WHITWORTH UNIVERSITY

CONSOLIDATED FINANCIAL STATEMENTS
Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

WHITWORTH UNIVERSITY

TABLE OF CONTENTS

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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, 2016 and 2015, 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, 2016 and 2015, 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 12, 2016

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2016 and 2015

ASSETS

	2016	2015
Cash and cash equivalents	$ 2,181,608	$ 5,058,403
Receivables		
Student accounts, net of allowance for doubtful accounts of $250,000 in 2016 and $225,000 in 2015	954,731	903,545
Contributions, net	4,185,327	6,331,615
Other	1,010,724	713,669
Other assets	1,657,687	942,521
Student loans receivable, net	4,025,043	4,162,442
Long-term investments	150,068,223	150,647,225
Deposits held by trustee	5,619,664	5,575,451
Land, buildings and equipment, net	105,384,937	101,292,204
Land, buildings and equipment held for sale, net	2,726,548	2,842,173
Assets held in trust by others	19,401,831	20,523,845
TOTAL ASSETS	$ 297,216,323	$ 298,993,093

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable and other liabilities	$ 3,445,275	$ 1,621,983
Accrued payroll and related benefits	6,325,704	6,342,538
Student deposits	1,777,232	1,701,063
Deferred revenue	2,063,671	2,164,672
Asset retirement obligations	920,633	918,473
Accrued interest payable	1,030,303	1,045,938
Long-term debt	75,807,286	77,130,418
Annuities payable	9,900,906	10,462,461
Federal student loan funds	3,394,621	3,564,973
Total Liabilities	104,665,631	104,952,519
NET ASSETS		
Unrestricted	67,909,157	61,016,961
Temporarily restricted	41,095,189	51,970,933
Permanently restricted	83,546,346	81,052,680
Total Net Assets	192,550,692	194,040,574
TOTAL LIABILITIES AND NET ASSETS	$ 297,216,323	$ 298,993,093

See accompanying notes to consolidated financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
With Comparative Totals for 2015

	2016 Unrestricted	2016 Temporarily Restricted	2016 Permanently Restricted	2016 Total	2015 Total
REVENUES, GAINS AND OTHER SUPPORT					
OPERATING REVENUES					
Tuition and fees	$ 94,887,881			$ 94,887,881	$ 91,058,876
Less: Scholarships and grants	(42,735,086)			(42,735,086)	(40,126,677)
Net tuition and fees	52,152,795			52,152,795	50,932,199
Government grants	787,947			787,947	953,946
Contributions and gifts	2,172,402	$ 793,381		2,965,783	2,777,076
Long-term investment income and gains allocated for operations	637,340	3,053,445		3,690,785	3,223,078
Other sources	1,585,993	14,500		1,600,493	1,711,055
Investment income	1,994,704			1,994,704	1,778,292
Net losses on investments	(197,079)			(197,079)	(131,381)
Auxiliary enterprises revenues	12,913,620			12,913,620	12,866,184
	72,047,722	3,861,326		75,909,048	74,110,449
Net assets released from restrictions - operating	4,000,917	(4,000,917)			
Total Operating Revenues, Gains and Other Support	76,048,639	(139,591)		75,909,048	74,110,449
OPERATING EXPENSES					
Program expenses					
Instruction	31,380,123			31,380,123	30,679,487
Public service	1,012,642			1,012,642	941,006
Academic support	7,874,198			7,874,198	6,828,151
Student services	13,353,704			13,353,704	12,311,772
Auxiliary enterprises	11,689,410			11,689,410	11,426,183
Support expenses					
Institutional support	13,591,728			13,591,728	13,143,771
Allocable expenses					
Operation and maintenance of plant	6,488,101			6,488,101	6,102,541
Interest	4,135,183			4,135,183	4,158,453
Unfunded depreciation, amortization, and accretion	7,268,014			7,268,014	7,320,992
Less: Allocated expenses	(17,891,298)			(17,891,298)	(17,581,986)
Total Operating Expenses	78,901,805			78,901,805	75,330,370
Change in Net Assets from Operating Activities	(2,853,166)	(139,591)		(2,992,757)	(1,219,921)
NONOPERATING ACTIVITIES					
Long-term investment income and gains (losses),					
net of amount allocated for operations	(577,514)	(4,630,535)		(5,208,049)	1,004,686
Change in value of assets held in trust by others		145,793	$ (1,008,374)	(862,581)	71,479
Contributions and gifts	217,325	2,894,626	3,821,787	6,933,738	6,257,208
Adjustment to actuarial liability for annuities payable	58,699	(34,761)	(382,959)	(359,021)	(391,654)
Other sources	575,011	470	63,212	638,693	269,496
Adjustment to prior service cost and actuarial liability for retiree health plan	360,095			360,095	437,390
Net assets released from restrictions - nonoperating	9,111,746	(9,111,746)			
Change in Net Assets from Nonoperating Activities	9,745,362	(10,736,153)	2,493,666	1,502,875	7,648,605
Change in Net Assets	6,892,196	(10,875,744)	2,493,666	(1,489,882)	6,428,684
Net Assets - Beginning of Year	61,016,961	51,970,933	81,052,680	194,040,574	187,611,890
NET ASSETS - END OF YEAR	$ 67,909,157	$ 41,095,189	$ 83,546,346	$ 192,550,692	$ 194,040,574

See accompanying notes to consolidated financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
OPERATING REVENUES				
Tuition and fees	$ 91,058,876			$ 91,058,876
Less: Scholarships and grants	(40,126,677)			(40,126,677)
Net tuition and fees	50,932,199			50,932,199
Government grants	953,946			953,946
Contributions and gifts	2,358,894	$ 418,182		2,777,076
Long-term investment income and gains allocated for operations	427,352	2,795,726		3,223,078
Other sources	1,710,055	1,000		1,711,055
Investment income	1,778,292			1,778,292
Net losses on investments	(131,381)			(131,381)
Auxiliary enterprises revenues	12,866,184			12,866,184
	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)		74,110,449
OPERATING EXPENSES				
Program expenses				
Instruction	30,679,487			30,679,487
Public service	941,006			941,006
Academic support	6,828,151			6,828,151
Student services	12,311,772			12,311,772
Auxiliary enterprises	11,426,183			11,426,183
Support expenses				
Institutional support	13,143,771			13,143,771
Allocable expenses				
Operation and maintenance of plant	6,102,541			6,102,541
Interest	4,158,453			4,158,453
Unfunded depreciation, amortization, and accretion	7,320,992			7,320,992
Less: Allocated expenses	(17,581,986)			(17,581,986)
Total Operating Expenses	75,330,370			75,330,370
Change in Net Assets from Operating Activities	(958,267)	(261,654)		(1,219,921)
NONOPERATING ACTIVITIES				
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)		
Change in Net Assets from Nonoperating Activities	1,175,929	4,032,565	2,440,111	7,648,605
Change in Net Assets	217,662	3,770,911	2,440,111	6,428,684
Net Assets - Beginning of Year	60,799,299	48,200,022	78,612,569	187,611,890
NET ASSETS - END OF YEAR	$ 61,016,961	$ 51,970,933	$ 81,052,680	$ 194,040,574

See accompanying notes to consolidated financial statements.

WHITWORTH UNIVERSITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,489,882)	$ 6,428,684
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation, amortization and accretion	7,268,014	7,320,992
Adjustment to prior service cost and actuarial liability for retiree health plan	(360,095)	(437,390)
Adjustment to actuarial liability for annuities payable	359,021	391,654
Net (gains) losses on investments	4,193,171	(1,556,920)
Change in value of assets held in trust by others	862,581	(71,479)
Change in allowance on student accounts receivable	25,000	12,000
Loan cancellations, assignments and write-offs	226,380	27,324
Loss from disposal of assets	25,978	
Change in assets		
Student accounts receivable	(76,186)	1,864
Other receivables	(297,055)	320,629
Other assets	(715,166)	168,313
Contributions receivable for operations	(29,955)	9,226
Change in liabilities		
Accounts payable, other liabilities and accrued interest payable	783,602	218,014
Accrued payroll and related benefits	(16,834)	15,130
Student deposits	76,169	(306,911)
Deferred revenue	(101,001)	(37,492)
Contributions restricted for plant and long-term investment	(6,933,738)	(6,257,208)
Net Cash Flows From Operating Activities	3,800,004	6,246,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Student loans receivable		
Principal repayments	729,497	745,722
Advances	(818,478)	(802,609)
Purchases of land, buildings and equipment	(9,847,921)	(4,011,185)
Drawdowns of deposits held by trustee	105,163	1,465,692
Proceeds from sales of long-term investments	38,702,334	26,865,708
Purchases of long-term investments	(42,224,426)	(36,184,719)
Net Cash Flows From Investing Activities	(13,353,831)	(11,921,391)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received restricted for plant and long-term investment	9,109,981	7,048,815
Payments on long-term debt	(1,360,000)	(1,300,000)
Payments to annuitants	(902,597)	(865,617)
Net change in federal student loan funds	(170,352)	(11,555)
Net Cash Flows From Financing Activities	6,677,032	4,871,643
Net Change in Cash and Cash Equivalents	(2,876,795)	(803,318)
CASH AND CASH EQUIVALENTS - Beginning of Year	5,058,403	5,861,721
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 2,181,608	$ 5,058,403

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation - The consolidated financial statements include the accounts of Whitworth University, Whitworth Costa Rica Limited, and The Whitworth Foundation (the Foundation), collectively referred to as the "University." The purpose of Whitworth Costa Rica Limited is to provide educational services to Whitworth University students at a campus located in Costa Rica and the purpose of the Foundation is to seek out and obtain deferred gifts to support Whitworth University. See Note 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 met and released as the asset is constructed or, if purchased, when it is 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. 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.

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.

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

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, 2016 and 2015, 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, 2016 and 2015 are as follows:

	2016	2015
Balance, Beginning of the year	$ 918,473	$ 891,272
Abatements	(16,457)	(11,700)
Accretion expense	18,617	38,901
Balance, End of the year	$ 920,633	$ 918,473

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, 2016 and 2015. The University's tax returns are subject to review and examination by federal authorities.

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

Fund-Raising and Advertising Expenses - Fund-raising expenses totaled $2,920,000 and $2,968,000 for the years ended June 30, 2016 and 2015, 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 2015 financial statements have been reclassified to conform with the 2016 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets.

***New Accounting* Pronouncements** - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017. Early application is permitted for all entities for fiscal years beginning after December 15, 2016. The University is assessing the impact this new standard will have on its financial statements.

In April 2015, FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which require that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The University elected to adopt the guidance for fiscal year beginning July 1, 2015. The guidance is retrospective, and as a result, the 2015 deferred debt acquisition costs of $688,597 were reclassified on the statements of financial position to conform to the 2016 financial statement presentation. The adoption of the ASU did not have a significant impact on the University's financial statements.

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

***New Accounting* Pronouncements** (cont) - In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This new guidance is intended to improve the recognition and measurement of financial instruments and eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for Institutions that are not public business entities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted for fiscal years beginning after December 15, 2017. However, the new guidance permits entities that are not public business entities to adopt upon issuance the provision that eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The University elected to adopt this provision in fiscal 2016. ASU 2016-01 is to be applied by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of ASU 2016-01. The University is assessing the impact the remainder of this standard will have on its financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases*. ASU No. 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018. Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

Valuation Techniques and Inputs

Level 1 - Level 1 assets include:

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

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.

NOTE 2 - FAIR VALUE MEASUREMENTS (cont.)

Level 3 - Level 3 assets include:

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

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

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

There have been no changes in the techniques and inputs used as of June 30, 2016 and 2015.

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 table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2016:

	Total	Level 1	Level 2	Level 3
ASSETS				
Equity securities	$ 2,774,921	$ 2,774,921		
Fixed income securities	11,990,629	5,702,655	$ 6,287,974	
Mutual funds				
Domestic equity	28,048,127	28,048,127		
Domestic fixed income	41,212,884	41,212,884		
International equity	19,732,839	19,732,839		
International fixed income	605,466	605,466		
Assets held in trust by others	19,401,831			$ 19,401,831
Subtotal by valuation hierarchy	123,766,697	$ 98,076,892	$ 6,287,974	$ 19,401,831
Alternative investments measured using net asset value	44,003,148			
Total assets at fair value	$ 167,769,845			

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

	Total	Level 1	Level 2	Level 3
ASSETS				
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	20,523,845			$ 20,523,845
Subtotal by valuation hierarchy	127,153,072	$ 103,224,982	$ 3,404,245	$ 20,523,845
Alternative investments measured using net asset value	43,495,149			
Total assets at fair value	$ 170,648,221			

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, 2016:

	Balances June 30, 2015	Realized and unrealized losses	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2016
Assets						
Assets held in trust by others	$ 20,523,845	$ (862,581)	$ 33,033	$ (292,466)	$	$ 19,401,831

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, 2016. $ (862,581)

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:

	Balances June 30, 2014	Realized and unrealized gains	Purchases and additions	Sales and distributions	Net transfers in (out) of Level 3	Balances June 30, 2015
Assets						
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

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, 2016:

	Funds of Funds				
	Hedge Funds	Commodities	Real Assets	Limited Partnerships	Private Equity Funds
Fair value, June 30, 2016	$18,603,663	$1,750,075	$10,010,177	$5,491,970	$8,147,263
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	5 years
Dollar Amount of Unfunded Commitments	Open	Open	$2,674,939	$218,461	$3,252,791
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:

	2016	2015
Endowment funds	$ 76,761,705	$ 74,603,254
Long term investment funds	771,000	
Student loan funds	1,145,651	1,082,440
Annuity, life income and similar funds	4,867,990	5,366,986
	$ 83,546,346	$ 81,052,680

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

	2016	2015
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 910,874	$ 1,068,074
Acquisition of buildings and equipment	2,087,917	8,784,860
Earnings not yet appropriated for spending	36,915,439	40,902,279
Annuity, life income and similar funds	1,180,959	1,215,720
	$ 41,095,189	$ 51,970,933

Unrestricted net assets consist of the following at June 30:

	2016	2015
For current operations	$ 10,233,029	$ 10,009,648
Plant	41,614,599	34,693,294
Endowment funds - board designated	13,701,569	13,926,352
Annuity, life income and similar funds	2,359,960	2,387,667
	$ 67,909,157	$ 61,016,961

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 totaled $13,112,663 and $3,885,729 during the years ended June 30, 2016 and 2015, respectively. The expenses related to capital expenditures ($9,111,746), scholarships, instruction and other departmental support.

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:

	2016	2015
Unrestricted - construction projects	$ 2,591,201	$ 577,225
Temporarily restricted		
Current scholarships, departmental programs and activities	278,728	243,285
Building construction and remodeling		3,403,868
Permanently restricted - endowment for scholarships and departmental programs and activities	1,951,812	2,832,444
Gross unconditional promises to give	4,821,741	7,056,822
Less: Allowance for uncollectible promises	(400,000)	(400,000)
Less: Unamortized discount	(236,414)	(325,207)
Net contributions receivable	$ 4,185,327	$ 6,331,615

Amounts due in:	
Within one year	$ 1,778,373
One to five years	3,006,832
Greater than five years	36,536
	$ 4,821,741

Promises due in more than one year were discounted at rates ranging between 2% and 6% at June 30, 2016 and 2015. Promises due in less than one year were not discounted.

Amounts due from members of the Board of Trustees were approximately $1,691,000 and $2,744,000 as of June 30, 2016 and 2015, respectively. For the years ended June 30, 2016 and 2015, contributions (new pledges and cash gifts) from members of the Board of Trustees were approximately $3,459,000 and $2,516,000, 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:

	2016	2015
At fair value		
Equity securities	$ 2,774,921	$ 1,199,603
Fixed income securities	11,990,629	9,335,499
Mutual funds		
Domestic equity	28,048,127	23,030,075
Domestic fixed income	41,212,884	44,699,937
International equity	19,732,839	27,708,716
International fixed income	605,466	655,397
Other investments		
Equity index fund (hedge fund)	9,796,201	9,426,743
Funds of funds		
Hedge funds	8,807,462	8,510,486
Commodities	1,750,075	2,075,020
Real assets	10,010,177	9,301,226
Limited partnerships	5,491,970	4,989,974
Private equity funds	8,147,263	9,191,700
Total other investments	44,003,148	43,495,149
At cost		
Cash and short-term investments	3,079,121	1,900,586
Real estate	904,600	881,600
Annuity contracts	1,304	1,349
Single premium life insurance policy	150,669	147,106
Cash surrender value of life insurance policies	3,184,179	3,167,659
	$ 155,687,887	$ 156,222,676

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

Long-term investments	$ 150,068,223	$ 150,647,225
Deposits held by trustee (Note 10)	5,619,664	5,575,451
	$ 155,687,887	$ 156,222,676

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, 2016 and 2015, the insurance coverage aggregated approximately $6,453,000 and $6,308,000, respectively, and the cash surrender value totaled $3,184,179 and $3,167,659, 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, 2016, the following projects were in progress:

	Costs to Date	Estimated Completion Date	Funding Source
Residence hall and library	$ 601,978	Unknown	Operations
Music building	9,860,917	9/1/2017	Gifts
Ground improvements	391,759	9/1/2016	Operations
	$ 10,854,654		

Remaining commitments on signed construction contracts approximate $2,722,000 as of June 30, 2016.

NOTE 9 - LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment and the related accumulated depreciation amounts are as follows at June 30, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	$ 5,876,315			$ 5,876,315
Buildings	130,102,375	$ 851,814	$ (242,838)	130,711,351
Buildings and other improvements	24,823,106	250,294	(570,576)	24,502,824
Equipment	18,412,706	990,191	(551,794)	18,851,103
Construction in progress	1,714,879	9,323,487	(183,712)	10,854,654
	180,929,381	11,415,786	(1,548,920)	190,796,247
Less: Accumulated Depreciation for:				
Buildings	(53,338,087)	(4,557,835)	242,838	(57,653,084)
Buildings and other improvements	(10,916,916)	(1,166,392)	570,576	(11,512,732)
Equipment	(12,540,001)	(1,504,760)	525,815	(13,518,946)
Total Accumulated Depreciation	(76,795,004)	(7,228,987)	1,339,229	(82,684,762)
	$ 104,134,377	$ 4,186,799	$ (209,691)	$ 108,111,485

Reconciliation to statement of net position	
Land, buildings, and equipment, net	$ 105,384,937
Land, buildings, and equipment held for sale, net	2,726,548
	$ 108,111,485

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

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

	Beginning Balance	Additions	Deductions	Ending Balance
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	2,148,432	924,693	(1,358,246)	1,714,879
	177,770,138	4,786,599	(1,627,356)	180,929,381
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	(11,091,136)	(1,625,398)	176,533	(12,540,001)
Total Accumulated Depreciation	(69,807,196)	(7,256,918)	269,110	(76,795,004)
	$ 107,962,942	$ (2,470,319)	$ (1,358,246)	$ 104,134,377

Reconciliation to statement of net position	
Land, buildings, and equipment, net	$ 101,292,204
Land, buildings, and equipment held for sale, net	2,842,173
	$ 104,134,377

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:

	2016	2015
Revenue Bonds - 2009 Series	$ 57,825,000	$ 58,915,000
Discount on 2009 Series Revenue Bonds	(499,278)	(522,234)
Revenue Bonds - 2012 Series	18,720,000	18,990,000
Premium on 2012 Series Revenue Bonds	423,029	436,249
	76,468,751	77,819,015
Less deferred debt acquisition costs, net	(661,465)	(688,597)
	$ 75,807,286	$ 77,130,418

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.

NOTE 10 - LONG-TERM DEBT (cont.)

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, 2016 was $12,065,665. The outstanding balance on the Series 2006 bonds, which is not recorded on the University's statement of financial position, was $9,900,000 at June 30, 2016.

Interest is payable on the Series 2009 bonds semi-annually on each October 1 and April 1 at rates ranging from 4.500% to 5.875%. Serial bonds are payable in amounts ranging from $1,145,000 to $1,320,000 on October 1, 2016 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 3.00% to 5.25%. Serial bonds are payable in amounts ranging from $275,000 to $345,000 on October 1, 2016 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 debt service reserves.

The approximate principal and sinking fund payment requirements for all long-term debt for the five years subsequent to June 30, 2016 are:

Year Ended June 30	Principal
2017	$ 1,420,000
2018	1,490,000
2019	1,555,000
2020	1,630,000
2021	1,705,000

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 $166,000 and $139,000 at June 30, 2016 and 2015, respectively.

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 $1,230,880 and $1,240,350, respectively, as of June 30, 2016 and 2015.

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 $2,289,000 and $2,178,000 in 2016 and 2015, 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 $230,000 and $240,000 annually to the VEBA plan in 2016 and 2015, respectively.

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:

	2016	2015
Change in projected benefit obligation		
Benefit obligation at July 1	$ 2,582,582	$ 2,948,836
Interest cost	88,245	122,440
Service cost	28,957	38,085
Actuarial gain	(418,081)	(452,352)
Estimated benefits paid	(59,216)	(74,427)
Projected benefit obligation at June 30	$ 2,222,487	$ 2,582,582
Change in plan assets		
Fair value of plan assets at July 1	$ -	$ -
Employer contribution	62,455	52,071
Participant contribution	8,099	4,286
Actual benefits paid	(70,554)	(56,357)
Fair value of plan assets at June 30	$ -	$ -
Funded status		
Underfunded status at June 30	$ (2,222,487)	$ (2,582,582)
Amounts recognized in the statements of financial position consist of:		
Noncurrent assets	$ -	$ -
Current liabilities	84,000	97,000
Noncurrent liabilities	2,138,487	2,485,582
Net amount recognized	$ 2,222,487	$ 2,582,582
Amounts not recognized as components of net periodic benefit cost consist of:		
Unrecognized prior service cost	$ -	$ -
Unrecognized net gain	(2,115,376)	(1,888,936)
Unrecognized net transition obligation	-	-
Net amount not recognized	$ (2,115,376)	$ (1,888,936)
Net periodic post retirement benefit expense for the year ended June 30 is comprised of the following:		
Service cost	$ 28,957	$ 38,085
Interest cost	88,245	122,440
Net amortization and deferral	(191,640)	(160,199)
Net periodic benefit cost	$ (74,438)	$ 326

NOTE 12 - EMPLOYEE BENEFIT PLANS (cont.)

The University expects to contribute approximately $240,000 to its postretirement plan in 2017. 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:	
2017	$ 83,459
2018	62,279
2019	104,929
2020	86,725
2021	90,285
2022 – 2026	452,365

The estimated interest cost, service cost, net loss and expected benefits paid for the year ended June 30, 2017, and the estimated benefit obligation at June 30, 2017 are as follows:

Change in projected benefit obligation	
Benefit obligation at July 1, 2016	$ 2,222,487
Interest cost	88,799
Service cost	19,536
Actuarial loss/(gain)	(102,981)
Expected benefits paid	(60,241)
Projected benefit obligation at June 30, 2017	$ 2,167,600

The above assumptions and calculations are based on information as of June 30, 2016 and 2015, 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, 2016. A 9% rate of increase in the per capita costs of covered health care benefits was initially assumed, decreasing 0.5% per year to an ultimate level of 5%. A discount rate range of 4.25% and 4.0% was used to determine the accumulated postretirement benefit obligation for 2016 and 2015, 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, 2016, to $2,390,387 and the aggregate of the service and interest cost components of net periodic post-retirement benefit costs for 2016 to approximately ($48,000).

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, 2016 and 2015, student loans receivable represented approximately 1.4% of total assets.

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

At June 30, 2016 and 2015, student loans consisted of the following:

	2016	2015
Federal government programs	$ 3,909,222	$ 4,045,063
Institution programs	422,186	423,744
	4,331,408	4,468,807
Less allowance for doubtful accounts:		
Beginning of year	(306,365)	(306,365)
Write-offs		
End of year	(306,365)	(306,365)
Student loans receivable, net	$ 4,025,043	$ 4,162,442

Funds advanced by the Federal government of $3,394,621 and $3,564,973 at June 30, 2016 and 2015, 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, 2016 and 2015, 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,				
2016	$ 60,120	$ -	$ 110,782	$ 170,902
2015	108,401	17,779	155,634	281,814

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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 36,915,439	$ 76,761,705	$ 113,677,144
Board-designated endowment funds	$ 13,701,569			13,701,569
Total endowment net assets	$ 13,701,569	$ 36,915,439	$ 76,761,705	$ 127,378,713

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
Total endowment net assets	$ 13,926,352	$ 40,902,279	$ 74,603,254	$ 129,431,885

NOTE 14 - ENDOWMENTS (cont.)

Change in endowment net assets for June 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2015	$ 13,926,352	$ 40,902,279	$ 74,603,254	$ 129,431,885
Investment return:				
Investment income	277,446	1,756,938		2,034,384
Net depreciation - realized and unrealized	(551,845)	(3,639,331)		(4,191,176)
Total investment return	(274,399)	(1,882,393)		(2,156,792)
Change in value of assets held in trust by others		(113,639)	(1,008,374)	(1,122,013)
Contributions		27,477	3,704,690	3,732,167
Transfers and matured deferred gifts	524,092	1,035,160	(537,865)	1,021,387
Appropriation of endowment assets for expenditure	(474,476)	(3,053,445)		(3,527,921)
Endowment net assets, June 30, 2016	$ 13,701,569	$ 36,915,439	$ 76,761,705	$ 127,378,713

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 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	$ 13,926,352	$ 40,902,279	$ 74,603,254	$ 129,431,885

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.

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. The University's spending policy follows a model that includes the Higher Education Price Index (HEPI) which requires annual adjustments based on changes in the costs of education. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4% to 5% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 15 - CONCENTRATIONS

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash and cash equivalents, receivables and investments. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Student notes and receivables are due from a variety of sources concentrated primarily in the northwestern United States. For the year ended June 30, 2016, the University received significant gifts from two donors totaling 40% of contribution revenue. 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 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 $195,000 and $189,000 in 2016 and 2015, respectively. Future minimum lease commitments are as follows: 2017 - $201,000.

NOTE 17 - RELATED PARTY TRANSACTIONS

The University has been conducting business transactions with Avista Utilities for many years; in April 2011, an officer of Avista Utilities was selected as a member of the University Board of Trustees. The University paid approximately $1,200,000 to Avista Utilities for electricity and natural gas during each of the years ended June 30, 2016 and 2015.

NOTE 18 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Supplemental cash flow information for June 30 is as follows:

	2016	2015
Interest paid (net of capitalized interest)	$ 4,150,819	$ 4,170,795
Capitalized interest		36,022
Noncash investing and financing activities		
Construction in progress included in accounts payable	1,517,215	133,066

NOTE 19 - ALLOCATION OF EXPENSES

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

	2016	2015
Salaries and wages	$ 34,316,235	$ 32,412,067
Benefits	9,218,577	8,502,567
Travel, professional development and cultivation	2,334,622	2,364,653
Materials and supplies	1,382,419	1,389,287
Maintenance of facilities and equipment	4,726,305	3,874,896
Utilities, insurance and taxes	3,987,395	3,947,530
General services, postage, print shop, board bill	11,322,735	11,181,409
Interest	4,135,183	4,158,453
Depreciation, amortization and accretion	7,268,014	7,320,992
Other expenses	210,320	178,516
Total operating expenses	$ 78,901,805	$ 75,330,370

NOTE 20 - SHORT-TERM CREDIT ARRANGEMENT

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, 2017. In addition, the agreement requires the University to comply with certain covenants. At June 30, 2016 and 2015, 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, 2016 is presented below:

	Whitworth University	Whitworth Costa Rica Limited	Foundation	Total
ASSETS				
Cash and cash equivalents	$ 1,669,390	$ 10,091	$ 502,127	$ 2,181,608
Note receivable (payable)	2,804,232	(2,804,232)		-
Student accounts receivable, net	954,731			954,731
Contributions receivable, net	4,185,327			4,185,327
Other receivables	1,010,724			1,010,724
Other assets	1,657,687			1,657,687
Student loans receivable, net	4,025,043			4,025,043
Long-term investments	132,260,535		17,807,688	150,068,223
Deposits held by trustee	5,619,664			5,619,664
Land, buildings and equipment	105,384,937			105,384,937
Land, buildings and equipment, held for sale		2,726,548		2,726,438
Assets held in trust by others	19,401,831			19,401,831
Total Assets	$ 278,974,101	$ (67,593)	$ 18,309,815	$ 297,216,323
LIABILITIES AND NET ASSETS				
Accounts payable and other liabilities	$ 3,442,950	$ 2,325		$ 3,445,275
Accrued payroll and related benefits	6,325,704			6,325,704
Student deposits	1,777,232			1,777,232
Deferred revenue	2,063,671			2,063,671
Asset retirement obligations	920,633			920,633
Accrued interest payable	1,030,303			1,030,303
Long-term debt	75,807,286			75,807,286
Annuities payable			$ 9,900,906	9,900,906
Federal student loan funds	3,394,621			3,394,621
Total Liabilities	94,762,400	2,325	9,900,906	104,665,631
Net Assets				
Unrestricted	65,619,115	(69,918)	2,359,960	67,909,157
Temporarily restricted	39,914,230		1,180,959	41,095,189
Permanently restricted	78,678,356		4,867,990	83,546,346
Total Net Assets	184,211,701	(69,918)	8,408,909	192,550,692
Total Liabilities and Net Assets	$ 278,974,101	$ (67,593)	$ 18,309,815	$ 297,216,323

NOTE 22 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 12, 2016 which is the date that the financial statements were issued.