	126,154	122,786
Cash surrender value of life insurance policies, net of loans	2,805,869	2,186,185
	$ 73,658,538	$ 101,133,276

As of June 30, 2009, the University has commitments to make further investments in several of its other investments totaling approximately $8,200,000.

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 consolidated financial statements.

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

NOTE 7 - LIFE INSURANCE POLICIES

The University and Foundation have received gifts of several life insurance policies and are designated as both the owner and beneficiary of these life insurance policies. At June 30, 2009 and 2008, the insurance coverage aggregated approximately $6,169,500 and $5,530,600, respectively, and the cash surrender value totaled $2,805,869 and $2,186,185, respectively. Premium payments are required to be made by the donor or university to continue coverage to the maturity dates.

NOTE 8 - CONSTRUCTION IN PROGRESS

At June 30, 2009, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
Steam Line	$ 87,840	7/31/2011	Debt
Science Building	2,514,709	7/31/2011	Debt
Residence Hall	8,929,595	8/31/2009	Debt
Hawthorne House	64,185	8/31/2009	Operations
Graves Gym	29,368	8/31/2009	Operations
Hill House	2,810	8/31/2009	Operations
Weyerhaeuser Hall Remodel	14,220	8/31/2009	Operations
Schumacher Hall	992	8/31/2009	Operations
Primary Feeder Replacement	408,010	7/31/2011	Debt
	$ 12,051,729		

Remaining commitments on signed construction contracts totaled $847,000 as of June 30, 2009.

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

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

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 3,058,023		$ (15,000)	$ 3,043,023
Buildings	65,278,834	$ 10,557,277	(1,635,898)	74,200,213
Buildings and other improvements	12,554,744	2,330,570	(750,439)	14,134,875
Equipment	22,981,101	1,192,272	(10,251,018)	13,922,355
Construction in progress	9,628,945	10,162,635	(7,739,851)	12,051,729
	113,501,647	24,242,754	(20,392,206)	117,352,195
Less: Accumulated Depreciation for:				
Buildings	(28,870,435)	(2,496,252)	1,635,898	(29,730,789)
Buildings and other improvements	(5,522,990)	(1,431,486)	750,439	(6,204,037)
Equipment	(18,480,394)	(1,132,843)	10,251,018	(9,362,219)
Total Accumulated Depreciation	(52,873,819)	(5,060,581)	12,637,355	(45,297,045)
	$ 60,627,828	$ 19,182,173	$ (7,754,851)	$ 72,055,150

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

During the year ended June 30, 2009, the University conducted an analysis of all fully depreciated assets and discharged those that were no longer in use for a total of approximately $12,600,000.

NOTE 10 - LONG-TERM DEBT

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

	2009	2008
Revenue Bonds - 1998 Series	$ 8,580,000	$ 8,830,000
Revenue Bonds - 2001 Series	3,500,000	4,000,000
Revenue Bonds - 2006 Series	12,530,000	12,850,000
Discount on 1998 Series Revenue Bonds	(113,205)	(119,086)
Premium on 2006 Series Revenue Bonds	42,149	44,008
	$ 24,538,944	$ 25,604,922

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 0.85 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 0.85:1.00. At June 30, 2009, the University was not in compliance with the covenant in regards to maintaining Unrestricted Net Assets equal to at least 0.85 times outstanding indebtedness. The University has obtained a waiver from National Public Finance Guarantee Corporation related to the Series 1998 and 2006 Revenue Bonds, which expires on December 31, 2009. The University has a plan to refinance the current debt outstanding prior to December 31, 2009 at which time the existing covenants will no longer be in effect as they will be replaced with covenants under the new debt. (See Note 19.) If the refinancing were not to occur and the University is still not in compliance as of December 31, 2009, another waiver can be requested at that time. The University has also requested waiver from US Bank relating to the Series 2001 Revenue Bonds and anticipates that they will receive that waiver. Real and personal property of the University collateralize the bonds.

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 Revenue Bonds are due annually while interest is due biannually. The last payment is due October 1, 2028. Interest accrues at rates ranging from 4.4% to 5.0%.

The 1998 Revenue 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.

NOTE 10 - LONG-TERM DEBT (cont.)

The University held certain funds from the 1998 Bond proceeds in deposits with trustees at June 30, 2009 and 2008. 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 Bonds are due biannually. The last payment is due April 1, 2015. 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 on the 2006 Revenue Bonds are due annually while interest is due biannually. The last payment is due October 1, 2031. Interest accrues at rates ranging from 4.40% to 4.50%.

Maturities of debt outstanding are as follows for the fiscal years ending June 30: 2010 - $1,095,000; 2011 - $1,115,000; 2012 - $1,145,000, 2013 - $1,175,000 and 2014 - $1,200,000.

NOTE 11 - LINES OF CREDIT

The University has two unsecured lines of credit available from U.S. Bank. The lines of credit are a revolving $1,500,000 line for operating purposes and a revolving $12,000,000 line to cover costs of construction projects currently in progress. At June 30, 2009, there was no balance outstanding on the operating line of credit and there was an outstanding balance on the construction line of credit was $5,500,000. The interest rate on the construction line of credit as of June 30, 2009 was 1.34%. There were no balances outstanding on the lines of credit at June 30, 2008.

As a condition of the issuance of the construction line of credit, the University has agreed to certain covenants, including maintaining Unrestricted Net Assets equal to at least 0.85 times outstanding indebtedness and a Fixed Charge Coverage Ratio of at least 1.25:1. At June 30, 2009, the University was not in compliance with the covenant in regards to maintaining Unrestricted Net Assets equal to at least 0.85 times outstanding indebtedness. The University has requested a waiver from US Bank and anticipates that they will receive that waiver.

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.

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 $1,673,000 and $1,412,000 in 2009 and 2008, 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 plan is unfunded, and the accrued postretirement benefit obligation is included in accrued payroll and related benefits on the statements of financial position.

The University measures postretirement plan obligations as of June 30.

The following is a reconciliation of the benefit obligation and the value of plan assets at June 30, 2009 and 2008:

	2009	2008
Change in projected benefit obligation		
Benefit obligation at July 1	$ 5,226,170	$ 5,124,867
Interest cost	406,762	303,889
Service cost	183,740	134,351
Actuarial loss (gain)	1,379,861	(188,347)
Benefits paid	(195,664)	(148,590)
Projected benefit obligation at June 30	$ 7,000,869	$ 5,226,170
Change in plan assets		
Fair value of plan assets at July 1	$ -	$ -
Employer contribution	187,954	152,402
Participant contribution	59,724	45,721
Benefits paid	(247,678)	(198,123)
Fair value of plan assets at June 30	$ -	$ -

Net periodic post retirement benefit expense for the year ended June 30, 2009 is comprised the following:

Service cost	$ 183,740
Interest cost	406,762
Amortization of unrecognized net loss	350,721
Net periodic benefit cost	$ 941,223

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

The University expects to contribute approximately $185,000 to its postretirement plan in 2010. 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:	
2010	$ 185,000
2011	193,000
2012	212,000
2013	228,000
2014	234,000
2015 - 2019	1,359,000

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2010, and the estimated benefit obligation at June 30, 2010 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1	$ 7,000,869
Interest cost	336,085
Service cost	163,444
Actuarial gain	(1,321,224)
Expected benefits paid	(156,446)
Projected benefit obligation at June 30	$ 6,022,728

The above assumptions and calculations are based on information as of June 30, 2009 and 2008, 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, 2009. An 11% rate of increase in the per capita costs of covered health care benefits was assumed at June 30, 2009, decreasing 0.5% per year to an ultimate level of 5% beginning in 2018. A discount rate of 6.25% was used to determine the accumulated postretirement benefit obligation for both 2009 and 2008.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2009, to approximately $7,673,571 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2009 to approximately $1,077,951.

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 - ENDOWMENTS

Effective July 1, 2008, the University adopted the provisions of 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 for all Endowment Funds.* 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). The FSP also requires additional disclosures about an institution's endowment funds, whether or not the institution is subject to UPMIFA. The State of Washington adopted a version of UPMIFA which is effective July 1, 2009.

A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. The University is expected to reclassify certain net assets from unrestricted net assets into temporarily restricted net assets as a result of adopting UPMIFA during the year ended June 30, 2010.

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

Interpretation of Relevant Law - The University's governing board has interpreted the Uniform Management of Institutional Funds Act (UMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The University reports income and net gains on investments of endowment funds 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, with a reclassification to unrestricted net assets to reflect the expiration of such restrictions when the purpose is fulfilled;
- as increases in unrestricted net assets in all other cases.

Losses from investments on permanently restricted endowment funds are reported as reductions in temporarily restricted assets to the extent of prior accumulated earnings reported as such, if any, with the remaining net losses reported as reductions in the unrestricted quasi-endowment funds.

NOTE 14 - ENDOWMENTS (cont.)

The following table summarizes endowment net asset composition by type of fund as of June 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 11,677,387	$ 3,374,245	$ 50,753,921	$ 65,805,553
Board-designated endowment funds	8,117,563			8,117,563
Total endowment net assets	$ 19,794,950	$ 3,374,245	$ 50,753,921	$ 73,923,116

The following table summarizes endowment net asset composition by type of fund as of June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 26,194,239	$ 3,520,805	$ 51,640,271	$ 81,355,315
Board-designated endowment funds	12,366,014			12,366,014
Total endowment net assets	$ 38,560,253	$ 3,520,805	$ 51,640,271	$ 93,721,329

Change in endowment net assets for June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2008	$ 38,560,253	$ 3,520,805	$ 51,640,271	$ 93,721,329
Investment return:				
Investment income (net of fees of $469,000)	602,715			602,715
Net depreciation - realized and unrealized	(17,106,443)	(146,560)	(2,880,974)	(20,133,977)
Total investment return	(16,503,728)	(146,560)	(2,880,974)	(19,531,262)
Contributions and transfers in	172,619		1,994,624	2,167,243
Appropriation of endowment assets for expenditure	(2,434,194)			(2,434,194)
Endowment net assets, June 30, 2009	$ 19,794,950	$ 3,374,245	$ 50,753,921	$ 73,923,116

NOTE 14 - ENDOWMENTS (cont.)

Change in endowment net assets for June 30, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2007	$ 35,176,204	$ 3,466,383	$ 48,528,347	$ 87,170,934
Investment return:				
Investment income (net of fees of $566,000)	770,944			770,944
Net appreciation (depreciation) - realized and unrealized	3,555,925	44,422	(1,119,867)	2,480,480
Total investment return	4,326,869	44,422	(1,119,867)	3,251,424
Contributions and transfers in	1,291,526	10,000	4,231,791	5,533,317
Appropriation of endowment assets for expenditure	(2,234,346)			(2,234,346)
Endowment net assets, June 30, 2008	$ 38,560,253	$ 3,520,805	$ 51,640,271	$ 93,721,329

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately $1,450,000 and zero as of June 30, 2009 and 2008, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

NOTE 15 - CONCENTRATION OF CREDIT RISK

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

NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	2009	2008
Interest paid (net of capitalized interest)	$ 937,026	$ 1,188,057
Capitalized interest	249,954	28,160
Noncash investing and financing activities		
Construction in progress included in accounts payable	906,220	1,293,812

NOTE 17 - ALLOCATION OF EXPENSES

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

	2009	2008
Salaries and related costs	$ 26,584,265	$ 24,287,089
Benefits	8,387,770	6,420,132
Travel, professional development and cultivation	1,698,011	1,572,389
Materials and supplies	2,463,934	2,306,294
Maintenance of facilities and equipment	2,707,406	2,998,149
Utilities, insurance and taxes	3,351,286	3,141,594
Postage, print shop, board bill, general services	7,081,168	7,192,098
Interest	937,026	1,176,064
Depreciation, amortization and accretion	5,115,174	4,236,995
Other expenses	107,289	99,548
Total operating expenses	$ 58,433,329	$ 53,430,352

NOTE 18 - 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:

	2009	2008
Assets		
Cash and cash equivalents	$ 388,714	$ 782,655
Other receivables		984
Investments		
Corporate stocks and bonds	12,512,647	16,988,956
Real estate	1,687,600	1,695,600
Receivables, collateralized by real estate		40,329
Annuity contracts	8,689	9,145
Cash surrender value of life insurance policies, net of policy loans	2,805,869	2,186,185
Total assets	$ 17,403,519	$ 21,703,854
Liabilities		
Annuities payable	$ 9,239,118	$ 11,826,961
Net assets		
Unrestricted	2,197,627	1,798,308
Temporarily restricted	235,300	258,555
Permanently restricted	5,731,474	7,820,030
Total net assets	8,164,401	9,876,893
Total liabilities and net assets	$ 17,403,519	$ 21,703,854

NOTE 19 - SUBSEQUENT EVENTS

Subsequent to June 30, 2009, the University has begun working with the Washington Higher Education Facilities Authority to issue revenue and refunding bonds on behalf of the University totaling approximately $65,500,000. The intent is for the bonds to refund the Series 1998, 2001 and 2006 Revenue Bonds and to reimburse the University for construction costs on the residence hall that was completed in August 2009 and to finance the new biology and chemistry building with an expected completion date of November 2011.

On July 1, 2009, the state of Washington adopted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This act replaces UMIFA (discussed in note 14) in Washington. UPMIFA eliminates the historic dollar value rule with respect to endowment fund spending, updates the prudence standard for the management and investment of charitable funds, and amends the provisions governing the release and modification of restrictions on charitable funds.

The University has evaluated subsequent events through October 8, 2009 which is the date that the financial statements were issued.