

# **WHITWORTH UNIVERSITY**

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

As of and for the Years Ended June 30, 2015 and 2014

**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 financial statements of Whitworth University and subsidiaries (the "University"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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.

*Baker Tilly Virchow Krause, LLP*

Minneapolis, Minnesota

October 13, 2015

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of June 30, 2015 and 2014

<b>ASSETS</b>	2015	2014
Cash and cash equivalents	\$ 5,058,403	\$ 5,861,721
Receivables		
Student accounts, net of allowance for doubtful accounts of \$225,000 in 2015 and \$213,000 in 2014	903,545	917,409
Contributions, net	6,331,615	7,182,385
Other	713,669	1,034,298
Other assets	942,521	1,110,834
Student loans receivable, net	4,162,442	4,132,879
Long-term investments	150,647,225	139,679,559
Deposits held by trustee	5,575,451	7,041,144
Deferred debt acquisition costs	688,597	715,729
Land, buildings and equipment, net	104,134,377	107,962,942
Assets held in trust by others	20,523,845	20,436,512
<b>TOTAL ASSETS</b>	<b>\$ 299,681,690</b>	<b>\$ 296,075,412</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and other liabilities	\$ 1,621,983	\$ 1,974,453
Accrued payroll and related benefits	6,342,538	6,764,798
Student deposits	1,701,063	2,007,974
Deferred revenue	2,164,672	2,202,164
Asset retirement obligations	918,473	891,272
Accrued interest payable	1,045,938	1,058,281
Long-term debt	77,819,015	79,109,279
Annuities payable	10,462,461	10,878,773
Federal student loan funds	3,564,973	3,576,528
Total Liabilities	105,641,116	108,463,522
<b>NET ASSETS</b>		
Unrestricted	61,016,961	60,799,299
Temporarily restricted	51,970,933	48,200,022
Permanently restricted	81,052,680	78,612,569
Total Net Assets	194,040,574	187,611,890
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 299,681,690</b>	<b>\$ 296,075,412</b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

With Comparative Totals for 2014

	2015			2014
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 91,058,876			\$ 91,058,876
Less: Scholarships and grants	(40,126,677)			(37,057,643)
Net tuition and fees	50,932,199			49,671,402
Government grants	953,946			987,998
Contributions and gifts	2,358,894	\$ 418,182		3,712,141
Long-term investment income and gains allocated for operations	427,352	2,795,726		2,979,649
Other sources	1,710,055	1,000		1,604,538
Investment income	1,778,292			1,627,817
Net losses on investments	(131,381)			(27,447)
Auxiliary enterprises revenues	12,866,184			12,595,272
	70,895,541	3,214,908		74,110,449
Net assets released from restrictions - operating	3,476,562	(3,476,562)		
Total Operating Revenues, Gains and Other Support	74,372,103	(261,654)		73,151,370
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	30,679,487			30,086,642
Public service	941,006			833,400
Academic support	6,828,151			7,230,242
Student services	12,311,772			12,793,453
Auxiliary enterprises	11,426,183			11,175,159
Support expenses				
Institutional support	13,143,771			12,198,860
Allocable expenses				
Operation and maintenance of plant	6,102,541			6,221,026
Interest	4,158,453			4,017,473
Unfunded depreciation, amortization, and accretion	7,320,992			7,400,010
Less: Allocated expenses	(17,581,986)			(17,638,509)
Total Operating Expenses	75,330,370			74,317,756
<b>Change in Net Assets from Operating Activities</b>	<b>(958,267)</b>	<b>(261,654)</b>		<b>(1,219,921)</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment income and gains, net of amount allocated for operations	49,523	955,163		1,004,686
Change in value of assets held in trust by others		(75,592)	\$ 147,071	71,479
Contributions and gifts		3,669,876	2,587,332	6,257,208
Adjustment to actuarial liability for annuities payable	21,853	(107,995)	(305,512)	(391,654)
Other sources	257,996	280	11,220	269,496
Adjustment to prior service cost and actuarial liability for retiree health plan	437,390			437,390
Net assets released from restrictions - nonoperating	409,167	(409,167)		
<b>Change in Net Assets from Nonoperating Activities</b>	<b>1,175,929</b>	<b>4,032,565</b>	<b>2,440,111</b>	<b>7,648,605</b>
<b>Change in Net Assets</b>	<b>217,662</b>	<b>3,770,911</b>	<b>2,440,111</b>	<b>6,428,684</b>
Net Assets - Beginning of Year	60,799,299	48,200,022	78,612,569	187,611,890
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 61,016,961</b>	<b>\$ 51,970,933</b>	<b>\$ 81,052,680</b>	<b>\$ 194,040,574</b>
				<b>\$ 187,611,890</b>

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
<b>OPERATING REVENUES</b>				
Tuition and fees	\$ 86,729,045			\$ 86,729,045
Less: Scholarships and grants	(37,057,643)			(37,057,643)
Net tuition and fees	49,671,402			49,671,402
Government grants	987,998			987,998
Contributions and gifts	2,304,908	\$ 1,407,233		3,712,141
Long-term investment income and gains allocated for operations	415,656	2,563,993		2,979,649
Other sources	1,571,533	33,005		1,604,538
Investment income	1,627,817			1,627,817
Net losses on investments	(27,447)			(27,447)
Auxiliary enterprises revenues	12,595,272			12,595,272
	69,147,139	4,004,231		73,151,370
Net assets released from restrictions - operating	3,149,159	(3,149,159)		
Total Operating Revenues, Gains and Other Support	72,296,298	855,072		73,151,370
<b>OPERATING EXPENSES</b>				
Program expenses				
Instruction	30,086,642			30,086,642
Public service	833,400			833,400
Academic support	7,230,242			7,230,242
Student services	12,793,453			12,793,453
Auxiliary enterprises	11,175,159			11,175,159
Support expenses				
Institutional support	12,198,860			12,198,860
Allocable expenses				
Operation and maintenance of plant	6,221,026			6,221,026
Interest	4,017,473			4,017,473
Unfunded depreciation, amortization, and accretion	7,400,010			7,400,010
Less: Allocated expenses	(17,638,509)			(17,638,509)
Total Operating Expenses	74,317,756			74,317,756
<b>Change in Net Assets from Operating Activities</b>	<b>(2,021,458)</b>	<b>855,072</b>		<b>(1,166,386)</b>
<b>NONOPERATING ACTIVITIES</b>				
Long-term investment income and gains, net of amount allocated for operations	1,750,270	10,259,540		12,009,810
Change in value of assets held in trust by others		61,919	\$ 1,181,581	1,243,500
Contributions and gifts	305,150	516,358	4,351,984	5,173,492
Adjustment to actuarial liability for annuities payable	334,876	1,097,271	708,739	2,140,886
Other sources	249,095	1,682	14,765	265,542
Net assets released from restrictions - nonoperating	804,403	(804,403)		
<b>Change in Net Assets from Nonoperating Activities</b>	<b>3,443,794</b>	<b>11,132,367</b>	<b>6,257,069</b>	<b>20,833,230</b>
<b>Change in Net Assets</b>	<b>1,422,336</b>	<b>11,987,439</b>	<b>6,257,069</b>	<b>19,666,844</b>
Net Assets - Beginning of Year	59,376,963	36,212,583	72,355,500	167,945,046
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 60,799,299</b>	<b>\$ 48,200,022</b>	<b>\$ 78,612,569</b>	<b>\$ 187,611,890</b>

# WHITWORTH UNIVERSITY

## CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,428,684	\$ 19,666,844
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	7,320,992	7,400,010
Adjustment to prior service cost and actuarial liability for retiree health plan	(437,390)	
Adjustment to actuarial liability for annuities payable	391,654	(2,140,886)
Net gains on investments	(1,556,920)	(13,311,779)
Change in value of assets held in trust by others	(71,479)	(1,243,500)
Change in allowance on student accounts receivable	12,000	27,000
Loan cancellations, assignments and write-offs	27,324	52,989
Change in assets		
Student accounts receivable	1,864	(289,761)
Other receivables	320,629	252,590
Other assets	168,313	(480,260)
Contributions receivable for operations	9,226	30,305
Change in liabilities		
Accounts payable, other liabilities and accrued interest payable	218,014	(557,455)
Accrued payroll and related benefits	15,130	388,077
Student deposits	(306,911)	374,913
Deferred revenue	(37,492)	87,035
Contributions restricted for plant and long-term investment	(6,257,208)	(5,173,492)
Net Cash Flows From Operating Activities	6,246,430	5,082,630
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Student loans receivable		
Principal repayments	745,722	729,942
Advances	(802,609)	(772,784)
Purchases of land, buildings and equipment	(4,011,185)	(5,317,795)
Drawdowns of deposits held by trustee	1,465,692	3,246,374
Proceeds from sales of long-term investments	26,865,708	40,200,205
Purchases of long-term investments	(36,184,719)	(42,101,706)
Net Cash Flows From Investing Activities	(11,921,391)	(4,015,764)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received restricted for plant and long-term investment	7,048,815	2,664,037
Payments on long-term debt	(1,300,000)	(1,250,000)
Payments to annuitants	(865,617)	(937,687)
Net change in federal student loan funds	(11,555)	(10,684)
Net Cash Flows From Financing Activities	4,871,643	465,666
 <b>Net Change in Cash and Cash Equivalents</b>	(803,318)	1,532,532
 CASH AND CASH EQUIVALENTS - Beginning of Year	5,861,721	4,329,189
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 5,058,403	\$ 5,861,721



# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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Whitworth University, a higher education institution founded in 1890, was incorporated in 1972 as a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code and is located in Spokane, Washington. Whitworth University's primary source of revenue comes from tuition. Other sources of revenue include room and board, gifts, 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 21 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 three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

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

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

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

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

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

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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

**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 \$139,000 and \$112,000 at June 30, 2015 and 2014, 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.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

**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. As of June 30, 2015 and 2014, 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, 2015 and 2014 are as follows:

	2015	2014
Balance, Beginning of the year	\$ 891,272	\$ 919,500
Abatements	(11,700)	(62,800)
Accretion expense	38,901	34,572
Balance, End of the year	\$ 918,473	\$ 891,272

**Federal Student Loan Funds** - Funds provided by the United States government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

# WHITWORTH UNIVERSITY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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

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**Income Tax Status** - The Internal Revenue Service has determined that the University and the Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation. Donations to the University and Foundation are tax deductible. Whitworth Costa Rica Limited is a taxable corporation for purposes of Costa Rican income tax law.

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, 2015 and 2014. The University's tax returns are subject to review and examination by federal authorities. The tax returns for fiscal years 2012 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 \$2,968,000 and \$3,120,000 for the years ended June 30, 2015 and 2014, 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 2014 financial statements have been reclassified to conform with the 2015 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

**New Accounting Pronouncements** - In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured at net asset value, as a practical expedient for fair value, are excluded from the fair value hierarchy disclosure requirement. For non-public entities, ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The University elected to adopt the guidance for fiscal year beginning July 1, 2014. The guidance is retrospective, and as a result, the 2014 amounts were reclassified to conform to the 2015 financial statement presentation. The adoption of the ASU did not have a significant impact on the University's financial position or results of operations.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the University's fiscal year ending June 30, 2019. The University is assessing the impact this guidance will have on its financial statements.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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**NOTE 2 - FAIR VALUE MEASUREMENTS**

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**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 nature of these financial instruments.

The fair value of contributions receivable (pledges) is based on discounted cash flow methodology using discount rates consistent with the expected maturities of the pledges, adjusted for consideration of the donor's credit. The fair value of contributions receivable approximates carrying value and would be considered Level 3 in the fair value hierarchy.

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 fair value of long-term debt is estimated using quoted prices for similar instruments and discounted cash flow analyses using current borrowing rates for similar types of borrowing arrangements, adjusted for the University's credit risk. The estimated fair value of long-term debt approximates \$83,400,000 and \$85,200,000 at June 30, 2015 and 2014, respectively. The valuation for the estimated fair value of long-term debt would be considered Level 2 on the fair value hierarchy.

The fair value of annuities payable related to split interest agreements is based on a discounted cash flow methodology using assumptions about estimated return on invested assets during the term of the agreement, the contractual payment obligations of the agreement, discount rates that are commensurate with the risks involved, and life expectancies published in the mortality tables. The fair value of the annuities payable approximates carrying value. The fair value for annuities payable related to gift annuities and annuity trusts would be considered Level 2 in the fair value hierarchy. The fair value of annuities payable related to unitrusts would be considered Level 3 in the fair value hierarchy.

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 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.

## WHITWORTH UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

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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.

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.

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.

Alternative investments in privately-held investment funds are measured at fair value using the net asset value ("NAV") 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. The University has adopted FASB issued ASU 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. Under the new guidance, investments measured using the net asset value per share (or its equivalent) practical expedient are not classified in the fair value hierarchy.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)**

Except for the implementation of ASU 2015-07, there have been no changes in the techniques and inputs used as of June 30, 2015 and 2014.

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Equity securities	\$ 1,199,603	\$ 1,199,603		
Fixed income securities	9,335,499	5,931,254	\$ 3,404,245	
Mutual funds				
Domestic equity	23,030,075	23,030,075		
Domestic fixed income	44,699,937	44,699,937		
International equity	27,708,716	27,708,716		
International fixed income	655,397	655,397		
Assets held in trust by others	<u>20,523,845</u>			\$ 20,523,845
Subtotal by valuation hierarchy	127,153,072	<u>\$ 103,224,982</u>	<u>\$ 3,404,245</u>	<u>\$ 20,523,845</u>
Alternative investments measured using net asset value	<u>43,495,149</u>			
Total assets at fair value	<u>\$ 170,648,221</u>			

The following tables present information about the University's assets measured at fair value on a recurring basis as of June 30, 2014:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>ASSETS</b>				
Equity securities	\$ 1,235,183	\$ 1,235,183		
Fixed income securities	6,591,144	4,772,255	\$ 1,818,889	
Mutual funds				
Domestic equity	22,794,130	22,794,130		
Domestic fixed income	37,043,299	37,043,299		
International equity	29,044,638	29,044,638		
International fixed income	3,638,363	3,638,363		
Assets held in trust by others	<u>20,436,512</u>			\$ 20,436,512
Subtotal by valuation hierarchy	120,783,269	<u>\$ 98,527,868</u>	<u>\$ 1,818,889</u>	<u>\$ 20,436,512</u>
Alternative investments measured using net asset value	<u>38,982,162</u>			
	<u>\$ 159,765,431</u>			

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**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, 2015:

	<u>Balances June 30, 2014</u>	<u>Realized and unrealized gains (losses)</u>	<u>Purchases and additions</u>	<u>Sales and distributions</u>	<u>Net transfers in (out) of Level 3</u>	<u>Balances June 30, 2015</u>
<b>Assets</b>						
Assets held in trust by others	\$ 20,436,512	\$ 71,479	\$ 15,854	\$ _____	\$ _____	\$ 20,523,845

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, 2015. \$ 71,479

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, 2014:

	<u>Balances June 30, 2013</u>	<u>Realized and unrealized gains (losses)</u>	<u>Purchases and additions</u>	<u>Sales and distributions</u>	<u>Net transfers in (out) of Level 3</u>	<u>Balances June 30, 2014</u>
<b>Assets</b>						
Assets held in trust by others	\$ 19,225,251	\$ 1,243,500	\$ _____	\$ (32,239)	\$ _____	\$ 20,436,512

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, 2014. \$ 1,243,500



**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**NOTE 2 - 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, 2015:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2015	\$17,937,229	\$2,075,020	\$9,301,226	\$4,989,974	\$9,191,700
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	6 years
Dollar Amount of Unfunded Commitments	Open	Open	\$1,174,939	\$257,210	\$3,541,131
Timing to Draw Down Commitments	N.A.	N.A.	3 to 5 years	3 to 5 years	3 to 5 years
Redemption Terms	One year lock-up period; after that quarterly or annually	Quarterly	With 90 days advance notice	Not Allowed	Not Allowed
Redemption Restrictions	N.A.	N.A.	As liquidity becomes available after redemption request	N.A.	N.A.
Redemption Restrictions in Place at Year End	N.A.	N.A.	N.A.	N.A.	N.A.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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

	<u>2015</u>	<u>2014</u>
Endowment funds	\$ 74,603,254	\$ 71,550,960
Student loan funds	1,082,440	1,071,220
Annuity, life income and similar funds	<u>5,366,986</u>	<u>5,990,389</u>
	<u>\$ 81,052,680</u>	<u>\$ 78,612,569</u>

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

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 1,068,074	\$ 1,329,730
Acquisition of buildings and equipment	8,784,860	5,157,402
Earnings not yet appropriated for spending	40,902,279	40,360,787
Annuity, life income and similar funds	<u>1,215,720</u>	<u>1,352,103</u>
	<u>\$ 51,970,933</u>	<u>\$ 48,200,022</u>

Unrestricted net assets consist of the following at June 30:

For current operations	\$ 10,009,648	\$ 6,740,874
Plant	34,693,294	37,669,270
Endowment funds - board designated	13,926,352	14,023,340
Annuity, life income and similar funds	<u>2,387,667</u>	<u>2,365,815</u>
	<u>\$ 61,016,961</u>	<u>\$ 60,799,299</u>

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

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Net assets released from temporary donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors totaled \$3,885,729 and \$3,953,562 during the years ended June 30, 2015 and 2014, respectively. The expenses related to scholarships, instruction and other departmental support.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**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:

	2015	2014
Unrestricted - completed construction projects	\$ 577,225	\$ 993,149
Temporarily restricted		
Current scholarships, departmental programs and activities	243,285	247,526
Building construction and remodeling	3,403,868	3,801,441
Permanently restricted - endowment for scholarships and departmental programs and activities	2,832,444	2,922,149
Gross unconditional promises to give	7,056,822	7,964,265
Less: Allowance for uncollectible promises	(400,000)	(400,000)
Less: Unamortized discount	(325,207)	(381,880)
Net contributions receivable	\$ 6,331,615	\$ 7,182,385
Amounts due in:		
Within one year	\$ 3,454,827	
One to five years	3,600,120	
Greater than five years	1,875	
	\$ 7,056,822	

Promises due in more than one year were discounted at rates ranging between 2.1% and 6% at June 30, 2015 and 2014. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately \$2,744,000 and \$4,875,000 as of June 30, 2015 and 2014, respectively. For the years ended June 30, 2015 and 2014, contributions (new pledges and cash gifts) from members of the Board of Trustees were approximately \$2,516,000 and \$1,725,000, respectively.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

**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:

	2015	2014
At fair value		
Equity securities	\$ 1,199,603	\$ 1,235,183
Fixed income securities	9,335,499	6,591,144
Mutual funds		
Domestic equity	23,030,075	22,794,130
Domestic fixed income	44,699,937	37,043,299
International equity	27,708,716	29,044,638
International fixed income	655,397	3,638,363
Other investments		
Equity index fund	9,426,743	9,417,360
Funds of funds		
Hedge funds	8,510,486	8,039,454
Commodities	2,075,020	2,743,898
Real assets	9,301,226	9,161,109
Limited partnerships	4,989,974	5,239,015
Private equity funds	9,191,700	4,381,326
At cost		
Cash and short-term investments	1,900,586	2,990,003
Real estate	881,600	1,045,400
Annuity contracts	1,349	7,413
Single premium life insurance policy	147,106	143,546
Cash surrender value of life insurance policies	3,167,659	3,205,422
	\$ 156,222,676	\$ 146,720,703

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

Long-term investments	\$ 150,647,225	\$ 139,679,559
Deposits held by trustee (Note 10)	5,575,451	7,041,144
	\$ 156,222,676	\$ 146,720,703

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.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of and for the Years Ended June 30, 2015 and 2014

**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, 2015 and 2014, the insurance coverage aggregated approximately \$6,308,000 and \$6,418,000, respectively, and the cash surrender value totaled \$3,167,659 and \$3,205,422, 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, 2015, the following projects were in progress:

	<u>Costs to Date</u>	<u>Estimated Completion Date</u>	<u>Funding Source</u>
Residence hall and library	\$ 514,402	Unknown	Operations
Music building	1,158,530	9/1/2017	Gifts
Ground improvements	<u>41,947</u>	9/1/2015	Operations
	<u>\$ 1,714,879</u>		

Remaining commitments on signed construction contracts approximate \$925,000 as of June 30, 2015.

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

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 5,786,315	\$ 90,000		\$ 5,876,315
Buildings	128,736,137	1,366,238		130,102,375
Buildings and other improvements	23,228,965	1,686,718	\$ (92,577)	24,823,106
Equipment	17,870,289	718,950	(176,533)	18,412,706
Construction in progress	<u>2,148,432</u>	<u>924,693</u>	<u>(1,358,246)</u>	<u>1,714,879</u>
	<u>177,770,138</u>	<u>4,786,599</u>	<u>(1,627,356)</u>	<u>180,929,381</u>
Less: Accumulated Depreciation for:				
Buildings	(48,832,161)	(4,505,926)		(53,338,087)
Buildings and other improvements	(9,883,899)	(1,125,594)	92,577	(10,916,916)
Equipment	<u>(11,091,136)</u>	<u>(1,625,398)</u>	<u>176,533</u>	<u>(12,540,001)</u>
Total Accumulated Depreciation	<u>(69,807,196)</u>	<u>(7,256,918)</u>	<u>269,110</u>	<u>(76,795,004)</u>
	<u>\$ 107,962,942</u>	<u>\$ (2,470,319)</u>	<u>\$ (1,358,246)</u>	<u>\$ 104,134,377</u>

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

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

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Land	\$ 5,786,315			\$ 5,786,315
Buildings	121,944,579	\$ 6,926,982	\$ (135,424)	128,736,137
Buildings and other improvements	21,872,990	1,580,598	(224,623)	23,228,965
Equipment	17,243,992	1,660,773	(1,034,476)	17,870,289
Construction in progress	7,217,957	1,739,675	(6,809,200)	2,148,432
	<u>174,065,833</u>	<u>11,908,028</u>	<u>(8,203,723)</u>	<u>177,770,138</u>
Less: Accumulated Depreciation for:				
Buildings	(44,434,770)	(4,437,810)	40,419	(48,832,161)
Buildings and other improvements	(9,006,292)	(1,102,230)	224,623	(9,883,899)
Equipment	(10,281,594)	(1,844,018)	1,034,476	(11,091,136)
Total Accumulated Depreciation	<u>(63,722,656)</u>	<u>(7,384,058)</u>	<u>1,299,518</u>	<u>(69,807,196)</u>
	<u>\$ 110,343,177</u>	<u>\$ 4,523,970</u>	<u>\$ (6,904,205)</u>	<u>\$ 107,962,942</u>

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 2009 and 2012 Revenue Bonds (see Note 10).

**NOTE 10 - LONG-TERM DEBT**

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

	<u>2015</u>	<u>2014</u>
Revenue Bonds - 2009 Series	\$ 58,915,000	\$ 59,955,000
Discount on 2009 Series Revenue Bonds	(522,234)	(545,190)
Revenue Bonds - 2012 Series	18,990,000	19,250,000
Premium on 2012 Series Revenue Bonds	436,249	449,469
	<u>\$ 77,819,015</u>	<u>\$ 79,109,279</u>

**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, 2015 was \$11,986,063. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was \$10,320,000 at June 30, 2015.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**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 \$1,090,000 to \$1,320,000 on October 1, 2015 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 \$270,000 to \$345,000 on October 1, 2015 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:

	<u>2015</u>	<u>2014</u>
Debt service reserve funds	\$ 5,575,451	\$ 5,559,330
Holdback account		400,000
Construction project account		<u>1,081,814</u>
	<u>\$ 5,575,451</u>	<u>\$ 7,041,144</u>

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2015 are:

<u>Year Ended June 30</u>	<u>Principal</u>
2016	\$ 1,360,000
2017	1,420,000
2018	1,490,000
2019	1,555,000
2020	1,630,000

## WHITWORTH UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### **NOTE 11 - SPLIT INTEREST AGREEMENTS**

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

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

The 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 \$1,240,350 and \$1,296,438, respectively, as of June 30, 2015 and 2014.

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#### **NOTE 12 - EMPLOYEE BENEFIT PLANS**

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The University provides a defined contribution plan for the benefit of substantially all faculty and administration personnel. All costs relating to this plan are being funded currently. The University contributes a fixed percentage of each participant's salary to the plan. The University's contribution to this plan was approximately \$2,178,000 and \$2,150,000 in 2015 and 2014, 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 \$170,000 annually to the VEBA plan in 2015 and 2014.



**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

**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:

	2015	2014
<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1	\$ 2,948,836	\$ 2,879,589
Interest cost	122,440	126,780
Service cost	38,085	47,195
Actuarial gain	(452,352)	(19,772)
Estimated benefits paid	<u>(74,427)</u>	<u>(84,957)</u>
Projected benefit obligation at June 30	<u>\$ 2,582,582</u>	<u>\$ 2,948,835</u>
<b>Change in plan assets</b>		
Fair value of plan assets at July 1	\$ -	\$ -
Employer contribution	52,071	76,284
Participant contribution	4,286	7,840
Actual benefits paid	<u>(56,357)</u>	<u>(84,124)</u>
Fair value of plan assets at June 30	<u>\$ -</u>	<u>\$ -</u>
<b>Funded status</b>		
Underfunded status at June 30	<u>\$ (2,582,582)</u>	<u>\$ (2,948,835)</u>
<b>Amounts recognized in the statements of financial position consist of:</b>		
Noncurrent assets	\$ -	\$ -
Current liabilities	97,000	112,000
Noncurrent liabilities	<u>2,485,582</u>	<u>2,836,835</u>
Net amount recognized	<u>\$ 2,582,582</u>	<u>\$ 2,948,835</u>
<b>Amounts not recognized as components of net periodic benefit cost consist of:</b>		
Unrecognized prior service cost	\$ -	\$ -
Unrecognized net gain	(1,888,936)	(1,628,967)
Unrecognized net transition obligation	<u>-</u>	<u>32,184</u>
Net amount not recognized	<u>\$ (1,888,936)</u>	<u>\$ (1,596,783)</u>
<b>Net periodic post retirement benefit expense for the year ended June 30 is comprised of the following:</b>		
Service cost	\$ 38,085	\$ 47,195
Interest cost	122,440	126,780
Net amortization and deferral	<u>(160,199)</u>	<u>(260,366)</u>
Net periodic benefit cost	<u>\$ 326</u>	<u>\$ (86,391)</u>

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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

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The University expects to contribute approximately \$174,000 to its postretirement plan in 2016. 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:		
2016	\$	96,973
2017		99,128
2018		99,815
2019		103,939
2020		107,951
2021 - 2025		542,850

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2016, and the estimated benefit obligation at June 30, 2016 are as follows:

<b>Change in projected benefit obligation</b>		
Benefit obligation at July 1, 2015	\$	2,582,582
Interest cost		101,959
Service cost		36,301
Expected benefits paid		<u>(67,207)</u>
 Projected benefit obligation at June 30, 2016	 \$	 <u>2,653,635</u>

The above assumptions and calculations are based on information as of June 30, 2015 and 2014, 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, 2015. 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%. A discount rate range of 4.0% and 4.5% was used to determine the accumulated postretirement benefit obligation for 2015 and 2014, 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, 2015, to \$2,788,101 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2015 to approximately \$52,000.

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.

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**NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE**

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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, 2015 and 2014, student loans receivable represented approximately 1.4% of total assets.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE (cont.)**

At June 30, 2015 and 2014, student loans consisted of the following:

	<u>2015</u>	<u>2014</u>
Federal government programs	\$ 4,045,063	\$ 3,998,444
Institution programs	<u>423,744</u>	<u>440,800</u>
	<u>4,468,807</u>	<u>4,439,244</u>
Less allowance for doubtful accounts:		
Beginning of year	(306,365)	(305,885)
Write-offs		(480)
End of year	<u>(306,365)</u>	<u>(306,365)</u>
 Student loans receivable, net	 <u>\$ 4,162,442</u>	 <u>\$ 4,132,879</u>

Funds advanced by the Federal government of \$3,564,973 and \$3,576,528 at June 30, 2015 and 2014, 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, 2015 and 2014, the following amounts were past due under student loan programs:

	<u>Amounts Past Due</u>			
	<u>Less than 240 days</u>	<u>Less than 2 years</u>	<u>More than 2 years</u>	<u>Total</u>
June 30,				
2015	\$ 108,401	\$ 17,779	\$ 155,634	\$ 281,814
2014	68,926	12,680	172,121	253,727

The Federal Perkins Loan Program expired September 30, 2015. The Department of Education (ED) issued guidance in January 2015 (Dear Colleague Letter GEN-15-03) which addressed the grandfathering of Perkins loans for students who received loans prior to June 30, 2015. According to the guidance issued by ED, if these students meet certain conditions, they will still be able to receive Perkins loans until 2020 to allow them to “continue or complete their courses of study.” However, Perkins loans may not be made to “new borrowers” for whom the first disbursement of a Federal Perkins loan will occur on or after October 1, 2015. Other issues, including the settlement of school revolving funds and outstanding loan portfolios, still need to be addressed. The University is monitoring this issue and is currently assessing the impact on its financial statements.

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

**NOTE 14 - ENDOWMENTS**

The University's endowment consists of approximately 310 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, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 40,902,279	\$ 74,603,254	\$ 115,505,533
Board-designated endowment funds	\$ 13,926,352			13,926,352
<b>Total endowment net assets</b>	<b>\$ 13,926,352</b>	<b>\$ 40,902,279</b>	<b>\$ 74,603,254</b>	<b>\$ 129,431,885</b>

The following table summarizes endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 40,360,787	\$ 71,550,960	\$ 111,911,747
Board-designated endowment funds	\$ 14,023,340			14,023,340
<b>Total endowment net assets</b>	<b>\$ 14,023,340</b>	<b>\$ 40,360,787</b>	<b>\$ 71,550,960</b>	<b>\$ 125,935,087</b>

**WHITWORTH UNIVERSITY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

**NOTE 14 - ENDOWMENTS (cont.)**

Change in endowment net assets for June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 14,023,340	\$ 40,360,787	\$ 71,550,960	\$ 125,935,087
Investment return:				
Investment income	210,927	1,689,541		1,900,468
Net appreciation - realized and unrealized	100,262	1,588,461		1,688,723
Total investment return	311,189	3,278,002		3,589,191
Change in value of assets held in trust by others		(75,592)	147,071	71,479
Contributions	19,175	134,808	2,587,332	2,741,315
Transfers in and matured deferred gifts			317,891	317,891
Appropriation of endowment assets for expenditure	(427,352)	(2,795,726)		(3,223,078)
Endowment net assets, June 30, 2015	<u>\$ 13,926,352</u>	<u>\$ 40,902,279</u>	<u>\$ 74,603,254</u>	<u>\$ 129,431,885</u>

Change in endowment net assets for June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 11,510,968	\$ 30,348,444	\$ 66,221,527	\$ 108,080,939
Investment return:				
Investment income	157,488	943,531		1,101,019
Net appreciation - realized and unrealized	1,868,979	11,497,371		13,366,350
Total investment return	2,026,467	12,440,902		14,467,369
Change in value of assets held in trust by others		61,919	1,181,581	1,243,500
Contributions		73,515	4,147,852	4,221,367
Transfers in and matured deferred gifts	901,561			901,561
Appropriation of endowment assets for expenditure	(415,656)	(2,563,993)		(2,979,649)
Endowment net assets, June 30, 2014	<u>\$ 14,023,340</u>	<u>\$ 40,360,787</u>	<u>\$ 71,550,960</u>	<u>\$ 125,935,087</u>

**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 8% to 9% annually. Actual returns in any year may vary from this amount.

## WHITWORTH UNIVERSITY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2015 and 2014

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#### **NOTE 14 - ENDOWMENTS (cont.)**

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**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.

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#### **NOTE 15 - CONCENTRATIONS**

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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.

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#### **NOTE 16 - COMMITMENT**

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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 July 2017. Rent expense was approximately \$189,000 and \$184,000 in 2015 and 2014, respectively. Future minimum lease commitments are as follows: 2016 - \$195,000 and 2017 - \$201,000.

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#### **NOTE 17 - RELATED PARTY TRANSACTIONS**

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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 \$1,200,000 to Avista Utilities for electricity and natural gas during each of the years ended June 30, 2015 and 2014.

WHITWORTH UNIVERSITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended June 30, 2015 and 2014

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**NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

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Supplemental cash flow information for June 30 is as follows:

	<u>2015</u>	<u>2014</u>
Interest paid (net of capitalized interest)	\$ 4,170,795	\$ 4,018,300
Capitalized interest	36,022	225,927
Noncash investing and financing activities		
Construction in progress included in accounts payable	133,066	715,893

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**NOTE 19 - ALLOCATION OF EXPENSES**

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

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 32,412,067	\$ 32,579,402
Benefits	8,502,567	8,382,288
Travel, professional development and cultivation	2,364,653	2,185,829
Materials and supplies	1,389,287	1,358,361
Maintenance of facilities and equipment	3,874,896	3,623,023
Utilities, insurance and taxes	3,947,530	4,031,674
General services, postage, print shop, board bill	11,181,409	10,541,363
Interest	4,158,453	4,017,473
Depreciation, amortization and accretion	7,320,992	7,400,010
Other expenses	178,516	198,333
Total operating expenses	<u>\$ 75,330,370</u>	<u>\$ 74,317,756</u>

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**NOTE 20 - SHORT-TERM CREDIT ARRANGEMENT**

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The University has an unsecured \$4,000,000 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, 2016. In addition, the agreement requires the University to comply with certain covenants. At June 30, 2015 and 2014, there were no outstanding borrowings under this arrangement.

**WHITWORTH UNIVERSITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
As of and for the Years Ended June 30, 2015 and 2014

**NOTE 21 - CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

The consolidated statement of financial position as of June 30, 2015 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,425,218	\$ 19,682	\$ 613,503	\$ 5,058,403
Note receivable (payable)	2,890,032	(2,890,032)		
Student accounts receivable, net	903,545			903,545
Contributions receivable, net	6,331,615			6,331,615
Other receivables	713,669			713,669
Other assets	942,521			942,521
Student loans receivable, net	4,162,442			4,162,442
Long-term investments	131,827,894		18,819,331	150,647,225
Deposits held by trustee	5,575,451			5,575,451
Deferred debt acquisition costs	688,597			688,597
Land, buildings and equipment	101,292,200	2,842,177		104,134,377
Assets held in trust by others	20,523,845			20,523,845
	<u>\$ 280,277,029</u>	<u>\$ (28,173)</u>	<u>\$ 19,432,834</u>	<u>\$ 299,681,690</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable and other liabilities	\$ 1,618,999	\$ 2,984	\$	\$ 1,621,983
Accrued payroll and related benefits	6,342,538			6,342,538
Student deposits	1,701,063			1,701,063
Deferred revenue	2,164,672			2,164,672
Asset retirement obligations	918,473			918,473
Accrued interest payable	1,045,938			1,045,938
Long-term debt	77,819,015			77,819,015
Annuities payable			10,462,461	10,462,461
Federal student loan funds	3,564,973			3,564,973
Total Liabilities	<u>95,175,671</u>	<u>2,984</u>	<u>10,462,461</u>	<u>105,641,116</u>
<b>Net Assets</b>				
Unrestricted	58,660,451	(31,157)	2,387,667	61,016,961
Temporarily restricted	50,755,213		1,215,720	51,970,933
Permanently restricted	75,685,694		5,366,986	81,052,680
Total Net Assets	<u>185,101,358</u>	<u>(31,157)</u>	<u>8,970,373</u>	<u>194,040,574</u>
Total Liabilities and Net Assets	<u>\$ 280,277,029</u>	<u>\$ (28,173)</u>	<u>\$ 19,432,834</u>	<u>\$ 299,681,690</u>

**NOTE 22 - SUBSEQUENT EVENTS**

The University has evaluated subsequent events through October 13, 2015 which is the date that the financial statements were issued.