WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2012 and 2011

WHITWORTH UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Whitworth University and subsidiaries (the "University") as of June 30, 2012 and 2011 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 previously present fairly, in all material respects, the consolidated financial position of Whitworth University and subsidiaries at June 30, 2012 and 2011 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 3, 2012

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2012 and 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 5,053,235	$ 2,963,619
Receivables		
Student accounts, net of allowance for doubtful accounts of $200,000 in 2012 and $150,000 in 2011	742,593	503,859
Contributions, net	5,373,914	4,019,662
Other	766,195	1,540,969
Inventories	539,493	540,300
Prepaid expenses and other assets	500,639	663,061
Student loans receivable, net	4,196,978	4,333,069
Long-term investments	106,001,878	101,528,305
Deposits held by trustee	18,944,226	7,916,545
Deferred debt acquisition costs	769,993	519,280
Land, buildings and equipment, net	104,511,006	100,027,163
Assets held in trust by others	18,337,346	19,345,804
TOTAL ASSETS	$ 265,737,496	$ 243,901,636

LIABILITIES AND NET ASSETS

	2012	2011
LIABILITIES		
Accounts payable and other liabilities	$ 3,415,811	$ 3,017,490
Accrued payroll and related benefits	5,935,732	5,465,859
Student deposits	1,447,008	1,539,583
Deferred revenue	1,755,045	1,283,021
Asset retirement obligations	866,385	807,457
Accrued interest payable	1,157,098	846,102
Long-term debt	81,286,583	62,220,942
Annuities payable	9,986,069	11,216,404
Federal student loan funds	3,582,619	3,591,234
Total Liabilities	109,432,350	89,988,092
NET ASSETS		
Unrestricted	58,134,980	54,784,126
Temporarily restricted	27,012,010	31,101,516
Permanently restricted	71,158,156	68,027,902
Total Net Assets	156,305,146	153,913,544
TOTAL LIABILITIES AND NET ASSETS	$ 265,737,496	$ 243,901,636

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012
With Comparative Totals for 2011

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES, GAINS AND OTHER SUPPORT					
OPERATING REVENUES					
Tuition and fees	$ 75,501,241			$ 75,501,241	$ 72,040,895
Less: Scholarships and grants	(29,866,532)			(29,866,532)	(28,630,635)
Net tuition and fees	45,634,709			45,634,709	43,410,260
Government grants	1,113,259			1,113,259	917,880
Contributions and gifts	2,020,420	$ 280,041		2,300,461	2,178,663
Long-term investment income and gains allocated for operations	384,012	2,192,729		2,576,741	2,302,129
Other sources	1,275,842			1,275,842	1,563,517
Investment income	1,066,028			1,066,028	1,065,418
Net gains on investments	32,968			32,968	113,153
Auxiliary enterprises revenues	12,064,197			12,064,197	12,467,497
	63,591,435	2,472,770		66,064,205	64,018,517
Net assets released from restrictions - operating	2,660,472	(2,660,472)			
Total Operating Revenues, Gains and Other Support	66,251,907	(187,702)		66,064,205	64,018,517
OPERATING EXPENSES					
Program expenses					
Instruction	26,857,551			26,857,551	24,977,752
Public service	613,382			613,382	692,282
Academic support	6,382,650			6,382,650	6,727,029
Student services	10,638,266			10,638,266	9,268,187
Auxiliary enterprises	11,530,840			11,530,840	11,658,188
Support expenses					
Institutional support	11,339,607			11,339,607	10,798,462
Allocable expenses					
Operation and maintenance of plant	5,182,791			5,182,791	4,250,135
Interest	3,062,985			3,062,985	2,225,072
Unfunded depreciation, amortization, and accretion	6,392,767			6,392,767	5,336,791
Less: Allocated expenses	(14,638,543)			(14,638,543)	(11,811,998)
Total Operating Expenses	67,362,296			67,362,296	64,121,900
Change in Net Assets from Operating Activities	(1,110,389)	(187,702)		(1,298,091)	(103,383)
NONOPERATING ACTIVITIES					
Long-term investment income and gains (losses), net of amount allocated for operations	(370,640)	(3,142,387)	$ (808,805)	(4,321,832)	16,320,783
Contributions and gifts	940,431	2,803,406	4,045,355	7,789,192	4,702,329
Adjustment to actuarial liability for annuities payable	221,837	690	(127,477)	95,050	367,354
Other sources	470,698		21,181	491,879	598,973
Adjustment to prior service cost and actuarial liability for retiree health plan	(364,596)			(364,596)	3,367,352
Net assets released from restrictions - nonoperating	3,563,513	(3,563,513)			
Change in Net Assets from Nonoperating Activities	4,461,243	(3,901,804)	3,130,254	3,689,693	25,356,791
Change in Net Assets	3,350,854	(4,089,506)	3,130,254	2,391,602	25,253,408
Net Assets - Beginning of Year	54,784,126	31,101,516	68,027,902	153,913,544	128,660,136
NET ASSETS - END OF YEAR	$ 58,134,980	$ 27,012,010	$ 71,158,156	$ 156,305,146	$ 153,913,544

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition and fees	$ 72,040,895			$ 72,040,895
Less: Scholarships and grants	(28,630,635)			(28,630,635)
Net tuition and fees	43,410,260			43,410,260
Government grants	917,880			917,880
Contributions and gifts	1,892,746	$ 285,917		2,178,663
Long-term investment income and gains allocated for operations	414,584	1,887,545		2,302,129
Other sources	1,563,517			1,563,517
Investment income	1,065,192	226		1,065,418
Net gains (losses) on investments	(16,687)	129,840		113,153
Auxiliary enterprises revenues	12,467,497			12,467,497
	61,714,989	2,303,528		64,018,517
Net assets released from restrictions - operating	2,371,689	(2,371,689)		
Total Operating Revenues, Gains and Other Support	64,086,678	(68,161)		64,018,517
OPERATING EXPENSES				
Program expenses				
Instruction	24,977,752			24,977,752
Public service	692,282			692,282
Academic support	6,727,029			6,727,029
Student services	9,268,187			9,268,187
Auxiliary enterprises	11,658,188			11,658,188
Support expenses				
Institutional support	10,798,462			10,798,462
Allocable expenses				
Operation and maintenance of plant	4,250,135			4,250,135
Interest	2,225,072			2,225,072
Unfunded depreciation, amortization, and accretion	5,336,791			5,336,791
Less: Allocated expenses	(11,811,998)			(11,811,998)
Total Operating Expenses	64,121,900			64,121,900
Change in Net Assets from Operating Activities	(35,222)	(68,161)		(103,383)
NONOPERATING ACTIVITIES				
Long-term investment income and gains, net of amount allocated for operations	3,457,535	8,859,827	$ 4,003,421	16,320,783
Contributions and gifts	181,271	1,137,266	3,383,792	4,702,329
Adjustment to actuarial liability for annuities payable	43,992	18,004	305,358	367,354
Other sources	574,852		24,121	598,973
Adjustment to prior service cost and actuarial liability for retiree health plan	3,367,352			3,367,352
Net assets released from restrictions - nonoperating	26,469	(26,469)		
Change in Net Assets from Nonoperating Activities	7,651,471	9,988,628	7,716,692	25,356,791
Change in Net Assets	7,616,249	9,920,467	7,716,692	25,253,408
Net Assets - Beginning of Year	47,167,877	21,181,049	60,311,210	128,660,136
NET ASSETS - END OF YEAR	$ 54,784,126	$ 31,101,516	$ 68,027,902	$ 153,913,544

See accompanying notes to financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 2,391,602	$ 25,253,408
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	6,392,767	5,336,791
Adjustment to prior service cost and actuarial liability for retiree health plan	364,596	(3,367,352)
Actuarial adjustment on annuities payable	(95,050)	(367,354)
Net (gains) losses on investments	3,126,596	(17,457,074)
Change in allowance on student accounts receivable	50,000	24,000
Change in allowance on contributions receivable		200,000
Loan cancellations, assignments and write-offs	55,222	54,539
Change in assets		
Student accounts receivable	(288,734)	21,568
Other receivables	774,774	(646,558)
Inventories, prepaid expenses and other assets	163,229	39,008
Contributions receivable for operations	(10,814)	28,246
Change in liabilities		
Accounts payable, other liabilities and accrued interest payable	304,431	519,921
Accrued payroll and related benefits	105,277	98,047
Student deposits	(92,575)	194,063
Deferred revenue	472,024	(270,570)
Contributions restricted for plant and long-term investment	(6,848,761)	(4,521,058)
Net Cash Flows From Operating Activities	6,864,584	5,139,625
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	693,963	642,502
Advances	(613,094)	(546,800)
Purchases of land, buildings and equipment	(10,370,428)	(22,599,558)
Drawdowns of deposits held by trustee	8,661,004	13,607,867
Proceeds from sales of long-term investments	36,448,760	14,907,192
Purchases of long-term investments	(43,211,920)	(23,851,292)
Net Cash Flows From Investing Activities	(8,391,715)	(17,840,089)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	5,505,323	5,156,367
Payments on long-term debt	(920,000)	(862,044)
Payments to annuitants	(959,961)	(990,386)
Net change in federal student loan funds	(8,615)	(4,272)
Net Cash Flows From Financing Activities	3,616,747	3,299,665
Net Change in Cash and Cash Equivalents	2,089,616	(9,400,799)
CASH AND CASH EQUIVALENTS - Beginning of Year	2,963,619	12,364,418
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 5,053,235	$ 2,963,619

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Whitworth University, a higher education institution founded in 1890, was incorporated in 1972 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and is located in Spokane, Washington. Whitworth University's primary source of revenue comes from tuition. Other sources of revenue include room and board, gifts, investment earnings, fees and bookstore sales. The financial statements have been prepared on the accrual basis of accounting. The 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 21 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.

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

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 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.

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.

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. Accumulated amortization approximated $57,000 and $34,000 at June 30, 2012 and 2011, respectively.

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.

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

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 - 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, 2012 and 2011 are as follows:

	2012	2011
Balance, Beginning of the year	$ 807,457	$ 803,276
Abatements		(61,815)
Accretion expense	58,928	65,996
Balance, End of the year	$ 866,385	$ 807,457

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.

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

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.

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, 2012 and 2011. The University's tax returns are subject to review and examination by federal authorities. The tax returns for fiscal years 2009 and thereafter are open to 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 $3,060,000 and $3,173,000 for the years ended June 30, 2012 and 2011, respectively. Advertising costs are expensed when incurred.

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

Reclassifications - Certain amounts appearing in the 2011 financial statements have been reclassified to conform with the 2012 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

NOTE 2 - FAIR VALUE MEASUREMENTS

Financial Instruments - The carrying amounts of cash and cash equivalents (money market funds and certificates of deposit), student accounts receivable, other receivables, accounts payable and student deposits approximate fair value because of the short term maturity of these financial instruments. The carrying amounts of contributions receivable are recorded using the applicable discount rates in effect at the date of the gifts.

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

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University. The fair value of bonds payable approximates $90,300,000 and $71,000,000 at June 30, 2012 and 2011, respectively. The estimated fair value of the bonds payable is based on discounting future cash flows using current interest rates at which similar borrowings could be obtained for the same remaining maturities.

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

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

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

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.

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.

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.

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.
- Equity index and global fixed income funds 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.

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

Level 3 - Level 3 assets include:

> Investments in funds of funds (hedge funds, commodities, real assets and limited partnerships) and private equity funds for which quoted prices are not readily available and the funds cannot be redeemed within a short time. The University has estimated the fair value of these funds by using the net asset value ("NAV") provided by the investee as of December 31, March 31 or June 30, 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 if the NAV was based on a previous quarter.

> 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.

There have been no changes in the techniques and inputs used as of June 30, 2012 and 2011.

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.

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

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2012 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 913,868	$ 913,868		
Fixed income securities	7,139,927	5,642,209	$ 1,497,718	
Mutual funds				
Domestic equity	19,065,814	19,065,814		
Domestic fixed income	22,789,693	22,789,693		
International equity	22,247,657	22,247,657		
International fixed income	3,126,214	3,126,214		
Equity index fund	6,848,877		6,848,877	
Funds of funds				
Hedge funds	6,199,145			$ 6,199,145
Commodities	2,432,106			2,432,106
Real assets	6,942,612			6,942,612
Limited partnerships	4,991,223			4,991,223
Private equity funds	2,935,868			2,935,868
Assets held in trust by others	18,337,346			18,337,346
Total	$ 123,970,350	$ 73,785,455	$ 8,346,595	$ 41,838,300

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2011 based upon the three-tier hierarchy:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 6,437,597	$ 6,437,597		
Fixed income securities	10,168,938	9,338,366	$ 830,572	
Mutual funds				
Domestic equity	18,961,883	18,961,883		
Domestic fixed income	8,239,679	8,239,679		
International equity	22,418,878	22,418,878		
International fixed income	615,241	615,241		
Equity index fund	7,551,460		7,551,460	
Global fixed income fund	6,268,480		6,268,480	
Funds of funds				
Hedge funds	6,178,153			$ 6,178,153
Commodities	2,809,684			2,809,684
Real assets	5,582,815			5,582,815
Limited partnerships	3,569,907			3,569,907
Private equity funds	2,220,263			2,220,263
Assets held in trust by others	19,345,804			19,345,804
Total	$ 120,368,782	$ 66,011,644	$ 14,650,512	$ 39,706,626

NOTE 2 - 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, 2012:

	Balances June 30, 2011	Net realized and unrealized gains (losses) included in change in net assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances June 30, 2012
Assets						
Funds of funds						
Hedge funds	$ 6,178,153	$ 20,992				$ 6,199,145
Commodities	2,809,684	(382,122)	$ 4,544			2,432,106
Real assets	5,582,815	307,454	1,091,829	$ (39,486)		6,942,612
Limited partnerships	3,569,907	351,901	1,613,438	(544,023)		4,991,223
Private equity funds	2,220,263	177,131	538,474			2,935,868
Assets held in trust by others	19,345,804	(863,458)		(145,000)		18,337,346
Total	$ 39,706,626	$ (388,102)	$ 3,248,285	$ (728,509)	$ -	$ 41,838,300

The amount of total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at June 30, 2012. $ (388,102)

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, 2011:

	Balances June 30, 2010	Net realized and unrealized gains included in change in net assets	Purchases	Sales	Net transfers in (out) of Level 3	Balances June 30, 2011
Assets						
Funds of funds						
Hedge funds	$ 7,680,293	$ 107,590		$ (1,609,730)		$ 6,178,153
Commodities	1,871,965	520,350	$ 1,150,489	(733,120)		2,809,684
Real assets	3,768,876	703,849	1,110,090			5,582,815
Limited partnerships	2,631,979	864,342	262,442	(188,856)		3,569,907
Private equity funds	1,485,167	298,265	436,831			2,220,263
Assets held in trust by others	15,125,639	4,068,336	151,829			19,345,804
Total	$ 32,563,919	$ 6,562,732	$ 3,111,681	$ (2,531,706)	$ -	$ 39,706,626

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, 2011. $ 6,562,732

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

The University uses the net asset value ("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) are in investment companies or similar entities that report their investment assets at fair values.

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, 2012:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2012	$6,199,145	$2,432,106	$6,942,612	$4,991,223	$2,935,868
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	9 years
Dollar Amount of Unfunded Commitments	Open	Open	$2,147,000	$642,000	$2,468,000
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.

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2012	2011
Endowment funds	$ 63,962,295	$ 60,689,982
Student loan funds	1,025,320	1,004,133
Annuity, life income and similar funds	6,170,541	6,333,787
	$ 71,158,156	$ 68,027,902

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

	2012	2011
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 407,172	$ 427,372
Acquisition of buildings and equipment	1,917,653	2,724,737
Earnings not yet appropriated for spending	24,433,698	27,692,857
Annuity, life income and similar funds	253,487	256,550
	$ 27,012,010	$ 31,101,516

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

	2012	2011
For current operations	$ 4,919,197	$ 4,092,628
Plant	40,447,066	37,568,129
Endowment funds - board designated	10,474,075	10,864,310
Annuity, life income and similar funds	2,294,642	2,259,059
	$ 58,134,980	$ 54,784,126

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:

	2012	2011
Acquisition of land, building and equipment	$ 3,563,513	$ 26,469
Scholarships, instruction and other departmental support	2,660,472	2,371,689
	$ 6,223,985	$ 2,398,158

These assets were reclassified to unrestricted net assets.

NOTE 5 - CONTRIBUTIONS RECEIVABLE

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

	2012	2011
Unrestricted - completed construction projects	$ 3,654,937	$ 2,499,475
Temporarily restricted		
Current scholarships, departmental programs and activities	48,483	36,483
Building construction and remodeling	2,174,100	2,052,229
Permanently restricted - Endowment for scholarships and departmental programs and activities	239,789	343,755
Gross unconditional promises to give	6,117,309	4,931,942
Less: Allowance for uncollectible promises	(400,000)	(400,000)
Less: Unamortized discount	(343,395)	(512,280)
Net contributions receivable	$ 5,373,914	$ 4,019,662

Amounts due in:	
Within one year	$ 3,520,583
One to five years	2,510,931
Greater than five years	85,795
	$ 6,117,309

Promises due in more than one year were discounted at interest rates ranging between 1.5% and 5% at June 30, 2012 and 2011. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately $5,450,900 and $4,120,000 as of June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, contributions from members of the Board of Trustees were approximately $5,932,000 and $3,042,000, respectively.

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:

	2012	2011
Cash and short-term investments	$ 14,752,474	$ 3,771,958
Equity securities	913,868	6,437,597
Fixed income securities	7,139,927	10,168,938
Mutual funds		
Domestic equity	19,065,814	18,961,883
Domestic fixed income	22,789,693	8,239,679
International equity	22,247,657	22,418,878
International fixed income	3,126,214	615,241
Other investments		
Equity index fund	6,848,877	7,551,460
Global fixed income fund		6,268,480
Funds of funds		
Hedge funds	6,199,145	6,178,153
Commodities	2,432,106	2,809,684
Real estate investments	6,942,612	5,582,815
Limited partnerships	4,991,223	3,569,907
Private equity funds	2,935,868	2,220,263
Notes receivable, collateralized by real estate at 6% to 10%		211,846
Notes receivable - other	497,000	497,000
Real estate	885,600	885,600
Annuity contracts	8,161	8,775
Single premium life insurance policy	136,487	133,003
Cash surrender value of life insurance policies, net of loans	3,033,378	2,913,690
	$ 124,946,104	$ 109,444,850

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

	2012	2011
Long-term investments	$ 106,001,878	$ 101,528,305
Deposits held by trustee (Note 10)	18,944,226	7,916,545
	$ 124,946,104	$ 109,444,850

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, 2012 and 2011, the insurance coverage aggregated approximately $6,460,000 and $6,082,600, respectively, and the cash surrender value totaled $3,033,378 and $2,913,690, respectively. Premium payments are required to be made by the donor or the University to continue coverage to the maturity dates.

NOTE 8 - CONSTRUCTION IN PROGRESS

At June 30, 2012, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
HUB expansion	$ 5,040,612	9/1/2012	Debt
Recreation center	343,811	9/1/2013	Debt
Ground improvements	582,475	9/1/2013	Debt
Various other campus projects	864,687	8/31/2012	Operations
	$ 6,831,585		

Remaining commitments on signed construction contracts approximate $1,600,000 as of June 30, 2012.

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2012:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 5,561,315	$ 35,000		$ 5,596,315
Buildings	87,966,454	27,100,776	$ (193,748)	114,873,482
Buildings and other improvements	15,650,671	3,513,595	(221,356)	18,942,910
Equipment	12,772,235	3,789,964	(438,619)	16,123,580
Construction in progress	30,495,606	6,176,917	(29,840,938)	6,831,585
	152,446,281	40,616,252	(30,694,661)	162,367,872
Less: Accumulated Depreciation for:				
Buildings	(36,386,673)	(4,139,446)	193,748	(40,332,371)
Buildings and other improvements	(7,752,641)	(876,214)	221,356	(8,407,499)
Equipment	(8,279,804)	(1,275,811)	438,619	(9,116,996)
Total Accumulated Depreciation	(52,419,118)	(6,291,471)	853,723	(57,856,866)
	$ 100,027,163	$ 34,324,781	$ (29,840,938)	$ 104,511,006

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

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2011:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 5,561,315			$ 5,561,315
Buildings	85,777,265	$ 2,189,189		87,966,454
Buildings and other improvements	15,460,670	190,001		15,650,671
Equipment	12,074,563	994,407	$ (296,735)	12,772,235
Construction in progress	12,323,934	18,642,881	(471,209)	30,495,606
	131,197,747	22,016,478	(767,944)	152,446,281
Less: Accumulated Depreciation for:				
Buildings	(32,971,232)	(3,415,441)		(36,386,673)
Buildings and other improvements	(7,189,809)	(562,832)		(7,752,641)
Equipment	(7,231,700)	(1,344,839)	296,735	(8,279,804)
Total Accumulated Depreciation	(47,392,741)	(5,323,112)	296,735	(52,419,118)
	$ 83,805,006	$ 16,693,366	$ (471,209)	$ 100,027,163

NOTE 10 - LONG-TERM DEBT

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

	2012	2011
Revenue Bonds - 2009 Series	$ 61,915,000	$ 62,835,000
Discount on 2009 Series Revenue Bonds	(591,102)	(614,058)
Revenue Bonds - 2012 Series	19,500,000	
Premium on 2012 Series Revenue Bonds	462,685	
	$ 81,286,583	$ 62,220,942

2009 Series Revenue Bonds - 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 included 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, 2012 was $14,089,340. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was $11,490,000 at June 30, 2012.

NOTE 10 - LONG-TERM DEBT (cont.)

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 $960,000 to $1,320,000 on October 1, 2012 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.

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 and Refunding Bonds in the amount of $19,500,000 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 3.000% to 5.25%. Serial bonds are payable in amounts ranging from $250,000 to $345,000 on October 1, 2013 through October 1, 2022. Term bonds in the amounts of $2,000,000, $2,565,000, $3,310,000, and $8,675,000 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 $360,000 to $1,180,000.

The University has pledged its unrestricted revenues and property of the core campus located in Spokane, Washington (see Note 9) 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.

Deposits held by trustee (Note 6) include proceeds from the Series 2009 and Series 2012 bonds held for the following purposes at June 30:

	2012	2011
Debt service reserve funds	$ 5,551,442	$ 4,250,545
Holdback account	400,000	450,000
Construction project account	12,992,784	3,216,000
	$ 18,944,226	$ 7,916,545

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2012 are:

Year Ended June 30	Principal
2013	$ 960,000
2014	1,250,000
2015	1,300,000
2016	1,360,000
2017	1,420,000

NOTE 11 - 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 $1,507,018 and $1,500,107, respectively, as of June 30, 2012 and 2011.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The University provides a defined contribution plan for the benefit of substantially all faculty and administration personnel. All costs relating to this plan are being funded currently. The University contributes a fixed percentage of each participant's salary to the plan. The University's contribution to this plan was approximately $1,967,000 and $1,873,000 in 2012 and 2011, 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. 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.

In December 2010, the University changed the medical insurance plan provider under its postretirement benefit plan to help reduce the costs of healthcare. This change substantially reduced the cost of premiums per employee and future liabilities associated with the payment of such costs.

In addition, on June 1, 2011, the University became 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 $173,626 to the VEBA plan in fiscal 2012 and expects to contribute $174,375 during fiscal 2013.

NOTE 12 - 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:

	2012	2011
Change in projected benefit obligation		
Benefit obligation at July 1	$ 2,655,376	$ 6,022,728
Interest cost	138,245	401,278
Service cost	59,806	183,367
Actuarial (gain) loss	139,208	(3,773,108)
Estimated benefits paid	(71,855)	(178,889)
Projected benefit obligation at June 30	$ 2,920,780	$ 2,655,376
Change in plan assets		
Fair value of plan assets at July 1	$ -	$ -
Employer contribution	70,683	192,494
Participant contribution	18,804	54,964
Actual benefits paid	(89,487)	(247,458)
Fair value of plan assets at June 30	$ -	$ -
Funded status		
Underfunded status at June 30	$ (2,920,780)	$ (2,655,376)
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	102,000	87,000
Noncurrent liabilities	2,818,780	2,568,376
Net amount recognized	$ 2,920,780	$ 2,655,376
Amounts not recognized as components of net periodic benefit cost consist of:		
Unrecognized prior service cost	$ (198,073)	$ (297,110)
Unrecognized net gain	(1,913,319)	(2,320,211)
Unrecognized net transition obligation	96,553	128,737
Net amount not recognized	$ (2,014,839)	$ (2,488,584)
Net periodic post retirement benefit expense for the year ended June 30 is comprised of the following:		
Service cost	$ 59,806	$ 183,367
Interest cost	138,245	401,278
Net amortization and deferral	(334,536)	155,976
Net periodic benefit cost	$ (136,485)	$ 740,621

NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)

The University expects to contribute approximately $180,000 to its postretirement plan in 2013. 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:	
2013	$ 101,545
2014	106,364
2015	110,155
2016	119,098
2017	121,508
2018 - 2022	613,070

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2013, and the estimated benefit obligation at June 30, 2013 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1, 2012	$ 2,920,780
Interest cost	136,770
Service cost	44,661
Actuarial gain	(275,627)
Expected benefits paid	(80,015)
Projected benefit obligation at June 30, 2013	$ 2,746,569

The above assumptions and calculations are based on information as of June 30, 2012 and 2011, 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, 2012. A 10% 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%. Discount rates of 5.25% and 5.75% were used to determine the accumulated postretirement benefit obligation for 2012 and 2011, 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, 2012, to approximately $3,167,000 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2012 to approximately ($88,000).

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

NOTE 13 - 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, 2012 and 2011, student loans represented 1.58% and 1.78% of total assets, respectively.

NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE (cont.)

At June 30, 2012 and 2011 student loans consisted of the following:

	2012	2011
Federal government programs	$ 3,953,970	$ 4,046,243
Institution programs	587,328	631,146
	4,541,298	4,677,389
Less allowance for doubtful accounts:		
Beginning of year	(344,320)	(346,365)
Write-offs		2,045
End of year	(344,320)	(344,320)
Student loans receivable, net	$ 4,196,978	$ 4,333,069

Funds advanced by the Federal government of $3,582,619 and $3,591,234 at June 30, 2012 and 2011, 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, 2012 and 2011, 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,				
2012	$ 21,021	$ -	$ 203,900	$ 224,921
2011	49,222	-	222,305	271,527

NOTE 14 - ENDOWMENTS

The University's endowment consists of approximately 260 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, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 24,433,698	$ 63,962,295	$ 88,395,993
Board-designated endowment funds	10,474,075			10,474,075
Total endowment net assets	$ 10,474,075	$ 24,433,698	$ 63,962,295	$ 98,870,068

The following table summarizes endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 27,692,857	$ 60,689,982	$ 88,382,839
Board-designated endowment funds	10,864,310			10,864,310
Total endowment net assets	$ 10,864,310	$ 27,692,857	$ 60,689,982	$ 99,247,149

NOTE 14 - ENDOWMENTS (cont.)

Change in endowment net assets for June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	$ 10,864,310	$ 27,692,857	$ 60,689,982	$ 99,247,149
Investment return:				
Investment income (net of fees of $425,000)	116,253	720,138		836,391
Net depreciation - realized and unrealized	(309,551)	(2,002,523)	(808,805)	(3,120,879)
Total investment return	(193,298)	(1,282,385)	(808,805)	(2,284,488)
Contributions		26,856	3,797,189	3,824,045
Transfers in and matured deferred gifts	187,075	189,099	283,929	660,103
Appropriation of endowment assets for expenditure	(384,012)	(2,192,729)		(2,576,741)
Endowment net assets, June 30, 2012	$ 10,474,075	$ 24,433,698	$ 63,962,295	$ 98,870,068

Change in endowment net assets for June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2010	$ 7,523,761	$ 18,442,187	$ 54,087,302	$ 80,053,250
Investment return:				
Investment income (net of fees of $450,000)	115,200	626,465		741,665
Net appreciation - realized and unrealized	3,343,199	9,994,321	4,003,421	17,340,951
Total investment return	3,458,399	10,620,786	4,003,421	18,082,616
Contributions	9,308	235,244	2,545,297	2,789,849
Transfers in and matured deferred gifts	287,426	282,185	53,962	623,563
Appropriation of endowment assets for expenditure	(414,584)	(1,887,545)		(2,302,129)
Endowment net assets, June 30, 2011	$ 10,864,310	$ 27,692,857	$ 60,689,982	$ 99,247,149

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gifts contributed to each endowment fund. There were no deficiencies of this nature recorded in unrestricted net assets as of June 30, 2012 and 2011.

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.

NOTE 14 - ENDOWMENTS (cont.)

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. As of July 1, 2011, the University modified its spending policy to 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 15 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. 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 16 - COMMITMENT

The University rents in downtown Spokane for its downtown campus which houses some of its graduate and adult undergraduate programs. Rent expense was approximately $134,000 and $89,000 in 2012 and 2011, respectively. Future minimum lease commitments are as follows: 2013 - $178,000, 2014 - $184,000, 2015 - $190,000, 2016 - $195,000; and 2017 - $201,000.

NOTE 17 - RELATED PARTY TRANSACTIONS

The University has been conducting business transactions with Avista Utilities for many years; last April, an officer of Avista Utilities was selected as a member of the University Board of Trustees. The University paid approximately $1,200,000 to Avista Utilities for electricity and natural gas during the year ended June 30, 2012.

During August 2012, in accordance with internal procurement and conflict of interest policies, the University conducted an open bid to select a construction company to build a new recreation center. An institutional committee with campus wide representation recommended to the administration that the winning bid in the amount of $5,321,612 be awarded to a construction company owned by the father of one of the University's Board of Trustee members. The administration accepted the recommendation and the contract was issued in September 2012.

NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	2012	2011
Interest paid (net of capitalized interest)	$ 3,010,153	$ 2,233,898
Capitalized interest	623,317	1,177,508
Noncash investing and financing activities		
Construction in progress included in accounts payable	1,491,657	1,086,771
Summary of bond issue		
Proceeds from bond issue	$ 19,500,000	
Net premium	462,685	
Funds deposited to escrow account for construction projects	(17,436,780)	
Funds deposited to escrow account for debt service reserves	(2,251,905)	
Deferred debt acquisition costs paid from bond proceeds	(274,000)	

NOTE 19 - ALLOCATION OF EXPENSES

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

	2012	2011
Salaries and related costs	$ 29,798,405	$ 28,825,160
Benefits	7,633,284	7,100,952
Travel, professional development and cultivation	1,947,218	2,209,367
Materials and supplies	2,062,023	2,666,805
Maintenance of facilities and equipment	2,895,917	3,325,148
Utilities, insurance and taxes	3,669,000	3,545,425
Postage, print shop, board bill, general services	9,850,393	8,734,321
Interest	3,062,985	2,225,072
Depreciation, amortization and accretion	6,392,767	5,336,791
Other expenses	50,304	152,859
Total operating expenses	$ 67,362,296	$ 64,121,900

NOTE 20 - SHORT-TERM CREDIT ARRANGEMENT

The University has an unsecured $3,000,000 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, 2013. In addition, the agreement requires the University to comply with certain covenants. At June 30, 2012 and 2011, there were no outstanding borrowings under this arrangement.

NOTE 21 - CONSOLIDATING STATEMENT OF FINANCIAL POSITION

The consolidated statement of financial position as of June 30, 2012 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
ASSETS				
Cash and cash equivalents	$ 4,765,198	$ 65,943	$ 222,094	$ 5,053,235
Note receivable (payable)	3,116,132	(3,116,132)		
Student accounts receivable, net	742,593			742,593
Contributions receivable, net	5,373,914			5,373,914
Other receivables	764,031	2,164		766,195
Inventories	539,493			539,493
Prepaid expenses and other assets	500,639			500,639
Student loans receivable, net	4,196,978			4,196,978
Long-term Investments	87,519,233		18,482,645	106,001,878
Deposits held by trustee	18,944,226			18,944,226
Deferred debt acquisition costs	769,993			769,993
Land, buildings and equipment	101,295,840	3,215,166		104,511,006
Assets held in trust by others	18,337,346			18,337,346
Total Assets	$ 246,865,616	$ 167,141	$ 18,704,739	$ 265,737,496
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	$ 3,410,048	$ 5,763		$ 3,415,811
Accrued payroll and related benefits	5,935,732			5,935,732
Student deposits	1,447,008			1,447,008
Deferred revenue	1,755,045			1,755,045
Asset retirement obligations	866,385			866,385
Accrued interest payable	1,157,098			1,157,098
Long-term debt	81,286,583			81,286,583
Annuities payable			$ 9,986,069	9,986,069
Federal student loan funds	3,582,619			3,582,619
Total Liabilities	99,440,518	5,763	9,986,069	109,432,350
Net Assets				
Unrestricted	55,678,959	161,378	2,294,643	58,134,980
Temporarily restricted	26,758,523		253,487	27,012,010
Permanently restricted	64,987,616		6,170,540	71,158,156
Total Net Assets	147,425,098	161,378	8,718,670	156,305,146
Total Liabilities and Net Assets	$ 246,865,616	$ 167,141	$ 18,704,739	$ 265,737,496

NOTE 22 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 3, 2012 which is the date that the financial statements were issued.