

# **WHITWORTH UNIVERSITY**

## **CONSOLIDATED FINANCIAL STATEMENTS Including Independent Auditors' Report**

**June 30, 2010 and 2009**

**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, Whitworth Costa Rica Limited, and The Whitworth Foundation ("the University") as of June 30, 2010 and 2009 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, Whitworth Costa Rica Limited, and The Whitworth Foundation at June 30, 2010 and 2009 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 financial statements, the State of Washington adopted the Uniform Prudent Management of Institutional Funds Act effective July 1, 2009 and as a result, the manner in which the University classifies donor-restricted endowment funds changed beginning with the year ended June 30, 2010.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota  
October 13, 2010

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,364,418	\$ 9,545,454
Receivables		
Student accounts, net of allowance for doubtful accounts of \$126,000 in 2010 and \$148,000 in 2009	549,427	560,590
Contributions, net	4,854,971	4,909,507
Loans		75,000
Other	922,657	1,087,135
Inventories	581,131	500,997
Prepaid expenses and other assets	661,238	422,323
Student loans receivable, net of allowance for doubtful accounts of \$346,000 in 2010 and 2009	4,483,310	4,505,468
Long-term investments	76,530,654	73,658,538
Deposits held by trustee	21,374,284	
Deferred debt acquisition costs	538,692	936,627
Land, buildings and equipment, net	83,805,006	72,055,150
Assets held in trust by others	15,125,639	14,711,495
<b>TOTAL ASSETS</b>	<b><u>\$ 221,791,427</u></b>	<b><u>\$ 182,968,284</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 3,533,534	\$ 2,508,603
Accrued payroll and related benefits	8,735,164	9,835,826
Student deposits	1,345,520	1,296,330
Deferred revenue	1,553,591	1,171,134
Asset retirement obligations	803,276	741,068
Accrued interest payable	854,928	281,294
Line of credit		5,500,000
Capital lease obligation		80,842
Long-term debt	63,082,986	24,538,944
Annuities payable	9,626,787	9,239,118
Federal student loan funds	3,595,505	3,648,516
Total Liabilities	<u>93,131,291</u>	<u>58,841,675</u>
<b>NET ASSETS</b>		
Unrestricted	47,167,877	62,043,120
Temporarily restricted	21,181,049	4,637,366
Permanently restricted	60,311,210	57,446,123
Total Net Assets	<u>128,660,136</u>	<u>124,126,609</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 221,791,427</u></b>	<b><u>\$ 182,968,284</u></b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended June 30, 2010  
With Comparative Totals for 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 62,581,053			\$ 59,122,825
Less: Scholarships and grants	(25,103,513)			(22,049,262)
Net tuition and fees	37,477,540			37,073,563
Government grants	750,387			750,724
Contributions and gifts	2,264,180	\$ 189,991		2,153,471
Long-term investment income and gains allocated for operations	359,068	1,954,342		2,434,194
Other sources	1,661,479			1,653,216
Investment income	957,733			802,260
Net gains (losses) on investments	197,515	(117,143)		(422,998)
Auxiliary enterprises revenues	11,365,409			10,434,160
	55,033,311	2,027,190		57,060,501
Net assets released from restrictions - operating	2,299,411	(2,299,411)		
<b>Total Operating Revenues, Gains and Other Support</b>	<b>57,332,722</b>	<b>(272,221)</b>		<b>54,878,590</b>
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	23,463,160			22,957,112
Public service	726,574			808,837
Academic support	5,946,069			4,677,396
Student services	9,161,710			8,992,564
Auxiliary enterprises	10,550,418			9,613,092
Support expenses				
Institutional support	10,480,586			9,609,630
Allocable expenses				
Operation and maintenance of plant	4,703,868			4,982,450
Interest	1,834,105			924,043
Unfunded depreciation, amortization, and accretion	5,138,534			5,115,174
Less: Allocated expenses	(11,676,507)			(11,021,667)
<b>Total Operating Expenses</b>	<b>60,328,517</b>			<b>56,658,631</b>
<b>Change in Net Assets from Operating Activities</b>	<b>(2,995,795)</b>	<b>(272,221)</b>		<b>(1,780,041)</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment income and gains (losses), net of amount allocated for operations	977,972	2,497,717	\$ 474,383	(22,003,637)
Contributions and gifts	100,617	2,507,599	1,211,825	3,628,601
Adjustment to actuarial liability for annuities payable	121,320	3,247	246,780	(1,649,657)
Other sources	278,575		19,275	272,535
Loss on refinancing of debt	(1,615,908)			(1,615,908)
Adjustment to prior service cost and actuarial liability for retiree health plan	978,141			(1,774,698)
Net assets released from restrictions - nonoperating	731,452	(731,452)		
<b>Change in Net Assets from Nonoperating Activities</b>	<b>1,572,169</b>	<b>4,277,111</b>	<b>1,952,263</b>	<b>(21,526,856)</b>
Change in net assets before reclassification of net assets	(1,423,626)	4,004,890	1,952,263	(23,306,897)
Net asset reclassification due to a change in law	(13,451,617)	12,538,793	912,824	
<b>Change in Net Assets</b>	<b>(14,875,243)</b>	<b>16,543,683</b>	<b>2,865,087</b>	<b>(23,306,897)</b>
Net Assets - Beginning of Year	62,043,120	4,637,366	57,446,123	147,433,506
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 47,167,877</b>	<b>\$ 21,181,049</b>	<b>\$ 60,311,210</b>	<b>\$ 124,126,609</b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES  
Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 59,122,825			\$ 59,122,825
Less: Scholarships and grants	(22,049,262)			(22,049,262)
Net tuition and fees	37,073,563			37,073,563
Government grants	750,724			750,724
Contributions and gifts	1,953,414	\$ 200,057		2,153,471
Long-term investment income and gains allocated for operations	2,434,194			2,434,194
Other sources	1,653,216			1,653,216
Investment income	802,057	203		802,260
Net losses on investments	(422,998)			(422,998)
Auxiliary enterprises revenues	10,434,160			10,434,160
Net assets released from restrictions - operating	54,678,330	200,260		54,878,590
	242,250	(242,250)		
Total Operating Revenues, Gains and Other Support	54,920,580	(41,990)		54,878,590
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	22,957,112			22,957,112
Public service	808,837			808,837
Academic support	4,677,396			4,677,396
Student services	8,992,564			8,992,564
Auxiliary enterprises	9,613,092			9,613,092
Support expenses				
Institutional support	9,609,630			9,609,630
Allocable expenses				
Operation and maintenance of plant	4,982,450			4,982,450
Interest	924,043			924,043
Unfunded depreciation, amortization, and accretion	5,115,174			5,115,174
Less: Allocated expenses	(11,021,667)			(11,021,667)
Total Operating Expenses	56,658,631			56,658,631
<b>Change in Net Assets from Operating Activities</b>	(1,738,051)	(41,990)		(1,780,041)
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment losses, net of amount allocated for operations	(18,995,099)	(127,564)	\$ (2,880,974)	(22,003,637)
Contributions and gifts	198,549	1,809,191	1,620,861	3,628,601
Adjustment to actuarial liability for annuities payable	88,390	(23,255)	(1,714,792)	(1,649,657)
Other sources	194,396		78,139	272,535
Adjustment to prior service cost and actuarial liability for retiree health plan	(1,774,698)			(1,774,698)
Net assets released from restrictions - nonoperating	2,529,259	(2,529,259)		
<b>Change in Net Assets from Nonoperating Activities</b>	(17,759,203)	(870,887)	(2,896,766)	(21,526,856)
<b>Change in Net Assets</b>	(19,497,254)	(912,877)	(2,896,766)	(23,306,897)
Net Assets - Beginning of Year	81,540,374	5,550,243	60,342,889	147,433,506
<b>NET ASSETS - END OF YEAR</b>	\$ 62,043,120	\$ 4,637,366	\$ 57,446,123	\$ 124,126,609

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS Years Ended June 30, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,533,527	\$ (23,306,897)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	5,138,534	5,115,174
Loss on refinancing of debt	1,615,908	
Adjustment to prior service cost and actuarial liability for retiree health plan	(978,141)	1,774,698
Actuarial adjustment on annuities payable	(371,347)	1,649,657
Net (gains) losses on investments	(5,234,343)	21,136,587
Decrease in allowance on student accounts receivable	(22,000)	(17,000)
Increase in allowance on student loans receivable		2,000
Increase in allowance on contributions receivable	200,000	
Write-off of loan receivable	75,000	
Loan cancellations, assignments and write-offs	105,346	93,827
Loss from disposal of assets		8,000
(Increase) decrease in assets		
Student accounts receivable	33,163	195,477
Other receivables	164,478	(293,742)
Inventories, prepaid expenses and other assets	(319,049)	140,880
Contributions receivable for operations	135,200	(1,012)
Increase (decrease) in liabilities		
Accounts payable, other liabilities and accrued interest payable	373,223	188,180
Accrued payroll and related benefits	(122,521)	(326,745)
Student deposits	49,190	294,485
Deferred revenue	382,457	(149,219)
Contributions restricted for plant and long-term investment	(3,511,168)	(3,276,385)
Net Cash Flows From Operating Activities	2,247,457	3,227,965
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Student loans receivable		
Principal repayments	548,431	555,783
Advances	(631,619)	(640,460)
Purchases of land, buildings and equipment	(15,563,688)	(16,883,494)
Drawdowns of deposits held by trustee	18,166,773	
Proceeds from sales of long-term investments	12,305,452	16,003,572
Purchases of long-term investments	(9,535,007)	(9,413,294)
Net Cash Flows From Investing Activities	5,290,342	(10,377,893)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for plant and long-term investment	2,732,769	3,197,422
Repayments on line of credit	(7,500,000)	(5,700,000)
Proceeds from issuance of line of credit	2,000,000	11,200,000
Payments on long-term debt and capital lease obligation	(925,842)	(1,143,935)
Payments to annuitants	(972,751)	(1,215,550)
Net change in federal student loan funds	(53,011)	(6,058)
Net Cash Flows From Financing Activities	(4,718,835)	6,331,879
<b>Net Change in Cash and Cash Equivalents</b>	2,818,964	(818,049)
CASH AND CASH EQUIVALENTS - Beginning of Year	9,545,454	10,363,503
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 12,364,418	\$ 9,545,454

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Consolidation** - The consolidated financial statements include the accounts of Whitworth University, Whitworth Costa Rica Limited (formed in November 2009), and The Whitworth Foundation (the Foundation), collectively referred to as the "University". The purpose of Whitworth Costa Rica Limited is to provide educational services to Whitworth University students at a campus located in Costa Rica and the purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. See Note 17 for summarized financial information related to these entities. All material transactions and balances between the entities have been eliminated in the consolidated financial statements.

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

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

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

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

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

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



WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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

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

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

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

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

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

**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.

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

**Deferred Debt Acquisition Costs** - Certain costs related to the issuance of debt have been deferred and are being amortized over the term of the debt issue.

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

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

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

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

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

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

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

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

**Asset Retirement Obligations** - 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.

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

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**Income Tax Status** - The Internal Revenue Service has determined that the University and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Donations to the University and Foundation are tax deductible. Whitworth Costa Rica Limited is a taxable corporation for purposes of Costa Rican income tax law. As of June 30, 2010, Whitworth Costa Rica Limited did not generate an income tax liability.

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the University addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. taxing authorities are for the years 2007 to 2009, which statutes expire in 2010 to 2012, respectively.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

The carrying 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 \$3,299,000 and \$3,234,000 for the years ended June 30, 2010 and 2009, respectively. Advertising costs are expensed when incurred.

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

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

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**Reclassifications** - Certain prior year amounts have been reclassified to conform with the June 30, 2010 financial statement presentation. These reclassifications, however, had no effect on total net assets or change in net assets.

**Recent Accounting Pronouncements** - The University adopted the provisions of Financial Accounting Standards Board (FASB) ASC Topics 958-205-45, 958-205-50 and 958-205-55 (formerly 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 the year ended June 30, 2009. The Topics provide 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 Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of Washington adopted UPMIFA effective July 1, 2009. As a result of adopting the provisions of UPMIFA, the University reclassified \$12,538,793 of unrestricted net assets into temporarily restricted net assets which represents the amount of accumulated net gains in existence at July 1, 2009 that had not yet been appropriated for spending by the University's governing board. In addition, the University reclassified \$912,824 of unrestricted net assets into permanently restricted net assets which represents the amount of unrestricted net assets that under the University's implementation of UPMIFA should be classified as permanently restricted net assets. See Note 13 for these additional disclosures.

The University adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures*) effective July 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The University's adoption of ASC Topic 820 in fiscal year 2009, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The University's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on the University's financial statements.

Additionally, from time to time, the University may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The University did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended June 30, 2010 or 2009.

The University also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective July 1, 2008. ASC Topic 825 provides, among other things, 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 assets or liabilities that were not currently required to be measured at fair value.

In September 2009, the FASB issued ASU No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 (formerly FAS No. 157-g) amends former FASB Statement No. 157, *Fair Value Measurements*, adds disclosures, and provides guidance for estimating fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The University adopted ASU 2009-12 effective July 1, 2009. See Note 2 for these additional disclosures.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

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

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**Recent Accounting Pronouncements (cont.)** - In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the University's financial statements.

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**NOTE 2 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

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

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

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

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
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	
Alternative investments				
Funds of funds	15,254,217			\$ 15,254,217
Private equity funds	1,460,793			1,460,793
Assets held in trust by others	<u>14,711,495</u>			<u>14,711,495</u>
<b>Total</b>	<b><u>\$ 81,081,651</u></b>	<b><u>\$ 37,629,257</u></b>	<b><u>\$ 12,025,889</u></b>	<b><u>\$ 31,426,505</u></b>

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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

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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.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

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

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

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

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, 2010. \$ 279,909

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
<b>Assets</b>					
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
<b>Total</b>	<b>\$ 42,788,700</b>	<b>\$ (8,391,223)</b>	<b>\$ (2,970,972)</b>	<b>\$ -</b>	<b>\$ 31,426,505</b>

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)

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



**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2010 and 2009

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

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

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity
Fair value, June 30, 2010	\$7,680,293	\$1,871,965	\$3,768,876	\$2,631,979	\$1,485,167
Significant Investment Strategy	Low correlation to standard markets indexes	Low correlation to standard markets indexes	Fund of funds vehicle through which clients can invest in private equity real estate fund or income producing real properties	The fund of funds vehicle expects to invest in partnerships or other commingled funds with portfolio manager that invest in high yield securities, public and private debt, bank loans, trade claims, equity or other distressed obligations	Direct investment in private companies to create gains
Remaining Life	Indefinite	Indefinite	Minimum of 10 years	Minimum of 16 years	1 years
Dollar Amount of Unfunded Commitments	Open	Open	4,180,000	\$2,427,957	\$1,480,000
Timing to Draw Down Commitments	N.A.	N.A.	3 to 5 years	3 to 5 years	3 to 5 years
Redemption Terms	One year lock-up period; after that quarterly or annually	Quarterly	With 90 days advance notice	Not Allowed	Not Allowed
Redemption Restrictions	N.A.	N.A.	As liquidity becomes available after redemption request	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.	N.A.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

**NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES**

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

	<u>2010</u>	<u>2009</u>
Endowment funds	\$ 54,087,302	\$ 50,753,921
Student loan funds	980,006	960,727
Annuity, life income and similar funds	<u>5,243,902</u>	<u>5,731,475</u>
	<u>\$ 60,311,210</u>	<u>\$ 57,446,123</u>

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

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 650,584	\$ 913,040
Acquisition of buildings and equipment	1,849,732	95,784
Endowment funds	18,442,187	3,374,245
Annuity, life income and similar funds	<u>238,546</u>	<u>254,297</u>
	<u>\$ 21,181,049</u>	<u>\$ 4,637,366</u>

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

For current operations	\$ 1,946,391	\$ 692,368
Plant	35,479,617	39,396,813
Endowment funds	7,523,761	19,794,950
Annuity, life income and similar funds	<u>2,218,108</u>	<u>2,158,989</u>
	<u>\$ 47,167,877</u>	<u>\$ 62,043,120</u>

**NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS**

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

	<u>2010</u>	<u>2009</u>
Acquisition of land, building and equipment	\$ 731,452	\$ 2,529,259
Scholarships, instruction and other departmental support	<u>2,299,411</u>	<u>242,250</u>
	<u>\$ 3,030,863</u>	<u>\$ 2,771,509</u>

These assets were reclassified to unrestricted net assets.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**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:

	2010	2009
Unrestricted		\$ 5,025
Unrestricted - completed construction projects	\$ 2,216,028	2,462,325
Current scholarships, departmental programs and activities	78,898	117,712
Endowment for scholarships and departmental programs and activities	350,703	944,842
Building construction and remodeling	2,974,552	1,976,028
Gross unconditional promises to give	5,620,181	5,505,932
Less: Allowance for uncollectable promises	(200,000)	
Less: Unamortized discount	(565,210)	(596,425)
 Net contributions receivable	 \$ 4,854,971	 \$ 4,909,507
 Amounts due in:		
Within one year	\$ 1,528,567	
One to five years	4,091,614	
	\$ 5,620,181	

Promises due in more than one year were discounted at interest rates ranging between 3.3% and 5.0% at June 30, 2010 and 2009. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately \$4,390,000 and \$3,606,000 as of June 30, 2010 and 2009, respectively. For the years ended June 30, 2010 and 2009, contributions from members of the Board of Trustees were approximately \$2,101,000 and \$1,440,000, respectively.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

**NOTE 6 - LONG TERM INVESTMENTS AND DEPOSITS HELD BY TRUSTEE**

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

	<u>2010</u>	<u>2009</u>
Cash and short-term investments	\$ 11,008,786	\$ 2,036,795
Equity securities	9,289,665	8,133,166
Fixed income securities	10,772,626	396,665
Mutual funds	29,496,728	29,099,426
Other investments		
Equity index fund	8,674,411	8,300,977
Global fixed income	4,636,047	3,724,912
Funds of funds		
Hedge funds	7,680,293	8,407,199
Commodities	1,871,965	1,042,642
Real estate investments	3,768,876	3,788,251
Limited partnerships	2,631,979	2,016,125
Private equity funds	1,485,167	1,460,793
Notes receivable, collateralized by real estate at 6% to 10%	229,021	280,610
Notes receivable - other	497,735	
Real estate	2,902,586	2,030,265
Annuity contracts	8,992	8,689
Single premium life insurance policy	129,558	126,154
Cash surrender value of life insurance policies, net of loans	<u>2,820,503</u>	<u>2,805,869</u>
	<u>\$ 97,904,938</u>	<u>\$ 73,658,538</u>

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

Long-term investments	\$ 76,530,654	\$ 73,658,538
Deposits held by trustee	<u>21,374,284</u>	
	<u>\$ 97,904,938</u>	<u>\$ 73,658,538</u>

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

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

**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, 2010 and 2009, the insurance coverage aggregated approximately \$6,079,484 and \$6,169,500, respectively, and the cash surrender value totaled \$2,820,503 and \$2,805,869, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 8 - CONSTRUCTION IN PROGRESS**

At June 30, 2010, the following projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Funding Source</u>
Science Building	\$ 11,681,540	7/31/2011	Debt
Steam Line	171,185	7/31/2011	Debt
Various Campus Projects	193,629	8/31/2010	Operations
Costa Rica Center	<u>277,580</u>	9/10/2010	Operations
	<u>\$ 12,323,934</u>		

Remaining commitments on signed construction contracts approximate \$11,500,000 as of June 30, 2010.

**NOTE 9 - LAND, BUILDINGS AND EQUIPMENT**

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

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

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

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

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

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2009:

	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
	<u>113,501,647</u>	<u>24,242,754</u>	<u>(20,392,206)</u>	<u>117,352,195</u>
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	<u>(52,873,819)</u>	<u>(5,060,581)</u>	<u>12,637,355</u>	<u>(45,297,045)</u>
	<u>\$ 60,627,828</u>	<u>\$ 19,182,173</u>	<u>\$ (7,754,851)</u>	<u>\$ 72,055,150</u>

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:

	2010	2009
Revenue Bonds - 2009 Series	\$ 63,720,000	
Revenue Bonds - 1998 Series		\$ 8,580,000
Revenue Bonds - 2001 Series		3,500,000
Revenue Bonds - 2006 Series		12,530,000
Discount on 2009 Series Revenue Bonds	(637,014)	
Discount on 1998 Series Revenue Bonds		(113,205)
Premium on 2006 Series Revenue Bonds		42,149
	<u>\$ 63,082,986</u>	<u>\$ 24,538,944</u>

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

**NOTE 10 - LONG-TERM DEBT (cont.)**

**Revenue Bonds Payable** - In November 2009, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2009 Revenue and Refunding Bonds in the amount of \$63,720,000 and loan the proceeds to the University. The bonds were issued for the purpose of refinancing the Series 1998, Series 2001 and Series 2006 bonds and for construction and plant improvement projects. These projects include a new residence hall at an estimated cost of approximately \$11,000,000 and a new science building at an estimated cost of approximately \$31,000,000. The outstanding principal balances on the Series 1998 bonds and Series 2001 bonds were paid in full and retired during 2010 using the proceeds of the Series 2009 Bonds. With respect to the Series 2006 bonds, proceeds from the Series 2009 bonds were placed in an escrow account held to defease the bonds in October 2027. The balance in the escrow account, which is not recorded on the University's statement of financial position, at June 30, 2010 was \$13,309,122. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was \$12,195,000 at June 30, 2010.

Interest is payable on the Series 2009 bonds semi-annually on each October 1 and April 1 at rates ranging from 4.000% to 5.875%. Serial bonds are payable in amounts ranging from \$885,000 to \$1,320,000 on October 1, 2010 through October 1, 2019. Term bonds in the amounts of \$7,705,000, \$10,025,000, \$13,290,000, and \$21,885,000 are due October 1, 2024, 2029, 2034, and 2040, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2020 to 2040, in amounts varying from \$1,385,000 to \$4,180,000.

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

Deposits with trustee include proceeds from the Series 2009 bonds held for the following purposes at June 30, 2010:

Debt service reserve fund	\$	4,351,057
Holdback account		450,000
Construction project account		16,573,227
	<b>\$</b>	<b>21,374,284</b>

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2010 are:

<u>Year Ended June 30</u>		<u>Principal</u>
2011	\$	885,000
2012		920,000
2013		960,000
2014		1,000,000
2015		1,040,000

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

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**NOTE 11 - SPLIT INTEREST AGREEMENTS**

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

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

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**NOTE 12 - EMPLOYEE BENEFIT PLANS**

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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 \$1,826,000 and \$1,673,000 in 2010 and 2009, 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.



**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2010 and 2009

**NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)**

The following is a reconciliation of the benefit obligation and the value of plan assets at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1	\$ 7,000,869	\$ 5,226,170
Interest cost	336,085	406,762
Service cost	163,444	183,740
Actuarial loss (gain)	(1,321,224)	1,379,861
Benefits paid	<u>(156,446)</u>	<u>(195,664)</u>
Projected benefit obligation at June 30	<u>\$ 6,022,728</u>	<u>\$ 7,000,869</u>
<b>Change in plan assets</b>		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	161,219	187,954
Participant contribution	59,952	59,724
Benefits paid	<u>(221,171)</u>	<u>(247,678)</u>
Fair value of plan assets at June 30	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status</b>		
Underfunded status at June 30	<u>\$ (6,022,728)</u>	<u>\$ (7,000,869)</u>
<b>Amounts recognized in the statements of financial position consist of:</b>		
Noncurrent assets	\$ -	\$ -
Current liabilities	250,000	185,000
Noncurrent liabilities	<u>5,772,728</u>	<u>6,815,869</u>
Net amount recognized	<u>\$ 6,022,728</u>	<u>\$ 7,000,869</u>
<b>Net periodic post retirement benefit expense for the year ended June 30, 2010 is comprised the following</b>		
Service cost	\$ 163,444	\$ 183,740
Interest cost	336,085	406,762
Amortization of unrecognized net loss	<u>139,820</u>	<u>350,721</u>
Net periodic benefit cost	<u>\$ 639,349</u>	<u>\$ 941,223</u>

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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### NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)

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The University expects to contribute approximately \$190,000 to its postretirement plan in 2011. 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:		
2011	\$	250,000
2012		270,000
2013		278,000
2014		301,000
2015		345,000
2016 - 2020		1,735,000

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2011, and the estimated benefit obligation at June 30, 2011 are as follows:

<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1	\$	6,022,728
Interest cost		400,997
Service cost		194,182
Actuarial loss		1,045,462
Expected benefits paid		<u>(188,642)</u>
Projected benefit obligation at June 30	\$	<u>7,474,727</u>

The above assumptions and calculations are based on information as of June 30, 2010 and 2009, 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, 2010. An 11% rate of increase in the per capita costs of covered health care benefits was assumed at June 30, 2010, decreasing 0.5% per year to an ultimate level of 5% beginning in 2018. Discount rates of 6.00% and 6.25% were used to determine the accumulated postretirement benefit obligation for 2010 and 2009, respectively.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2010, to approximately \$6,603,197 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2010 to approximately \$764,223.

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.

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### NOTE 13 - ENDOWMENTS

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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.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 13 - ENDOWMENTS (cont.)**

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

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

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

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

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

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

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

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 13 - ENDOWMENTS (cont.)**

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	<u>\$ 19,794,950</u>	<u>\$ 3,374,245</u>	<u>\$ 50,753,921</u>	<u>\$ 73,923,116</u>

**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 or UMIFA 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 \$741,000 and \$1,450,000 as of June 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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

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

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

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2010 and 2009

**NOTE 14 - CONCENTRATION OF CREDIT RISK**

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

**NOTE 15 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Supplemental cash flow information for June 30 is as follows:

	<u>2010</u>	<u>2009</u>
Interest paid (net of capitalized interest)	\$ 1,260,471	\$ 937,026
Capitalized interest	948,484	249,954
Noncash investing and financing activities		
Construction in progress included in accounts payable	2,131,562	906,220
Summary of bond issue		
Proceeds from bond issue	\$ 63,720,000	
Discount	(654,231)	
Reserve funds used for principal and interest payments on retired bonds	1,577,525	
Funds deposited to escrow account for construction projects	(35,190,000)	
Funds deposited to escrow account used for principal and interest payments on retired bonds	(24,600,388)	
Funds deposited to escrow account for debt service reserves	(4,299,656)	
Deferred debt acquisition costs paid from bond proceeds	(553,250)	

**NOTE 16 - ALLOCATION OF EXPENSES**

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

	<u>2010</u>	<u>2009</u>
Salaries and related costs	\$ 27,859,999	\$ 26,584,265
Benefits	6,777,507	6,613,072
Travel, professional development and cultivation	1,696,688	1,698,011
Materials and supplies	2,640,005	2,463,934
Maintenance of facilities and equipment	2,707,942	2,707,406
Utilities, insurance and taxes	3,363,130	3,351,286
Postage, print shop, board bill, general services	8,199,722	7,081,168
Interest	1,834,105	924,043
Depreciation, amortization and accretion	5,138,534	5,115,174
Other expenses	110,885	120,272
	<u>\$ 60,328,517</u>	<u>\$ 56,658,631</u>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2010 and 2009

**NOTE 17 - CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

The consolidated statement of financial position as of June 30, 2010 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 12,066,504	\$ 2,053	\$ 295,861	\$ 12,364,418
Note receivable (payable)	2,452,832	(2,452,832)		
Student accounts receivable, net	549,427			549,427
Contributions receivable, net	4,854,971			4,854,971
Other receivables	922,657			922,657
Inventories	581,131			581,131
Prepaid expenses and other assets	661,238			661,238
Student loans receivable, net	4,483,310			4,483,310
Long-term Investments	59,499,173		17,031,481	76,530,654
Deposits held by trustee	21,374,284			21,374,284
Deferred debt acquisition costs	538,692			538,692
Property, plant and equipment	81,354,335	2,450,671		83,805,006
Assets held in trust by others	15,125,639			15,125,639
<b>Total Assets</b>	<b>\$ 204,464,193</b>	<b>\$ (108)</b>	<b>\$ 17,327,342</b>	<b>\$ 221,791,427</b>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and other liabilities	\$ 3,533,534			\$ 3,533,534
Accrued payroll and related benefits	8,735,164			8,735,164
Student deposits	1,345,520			1,345,520
Deferred revenue	1,553,591			1,553,591
Asset retirement obligations	803,276			803,276
Accrued interest payable	854,928			854,928
Long-term debt	63,082,986			63,082,986
Annuities payable			\$ 9,626,787	9,626,787
Federal student loan funds	3,595,505			3,595,505
<b>Total Liabilities</b>	<b>83,504,504</b>		<b>9,626,787</b>	<b>93,131,291</b>
<b>Net Assets</b>				
Unrestricted net assets	44,949,878	\$ (108)	2,218,107	47,167,877
Temporarily restricted net assets	20,942,503		238,546	21,181,049
Permanently restricted net assets	55,067,308		5,243,902	60,311,210
<b>Total Net Assets</b>	<b>120,959,689</b>	<b>(108)</b>	<b>7,700,555</b>	<b>128,660,136</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 204,464,193</b>	<b>\$ (108)</b>	<b>\$ 17,327,342</b>	<b>\$ 221,791,427</b>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2010 and 2009

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**NOTE 18 - SUBSEQUENT EVENTS**

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The University has evaluated subsequent events through October 13, 2010 which is the date that the financial statements were issued.