WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

WHITWORTH UNIVERSITY

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Whitworth University
Spokane, Washington

We have audited the accompanying consolidated financial statements of Whitworth University and subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Whitworth University and subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2018, the University adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 4, 2018

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017
(in thousands of dollars)

ASSETS

	2018	2017
Cash and cash equivalents	$ 4,173	$ 4,952
Receivables		
Student accounts, net of allowance for doubtful accounts of $285 in 2018 and $270 in 2017	1,111	1,090
Contributions, net	6,149	5,118
Other	902	749
Other assets	1,818	1,696
Student loans receivable, net	3,804	3,798
Investments	172,945	163,216
Deposits held by trustee	4,781	5,279
Land, buildings and equipment, net	103,577	104,264
Land, buildings and equipment held for sale, net	2,726	2,726
Assets held in trust by others	20,572	20,030
TOTAL ASSETS	$ 322,558	$ 312,918

LIABILITIES AND NET ASSETS

	2018	2017
LIABILITIES		
Accounts payable and other liabilities	$ 2,257	$ 2,157
Accrued payroll and related benefits	6,661	8,092
Student deposits	2,811	2,272
Deferred revenue	1,629	2,056
Asset retirement obligations	1,005	990
Accrued interest payable	946	957
Long-term debt	79,336	81,178
Annuities payable	9,821	10,286
Federal student loan funds	3,192	3,398
Total Liabilities	107,658	111,386
NET ASSETS		
Without donor restrictions	65,877	63,877
With donor restrictions	149,023	137,655
Total Net Assets	214,900	201,532
TOTAL LIABILITIES AND NET ASSETS	$ 322,558	$ 312,918

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
With Comparative Totals for 2017
(in thousands of dollars)

	2018 Without Donor Restrictions	2018 With Donor Restrictions	2018 Total	2017 Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition and fees	$ 99,006		$ 99,006	$ 97,141
Less: Scholarships and grants	(46,666)		(46,666)	(45,003)
Net tuition and fees	52,340		52,340	52,138
Government grants	855		855	865
Contributions and gifts	2,196	$ 2,841	5,037	4,027
Long-term investment income and gains allocated for operations	538	3,481	4,019	3,763
Other sources	1,675	12	1,687	1,600
Investment returns	1,970		1,970	2,043
Auxiliary enterprises revenues	11,942		11,942	13,114
	71,516	6,334	77,850	77,550
Net assets released from restrictions - operating	4,629	(4,629)		
Total Operating Revenues, Gains and Other Support	76,145	1,705	77,850	77,550
OPERATING EXPENSES				
Program expenses				
Instruction	31,145		31,145	32,149
Public service	1,272		1,272	1,239
Academic support	7,582		7,582	7,707
Student services	14,186		14,186	13,782
Auxiliary enterprises	10,316		10,316	11,381
Support expenses				
Institutional support	12,961		12,961	13,906
Allocable expenses				
Operation and maintenance of plant	5,839		5,839	5,570
Interest	3,561		3,561	3,918
Unfunded depreciation, amortization, and accretion	5,523		5,523	7,234
Less: Allocated expenses	(14,923)		(14,923)	(16,722)
Total Operating Expenses	77,462		77,462	80,164
Change in Net Assets from Operating Activities	(1,317)	1,705	388	(2,614)
NONOPERATING ACTIVITIES				
Long-term investment income and net gains, net of amount allocated for operations	767	3,689	4,456	11,428
Change in value of assets held in trust by others		567	567	828
Contributions and gifts	1,200	6,212	7,412	5,437
Adjustment to actuarial liability for annuities payable	308	347	655	541
Other sources	8	(13)	(5)	685
Loss on debt refinancing				(7,114)
Adjustment to prior service cost and actuarial liability for retiree health plan	(105)		(105)	(210)
Net assets released from restrictions - nonoperating	1,139	(1,139)		
Change in Net Assets from Nonoperating Activities	3,317	9,663	12,980	11,595
Change in Net Assets	2,000	11,368	13,368	8,981
Net Assets - Beginning of Year	63,877	137,655	201,532	192,551
NET ASSETS - END OF YEAR	$ 65,877	$ 149,023	$ 214,900	$ 201,532

See accompanying notes to consolidated financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(in thousands of dollars)

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS AND OTHER SUPPORT			
OPERATING REVENUES			
Tuition and fees	$ 97,141		$ 97,141
Less: Scholarships and grants	(45,003)		(45,003)
Net tuition and fees	52,138		52,138
Government grants	865		865
Contributions and gifts	2,658	$ 1,369	4,027
Long-term investment income and gains allocated for operations	502	3,261	3,763
Other sources	1,594	6	1,600
Investment returns	2,043		2,043
Auxiliary enterprises revenues	13,114		13,114
	72,914	4,636	77,550
Net assets released from restrictions - operating	4,272	(4,272)	
Total Operating Revenues, Gains and Other Support	77,186	364	77,550
OPERATING EXPENSES			
Program expenses			
Instruction	32,149		32,149
Public service	1,239		1,239
Academic support	7,707		7,707
Student services	13,782		13,782
Auxiliary enterprises	11,381		11,381
Support expenses			
Institutional support	13,906		13,906
Allocable expenses			
Operation and maintenance of plant	5,570		5,570
Interest	3,918		3,918
Unfunded depreciation, amortization, and accretion	7,234		7,234
Less: Allocated expenses	(16,722)		(16,722)
Total Operating Expenses	80,164		80,164
Change in Net Assets from Operating Activities	(2,978)	364	(2,614)
NONOPERATING ACTIVITIES			
Long-term investment income and net gains, net of amount allocated for operations	1,452	9,976	11,428
Change in value of assets held in trust by others		828	828
Contributions and gifts	729	4,708	5,437
Adjustment to actuarial liability for annuities payable	50	491	541
Other sources	688	(3)	685
Loss on debt refinancing	(7,114)		(7,114)
Adjustment to prior service cost and actuarial liability for retiree health plan	(210)		(210)
Net assets released from restrictions - nonoperating	3,351	(3,351)	
Change in Net Assets from Nonoperating Activities	(1,054)	12,649	11,595
Change in Net Assets	(4,032)	13,013	8,981
Net Assets - Beginning of Year	67,909	124,642	192,551
NET ASSETS - END OF YEAR	$ 63,877	$ 137,655	$ 201,532

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017
(in thousands of dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 13,368	$ 8,981
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	5,523	7,234
Loss on debt refinancing		7,114
Adjustment to prior service cost and actuarial liability for retiree health plan	105	210
Adjustment to actuarial liability for annuities payable	(655)	(541)
Net gains on investments	(6,800)	(12,569)
Change in value of assets held in trust by others	(542)	(828)
Change in allowance on student accounts receivable	15	20
Loan cancellations, assignments and write-offs	61	66
Loss from disposal of assets	27	
Change in assets		
Student accounts receivable	(36)	(156)
Other receivables	(153)	262
Other assets	(122)	(38)
Contributions receivable for operations	764	(858)
Change in liabilities		
Accounts payable, other liabilities and accrued interest payable	(141)	(278)
Accrued payroll and related benefits	(1,536)	1,556
Student deposits	539	495
Deferred revenue	(427)	(8)
Contributions restricted for plant and long-term investment	(7,412)	(5,437)
Net Cash Flows From Operating Activities	2,578	5,225
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	795	708
Advances	(862)	(546)
Purchases of land, buildings and equipment	(4,710)	(7,271)
Drawdowns of deposits held by trustee	498	51
Proceeds from sales of long-term investments	38,913	32,924
Purchases of long-term investments	(40,781)	(35,229)
Net Cash Flows From Investing Activities	(6,147)	(9,363)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	5,696	5,362
Proceeds from issuance of long-term debt		4,000
Payments on long-term debt	(1,750)	(1,565)
Payments to annuitants	(950)	(892)
Net change in federal student loan funds	(206)	3
Net Cash Flows From Financing Activities	2,790	6,908
Net Change in Cash and Cash Equivalents	(779)	2,770
CASH AND CASH EQUIVALENTS - Beginning of Year	4,952	2,182
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 4,173	$ 4,952

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, and investment earnings. The financial statements have been prepared on the accrual basis of accounting. The more significant accounting policies are summarized below:

Consolidation - The consolidated financial statements include the accounts of Whitworth University, Whitworth Costa Rica Limited, and The Whitworth Foundation (the "Foundation"), collectively referred to as the "University." The purpose of Whitworth Costa Rica Limited is to provide educational services to Whitworth University students at a campus located in Costa Rica and the purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. See Note 22 for summarized financial information related to these entities. All transactions and balances between the entities have been eliminated in the consolidated financial statements.

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

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

With Donor Restrictions - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

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

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 donor-imposed restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the two classes of net assets. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues in net assets without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues in net assets with donor restrictions; the restrictions are considered to be met and released as the asset is constructed or, if purchased, when it is placed in service.

Losses on the investments of a donor-restricted endowment fund reduce net assets with donor restrictions. Gains and losses on investments of endowment funds created by a board designation of unrestricted funds are classified as changes in net assets without donor restrictions.

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

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

Tuition and Fees 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 and Cash Equivalents - The University considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents do not include investments the University has both the ability and intent to hold long-term. Certain cash held by the University is restricted for the Perkins Loan Fund.

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

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

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

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

Buildings	50 to 60 years
Building and other improvements	5 to 30 years
Equipment	5 to 8 years

Prior to 2018, the University was using a range of 30 to 40 years for the estimated useful lives of buildings.

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.

Land, buildings and equipment held for sale on the statements of financial position relates to the University's property located in Costa Rica. Beginning at the end of 2016, these assets are no longer being depreciated.

(in thousands of dollars)

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

Impairment of Long-Lived Assets - The University reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted net cash flows of the operation to which the assets relate to the carrying amount. If the operation is determined to be unable to recover the carrying amount of its assets, then assets are written down first, followed by other long-lived assets of the operation to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. For the years ended June 30, 2018 and 2017, there were no impairment losses recognized for long-lived assets.

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

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 - The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the statement of activities. The University reviews its estimates annually and adjusts the recorded liability as needed.

Substantially all of the University’s asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

Changes in the accrual for asset retirement obligations during the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Balance, Beginning of the year	$ 990	$ 920
Abatements	(115)	(1)
Accretion expense	130	71
Balance, End of the year	$ 1,005	$ 990

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

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.

Income Tax Status - The Internal Revenue Service has determined that both the University and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University and Foundation are not subject to federal income taxes except to the extent they generate income from certain activities not substantially related to their tax-exempt purpose (unrelated trade or business activities). Donations to the University and Foundation are tax deductible. Whitworth Costa Rica Limited is a taxable corporation for purposes of Costa Rican income tax law.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2018 and 2017. The University's tax returns are subject to review and examination by federal authorities.

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

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled $2,886 and $2,837 for the years ended June 30, 2018 and 2017, 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.

New Accounting Pronouncements Adopted in Current Year - In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The University adopted the provisions of this new standard during the year ended June 30, 2018. The primary changes include presenting two classes of net assets versus the three categories previously required and recognition of underwater endowment funds as a reduction to the net assets with donor restrictions class. The standard also provides for enhanced disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both natural and functional classification. This standard has been retrospectively applied to the prior period presented with certain transition provisions.

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

New Accounting Pronouncements Not Yet Effective - In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). The University is assessing the impact this standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). The University is assessing the impact this standard will have on its financial statements.

During June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. For not-for-profit entities that have conduit debt, ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. All other entities should apply the amendments for fiscal years beginning after December 15, 2018. The University is currently assessing the impact that this standard will have on its financial statements.

(in thousands of dollars)

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following table reflects the University's financial assets as of June 30, 2018, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other financial assets that are excluded from this measure of liquidity include endowments and accumulated earnings restricted by donors or the University's Board of Trustees, bond reserves that can only be used for specific capital projects, assets held for or by others and annuity reserves.

	2018
Financial assets	
Cash and cash equivalents	$ 4,173
Short-term investments	31,796
Contributions receivable	6,149
Accounts receivable from students and others	1,111
Student loan receivables	3,804
Long-term investments	141,149
Deposits held by trustee	4,781
Assets held in trust by others	20,572
Financial assets at June 30	213,535
Less those unavailable for general expenditure within one year:	
Contributions receivable for construction projects and endowments	6,149
Short-term investments held for plant and endowment	13,443
Accounts receivable beyond one year	261
Grants and deposits	4,441
Student loan receivables restricted for financial aid purposes	3,804
Endowment assets restricted by donors, net of appropriation for next year	105,113
Endowment assets restricted by the Board of Trustees, net of appropriation for next year	15,411
Bond proceeds and reserves restricted by use	4,781
Investments held for others connected to split-interest agreements	19,186
Assets held in trust by others	20,572
Financial assets not available for expenditure within one year	193,161
Financial assets available to meet cash needs for general purposes within one year	$ 20,374

As of June 30, 2018, the University had liquid assets on hand to cover approximately 95 days of operating expenses. The University's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due and targets a minimum of 60 days of operating expense coverage at any point in time.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has an unsecured $4,000 line of credit with Wells Fargo Bank, representing approximately 19 days of operating expenses. No funds have been drawn from this line since its inception.

(in thousands of dollars)

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2018	2017
Time restricted for future payments	$ 2,826	$ 1,164
Gifts restricted for capital acquisitions	2,344	1,320
Student loan funds	1,129	1,142
Endowment funds	135,769	127,334
Annuity, life income and similar funds	6,955	6,695
	$ 149,023	$ 137,655

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

	2018	2017
Operations	$ 11,412	$ 11,343
Plant	35,996	34,874
Endowment funds	16,011	15,250
Annuity, life income and similar funds	2,458	2,410
	$ 65,877	$ 63,877

NOTE 4 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors totaled $5,768 and $7,623 during the years ended June 30, 2018 and 2017, respectively. The expenses related to capital expenditures ($1,139 and $3,351 for 2018 and 2017, respectively), scholarships, instruction and other departmental support ($4,629 and $4,272 for 2018 and 2017, respectively).

(in thousands of dollars)

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:

	2018	2017
Without donor restrictions - construction projects	$ 766	$ 1,526
Without donor restrictions - operating		675
With donor restrictions		
Current scholarships, departmental programs and activities	384	479
Building construction and remodeling	2,599	1,118
Endowment for scholarships and departmental programs and activities	3,232	1,975
Gross unconditional promises to give	6,981	5,773
Less: Allowance for uncollectible promises	(400)	(400)
Less: Unamortized discount	(432)	(255)
Net contributions receivable	$ 6,149	$ 5,118
Amounts due in:		
Within one year	$ 2,509	
One to five years	4,460	
Greater than five years	12	
	$ 6,981	

Promises due in more than one year were discounted at rates ranging between 2% and 6% at June 30, 2018 and 2017. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately $2,885 and $2,205 as of June 30, 2018 and 2017, respectively. For the years ended June 30, 2018 and 2017, contributions (new pledges and cash gifts) from members of the Board of Trustees were approximately $2,279 and $1,472, respectively.

NOTE 6 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

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

NOTE 6 - FAIR VALUE MEASUREMENTS (cont.)

Level 2 - Level 2 assets include:

> Investments in certain fixed income securities (corporate bonds and notes) for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Level 3 - Level 3 assets include:

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

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

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

There have been no changes in the techniques and inputs used as of June 30, 2018 and 2017.

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.

(in thousands of dollars)

NOTE 6 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2018:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 1,365	$ 1,365		
Fixed income securities	10,136	2,863	$ 7,273	
Mutual funds				
Domestic equity	32,946	32,946		
Domestic fixed income	38,825	38,825		
International equity	33,030	33,030		
Assets held in trust by others	20,572			$ 20,572
Subtotal by valuation hierarchy	136,874	$ 109,029	$ 7,273	$ 20,572
Alternative investments measured using net asset value	48,898			
Total assets at fair value	$ 185,772			

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 1,238	$ 1,238		
Fixed income securities	11,625	2,257	$ 9,368	
Mutual funds				
Domestic equity	28,731	28,731		
Domestic fixed income	36,608	36,608		
International equity	33,321	33,321		
International fixed income	645	645		
Assets held in trust by others	20,030			$ 20,030
Subtotal by valuation hierarchy	132,197	$ 102,799	$ 9,368	$ 20,030
Alternative investments measured using net asset value	46,151			
Total assets at fair value	$ 178,348			

(in thousands of dollars)

NOTE 6 - FAIR VALUE MEASUREMENTS (cont.)

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

	Balances June 30, 2017	Realized and unrealized gains	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2018
Assets						
Assets held in trust by others	$ 20,030	$ 606	$	$ (64)	$	$ 20,572

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at June 30, 2018. $ 606

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2017:

	Balances June 30, 2016	Realized and unrealized gains	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2017
Assets						
Assets held in trust by others	$ 19,402	$ 828	$	$ (200)	$	$ 20,030

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 assets still held at June 30, 2017. $ 828

(in thousands of dollars)

NOTE 6 - FAIR VALUE MEASUREMENTS (cont.)

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

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of June 30, 2018 and 2017:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2018	$21,619	$1,860	$10,916	$3,965	$10,538
Fair value, June 30, 2017	$20,778	$1,656	$9,735	$4,536	$9,445
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	4 years
Dollar Amount of Unfunded Commitments	Open	Open	$1,175	$427	$7,018
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	N.A.	N.A.	N.A.	N.A.	N.A.

(in thousands of dollars)

NOTE 7 - INVESTMENTS AND DEPOSITS HELD BY TRUSTEE

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

	2018	2017
At fair value		
Equity securities	$ 1,365	$ 1,238
Fixed income securities	10,136	11,625
Mutual funds		
Domestic equity	32,946	28,731
Domestic fixed income	38,825	36,608
International equity	33,030	33,321
International fixed income		645
Alternative investments		
Equity index fund (hedge fund)	12,612	11,523
Funds of funds		
Hedge funds	9,007	9,255
Commodities	1,860	1,656
Real assets	10,916	9,735
Limited partnerships	3,965	4,536
Private equity funds	10,538	9,445
Total other investments	48,898	46,151
At cost		
Cash and short-term investments	8,244	5,991
Real estate	759	759
Annuity contracts	1	1
Single premium life insurance policy	158	154
Cash surrender value of life insurance policies	3,364	3,272
	$ 177,726	$ 168,495

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

	2018	2017
Short-term investments	$ 31,796	$ 28,731
Long-term investments	141,149	134,485
Deposits held by trustee (Note 11)	4,781	5,279
	$ 177,726	$ 168,495

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.

(in thousands of dollars)

NOTE 8 - LIFE INSURANCE POLICIES

The University and Foundation have received gifts of several life insurance policies and are designated as both the owner and beneficiary of these life insurance policies. At June 30, 2018 and 2017, the insurance coverage aggregated approximately $6,460 and $6,456, respectively, and the cash surrender value totaled $3,364 and $3,272, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

NOTE 9 - CONSTRUCTION IN PROGRESS

At June 30, 2018, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
Chapel addition	$ 1,176	9/1/2018	Gifts/Grant
Campus building improvements	165	12/31/2018	Operations
Pool evacuator and ground improvements	66	12/31/2018	Gifts/Operations
Athletics administration building	620	9/1/2019	Debt/Gifts
	$ 2,027		

Remaining commitments on signed construction contracts approximate $1,622 as of June 30, 2018.

NOTE 10 - LAND, BUILDINGS AND EQUIPMENT

Activity relating to land, buildings and equipment and the related accumulated depreciation amounts for the year ended June 30, 2018:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 5,876	$ 173		$ 6,049
Buildings	144,577	1,272	$ (192)	145,657
Buildings and other improvements	23,930	1,528	(35)	25,423
Equipment	20,374	898	(617)	20,655
Construction in progress	958	1,838	(769)	2,027
	195,715	5,709	(1,613)	199,811
Less: Accumulated Depreciation for:				
Buildings	(62,180)	(3,129)	192	(65,117)
Buildings and other improvements	(11,904)	(1,389)	35	(13,258)
Equipment	(14,641)	(1,082)	590	(15,133)
Total Accumulated Depreciation	(88,725)	(5,600)	817	(93,508)
	$ 106,990	$ 109	$ (796)	$ 106,303

Reconciliation to statement of net position	
Land, buildings and equipment, net	$ 103,577
Land, buildings and equipment held for sale, net	2,726
	$ 106,303

(in thousands of dollars)

NOTE 10 - LAND, BUILDINGS AND EQUIPMENT (cont.)

Activity relating to land, buildings and equipment and the related accumulated depreciation amounts for the year ended June 30, 2017:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 5,876			$ 5,876
Buildings	130,711	$ 13,866		144,577
Buildings and other improvements	24,503	162	$ (735)	23,930
Equipment	18,851	1,961	(438)	20,374
Construction in progress	10,855	958	(10,855)	958
	190,796	16,947	(12,027)	195,715
Less: Accumulated Depreciation for:				
Buildings	(57,653)	(4,527)		(62,180)
Buildings and other improvements	(11,513)	(1,126)	735	(11,904)
Equipment	(13,519)	(1,560)	438	(14,641)
Total Accumulated Depreciation	(82,685)	(7,213)	1,173	(88,725)
	$ 108,111	$ 9,734	$ (10,855)	$ 106,990
Reconciliation to statement of net position				
Land, buildings and equipment, net				$ 104,264
Land, buildings and equipment held for sale, net				2,276
				$ 106,990

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

NOTE 11 - LONG-TERM DEBT

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

	2018	2017
Revenue Bonds - 2012 Series	$ 18,155	$ 18,445
Premium on 2012 Series Revenue Bonds	397	410
Revenue and Refunding Bonds - 2016 Series	59,074	60,535
Premium on 2016 Series Revenue and Refunding Bonds	2,294	2,396
	79,920	81,786
Less deferred debt acquisition costs, net	(584)	(608)
	$ 79,336	$ 81,178

NOTE 11 - LONG-TERM DEBT (cont.)

2009 Series Revenue and Refunding Bonds - 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, 2018 was $9,912. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was $9,000 at June 30, 2018.

See below for the information on the 2016 Series bonds that reflects the refinancing of the 2009 Series bonds.

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

Interest is payable on the Series 2012 bonds semi-annually on each October 1 and April 1 at rates ranging from 3.00% to 5.25%. Serial bonds are payable in amounts ranging from $300 to $345 on October 1, 2018 through October 1, 2022. Term bonds in the amounts of $2,000, $2,565, $3,310, and $8,675 are due on October 1, 2027, 2032, 2037, and 2046, respectively. The term bonds are subject to annual sinking fund payments on October 1, in the years 2023 to 2046, in amounts varying from $360 to $1,180.

2016 Series Revenue and Refunding Bonds - In December 2016, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2016A Nontaxable Revenue and Refunding Bonds in the amount of $47,660 and Series 2016B Taxable Refunding Revenue Bonds in the amount of $12,875 and loan the proceeds to the University. The bonds were issued for the purpose of refinancing the outstanding balance of the Series 2009 bonds previously issued by the Authority and lent to the University in November 2009 and for the construction of a new athletics administration building and other facility improvements for the University. With respect to the Series 2009 bonds, proceeds from the 2016A and 2016B Series bonds were placed in an escrow account held to defease the Series 2009 bonds in October 2019. The balance in that escrow account, which is not recorded on the University's financial statements, at June 30, 2018 was $58,070. The outstanding balance on the Series 2009 bonds, which is not recorded on the University's financial statements, was $55,500 at June 30, 2018.

Interest is payable on the Series 2016 bonds semi-annually on each October 1 and April 1 at rates ranging from 2.31% to 5.00%. Serial bonds are payable in amounts ranging from $1,495 to $3,435 on October 1, 2018 through October 1, 2036. Term bonds schedule to mature on October 1, 2040, which was the same term of the refunded 2009 Series bonds, are subject to mandatory sinking fund redemptions in the amounts of $3,610, $3,795, $3,990, and $4,195 on October 1, 2037, 2038, 2039, and 2040, respectively. The University was not required to establish a reserve fund for the 2016 Series bonds.

(in thousands of dollars)

NOTE 11 - LONG-TERM DEBT (cont.)

The University has pledged its unrestricted revenues and property of the core campus located in Spokane, Washington (see Note 10) to the repayment of its obligations under the loan agreements. As a condition of the issuance of the bonds, the University has agreed to certain covenants for the protection of bond owners, including maintaining in each fiscal year income available for debt service at least equal to 1.00 times annual debt service for such fiscal year beginning after the date of issuance of the bonds and continuing through the fiscal year that is two fiscal years after the last of the new facilities is placed in service, and 1.25 times annual debt service in each other fiscal year. The University was in compliance with these debt covenants as of June 30, 2018 and 2017.

Deposits held by trustee (Note 7) at June 30, 2018 include debt service reserves related to the Series 2012 bonds and $3,457 of unspent bond proceeds for construction related to the Series 2016 bonds.

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2018 are:

Year Ended June 30	Principal
2019	$ 1,795
2020	1,850
2021	1,915
2022	1,985
2023	2,070

Certain costs related to the issuance of debt have been deferred and are being amortized over the term of the debt issue. Accumulated amortization approximated $82 and $59 at June 30, 2018 and 2017, respectively.

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 the applicable discount rates in effect at the time the agreements were received by the Foundation in calculating the present values.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' laws. The total amount held in separate reserve funds was $1,146 and $1,186, respectively, as of June 30, 2018 and 2017.

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 $2,265 and $2,239 in 2018 and 2017, respectively.

In addition to providing retirement benefits, the University pays a portion of the premiums for certain health care benefits provided to selected retired employees who reach retirement age while working for the University. Certain retired employees are required to contribute a portion of the cost of their medical insurance coverage. The University accrues for these benefits over the service lives of the employees rather than expense the cost of premiums as they are paid. The plan is unfunded, and the accrued postretirement benefit obligation is included in accrued payroll and related benefits on the statements of financial position.

The University measures postretirement plan obligations as of June 30.

The University is part of a Voluntary Employee Benefit Association (VEBA) in order to help fund the costs of healthcare for employees who have met certain eligibility requirements. The University contributed approximately $208 and $238 annually to the VEBA plan in 2018 and 2017, respectively.

(in thousands of dollars)

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

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

	2018	2017
Change in projected benefit obligation		
Benefit obligation at July 1	$ 2,433	$ 2,223
Interest cost	93	94
Service cost	18	22
Actuarial loss	76	163
Estimated benefits paid	(81)	(69)
Projected benefit obligation at June 30	$ 2,538	$ 2,433
Change in plan assets		
Fair value of plan assets at July 1	$ -	$ -
Employer contribution	78	67
Participant contribution	7	13
Actual benefits paid	(85)	(80)
Fair value of plan assets at June 30	$ -	$ -
Funded status		
Underfunded status at June 30	$ (2,538)	$ (2,433)
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	100	99
Noncurrent liabilities	2,438	2,334
Net amount recognized	$ 2,538	$ 2,433
Amounts not recognized as components of net periodic benefit cost consist of:		
Unrecognized prior service cost	$ -	$ -
Unrecognized net gain	(1,553)	(1,765)
Unrecognized net transition obligation	-	-
Net amount not recognized	$ (1,553)	$ (1,765)
Net periodic post-retirement benefit expense for the year ended June 30 is comprised of the following:		
Service cost	$ 18	$ 22
Interest cost	93	94
Net amortization and deferral	(136)	(188)
Net periodic benefit cost	$ (25)	$ (72)

(in thousands of dollars)

NOTE 13 - EMPLOYEE BENEFIT PLANS (cont.)

The University expects to contribute approximately $240 to its postretirement plan in 2018. 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:		
2019	$	100
2020		104
2021		109
2022		111
2023		112
2024 – 2028		536

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2019, and the estimated benefit obligation at June 30, 2019 are as follows:

Change in projected benefit obligation		
Benefit obligation at July 1, 2018	$	2,538
Interest cost		89
Service cost		16
Actuarial gain		(116)
Expected benefits paid		(82)
Projected benefit obligation at June 30, 2019	$	2,446

The above assumptions and calculations are based on information as of June 30, 2018 and 2017, 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, 2018. A 9% rate of increase in the per capita costs of covered health care benefits was initially assumed, decreasing 0.5% per year to an ultimate level of 5%. A discount rate of 3.75% was used to determine the accumulated postretirement benefit obligation for 2018 and 2017.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated post-retirement benefit obligation as of June 30, 2018, to $2,727 and the decrease the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2018 to approximately $2.

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.

(in thousands of dollars)

NOTE 14 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At June 30, 2018 and 2017, student loans receivable represented approximately 1.2% of total assets.

At June 30, 2018 and 2017, student loans consisted of the following:

	2018	2017
Federal government programs	$ 3,516	$ 3,550
Institution programs	594	554
	4,110	4,104
Less allowance for doubtful accounts:		
Beginning of year	(306)	(306)
Write-offs		
End of year	(306)	(306)
Student loans receivable, net	$ 3,804	$ 3,798

Funds advanced by the Federal government of $3,192 and $3,398 at June 30, 2018 and 2017, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At June 30, 2018 and 2017, the following amounts were past due under student loan programs:

	Amounts Past Due			
	Less than 240 days	Less than 2 years	More than 2 years	Total
June 30,				
2018	$ 45	$ 8	$ 127	$ 180
2017	74	-	155	229

(in thousands of dollars)

NOTE 15 - ENDOWMENTS

The University's endowment consists of approximately 380 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The University's governing board has interpreted the State of Washington enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. 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 remaining portion of the fund, which consists of earnings and gains/losses from the investment of such funds net of expenditures, is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the endowment fund

(2) The purposes of the University and the endowment fund

(3) General economic conditions

(4) The possible effect of inflation or deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the University

(7) The investment policy of the University

The following table summarizes endowment net asset composition by type of fund as of June 30, 2018:

	Without Donor Restrictions	With Donor Restrictions		Total
		Accumulated Gains	Original Gifts	
Donor-restricted endowment funds		$ 50,340	$ 84,828	$ 135,168
Board-designated endowment funds	$ 16,011			16,011
Total endowment net assets	$ 16,011	$ 50,340	$ 84,828	$ 151,179

(in thousands of dollars)

NOTE 15 - ENDOWMENTS (cont.)

The following table summarizes endowment net asset composition by type of fund as of June 30, 2017:

	Without Donor Restrictions	With Donor Restrictions: Accumulated Gains	With Donor Restrictions: Original Gifts	Total
Donor-restricted endowment funds		$ 46,615	$ 80,020	$ 126,635
Board-designated endowment funds	$ 15,250			15,250
Total endowment net assets	$ 15,250	$ 46,615	$ 80,020	$ 141,885

Change in endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions: Accumulated Gains	With Donor Restrictions: Original Gifts	Total
Endowment net assets, June 30, 2017	$ 15,250	$ 46,615	$ 80,020	$ 141,885
Investment return:				
Investment income	131	1,221		1,352
Net appreciation	904	5,915		6,819
Total investment return	1,035	7,136		8,171
Change in value of assets held in trust by others		(9)	576	567
Contributions			3,975	3,975
Transfers and matured deferred gifts	264	79	257	600
Appropriation of endowment assets for expenditure	(538)	(3,481)		(4,019)
Endowment net assets, June 30, 2018	$ 16,011	$ 50,340	$ 84,828	$ 151,179

	Without Donor Restrictions	With Donor Restrictions: Accumulated Gains	With Donor Restrictions: Original Gifts	Total
Endowment net assets, June 30, 2016	$ 13,702	$ 36,915	$ 76,762	$ 127,379
Investment return:				
Investment income	244	1,983		2,227
Net appreciation	1,613	10,858		12,471
Total investment return	1,857	12,841		14,698
Change in value of assets held in trust by others		28	799	827
Contributions	64	31	2,482	2,577
Transfers and matured deferred gifts	129	61	(23)	167
Appropriation of endowment assets for expenditure	(502)	(3,261)		(3,763)
Endowment net assets, June 30, 2017	$ 15,250	$ 46,615	$ 80,020	$ 141,885

NOTE 15 - ENDOWMENTS (cont.)

Return Objectives and Risk Parameters - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed the 4.5% spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban consumers while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 7% 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 approximately 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. The University’s spending policy follows a model that includes the Higher Education Price Index (HEPI) which requires annual adjustments based on changes in the costs of education. 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 16 - CONCENTRATIONS

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University’s cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables are due from a variety of sources concentrated primarily in the northwestern United States. For 2018 and 2017, the University had significant outstanding pledges from three donors totaling approximately 50% of contributions receivable. For 2018 and 2017, the University received significant gifts from one donor totaling 14% and 16% of contribution revenue, respectively. 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.

(in thousands of dollars)

NOTE 17 - COMMITMENT

The University rents space in Spokane for its downtown campus, which houses some of its graduate and adult undergraduate programs. The lease term is through 2022. Rent expense was approximately $214 and $201 in 2018 and 2017, respectively. Future minimum lease commitments are as follows:

Year Ending June 30:		
2019	$	221
2020		228
2021		236
2022		243

NOTE 18 - RELATED PARTY TRANSACTIONS

The University has been conducting business transactions with Avista Utilities for many years; in April 2011, an officer of Avista Utilities was selected as a member of the University Board of Trustees. The University paid approximately $1,300 and $1,200 to Avista Utilities for electricity and natural gas during the years ended June 30, 2018 and 2017 respectively.

NOTE 19 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	2018	2017
Interest paid (net of capitalized interest)	$ 3,572	$ 3,991
Capitalized interest	191	100
Noncash investing and financing activities		
Construction in progress included in accounts payable	663	433
Summary of bond issue:		
Par amount of bonds issued		60,535
Premium		2,447
Reserve funds used for principal and interest on retired debt		5,081
Funds deposited to escrow account for construction projects		(4,000)
Funds deposited to escrow for debt service on retired bonds		(63,653)
Funds used towards costs of issuance		(410)

(in thousands of dollars)

NOTE 20 - EXPENSES BY NATURAL AND FUNCTIONAL CLASSIFICATION

The University's primary service is academic instruction. Expenses included within student services and auxiliaries are incurred in support of the primary service activities. Natural expenses that relate to more than one functional expense category are allocated based on factors such as square footage. Expenses by natural and functional classification for the year ended June 30, 2018 were as follows:

	Academic Instruction, Research and Support	Student Services and Auxiliaries	Administration	Total
Salaries and wages	$ 21,111	$ 7,873	$ 5,977	$ 34,961
Benefits	5,735	1,854	2,644	10,233
Travel, professional development and cultivation	735	1,156	537	2,428
Materials and supplies	1,336	334	171	1,841
Maintenance of facilities and equipment	1,278	1,309	1,212	3,799
Utilities, insurance and taxes	1,805	1,468	702	3,975
General services, postage, print shop, board bill	3,623	6,283	1,054	10,960
Interest	1,685	1,625	251	3,561
Depreciation, amortization and accretion	2,618	2,510	395	5,523
Other expenses	73	90	18	181
Total operating expenses	$ 39,999	$ 24,502	$ 12,961	$ 77,462

NOTE 21 - SHORT-TERM CREDIT ARRANGEMENT

The University has an unsecured $4,000 line of credit through Wells Fargo Bank. Borrowings under this line of credit bear interest at an annual rate of 1.50% above the Daily One Month LIBOR in effect from time to time. Interest is payable on the last day of each month. Principal, and any unpaid interest, is due on January 2, 2019. In addition, the agreement requires the University to comply with certain covenants. At June 30, 2018 and 2017, there were no outstanding borrowings under this arrangement.

(in thousands of dollars)

NOTE 22 - CONSOLIDATING INFORMATION

The consolidated information as of June 30, 2018 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
ASSETS				
Cash and cash equivalents	$ 4,109	$ 16	$ 48	$ 4,173
Note receivable (payable)	2,665	(2,665)		
Student accounts receivable, net	1,111			1,111
Contributions receivable, net	6,149			6,149
Other receivables	902			902
Other assets	1,818			1,818
Student loans receivable, net	3,804			3,804
Investments	153,759		19,186	172,945
Deposits held by trustee	4,781			4,781
Land, buildings and equipment, net	103,577			103,577
Land, buildings and equipment, held for sale		2,726		2,726
Assets held in trust by others	20,572			20,572
Total Assets	$ 303,247	$ 77	$ 19,234	$ 322,558
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	$ 2,254	$ 3		$ 2,257
Accrued payroll and related benefits	6,661			6,661
Student deposits	2,811			2,811
Deferred revenue	1,629			1,629
Asset retirement obligations	1,005			1,005
Accrued interest payable	946			946
Long-term debt	79,336			79,336
Annuities payable			$ 9,821	9,821
Federal student loan funds	3,192			3,192
Total Liabilities	97,834	3	9,821	107,658
Net Assets				
Without donor restrictions	63,345	74	2,458	65,877
With donor restrictions	142,068		6,955	149,023
Total Net Assets	205,413	74	9,413	214,900
Total Liabilities and Net Assets	$ 303,247	$ 77	$ 19,234	$ 322,558

NOTE 23 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 4, 2018 which is the date that the financial statements were issued.